FTI CONSULTING

WHY TRANSFORMATIONS FAIL

Time to re-examine conventional wisdom

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EXPERTS WITH IMPACT™

Foreword

Standing still is no longer an option. Any organisation seeking to survive, flourish, and lead in today's globally competitive environment must be committed to continual improvement, transition or transformation.

The drivers for change are numerous and well documented. They range from increasing customer expectations, shareholder activism and shifting regulatory landscapes, to technological advancement and disruption, evolving workforce demographics and societal shifts defining new imperatives and responsibilities for businesses.

Today, it is not surprising that 80% of organisations are either transforming or plan to transform. Whether it is driving efficiency, managing costs, and innovating services through acquisitions, restructures or new ways of working, the one constant we see is the requirement to deliver value in return for the change investment that is being made.

However, recent global studies suggest upwards of 60% of organisational transformations fail, and latest research by FTI shows the costs of failure can be enormous – with around one-third of money invested in transformations wasted.

It is clear that being able to understand, recognise and act on the need for change is one thing. Being able to successfully navigate your organisation through the complex challenges that are associated with a transformation are another.

There are, of course, the usual pitfalls associated with shifting any business to a future state. Weak planning and preparation, unrealistic timeframes, poor execution, leadership misalignment and a lack of buy-in, overburdened managers ill-equipped and too busy to deliver change plans, and a lack of two-way communications that genuinely engages and involves employees in the transformation journey.

Add to that an inevitable change fatigue and 'seen it all before mentality', it's hardly surprising so many transformations fall short given the eventual 'end state' experienced by stakeholders often fails to live up to the initial promise.

To this end, FTI has carried out research to understand why transformations fail. Our findings and insights will help to inform and guide organisations before they embark on the change process. The research looks deep into the underlying organisational dynamics that inhibit the success of transformation programmes, particularly where transitional approaches for success are followed, but the outcome does not deliver the intended return on investment.

In this report, we make recommendations on how to make change management as efficient as possible, while saving money, time and optimising results by considering new approaches to four disciplines. These cover: programme management; change management; organisational design; and technology design and integration.

We propose an integrated, holistic approach to delivering successful transformations in a single plan, managed in a coordinated way.

We also consider the human factors that influence change, which often do not receive the attention they deserve - despite the significant influence they have on transformation success. Organisations don't transform, people do. And while transformations require strong financial and project disciplines, they also need fundamental changes to individual and organisational behaviours, practices and attitudes to succeed.

We address the importance of this from four perspectives: examining decision making bias, offering tips to encourage fast and effective decision making based on accurate information; identifying the root causes of risks and issue, raising the need to examine and test strategic assumptions; the implementation of restructuring decisions and management processes, considering the best way to align objectives to speed up key transformation decisions; and finally, putting in place transparent accountability, avoiding the common pitfall of moving too fast to find a quick fix.

At FTI Consulting, we believe putting the right structure in place for the change management programme, alongside behavioural change considerations in an integrated approach, can make the difference between transformation failure and success.

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Article at a Glance

80% of organisations are either transforming or plan to transform[1]. Conventional wisdom, backed by our own research, states that known approaches such as effective planning, putting in place realistic timescales and improved communications are key components for setting up for success. However, conventional wisdom is not enough to safeguard transformations from failing.

Transformations require strong financial and project disciplines to put in place effective programme structures, design new operating models, and to design and execute against a technology blueprint.

Structural change is not enough to transform. Organisations must also commit to the fundamental changes in culture

However, organisations must also commit to the fundamental changes in culture that require changes to individual and organisational behaviours, practices and attitudes. This is the hard-edge of transformation and critical to address if your transformation is going to succeed. It requires taking a fresh perspective on transformations that involves changes to the core beliefs, governing systems and existing practices that drive current organisational performance.

To be successful in a transformation, CEOs and the Executive Team need to be involved in the change process with their teams. Required changes to management practices and the embedded behaviours are not always obvious to detect, yet critically important to be aware of, and need to be systematically managed during a transformation.

In this article we examine the core components and factors for consideration when looking to deliver a successful transformation. Firstly, through the lens of the logical and structural components of a transformation programme, such as change management practices and organisation design. Secondly, we will examine the human behaviours that influence a transformation that don't usually get the attention they need by the C-Suite, yet they tend to have a higher impact on the success of a transfomation. We bring insights from our business leaders survey on transformation in which we assess some of the lesser known influences on transformation success.

Exhibit 1: Structural Components

Programme Management

binds the delivery team to timelines, relentless outcomes focused and single point accountabilities

Change Management

focused on improving capability & performance and effective workforce transition

Organisational Design

optimised to deliver the strategy, organised efficiently and building differentiation capability

Technology Design & Integration

focused on enabling the delivery of the strategy to improve customer experience and leaner operations

Exhibit 2: Behavioral Factors

[1] FTI Business Leaders Survey, November 2017

Why transform

Organisational Transformations are difficult and most fail[2], yet despite this reality many CEOs are committing large amounts of shareholder's money to transform.

According to an IDC report spending on digital transformations will reach $1.7Trillion by the end 2019. The need for organisations to transform has become a prerequisite requirement for any promising CEO. Due to the ever increasing capability of technology and associated customer expectations there is increased pressure to transform in all industries. We are witnessing acceleration in areas such as automation; artificial intelligence and machine learning is creating new opportunities to improve productivity and create value that will result in both mass elimination and the creation of new jobs. In parallel we will see acceleration in customer expectation; customers who expect convenience and personalised experiences.

The triggers for transformation vary, whether it be a requirement to change to meet customer expectations or consolidating an organisation after merger or integration. What remains constant is the requirement to deliver shareholder value, in return for the investment made in the transformation. This return on investment usually comes in the form of revenue growth or cost reduction, and some cases risk mitigation. In today's environment the majority of organisations not only need to be efficient, but additionally they need to deliver an innovative strategy that drives creativity in both their products and service innovations and results in sustainable market differentiation.

The focus on driving efficiencies in an organisation through cost reduction programmes not only has the desired effect of reducing operational expenses for the business, it also creates an opportunity to review and update the operating model. The onset of automation and rapidly changing expectations of customers has led to the requirement for a leaner and more agile organisation, capable of pivoting in response to market trends in order to stay ahead of the competition. In the case of companies looking to grow inorganically through acquisition, cost reduction programmes can be the foundation of which to realise synergies in business integrations. Through leaning out and aligning the organisation around the core business processes, the ground is prepared for smoother integration, and shorter time to value post transaction. Finally, for companies that have gone through a period of inorganic growth through M&A activity, a cost reduction and an operating model programme will drive the outcome of aligning the integrated entities, in terms of core processes and organisation structure; enabling the realisation of synergies across the group, with respect to efficient ways of working and revenue growth opportunities.

