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TRANSFORMING TRADITIONAL BUSINESSES DOESN'T HAVE TO BE AN ELUSIVE GOAL

FIRMS NEED TO DEVELOP AN APPETITE FOR INNOVATION, LEVERAGE KNOWLEDGE ABOUT CUSTOMERS, AND ADOPT AGILE WAYS OF WORKING

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Even though the literature on business transformation is enormous, managerial and organisational appetite for change tends to be limited. Leaders of organisations that are remotely successful are not inclined to change things. Transforming the business is not the same as implementing incremental change or improvements in processes, operations and products. We argue that transformation refers to an organisation achieving a sustainable quantum-leap improvement in performance while transforming the mindsets of employees and thus the culture of the organisation.

Few individuals or corporations have managed to change successfully, and even fewer have done so repeatedly. And, of course, transformation programs have a low success rate anyway: research has shown that fewer than a third of organisational transformations actually succeed at improving a company's performance and in sustaining those gains. Similarly, only 16 per cent of digital transformations succeed.

Transformation needs not be so elusive for established organisations. The right vision, knowledge about needs and transformation know-how can convert strategic apathy into action. First they need to understand their own capacity to change and the fundamental building blocks of successful transformation. The Brightline Transformation Compass offers a guide for organisations, established or up and coming, to successfully implement enterprise-wide change programs and transform their future for the better.

Develop an appetite for innovation

A bold move or business innovation is preceded by a crisp, inspiring articulation of the vision and strategic objectives for the change initiatives. This is highly critical for established organisations that want to innovate their businesses. Visions tend to become stale over time and revisiting them can look like a cynical exercise rather than a genuine pursuit of change. But, it can – and increasingly must — be done.

One of the most eye-catching stories of transforming from a position of strength is the Chinese white goods manufacturer Haier. Having surpassed GE in market share, Haier completed its acquisition of GE's appliances business for $5.6 billion in 2016. It is now the global number one in white goods with an operating revenue of $28 billion in 2019. In just over three decades it has risen from being a tiny, inefficient state-owned enterprise based in an unpromising part of China to become a global champion.

Central to the Haier story is its appetite to reinvent itself time and time again. A pithy statement of the company's strategy has been key at each stage. Every few years this is completely overhauled, as the company points in a sometimes radically different direction.

"What Haier has done is be more aggressive and more comprehensive in the way they've thought about reinvention," says IMD's Bill Fischer, co- author of Reinventing Giants (with Umberto Lago and Fang Liu). "They have moved before they needed to: whether it was building a brand reputation for quality, or whether it was about being a great service provider, or being intimate with the customer. Each of those was done earlier, when resources were abundant, and people felt good about the company, rather than later."

The leader behind this energy and inspiration is Zhang Ruimin, chief executive of Haier Group. CEO Zhang, as he is known within Haier, believes in relentless and ongoing revolution. And he puts it into practice. "There are no successful companies," he says, "only companies that remain relevant."

Haier has done just that. During the 1980s, Haier dedicated itself to brand building. In the nineties the focus shifted to diversification with a variety of mergers and restructurings. The Haier refrigerator brand was extended to a range of other home appliances – washing machines, air conditioners, microwave ovens, televisions, computers and more.

From there, Haier moved to internationalisation with an emphasis on localised research and development, manufacturing and marketing. Its international moves were bold – eschewing easier and closer markets, it headed to the United States and Europe, highly competitive markets, with high quality expectations. Following on was Haier's global brand stage, its acceptance as a powerful worldwide brand.

This ability to come up with a motivating and directing North Star is not unique. General Electric did something similar under Jack Welch in the 1980s and 1990s. Welch was a great communicator and each period of his tenure was marked by a clear and understandable aspiration or target – for example, being number one or two in every market GE competed in. Some dismiss this as a catchphrase or a vision, rather than a strategy. Whatever the semantics, it is a powerful means of focusing attention on what the company needs to do.

