Enterprise Transformation

William B. Rouse
Overview

- Definitions & Examples
- Enterprise Challenges
- Theory of Transformation
- Transformation Framework
- Transformation Methodologies
- Transformation Case Studies
- Transformation Competencies
- Summary
Enterprise Definitions

- **Enterprise**: A goal-directed organization of resources -- human, information, financial, and physical -- and activities, usually of significant operational scope, complication, risk, and duration

- **Other definitions**:
  - A venture, particularly one of some scope, complication, and risk
  - A purposeful or industrious undertaking, especially one that requires effort or boldness
  - Industrious, systematic activity, especially when directed toward profit
Statutory Definition

``Enterprise'' means the related activities performed (either through unified operation or common control) by any person or persons for a common business purpose, and includes all such activities whether performed in one or more establishments or by one or more corporate or other organizational units including departments of an establishment operated through leasing arrangements, but shall not include the related activities performed for such enterprise by an independent contractor: Provided, That within the meaning of this subsection, a retail or service establishment which is under independent ownership shall not be deemed to be so operated or controlled as to be other than a separate and distinct enterprise by reason of any arrangement, which includes, but is not necessarily limited to, an agreement (1) that it will sell, or sell only, certain goods specified by a particular manufacturer, distributor, or advertiser, or (2) that it will join with other such establishments in the same industry for the purpose of collective purchasing, or (3) that it will have the exclusive right to sell the goods or use the brand name of a manufacturer, distributor, or advertiser within a specified area, or by reason of the fact that it occupies premises leased to it by a person who also leases premises to other retail or service establishments.
Enterprise Examples

- Proprietorship – Single Owner, Location
- Company – Single Business Unit
- Corporation – Multiple Business Units
- Supply Chain – Supply, Mfg, Distribution
- Market – Competing Supply Chains
- Government – Laws, Taxation, Services
- Economy -- Markets & Governments
Enterprise Challenges

• Creative Destruction
• Underlying Phenomena
• Strategic Management
• Nature of Challenges
• Relationships Among Challenges
Creative Destruction

- In 1956-81, an average of 24 firms dropped out of the Fortune 500 list every year.
  - 120% turnover in 25 years
- In 1982-2006, an average of 40 firms dropped out of the Fortune 500 list every year.
  - 200% turnover in 25 years
- Enterprise transformation is very difficult, becoming more difficult, and the failure rate is very high.

Underlying Phenomena

- Most enterprises face similar challenges, although relative importance varies
- Success of enterprises, and their leaders, strongly affected by these challenges
- Multiple useful ways to address strategic challenges successfully
- True nature of strategic challenges not determined by tools chosen to address them
Strategic Management

Focus

Growth

Organizations

Markets

Value

Resources

Knowledge

Risks

Future

Time
### Nature of Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Nature</th>
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<tbody>
<tr>
<td>Growth</td>
<td>Increasing Impact in Saturated/Declining Markets</td>
</tr>
<tr>
<td>Value</td>
<td>Enhancing Relationships of Processes to Benefits &amp; Costs</td>
</tr>
<tr>
<td>Focus</td>
<td>Pursuing Opportunities &amp; Avoiding Diversions</td>
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<tr>
<td>Change</td>
<td>Competing Creatively While Maintaining Continuity</td>
</tr>
<tr>
<td>Future</td>
<td>Investing in Inherently Unpredictable Outcomes</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Transforming Information to Insights to Programs</td>
</tr>
<tr>
<td>Time</td>
<td>Carefully Allocating the Organization’s Scarcest Resource</td>
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</table>
Knowledge and Skills for Enterprise Transformation.

Diagram:

- **Goal**
- **Growth**
  - **Design**
- **Change**
  - **Focus**
  - **Time**
  - **Knowledge**
  - **Future**
  - **Path**
  - **Self**
  - **Value**
  - **Means**
  - **View**

**Foundation**
Theory of Transformation

- Definition of Enterprise Transformation
- Context of Transformation
- Elements of Enterprise System
- Elements of Theory
  - Value Deficiencies Drive Transformation
  - Work Processes Enable Transformation
  - Allocation of Attention & Resources
  - Management Decision Making
  - Social Networks
Definition

Enterprise transformation is driven by experienced and/or anticipated **value deficiencies** that result in significantly redesigned and/or new **work processes** as determined by management’s **decision making abilities, limitations, and inclinations**, all in the context of the **social networks** of management in particular, and the enterprise in general.
Elements of Theory

- Value Deficiencies Drive Transformation
- Work Processes Enable Transformation
- Allocation of Attention & Resources
- Management Decision Making
- Social Networks
Value Deficiencies Drive Transformation

