




Five transformation essentials for CEOs





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Five transformation essentials for CEOs



The pace of change has never been this fast; yet it will never be this slow again.

Canadian Prime Minister Justin Trudeau,
World Economic Forum Annual Meeting,
Davos 2018

There would be few CEOs who could disagree with the above statement. Digital transformation is revolutionising how business is conducted; established incumbents are being challenged by new entrants; and environmental, social and governance (ESG) issues are driving shareholder expectations. A global pandemic has forced businesses to adopt hybrid ways of working. Geopolitical instability has affected labour mobility and the ability to trade. With constant disruption now a given, PwC sees 2022 and 2023 as years of acceleration. The best organisations will move fast to reshape themselves, investing to build the right capabilities for long-term performance.

Whether you are considering selling or acquiring a business, deploying new technology or initiating a large-scale profit improvement program, our aim in writing this article is to increase your chances of success. Knowing that two in every three corporate transformations fail to reach (or sustain) the desired outcome, we want to tilt the odds in your favour. In recent years, PwC's Strategic Enterprise Transformation team has partnered with CEOs and executive teams to undertake more than 30 transformations worldwide. They encompass diverse industries including financial services, telecommunications, mining, healthcare, the not-for-profit sector and government. Projects have taken place in Australia, New Zealand, India, Sri Lanka, Japan, South Africa and the United States.





A simple caveat to the CEO or senior executive who says, 'my situation is different and unique'. That might be true; however, we have experienced first-hand three important lessons:



What it takes to succeed at transformation is largely the same, regardless of culture, industry or situation.



CEOs who fail in a transformation repeat many of the same mistakes in how they run the organisation on a day-to-day basis.



CEOs who succeed do not merely deliver superficial change. They transform their organisation's ability to respond to events, seize new opportunities and continually improve.



So, let's focus on what it takes to succeed. This paper offers CEOs five clear steps:

1

Recognise and make the most of the **moment in time** between deciding on a bold transformational strategy and setting your organisation on the path to implement it.

2

Ensure you have a clear and compelling view of your organisation's **full potential**.

3

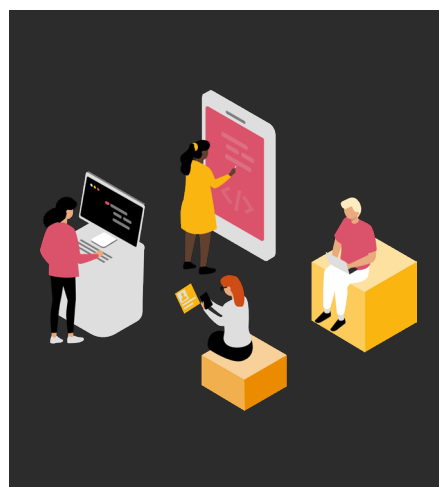
Purposefully build an in-house **execution engine** to galvanise your organisation to deliver ongoing transformation.

4

Strengthen your **organisation's fitness** to make transformational change and ensure it sticks.

5

Look forward to **reset and do it all again**, but now from a different starting point and with more confidence in what can be achieved.



Failing in any one of these aspects will, in our experience, lead to a transformation that also fails. Each is crucial and complementary. Investing time to understand all five will ensure you are adopting best practice. Remember, the aim is to make sure you are a member of the one-third whose transformation succeeds!



Part 1

Recognise and make the most of the moment in time

The short period of time between deciding on a bold strategy and acting on it is when critical decisions are made. Too often, CEOs miss or glance over this moment in the excitement and hubris of taking on a major business transformation. The pressure to execute and 'get stuff done' is high. In short, what you decide in these four to six weeks will likely have more impact on the success of your transformation than anything that happens before or after.

Advice for CEOs on how to approach this moment in time



Be aware that the decisions you're about to make will likely shape your career and define your legacy. So, be willing to be bold, face criticism and do things you may have never done before and that may feel uncomfortable. While you need to be smart, you don't want to be too cautious.



Understand what it means to fundamentally change your organisation to be different, not just an incrementally better version of how it looks today. This is your opportunity to make it happen so put it all on the table and let go of history.



Listen to people who have done it before. They do not have to be experts in your industry. Delivering complex, enterprise-wide transformations is a learned skill that few people have done well, so ensure you take advice from those with a proven track record.

Remember that what you are about to do will become what you do every day from this moment on. The goal is to deliver change faster and better than your competitors, and catapult your organisation's continuous embrace of change into a source of sustainable competitive advantage.

