

# *Change today, grow tomorrow?*

A framework of business  
change models

*PwC's consulting services*

As business confidence improves, a shift is taking place - organisations are beginning to consider 'what next?' and 'where to now?'... There's a groundswell among executives on the topic of change; businesses are exploring the drivers for change in this new environment and deciding what this means for them. Some executives are asking themselves whether a transformational program is required to successfully drive change across their organisation, positioning themselves positively for the future. However, framing the answers to these questions is not straightforward, and even the best organisations find 'change' challenging.

To help shed light on the change phenomenon, we have presented a framework of four business change models.

By understanding the core differences between these models, organisations can map themselves against the type of change program that best matches their desired strategic outcomes.

## The case for business change: Why it's not about cost anymore

As demand for goods and services fell across the board during the financial crisis, and the top line of organisations eroded, organisations were forced to rapidly reduce their cost base in order to preserve the bottom line; short term cost reduction was the primary driver for many change projects.

However, as the recovery continues to gain momentum and organisations focus on how they can best position themselves versus competitors to meet market demands, cost becomes just one of the many drivers for change. While cost efficiencies remain on the agenda, strategic opportunities that truly transform an organisation are once again being considered.

According to a recent PwC global survey of nearly two thousand CEOs, companies are moving beyond 'merely coping with the crisis' and are once again planning for future growth. The survey found that companies

are shifting focus towards product development, longer term strategic planning and most are optimistic about prospects for the longer term. While companies surveyed continue to focus on cost efficiency, it was not perceived to be the top priority.

The notion that companies are focusing on growth versus cost is further supported by a recent review of the top ASX 30 companies and statements made concerning strategic focus and mid-term outlook<sup>2</sup>. More than 50% of companies reviewed are more focused on strategic growth and expansion than cost management.

**"...companies are now shifting focus towards product development, longer term strategic planning and the majority are optimistic about their prospects in the longer term."**

— Steve Billingham, Partner, Consulting, PricewaterhouseCoopers

## What transformation really means...

Many organisations embark on performance improvement initiatives believing they are on the way to executing a 'transformational' initiative, however transformation projects drive 'game-changing' outcomes (refer to top two quadrants of the framework).

Functional transformation (FT) is often driven by management who require a significant step change in the level of a particular function's performance (also refer top two quadrants of chart 1). Other trigger events may include a change in customers and operations, an ineffective or out-dated HR strategy and growing disparate supply chains as a result of regional expansion.

In terms of efficiency it can be expected that improvements of roughly 20% can be achieved through FT, however it is key that the impact to effectiveness doesn't outweigh the cost reduction. Balancing efficiency and effectiveness is vital in ensuring the total anticipated returns are realised. This can be achieved by investing time on validating the costs and benefits of the transformation as a whole.

Benefits of focusing the scale of change on one particular function within an organisation include:

- Enabling functional leaders to drive change within their scope of authority, which expedites decision making and helps shorten the overall project timeline
- Improving the level of service provided to both internal and external stakeholders

Organisations are able to identify and address issues within specific functions. Change strategies are able to be developed as functional success stories trigger other parts of the business to attempt to replicate their own functional transformation

The other type of change program that requires considerable investment (and is truly 'transformational') is enterprise transformation (ET). This type of transformation project typically impacts the entire organisation and is perceived by all involved, and the broader marketplace, as truly 'game

changing'. This type of wholesale change can be triggered by:

- Significant deal activity (M&A/joint ventures)
- New management team or CEO
- Ongoing decline or gap in performance relative to peers
- Major regulatory change
- Change in consumer habits/channels to market
- Disruptive competition or technology
- Technology refresh

ET often requires a significant shift of an organisation's competitive strategy and seeks to close significant gaps in performance while addressing the desire to rise significantly above that of its competitors.

When executed successfully, ET results in performance uplifts which are significantly higher than if a functional or enterprise performance improvement project has been implemented. ET also encompasses the benefits of all other types of change discussed previously. Importantly, these benefits are more likely to be sustainable but require clear vision and a high level of corporate energy to be successful.

