



Knowledge Area Review (KAR 027)

Transformation Leadership – Product Brochure

November 2015

KAR027: Transformation Leadership

A global synthesis of transformation insights (brochure and sample slides)

What is this report?

- ICG's 27th Knowledge Area Review (KAR), covering transformation leadership.
- Over 110 pages (samples attached) of in-depth information, drawing on the best public-domain thinking and practice globally from consulting firms, academics and others.
- Created by a global team with over 100 years of collective experience in transformation.
- Priced at US\$7,500 (plus any applicable taxes) per organisation for an unlimited global license.
- Published in November 2015.

What questions does it answer?

- What are the drivers and context for transformation in our global marketplace?
- How do you make sure you have the right ingredients?
- What alternative and emerging transformation approaches are considered best practice?
- How do we make sure that we win hearts and minds of core stakeholders before, during and after our transformation journey?
- What is the trick to achieving and maintaining results?
- How do we ensure transformation success over the long run?

Why buy it?

- Get smart quickly and in depth on transformation trends.
- Bring yourself up-to-date and be ahead of major emerging developments.
- Align your team with the best up-to-date thinking and practice worldwide.
- Enhance your approaches against global best practice principles using key takeaways for each chapter and a simple evaluation matrix included in the material
- Save time and money in kicking off major transformation efforts.

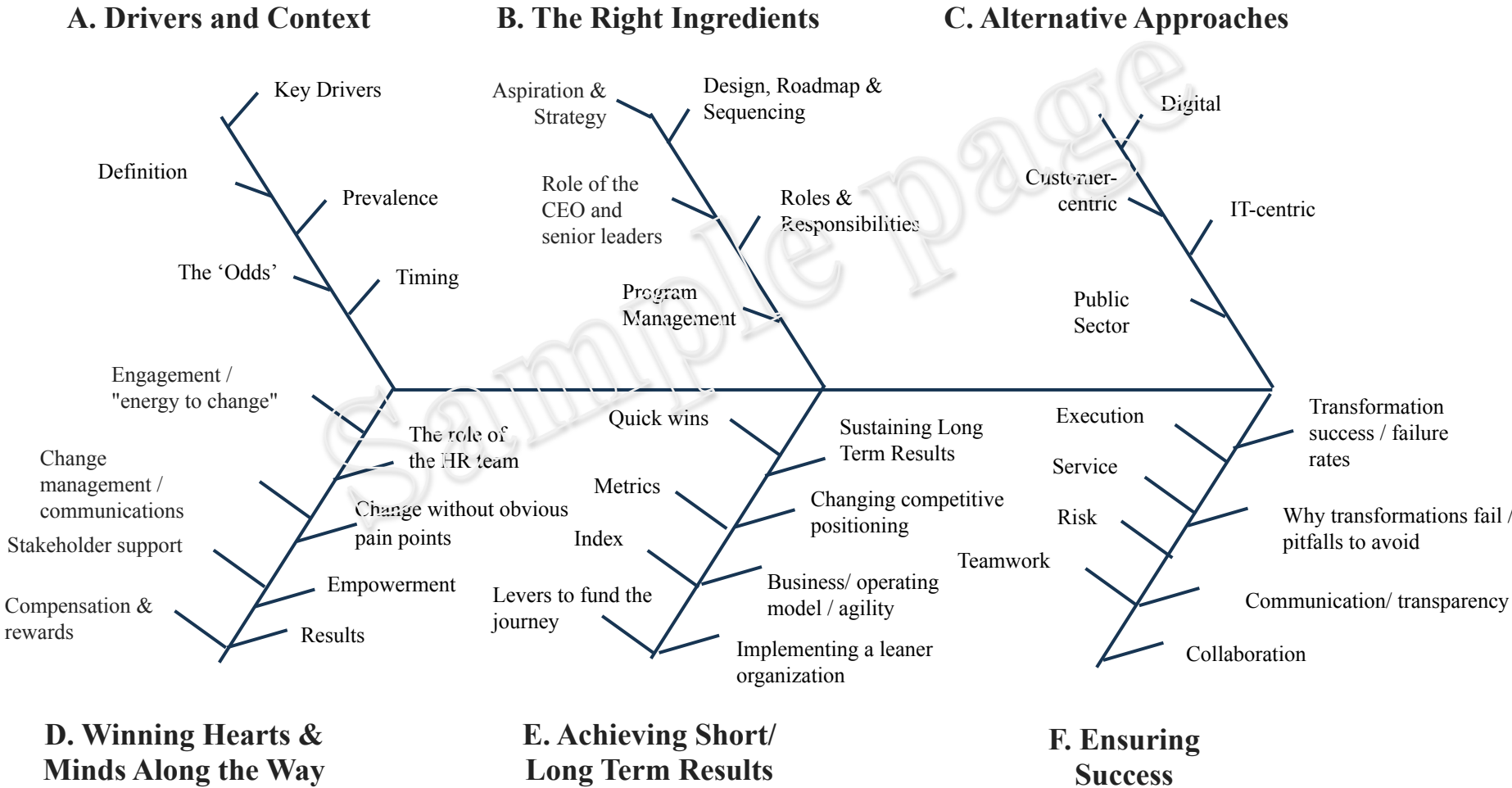
Where can I buy it?