Pitfalls to avoid

The most common mistakes in transformations result from poor decisions that could have been avoided during the moment in time:

- **Not making tough decisions about people** - be assured, these decisions do not get any easier and failing to make obvious changes can threaten the credibility of the entire transformation. Even successful CEOs say, 'I wish I had moved faster on those critical, tough decisions about people'.
- **Sticking with a business-as-usual (BAU) approach instead of embracing disruption** - those who choose a BAU approach are often disappointed when they get BAU results. They underestimate the level of change required to achieve desired outcomes. It could mean an overhaul of accountabilities, centralising or decentralising decision-making powers to ensure key sign-offs occur faster and by the right people. Non-core activities might be better outsourced so they can be delivered at speed. Higher expectations may need to be enforced on executives, to get them to move faster from decisions to completed actions.
- **Holding the strategy close to a core few and not devolving accountability** - while the strategy is often held by the CEO plus a small group, all executives need to feel activated and empowered. Too often, the broader executive team may be notionally involved, but not given clear and full accountabilities. The simplest way to achieve this is to invite each member of your executive team to articulate what business outcomes they will achieve as part of the transformation, and by when. The CEO is heavily exposed wherever there is a gap between the strategy and the sum of its parts

As mentioned, the moment in time can be four to six weeks. For CEOs who seize this window effectively, it can be much less. For those who are less confident, it can either be very short because they miss it, or very long as they debate the pros and cons. Our experience is that a few weeks provides enough time to focus on the important choices, set up the right infrastructure and ignite momentum. Much longer and the organisation starts to lose confidence and the big idea starts to become less interesting.



Part 2

Understanding your organisation's full potential

Most CEOs set out to make a big difference when starting a transformation. The aim might be to create a much better business that serves customers in new and exciting ways; to harness the full capabilities of its workforce; and generate a new level of financial return for owners.

Too often, however, CEOs fail to make this desired step change by remaining wedded to conventional or incremental thinking. The transformation devolves into an effort to fix the basics or deliver incremental improvement, akin to so many other past attempts. This is why knowing the art of the possible is essential.

When asking CEOs about their vision for their organisations, the conversations generally turn to 'where do I begin?' We suggest the answer should start with a clear and compelling view of your organisation's full potential to transform.

Based on the transformations we advise on today, achieving full potential could include:



Creating a digital organisation (also known as an 'above the line' technology investment) – how can you reconceive your business by leveraging technology, ubiquitous connectivity and people's changing preferences for engaging with services and brands? This involves reimagining how your organisation markets and sells to customers using digital as its primary channel; and how you empower, develop and deploy your own workforce to match. This customer-facing transformation takes courage and expansive thinking as it challenges almost every aspect of how the business operates today.



Digitising the core (also known as a 'below the line' technology investment) – how can you streamline your core business and operational processes? In most cases, this will enhance the experience for both employees and customers, as well as deliver operational savings. However, many organisations struggle to get such transformations approved for one of two reasons. First, they lack the 'full potential' perspective on impact and timing and so underestimate the benefits, making the investment look weak. Second, the management team lacks execution credibility, leading the board to heavily discount the benefits projected in the business case.



Capturing continuous productivity gains – how can you systematically deliver both top and bottom-line (as well as balance sheet) productivity? Our experience shows that most organisations have a 7–20 per cent profit improvement opportunity that can be largely delivered within six to nine months. Ideally, in designing transformation programs, this potential can create the capacity to help fund the transformation and build momentum across the organisation for change.

A transformation should be more than a short-term 'sugar hit' that cannot be sustained. For the bold and aspirational CEO, the conversation quickly turns to 'what's next?'

Set targets based on full potential

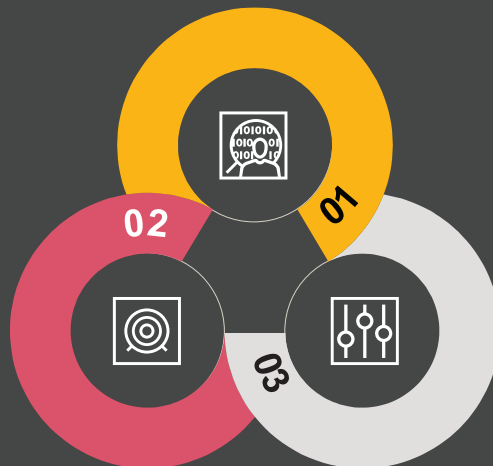
Your executive team should be committed to achieving clear transformation targets. This typically takes some coordination as they are being asked to embrace a level of change almost always beyond what they feel comfortable with (if it isn't, then you are aiming too low). It requires a leap of faith and they will need to trust the CEO, each other and the organisation's support.