- **Value Opportunities**: The lure of greater success via market and/or technology opportunities prompts transformation initiatives.
- **Value Threats**: The danger of anticipated failure due to market and/or technology threats prompts transformation initiatives.
- **Value Competition**: Other players’ transformation initiatives prompt recognition that transformation is necessary to continued success.
- **Value Crises**: Steadily declining market performance, cash flow problems, etc. prompt recognition that transformation is necessary to survive.
Work Processes Enable Transformation

- Markets Targeted, e.g., pursuing global markets such as emerging markets, or pursuing vertical markets such as aerospace and defense
- Market Channels Employed, e.g., adding web-based sales of products and services such as automobiles, consumer electronics, and computers
- Value Proposition, e.g., moving from selling unbundled products and services to providing integrated solutions for information technology management
- Offerings Provided, e.g., changing the products and services provided, perhaps by private labeling of outsourced products and focusing on support services
Work Processes Enable Transformation

- **Supply Chain Restructuring**, e.g., simplifying supply chains, negotiating just-in-time relationships, developing collaborative information systems
- **Outsourcing & Offshoring**, e.g., contracting out manufacturing, information technology support; employing low-wage, high-skill labor from other countries
- **Process Standardization**, e.g., enterprise-wide standardization of processes for product and process development, R&D, finance, personnel, etc.
- **Process Reengineering**, e.g., identification, design, and deployment of value-driven processes; identification and elimination of non-value creating activities
- **Web-Enabled Processes**, e.g., online, self-support systems for customer relationship management, inventory management, etc.
Ends, Means & Scope

- Transformation Framework
- Examples of Transformation
- Value Deficiencies Drive Transformation
- Work Processes Enable Transformation
- Recent Transformations
- Enterprise Solutions
Transformation Framework

MEANS
- Strategy
- Technology
- Processes

SCOPE
- Organization
- Enterprise

ENDS
- Activity
- Costs
- Perceptions
- Offerings
- Markets
Examples

- Changing Markets
- Changing Offerings
- Changing Perceptions
- Changing Operations
Ends: Changing Markets

• Amazon leveraging IT to redefine book buying
• DoD adopting effects-based planning & acquisition
• e-Bay leveraging IT to redefine the resale market
• FedEx defining the overnight mail market
• NCR leveraging IT to redefine banking (via ATMs)
• Wal-Mart leveraging IT to redefine the retail industry
Ends: Changing Offerings

- CNN redefining news offerings
- GE moving from products to financing
- Home Depot redefining hardware store offerings
- HP attempting to redefine offerings in the printer market
- IBM defining the business PC market (via outsourcing)
- IBM moving from manufacturing to services
- Motorola moving from battery eliminators to radios to cell phones
- Schwab redefining how people buy securities
- UPS expanding from packages to supply chains
Ends: Changing Perceptions

- Dell repositioning computer buying (via build to order)
- Interface adopting green practices to reposition carpet buying
- Southwest repositioning discount air travel
- Starbucks repositioning coffee buying
- Victoria’s Secret repositioning lingerie buying
Ends: Changing Operations

- American Cancer Society consolidating & integrating operations
- Lockheed Martin merging three aircraft companies
- Newell Rubbermaid resuscitating home products companies
- Nucor decreasing the cost of steel making (via mini-mills)
- Tennenco resuscitating Pemco
## Recent Transformations

