

# Transformation ignition points

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**M**aking sense of transformation—and the idea of perpetual transformation—is undoubtedly a demanding task. But, while each situation in an organization feels very different, the reality is that there are shared experiences, fears and hopes around all transformations. There are foundational issues which need to be tackled. There are many lessons which can be learned from the experiences of others.

In its work Brightline, a Project Management Institute Initiative, has researched and canvassed the views and experiences of thousands of executives throughout the world. It has also engaged directly with the world's leading thinkers on transformation. The same—frequently challenging—questions occur time and time again. This article brings together the questions we have heard most. This is not to suggest that the answers to the questions are straightforward, but by knowing the most likely questions and to have given them some thought, transformation leaders begin the process of preparation.

## **Ignition Point #1: Are your eyes and ears open?**

Sangeet Paul Choudary, coauthor of *The Platform Revolution*, maps out the new reality: “Technological shifts continue to accelerate, and artificial intelligence is rapidly advancing across sectors. More importantly, traditional industry boundaries are disappearing, often leading to creation of new value pools and business models where none existed in the past. Geopolitically, the rise of China is reshaping the global economic order and the rise of stakeholder capitalism will further create new value pools as business priorities shift to embrace larger societal and environmental value. Finally, investor activism and regulatory shifts will also play an important role in determining future value pools.”<sup>87</sup> He argues that the ability of executives to benefit from such shifts is dependent on three factors: how early they spot the shift, their ability to innovate and reconfigure their business model portfolio to position themselves in the new value pool, and the strength of the control point that consolidates their position in this new value pool.

Awareness is everything. “There are myriad reasons why successful companies are unable to adapt their enterprises to transformational market shifts and cascade into rapid decline,” writes Jeff Kuhn in his contribution to this collection. He goes on to identify these barriers to transformation as:

- Structural and cultural inertia
- Fear of cannibalizing the core business
- Stick to your knitting syndrome
- The curse of success
- Missing or dismissing the weak signals of change
- Frozen mental models
- Short-termism and incrementalism
- Lack of foresight and imagination.

The starting question in any would-be transformation must be whether the management team are alive to these potential blockers to change of any sort. As Zhang Ruimin CEO of the Chinese white goods company Haier puts it: “There is no such thing as a successful company. There are only companies that move with the times.”

And the very human temptation is to refuse to do so. A March 2020 *Sloan Management Review* article by Scott Anthony and Michael Putz argues that the fundamental problem is that organizations are run by ... humans, that suffer from biases and blind spots that lead them to systematically underestimate the threat of and overestimate the difficulty of responding to disruptive change.<sup>88</sup> A thirst for perpetual transformation effectively works against human nature and its appetite for the status quo.

### **Ignition Point #2: What is a transformation?**

It is then useful to begin, as always, by defining terms. What do you actually mean by a transformation? Many different companies, scholars, and experts have defined what it means to them. According to the Project Management Institute, “transformation refers to an organization achieving a sustainable quantum-leap improvement in performance while transforming the mindsets of employees and thus the culture of the organization”.<sup>89</sup>

These other descriptions of transformation are great places to start in your discussions:

“A comprehensive change in strategy, operating model, organization, people, and processes to achieve a dramatic improvement in performance and alter a company’s future trajectory.”

**Lars Fæste, Jim Hemerling, Perry Keenan, and Martin Reeves.**<sup>90</sup>

“There are three processes that approach change in critically different ways. Improving Operations to drive efficiency by reducing costs, improving quality and service, and reducing development time. Strategic transformation seeks to redefine business objectives, create new competencies, and harness these capabilities to meet market opportunities. Corporate Self Renewal creates the ability for a firm to anticipate and cope with change so that strategic and operational gaps do not develop.”

**Barbara Blumenthal and Philippe Haspelagh.**<sup>91</sup>

“Transformation comes in three different forms: Operational, Core and Strategic. Operational focuses on doing what you’re currently doing better, faster or cheaper using new technologies to solve old problems. Core focuses on doing what you are currently doing in a fundamentally different way. Strategic focuses on changing the very essence of your company.

**Scott Anthony.**<sup>92</sup>

“Transformation is a significant, lasting and non-reversible change to the company’s value creation logic.”

**Haig Barrett and Christian Rangen.**<sup>93</sup>

“Transformation is foremost a continuing process. It does not have an end point. Transformation is meant to create or anticipate the future. Transformation is meant to deal with the co-evolution of concepts, processes, organizations, and technology. Change in any one of these areas necessitates change in all. Transformation is meant to create new competitive areas and new competencies. Transformation is meant to identify, leverage, and even create new underlying principles for the way things are done. Transformation is meant to identify and leverage new sources of power.”