This target-setting becomes the basis of the contract that individual team members and the executive as a whole sign up to achieve. Often, we have seen a signing ceremony used to energise and excite the organisation about the transformation journey it is embarking on.

Let's recap where you are now:

1

You have an independent, fact-based view of your organisation's full potential, reflecting a step-change improvement in operating and financial performance. Some of your executive team will think this is possible; perhaps others, less so.



3

You have decided how the organisation will now move into the execution phase.

2

Your executives will have aligned behind a set of transformation targets. Some will believe they were forced into this and may not be transparent about how they feel.

Ensure everyone is sufficiently on board

Your executive team members need to decide whether they are on board. Ideally, they will be excited and impatient to step into the future. They will want to lead change and get going right now; and they will have made achieving the transformation outcomes part of their personal objectives and aspirations.

As CEO, you need to decide if you have enough people sufficiently on board, or not. If you do, what will you do to get the rest fully on board? If not, then what interventions are you willing to make to change this situation?

Building the execution engine

The most significant differentiator of a successful transformation is the ability to act faster and better than the rest. We often hear questions such as 'we don't have a good track record of execution, so what will be different this time?'

CEOs and executives are usually experienced at delivering major change programs. But there is a difference between delivering a program within a division and the complexity of doing so across the entire organisation, continuously. Enterprise-wide change cuts across structures, processes and norms. It challenges decision rights and autonomies. It often cuts out middle management layers in driving change as those responsible for handling everyday transformation initiatives can be much further down in the organisation.

CEOs need to know the transformation has been designed thoughtfully and tailored to the organisation. They also need assurance that individual components are robust. While establishing an in-house execution engine to oversee this change may appear simple and relatively mechanical, it is harder in practice. Being attentive to the nuances is what determines if it will work well. Below are three suggested steps.

1 Build the transformation infrastructure

As CEO, you need to appoint a Chief Transformation Officer (CTO). This is the person who holds executives to account for delivery of both change and business outcomes. It is a unique role that is both demanding and an outstanding opportunity for the right executive. While detailed knowledge of the organisation is a bonus, you should rely more on transformation skills when making a selection (key content can always be learned). Ensure that the executive is seen as a peer by others – presence and gravitas count.

The CTO should also be supported by an independent and dedicated Transformation Office. This has several responsibilities:



Leading and designing the transformation – the Transformation Office structures workstreams, appoints sponsors and leads, defines accountabilities, and then owns and drives the results. This includes an ongoing role to review what is working and what needs to change; then making that change.



Setting a decision-making cadence that makes the organisation 'appropriately uncomfortable' – ideally, the pace of execution is changed such that almost no decision is not escalated and made within a week.



Supporting workstreams to create well-defined initiatives – the organisation needs to know the transformation initiatives it is being asked to complete have been stress-tested and validated sufficiently so everyone can set about delivering the desired results with confidence.



Embedding the transformation toolkit – This could include benefit-tracking software, performance indicators and stage-gate definitions that sequence the project. It is important to ensure that everyone involved is following a clear and robust methodology.

2 Instil belief by capturing immediate opportunities

A concerted, even manic, focus to achieve some quick wins will demonstrate the possibilities of change to the entire organisation. This sets the tone for the transformation and answers the question 'what will be different this time?' It also sets the transformation up to be self-funding, showing a positive impact on profit and cash flow from day one.

Examples of these immediate opportunities typically include areas of external spend where demand can be quickly limited; rapid rationalisation of roles within the organisation; reducing the spend on external labour through removing contractors and consultants (often where they are doing discretionary activities and/or labour augmentation).

3 Ensure transparent executive accountability

As CEO, you need to hold your executives to account to achieve transformation targets from the outset. This needs to involve individual accountability as well as collective accountability. When you see executives hold each other to account for performance across workstreams, this is a big step in the right direction. Their focus needs to be inverted from how many operate today – that is, away from working in silos and towards shaping the future collectively as a team

Some tips to achieve this level of collaboration:



As CEO, give licence for executives to push the boundaries of what can be done across the organisation. While they will quickly hit the limit on what they can do in their own area, seizing opportunities to work more effectively at the intersections of business units will be important to achieve full potential. This encourages and rewards executives who work together and not in silos.



