
Defining the Business Change Agenda

Achieving the right blend of innovation, transformation and optimisation

Dale Vile, Freeform Dynamics Ltd, October 2011

Management consultants and IT vendors love to talk about 'business transformation', as if this is the golden key to business success. But is it really true that successful companies are constantly reinventing themselves? Surely effective and sustained execution in an optimum manner is important too? With these questions in mind, we look at how senior business managers from 123 large enterprises across France, Germany and the UK talk about their change agenda, the role of innovation, and how balance is achieved between transformation and optimisation activity.

Key Points

Drivers for change vary by industry but some common motives are seen across the board

The quest for better profitability is the strongest overall driver of change, but is particularly acute in highly competitive and dynamic consumer-facing sectors. Industries making intensive use of physical assets, facilities and labour have a big focus on operational efficiency, and highly regulated organisations confirm ongoing compliance related pressure. Meanwhile, everyone has an eye on cost savings and customer retention.

The nature of change initiatives must be properly matched to business objectives

Change initiatives come in a number of forms, and knowing when to transform or optimise, or whether to innovate or adopt best practice, can be a challenge. Get it wrong and opportunities can be missed or unnecessary time, resource and money spent. The key is to make sure business objectives are always clearly defined so the most appropriate form of change can be selected.

Tactics for success include the smart use of IT, outsourcing, and workforce enablement

When looking at tactics to enable change, the evidence is clear and compelling that IT has a key role to play. High achievers reporting a superior level of process efficiency and alignment are also much more likely to be taking advantage of IT and/or business process outsourcing, which can shortcut the route to efficiency and effectiveness. Those achieving the best results particularly emphasise the role of workforce enablement, and creating an optimum working environment.

Continuous improvement is an important enabler of ongoing performance

However major change initiatives are implemented, there is strong evidence that the continuous improvement approach is one of the most effective ways of ensuring ongoing alignment of business practices with the organisation's objectives as those objectives, along with markets, technology and best practice, inevitably evolve over time.

Most challenges are concerned with management culture, structure and discipline

Disjoints and conflicts between business units along with problems in the area of process and information ownership are called out as some of the most common impediments to achieving results, reflecting the need for more coherent definition and implementation of an overarching operating model. The biggest difference between high achievers and others, however, is to do with 'cultural aversion to change'. Turning this on its head, one of the most important findings of this research is that a positive attitude to change is a key enabler of high performance in business.

The study upon which this report is based was independently designed and executed by Freeform Dynamics. Feedback was gathered via telephone interviews conducted with 123 senior business managers from large commercial organisations across France, Germany and the UK. The study was sponsored by Tata Consultancy Services.

Introduction

In an ideal world, businesses would run like clockwork: precisely, efficiently and effectively, with all of the moving parts finely-tuned and coordinated in pursuit of the organisation's goals.

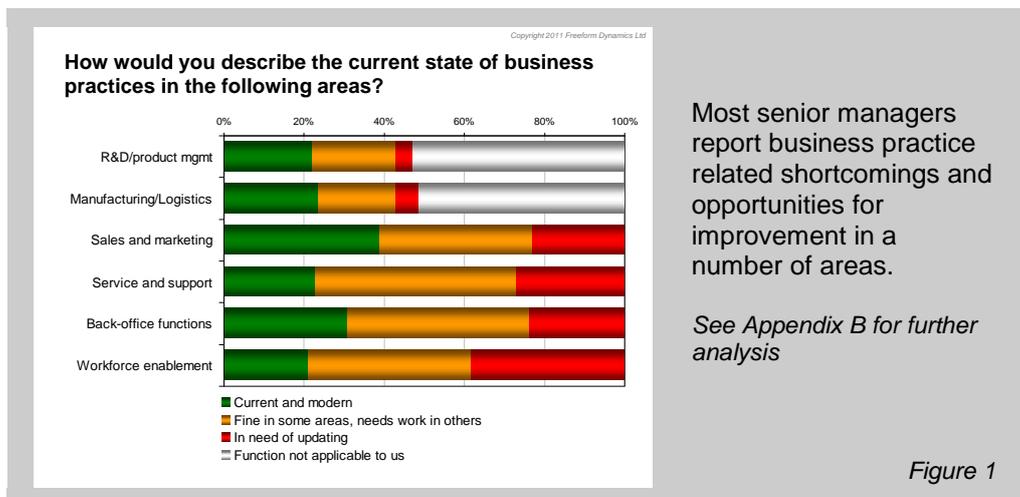
In the real world, it's not quite like that. Even if a part of the business is fully optimised at any point in time, keeping it that way is hard when few things around it remain constant. Whether it's internal or external dynamics altering trading or operational conditions, or the evolution of business best practice and technology rendering existing processes out of date or even obsolete, real world factors mean that few, if any, businesses are fully optimised across all of their activities.