Leverage knowledge about customers

Few people question the importance of understanding and leveraging customer insights and megatrends for any business purpose. Yet, a global study conducted for Accenture Interactive reveals that less than 60 per cent of all companies directly involve their customers in developing better customer experiences. Furthermore, the companies that are leveraging and mastering customer experience in their transformation journeys realise higher rates of success in market differentiation, scale and efficiency, customer loyalty, revenues, return on investment, and cost savings. What is clear is that there is a strong need for more effective outside-in approaches to transformation initiatives.

What is notable about a company like Haier is that the customer is at the centre of its journey. In the 1990s, Toyota and other quality pioneers led the way to Zero Defects. Haier takes this production standard and, instead, talks of Zero Distance. It aims to cut down the distance between consumers and creators. For this reason, it removed entire swathes of middle managers. Now, Zhang Ruimin is talking about the UX Cloud, the user experience cloud, which provides the best, seamless experience for users.

Or consider the American agri-industrial business Archer Daniels Midland (ADM). Over a century old, ADM found that its growth opportunities and margins were diminishing as the dynamics of its industry changed. It returned to basics – things that had been increasingly overlooked – and invested time and money in figuring out the key trends and markets so that it could really understand the new competitive environment.

Once ADM started looking more rigorously at the new world order, it found increasing demand for natural flavour and ingredients and greater worldwide protein consumption. This informed ADM's strategy. It acquired companies with expertise in the emerging areas and built up expertise and infrastructure that reflected the marketplace reality. It increased the diversity of its product portfolio and developed a global food processing business.

Adopt agile ways of working

A third key block highlights the need to adopt a flat, adaptable and cross-functional transformation operating system that enables speed and mobility for the employees driving the change. It is clearly very difficult for established companies to shift structures and ways of working. This challenge demands ambidextrous ways of working, the ability to do two potentially contradictory things at the same time. At its heart is the ability to transform the organisation while keeping up with the core business. This is what we call the "the two-speed model" companies need in order to be able to keep the business while changing it. This requires business agility capabilities.

Global research conducted by the Project Management Institute (PMI) identified key strategies to help organisations develop agility competences:

- Quick responses to strategic opportunities
- Shorter decision / production review cycles
- Focus on change management
- Integrating the voice of the customer
- Focus on risk management and anticipation
- Interdisciplinary product teams
- Elimination of organisational silos
- Contingency planning
- Use of interactive project management practices
- Leverage technology

Mastering all this is unquestionably highly demanding. But the number of examples of traditional organisations that have successfully transformed themselves is growing.

In 2012 Haier announced its entrance into a fifth development stage, named networking strategy. “The internet mindset for a business should be a zero distance and networked mindset,” Zhang Ruimin explained. “The internet has eliminated the physical distance and enabled businesses to become networked. The competitive tension among a company, its employees and its partners should be defused with the aim of building a collaborative, win-win ecosystem.” And now, Haier is in stage six: what it calls an ecosystem of micro-communities, leveraging many of the agile business traits such as an operating system consisting of small, autonomous and self-managed teams. As this has been widely successful and brought Haier closer to the customers, Zhang Ruimin is already laying plans for the next corporate refresh.

Another example is the ING Group. Back in 2015, ING identified the need for more effective ways to deal with hyper competition, regulatory challenges, and market shifts. The Dutch bank launched the program “One Way of Working”, a strategy that incorporates the principles of “agile” methodology to improve flexibility, innovate faster with shorter time to market, minimise handovers, and provide employees with greater freedom and responsibility than in a traditional company approach.

They started by shifting the organisational structure. ING created 350 nine-person squads — self-directed and autonomous teams comprising representatives from various functions, from marketing to IT. These small teams have end-to-end responsibility for specific, customer-focused projects. At the end of a project, squads are disbanded, and the members arrange to work in other squads.

Collections of squads, totalling no more than 150 people, are called tribes, and are united in a common purpose. For example, within the tribe responsible for payments, employees may work on credit cards, payments and merchant payment solutions for Dutch and Belgian retail and wholesale banking customers.

This resulted in a more effective operating system and an organisational structure that enabled collaboration and fast decision-making. The way the teams worked better fits the pace of change and means they are better equipped to overcome different business challenges.

Notes

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