- From your local ICG affiliate or office
- From the lead author Gerry Purcell (Toronto, Canada - gerry.purcell@internalconsulting.com)
- From ICG's web store at <http://internalconsulting.com/store/knowledge-area-review/>

ICG suggests that transformation requires 7 critical elements to be in place, beginning with a clear aspiration and strategy



Leadership in Transformation: Content Overview



Leadership in Transformation: Content

Section	Component	Description
1	Executive Summary	Overview of our research and findings
2	Topics in Transformation Leadership	A global synthesis of transformation insights
2a	Drivers and context	1. Clearly defining and communicating the organizational aspiration and the strategy to get there
2b	Putting in place the right ingredients	2. The transformation design, including approach and sequencing of a roadmap of initiatives
2c	Alternative and emerging transformation approaches	3. The critical role that the CEO and the senior leadership play in supporting and driving a transformation effort
2d	Winning hearts and minds on the transformation journey	4. The requirement that roles and responsibilities of everyone involved in the transformation need to be clearly defined
2e	Achieving and maintaining results	5. That the transformation program needs to be effectively and efficiently managed to ensure benefits realization
2f	Ensuring transformation success	
3	Knowledge Sources	

Transformation definitions vary somewhat but all contain references to several common elements

DEFINITIONS FROM LEADING CONSULTING FIRMS

- “In a shifting environment, most businesses must transform, meaning a fundamental change in strategy, operating model, organization, people, and processes. For most companies, the urgency is high; for others, it is an ongoing, adaptive process. In both cases, though, the transformation fundamentally alters the trajectory of the company. Equally important, it is not a onetime event but an ongoing process of evolution as market conditions continue to change” – BCG
- “Successful transformation normally requires rapid, short-term improvements to the bottom line to establish traction and to position the company to win in the medium term. At the same time, organizations need to build the right team, organization, and culture to achieve sustainable results over the long term. All of these aspects need to happen in parallel” – BCG
- “Transformation is one of those overused words in business, which can mean almost anything—from a quick-and-dirty restructuring to a full-scale corporate rescue. We define Full Potential Transformation in the most literal sense: a cross-functional effort to alter the financial, operational and strategic trajectory of the business, with a stated goal of producing game-changing results” – Bain
- “What distinguishes transformations from run-of-the-mill efforts? Whether applied to a business unit or to a whole organization, a true transformation is characterized by startlingly high ambitions, the integration of different types of change (organizational, operational, commercial), and a prolonged effort often lasting many months and, in some cases, even years” – McKinsey

COMMON ELEMENTS

- Fundamental change in strategy and operating model
- Aim to alter organizational trajectory
- Cross-functional approach
- Initial focus on short term “quick wins” shifting to longer term change
- Not a one-time event, rather a prolonged or ongoing effort
- Significant / ambitious results

Transformation has become the “new normal”; the vast majority of US companies are doing it, largely with a focus on efficiencies / cost

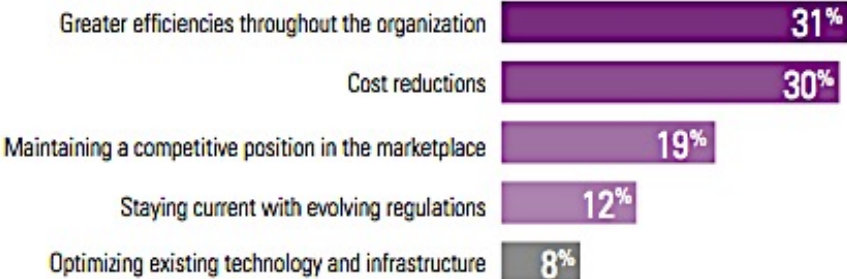
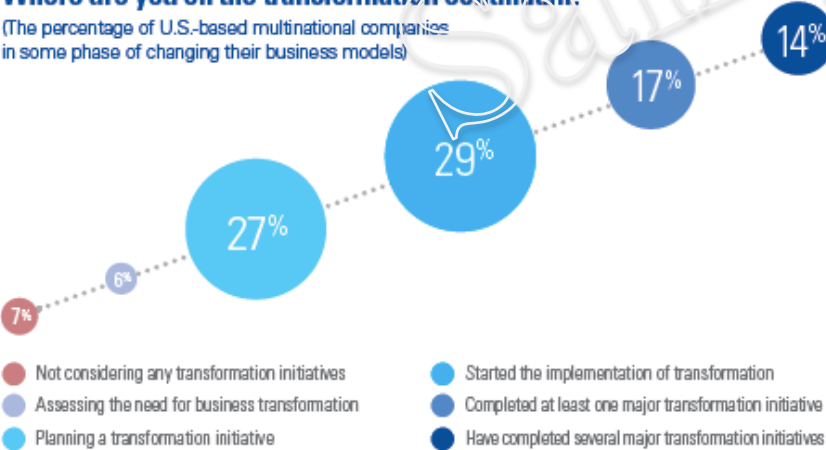
WHO IS TRANSFORMING AND WHY?

