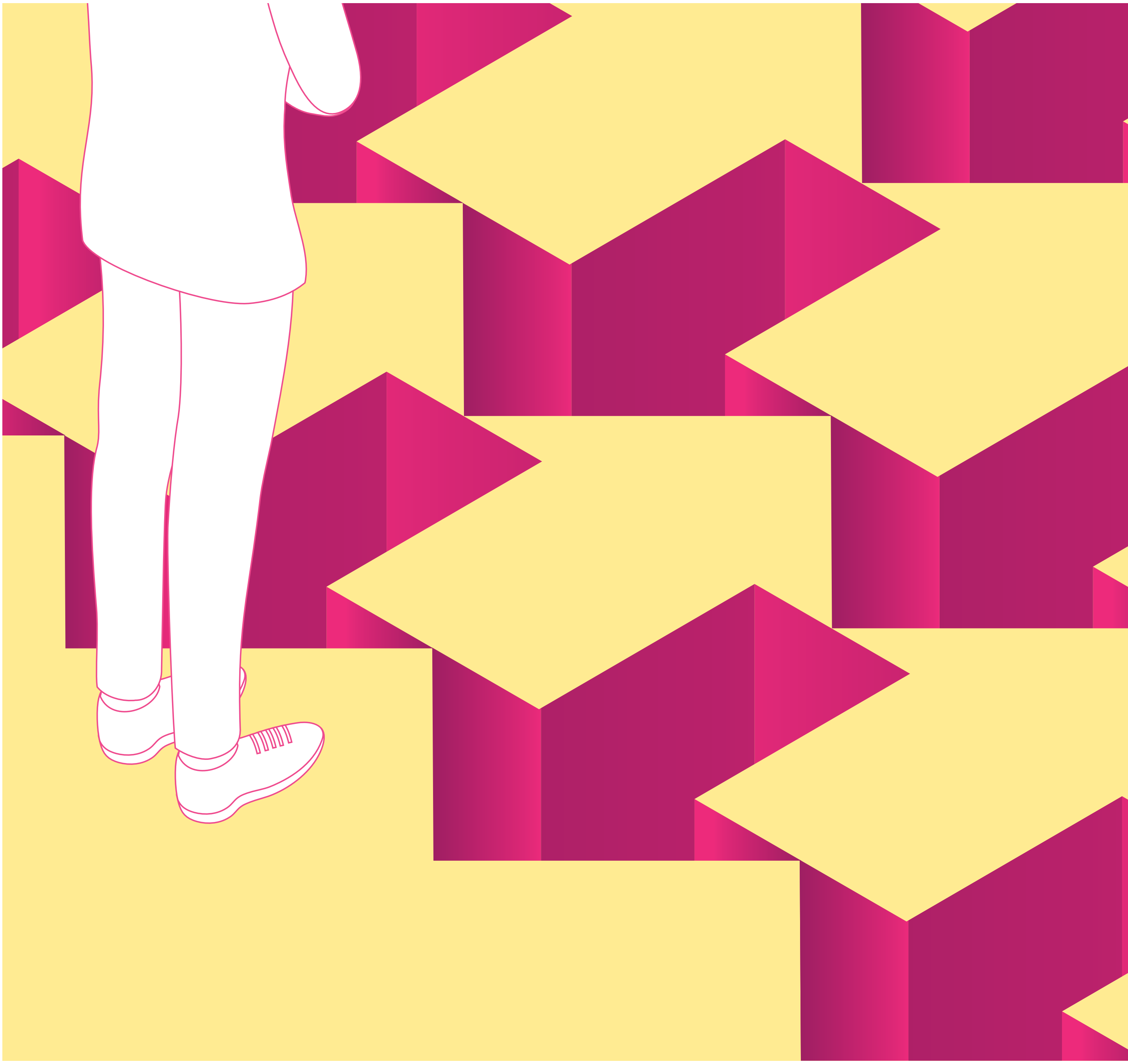
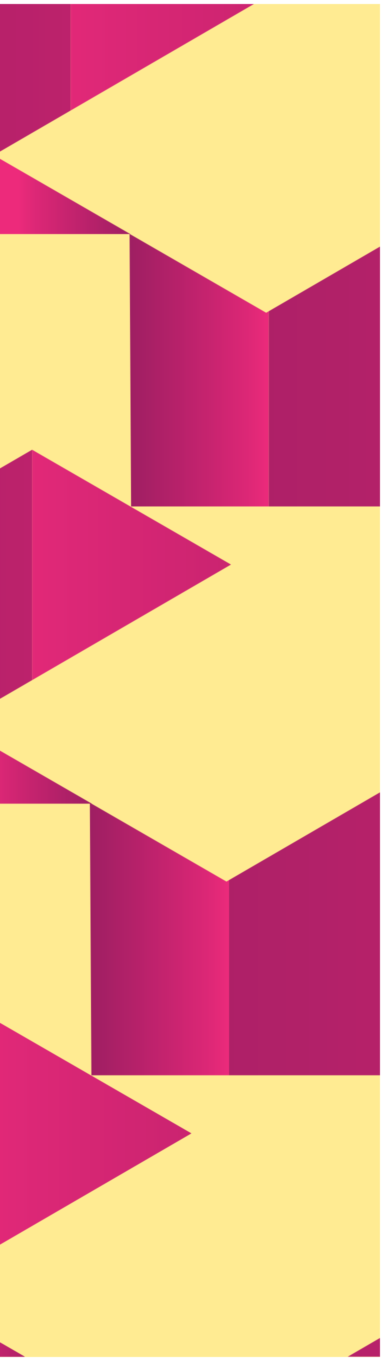


