How leadership accelerates transformation success
### Contacts

**Chicago**

Andrew Tipping  
*Partner*  
+1-312-578-4633  
andrew.tipping  
@strategyand.pwc.com

**London**

Hugo Trepant  
*Partner*  
+44-20-7393-3230  
hugo.trepant  
@strategyand.pwc.com

**Melbourne**

Ben Gilbertson  
*Partner*  
+61-3-9221-1924  
ben.gilbertson  
@strategyand.pwc.com

**Sydney**

Bernadette Howlett  
*Partner*  
+61-2-9321-2806  
bernadette/howlett  
@strategyand.pwc.com

**Dubai**

Per-Ola Karlsson  
*Senior Partner*  
+97-1-4436-3000  
per-olal.karlsson  
@strategyand.pwc.com

**Kuala Lumpur**

David Hovenden  
*Partner*  
+60-3-2095-3188  
david.hovenden  
@strategyand.pwc.com

**Shanghai**

Sarah Butler  
*Partner*  
+86-21-2327-9868  
sarah.butler  
@strategyand.pwc.com

**Tokyo**

Vanessa Wallace  
*Senior Partner*  
+81-3-6757-8685  
vannessa.wallace  
@strategyand.pwc.com

### About the authors

**Bernadette Howlett** is a partner with Strategy& based in Sydney. She specializes in corporate and business unit strategy, with particular emphasis on inorganic and customer transformational strategies.

**Mark Johnson** is a principal with Strategy& based in Melbourne. He specializes in helping organizations to develop IT strategies, operating models, and architectures and to deliver IT-related transformations.

**Soon Rabb** is a principal with Strategy& based in Melbourne. She specializes in organizational development, helping organizations with large-scale business and cultural transformations.

**Martin Crew** is a senior associate with Strategy& based in London. He is a member of the firm’s organization, change, and leadership practice and the Katzenbach Center, Strategy&’s global center of excellence on culture and leadership. He has led several large transformation programs in technology, aviation, and public transport.
**Executive summary**

The rapid pace of change in the business environment and ongoing market disruptions are forcing companies to carry out large-scale strategic transformations that impact every aspect of their business more frequently than ever. Yet executing these programs on a one-off basis is a sure recipe for failure, given their poor alignment with strategic goals, unclear business planning, lack of resources, and dwindling commitment to clear success metrics once implemented.

Only by building a truly distinctive transformation capability that allows them to execute such programs on a more regular basis can companies ensure that they will be able to move quickly when strategically necessary. To do so, they need to bring together their top leaders to pull five key transformation levers: communicating clarity of purpose, finding the talent and expertise needed for success, focusing on business value, building trust, and establishing a foundation for long-term organizational and cultural change.

Currently, companies vary considerably in their ability to carry out successive major transformations. Many are held back by a variety of distractions and derailers — poor leadership, change fatigue, managing to time lines and not business value, and the like. Building a fully functioning transformation capability requires understanding just how mature your current capacity is, determining where the gaps are, and then filling those gaps to reach full maturity.
In a rapidly changing, often disruptive business environment, every company needs the ability to rethink strategy when it becomes necessary, and change course without losing its way. As markets and technologies evolve, companies must devise new portfolios of products and services, new methods of understanding customer needs, and new ways to bring the two together.

More and more often, that means engaging in a full-fledged strategically oriented, cross-functional, multiyear business transformation — from the organizational structures that determine how companies go to market, to the operations and processes that put new strategies into practice, to the information technologies that support those processes. In this sense, business transformations are not an option, but rather a strategic necessity.

All too often, however, companies view such transformations as one-off projects, to be engaged in only when needed, and then shut down. This view is shortsighted. Such transformation projects typically fail to maintain tight alignment among their initial purpose and scope, the talent needed to execute them, and the metrics that will determine success. These efforts are all too likely to derail quickly, as business units move in different directions or unknowingly duplicate efforts, program offices and reporting requirements multiply, resource requirements increase, and senior leaders lose interest. Without a clear view of what the transformation is expected to deliver, the emphasis turns to reporting on small milestones and frequent requests to readjust scope, rather than transformational change events. What follows are the inevitable missed deadlines and cost overruns. In fact, organizations reportedly lose an average of US$109 million for every $1 billion spent on projects (source: Project Management Institute, “The High Cost of Low Performance,” Feb. 2014).