- KPMG surveyed 900 senior executives from US based multinationals and asset managers in 2013 – an incredible 93% were found to be in some phase of changing their business models
- Of the 93%, a third (31%) had already completed at least one major transformation initiative and were on to another one

MOST ARE EITHER PLANNING OR EXECUTING A TRANSFORMATION....

...TYPICALLY WITH A FOCUS ON EFFICIENCIES OR COST REDUCTION (62%)

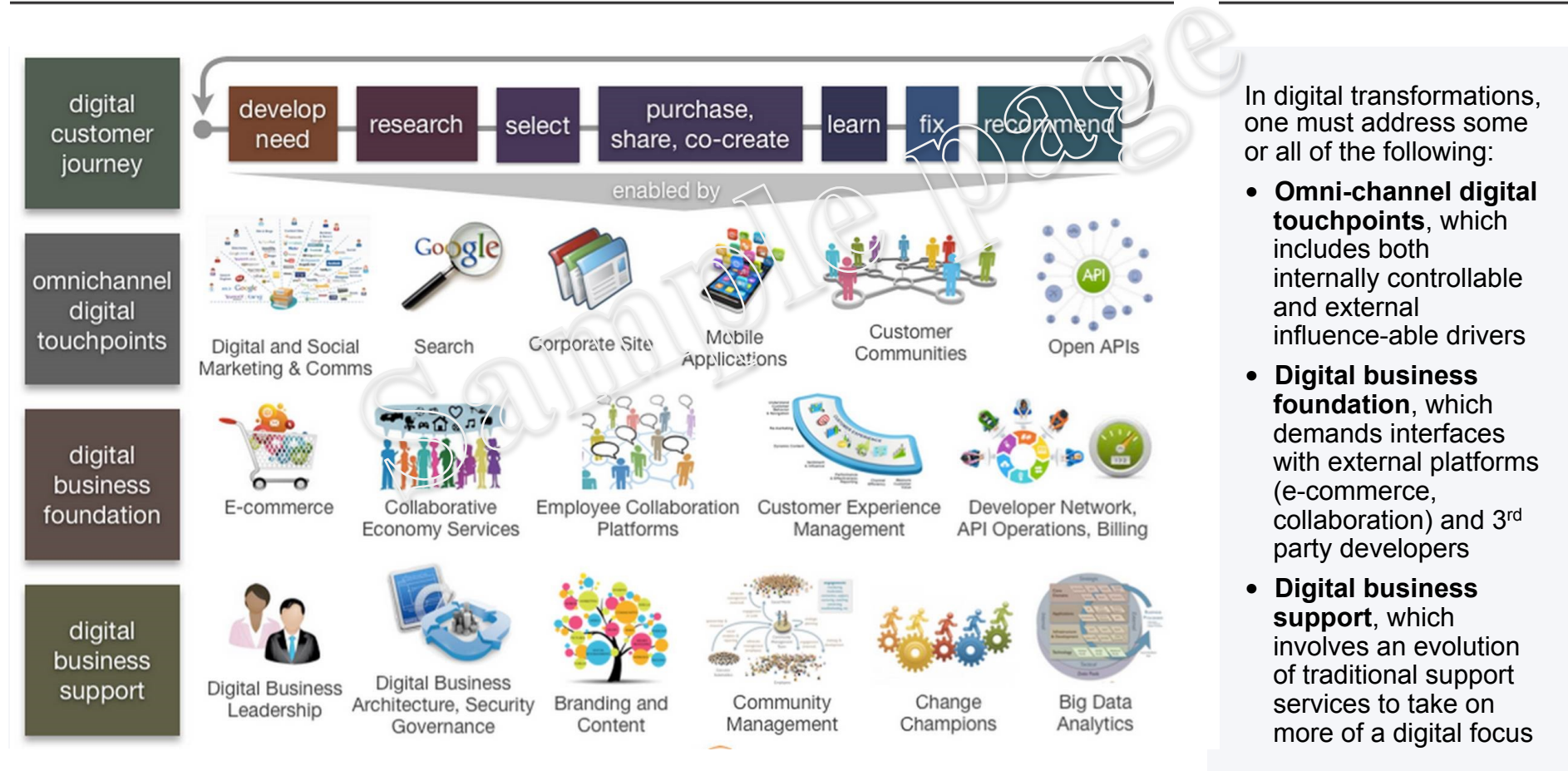
FIGURE 1.
Where are you on the transformation continuum?
 (The percentage of U.S.-based multinational companies in some phase of changing their business models)



Digital transformation goes beyond traditional transformation in a few key areas

ELEMENTS OF DIGITAL BUSINESS (CIRCA 2015)

HOW IS IT DIFFERENT?



