Why Many Transformation Efforts Don’t Achieve Breakthrough Performance

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Introduction

Today's intensely competitive business arena and the increasing pace of change in technology place companies in a time of unprecedented transformation, shaping and reshaping the way they do business. KPMG's 2016 Global Transformation Study estimates that **96 percent** of the 1,600 surveyed companies are undergoing or planning some type of transformation, and many participants predicted they are entering a mode of continuous transformation.

But the challenges to this new state are formidable, and most transformation efforts fail:

- 47 percent of the KPMG surveyed companies stated they will not be able to realize sustainable value from their transformation
- A McKinsey study in 2013 found that **70 percent** of transformation efforts fail
- Among the 30 percent that succeed, "success" actually meant they either broke even or finished the change program; but they didn't deliver the anticipated business results

No company should undergo the challenge, effort, and expense of transformation only to break even or remain in the same relative competitive position.

All companies reach a point where their current business approach is fundamentally challenged and at risk of not delivering future success, no matter how successful they have been or for how long. Even iconic companies. IBM went from adding machines to mainframes; then just on the brink of collapse, the business transformed from mainframes to software and services. Kraft Foods, the largest food and beverage company in the US, began underperforming and went through a three-year transformation to become nimble and organize for long-term growth. Microsoft, despite its longstanding triumphs in desktop computing, is still in the midst of transforming to a mobile world. And to compete with nimble startups born in the cloud era, software giant Oracle is transforming its business to a cloud model.

New technologies put companies at risk for being overtaken by competitors. New market entrants can react faster since they do not have constraints such as sunk investments or concerns about cannibalizing existing business to take into account in their decision making. Companies need to move with speed and courage to find ways to respond, expand their capabilities, and deliver new value to customers.

Is Your Company Experiencing Any of These Situations?

- Need new capabilities and/or new market approach
- Struggling to achieve expected value from M&A activity because it requires changing the existing business assumptions
- Facing a commoditized market and need to offer differentiation
- Dominated your market for years but now need new growth vehicle or entry to new market
- Currently at risk because of underperforming
- Need a technology shift to deal with obsolescence, but it requires a new business model
- Trying to achieve product innovation faster
- Product company needing to move to a services model and sell new value proposition

Why Do Most Transformational Efforts Fail?

There is a difference between change programs, transformation and breakthrough performance. A performance breakthrough achieves a dramatic change in the competitive posture of the company.

But many change programs are not designed at the outset to drive significant performance improvement. If a company attacks a change initiative's challenges with the wrong toolset, the wrong mindset, or does not address the correct set of challenges, there is no way it should expect to get the intended results.

A breakthrough performance achieves a dramatic change in the competitive posture of the company.

Most change programs have a major business outcome that is the initial impetus. But when executing toward that outcome, the company's primary focus is on getting the change program done. In contrast, achieving a breakthrough performance requires focusing on executing the change in a way that makes sure the company gets the desired performance results. Achieving this objective requires doing things differently.

For example, there should not be a rigid plan. The journey to breakthrough performance starts down a path that leadership assumes will be right, but the path may change as the journey evolves. And at the outset, it's necessary to challenge core business assumptions or status quo and embrace modified or new business models.

Not understanding approaches, mindsets, and tools that address challenges in the journey to a breakthrough performance leads to low success rates.

Every transformation initiative (or change effort) has an inherent set of challenges to address on the path to success. There is a direct correlation between how organizations typically approach challenges with change and the level of success an initiative will experience. Not understanding what is required from a change perspective and the approaches that are used to attack the challenges leads to low success rates and the shockingly low lack of results that companies get from their investments in initiatives that are intended to have a transformational effect.