As the need to transform how they operate arises more frequently, companies must turn their capacity to carry out transformations into a true capability — one that will give them the continuity to transform themselves as needed, and thus differentiate them from their slower-moving rivals.
Creating this capability requires collective leadership that transcends the kind of reactive management that characterizes so many transformation programs. True transformation leadership goes beyond the skills of individual leaders or project managers to become an institutional capability exhibited in how the senior team — not only the CEO — demonstrates its commitment to transformation and embeds the transformation capability throughout the organization, so that it is available whenever the need for transformation arises.

If leaders are to fully incorporate this capability into the organization, they must act as a team and take into account five specific levers, pushing and pulling in unison to ensure transformation success: providing clarity of purpose, developing the talent and expertise needed for success, focusing relentlessly on value, building trust, and setting the foundations for enduring change. These five levers make up the key components of a transformation maturity model that will enable companies to assess the depth of their existing transformation capabilities and what they can address to accelerate transformation outcomes.

**A clear purpose**

Every transformation program should be seen as an opportunity to build strategic capabilities that drive differentiation and competitiveness. Ensuring clarity regarding the firm's strategy before embarking on a transformation, and aligning transformation outcomes to strategic intent, seems an obvious starting point. All too often, however, leaders are not aligned on the overall company strategy, the goals of the transformation, or how they discuss these topics. As a result, the transformation will likely lose any clear link to the strategic intent it may have started out with. It will be seen simply as an IT solution, for example, creating a challenge for any effort to rally broad-based senior support around it.

At one leading financial institution, for instance, all members of the executive team had agreed on a strategy to refocus on growth through digitization at home, where growth was lagging, before they looked to other markets for expansion. More than a year into a five-year transformation program, multiple business units had begun building...
their own digital capabilities, but they were doing so separately and with no recognition of the importance of potential interdependencies among units or the competitive necessity of digital for the bank as a whole. So top management engaged in discussions on the strategy and how it translated across the various business units and functions. Each business unit, it turned out, had interpreted the strategy differently, particularly around developing new digital capabilities.

Resolving the issue required forcing the leaders yet again to think through the overall strategy and specific goals of the program and what they meant for each of their respective areas — painful but necessary steps. The team went even further, clarifying both the distinctive strategies for each unit and their common ground, and then distilled them into key messages, developing together a clear case for company-wide change that became the basis for the ensuing transformation.

**People and resources**

Transformations are costly, and top talent is scarce. Companies must ensure that every major transformation has the right people in the right positions, and that they are given the resources — the people, funding, and technology — they need. Unless the best people are given the means to successfully carry out the program, it will be difficult to persuade them to take on these efforts. For each program, a head of transformation position should be created and filled with an executive experienced enough to understand and anticipate cross–business unit perspectives and manage multiple internal and external stakeholders. Whoever fills the role should be a member of the senior leadership team, and should report to top management regularly on the progress and results of the transformation he or she is leading.

It is also the transformation leader’s responsibility to ensure that the transformation team possesses a strategic view of the program’s goals, a realistic sense of the resources needed to carry out the project, and the ability to execute it. Leaders should have the full range of skills and capabilities needed, including financial, technical, and change management expertise. Too often, organizations appoint experienced project managers who may be very good at delivering narrower projects but don’t have the perspective required to manage a multiyear program that requires looking beyond the next milestone.

Finally, leading a transformation means setting the transformation team up for success. That must include ensuring that it operates as its own entity with clearly delineated decision rights, its own budget, and access to the tools and support required. Successful transformations ensure that the talented individuals who have been selected have the opportunity to develop and flourish — not flounder — even in an under-resourced program structure.
The financial-services company discussed above, for example, had a great track record of introducing and managing business change, such as new products or changes to existing products, on a regular basis across multiple business units. However, when it came to the kind of large-scale change required as part of a multiyear, multi–business unit transformation — the company planned to invest a total of $1.2 billion in the effort, with an expected 100 percent return of $2.4 billion over a five-year period — the organization struggled to make progress.

Top leaders realized that if the company were to reap the hoped-for benefits, it would have to do things differently. So they invested in building an organizational capability for managing major transformations, including establishing the right structure, with highly visible senior leadership and governance mechanisms, and naming a new head of the program. The transformation team worked to define goals for all the key aspects of the program, including managing the financial, expertise, and IT resources needed; change management; and governance. A critical area of focus was portfolio management — the difficult task of managing the sequence of program work streams and investments that would generate the greatest value fastest. And the best talent from across the organization was brought in to manage each of these areas.

In addition to triggering real change within the company — the program, though recently implemented, has already shown very encouraging results — the transformation gave the most talented executives developmental experience that would serve them well in their next roles.

**Value delivery**

All too often, the business cases that less mature companies put together to justify major transformations describe some form of payback or return on investment merely to get through an investment gate at the outset of the program. This can easily lead to ways of working that are not aligned to the transformation’s true value goals — whether they be boosting revenue or earnings, cutting costs, or all three.