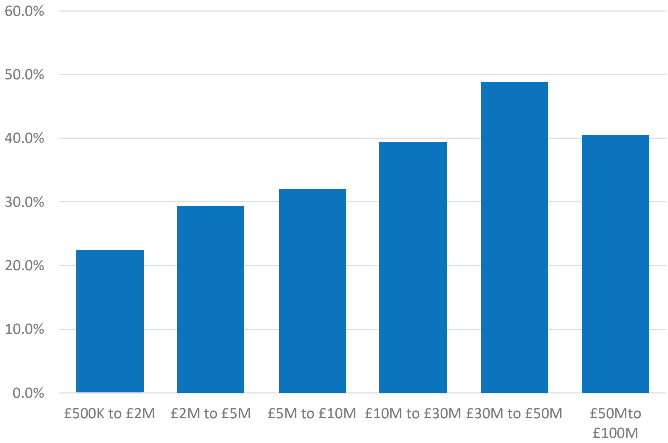
On the face of it revenue growth is an obvious reason for transforming. Companies are constantly looking to acquire new customers or increase share of wallet in existing customers, through expanding into new products and services or leveraging advancements in technology. However, strategic growth can sometimes be less about the revenue achieved than the marketshare or advantage gained against competitors. In markets that are underpenetrated, rapid growth to achieve critical mass in the market before it becomes saturated is often the driver for businesses to transform to grow. In more mature and consequently saturated markets, it is often the strategy to grow by selling more products or services to existing customers, through targeted marketing and cross sell campaigns. While this approach achieves the desired outcome of increasing revenue it also helps consolidate the existing customer base, making customers less likely to churn due to their increased product holding. This approach to sustainable growth requires changing the capabilities of the organisation, changing mind-sets and changing behaviours, which we explore later in this article in our four perspectives section.

[2] 60% of companies fail short on their Transformational Benefits, Upside of Turbulence, Donald Sull 2009

What are the conventional pitfalls

Our research shows that one-third of money invested in transformations is wasted. The proportion of money wasted trends upwards with larger transformations. Often tens of millions of euros are misused. On a transformation that invests €50M, just under half will go to waste.

Exhibit 3: How effective is capital deployed in Transformations



On a transformation that invests €50M just under half will be wasted.

Source: FTI Business Leaders Survey, Benefit of Hindsight, November 2018

Our research provides some insights into why transformation fail; poor planning and preparation was the number one reason for transformations failing, followed by unrealistic delivery timescales, (see exhibit 4).

Exhibit 4: Reasons why Transformation Fail

Looking closer at the reasons why transformations fail provides some insights into how to go about managing the risk. For instance, planning unrealistic delivery timescales can be addressed by putting in place stronger transformation programme management. Poor communication and lack of appreciation for the impact of change on people can be addressed by strong change management. Lack of CEO involvement and weak governance and control can be addressed through organisational design. While these risks are ever present in a transformation, they can be reduced by putting in place an integrated transformation approach, which we will examine later in this article.

What do transformation leaders consider are the most important things to focus on?

Whilst deploying a disciplined approach and implementing governance structures are key necessities to any transformation programme, they are not enough to ensure transformations deliver. In our research we asked business leaders for their opinion on what makes a successful transformation, specifically focused on what would reduce cost and time in delivering a transformation. The results show that business leaders who are more experienced in transformation place significant weight on areas of the transformation not seen as important to business leaders with less transformation experience.

Our findings show that the majority of business leaders say that stronger programme management practices are a key way to manage costs and deliver within timelines of a transformation. However, when we delve into the results and reclassify by experience, i.e. the number of transformations performed by the business leader, the results show a different picture. Experienced business leaders in transformations place significantly more importance in managing people and cultural change (see sidebar on 'The challenge of changing an organisation's culture') than those business leaders with less experience.

The following list outlines in order what Business Leaders with deep transformation experience say matter most to them:

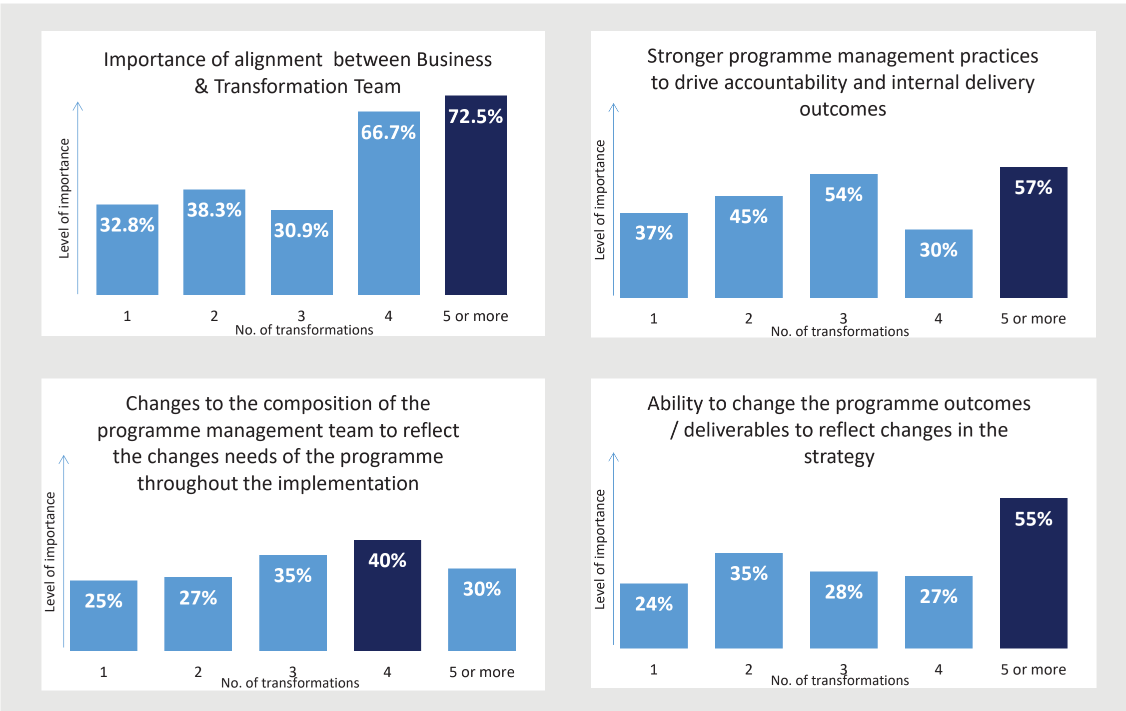
1. **Alignment between business and transformation team scored highest** (72.5%), with over twice as many business leaders seeing this as important when they were involved in 5 or more transformations compared with those that where only involved with one.