In digital transformations, one must address some or all of the following:

- **Omni-channel digital touchpoints**, which includes both internally controllable and external influence-able drivers
- **Digital business foundation**, which demands interfaces with external platforms (e-commerce, collaboration) and 3rd party developers
- **Digital business support**, which involves an evolution of traditional support services to take on more of a digital focus

For Public Sector transformations, one firm advises organizations to adopt a “lean management” methodology

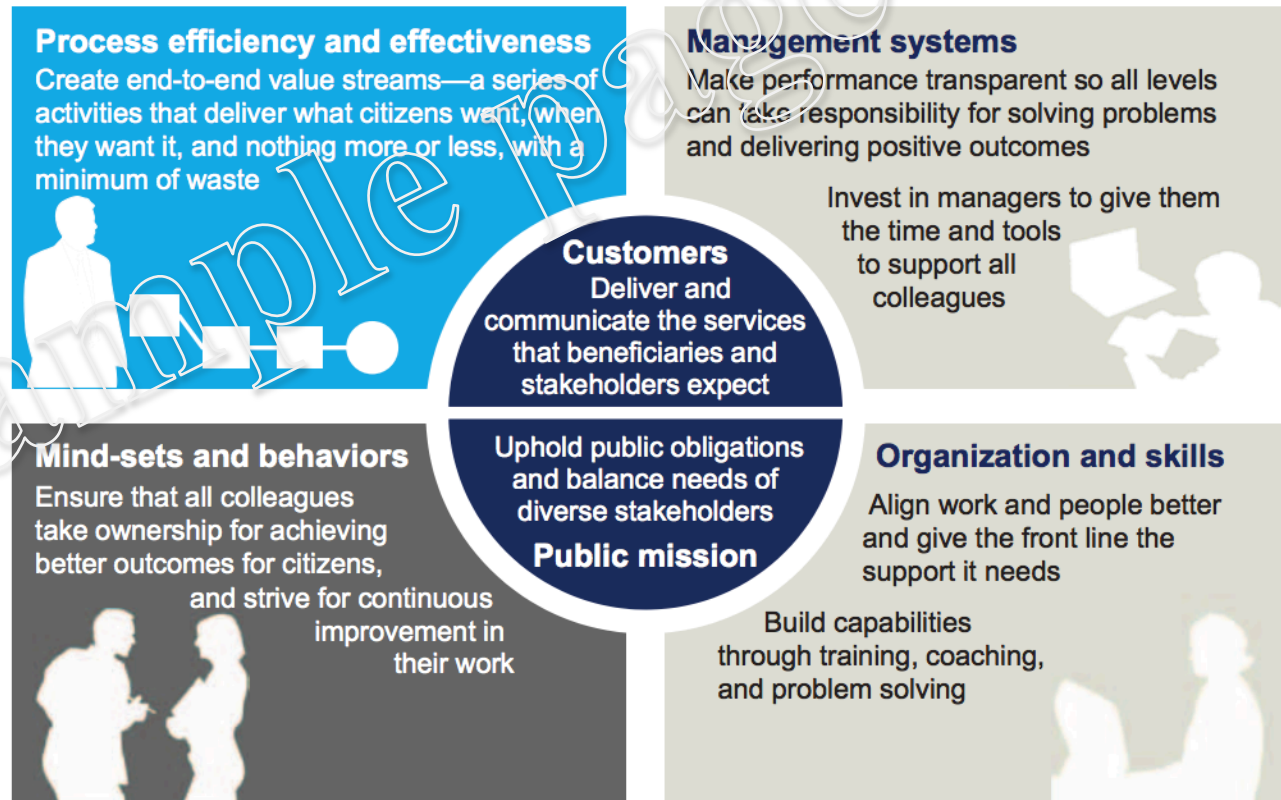
WHAT IS LEAN MANAGEMENT?

- A new approach that integrates “hard” operational principles, such as just-in-time production, with the “soft” side, including the development of leaders who can help teams make continuous improvements.

Why does it work?

- As services get faster, better, and more efficient, customers are more satisfied, employees become more engaged in making improvements, and managers can spend more time on coaching and less on paperwork, creating a virtuous circle

LEAN MANAGEMENT METHODOLOGY IN THE PUBLIC SECTOR LOOKS AT CHANGE THROUGH FIVE LENSES



Executives must build exemplary leadership teams and all must be adept at building relationships with widely scattered people

LEAD FROM THE FRONT

- Beyond the top leadership, a transformation initiative must engage and obtain the buy-in of the management team.
- Typically, this requires convincing some skeptics who may question the validity or the urgency of the change.
- This resistance may be due to a number of factors:
 - A change to their span of control
 - An increase or decrease of their responsibilities
 - Lack of understanding or belief in the transformation strategy; or
 - Many other potential factors.