**Ronald O’Rourke.**<sup>94</sup>

### **Ignition Point #3: What is the context in which your transformation is taking place?**

Of course, in any organization here are many things to consider when initiating a transformation: “Do we need to reorganize the company? Should we look into partnerships or acquisitions? What about digitization? What

processes can be automated at our company?" Questions like these are hard to answer at first because they're missing the bigger picture: the context in which your transformation is taking place. Once you can adequately describe a transformation, it's important to clarify that all transformations typically begin at the strategic level.

What can you do to properly analyze this context? Begin by considering two important factors: the *degree of complexity* and the *rate of change*. These are external and exogenous variables. The business does not necessarily have control of them. Rather they set the operating context within which the business must work to deliver value.

You can consider the degree of your organization's complexity in four stages:

**Simple:** We know exactly where we are going, and we know exactly how to get there

**Complicated:** We have a good idea where we want to go and there are a number of pathways that could get us there

**Complex:** There are a range of possible directions we could go in and the pathways to get there are different

**Chaos:** We do not know where we are going, and we have no idea how to get there.

Similarly, you can consider the rate of change in your organization in four stages:

**Constant:** Our operating environment is constant

**Velocity:** Our operating environment is moving at steady velocity

**Acceleration:** Our operating environment is accelerating faster and faster

**Jerk:** Our operating environment is accelerating so much we are reaching a breaking point. Jerk is the term in physics for acceleration over time.

When you establish the rate of change *and* the degree of complexity you can then determine your level of uncertainty. The relationship is not linear, but exponential: the higher the degree of complexity and rate of change, the more uncertain things become.

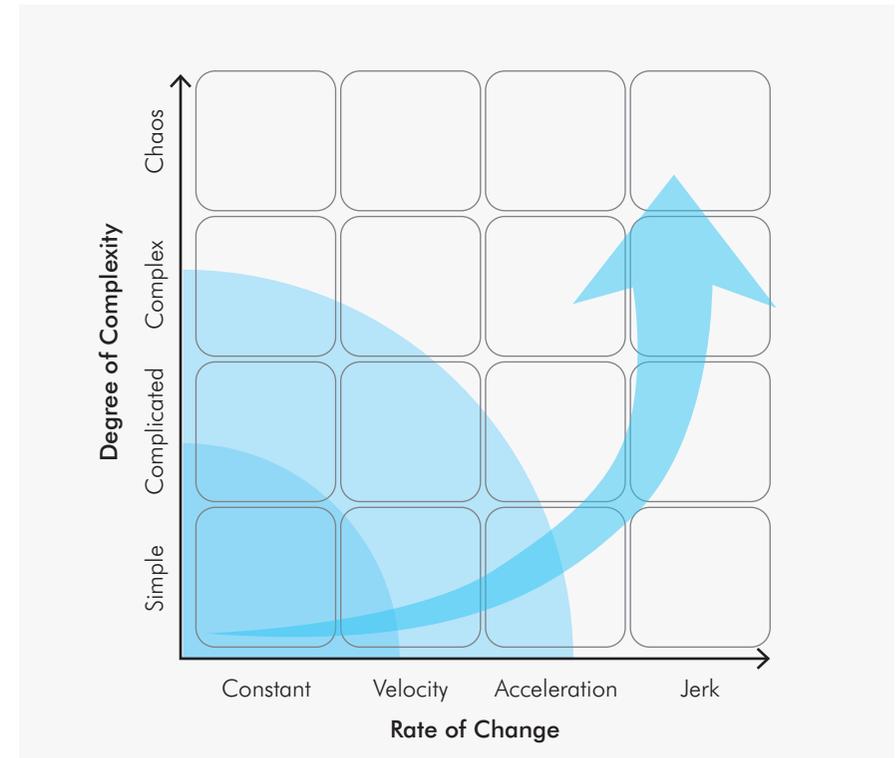


Figure 1: Determining Your Uncertainty Zone

**Ignition Point #4: Are you being disrupted at the level of your operating model, infrastructure model, or business model?**

In *Zone to Win* Geoffrey Moore identifies the Waves of Change which articulate the appropriate strategic posture that the business should employ, based on where they are situated in the levels of uncertainty.<sup>95</sup>

- **Wave 1: Infrastructure Model Change.** This wave defines an organization that needs to improve operations, distribution, and support to make the organization more efficient.
- **Wave 2: Operating Model Change.** This wave defines an organization that needs to develop new products and services, explore new geographic markets and distribution channels, and create new support and production approaches and technologies.
- **Wave 3: Business Model Change.** This wave is a radical change of the business model to position the organization for long term growth, offering protection from disruption.