Every now and again, inefficiencies and misalignments accumulate to an unacceptable level, precipitating the need for a major change initiative. Other change initiatives are also required to defend against threats or chase opportunities in the face of shifting market conditions or major market, regulatory or other developments.

Against this background, Tata Consultancy Services (TCS) commissioned Freeform Dynamics to investigate business change and optimisation via a study based on interviews with 123 senior business managers from large enterprises across France, Germany and the UK (see appendix A for details). The objective was to generate insights that would be of use to executives as they plan and direct the change agenda in their own organisation.

The current state of play

If you look around your organisation and see parts of the business running sub-optimally, you are not alone. Of the 123 participants in our study, only one claimed that business operations were current and modern across all of the functions we inquired about. Most senior managers report shortcomings and opportunities for improvement in a number of areas, leading to quite a patchy picture overall (Figure 1).



During our analysis we converted the responses to the question we see here into a numeric score, or 'Business Practice Index' (Appendix B), to allow comparison across different segments.

From this, we were able to determine that there is very little geographic variation in the average state of business operations across the three countries investigated. The UK and Germany score almost identically (both 0.70 on a scale of 0 to 1, against an overall average of 0.68), with France only a little way behind (0.64). One industry, Telecoms (0.82), stands out as being in particularly good shape, and two other outliers, Energy and Utilities (0.60) and Retail (0.57), are noted at the bottom end of the achievement scale.

The point of this analysis is not so much to focus on the stats, but to illustrate that businesses, particularly larger ones, are generally far from perfect in the way they run for the reasons previously discussed, hence the universal need to implement change.

But what are the common factors that drive change in more specific terms?

Drivers for change

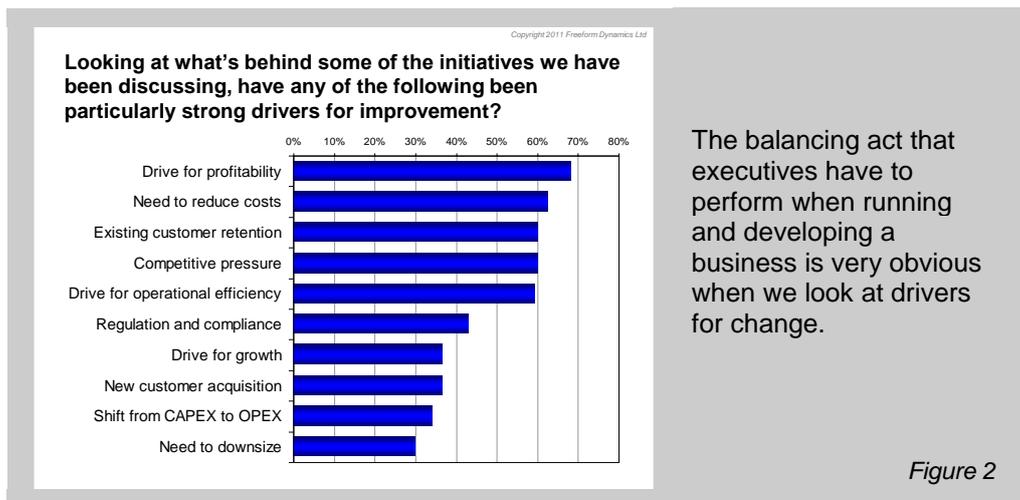
Given recent economic conditions, it is not surprising that a big driver for change is the quest for cost reduction. A number of study participants alluded to this during their conversations with us:

“After the global financial problems, we have to control costs as our main priority”.

“The current economic environment is forcing us to cut costs and resources”.

“We are optimising existing processes primarily to achieve efficiency”.

However, it's not only about cost cutting to preserve resources and protect the company in a defensive manner. Top of the list of drivers for change is the profit motive, and as we look across the other items, the balancing act that executives have to perform when running and developing a business is very obvious (Figure 2).



Looking behind this summary level view, most of the variation we see is again by industry sector. While the drive for better profitability is high across the board, it is particularly encouraging change in Financial Services, as companies look for new ways to make up losses from the recent crisis in the face of high competitive pressure:

“We have had to recognise that profit is first, then it's about keeping customers happy”.

The quest for increased profit and the influence of competitive pressure is also a strong driver of change in the Telecoms and Media sectors, as both are grappling with how to make money from rapidly commoditising digital services in cut-throat global markets:

“TV and media have changed dramatically in recent years. We need to keep developing ourselves and produce value and diversity”.