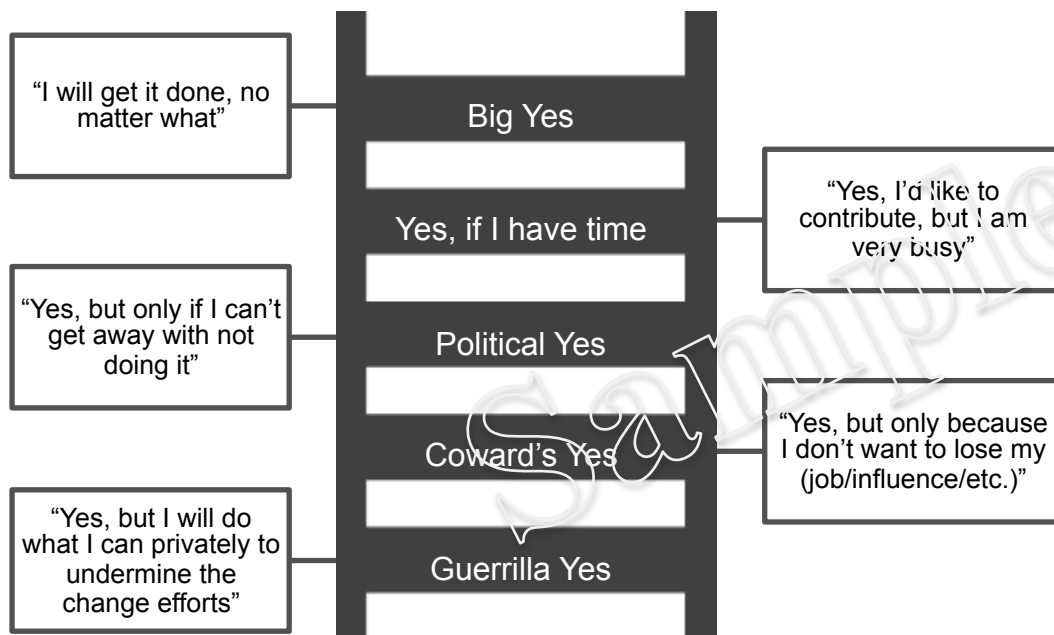
LEADERS MUST BRING MANAGERS THROUGH SEVERAL PHASES OF POTENTIAL RESISTANCE

Depending on the phase, specific interventions can be used to generate buy-in:

- **Denial.** In this phase, leaders may simply ignore requests, assuming that the initiative won't last. A clear and convincing case for the change, and reinforcing the fact that the transformation is for real will help to dispel denial.
- **Resistance.** The most common sticking point. In this phase some leaders will seek, actively or passively, to undermine the transformation effort. Open and honest, two-way communication is vital in engaging these managers. Some concerns are likely legitimate, and exploring them will increase the chances of success.
- **Exploration.** Here, direct engagement and reassurance through quick wins are key. This will increase their confidence that the process is working.
- **Commitment.** Leaders are fully engaged in the transformation and eager to help to spread buy-in throughout the organization regarding next steps.
- Assess each leader for past performance, current readiness, and future potential across four dimensions: knowledge, soft skills, experience, and motivation and personality traits. Weakness in any one of these areas can be a warning sign.

“Yes” can often mean “no” or “maybe” – Ensure that stakeholder engagement is real

MICRO COMMITMENT LADDER (STAKEHOLDER SENTIMENT)



Of course, the “yes” that we are looking for (and should be giving) when speaking about a transformation effort is the *Big Yes*.

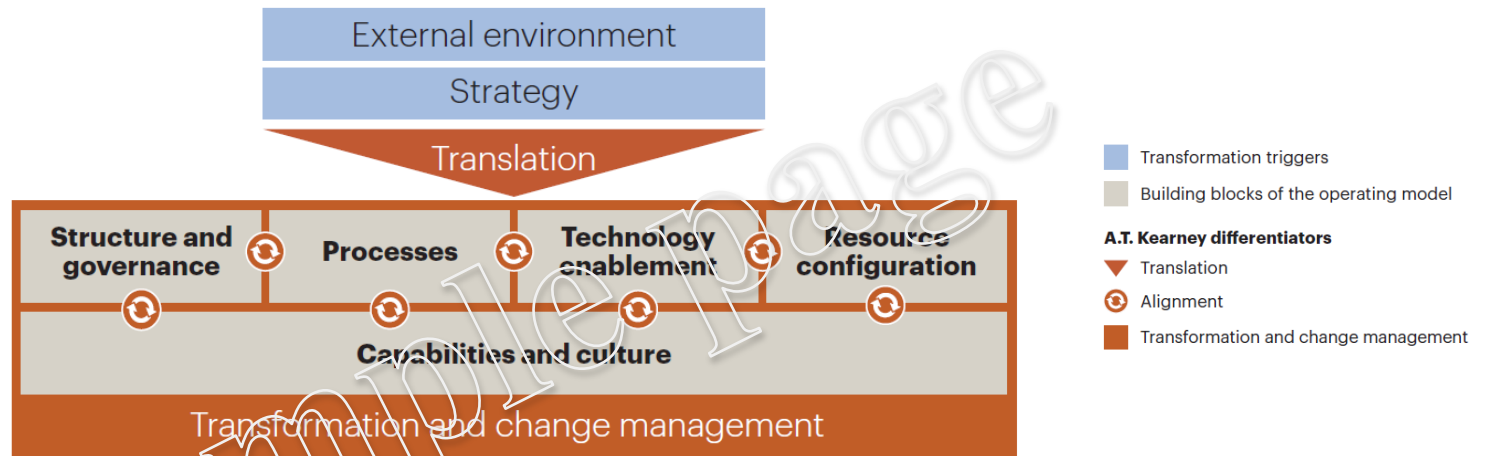
How can a leader be sure? What are the techniques for courting the *Big Yes*?