The key is that real transformation lies beyond Wave 1. By only focusing on Wave 1, we are increasing the efficiency of the Titanic by optimizing the structure, processes, and routines in the engine room in order to speed up the ship. However, this overly inward focus on efficiency and speed could miss the disruptive iceberg lurking on the horizon. Wave 1 embraces many digital transformations.

**Ignition Point #5: What’s the time horizon?**

The horizon framework introduces time and gets more specific about what the strategy response should be from a competitive perspective. It is more granular and prescriptive. Companies need to focus equally on all three business horizons to make sure they don’t get stuck by focusing only on their current products, services, and markets. By focusing on all three, you can analyze opportunities for growth, while maintaining your core business functions.

In **Horizon 1** the goal is to out-compete your existing competitors using efficiency while also mining your existing core business to the max. The immediacy of this can easily overwhelm other efforts important to the future of a company.

The goal in **Horizon 2** is to out-innovate your competitors by both extending your core in new and novel ways but also in identifying new customer needs that requires the business to move to a new core.

The goal in **Horizon 3** is to reshape the business landscape by collaborating with complementary organizations in new growth arenas defined by emerging customer needs. In this horizon, the organization simultaneously changes to a new core business while partnering with other organizations with complementary capabilities to collaboratively fulfill customer needs.

Companies must manage businesses along all three horizons concurrently. C-suite leaders can use this horizon model as a blueprint for balancing attention in current performance and opportunities for growth.

**Ignition Point #6: What IS the transformation that you will be initiating?**

So how can we take these strategic concepts and apply them to our work? Consider two concrete ideas: **What We Do** – this can also be expressed as the source of value differentiation, and it can fall anywhere between existing and new -- and **How We Do It** -- this is the means of value delivery and can also fall anywhere between existing and new.

Within this more initiative-oriented mindset, three domains of transformation can be identified:

- **Productive Transformation** makes today’s business better, cheaper, and faster.
- **Core Transformation** provides value in different ways to different customers.
- **Strategic Transformation** changes the essence and value creation logic of your company.

Another way of describing this is in the words of Chris Zook of Bain is that at one end of the spectrum, the business is exploiting the core while on the other, the business is exploring the edge.<sup>96</sup> Exploiting the core means maximizing core business profitability by applying the best practices and technology to drive efficiency and productivity. Exploring the edge is where the business will aim to uncover and maximize new growth opportunities by creative means. Both require ambidextrous focus, mindsets, and ways of working. This is, of course, easier said than done.

**Ignition Point #7: Does your organization have the requisite capabilities to achieve its transformation objective?**

Brightline’s research reveals that overcoming the capability gap is the greatest challenge in transformations. Few organizations will have all the experience, attributes and resources that are required to deliver the enterprise-level change they desire. The talent guru Dave Ulrich defines a business capability as “a particular ability or capacity that a business may possess or exchange to achieve a specific purpose or outcome. A capability describes what the business does that creates value for customers”.<sup>97</sup>

| Soft/Human   |   | Hard/Physical   |   |
|--|---|---|---|
| People   | Structures  | Technology  | Assets  |
| <b>Leadership</b><br>(Trust, Empathy, Inspiration)       | <b>Processes</b><br>(Approaches, Practices, Routines)         | <b>Data</b><br>(Sources, Access, Analytics)           | <b>Physical</b><br>(Facilities, Infrastructure, Machines) |
| <b>Expertise</b><br>(Knowledge, Skills, Abilities)       | <b>Partnerships</b><br>(Supplier, Distributor, Customer)      | <b>Systems</b><br>(Operations, Management, Strategic) | <b>Financial</b><br>(Cash, Credit, Capital)               |
| <b>Org. Culture</b><br>(Adaptable, Innovative, Learning) | <b>Ecosystems</b><br>(Complementors, Arenas, Business Models) | <b>Platforms</b><br>(Marketing, Offering, Payment)    | <b>Intellectual</b><br>(Brands, Patents)                  |

Figure 2: Assessing Transformation Capabilities

Any assessment of an organization's capabilities must begin with **people capabilities**. Peter Drucker famously quipped that "Culture eats strategy" for breakfast. Most strategies fail, not because they are poorly formulated, but because they are poorly implemented. Researchers, Allison Reynolds, and David Lewis suggest that most transformation efforts fail due to what they describe as "the tyranny of the tangible", where organizations over-emphasize the tangible aspects of transformation such as structure, technology, process, and governance while largely ignoring the intangible areas such as employee competence and mindset. When it comes to successful transformation the soft stuff truly is the hard stuff.