The Transformation Office must bring trust through its authority and independence. That is, by ensuring initiatives are measured accurately and nobody 'marks their own homework'. They are the single source of truth and it is only when the Transformation Office says a dollar outcome has been delivered that it is counted. Minimising debate over numbers and knowing that every number reported has been validated brings a focus to the team on opportunities for improvement versus creating self-serving narratives.

Now move forward

The execution engine you build during this phase of the transformation will serve as an evergreen capability; paying for itself multiple times for years to come. It will stand at the core of success for any future change – from ongoing business improvements to major projects and responding to significant disruptions and events. As for the transformation at hand, the journey doesn't end here. Making the business stronger and better is not a one-off exercise enacted by a standalone Transformation Office. It relies on harnessing the power of the entire organisation, as we explore in the next chapter.

Building core organisational fitness

Most organisations, and the CEOs that lead them, have executed change in some form. It takes courage to embark on a bold transformation agenda, but success ultimately depends on building an organisation that will sustain the desired state. Organisational fitness means building the capabilities needed to both implement the transformation agenda and keep it going. To avoid failure, the journey to be ‘fit’ needs to start from the outset and be built deep and wide across the organisation.

In successful transformations, the strategic direction and workstreams overseen by the Transformation Office cascade into BAU activities. This helps to change people’s attitudes and behaviours. However, fitness is not simply about empowering people in the process of ‘doing the transformation’. It is about equipping people across the organisation with new capabilities to envision and deliver what comes next.

To build organisational fitness to deliver and sustain transformational change, there should be four main areas of focus.

1 Engaging executives and senior management

The execution engine will engage leaders across the organisation in leading the ongoing process of transformation. Beyond this, everyone should be ‘on the bus’. We have already discussed how it is not always possible to have all executives on board from day one. However, this resistance can extend to managers and other employees. The more you recognise these groups and design targeted interventions, the more you can build the organisational fitness required for lasting change:



Enthusiastic supporters – this group typically sees the aspiration behind the transformation and are not weighed down by history or other constraints. Their willingness to take the leap can build confidence and momentum across the organisation.



Outright naysayers – they typically have valid points to consider, often based on the organisation’s history. They challenge with questions such as ‘why will things be different this time?’ Their passion to argue against change is powerful and the challenge is to convert their energy into going ahead.



Silent majority – this group will have people with attitudes ranging from more positive to more negative. The challenge is they are less likely to tell you what they really think. The more you provide people in this group with the opportunity to shape the transformation (often at an initiative level), the more likely they will become part of the solution.

A ‘change story’ is a powerful way to build ownership across the organisation. This is a personal testimony, written and communicated by each executive, which aims to inform others as to why they are personally motivated to embark on the process of change. When a leader can explain the transformation in such an authentic way, this makes it more likely the organisation can sign on. Another technique could be to single out and applaud examples of noble failures, where an individual in the organisation might have fallen short of a significant change, rather than achieving an incremental one. This will make it known that things are different, and that (within reason) the organisation is willing to risk more, to achieve more.

2 Building organisational capability

In our experience, the top 20 per cent of any enterprise will always perform well; the bottom 20 per cent need to be moved on. But careful thought needs to be put into unlocking the 'frozen middle', giving them the capabilities to perform and move the organisation into the future.



The first task is to identify the highest priority capabilities that need to be built. Next comes a rigorous focus on building these capabilities, both through dedicated programs and efforts to rapidly scale the organisation's change capacity using a train-the-trainer approach. The unlocked frozen middle, coupled with specifically identified 'viral change agents', who are strategically peppered throughout the business, are core parts of any successful transformation plan.

Examples of capabilities that organisations might invest in include digital literacy, analytics, productive problem solving, organising effective meetings and sophisticated communication techniques (everything from composing succinct 'top-down' emails to writing a compelling business case). In order to create organisational fitness, every employee should be encouraged to develop new capabilities so they can realise their potential. Given role ambiguity is the biggest killer of performance, this should be supported by clear position descriptions, key performances indicators, bonuses and rewards.

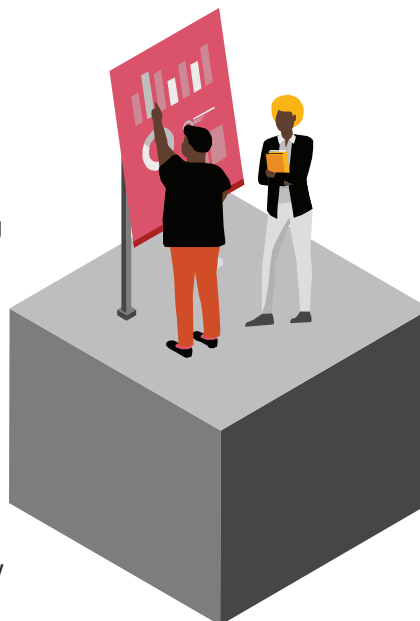
Of course, once established, it is then the task of the organisation to keep uncovering new capabilities that will be needed for longer-term success. The process of capability-building should also be broad and deep. For example, blue collar workers on a factory floor can be motivated if they understand how their work is connected to an organisation's wider purpose – and that their role is essential to the financial performance of the entire team.