2. **Stronger programme management practices to drive accountability and internal delivery outcomes** scored second highest (57%) amongst business leaders who have most experience (5 or more transformations).

3. **Ability to change the programme outcomes / deliverables to reflect changes in strategy** scored third highest (55%) amongst business leaders who have most experience (5 or more transformations). This was over twice as many business leaders viewing this as important when involved in 5 or more transformation completed compared to those that where only involved with one.

4. **Changes to the composition of the programme team** scored third highest (30%) amongst business leaders who have most experience (5 or more transformations).

Exhibit 5: Factors that reduce time and effort in Business Transformation



Managing people and cultural change is seldom or rarely addressed adequately by leaders and senior managers in organisational transformations

Alignment and accountability issues are symptoms of more deep-rooted issues that are cultural. Managing people and cultural change is seldom addressed adequately by leaders and senior managers in organisational transformations. Transformation governance such as Programme Steering Groups or Project Meetings are not set up to manage these conversations. Board Meetings, and/or Senior Management Team Meetings are more effective forums for these discussions but these are reliant on information coming from the programme. To obtain and manage business and transformation team alignment and drive accountability, start to implement a new forum that consists of a small senior team who make individual and collective commitment to deliver the transformation programme and its benefits. Such a forum needs both business and transformation as equal partners and such commitments should be baked into their performance objectives and given equal priority against near-term profit objectives.

Our research shows that 80% of transformations failed in organisations where there was low or no trust

We examined the importance of the organisational culture on a transformation performance. Our research shows that 80% of transformations failed in organisations where there was low or no trust. Conversely, where business leaders stated they operated in a high trust environment, one-third failed. Bottom line, creating a trusting environment isn't enough to ensure success but lack of trust is a clear indicator that your transformation will fail.

Today, organisational agility has become a desirable outcome for sustainable growth. Creating organisational agility across marketing, operations and embedding this objective into the transformation will ensure the transformation has the ability to change programme outcomes / deliverables to reflect changes in strategy. Agile ways of working are also being pursued by the technology teams to improve product development speed, cost and alignment to customer requirements, (see sidebar on 'The challenge to create an agile organisation').

Sidebar:

The Challenge to Create an Agile Organisation

What is Organisational Agility?

Organisational agility is the ability for an organisation to rapidly change or adapt to market changes. It has become a desirable objective for many corporate leaders.

What are the challenges?

- To create organisational agility involves changing the culture which is hardwired into an organisation, requiring a holistic systems approach.
- To implement organisational agility requires the commitment from the CEO and the Executive team with top-down commitment to avoid conflicting priorities. Implementating agile in the middle of the organisation by forming an agile team often gets stuck with conflicting priorities that emerge when actions required compete for the same resources that are hierarchically managed
- It involves diagnosing the areas of the business that are resisting most and putting in place changes to the organisational structure
- Managing Agile requires structuring a cross-functional team with clear purpose, defines roles and accountabilities – everyone knows how their work contributes
- Agile managers require the right skills and attitudes that protect the team from organisational politics

Many managers see the potential benefits of agile; improved productivity and speed of change. However, many agile team leaders under-appreciate the requirement to align the internal politics and fail to put in place the structures and support necessary to succeed. Such initiatives result in confusion, weakened accountability and poor project disciplines. For example, technology programmes are increasingly switching to agile as a way to design, build and test product changes within their organisation. Agile initiatives struggle as they come up against the existing organisational culture. They are undermined by middle managers who have not yet been properly aligned to these initiatives and act to preserve positional power.

To effectively deploy agile working into an organisation requires top-down commitment and giving appropriate power and authority.

Sidebar:

How to Change an Organisation's Culture

What is an orgnanisation's culture?

An organisation's culture is the unquestioned set of practices that determine how work gets done. How individuals, teams, functions and divisions solve problems, communicate and create value is formed by their work practices and this defines the culture. Culture is a complex system of inter-woven beliefs, values and norms that are reinforced by practices, such as meetings and personal ways of conducting business that operate mostly at an unconscious level. Most organisations have sub-cultures with divisions or functions having different ways of working.

So why would anyone want to change an organisation's culture?

Often organisations get stuck and become unresponsive to market changes. In such an environment poor decision-making results in, misreading the market, or more often, relates to an organisation's inability to execute strategy or put simply implement decisions effectively.

How do you change an organisation's culture?

- Start by creating a good understanding of what you want to change; addressing a loss of market share due to costs of production being more expensive than competitors, or products and services not serving customers changing needs
- Observe why in a specific and measureable way; e.g. poor decisions, poor information to inform decisions
- Observe the practices that drive these factors at point of failure; ineffective meetings at senior management or poor leadership, middle management practices. Poor coordination and ability to work through issues and pinpoint the practices at source
- Redesign changes at the specific intervention areas; by implementing operating model changes - new roles, forums, processes, KPI's, restructure teams
- Senior management need to be on-the-same page; the standards of accountability and transparency will need to be exemplified at that level
- Often not everyone gets on-board and sometimes it is necessary to remove people who simply will either directly or indirectly sabotage the changes required

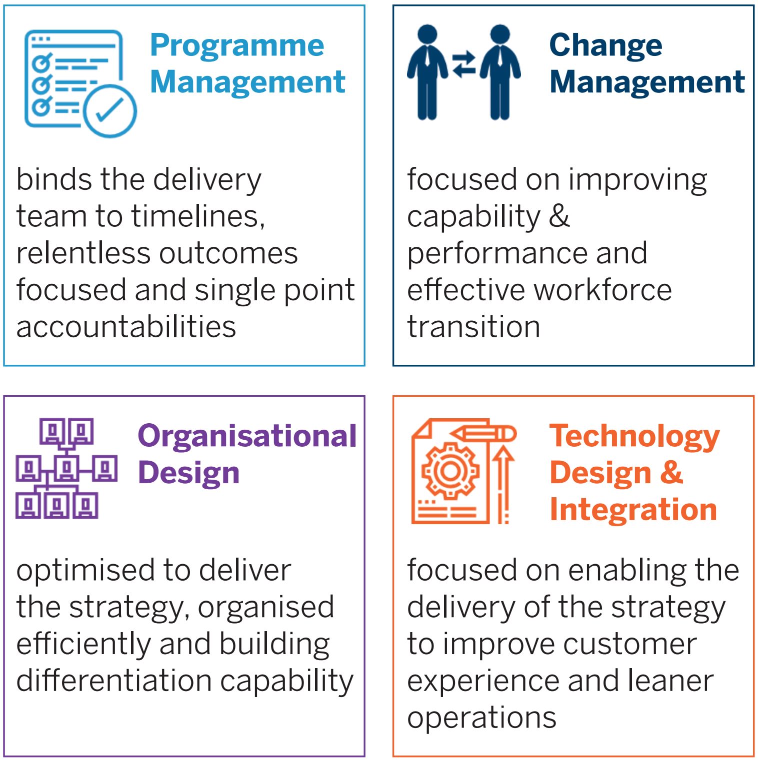
An Integrated Approach to Structuring a Transformation