Your company has a choice: It can achieve a little impact with incremental change, or it can become more courageous and achieve a big impact on competitive posture—a breakthrough performance. Achieving the bigger reward carries bigger risks and requires a different approach. This paper lays out such an approach. The paper explains:

- The change continuum – four types of change, including real-world examples
- How breakthrough performance differs from the other types of change
- Challenges and the tools to address the challenges and drive a breakthrough performance outcome

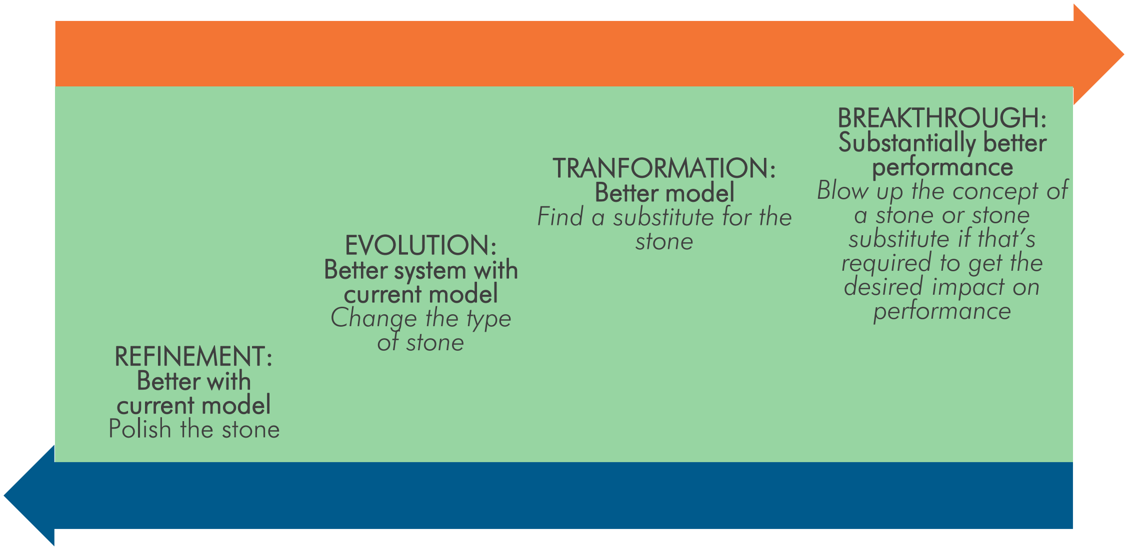
Why Do Most Transformational Efforts Fail?

As Exhibit 1 illustrates, there are four types of change. Moving along the continuum, the initiatives have a greater potential for impact but also a corresponding lower level of execution certainty, thus requiring that a company be agile and flexible.

EXHIBIT 1

The Change Continuum

Source: Everest Group



To help explain the differences in the four types, let us step through the reasonably well known case of Blockbuster and Netflix.

EXHIBIT 2

Change continuum as demonstrated at Blockbuster and Netflix

Source: Everest Group

Company	Type of Change	Change Initiatives
Market force - Netflix entered the market in 1997 as a new competitive threat to Blockbuster		
Blockbuster	None. It felt confident since it already dominated the video-rental market.	
Netflix	**Evolution** *Goal: Achieve improvements with a better system with the current model*	Proposed partnership in 2000. Netflix would run Blockbuster online and Blockbuster would promote Netflix in its stores. Blockbuster declined
Market force - Technology shift: non-theatre movie delivery shifted from VHS tapes to DVDs		
Blockbuster	**Refinement** *Goal: Achieve modest improvements with better execution of current tasks with current systems*	▪ Better real estate choices for store ▪ Refined customization of inventory to local markets ▪ Gained timely access to desirable content
Netflix	**Transformation** *Goal: Find a better model* Saw the technology change as an opportunity	▪ Realized opportunity to lower costs and improve customer satisfaction by offering subscriptions instead of rentals and late fees ▪ Began shipping DVDs by mail

