

LEADERS LIVE IN A WORLD OF “ALWAYS ON” TRANSFORMATION

A CONVERSATION WITH BCG’S LARS FÆSTE AND JIM HEMERLING

AS EDITORS OF THE e-book *Transformation: Delivering and Sustaining Breakthrough Performance*, Lars Fæste and Jim Hemerling have examined the critical topic of business transformation from myriad perspectives. In this conversation, they focus on what transformation means for—and requires of—company leaders.

Why did you develop *Transformation: Delivering and Sustaining Breakthrough Performance*?

Fæste: Companies today are at a crossroads. BCG research tells us that public companies traded in the US now have a one-in-three chance of failing in the next five years; that’s up from 1 in 20 just 50 years ago. This ongoing upheaval means that companies really need to know how to transform—to profoundly change their strategy, business model, organization, people, and processes—more frequently than ever. Otherwise, they will find themselves in dire straits.

Constant change translates into relentless

pressure for CEOs and boards, and they recognize the need to transform and thereby stay ahead of disruptive technology, globalization, and a volatile marketplace. But many are challenged when it comes to launching, delivering, and sustaining these initiatives. Some wait too long, until they’re in a crisis, and others transform only partially and then resort to business as usual.

We developed the book to describe the most effective way for companies to respond to this new environment of overwhelming change and disruption. To do this, we looked at leading companies that have actually transformed their approach to transformation: they’re always prepared to respond to unprecedented change, by turning things upside down whenever it makes sense.

How do you define transformation?

Hemerling: Transformation used to refer to something a company would attempt once, to solve an acute problem—say, to

cut costs—before returning to business as usual. But today we live in a world of “always on” transformation, which means that companies must always be transforming. And always-on transformation is just as common among market leaders that want to maintain their leadership as it is with struggling firms, if not more so. Transformation tends to be more productive when it happens before the company gets into trouble; in fact, a third of companies that committed to transformation between 2003 and 2013 were market leaders.

Can you give me a good example of always-on transformation?

Fæste: We worked with a large company with strong annual profits of about 14% to 15%. The company’s leaders decided to take EBIT down to 10% and invest the remaining 4% to 5% in experimenting with digital innovations and other projects based on expected disruptions. In other words, they understood that the first step of transformation is pulling short-term levers to free up funding. Importantly, they also readily accepted that some of that 4% to 5% of EBIT would be spent with no return; their hope was that they didn’t lose or waste more than half!

That’s the mindset that always-on transformation requires: delivering on fundamentals for the short term and looking around the corner for challenges and opportunities in the medium term. Importantly, the long term is coming at companies faster than ever, and what leaders used to consider the medium term is now more like the long term. Therefore, an always-on approach to transformation embraces what we describe as failing cheap and failing fast. Leaders can’t be afraid of failure, especially in the face of disruption. Without the willingness and leeway to fail on some fronts in the near term, bigger failure in the long term is more likely.

What’s the call to action for companies and leaders?

Fæste: One thing that can help leaders with their transformation efforts is a

healthy dose of paranoia—even when their firms are at their strongest. Many leaders believe that if something’s not broken, they shouldn’t touch it. They can benefit from switching that thinking so that they’re ready to change at the drop of a hat. The new transformation adage should be “If it ain’t broke, fix it anyway.”

What do leaders and boards often forget about transforming their companies?

Hemerling: The most successful CEOs, boards, and other leaders create effective transformation teams—and an overall transformation culture—within their firms. Leaders sometimes forget that always-on transformation requires a management team with a full spectrum of skill sets that can manage everything from KPI-focused, operational efficiency to an appetite for experimentation, ventures, and thinking differently.

In addition, transformation today requires a new style of leadership, one that is not just directive but also inclusive, empathetic, inspirational, and incredibly engaged. Always-on transformation depends on people, so leaders must put people first and not treat them as a means to an end—or, worse, as collateral damage. A strong transformation culture will also allow people to thrive and cultivate a deeper sense of purpose.

In short, the transformation journey requires thoughtful attention to three key success factors: leading the transformation through all its stages; managing change to ensure that the organization is ready, willing, and able to change; and building capabilities for transformation that lasts.

What about digital transformation?

Hemerling: Digital disruption is everywhere, but some industries have been hit harder and faster than others. Process-oriented industries such as energy, transportation, and industrial goods have not yet seen the full effects of digitization. But it’s imperative that late adopters act today to develop new products and services that digitize processes.

Successful digital transformation requires nimble development processes and comfort with making decisions amid uncertainty. Rather than making a single, strategic bet, companies should work to manage multiple initiatives, killing off the ideas that don't work and scaling up the ones that do.

The good news is that the cost of entry to digital technology is low—and the potential impact is very high. For example, a global insurer that wanted to enter a fast-growing Asian market did so by devel-

oping a digital device that pregnant women could wear to monitor the fetal heartbeat. This approach granted the insurer a foothold into the market that it then used to cross-sell its insurance products.

A crucial factor for a successful digital transformation—as with any transformation—is strong and capable leadership. Throughout the transformation, the company's digital agenda needs to be driven by executive management, with visible support and accountability. Purely bottom-up approaches usually do not last.

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2/17