MITIGATED COMMUNICATION AND THE POWER OF “NO”

- Firstly, every yes that is given or received should be challenged to determine if there is real commitment behind it.
- Secondly, there must be alternative to fake “yeses”. An environment that does not encourage people to speak their minds will inevitably end up moving forward with bad ideas.
- Further, those whose opinions are not considered and addressed cannot be relied on to engage in a transformation with maximum effort.
- Thirdly, the problem of mitigated communication (i.e. the softening of suggestions in the presence of authority) must be dealt with. Studies of airline pilots and first officers have shown that while both parties are aware what the most effective “strength” of communication is, in practice *neither* employ it.
- In the airline industry, *Crew Resource Management* (CRM) programs have been developed to encourage active debate in solving challenges, based on the characteristics of high-performing crews.
- Multiple studies have shown a vast improvement in flight performance in these cases (80-91 percent).

Research suggests that companies best prepared to face competitive challenges are those that focus on five building blocks and a balance of strength, agility and lean

AT Kearney Fit Transformation Framework



Structure and Governance:

Such as organizational setup or performance management scheme

Processes:

Such as quality and efficiency

Technology Enablement:

Such as automating processes or mining and analysing data

Resource Configuration:

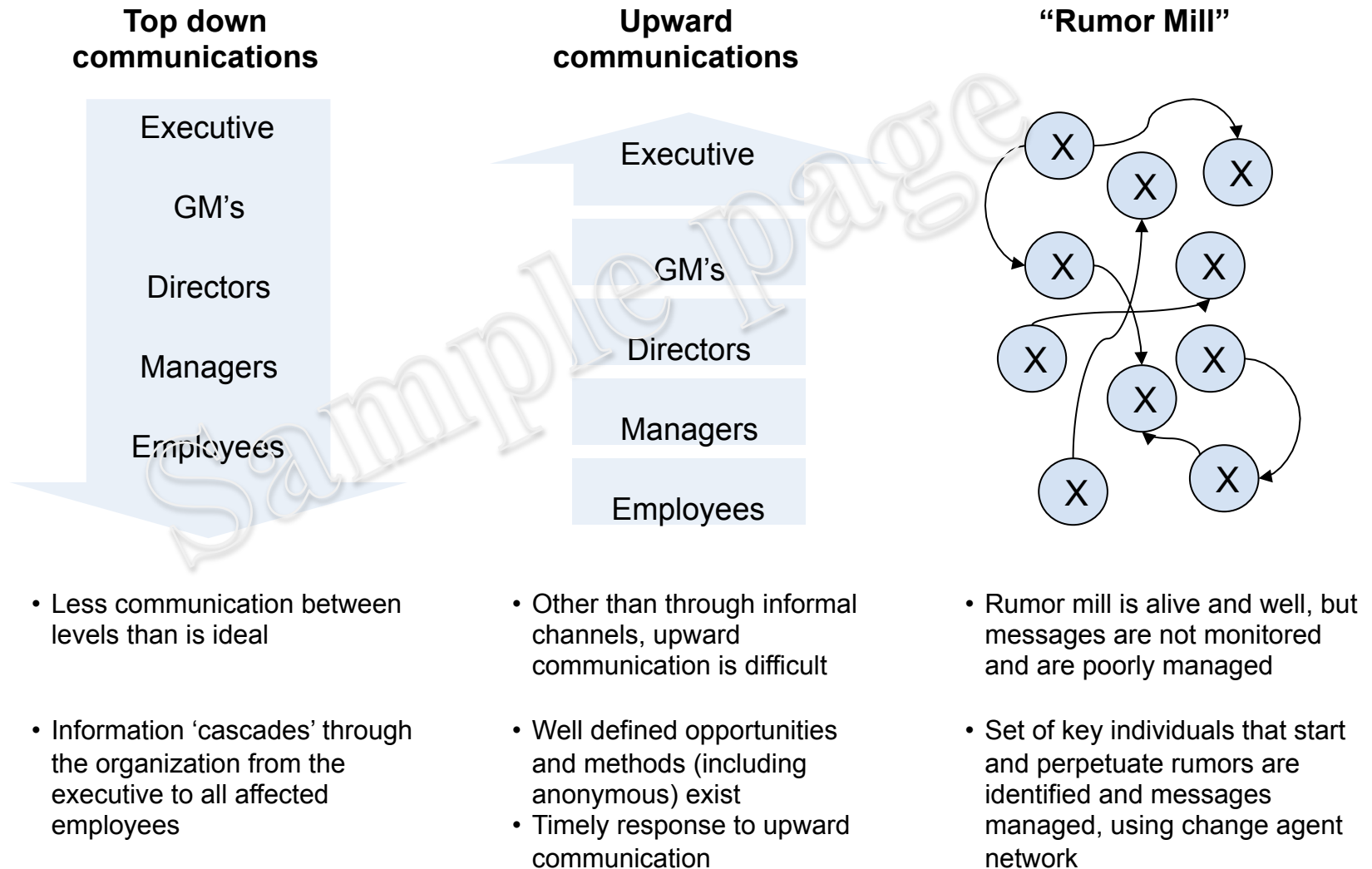
Covering aspects such as company's make-versus-buy model, strategic alliance and geographic footprint