These are just examples of comments made by respondents on drivers for change, and while we don't have room to discuss all of them here, we can make some general observations from the feedback and stats as follows:

- Industries making heavy use of physical assets, facilities and labour, particularly Manufacturing, Transport and Retail, have a very high focus on change to achieve better operational efficiency.
- Highly regulated industries, including Financial Services, Life Sciences & Healthcare, and Energy & Utilities, confirm that compliance is still responsible for a lot of ongoing change.
- Pretty much everyone has an eye on opportunities to implement change that reduces operational overheads and costs, though for most, this is a secondary rather than primary goal.
- On the whole, the focus across all industry sectors is more on change initiatives that drive customer retention rather than on those concerned with new customer acquisition.

Having got a feel for why change is necessary, let's now move on and look at how it is executed.

The level and nature of change

When considering change, an obvious place to start is with major initiatives that are ongoing or planned, and we see examples of these associated with all areas of the business (Figure 3)

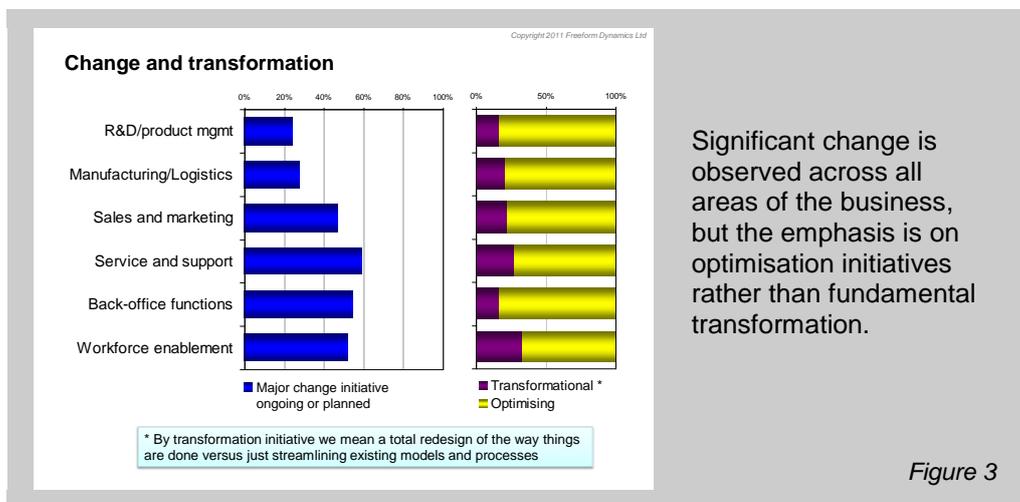


Figure 3

On the right hand side of this chart we can also see an indication of the ratio between transformational and optimising initiatives. While it is commonly assumed major change projects are usually to do with introducing totally different ways of working, this is not the case. The bulk of activity is concerned with optimising what's already there. This will typically be through rationalisation, simplification, consolidation and/or automation of existing processes.

In most cases, the optimising approach is perfectly appropriate, e.g. projects to remove redundant operations as a result of merger or acquisition, initiatives to improve visibility and tracking for compliance purposes, or simply the implementation of new technology options or best practice that enable increased efficiency. However, some of our respondents suggest that genuine transformational projects are sometimes avoided simply because they are too hard to pull off:

"Fixing the problems in piecemeal fashion is common because you don't really want to make the difficult decisions".

"It is easy to talk about strategic objectives and business process changes; actually doing it is more difficult".

Another important factor when considering change is whether it makes sense to innovate or implement established best practice. For transformational projects the choice is often between inventing new business or working models or aligning with the market norm. For optimising initiatives, it's more a question of industry standard versus novel processes. Either way, we see a mix of approaches in play, with an overall leaning towards best practice adoption (Figure 4).

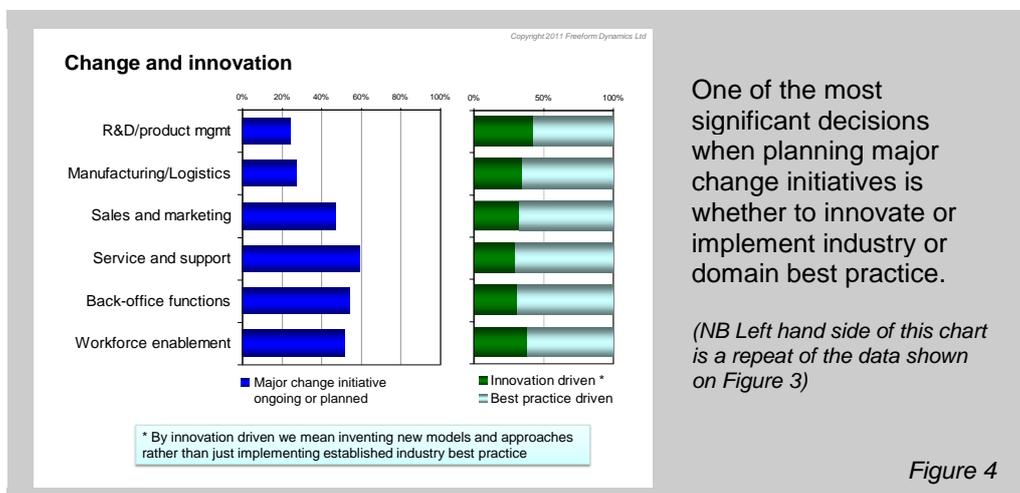


Figure 4

This mix is understandable. The best practice approach has the advantage that a blueprint or specification already exists for how to do things optimally. For non-differentiating activity, e.g. processes that offer little opportunity to create competitive advantage, adoption of best practice makes absolute sense on the basis that there is no benefit in ‘reinventing the wheel’.