To successfully manage risks and improve the odds of delivering business outcomes, business leaders require an integrated transformation approach. There are four structural components that are required;

- Programme Management
- Change Management
- Technology Design-integration
- Organisational Design

Underpinning all four components is a relentless focus on business value, top down commitment and accountability from the business to own value delivery and project management to own the deliverables. Having an integrated approach not only ensures that each structural component is well planned and staffed appropriately with the organisation's employees but also these four components are integrated into a single plan and managed in a coordinated way.

Exhibit 6: Integrated Transformation Approach



Discipline 1: Programme Management

Transformations involve fundamental changes to an organisation that require strong project disciplines to plan, coordinate and orchestrate largescale change. With the sheer scale of these activities there is a pull towards the operational activities and a tendency to lose sight of the benefits.

To avoid losing sight of the benefits and to ensure the financial ROI is delivered, put in place mechanisms at the set-up stage to safeguard the focus and ongoing management of benefits delivered. This involves establishing governance and practices that hold both the business and the project team accountable to their respective outcomes and deliverables, defining accountabilities top-down and instilling strong financial discipline to hold a tight rein on costs. Hold the project teams accountable to project costs and the business accountable to delivering performance improvements that are set up as a suite of commitments within the programme. This is achieved by creating and actively managing a suite of commitments between the business and project teams.

Secondly, design the governance and practices to ensure decision making is fast paced with the right level of authorities set through the programme and aligned with the commitments set. By standardising budget approval through a rigorous benefits lens and single point of accountability, it helps ensure money is not put into initiatives that don't create value. Setting realistic project timelines is a core project discipline that requires getting individual commitments to each of the elements of a plan. Assumptions should be challenged and tested to ensure that they can be relied upon. Effective project estimation is a factor of top-down prioritisation and bottom up planning. Often there is tension by management to shorten timelines versus projects team members desire to add fat or contingency. Effective management of this tension is a key function of project governance.

Discipline 2: Change Management

Change Management focuses on preparing and transitioning people to new ways of working. All too often change management scope is confined to focus on the operating mechanics such as internal communication and stakeholder planning and tracking. It falls short on what is required to be effective.

A transformation will never succeed if it is imposed, people make their own decision to engage, they decide based on whether the future presented reflects a significantly better version of the present and is worth making an effort and taking risks.

Change needs to start at the beginning of the programme and involves the CEO and management team leading by exemplifying the desired behaviours and actions. Senior Management need to be visibly demonstrating their actions by showing how they are committed to the change and be open and transparent about new habits and practices they require to transform. This top-down approach is necessary to mobilise change to the inertia and cynicism that tends to permeate in the middle-layers of the organisation. The onus is on the CEO to take a lead in this stance.

Restructuring large teams of people is difficult. Design their involvement early in the transformation. Getting the right balance between managing resources and the needs of the current business versus the transformed business can be challenging. The pressure to reduce staff involvement in the programmes due to daily and routine commitments must be avoided, particularly when such resources form part of the retained and new operating model. Technology enabled transformations require front-line and operational staff participation to share their knowledge and existing processes to ensure designs are well thought through. Confirming their line managers are committed to the responsibility of senior management to ensure they own the designs.

Discipline 3: Technology Design & Integration

Technology design and integration involves scoping the technology change, creating business cases that inform capital investment decisions. Often these early decisions are poorly made and result in over-promising and under-delivering. Putting in place robust management of technology changes requires a mix of technical expertise and business acumen to bring pragmatism to managing various external vendors.

Business leaders often place so much hope on the technology delivering a new business model to deliver improved sustainable sales performance uplift, cost savings and efficiency gains, improved services and automated processing. Often the technology team motivations can be misaligned, doing interesting work trumps delivering business outcomes. This risk requires top-down alignment with business to create shared commitments for benefits ownership.

The stakes are so high in technology and digital enabled transformations; most organisations don't have the skills, competencies, and expertise in-house to lead the technology design and integration. Skills such as:

- To create win-win vendor relationships
- To design technology architecture that aligns with the transformational outcomes
- To motivate technical teams to deliver business solutions
- To deal with incumbent IT functions that are either thinly stretched or threatened by new technologies and skills gaps that make them feel exposed

Organisations invest heavily in bringing in these capabilities to manage and deliver technology programmes. Take for example vendor management, unfortunately many large organisations do a poor job at aligning the vendors' success with the programme outcomes. Procurement practices during competitive negotiations often leave one party feeling short-changed. Vendors are motivated to maximise their fees and the organisations are motivated to minimise their costs and both parties are focused on looking after their own interests. Creating a situation where the vendors interest aligns with the organisation's interest requires a different approach. Transformation Directors will need to work closely with procurement departments to manage this risk. Establishing true collaborations with vendors is made more complicated by the vendors own policy objectives set at corporate level. Relationships need to be established at decision making level and investment by both parties, before negotiating fees. If a vendor is unable or unwilling to commit to a shared outcome that aligns with the organisation's strategic intent, then both parties should go their separate ways. This is a time-consuming activity yet delivers in the long-run. Such tailoring of contracts is an important part of establishing a high-trust relationship for both.

Skilfully managing technology vendors, creating collaborative relationships requires a servant leadership style of management, highly competitive leaders will struggle and prove very costly to the success of the programme. Not only is it important to work with vendors and establish a set of mutually beneficial commitments, equally important are both listening skills and the ability to read the environment.

These skills are rare and hard to come by and hugely valuable to a transformation programme ultimately saving the organisation from wasting millions of euros and increasing the likelihood of success.

Discipline 4: Organisational Design

Organisational design examines the existing business model to determine what changes are required to structure a business to maximise value creation across the organisation. At a strategic level it involves considering merger and acquisition activities, outsourcing, the creation of new capabilities and large relocations. At a divisional level organisational design tends to focus more on understanding how the business is optimised to deliver the divisional strategy. At a business unit level, the focus turns more to organising teams to optimise performance and / or changes to local operating models to adopt to new technology.

