

How do you succeed with transformation? V2

The purpose of this article

The purpose of this article is to outline an overall framework to consider in any type of transformation. This article does not discuss the details of each specific type of transformation.

What is the structure of this article?

- 1) What is business transformation?
- 2) What are the symptoms of a need for transformation?
- 3) What is driving the need for transformation?
- 4) Transformation usually fails.
- 5) What needs to be considered when setting the targets and outcomes of transformation?
- 6) What are some general transformation principles?

What is business transformation?

Transformation is described in terms of the changes to the company's business model. The business model describes how a company creates value for itself while delivering products or services to C&U (Customers and Users).

There are five types of transformation. Each type of transformation will have its own specific approach and objectives, reflecting the need to address both symptoms and the underlying driving factors.

#1 Restructuring

#2 Turnaround

#3 Operational Transformation

#4 Business Model Transformation

#5 Strategic Transformation

Your corporation may need components from different types of transformation.

Startups often pivot, which may be a business model transformation or a strategic transformation.

Further reading:

What is business transformation?

<http://koorandassociates.org/business-transformation/what-is-business-transformation/>

What is a business model canvas?

<http://koorandassociates.org/the-startup-journey/what-is-a-business-model/>

What are the symptoms of a need for transformation?

The obvious facts demonstrate that the company is in crisis. E.g.

- 1) Losing customers or losing market share. Net Promoter Scores dropping. Customer churn increasing and customer retention decreasing. The lifetime value of new customers is exceeding new customer acquisition costs.
- 2) Benchmarked performance is poor compared to competition.
- 3) Debt and interest payments are causing major losses and negative free cash flow. The company is profitable with positive free cash flow, if debt and interest payments are not considered.
- 4) The company is unprofitable with negative free cash flow, even if debt and interest payments are not considered.
- 5) Employee turnover is unacceptable.
- 6) Employee ratings of the company are unacceptable.
- 7) Not being able to meet payroll or meet covenant requirements in financing.
- 8) The overall market size is shrinking.

What is driving the need for transformation?

There are four core factors driving the need for transformation:

- 1) The customers and users don't perceive that the company's solution is better than the competition, resulting in the symptoms shown above.
- 2) The company's internal operations are no longer profitable or effective.
- 3) The market size is shrinking.
- 4) The company's leadership has decided on strategic transformation. E.g. Google started new businesses such as phones.

Leadership failings (at both the board of directors and C-Suite) often are the underlying foundation driving the need for transformation.

Further reading:

Do you need to transform your company?

<http://koorandassociates.org/business-transformation/do-you-need-to-transform-you-company/>

Transformation usually fails.

- 1) Major changes almost always fail. 12% of change programs succeed; 38% produced less than half the expected results; 50% diluted the value of the company.¹
- 2) Efforts to recover a poor business (i.e. transformation) typically fail. Fortune 500 (1998-2013). 33% of the companies grew; 35% went bankrupt or were acquired; 32% stalled. Only 10% of the stalled companies recovered. Of the recovered companies, 75% returned to the core business and 25% redefined their business model.²
- 3) More than half of M&A deals destroy value for investors.³

Further reading:

Is your company planning to fail?

<http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/>

What needs to be considered when setting the targets and outcomes of transformation?

The targets and outcomes of transformation should position the company for successful long-term value creation in a changing and competitive environment. There may be conflicting problems, needs, and objectives which need to be reconciled. Decision making must consider the following 8 factors:

#1 What are your company values?

The values guide decision making and behaviour of the entire company including the board of directors. The values may encompass morals and ethics.

Further reading:

Why are values, morals, and ethics important?

<http://koorandassociates.org/values-morals-and-ethics/why-are-values-morals-and-ethics-important/>

#2 What is the purpose of your company?

Why does the company exist? What needs of society (other than selling to customers and providing a return to shareholders) does the company meet?

Neither Larry Fink (CEO of Blackrock, which has close to \$9 trillion of assets under management), nor the 1981 US Business Roundtable, believe that the board of directors and CEO's overriding objective is to maximize profit and shareholder value.

Larry Fink, in his 2018 letter to CEOs, said "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.....Without a sense of purpose, no company, either public or private, can achieve its full potential.....And ultimately, that company will provide subpar returns to the investors."⁴

In 1981 the US Business Roundtable published a corporate governance report with stated: "Corporations have a responsibility, first of all, to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy." "Business and society have a symbiotic relationship: The long-term viability of the corporation depends upon its responsibility to the society of which it is a part. The well-being of society also depends upon profitable and responsible business enterprises".⁵

Further reading:

<https://www.bcg.com/en-ca/publications/2017/transformation-behavior-culture-purpose-power-transform-organization>

#3 What are the current problems and needs of the stakeholders you're considering?

Stakeholders may include:

- 1) Customers
- 2) Employees
- 3) Suppliers, partners
- 4) The community

#4 What are the current and future needs of customers who are both willing and able to pay?