Avoiding Transformation Pitfalls



Seven pitfalls to avoid when embarking on a strategic business transformation.

By Gokhan Guley and Fletcher McCombie

Transformation is defined as a dramatic change made to a business's core. Companies transform for any number of reasons—from entering new market segments to seeking a wholesale change in operations or culture—and the impact is usually felt across the entire enterprise, including how the organization produces value. Because the broad impacts of transformation extend well beyond the scope of a traditional program, they demand leadership's utmost attention and a selective allocation of resources.

While programs can be owned by a single business unit, a single department, or even individuals, transformations require buy-in, cooperation, collaboration, and joint execution by multiple functions across the organization, all working in concert with various third parties to enable broad change.

With many breakthrough technologies entering the mainstream, disruptive competitors emerging, and customer expectations rapidly changing, the pressure is increasing on executives to deliver more in shorter timelines. Transformation has been the response of the majority of companies to thrive in this marketplace. As a result, 52 percent of large companies are reported to be undergoing a transformation at any given time. According to Harvard Business Review (HBR), "a successful corporate transformation can enable a company to outperform its peers by up to 6 times in Compound Annual Growth Rate (CAGR)".

But business transformations are also fraught with risks and challenges. Despite the massive investment of time and resources, breakthrough results have been elusive for most transformations. In fact, one study from BCG found that average business transformations delivered only 25 percent of the benefits. This leaves executives in a tough place. Not only are they under pressure by their boards to transform their business, but they also realize the challenge of delivering transformative results while also running the day-to-day operations of the company.

So how does a smart leader effectively implement a business transformation while overseeing daily operations and keeping the company on track? Where should they keep their focus, and what best practices should they follow?

Start with key business tenets: Put your people first and your technology last, align around a common vision, and hold your leaders accountable. But as you put those business tenets to work, you need to ensure you aren't falling into the transformation value trap that other businesses have already fallen into.

The following seven pitfalls detail out those common transformation failures. Watch your transformation closely, and if you see yourself approaching a pitfall, quickly enact the associated remedies to get your transformation back on track.

YOUR STRATEGY IS DISCONNECTED

Your strategy is the overall approach taken to achieve a vision of the future. When your transformation and strategy aren't aligned, it becomes difficult to know which of your transformation actions are important.

Without a North Star to follow, your strategy and transformation can be disconnected in one of three ways and will need to be addressed quickly:

SCENARIO 1: **Transformation and strategy are misaligned**

THE REMEDY: Taking the time to properly plan for and build an approach is essential to an effective strategic business transformation. Your strategy must inform your transformation, and your transformation must be incorporated into your strategic plan. We don't transform for transformation's sake, we transform to build a better and brighter future.