Successful innovation depends on the availability of talent, experience and creativity, and that intangible element of ‘inspiration’. Going down the innovation route also generally involves more design and validation work. All of this means that the innovation approach is often more costly and uncertain than simply adopting best practice, so it makes most sense to consider it where and when it really matters. This is usually when you are looking for a significant competitive advantage.

Of course the problems come when mismatches occur. Innovation and shaking things up will likely be critical when trying to break into a market currently dominated by established incumbents. However, if the ‘not invented here’ mentality prevents best practice adoption when there is nothing to be gained competitively, significant time, money and resource can be wasted.

With this in mind, the following comment by one respondent who had inherited a less than desirable state of affairs is very apt:

“Our previous business processes and change had been very poorly planned and executed, and did more harm than good”.

And the way to avoid this is nicely summed up by the comment:

“Any business improvement projects must have clear goals and objectives, which MUST be measurable”.

If the objectives are clear, which in turn is dependent on a well-defined business strategy and operating model, decisions on transformation versus optimisation, and innovation versus best practice, can be made on a more objective basis.

The role of continuous improvement

So far, we have been focusing on drivers and approaches in relation to major change initiatives. But implementing significant change then leaving everything as it is until things have drifted so much that another big project is required is not the smartest approach to dealing with business dynamics. High cost and disruption are guaranteed, as are periods of sub-optimal performance.

This brings us to the principle of continuous improvement, which was described very succinctly by a study participant as follows:

“Business improvement doesn't stand still; when we improve a process, we don't stop; we then improve the improvements”

Overall, four out of five organisations have a continuous improvement culture, but we see a strong correlation between the level to which it is formalised and key indicators of achievement (Figure 5).



In some respects, continuous improvement can be thought of as a way of shifting the emphasis to prevention rather than cure. Many costly and disruptive change initiatives can be prevented through challenging the way things are done and making relevant incremental improvements on an ongoing basis. However, the approach also represents basic good business as practices remain better tuned from both an efficiency and effectiveness perspective, which has a tangible ongoing impact.

In terms of mechanics, anecdotal evidence from those participating in our study suggests that any continuous improvement regime will work better if the workforce is properly involved, which brings us onto the people aspects of business change.

Emphasis on people

When we asked questions in our study about workforce enablement (collaboration, flexible/mobile working, information availability, etc), we learned that around half of organisations have ongoing or planned initiatives in this area (as seen previously in Figures 3 and 4). From a hard core business perspective, driving better productivity and decision making is clearly a key aim:

“We are investigating productivity improvement [to achieve] better business results”.

“Optimising information and data will improve decision making”.

One of the things that surprised us, however, although in hindsight it probably shouldn't have, is the degree to which study participants stress the importance of the workplace environment and culture in the additional commentary they volunteered, e.g.

“Engaging staff, and providing the best training and workplace culture, are essential”.

“We want to get the best from our staff and we want them to be motivated and inspired”.

“We have globally recognised the importance of culture, the workplace environment, and training and development programmes”.

“We have corporate and social responsibilities to our staff and customers”.

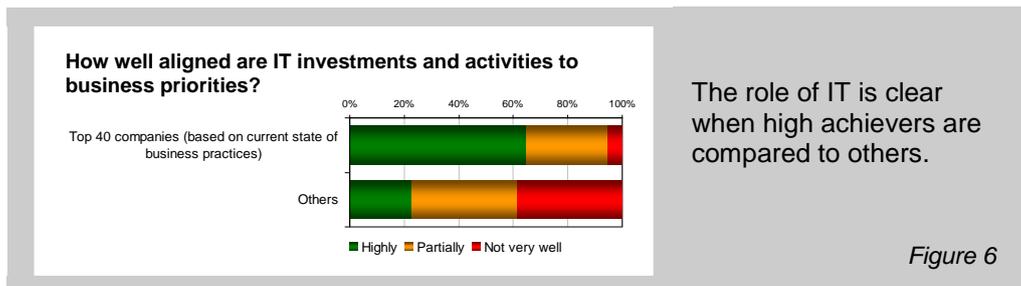
It's clear that the old adage “a company's best asset is its people” is still taken very seriously. This makes absolute sense in today's fast moving environment in which management and decision-making authority are increasingly devolved to keep up with the fast pace of doing business. As more critical human judgements are made at the edges as well as in the core of the business, enabling employees to work effectively as individuals and together is a frequently cited imperative:

“One area that we are trying to address is the support of employees and teams; we are implementing an approach that will benefit both the people and the organisation as a whole. We will focus resources on specific areas that must improve and the idea is to get employees to buy into this through motivational and behavioural changes”.