Experienced organisation designers bring a level of real-world pragmatism to scoping out the business model change requirements. This involves leveraging a proven methodology that is tailored to the organisational situation. Organisational design teams need to understand the strategy and the culture before designing changes. A top-down pragmatic approach to organisation design will cover core value creation processes, governance, risk and decision-making management processes and practices, systems of measurement and reward and the operational and cross organisational practices

The right structure without the behaviour change will result in failure

Having an integrated transformation approach is required and provides the template to transform. However, here's the thing, you can follow detailed steps of the integrated process and still fail. Why? Organisations don't transform people do.

A transformation requires business leaders to examine their own habits, behaviours and practices. In other words, it requires change that starts with the CEO. The embedded practices of the senior team who run the organisation and make decisions tend to become ingrained in the cultural norms of the organisation. We examine four such perspectives to determine whether these are undermining the effectiveness of organisations to transform.

Perspective 1: Examine decision-making Bias and Group Think. This processes leads to poor decision making and compromising transformation effectiveness. We examine how to identify, assess and eliminate cognitive bias and Group Think.

Perspective 2: Delve deeper to get the real risks and issues in a transformation. Often the catalogued risks and issues do not address the root-cause and hence fall short of the real actions necessary to manage a successful transformational delivery. We examine how to identify, assess and manage the real transformation risks and issues.

Perspective 3: Restructure decision and management processes to deliver transformational change. Over time decision making processes in an organisation evolves and become institutionalised in the ways of working. In a period of unprecedented change that drives the need to transform, we examine whether these decision making processes and practices are appropriate to drive a successful transformation outcome.

Perspective 4: Put in place Transparent Accountability Transform by driving performance accountability through transparency, empowering experts and the CEO leading the change. We examine whether senior teams are holding each other to that level of accountability? If not, what needs to be put in place?

Perspective 1: Examine decision making Bias and Group Think

Are better decisions the ones made by gut instincts? Making decisions quickly based on all available information drives better organisational performance. Industry disruption is forcing organisations to contemplate becoming agile, adopt to change and move fast. Transforming an organisation requires fast and effective decision making to meet the needs of the programme. In such an environment decisions need to be made before all of the facts can be ascertained, business leaders rely on intuition leveraging their experience and expertise. These decisions can be compromised by bias, the unconscious process of making a decision based on pre-disposition that is not based on rational response, which in turn leads to poor decisions and outcomes.

Below we outline bias and group behaviour that cause problems in transformations.

Bias Type	Short Description	Examples of where this arises
Confirmation Bias	Tendency to interpret information in a way that confirms one's pre-existing beliefs	• Hiring likeminded people – who have similar background, experiences and perspectives • Over confidence that technology will deliver the capability required to transform • We have the right help, robust diligent procurement process, underpinned by solid governance structure we set up for success
Sunk-cost Bias	Tendency to continue to invest in a course of action based on including the previously incurred cost as a basis in the decision making	• Continual spend on a core system where new evidence points to its lacking key functionality • Previous decision to outsource back-office functions where unexpected costs are spiraling and the relationship with the outsourcer is failing
Cognitive Dissonance	Tendency to ignore or downplay facts that are at odds with a belief to justify an existing belief or previous decision	• Project over reporting progress when everyone wants to only hear the good news • Poor listening to facts or concerns about the transformation risks and issues
Group Think	Tendency to agree with the group, exists when individuals desire conform to the group opinion giving rise to the risk of not critically independently evaluating a decision made by a group	• An individual not raising a concern about a decision that could cause damage within a transformation • A team that doesn't have a fully explored discussion on the facts before making a decision • A leader who doesn't like to be challenged and will use his positional power to exert influence over key decisions

The management team have a role to play in minimising a leader bias or blind spots. Decisions that impact on the organisation's performance should be debated by the management team. A healthy team dynamic is important to avoid Group Think where the first step to minimise bias is to recognise that it exists. Often this is the most difficult step as it goes against the grain of current thinking as raising these risks represent personal risk. This takes courage and perseverance, sometimes it may involve identifying key influencers or a trusted confidant and leveraging their relationship to call out the bias and its impact on performance.

Group Think is a cultural issue that requires observing the group dynamics, identifying it exists and building evidence based of its impact on performance. For example, changing the group dynamic can involve making changes to roles people play in meetings, actively calling out this behaviour in meetings.

Example:

Dealing with Bias & Group Think

A belief that the current ways are good enough

A divisional management team of a market leading utility company had embarked on a technology enabled transformation programme. The programme had been through a tough time that involved renegotiating the go-live dates on four previous occasions.

The Divisional Managing Director created a can-do culture; he was a strong communicator and built a loyal and supported team. He trusted his team to deliver the transformation. Consequently, they had many of the conditions in place to deliver the transformation. However, the Group recently appointed CEO was not convinced the transformation team had full raised concerns about whether the team would deliver.

So what was wasn't working?

This main issue was experience, this team had never delivered a change of this scale before.

1. The transformation team, the business and IT team shared a common narrative that this was a Business-led transformation. Upon clearer analysis and review, it became clear that the narrative meant different things; to the Transformation Director it meant we are doing a good job at leading the transformation, to the Customer Service Director (keep benefactor) it meant we have allocated resources so we are delivering upon our implicit commitments, and, to the current Head of IT it meant we are a support act, we see problems but it's not our problem.
2. Evidence pointed to the fact that the programme had skills gaps; ineffective programme office and reporting, competing priorities and gapped in driving fast issue identification to resolution and gapped in some of the technical aspects of the programme.

How do you change the programme when the core team didn't see a need?

The core delivery team beliefs needed to change otherwise the programme was heading towards further delays, and expensive cost overrun. These issues were cultural; bias and group think were driving complacency and poor decision making and that needed a different approach.

- Top-down Commitment; CEO reinforcing the need for a new approach and unwavering commitment to sustain the changes required and manage the back-channel resistance coming up the line
- Reframe the challenge and appeal to the personality:
  - Divisional MD who prides himself as a charismatic leader –map the project outcome to his legacy and give him the ability to lead an alternative outcome
  - Transformation Director a long-term committed senior manager saw this transformation as career enhancing – make him successful; providing direction, coaching and ultimately make him successful
  - Customer Service Director wanting to change the game; success was no longer the provision of senior capability from her team it was about her leading the team to pull the programme over into BAU
- Redesign programme roles based on a set of commitments; restructure the programme to simplify accountability by defining roles as outcome commitments. Recut the project plan and prioritise and assign senior accountability
- Established principles of working and new cadence: a daily meeting that focuses on weekly, monthly and end programme outcomes; principles of transparency, openness and honesty were reinforced daily at the programme meeting

The Result

After a period of realignment and resistance, the practices begin to take hold.