SCENARIO 2: **Transformation and strategy are misaligned with performance targets**

THE REMEDY: We already know how critical a leader's role is in communicating the goals of a transformation, but equally as important is accountability. Leaders must set challenging goals, measure progress, and perform to expectations. For best results, tie executive incentives to the success of the transformation to ensure transformation performance matters in a personal way.

SCENARIO 3: **Transformation and strategy are misaligned, and we've lost focus on priorities**

THE REMEDY: Eliminate distractions to keep everyone focused. When your leaders are misaligned and distracted, both the transformation and the business performance suffer. Drive your leaders together with common sponsorship of the transformation and ensure decisions are made as a group with a data-driven mindset.

Transformation Takeaway: Prevent isolation between strategy and transformation and align your transformation leadership with a common set of incentives, few priorities, and a data-driven mindset.

PEOPLE RESIST YOUR CHANGE

Change burnout is real, and it is often accompanied by a lack of accomplishment and a failure to communicate effectively across the organization. No one likes it when change is imposed on them, so securing buy-in from your employees is critical. Communication needs to be both wide and personal. Achieving that requires several key leadership and communication tactics.

For example, one of the more notable culture clashes in M&A occurred when Sprint purchased Nextel in the mid-2000s. With a strong base in the individual consumer market, Sprint's goal was to buy its way into the business market. What company executives didn't predict, however, was how Sprint's bureaucratic culture would drive out Nextel leaders, many of whom left shortly after the merger, citing incompatibility with Sprint's corporate values. The results were dramatic: In 2005, Sprint purchased Nextel for $35B; three years later, they wrote off $30B; by 2013, Sprint had completely shut down the Nextel network. Without question, management's failure to transform the Nextel team (and their business) into an integrated business unit within Sprint led to the precipitous decline.

Here are three degrees of management error that cause transformation failure related to workforce buy-in and tips to avoid them.

SCENARIO 1: **Lack of inspirational vision**

THE REMEDY: Fundamental to any strategic business transformation is a vision that inspires people. More than a way to make money, your vision has to spur action and speak to emotions.

SCENARIO 2: **Vision is not properly communicated by leadership**

THE REMEDY: Leaders play a critical role in ensuring transformations are driven forward despite adversity. A key mission of the transformation leader is to communicate the vision broadly and repeatedly across the organization to secure buy-in.

SCENARIO 3: **Your people cannot see how they fit into the future vision**

THE REMEDY: Your team wants to understand what its future will look like. Even if you don't have all the answers, they need to see themselves as successful and engaged both during and after the transformation. Engage your employees by making them and their effort part of the vision.

Transformation Takeaway: To avoid resistance to the change you propose, show every stakeholder the value of building the future with you.

PROCESSES JUST CAN'T DELIVER VALUE

Processes aren't always designed with the future in mind, especially as new technology enables increasing levels of automation, new scenarios arise, and new exceptions are created. Some processes aren't even written down, and the hope to deliver value efficiently and effectively is lost.

Here are three ways to check in on your process definition:

SCENARIO 1: **Missing a defined process**

THE REMEDY: Invest in having your teams write down their basic processes. Not every exception is important, but the basic inputs and outputs are required to define the way processes enable your teams to execute effectively across operations.

SCENARIO 2: **Missing well-defined, efficient processes**

THE REMEDY: Some processes are written down but contain too many swim lanes (responsible parties) and bottlenecks. Simplify your teams and have process-minded leaders support transformations to reduce errors, time lags, and dropped balls during handoffs.

SCENARIO 3: **Processes don't have the customer journey at the center**

THE REMEDY: Once you've defined your process, ask whether you've put the customer at the center of your operations. We are believers in value-add operations—that is, if an operational task is to be done, make sure it adds value to the customer journey.

Transformation Takeaway: Avoid processes that are poorly defined and lack consideration for the customer. Ensure your teams' journey focuses on adding value at every step.

TECHNOLOGY THAT WON'T SOLVE PROBLEMS

Today's business challenges are complex, and each organization's needs and circumstances are different. Therefore, it is naïve to expect that a single technology or a single application can solve an organization's unique problems. Although tech company mergers have led to all-in-one applications by bringing together multiple point solutions, few operate as smoothly as advertised, still requiring extensive work to integrate and personalize. Therefore, whether you choose best-of-breed strategy or an all-in-one solution, the reality is that it's on you to ensure that your technology vendors' solutions actually work together to solve your business problems.