Achieving such aims, of course, is partly about management and management style, but another key enabler - technology - also has a big part to play.

The role of IT

IT is critical to business operations, and it is no coincidence that we see a strong correlation between the state of business practices overall and the level of IT-business alignment (Figure 6).



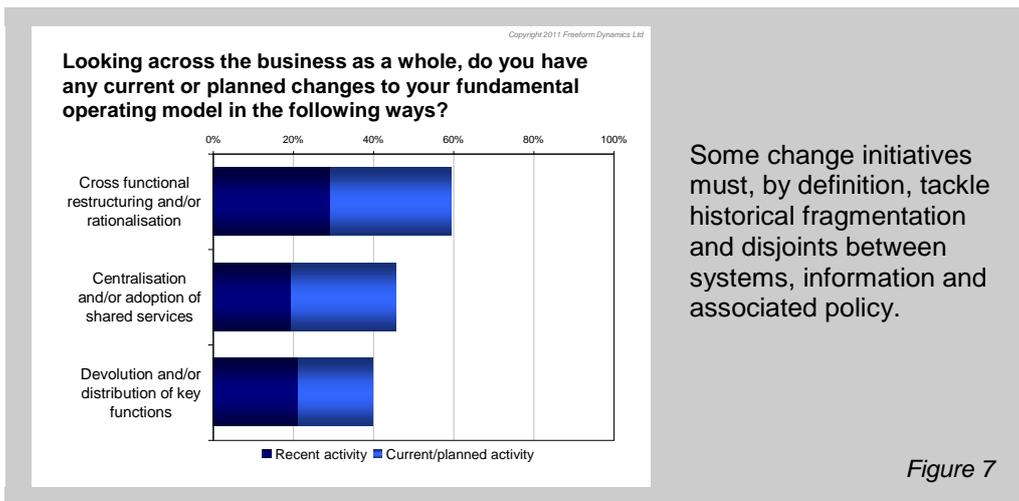
When implementing change, getting a firm footing in place from an IT perspective is often an important part of the process:

“You need to use technology to build the foundations”.

To put this comment into context, one of the biggest challenges with IT in large organisations is the fragmentation, disjoints and complexity that have built up over the years as technologies and applications have been accumulated, often in a piecemeal manner, to solve specific needs as they arise. This often results in a tangle of inflexible dependencies that can become very constraining:

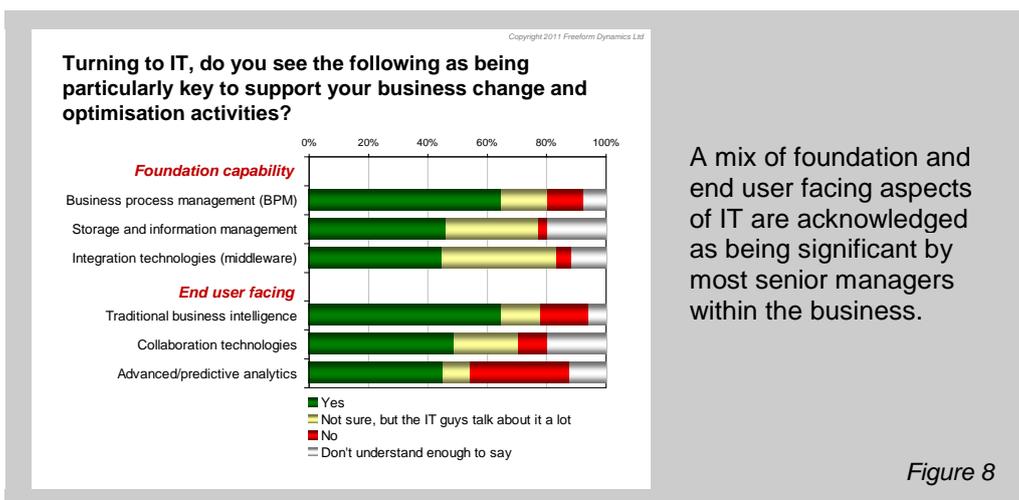
“IT has the ability to solve many problems but can become very complex, and even reduce process efficiency”.

The significance of dealing with fragmentation and disjoints becomes particularly clear when we consider change initiatives that cut across functional boundaries (Figure 7).