Company	Type of Change	Change Initiatives
Market force - Customer expectations changed		
Blockbuster	**Refinement** *Goal: Achieve improvements through small changes that would not necessitate changing the business model. (Late fees were a significant source of profit, and the company had sunk significant investments in real estate.)*	▪ Attempted shipping DVDs by mail but quickly realized success required new systems, business model change, and a new distribution channel ▪ With customer traffic and profits down, it began offering candy and toys in the retail stores
Netflix	**Evolution** *Goal: Better system with current model*	▪ Established rapid distribution channels ▪ Introduced personalized movie recommendations
Market force – Technology shift: high-speed Internet available in homes, initiating video streaming and the decline of the DVD market		
Netflix	**Transformation** *Goal: Find a better model. (Netflix had new competitive threats from Amazon and cable and TV companies.)*	▪ Recognized the need to cannibalize its core DVD business and in 2007 offered instant video streaming to compete with new competitors ▪ Also offered TV content
Blockbuster	*Unsuccessful in making the change to video streaming and filed for bankruptcy in 2010*	
Netflix	**Breakthrough performance** *Goal: Change business model to ensure breadth of access to video content and create a market differentiator*	▪ Established partnerships with vendors of tablets and other internet-connected devices ▪ Secured a differentiator and sustainable advantage by developing its own original content

As mentioned previously, the change environment is four distinct types of change, not an evolution from one to another. For example, when Netflix decided to differentiate and create a sustainable advantage by producing its own content, there was nothing about the previous business model that prepared Netflix for a content-creation play.

If Netflix had not gone into creating its own content, it would have achieved some improvement, but its relative position in the market would not have changed. Netflix did not fundamentally change its competitive positioning with a breakthrough performance until it looked at what it could do to completely change the game.

The next section of this paper explains how to be like Netflix instead of Blockbuster—how to achieve performance breakthrough results instead of just achieving a change. This requires making deliberate decisions up front around the intent of the change effort and how to approach it, as well as how to manage the change program and address the accompanying challenges. Companies often overlook these up-front decisions. The next section of this paper explains how to make those decisions.

How Leaders Manage a Change Initiative Affects the Ability to Achieve Breakthrough Performance

As the KPMG and McKinsey studies found, most companies do not achieve the business outcomes and breakthrough performance that they want from their change initiatives. Why not?

The four types of change are very different and thus require different decisions on how to proceed toward the objective and how to address the types of challenges corresponding to that type of change.

A common problem is that company leaders think they can project manage their way through the four types of change as though it is an evolution. This is a mistaken mindset that leads to disappointing outcomes. As Exhibit 1 portrays, each of the four types of change are separate and do not depend on outcomes from one of the other types or even having gone through one of the other types first.

As shown in Exhibit 2, Netflix actually undertook all four types of transformation in the change continuum. But the company approached and managed each type of change and accompanying challenges differently to achieve the desired outcomes. There is no way Netflix could have managed those multiple initiatives in the same manner. If it had tried to do that, it would not have achieved the breakthrough performance.

Management Characteristics of the Four Types of Change

When it comes to change, most companies engage in practices that include:

- Doing some market research to learn what is possible based upon what others have done
- Building a theoretical business case to justify the funding and other resources required for the initiative
- Developing a detailed plan that outlines all of the required activities and milestones
- Engaging the organization according to the plan
- Reporting on progress of activities and budget relative to the plan

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- Implementing a change management process to gain approval for deviations
- Establishing and executing an internal and external communication plan to keep relevant stakeholders updated on the progress against plan

While there is nothing inherently wrong with these practices, companies do not get the desired business results from these activities when their initiatives are transformational or aimed at a breakthrough performance.

How do the management activities differ through the change continuum?

Refinement and Evolution. These types of change are similar and are typical change programs. They are linear, and the objective a company tries to accomplish is very definitive.

Because the objective is definitive, it is easier to manage the program. The leaders know exactly what the path is to get to the desired outcome because there is no need to challenge the business model and maintaining the status quo is not a problem. They can see exactly what the end point is, know exactly what it will take to get there, and can exactly predict the timeline. Therefore, they can create a very structured plan. (Examples: "We'll take three months. We'll implement this new technology and train people.")

Blockbuster and Safelite Glass are examples of the Refinement type of change (better with current system). Safelite wanted to be the biggest retailer in the auto glass industry and sought to accomplish that objective by acquiring its biggest competitor, Vistar Incorporated.

National Geographic is an example of the Evolution type of change (better system with current model). Known for presenting information through its beautiful color photographs since 1914, the magazine began losing its market share when younger consumers preferred different media platforms than a print magazine. Nat Geo diversified into TV specials and then later diversified into online content.