## Transforming the organisation: key success factors

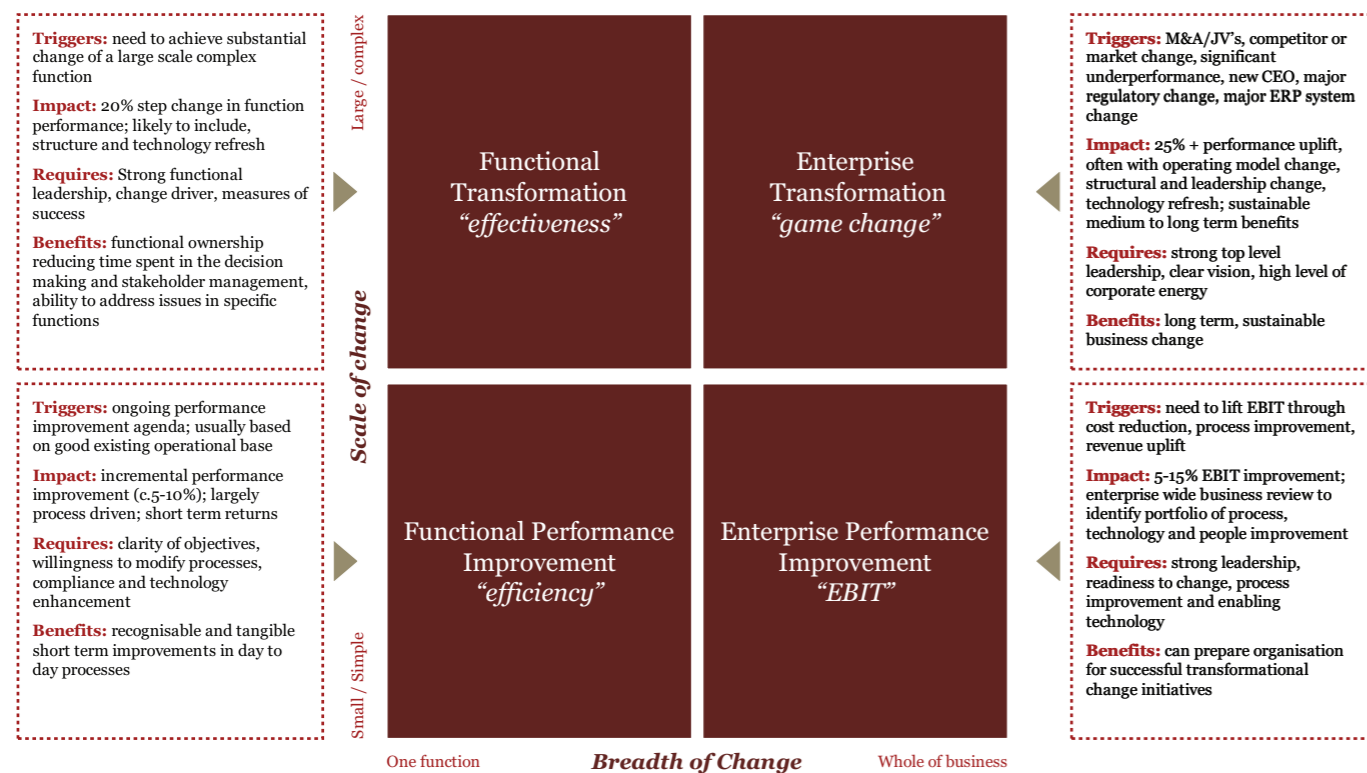
It's important not to underestimate the energy and effort required to achieve genuine transformation. Achieving a 'game-changing' outcome requires complete commitment from the entire organisation. Importantly, transformation also requires a

willingness to confront the 'sacred cows' of the business, that is, the ability to fundamentally challenge enterprise-wide thinking. This can be a confronting, but ultimately rewarding and reinvigorating process for a business.

Last year, PwC interviewed 40 top Australian based CEO's and senior managers as part of its 'Insights into Transformation' white paper<sup>3</sup>. The insights from this paper, along with our client experiences, point to a number of key factors that are required to execute a successful transformation:

- Agility and shared understanding of the 'where the organisation is at', along with the current and predicted drivers for change
- Building an effective management team to lead the change, together with appropriate CEO and executive sponsorship
- Understanding that transformation programs require patience – they take time and the project will likely be the most significant undertaking the organisation makes for a number of years, so rushing the process will do more disservice than good
- A commitment to invest organisational capital and resources in the project, but also appropriate investment in existing functions of the business to ensure the organisation can continue as usual
- Development of a best-fit change approach – the linkage between financial outlay and the benefits the project is aiming to reach. A cookie-cutter approach will not garner anticipated benefits of a transformation
- Alignment of staff KPIs and remuneration benefits to the success of the project.

## A framework of business change models



**"Success in undertaking a game changing transformation is highly dependent on clear and customer focused objectives, and a commitment from the entire organisation to bring those objectives to life. Only a leadership team that is united behind the program, and who can effectively communicate that to it's people, can establish the level of commitment required to make the change 'stick'."**

1 PricewaterhouseCoopers 13th Annual Global CEO Survey 2010  
 2 PricewaterhouseCoopers Review of investor presentations, analysis briefings, annual reports & result announcements from June 08-04-09  
 3 PricewaterhouseCoopers CEO Survey, 'Insight into Transformation', August 2008

## Case Study: Orica's acquisition of Dyno Nobel

Despite the significant integration challenges faced by Orica after its acquisition of Dyno Nobel, some of the benefits realised upon completion of the transformation were significant:

- \$90 million in synergy cost savings and realised the target of 18% return on net assets
- No significant loss of customers from the former businesses
- Excellent retention of senior business leaders and top talent throughout the integration project

So, what key learnings can be drawn from the success of Orica's Enterprise Wide transformation?

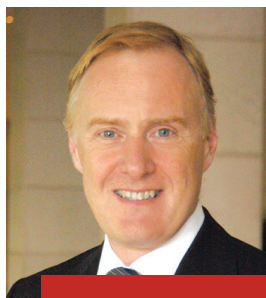
- Leadership - a separate ambitious and dynamic team was established to manage the project and monitor its progress
- Concentrating on the customer - Orica maintained a high focus on customers and business retention throughout the project
- Stakeholder communication - from the onset, one person was responsible for communicating on the project; regular town-hall meetings were held throughout the project and across the organisation to ensure maximum reach
- Culture Change - Former Dyno employees were carefully introduced to Orica's cultural principles
- Business as usual - Orica engaged experienced change specialists to work with the transformation team, allowing others to run the 'as usual' business.

### Where to from here?

*Organisations that succeed in the future are those that are thinking about where their company stands now and how it might look in ten years time. Over the past few years, 'transformation' has become an overused and clichéd word, and has left many questioning the results. In the face of the financial crisis, companies turned to functional and enterprise performance improvements to reduce costs in the hope of weathering the storm. Now the upturn has begun, executives find themselves managing stakeholders who expect them to identify initiatives that capture growth, requiring organisations to choose the appropriate change program for future success.*

*By asking the right questions, leaders can uncover the change required and what program 'will make change stick'.*

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