- Team began to change their perspectives and identify with the risks and accept the alterative views
- Transformation delivered upon new times and new capability enabled the company to grow market share from 0% - 30% in the electricity market within an 18-month timeframe.

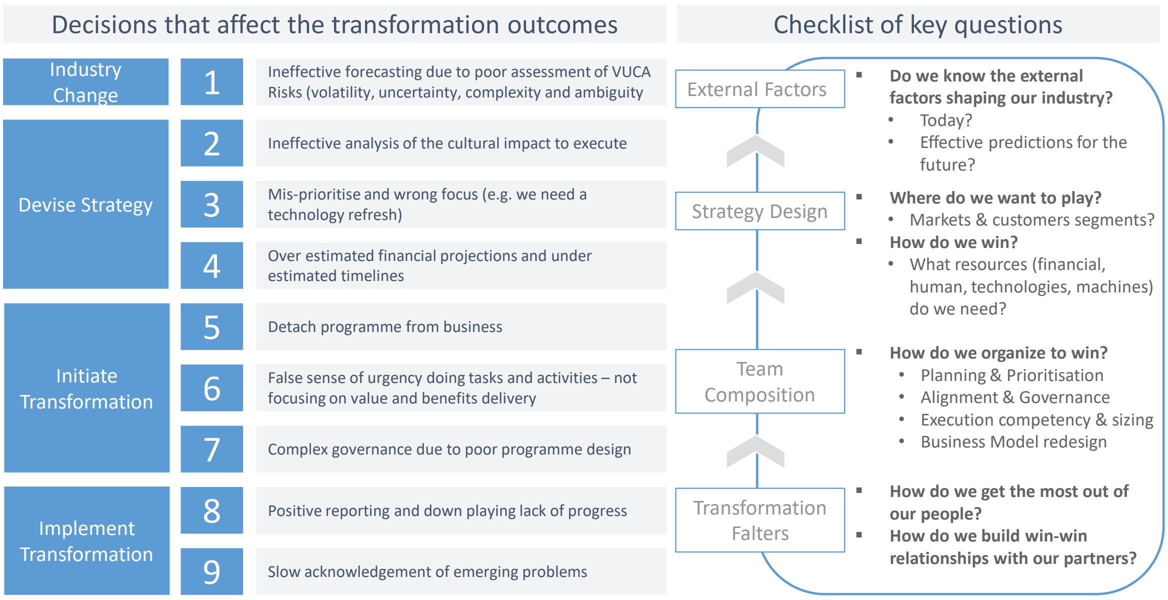
Perspective 2: Addressing the root cause of risks and issues in a transformation

The cracks in the transformation can take time to unearth. A common pattern is to devise a strategy, assemble a transformation team and put in place plans and activities to mobilise the implementation. It tends to be in the implementation phase that cracks begin to appear, long after the initial momentum has waned. There is a tendency to focus mainly on the implementation activities and not examine the earlier decisions, such as, is the strategy well defined and sufficiently detailed to guide transformation decisions on differentiated products and services design, market & segments focus, organisational and business model designs? Put simply, is the transformation delivering upon weak foundations; incomplete or poorly defined strategy?

Even where the strategy is well defined, the assumptions may not materialise, changes in the market occur that render these invalid, creating the need to constantly examine and test strategic assumptions throughout the implementation. Often the strategy development phase is short-circuited, rationalised by Executive Teams who recognise a need to be agile to iterate their strategy.

By implementing practices that diagnose the transformation programme through a consistent framework, against which all executives are held accountable; we can drive a culture of ownership within the business for the successful outcome of the transformation programme.

Exhibit 7: Diagnosis Framework



Source: FTI Analysis

The checklist of key questions begins to clarify where the decisions on transformation originated. This process begins to create a heightened level of accountability on the Executive Director team who quickly realise the ownership for these problems may not reside solely inside the transformation team. The culture of following the herd and accepting decisions without challenge is something that is explored further down in the report.

A lever that is often contributed to the success of a transformation programme is the effective day to day management of risks and issues. While addressing risks and issues at a project level will help mitigate against delivery of activity level risks, it does not keep a relentless focus on delivering the right outcome for the business that drives the expected benefit. This can result in solutions being designed and built that ultimately will not be adopted by the business and any budget invested will have been wasted. Also, as a consequence the project will not have delivered what the strategy required and the calculated benefit or value for the business.

We have worked with our clients to deliver successful transformations through building value focused practices into their transformation office, practices that are constantly assessing the projects against a diagnosis framework. Maintaining a relentless focus on outcomes against strategy through structured reporting and communication across all levels. This will drive stakeholders at all levels to constantly be aware of the value that is expected and the journey to get there.

Example:

Addressing real issues within Transformations

A perceived good start

A life and pensions division of a large bank had defined a strategy, requiring a €50m investment for a 50% return on profits in 3 years. In response to loss of market share and increasing expectations of customers, the objective of the strategy was to digitally transform the organisation, focused on delivering outcomes against the core levers of revenue growth, cost reduction and increased customer experience. A transformation programme was mobilised to deliver against 70 initiatives that underpinned the defined strategy, which were distilled into 7 core workstreams focused on technology and operating model change. As you would expect a PMO was established to run the programme, and workstreams were mobilised with project charters and assigned PMs. The transformation was set up to succeed, or so it would seem.

The temptation to paper over the cracks

Upon completion of the detailed scoping and planning phases for the two main technology projects in the programme, phasing and go live dates were agreed with the technology vendors and communicated to the steering group and executive team. The ground up scoping exercise generated a significantly different picture to the original high-level view of the ROI and time estimates. The division's management team, who had made the original promises on timelines, return on investment and commercial commitments to their external clients and internal sponsors, did not welcome this reality of these timelines and cost to implement. In an attempt to paper over the cracks they instructed the programme team to work towards the "fixed" dates the executive team had committed to and where required to reduce scope to get something delivered within these timelines. The project managers, having fallen into a subservient role to the executive, didn't challenge the decision and instead looked towards the vendor to be accountable for delivery within unrealistic timelines.