This is where a clear definition of the organisation’s operating model is important, which provides an over-arching view of how different parts of the business work (or should work) together to achieve maximum efficiency and effectiveness. A good operating model will also address IT dependencies, and define the desired level of sharing and standardisation of IT across business units.

Turning to specific IT capabilities, a number are acknowledged as key change enablers (Figure 8).



But while technology is important, it is just a means to an end, and as this comment warns, we should not lose sight of that:

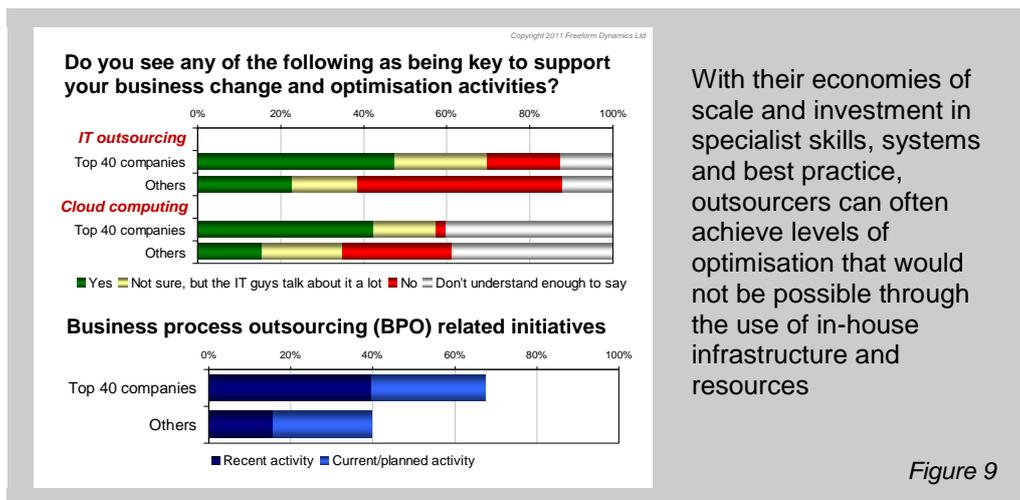
“The danger is that these types of project end up being taken over by IT and the wider business objectives become secondary”.

Outsourcing as an enabler

One option for dealing with inefficient and ineffective IT systems or business processes is to outsource them. With their economies of scale and investment in specialist skills, systems and best practice, outsourcers can often achieve levels of optimisation that would not be possible through the use of in-house infrastructure and resources.

Outsourcing of non-core systems and processes can also provide a way to free up resources, allowing key personnel and facilities to be refocused on the things that really matter to the business from a strategic or competitive perspective.

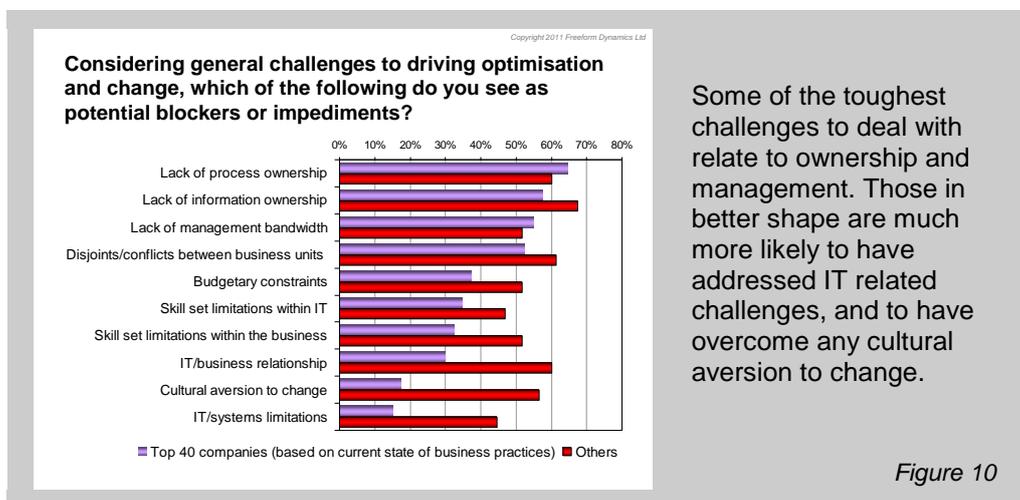
The potential for outsourcing of various kinds is confirmed by our study results. Whether the target is IT or business processes, our top 40 organisations (based on the current overall state of their business practices) are significantly more likely to be driving down the outsourcing route (Figure 9).



Outsourcing nowadays is less about the transfer of huge parts of the business to a third party to run on a bespoke basis. The trend is towards selective outsourcing of discrete activities to providers who are able to offer optimised services in specific areas. Even the larger players in the market are falling into line with this, increasingly offering a portfolio of specialist services that can be played into business change initiatives tactically as well as strategically.