- 1) Understand the current and future market size.
- 2) Understand how the current customers perceive the value they achieve from your solutions relative to the competition.
- 3) Consider the example of Blackberry. The number of customers who had problems and needs that could be addressed by a keyboard-based phone shrank dramatically. Any transformation that ignores shrinking demand may lead the company to extinction

Further reading:

Do you understand your customers?

<http://koorandassociates.org/understanding-customers/do-you-understand-your-customers/>

#5 What are the current and future actions and capabilities of your competitors?

- 1) Competitors will continue to change and improve.
- 2) New competitors will arise.
- 3) Competitors will respond to your actions.

#6 What are the external trends?

Trends may include:

- 1) Technology
- 2) Demographics
- 3) Competitor actions
- 4) Changing expectations, of stakeholders

#7 What are the future scenarios?

External trends, the competition, and the changing problems, needs, and expectations of stakeholders all results in a variety of future scenarios.

#8 Will the transformation targets and outcomes result in long-term value creation in all future scenarios?

What are some general transformation principles?

#1 Assess how the board of directors provided value during the journey leading up to the need for transformation.

- 1) Does the company have a competitively differentiated board of directors, in terms of their ability to enable long-term value creation?
- 2) How has each individual board director provided value in the years leading up to the need for transformation?
- 3) Does each board director have the relevant current experience and capabilities to provide value?
- 4) How did the board regularly assess whether or not the appropriate CEO was in place?
- 5) How did the directors ensure that there was a relevant pool of internal and external CEO successors, as well as a successor development process?
- 6) How did the directors ensure that there was a relevant pool of internal and external director successors, as well as a successor development process?
- 7) Is each director able to transform themselves with new and relevant experience or are replacements required.?

Further reading:

How can the board of directors provide value?

<http://koorandassociates.org/corporate-governance/how-can-the-board-of-directors-create-value/>

"Does your board really add value to strategy?", Professor Didier Cossin and Estelle Metayer, IMD Global Board Center

<https://www.imd.org/research-knowledge/articles/board-strategy/>

“Corporate Boards need a facelift”, Eric Kutcher, McKinsey, May 04, 2018

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-strategy-and-corporate-finance-blog/corporate-boards-need-a-facelift>

#2 Transparent Communications and Trust:

- 1) People need to understand why they must personally change and why the status quo is not an option. The urgency is based upon the facts of the current situation and a rationale regarding the scope and type of transformation.
- 2) Two-way communications are critical. People must see that management is listening to them. If management doesn't listen, it's quite likely that people won't listen to what they've been told.
- 3) The communications are focused on, and relevant to, the target audiences. For example, telling the call centre staff that the only reason the call centre is moving offshore is to improve profits will likely increase change resistance and decrease trust with the leadership.
- 4) Explain the need for transformation, and its related changes, in terms of the company values and purpose.

Further reading:

Why is trust critical for transformation success?

<http://koorandassociates.org/business-transformation/why-is-trust-critical-for-transformation/>

#3 Accountability

Be clear on who is accountable for achieving outcomes and benefits.

#4 Integrate transformation into the business

- 1) Existing planning and management processes and policies may need to be revised to reflect the transformation.
- 2) A transformation office may necessary in the short-term to make these changes.
- 3) A transformation office that works outside of existing planning and management processes for the long-term will create resistance to change and will not produce sustainable change.

Your next steps

- 1) Define the transformation plan, including scope, objectives, and outcomes.
- 2) In a parallel activity, define the overall framework as described above. Collect the current facts and assumptions. Facts are often out of date. Often there is confusion between facts and assumptions. Information may need to be collected directly from stakeholders. E.g. how do employees and customers perceive values and company purpose? To what extent do board decisions and actions reflect values and purpose? These may be quite different from formal values and purpose documentation.
- 3) Analyze the transformation in the context of the overall framework. This analysis could take place as the transformation is being implemented.
- 4) Don't wait until you are forced into transformation. It may be too late by then. Conduct your framework analysis before there is a need for transformation.

Footnotes:

¹ “It's 8-1 against your change program”, Bain website, Managing Change Blog, 2017 June 23

<https://www.bain.com/insights/its-8-to-1-against-your-change-program-how-to-beat-the-odds/>

² “The Founder's Mentality”, by Chris Zook and James Allen, 2016, page 105

³ “The real deal on M&A, synergies, and value”, Boston Consulting Group, BCG perspectives, 2016

<https://www.bcg.com/en-ca/publications/2016/merger-acquisitions-corporate-finance-real-deal-m-a-synergies-value>

⁴ <https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter>

⁵ Ralph Gomory and Richard Sylla, “The American Corporation”, April 2013, page 6, The Wall Street Journal
<http://online.wsj.com/public/resources/documents/50b74ca9c91e6TheAmericanCorporation11292012.doc.pdf>