The result

Having become fixated on meeting a go-live date, the project managers and vendors took shortcuts to expedite the delivery; shifting focus away from ensuring the outcome was delivering the benefit for the business. This created an environment where the relationship with the main technology vendor soured as they felt an associated reputational risk with the programme. The result was that the vendor had reached a point where they had to down tools and demand a re-planning and prioritisation phase, before they would commit to invest any more effort into the engagement. Having tried to develop a half-baked solution that wasn't really fit for purpose, just to meet aggressive dates set by the executive, significant budget and effort was wasted. On top of this further budget needed to be invested in the re-planning and prioritisation phase. All the while the business is still waiting for its transformation outcome!

The benefit of hindsight

At the point of seeking support for their defined strategy, the divisional management team had made commitments on timelines and return and investment, based on a set of assumptions in the absence of understanding the detail. This approach was required to get initial investment; however, expectations should have been set with sponsors that the plan was based on assumptions, and checkpoints should have been scheduled for re-planning and resetting of commitments, once the programme had completed its set up and planning stages. Setting these expectations up front, brings a level of reality to the commitment for change at all levels. This also helps avoid situations where executives are backed into a corner pressing the programme for unrealistic outcomes, that ultimately result in wasted effort and budget, with no value to the business.

At key factor to drive transformational change is the ability to be pragmatic and have the courage to accept and respond to new emerging changes along the journey. A forceful top-down setting of dates and a refusal to accept emerging realities despite the evidence is cultural and a failure of management.

Perspective 3: Restructure decision and management processes

Organisations make decisions based on the decision processes that have been developed over time. For large organisations, decisions are made in a hierarchical way; the executive board cascade decision down into their teams. This approach to decision making is being challenged by modern management practices, where it is not always the most senior person who is the right person for making the decision, and that person is not necessarily incentivised to make the right decision for the business. In the case of transformation, consider the best way to align objectives to expedite key transformation decisions in order to maintain momentum and minimise any waste.

Transformation by its nature is fast paced and requires constant decision making. This requirement for quick decisions on activities that sit outside of business as usual, often results in conflicting positions within the business that in turn has an impact on the speed at which decisions are made, ultimately driving slippage in project timelines and wasted cost.

The decision-making framework for transformation tends to sit alongside, and is not integrated with, the businesses hierarchical decision making structures. This lack of alignment in decision making can lead to transformation wasting time and effort and ultimately failing. Take the example of a business having defined a strategy and mobilised a transformation programme to launch a range of innovative digital products in the market. However, other strategic decisions made in the business mean that, the IT strategy does not support the technical build, the company's brand and marketing strategy is not aligned with innovation and there is no capacity in the product team to support with product design.

As outlined earlier in this paper, the set-up of a transformation programme is the key driver for the success of any transformation. This is also the case when considering how the transformation programme engages with the wider business, and in particular how the programme will help the business functions meet their objectives. Setting and aligning these objectives at an executive level, and cascading the commitment down into the business results in the transformation director becoming a service provider to their executive peers, while their peers become equally accountable for the success of the transformation outcome. Through aligning the objectives of the transformation programme with the objectives of the business, we instantly ensure all parties are motivated to move in the same direction and, as a consequence, decisions are made in a more timely fashion, maintaining delivery pace and reducing propensity for waste.

Example:

Addressing real issues within Transformations

Consolidating the organisation to enable growth strategy

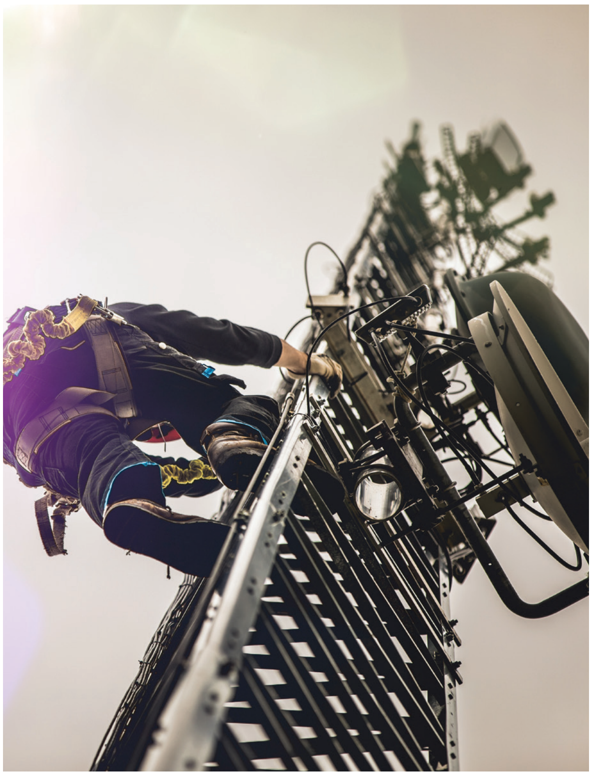
A UK based telecom company with 400+ employees had recently defined a 5-year strategy to grow through acquisition, with an initial focus on consolidating and harmonising the existing operating model to support future M&A activity. A transformation programme was mobilised, tasked with conducting a root and branch lean review of their operational processes and migrating to a fit for purpose target operating model. To lead the programme, the CEO hired a transformation director from the market, setting his individual objectives against the defined strategy and assigning him a role on the executive team.

Misaligned objectives in the executive team

The transformation director mobilised a team of external consultants to conduct the lean review of the business. After an initial discovery phase, the team presented a number of opportunities for cost take out to the programme steering group, supported with detailed business cases and implementation roadmaps. Having reviewed and prioritised the opportunities for implementation, the transformation director took these initiatives to the executive team for final sign off. Due to a range of conflicting objectives across the executive teams such as managing service level agreements against capacity and existing commitments to deliver a technology roadmap against an agreed budget, the team was unable to reach consensus on the transformation changes. The objectives that the CEO had set with the executive team were in direct conflict with those of the transformation programme.

Sharing responsibility for the transformation across the executive team

Having reached this impasse, the first step was to review the roles and objectives across the executive team, and create alignment between the transformation objectives and the businesses wider strategic objectives. Additionally, the governance practices were refreshed, and accountabilities were set up against roles in these practices, with a focus on assigning transformation outcomes across the executive team and sharing responsibility for transformation success. As a result, an environment was created where other members of the executive team were pulling on the services of the transformation director to help them achieve their own objectives.



The Result

Driving this high level of alignment and accountability into the business removed bottlenecks around decisions and ultimately the progress of the programme and the value delivered to the client. Reducing the time to make decisions meant that the cost take out and operating model implementation was delivered within timelines and budget, setting the business up for future M&A activity.