Great transformation leaders understand the importance of challenging these old ways of working when they do not support the transformation’s value objectives. They maintain a holistic view of and a relentless focus on the value to be created through the transformation. They regularly hold explicit discussions about the behavior required to lead and sustain those value goals. They concentrate on the interdependencies among business units and functions, maintaining the integrity of the program design in the light of value capture, and whether the effort to transform how people work is adding further value. They hold themselves to account through agreed metrics tied to value, and may even designate a behavioral steward to monitor how well the transformation team’s actions are aligned with the program’s goals.
The first step in focusing behavior on value is to make sure that multiple sources of value — financial, customer, staff experience — are already incorporated in the economics of the transformation and to apply metrics to specific program outcomes to determine whether that value is actually being realized. Linking the business case explicitly to all sources of value creates a platform for dynamic discussions about the entire portfolio of projects in the transformation program that can inform critical trade-off decisions — such as whether and how to rebalance the portfolio, accelerating the delivery of certain projects if required, or even killing those that are underperforming — throughout the life of the program.

Transformational leaders invest in tools that help the program team understand how the program is driving value, and look ahead at the likely consequences for value creation of decisions such as planned changes, key points of risk, and expected time frames when value is released. If the circumstances seem favorable for accelerating a particular aspect of the program based on perceived risk and potential incremental value creation, for example, transformation leaders may decide to divert resources to that aspect. Though traditional tools that capture schedule, progress, and budget information serve a useful reporting purpose, transformation leaders should spend much more time making decisions about how to manage value in the context of the status report, not the status report itself.

In the course of its transformation, for example, that same financial-services company came to realize that more than 25 percent of the program’s projected value was coming from just two projects in a program portfolio containing 20 projects. A further review highlighted that these two high-value projects had the fewest change managers and change management resources, thus creating the very real risk of declining value realization. As a result, the firm realized it had not aligned its change management resources to support delivery of the high-value projects.

This relentless focus on value means not declaring victory when the shiny new technologies, processes, organization structures, and information flows are implemented. Transformational leaders make sure that once the transformation has been declared completed, the business units and functions affected continue to pursue the goal of achieving value. The focus on value should not stop until the organization realizes the value the transformation was designed to achieve — and more.

**Mutual trust**

Undertaking a transformation program demands that senior leaders are fully aligned to the overall success of the program, even more than the success of individual business units. That in turn requires that a cross-business perspective is embedded in the program’s governance structures.
and in an empowered, involved, and accountable team of senior leaders. There must be a high level of mutual trust between the leadership team and business unit heads that they will put the program’s value to the overall organization over the interests of any one business unit.

This trust can be expressed in various ways, both formally and informally. Business unit leaders, for example, can formally offer the transformation program to high-performing employees or those with specialized skills, even if it means their own teams will need to find adequate replacements. And they must remain fully, formally engaged in the process, not delegating the responsibility for either the health of ongoing transformation programs or their results. Building shared accountability among top executives for how the program is managed, how the business is involved in transformation activities, and the actual delivery of results ensures that an “us–them” mentality does not take hold. Aligning transformation objectives and key performance indicators, and reporting those metrics via existing reporting mechanisms such as a balanced scorecard at every senior leadership meeting, builds transparency, further formalizes shared accountability, and reinforces the feeling that “we are all in this together.”

Less formally, leaders should be role models for their transformation teams. At one airline, for instance, a transformation program and new operating model required improved collaboration across traditional business unit boundaries. To demonstrate this new collaborative way of working, all the members of the senior leadership team made a commitment to spend every Wednesday afternoon working in a business area outside their own. This clearly signaled to workers throughout the business the leaders’ commitment to the change.

A foundation for enduring change

After transformation programs are completed, organizations are often left wanting. The vision was right and the plan was there, but it remains unclear whether the entire organization has truly been transformed in a way that will last. Clear value metrics covering financial goals, customer satisfaction, and employee engagement will help, of course, and must be monitored even after the transformation is declared complete. But leaders must also aim to create in all the business units affected by the transformation an environment that will enable them to realize the transformation’s objectives going forward, by challenging and inspiring employees to change their existing ways of working.

Doing so will require, first of all, that transformation leaders establish a working partnership with the business units early on. Indeed, it is never too early to engage the business in support of the program and to consider how to make the transition from when the program is being developed to when it becomes business as usual, especially in the case
of multiyear programs in which projects are completed at different times. Engaging business unit leaders in planning, aligning employees to prepare for implementation, and accepting accountability for implementation will ensure that the goals of the program are sustainable over the long term.