Transformation. The Transformation (find a better model) type of change differs. If company leaders manage this type of change the same way that works for the Refinement or Evolution types of change, they could get through the transformation but not achieve the desired results.

Managing a Transformation type of change requires agility. It necessitates making changes to the business that challenge the status quo, the business model, and underlying assumptions in order to drive significant improvements in business performance. It is essential to define up front what "success" looks like (the performance impact the company wants to achieve) and to have clearly defined goals and objectives.

But the journey to the desired outcome is less direct than in the Refinement and Evolution types of change, so the management plan cannot be as structured.

We can look to Progressive Insurance as an example of Transformation (find a better model). Progressive Insurance in 1991 was in a mature industry with commoditized products. It created a new way of doing business through differentiated services and thereby grabbed market share from its competitors. For example, the company introduced 24x7 claims service (even going to the scene of an accident), a cutting-edge auto insurance rate-comparison shopping service, the ability to purchase an insurance policy immediately by phone, and a service to help customers find financing for a replacement vehicle. It is now the third-largest auto insurer in the US and is profitable.

Breakthrough Performance. The path to get to a breakthrough performance is not straight because, at the outset, the leaders do not know exactly how to get to that impact. It is a journey, not a change project. The journey approach cannot be a structured plan, but it must be managed. It is a much more strategic effort that requires aggressive executive sponsorship, leadership, and engagement throughout the journey. There will also be challenges in juggling competing interests related to running the core business and driving the transformation.

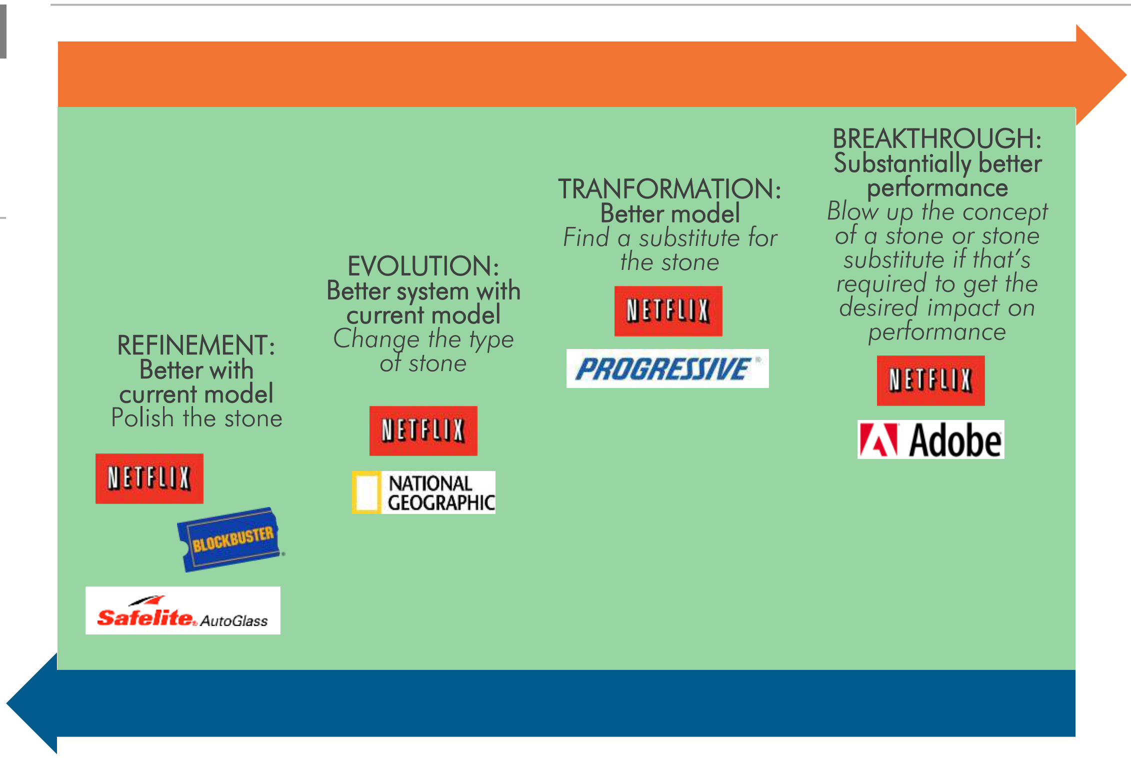
> The path to breakthrough performance is not straight. At the outset, the company does not know how to get to that point. The approach cannot be a structured plan, but it must be managed.