In 2018, McKinsey found that digital transformations in traditional industries such as oil and gas, automotive, infrastructure, and pharmaceuticals had a success rate below 11 percent. The successful transformations, however, shared a common trait: The organizations all deployed more technologies than those that failed. It may sound counterintuitive, as more solutions increase complexity, but in reality, multiple sophisticated solutions are required if transformation benefits are to be achieved.

With that in mind, here are three ways to avoid the common pitfall of relying on a single technology.

SCENARIO 1: **The technology is just a point solution**

THE REMEDY: Demand more. Many technology case studies point to better, faster, and cheaper solutions, but few address how to accomplish this with your workforce and in your environment. Admittedly, technology companies have started to include change management and success management as part of their implementation process, but only because companies are now demanding it. You should too.

SCENARIO 2: **The technology is just a point solution that doesn't work in your ecosystem**

THE REMEDY: When you discuss change management and success management plans with technology providers, cover more than training and the adoption of the point solution. You need to consider how that specific technology will fit into your technology ecosystem to empower your people's actions and results.

SCENARIO 3: **The technology is just a point solution that doesn't work in your ecosystem without partnership**

THE REMEDY: A solution provider should do more than fulfill the absolute minimums of a contract; it should include delivering long-term value to your business. That only happens, however, if both you and the vendor take on a partnership mentality, bring the best ideas and the best people to the table, and collectively strive for long-term success.

Transformation Takeaway: Avoid treating technology as a one-off plug-in. Build a technology ecosystem that is enabled by long-term partnerships.

VALUE THAT'S ELUSIVE

In order to maintain momentum and sustain support, the focus of all transformations should be on achieving visible and measurable value. Without perceived value from the investment, the transformations are more likely to lose steam and never even reach the finish line as planned.

To avoid the common pitfall of elusive value, follow these best practices.

SCENARIO 1: **Value is not perceived**

THE REMEDY: During transformation planning, a clear strategy to achieve and demonstrate value may not have been outlined—or clearly communicated. Revisit the delivery plan to ensure it focuses on value and includes the right messaging to improve visibility.

SCENARIO 2: **Value is neither perceived nor achieved**

THE REMEDY: Has your message been refreshed since it reached audiences months ago when you first started? How are you doing? Is the transformation delivering value? What have you learned? Answer these key questions early and often. Transformations aren't about one big bang; they're about progressive achievements aimed at a solution built to fit.

SCENARIO 3: **Value is not perceived or achieved, and there's no eye toward long-term growth**

THE REMEDY: The critical predictor of long-term transformation success is progressively achieving value. Transformations that are focused solely on efficiency gains and cost reductions at the expense of capabilities for growth are missing the true value of transformation. Expand your focus to thrive and grow.

Transformation Takeaway: Avoid a big bang of value. Your transformation should prove itself with early value to build momentum and be sustainable. While efficiency gains and cost savings are great ways to show value, the focus on efficiency must be balanced by a focus on growth.

LEADERS WHO AREN'T READY

The leadership team assumes two key roles in a transformation: First, it must envision a future state of the company and lead the organization there; second, it must continue to run the current business without a loss of focus. Doing both is no easy feat.

Here is a contrasting example on how leadership can impact the outcome of a transformation: In 2008, Taiwan's Acer and China's Lenovo maintained the third- and fourth-largest global market share in personal computers. Both organizations had the same goal of growing internationally and each made strategic global acquisitions of Western businesses to expand their footprints into Europe and the U.S.

Each company, however, chose a different path to implement their transformation. On one hand, Lenovo made a conscious effort to strengthen its top leadership team with executives from six different countries, each with local expertise in the target markets and technology. It hired a coach for the leadership team to improve their performance and brought them together often, meeting in different strategic markets. These moves resulted in successful international acquisitions, and by 2015, Lenovo had surpassed HP and Dell and achieved its globalization goal. Over the same seven-year time period, Acer took the opposite approach. It turned down the calls for adding outside technical talent. Fearing de-Taiwanization, Acer cut the number of non-Taiwanese leaders in half, leaving only three foreigners in its top 23 leadership positions, and turned inward to grow its global business. Not surprisingly, the moves backfired. In the end, Acer's global market share dropped all the way to sixth.