As part of this effort, transformational leaders must be willing to admit that they do not have all the answers, and turn frequently to those on the front lines of the business for advice on revamping processes and behavior. It’s not enough to conduct the kinds of consultations and focus groups that characterize so many change management programs. Instead, successful leaders invite and encourage frontline ownership of the program as part of the effort to ensure that it meets its objectives. And they seek out those key frontline motivators who can inspire others to follow.

As part of a major drive to shift company culture, leaders at a top technology company made a concerted effort to engage these critical frontline employees. In each of the company’s major business areas, they identified a small group of them and connected them through an informal network, which acted as a sounding board for senior leadership, providing rapid feedback on how the program was progressing, as well as observations on how employee behavior was changing.

Finally, transformation leaders must ensure that program participants and decision makers carry out periodic health checks of the program after it is complete, looking at comprehensive indicators for sustained success, such as staff engagement, trust in leadership, and improved customer experience. Such checks would focus on the symptoms that enable or hinder value creation — for example, a process or behavior that continues to reinforce “old” ways of working. One client undergoing a large-scale transformation in the education sector changed its operating model but maintained the same people in critical senior positions. The program’s credibility was low, and the senior leadership team kept hearing that the team “looked the same.” Employees expected the same behavior and interactions as before. The leadership team acted on the negative feedback, making changes to how senior meetings were chaired, the agenda and topics discussed, and the amount of time allotted to less senior members.

If these health checks are to become true learning opportunities for the organization, how they are performed matters greatly. Providing a review of progress can be perceived either as an opportunity to learn and improve or as an audit-like, finger-pointing exercise. The focus should be on what is required to deliver successful outcomes, not on who is to blame if the results are less than perfect.

Decision makers must carry out periodic health checks of the program after it is complete.
Despite the strongest leadership, no large-scale business transformation program runs perfectly smoothly. Here are five potential pitfalls that program teams should watch out for:

1. **Change fatigue**: Most transformation programs are multiyear efforts, which can lead to change fatigue even when managed well. The temptation will be to give up early and turn the program over to the business before the business is ready, or to manufacture momentum through campaigns that actually create more work, further draining resources. Leading through change fatigue requires an ongoing focus on value creation and managing the program’s momentum with deliberate choices as to when value is released in the organization and at what cost, given capacity constraints.

2. **Remaining at arm’s length**: The leadership team must be visible, invested, and involved in the transformation. They must be fully engaged, and willing to step in and provide resources, time, and credibility to the program when necessary, even if — or especially if — things aren’t going well.

3. **Being rigid**: Hubris is a blind spot. Being invested and committed to the success of a program may mean that leadership will not be objective or dispassionate when necessary. Even when individual instinct or the collective feeling of the leadership team says “kill it now,” the stigma of failure may overwhelm good judgment. Stopping a program is seen as giving up and may be experienced as a personal failure. From the perspective of portfolio management, holding on to an asset that is steadily losing value is seen as a failure. Building trust within the decision-making team will encourage members to speak up and challenge the group. Some leadership teams even formally appoint someone on the team to fill this role.

4. **Managing to time lines and not to value delivery**: Many organizations do a good job of managing the initial decision to invest in a transformation, with investment committees, processes for submitting business cases with specific hurdle rates, and stage
gates for additional funding already in place. Once the initial decision is made, however, senior management often stops concerning itself with the program unless additional funding requests arise or real problems develop. Many organizations have no formal benefits realization process, and responsibility for achieving benefits becomes someone else’s problem. Embedding program reporting processes in existing company-wide investment and capital prioritization processes — including a review of progress against specific value metrics — can help transformation leaders avoid this pitfall. The key is to avoid program reporting processes that focus more on project milestones than on benefits achieved.

5. **Handover versus transition**: Viewing implementation as an event rather than a transition that requires ongoing program and business unit partnership is a derailer for many transformation programs. There is a temptation to declare victory and assume that the program’s role is over once a delivery milestone is met. The transitions should be gradual, and provide the opportunity to learn, adjust, and demonstrate a commitment to partnering by both the program team and the business units.
Building transformation maturity

Developing a truly differentiating capability for ongoing transformations is no easy task, especially if your company has not yet moved far up the maturity scale. It requires a sustained effort to pull all five of the transformation levers discussed above, at the same time, in the same direction, and then to maintain the resulting capability at the highest standard. Exhibit 1, next page, outlines four stages of transformation capability maturity, designed to help leaders determine where their company stands now and the gaps they need to fill to reach the highest level. (The exhibit shows an abbreviated version of the “maturity model.”)
### Exhibit 1
Transformation leadership overview