Capabilities and Culture:

Including training programs and staff motivation

At one extreme are startups and other high-growth companies. They can, in effect, be too agile, chasing every potential opportunity without clear strategic goals. At the other end of the spectrum are large, incumbent companies, slowed by lethargic or timid corporate cultures, combined with rigid business processes and legacy information technology systems.

Communication is a critical change enabler – manage the 3 key types to be carefully

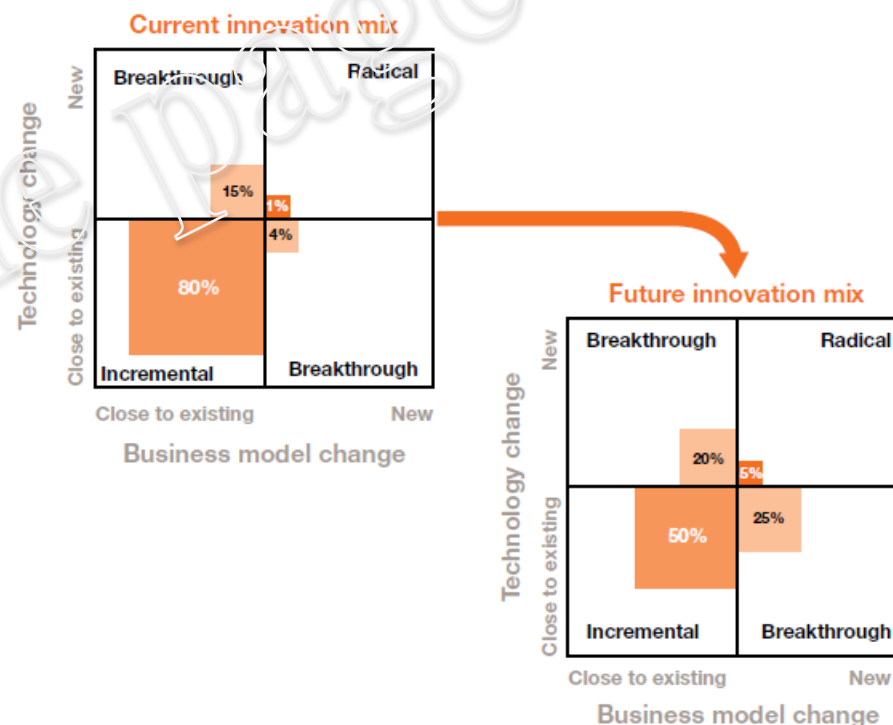


The balance of innovation efforts is predicted to change drastically in the financial industry, especially towards “breakthrough” business models

INNOVATION CAN BE GROUPED INTO THREE BROAD CATEGORIES

- **Incremental.** Small changes characterised as better, faster, cheaper products and services that do not drive above average revenue growth.
- **Breakthrough.** Significant change to the technologies or business model of a product or service that creates significant new competitive advantages and drives above average revenue growth.
- **Radical.** Substantial changes to technology *and* business model. Creates a new basis of competition in existing markets (such as a new technology platform or cost basis) or creates entirely new markets that provide customers with new value.
- Success comes from finding the right mix of innovation types to achieve strategic objectives. This will depend on strategic concerns and the state of the market.
- One consultancy observed that currently most innovation initiatives are aimed at incremental innovation (80 percent) and predicts that financial institutions of the future will need to rebalance their efforts to succeed against newcomers.

INNOVATION MIX: A PREDICTION OF THE FUTURE STATE FOR FINANCIAL INSTITUTIONS



Source: PwC analysis.

Be brave enough to cannibalize existing business lines, or face challengers that will cannibalize them for you

CONTRASTING CASES: KODAK & APPLE

- Kodak is widely viewed as the classic case of an industry leader that failed to see the digital future coming.
- Kodak developed a digital camera prototype in the 1970s and launched its first commercial digital product in 1991. Its strong brand and ample market power should have made it a force to be reckoned with.
- Instead, it walked into a set of traps common to large companies trying to come to grips with uncertainty: Its initial moves were small-scale and scattershot. It was unwilling to invest in a business that would cannibalize a highly profitable, but rapidly eroding core until it was too late.
- A last-gasp big bet was the wrong one—a failed joint venture with Hewlett-Packard to create photo-developing kiosks. Kodak's strategy committed the company to a future that looked very much like the past.
- On the other hand, Apple has historically been able to take advantage of disruptive technology advancements (e.g. the transition from CD players to MP3 devices), and does not hesitate to cannibalize its own line of business should it become outdated (e.g. the transition from iPod to iPhone).