How, then, do you ensure the leaders of your organization are up to the challenge of a transformation? Here are a few tips:

SCENARIO 1: **The transformation leadership is missing**

THE REMEDY: A transformation leadership team can become easily distracted with its existing duties. Don't think of transformation leadership as a part-time job. Support your leaders with coaching and training to help them develop the skills they need to juggle competing responsibilities while maintaining focus on the transformation.

SCENARIO 2: **The transformation leadership is missing diversity**

THE REMEDY: A transformation leadership team that only knows and thinks in terms of business as usual will struggle in its new role. Seek opportunities to bring new skills and new voices into your leadership team. Diversity can help generate a powerhouse of ideas that challenge the why and lead to innovative solutions.

SCENARIO 3: **The transformation leadership is missing the diversity needed to build resiliency and shift mindsets**

THE REMEDY: In order to create a future where people think, act, and execute differently, executives need to lead by example and change their own mindsets. They must abandon legacy habits, model new thinking, and embrace the future capabilities. After all, transformation of the leadership team may be a critical first step to transforming the organization.

Transformation Takeaway: Leadership needs to be first to transform their mindset and embrace that of the future enterprise. Without the necessary diversity, skills, or resources to grow, they will struggle to achieve the desired results.

STRUCTURE DOESN'T MATCH THE COMPLEXITY OF THE TRANSFORMATION

The key to successfully building your Transformation Management Office is to build with leaders who not only have different mindsets, but who possess the capability and executive presence to handle sticky situations. This fit-for-purpose structure can manage adversity and ensure decisions are made on time, even with the complexity and cross-functional nature of the transformation.

Here are three ways your Transformation Office can fail and how to prepare for them:

SCENARIO 1: **The transformation structure is not built to operate in a disciplined way**

THE REMEDY: Setting the execution discipline early is critical to the success of any project, and even more so for a transformation. Alignment to strategy, execution to a coordinated plan, accountability, consistency in decision-making, and executive credibility are nonnegotiable when orchestrating multidisciplinary efforts that will cut through organizational silos and potentially impact power structures.

SCENARIO 2: **The transformation structure is not built to operate in a disciplined way to weather conflict**

THE REMEDY: Much as you wouldn't change the rules of a high-stakes game after you started playing, never kick off a transformation without first outlining how it will be executed, how decisions will be made, and how conflicts will be resolved. Even more important is building and testing the maturity of the transformation management structure early to make sure it is strong enough to weather the rough stretches that will almost certainly arrive.

WE KNOW TRANSFORMATIONS ARE COMPLEX AND CHALLENGING, BUT ALSO BELIEVE THAT WHEN EXECUTED WELL, THEY CAN HELP DEVELOP A SUSTAINABLE COMPETITIVE ADVANTAGE FOR MANY ORGANIZATIONS.

SCENARIO 3: **The transformation structure is not built to operate in a disciplined way to weather conflict or drive timely action around complex situations**

THE REMEDY: Sooner or later, the transformation office will have to handle a crisis—whether it's technology falling short, missed workstream deadlines, or an unforeseen risk that significantly impacts the transformation. Build your Transformation Office not only with the mechanisms to handle these situations, but also with the maturity to recognize and confront rogue efforts, emergence of resistant countercultures, and even solution challenges that may pit one leader against another. Without the proper mechanisms, the maturity, and the authority in place, any one of these crises may derail the entire transformation.

Transformation Takeaway: We know transformations are complex and challenging, but also believe that when executed well, they can help develop a sustainable competitive advantage for many organizations. Here are the key ways we discussed that you can avoid the common pitfalls that lead to transformation failures:

1. Set your strategy with clear principles and align your transformation around them.
2. Emphasize change management around people, process, and technology.
3. Enroll the right leadership, with an experienced transformation management leader.
4. Establish a robust structure of discipline with the right supervision and governance.
5. Avoid pitfalls by building your management structure in time to test and refine your approach to effectively manage those early disagreements.

We know you can do it and wish you success in your strategic business transformation.

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