Along with Netflix, Adobe Systems is a fine example of achieving a breakthrough performance. Adobe's leaders saw that digital technologies were in great demand and would be a key differentiator in its market. The company hit performance out of the park when it changed the business model for its creative software suite from traditional perpetual licensing to subscription-based models and moved the software from the desktop to the cloud.

EXHIBIT 3

Achieving breakthrough performance

Source: Everest Group



As stated before, the level of execution certainty decreases as the level of business impact increases. The outcome results of an initiative are a direct consequence of how the company leaders manage the objectives and accompanying challenges.

Critical Factors for Success

While it may seem that changing a company's fundamental beliefs and its business model would lead to a breakthrough performance, that's not necessarily true. A breakthrough outcome is possible only if the leaders properly execute the initiative.

Several critical factors contribute to success including the following, for example:

- The business case used to justify the initiative cannot be theoretical. It is difficult or even impossible to track the details of the desired performance improvement without establishing a baseline

- Beginning the initiative without first obtaining the aggressive commitment and cooperation of stakeholders is a major mistake. In a January 2007 Harvard Business Review article about leading transformational change, John P. Kotter, Konosuke Matsushita Professor of Leadership, Emeritus at Harvard Business School, wrote that he had watched more than 100 companies (e.g., Ford, General Motors, British Airlines) try to transform how they do business so they could cope with a challenging market. He stated that more than 50 percent of the companies failed in the first phase (getting commitment and cooperation)

- Unwillingness to challenge underlying business assumptions and the status quo. As an example of how this can sabotage the desired outcome, think of acquiring a company with the hope of synergies and new business opportunities but keeping the organization structure the same, which will not support a new business model for the new opportunities

- Sub-optimizing the vision and making tradeoffs to make sure a senior executive is well taken care will not achieve the desired outcome. Adjusting along the way to placate stakeholders is a mistake. Bowing to their demands will cause the initiative to veer off course in terms of achieving the desired impact. At the conclusion of the initiative, the company may end up with a new way of doing things that actually wasn't designed to achieve the desired results.

- Leaders must take care to not take their eyes off the ball (the performance breakthrough). They often tend to focus on activities they think they should be doing or on making sure the stakeholders feel good about what the company is doing and thus lose track of the end goal.

How can leaders determine when their management approach for a change initiative is not designed for a breakthrough performance or know when they are not managing the challenges to change in a way that will lead to a breakthrough performance? Exhibit 3 displays some indicators.

EXHIBIT 4

Distinguishing breakthrough performance management from change program management

Source: Everest Group

Essential Characteristics to Achieve a Performance Breakthrough	Factor	Characteristics of Mistaken Approach *(The approach isn't designed for a breakthrough performance; leaders are not managing challenges to change in a way that will lead to breakthrough performance)*
▪ Willingness to challenge underlying assumptions ▪ Willingness to challenge the business model and the status quo ▪ Willingness to challenge any limiting beliefs the organization has ▪ Willingness to change the company culture ▪ Willingness to change roles and functions of the people	Mindset	▪ Thinking that the existing business model will work ▪ Heavy emphasis is placed on protecting the current revenue stream—even with the knowledge that it is declining ▪ Refusal to focus effort and investments behind critical efforts in order to hedge bets (not willing to stop doing anything) ▪ Taking sunk costs into the equation when developing the strategy
▪ The path requires a more agile approach ▪ Start down a path you think is going to be right; but as things evolve, you may change that path	Project plan and flexibility	▪ Follow a rigid, structured path. ("Tell me exactly what I have to do over the next three months.") ▪ Performance against the project plan is paramount. Progress against activities is rewarded, even those that do not produce results. ▪ Adjustments to the plan are discouraged due to perceived risk, even in the face of new insights. ▪ A senior leader says it would be much easier to just make an adjustment" (to something the leader is more comfortable with) ▪ Staying on the current path even when it becomes clear that it will not deliver the desired results.
Focus on executing the change in a way that ensures you achieve the desired outcomes	Focus	Emphasis is on getting the change program/initiative done

While understanding where a company is on the change spectrum is a necessary step, it is by no means sufficient for realizing the business value potential of a performance breakthrough effort nor the challenges that will arise in the effort to capture that potential.