Challenges and inhibitors

Having talked through some of the important drivers and enablers of business change, let's conclude our walkthrough of the study findings by looking at challenges and inhibitors. Comparing the views of our Top 40 companies with others is very enlightening in this area (Figure 10)



What's clear from this picture is that some of the toughest challenges to deal with relate to ownership and management, and even the Top 40 group are struggling with these. One of the most common problems is that improvement initiatives often revolve around business processes, but the organisation and management structure is based on more of a functional view of the world. Ownership of processes that cross departments is then difficult to pin down.

With information, the problem is more that ownership tends to be fragmented between departments, so pulling it together for assessment and measurement at a process level, which is key for effective improvement, can be very challenging for both political and practical reasons. Issues such as this, along with misaligned objectives and priorities between groups and departments, explains why the problem of 'disjoints and conflicts between business units' is called out so prominently.

Couple all of this with the challenge of management teams being overstretched, and it's clear why lack of management bandwidth to assess, plan and make decisions while looking after 'business as usual' is one of the biggest impediments to change.

Those that are in better shape, however, are much more likely to have come to grips with some of the other challenges. Our Top 40 group are about a third as likely to be suffering from IT system limitations holding change initiatives back, and half as likely have problems with IT-business alignment. Indeed it appears that alignment between business units is a much harder nut to crack.

Conclusion

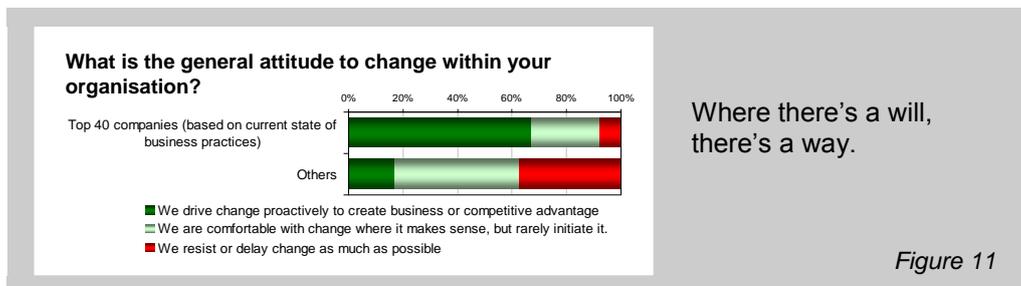
What's clear from this research is that change is a fact of life in modern business; indeed we could go farther than that and say that change is a necessity. As markets, technology and best practice evolve, sticking with 'business as usual' is a sure way of getting left behind.

But change initiatives come in a number of forms, and knowing when to transform or optimise, or whether to innovate or adopt best practice, can be a challenge. The key, as we have learned from the senior business managers participating in this study, is to make sure business objectives are always clearly defined. Only then can you select the most appropriate form of change.

When looking at tactics to enable change, it is clear that IT has a key role to play and that various forms of outsourcing can shortcut the route to efficiency and effectiveness. We also see a strong emphasis on workforce enablement, with some of the strongest feelings expressed during interviews relating to people and culture.

But however major change initiatives are implemented, there is strong evidence that the continuous improvement approach is one of the most effective ways of ensuring ongoing alignment of business practices with the organisation's objectives, which is important as those objectives, along with markets, technology and best practice, inevitably evolve over time.

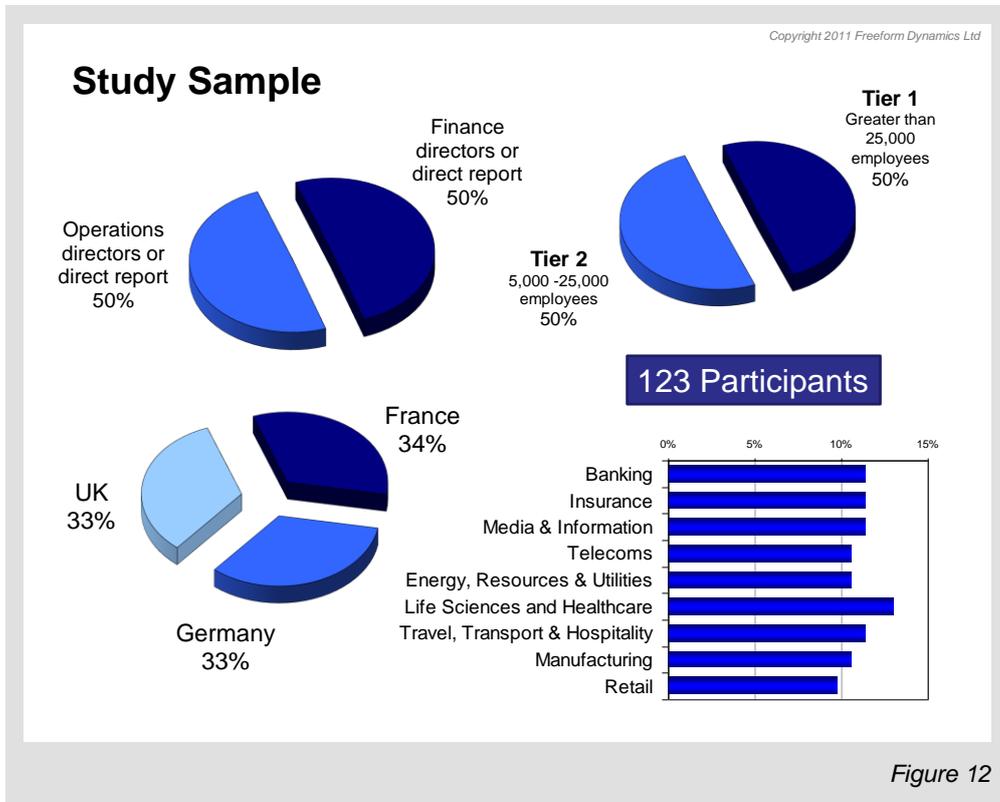
Perhaps the most important observation from our research, however, is that management structure, culture and discipline, and a well-defined operating model, are simultaneously the biggest enablers and the biggest inhibitors of effective change. The greatest difference (proportionally) between high achievers and others when looking at challenges (as we saw in Figure 10) is 'cultural aversion to change'. With this in mind, we'll present one last chart from the research that sums up one of the most important principles that characterises high performers (Figure 11).