<table>
<thead>
<tr>
<th>Leadership dimensions and levers</th>
<th>Internally focused</th>
<th>Objective focused, project capable</th>
<th>Outcome focused, program capable</th>
<th>Enterprise focused, transformation capable</th>
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<tbody>
<tr>
<td><strong>Siloed, project centric</strong></td>
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<tr>
<td><strong>Objective focused, project capable</strong></td>
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<td><strong>Outcome focused, program capable</strong></td>
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<td><strong>Enterprise focused, transformation capable</strong></td>
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<td><strong>Clear purpose</strong></td>
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<tr>
<td>– Corporate strategy</td>
<td>– Program objectives not measurable</td>
<td>– Business unit/functional objectives</td>
<td>– Program leaders establish clear case for change, including program, enterprise strategy, and market impact</td>
<td>– Senior leaders invest in collectively defining outcomes relevant to enterprise strategy and specific business/functional units</td>
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<tr>
<td>– Vision and values</td>
<td>– Relevance to enterprise strategy not clear</td>
<td>– Tenuous link to enterprise strategy</td>
<td>– Transformation goals embedded in relevant business and functional areas</td>
<td>– Transformation leader is on the leadership team with visible senior sponsorship</td>
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<td><strong>Conditions for professional success</strong></td>
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<td>– Employee value proposition</td>
<td>– Resource constrained with program roles typically filled “part-time”</td>
<td>– Resourcing based on best available principle</td>
<td>– Program is a distinct entity, governed by a steering committee</td>
<td>– Program has distinct budget and decision rights</td>
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<td>– Resource planning</td>
<td>– Selection based on who is available</td>
<td>– Resources experienced in “getting things done”</td>
<td>– Governance is forward looking</td>
<td>– Program disciplines support decision making and value focus</td>
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<td><strong>Value focus</strong></td>
<td>– Governance focus is on milestones</td>
<td>– Governance is a “rearview mirror” review</td>
<td>– Program is a distinct entity, governed by a steering committee</td>
<td>– Leadership behaviors focus on value (e.g., stopping nonperforming/nonessential projects)</td>
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<td>– Governance and decision rights</td>
<td>– Narrow decision rights reflecting “siloeed” perspectives</td>
<td>– Economics focus on financial metrics, with some allowance for “soft benefits”</td>
<td>– Transformation economics incorporate multiple sources of value</td>
<td>– Program actively fosters ideas and solutions from the front line</td>
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<tr>
<td>– Project/program methods</td>
<td>– “Tick in the box” business case</td>
<td>– Resources are process focused (e.g., reporting) rather than decision focused</td>
<td>– Shared/common methodologies</td>
<td>– Leaders internalize and deliver messages with credibility and consistency</td>
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<td><strong>Mutual trust</strong></td>
<td>– Low or no sense of shared success for outcomes — from initial resourcing to accountability for results</td>
<td>– Projects end when money runs out</td>
<td>– Transformation goals embedded in relevant business and functional areas</td>
<td>– Leaders use setbacks to learn, correct course</td>
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<td>– Capital allocation</td>
<td>– Limited or no partnering with operations to realize benefits</td>
<td>– Limited or no partnering with operations to realize benefits</td>
<td>– Program actively engages front line</td>
<td>– Leaders weigh enterprise success equal to individual business area success</td>
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<td>– Goal setting</td>
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<td>– Consequence management</td>
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<td><strong>Sustained engagement</strong></td>
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<td>– Engagement of front line</td>
<td>– Program seen as “being done” to business</td>
<td>– Front line regularly informed and feedback solicited</td>
<td>– Business is partner in transition planning</td>
<td>– Program actively fosters ideas and solutions from the front line</td>
</tr>
<tr>
<td>– Communication</td>
<td>– Inconsistent, process-oriented communications</td>
<td>– Managed and focused communications delivery</td>
<td>– Program actively engages front line</td>
<td>– Leaders internalize and deliver messages with credibility and consistency</td>
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Source: Strategy& analysis
Conclusion

Our fast-moving, fast-changing business environment increasingly demands that every large company have the means to carry out large-scale transformation programs on a regular basis. Leaders must invest in building the capability for their organization to transform, enabling it to differentiate itself in the market and to deliver value to its customers. Building such a capability, however, can’t be done overnight. It requires proactive planning and a recognition by the senior executive team that the next major transformation may be closer than their enterprise realizes. Those that succeed in this mission will reap the benefits of greater responsiveness to customer and market changes and the ability to develop new products more quickly. Those that can’t will likely suffer lost market share and competitive irrelevance.
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