As an example, Safelite Glass, mentioned earlier for its Refinement initiative, encountered challenges of customers feeling ignored during the merger integration. As a result, the company lost a huge renewal contract with Allstate. Besides change-resistant employees, Adobe's challenges included dissatisfied existing customers that felt the new model forced them to "rent" the software, which therefore would eventually cost them more.

The challenges on the path that leads to breakthrough performance are different from the challenges in other types of change, so companies must address them differently and use tools/tactics that are proven successful in driving this kind of change. Although this white paper is not intended to be a comprehensive discussion of such challenges and tools, Exhibit 4 presents an initial overview.

EXHIBIT 5

Overview of aspects of challenges in change initiatives

Source: Everest Group

	Refinement (Better with current system)	Evolution (Better system with current business model)	Transformation (Better model)	Breakthrough Performance (Substantially better performance)
OBJECTIVES	Achieve modest improvements in results that come from executing the current tasks better with the current systems	Achieve significant improvement in results from implementing different tools and/or approaches	Achieve results by fundamentally changing the business model	Achieve results by making a fundamental change in the business model
CHALLENGES	Improving knowledge, skills, and processes	▪ Gaining new knowledge ▪ Learning to apply skills differently ▪ Challenging the status quo regarding how business is done	▪ Challenging underlying business assumptions to achieve new types of success ▪ Maintaining agility and flexibility to rapidly adapt approach as learning takes place and the concepts mature	In addition to those in Transformation: ▪ Being too focused on change vs. results ▪ Discomfort with ambiguity ▪ Need to challenge or change fundamental beliefs
COMMON TOOLS	▪ Best practice implementation ▪ Capability assessments ▪ Training ▪ Algorithm refinements	In addition to those in Refinement: ▪ Broad staff engagement ▪ Pilot programs	In addition to those in Evolution: ▪ Systems thinking ▪ Cross-functional collaboration ▪ Stakeholder management ▪ Portfolio management of initiatives	In addition to those in Transformation: ▪ Executive sponsorship/ leadership ▪ Well-defined strategy ▪ Agile approach ▪ Design thinking ▪ Ideation ▪ Eliminating bureaucracy ▪ Empowering employees ▪ Process reengineering

Conclusion

Today's heightened emphasis on business transformation creates both opportunities and challenges. New approaches to serving customers means that companies need not devolve into the steady state of low profits common in mature and commoditizing markets; they can reinvent themselves and put themselves on a new path to growth. Brands will no longer be locked into the limited space of their past but will be allowed to, and even expected and rewarded for, change.

However, achieving a breakthrough performance outcome from a change initiative is a vexing problem. As pointed out earlier, studies reveal that the vast majority (70 percent) of companies that undertake a transformational change end up in the failure bucket. They abandon the program or lose money on it, and they certainly do not achieve the results that they wanted. And more than 50 percent fail in the first phase. Of the 30 percent that succeed, many admit they determined "success" by the fact that they did not abandon the program or they broke even. This kind of success is terribly unsatisfying and costly (including possible loss of knowledge, skills, damage to relationship with external entities, etc.).

While it may seem that changing a company's fundamental beliefs and its business model would lead to breakthrough performance, that is not necessarily the case. In fact, a company can set a vision for a breakthrough outcome, have all the necessary intentions and aspirations, but still fail to get there. A breakthrough outcome is possible only if the initiative is executed properly.

This paper presents an approach to managing a change initiative that drives transformation and a breakthrough performance. Following this approach and using tools that address the accompanying challenges enable a company to move beyond limited success and actually get the intended return for changing the way the company does business.

About Everest Group

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