Perspective 4: Put in place transparent accountability

Today's pace of change and the ongoing need to transform is having a profound impact on almost all industries. Organisations that aren't prepared to make deep organisational design changes and address the performance accountabilities within their business will struggle to thrive in these turbulent times. Moving too fast to find a quick fix, such as digital solution or embarking on a cost-take out programme, without having first considered the organisational and ownership requirements to support the change, is the most common cause of transformation failure.

A key requirement for the CEO is to set the tone for change at the top, to create a highly accountable executive function and reset objectives for their senior executives. Setting clear accountabilities and targets, and providing a governance framework that encourages leaders to support and coach people and help them succeed, is the first step in creating a High Trust Environment. To support the executives in achieving their goals, the CEO needs to invert their role and become a servant leader to their team, provide support and guidance on how they can achieve their objectives. This is an environment where candid conversations about ownership and accountability are accepted and promoted, creating a heightened sense of awareness that cascades down through the business and into the delivery teams.

When we consider traditional hierarchical structures in a business, the assumption is that the more senior the role the more accountable the individual. While this approach may have worked well in the past and still applies to some industries, most organisations today operate in an environment with numerous cross-organisational dependencies and pockets of experts across the business being core to driving value. During a transformation companies need to become more organisationally agile, and more effective at collaborating across organisational boundaries, both internally and externally. Bringing clarity and accountability to (operational and cross boundary) practices drives new norms of behaviour and the subsequent culture change required to maximise performance from the team. Empowering your experts and creating the right conditions that motivate, give autonomy and purpose is the second major change to achieving step change in performance.

Example:

Challenging prevailing culture to drive performance accountability

Restructuring the organisation in response to market challenges

A multi-disciplinary engineering consultancy based in the UK, and with revenues of £400m and over 6,000 employees across 98 offices worldwide, had recently undergone a restructuring involving management delayering and simplification. At the time the of the restructuring the external environment reflected tough trading conditions in terms of revenues and new business activity, while in contrast the existing operating model was designed to focus on market expansion and growth. The challenge was to modify the predominant leadership focus on expansion and growth by creating a new paradigm in which the leadership team and company focused on cost containment and prudent market expansion. A programme of work was mobilised with the objective of reducing costs and improving cash flow; while at the same time implementing a new organisational structure that strengthened operational performance.

So what was wasn't working?

In order to reduce costs and deliver an immediate performance improvement, there was a requirement to make simple requests to the Executive Leadership Team and get their commitment to taking costs out of their operation. However it transpired that there were a number of cultural issues which where preventing the organisation from moving to action. It was found that the traditional way in which the business made change happen and delivered process improvements was based on a network of favours and deal making between senior and mid-ranging executives within the company. This approach delivered suboptimal results in the past but had never been identified or addressed as an issue. On top of this, an avoidance culture and a lack of willingness at Executive Leadership level to tackle difficult issues head on was stifling decision making and action.

Doing the basics right – an unconventional approach

To address these cultural shortcomings and barriers to change the programme employed some basic changes to ways of working across the organisation, which had a powerful effect on the culture and drove clear accountability for delivery across all levels. While this approach was unconventional to the existing culture, the level of clarity and transparency applied when communicating changes in policy, using simple and straightforward language, removed exceptions and ambiguity and drove instant and positive outcomes.

To support the new ways of working the programme designed and implemented a series of simple binary rules and removed the opportunity for ambiguity with zero exceptions. The new rules, processes and cost control objectives were transparent and had the full backing and commitment of the Executive Leadership team. The results were instant, with the changes in ways of working well received by employees, who perceived the new regime as tough but fair.

The Result

Through driving strong levels of accountability across the organisation, the programme created the culture and environment that enabled the delivery of improved operational performance and a £22million in cost savings over an eighteen month period. Upon completion of the programme the company merged with a larger engineering company headquartered in the US, with 23,000 employees worldwide. The performance culture and trust environment established as part of the initial cost reduction programme was also widely credited with helping the organisation throughout this US integration programme, where clarity of ownership and outcomes was key to success.

Conclusion

Transformation needs to be driven and owned by the management team and supported by the consultants who should play a supporting role

Through taking the time to assess and challenge the cultural inertia, bias and decision making processes in your organisation you can bring that hard edge to your transformation, that can be the difference between success and failure. Picking the right team is crucial to guide the CEO and their team through unforeseen challenges that are inevitable in all transformations. A word of caution, transformation needs to be driven and owned by the management team. The role of any external practitioners or consultants should be to play a supporting role, to be the invisible hand that guides the CEO to mitigate against risks and bringing apolitical independent advice. Transformations by their nature are disruptive and provide unchartered territory for most involved, however driving a culture of accountability and transparency from the top down, increases the chances of success and mitigates against wasted investment for no shareholder return.

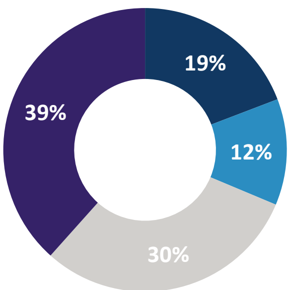
Research Methodology

This research was conducted online from 9th to 13th November 2018 by FTI Consulting's Strategy Consulting & Research team with 550 senior decision makers based in the UK and Ireland. Respondents were a mixture of Executive Directors, Heads of Business Functions and Senior Management, representing organisations with a mean global turnover of £5.89bn and 15,312 employees globally.

Respondents have, on average, undergone two organisational transformations in their careers, with half (48%) assuming the role of 'sponsor' or 'transformational leader' in their most recent programme. A breakdown of the roles of the respondents who participated in this research, as well as the types of organisations they work in, can be seen below.

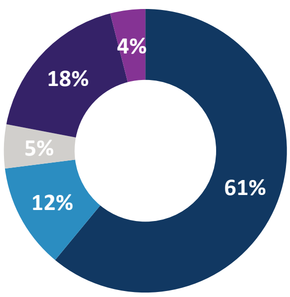
Role within the Organisation

- Executive Director
- Head of Business function
- Senior Management
- Other Management with decision making control



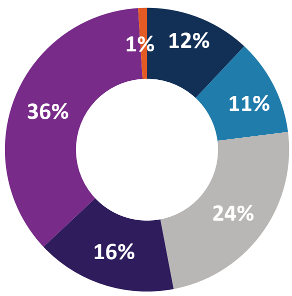
Type of Organisation

- Privately owned
- Government
- State owned enterprise
- Publicly listed (on stock market)
- NGO/Charity



Role in Transformation

- Sponsor
- Providing general feedback & updates
- Workstream leader
- Customer
- Transformational leader
- Other



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