“Kodak had the solution to its own ills and chose to submarine it... the lesson: if you don't cannibalize your own business, count on a competitor to do it for you... That is the real lesson of Kodak: no one can stop the march of innovation because it is inconvenient or upsetting. No company can duck cannibalism by refusing to acknowledge that current markets have to be sacrificed for new markets to be built.”

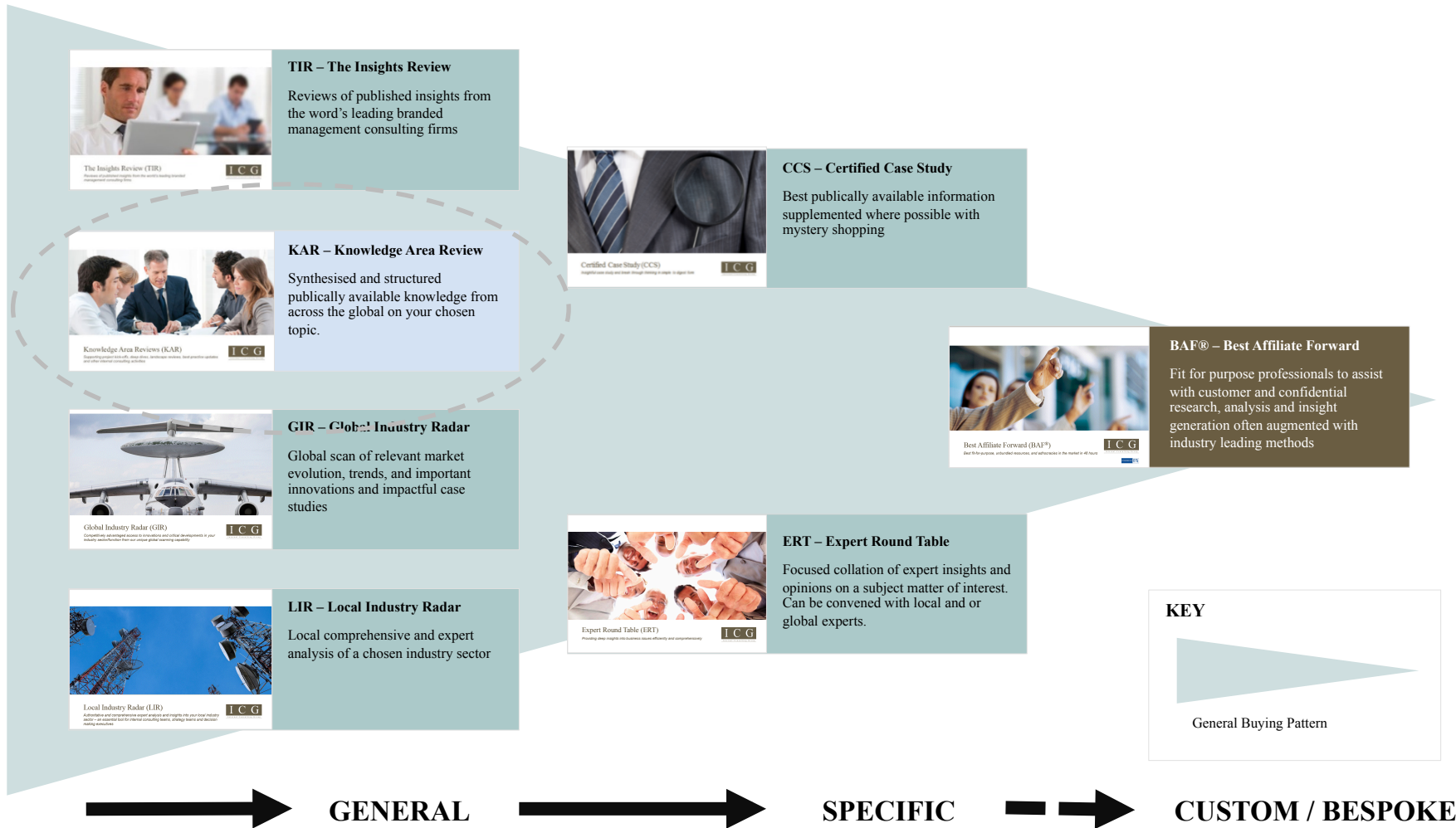
– Ken Goldstein, author of *This is Rage: A Novel of Silicon Valley and Other Madness*

“Our core philosophy is to never fear cannibalization. If we don't do it, someone else will. We know that iPhone has cannibalized some of our iPod business. That doesn't worry us. We know that iPad will cannibalize some Macs. But that's not a concern.”

– Tim Cook, CEO, Apple



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Acknowledgements

This report is the 27th in ICG's series of Knowledge Area Reviews or KARs®, each of which provides a comprehensive perspective on global best practice in a different business area and/or function.

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