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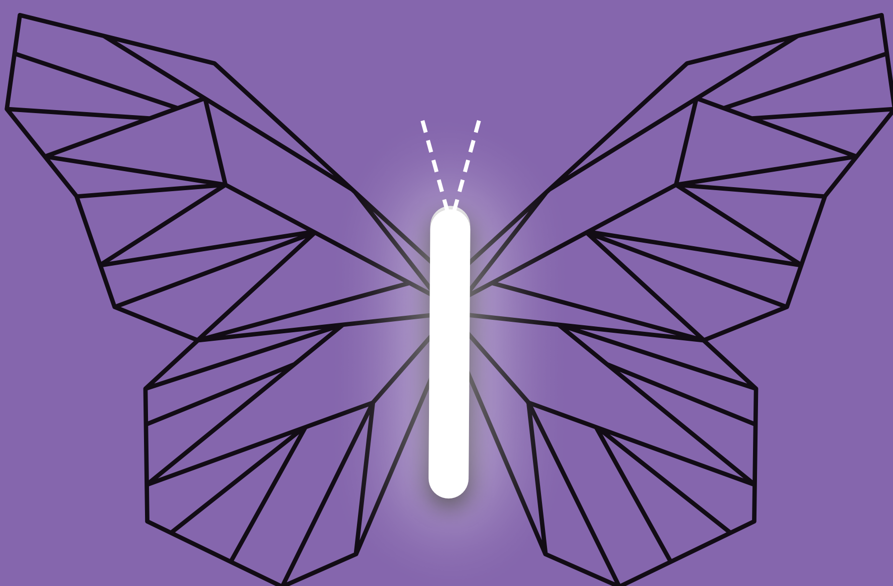
THE TRANSFORMATION PLAYBOOK

INSIGHTS, WISDOM AND BEST PRACTICES TO MAKE TRANSFORMATION REALITY



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Resilient transformations

How did your organization handle its last major transformation? You had a detailed plan, discussed at length – and then what happened? We recently put that question to 40 senior executives responsible for transforming organizations in the production, engineering, consulting, and financial service sectors. Most stories had three parts: The plan, a surprising "but then… ," and finally a response to the "post-surprise reality" (or what we may just call "reality").

The third part is the most important part of any transformation, because this is where the transformation happens in the organization. We argue that the success or failure of major transformations depends not on better predictions, better plans, or better visions. Transformations depend on responding effectively to what we cannot practically know in advance: surprises.

The plan: what should have happened

Our cases of major strategic transformations typically begin like this: "It became clear that [insert burning platform]. And so we wanted to [insert ambitious and appealing destination]. To do that, we had to [undertake a well-defined course of action]. So, we got everyone engaged through [efforts to onboard the organization], and off we went."

The transformations initiated by managers in our study were not without good reason: product lines had failed to turn a profit for years, competitors produced cheaper goods abroad, clients were unwilling to adopt new proposed solutions, IT systems had proved troublesome or outdated, and quality standards were insufficient, just to mention a few.

Senior leaders then laid out a landscape of appealing destinations. They outlined visions of technological leadership in emerging fields, dominant shares of hitherto untapped markets, beating competitors on price, attaining higher status for their business unit, and many more. A clear and desirable future lies at the other end of transformation plans.

Between an untenable "now," and the envisioned future destination, managers outlined a detailed course of action. They sketched diagrams of radically changing pricing models, the construction of new production facilities abroad, aggressive new investments signaling commitment to the stock market, and the phased adoption of new technologies. Thus, transformation plans commonly outline a pathway, by which the now is to be exchanged for a well-defined, more desirable future.

The final part of the transformation plan is getting the organization onboard, overcoming resistance, and building momentum along the course of action. To that end, managers personally talked to everyone involved, built broad coalitions of the willing, engineered win-win situations, and convinced reluctant boards members. Some even carved out room for a new business unit, and handpicked the right people for the job. One manager called this a "social wrapper" around the transformation.

All of this is nicely consistent with research on how transformations are supposed to be done. In the 1950s, psychologist Kurt Lewin recognized that most organizations are naturally resistant to change. He encouraged managers to first "unfreeze" their organizations, then transform them, and then "re-freeze" them afterwards. In the 1980s, Thomas J. Peters and Robert H. Waterman, Jr. popularized McKinsey's 7S Framework, working as a type of before-and-after "checklist" for transformations. They highlighted transformations of "hard elements" like strategy (means and ends), and structure (division of activities and coordination between them), and systems (formal procedures and incentives). They also focused on "soft elements" like values (of the organization), skills and competencies, staff (human resources), and finally style (or the behaviour) of the organization. The central message was that transformations should not leave any of this out.

In the 1990s, John Kotter told transformation managers to "establish a vision for the future, and set the strategy for getting there." He urged managers to first establish a sense of urgency, then build a guiding coalition, and with them, develop a vision and a strategy before communicating it broadly. Then they were to empower employees for action, create (and celebrate) short-term wins, consolidate what had been achieved, and finally, anchor the transformation as a whole in the culture of the organization.

And more recently in the 2000s, Jeffery Hiatt outlined his ADKAR model, telling managers to create Awareness of the need to change, Desire to participate and support the change, Knowledge on how to change, Ability to implement required skills and behaviours, and finally, Reinforcing change achieved.

In short: transformations start with a clear idea of where we are, where we want to go, and how to get there. And from there, we set out and take action.

The surprise: what actually happens

At this point, most major transformation cases get interesting. They continue like this: “but then, [insert surprising turn of events] and so, [insert significant course deviation], so in the end, we [insert adjusted destination].”

