Change today, grow tomorrow?

A framework of business change models

What would you like to grow?
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.

### A framework of business change models

#### Functional Performance

- **Triggers:** Ongoing performance improvement initiatives, typically based on good existing operational base
- **Impacts:** Incremental performance improvement (1-5%); largely focused on process driven, short-term initiatives
- **Requires:** Clarity of objectives, ongoing commitment to achieving results, compliance and technology implementation
- **Benefits:** Recognisable and tangible short-term improvements in day-to-day processes

#### Functional Transformation

- **Triggers:** Need to bring about greater or market change, significant under-performance, new CEO, major regulatory change, major ERP system change
- **Impacts:** 5-10% performance uplift, often with competing multi-dimensional change, structural and leadership change, technology refresh, sustainable medium-term benefits
- **Requires:** Strong top level leadership, clear vision, high level of corporate energy
- **Benefits:** Long-term, sustainable business change

#### Enterprise Performance

- **Triggers:** Need to lift EBIT through cost reduction, process improvement, revenue uplift
- **Impacts:** 5-10% EBIT improvement; enterprise-wide businesses review to identify opportunities for improvement; technology and people in procurement, sales, customer service, manufacturing, finance, and other areas
- **Requires:** Strong leadership, mindset to change, process improvements and enabling technology
- **Benefits:** Cost program organization for maximum transformational change initiatives

#### Enterprise Transformation

- **Triggers:** Need to bring about a whole-scale, cultural and structural change to drive business in a different direction
- **Impacts:** 20% step change in function, major cultural change, significant impact on, peers, major ERP system change
- **Requires:** Strong leadership, clear vision, high level of corporate energy
- **Benefits:** Long-term, sustainable business change

### 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 beginning to consider ‘what they are currently doing’ and ‘what they need to change’ to gain momentum and organisations for successful transformation.

### 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 the ‘game-changing’ outcomes (refer to top two quadrants of the framework).

Functional transformation (FT) is often done by management who require a significant step change in the level of a particular function’s performance (see refer to 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 does not 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 empowers 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 venture)
- 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.

- Development of a ‘best fit’ change approach – the linkage between financial outlay and the benefits the project is aiming to achieve. 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.

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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
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’.

Contacts

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?

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