3 Individual coaching

In our experience, coaching leaders is vital to transformation success. The leaders we interviewed for our **Beyond Digital** research consistently emphasised they undertook a journey of personal transformation every bit as exciting and arduous as that of their businesses. Usually, this coaching comes from other executives, experienced in driving such levels of change. However, coaching can also be very personal and designed to elevate an executive's individual style and approach. This might involve getting people to reflect on their strengths and weaknesses, their career achievements and disappointments, and any gaps in knowledge and expertise.

In this way, executives learn to set new goals, stretch their thinking and envision new possibilities both within the organisation and even beyond it.



4 Address the underlying organisational culture

No transformation can be complete (or sustained) without understanding and working with the organisational culture. It is important to identify both positive and negative aspects of organisational culture that can help and hinder change. Modifying the culture can typically be achieved through multiple approaches, typically falling into two categories:

- **Formal** – these are the traditional levers management tends to rely on when driving change in an organisation. They include governance, decision rights, decision processes and decision analytics, and structural levers that impact motivation, such as key performance indicators and metrics, rewards and consequences, career models, talent processes and formal recognition. When applied in a cohesive way, employees gain a clearer understanding of the expectations on them. As such, these levers are powerful tools to evolve culture and accelerate transformation.
- **Informal** – often untapped, these levers encourage people to embrace change on an emotional basis rather than simply a rational one. They include norms that decide how people instinctively act and understand expectations on them – so-called unwritten rules, workplace habits and routines. By leveraging people's pride and identity, you can tap into the reason they choose to work at the organisation and the meaning they get from work. These are powerful drivers of behaviour.



Part 5

Reset and do it again

As a CEO, you should be excited – and not afraid – to hear that you need to revisit the source of your organisation’s full potential again and again. One reason transformations are successful is because the organisation doesn’t rest; it takes what it has done and then changes the objectives to do more and do better again. You can be sure that in six to 12 months, what you aspired to achieve will look less significant than it does today, and you will need to set a new aspiration from the higher platform you now stand on.

Why ‘set and forget’ isn’t enough

As noted at the outset, CEOs are operating in a constantly shifting landscape where their ability to deal with change and uncertainty is key to success. Your perspectives on what you need to do should constantly adapt and respond to how your strategies are landing with customers, suppliers and competitors.

In many industries, the ability to identify the need to change and then respond effectively is a major source of competitive advantage. Consider retail banking where it is difficult for a single player to differentiate in areas such as products, pricing and customer service. Any improvements one bank makes over another can often be quickly replicated. So, how does a bank gain competitive advantage, unless it is via scale? The answer is often in the speed with which it can innovate, execute and improve.

Almost always, after six to nine months we see that while the ‘full potential’ view of our clients was a stretch (and often two to three times management’s expectation of what was possible), there is so much more unexhausted potential. Therefore, it is vital to embed the necessity of revisiting your starting point in the transformation design. Doing so forces you to honestly assess what has and hasn’t worked. You can also identify what goals the organisation has unnecessarily stepped back from when you really needed to lean in much harder to make them happen.





Transformation as a core organisational capability

Now picture this: the organisation is getting fitter each day to deliver and sustain the transformation. The goal is to embed this ability to transform as a core capability. We often see this happen through updates to people's role descriptions to include the ability to lead a transformation as a capability required for success. Furthermore, the language and tools built in the execution engine become part of how the business manages all its projects and change. Annual budgets include an expectation that every business unit will deliver a form of material performance improvement (sometimes called a 'productivity dividend').

But most of all, your people are having different discussions – performance-oriented, results-based, and focused on what comes next. You should feel comfortable when your executives are challenging you on your aspirations and the future of the organisation.

Ultimately, the goal is to influence the way your enterprise speaks about itself. When the CEO explains what differentiates the business from its competitors, one reason given is: **'We know how to constantly transform ourselves to build an improved organisation for our customers, people and shareholders. We are exceptionally good at getting better.'**





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