Academics and consultants regularly report staggeringly high numbers of “failed strategic initiatives.” A global survey of managers conducted by Harvard Business Review Analytic Services, in association with the Brightline Initiative, found that only roughly one-fifth of organizations achieve 80 percent or more of their strategic targets. In other words: four out of five firms fail to meet some or all of their major strategic goals.

Managers sometimes forget that both destination and direction are mere assumptions. They assume that the destination will be better than where they currently are, and better than other possible destinations. They also assume that the direction they choose will get them there. Plans, then, are bundles of assumptions. And the test of those assumptions is the transformation itself. In most cases, some of these assumptions regarding direction and destination are untrue.

In terms of direction, transformations regularly fail to reach the vision they aim at. Means turn out to be unavailable or ineffective. In our study, unexpected funding shortfalls, legislative change, and technical problems stood in the way of many transformations. Beyond our study, in 2018 German-based retail giant Lidl aborted a seven-year long (purportedly costing some 500 million euros) endeavour to transform its merchandise management system to a unified SAP solution. The vision of a unified merchandize management system remained beyond Lidl’s reach, and it is now returning to its old IT system.

The direction you set for your organization may fail to lead to your chosen destination, even if that would have been the ideal destination for your organization.

Regarding destination, the end point of many transformations unexpectedly loses value or relevance along the way. In our study, one manager’s vision of an offshore production line lost its allure when the true conditions on the ground became clear. Another manager’s new organizational model was surprisingly poorly received among employees. In another case, in the 1990s, LEGO – not wanting to bet everything on traditional play sets alone – diversified into too many specialized bricks and play systems. The diversified product portfolio was realized, but it did not bring with it the financial success of the foregone status quo – to which they would later return. This was a lesson that Apple also learned around the same time – before bringing Steve Jobs back on board. In both cases, the destination failed to outperform the pre-transformation departure point, and, arguably, alternative destinations too.

This highlights a paradox: classic transformation models underline that to overcome inertia, managers need to on-board people, and build up momentum. To do so, they need to exude certainty. There is not much motivation in "maybe," and nobody gets excited by "probably." Yet, the underlying assumption is that managers are right about where they are going and about how to get there. But what if the manager's pep talk has pointed in the wrong direction, or to the wrong destination?

The response: new direction, new destination, or both?

What happens "post surprise," we argue, is the most important part of any transformation. This is the part where plan meets reality. At this point, transformation stories diverge: while many managers are left with expensive, embarrassing, and unattractive responses, others are not surprised to be surprised – they made the best plan they could, but they also prepared to be wrong.

These managers created what we call resilient transformations. From its Latin roots, resilience is the ability to "rebound" from unforeseen events in whatever form they might take. The modern concept emerged from the study of ecological systems adapted to unpredictable change – without the use of foresight.

Managers of resilient transformations built three "post surprise responses" into their plans: (i) direction change, (ii) destination change, and (iii) some did both.

Reserving the option for a direction change in response to surprise, one manager explained: "Our vision is unchanged. But how to get there becomes more clear along the way." In this camp, some managers started new markets or product lines in parallel, and picked one that worked later. Another reserved the option of "trying again," should the first attempt to implement new quality standards fall short. Others designed their transformation as a "living shape," attaching new partners to a project, as they became needed. This group traded off a high number of failures against a low cost per failure. For these managers, transformations are a process of pathfinding to their eventual, but set, destination.

In the second camp, managers held open the destination, in case of surprises. As one said: "I think direction is becoming much more interesting to talk about than destination." In this group, some defined several possible destinations: the new product turned no profit on its own, but drew business to other products. Others set "corner flags" demarking a "ballpark" of workable destinations, and selected initiatives that could make it into that general space. Others prepared movable goal posts, adjusting ambitions to the financial reality of their organization. This group traded off a high cost of trying against a low probability of failure. For these managers, transformations are a process of exploring objectives, in search of desirable destinations.

A third camp kept both options open, even reserving the option of returning to the status quo altogether, to start again. In this camp, some managers built "exit ramps" into their plan, i.e. points where the organization could most easily be disentangled, just in case. As one manager explained: "I'm not going to blow up the company if we just throw it [the transformation] out. It's extremely cheap to fail. And if it succeeds, it's fairly cheap to implement."

In our view, managers building resilience into their plans do three things right. First, they adopt an attitude of scepticism, not confidence, about well-laid plans. Second, they are wary of irreversibility, not uncertainty, being mindful of not doing what they could later regret, but not change. Third, while committing willingly to a clear direction or a desirable destination, they prudently avoided doing both at the same time. And contrary to a standard talking point in management literature, you can admit to not knowing everything, and still be a trusted and successful leader.

About the authors

Verena Stingl, Morten Wied and Josef Oehmen are based at the Technical University of Denmark (DTU). Verena Stingl is a post-doctoral researcher at the DTU who carries out research into the interplay of uncertainty and human behaviour in complex organizational settings.

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"Transformation is not a neat theory, but a human imperative in our fast-changing times. Transformation has never been more important and the human side of transformation is now, at long last, being fully appreciated," says Ricardo Viana Vargas, executive director of the Brightline Initiative in his Preface to *The Transformation Playbook*.

The book – the third in a series by the Brightline Initiative in partnership with Thinkers50 – brings together some of the world's leading thinkers with stories from the transformational frontline.

Among the great transformation journeys recounted in the book are those of Michelin, Li & Fung, CenturyLink and the Department of Planning and Development in California's Santa Clara County.

The contributors to *The Transformation Playbook* include Tiffani Bova, Behnam Tabrizi, Mark Esposito and Terence Tse, Isaac Getz, Roger Martin, and Tony O'Driscoll as well as experts from the Project Management Institute, Boston Consulting Group, Lee Hecht Harrison, Insper and the Technical University of Denmark.

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