People capabilities cover three areas:

- **Leadership** – transformation leaders need to be dynamic and inspirational with a clear and shared vision. They must also be effective communicators, yet empathetic and willing to accept feedback.
- **Expertise** – employees around the organization need to have adequate tacit knowledge in their functional areas to support the transformation effort.
- **Organizational Culture** – the culture needs to reflect a collaborative, safe, and nurturing work environment.

It is easy to say how important people are, but it is often difficult to translate the recognition of this importance into implementation. There are subtle skills which need careful development, individually and organizationally. Our own research at Brightline suggests that hiring and retaining top-notch talent facilitates a smoother journey for transformation.<sup>98</sup> But, make no mistake, ensuring you have the right people in the right places with the right skills is a big challenge.

In fact, the two top success factors for implementing strategic transformation include possession of "sufficient resources" and "existing talent with the right skillset".<sup>99</sup> In terms of people capabilities, it is worth asking: What skill improvements do we need (soft and hard)? Who are the transformation leaders and champions in our organization? How can we best support them? Are we hiring the best people with a diversity of ideas? And, in terms of culture change, what should your people think and feel about the organization?

While people capabilities are the most vitally important, clearly any transformation demands other organizational capabilities managed in symbiosis:

### Structural capabilities

**Processes** – processes need to be efficient, while also being flexible enough to change without hindering progress.

**Partnerships** –partnerships with other organizations need to be strong and collaborative.

**Ecosystems** – the organization needs to be wholly aware of the ecosystem in which it operates, including competitors, consumer demand, and any potential market disruptors.

Research shows that high performing organizations tend to be more adaptable to change while also effectively employing formalized and standardized frameworks and processes.<sup>100</sup> The fact that effective frameworks and processes designed to foster flexibility and autonomy lead to faster transformation leaves us with several questions: do the current frameworks in place empower the people and simplify the delivery processes? Are we reviewing lessons learned from past failures? Do we have strong partnerships fostering collaborative engagements? Are we fully aware of our ecosystem and the megatrends impacting it? Are we learning from competitors and peers in the ecosystem? Are we speaking with our customers and end users?

### Technology capabilities

**Data** – information needs to be clean, organized, and consist of only things that need to be assessed and/or utilized.

**Systems** – technology systems need to be intuitive and, ideally, as simple as possible.

**Platforms** – platforms need to be intuitive and made available for employees and customers to use effectively.

Technology is a hugely important factor and an enabler to value creation transformation in current times. It is worth considering some basic questions in thinking through your tech capabilities: What's your position on research and innovation? Do you need to be ahead or equal to the competition in research? Where are you innovating? Where do you need to be innovating? What is our ration of in-house technology expertise vs. contractors, third parties, or partners?

## Assets

**Physical Assets** – office space, machinery, equipment, inventory, and other such physical assets need to be organized and used efficiently (rather than being wasteful).

**Financial Assets** – assets need to be sufficiently allocated to prioritized activities and budgets need to be frequently adjusted to reflect any costs and revenue over time.

**Intellectual Assets** – brand and patents are long term assets taking time to build and must be treated with care.

To effectively organize and manage physical, financial, and intellectual assets, an organization must continuously reassess and reprioritize allocation for each. Ask yourself: do we have the right assets in place for the transformation? Are the assets efficiently allocated? Do we continuously reassess and reprioritize assets based on needs, and can we quickly reallocate assets accordingly?

The next challenge is to identify the specific actions to take in order to close the capability gaps to ensure your organization is transformation ready. The ignition points are likely to lead to as many more questions and challenges as neat and tidy answers. There is no disguising the fact that transformation is hugely difficult. A recent survey of directors, CEOs and senior executives by the *Wall Street Journal* found that transformation risk is their number one concern. Little wonder. The *Harvard Business Review* reports that 70 percent of large-scale transformations fail to meet their goals

*Forbes* reports that \$900 billion was wasted in digital transformation efforts in a single year. Such dismal statistics are not set in stone. They, like your organization, can and must be transformed. Start by paying attention to the seven ignition points.

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