As we close our discussion on this most fundamental of lessons, we hope the broader insights from our study prove useful as you define or review your own change agenda.

Appendix A: Study Sample

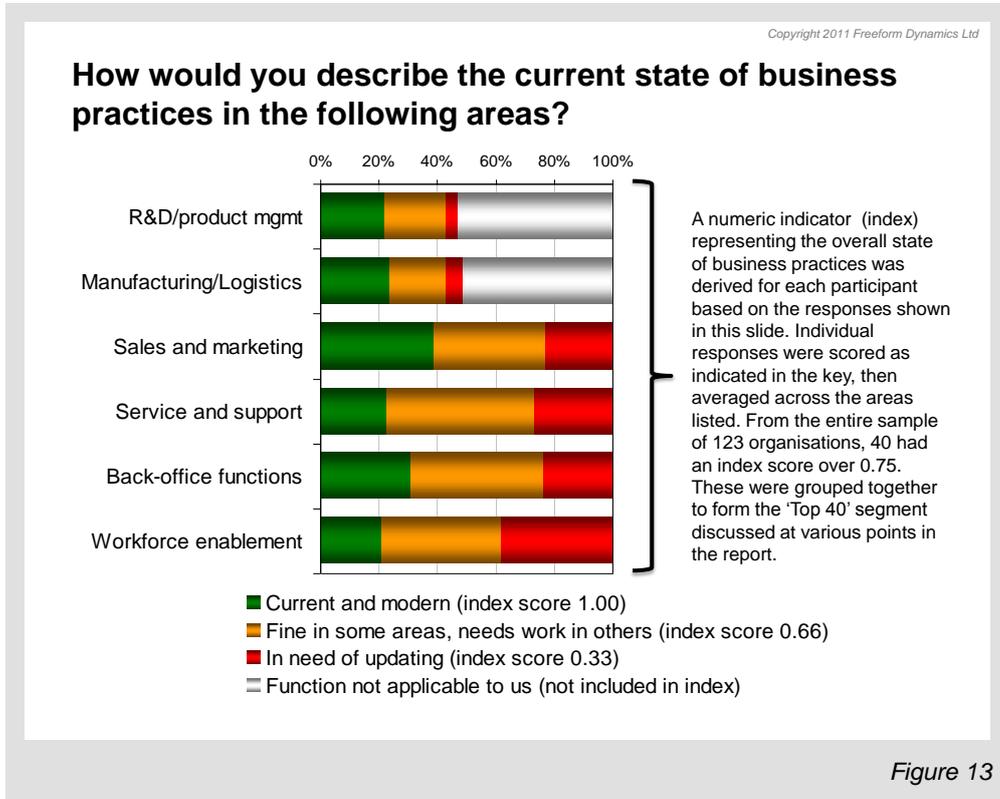
The study reported in this document was completed in Q2 2011, and was based on telephone interviews with 123 senior finance and operations managers. The composition of the sample was as follows (Figure 12):



Freeform Dynamics conducted all design, data collection, analysis and interpretation associated with this study on an independent basis, with sponsorship from Tata Consultancy Services.

Appendix B: The 'Business Practice Index' and 'Top 40' segment

While it is interesting and informative to look at the current state of business practices in individual areas, an aggregate view of overall achievement was necessary to facilitate some of the analysis presented in this report (Figure 13).



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