<table>
<thead>
<tr>
<th>Company</th>
<th>Transformation</th>
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<tbody>
<tr>
<td>AT&amp;T</td>
<td>Came late to wireless, computers, and cellular, paying too much to enter.</td>
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<tr>
<td></td>
<td>Facing a debt crisis and reduced market cap, AT&amp;T was acquired by SBC.</td>
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<td>Clear Channel</td>
<td>Clear Channel executed a long series of acquisitions, accelerated by the 1996 deregulation.</td>
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<td>Cost leadership, combined with bundled selling resulted in their revenues growing over 50%.</td>
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<td>IBM</td>
<td>Transformed from mainframe maker to robust provider of integrated hardware, networking, and software solutions.</td>
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<td></td>
<td>Earnings and share price rebounded as services business flourished.</td>
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<td>Kellogg</td>
<td>Remained committed to its brand strategy but focused on channels needs for consumers’ changing concept of breakfast.</td>
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<td></td>
<td>Acquired Keebler, resulting in revenue growth of almost 50 % and operating income nearly doubling in 5 year period.</td>
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<td>Lucent</td>
<td>Adopting “high tech” image, abandoned Baby Bells, overdid mergers, delayed developments of optical systems, and inflated sales.</td>
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<td>When Internet bubble burst and customers could not repay loans, $250 billion market cap in 1999 shrunk to $17 billion by 2005.</td>
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<th>Outcome</th>
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<td>Newell Rubbermaid</td>
<td>With a track record of successful acquiring over 60 companies, acquisition of Rubbermaid seemed like a natural match.</td>
<td>Acquisition dragged Newell down, losing 50% of the value of the investment. Brand strategy of Rubbermaid did not match Newell.</td>
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<tr>
<td>Nokia</td>
<td>New cell phone designs introduced to combat loss of market share.</td>
<td>Market share rebound, but likely temporary due to aggressive competitors.</td>
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<td>Procter &amp; Gamble</td>
<td>Acquisition of Gillette, Clairol and Wella while selling off numerous brands.</td>
<td>Outcome uncertain as the “consumer goods industry is caught between slowing sales, rising costs, and waning pricing power.”</td>
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<tr>
<td>Siemens</td>
<td>Focused on cost reduction, innovation, growth, and culture change, in part by convincing people that there was a crisis.</td>
<td>Revenue almost doubled, net income more than tripled, and revenue per employee almost doubled over 12 years.</td>
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<tr>
<td>Thomson</td>
<td>Transformed itself from a traditional conglomerate into a focused provider of integrated electronic information to specialty markets.</td>
<td>They sold more than 60 companies and 130 newspapers, and then acquired 200 businesses becoming a leader in electronic databases.</td>
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Summary of Examples

- Increasing shareholder value by mergers and acquisitions sometimes succeeds (Clear Channel, Kellogg and Thompson), sometimes fails (AT&T, Lucent, and Newell), and takes time to evaluate (Proctor & Gamble).

- Transformation of the enterprise’s value proposition to customers via new product and service offerings is illustrated by the success of IBM, Kellogg, and Thompson and, to a lesser extent, by Nokia.

- Improving productivity via extensive process improvements, as illustrated by IBM and Siemens, can transform an enterprise’s value provided to customers, suppliers, and employees and increase shareholder value.
Composite Methodology

1. Stimulate Need for Change
2. Identify Value Deficiencies
3. Map Deficiencies to Work Processes
4. (Re)Design Work Processes
5. Assess Required Investments
6. Frame, Make & Commit to Decisions
7. Plan & Communicate Implementation of Change
8. Execute Plan Via Enterprise Social Networks
9. Monitor & Adapt Plan Implementation
10. Institutionalize Change & Abilities to Change
## Comparing Methodologies

<table>
<thead>
<tr>
<th>Step in Change Management</th>
<th>Gouillart &amp; Kelly</th>
<th>Kotter</th>
<th>LeMarsh</th>
<th>Rouse &amp; Boff</th>
<th>Kessler</th>
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<tr>
<td>Stimulate Need for Change</td>
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<td>Plan Implementation of Change</td>
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<tr>
<td>Execute Implementation Plan</td>
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<tr>
<td>Monitor &amp; Adapt Plan Execution</td>
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<tr>
<td>Institutionalize Change</td>
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Transformation Case Studies

- Four Case Studies
- Case Analysis
- Competency Requirements
Four Case Studies

- **LM Aero (LMT):** Merger of Siblings
- **Newell (NWL):** Focus on Mass Retailers
- **Reebok (RBK):** Brand Resuscitation
- **UPS (UPS):** Beyond GDP Growth

Notes
- The first three cases are drawn from Chapters 18-20 of *Enterprise Transformation*; the fourth is drawn from HBS and UVA published cases and personal experiences with the company.
- To the greatest extent possible, the wordings of the analyses are drawn directly from the publications, without modification.
Knowledge and Skills for Enterprise Transformation.
Case Analysis

• Driver(s) of Transformation
• Approach to Transformation
• Elements of Transformation
  – $\Delta_1 = \text{Focus on Customer}$
  – $\Delta_2 = \text{Increase Operational Efficiency}$
  – $\Delta_3 = \text{Change Enterprise Culture}$
  – $\Delta_4 = \text{Execute, Execute, Execute}$
LMT: Merger of Siblings

- Defense customers’ priorities had shifted to “weapon system affordability.” The defense business was now focused on “performance based capabilities and total life cycle affordability”

- Duplication in the operating structures of the three aircraft companies was financially burdensome to the corporation, strategic alignment was lacking and, most alarmingly, customers were becoming increasingly dissatisfied with performance of each of the companies.

- All three companies had vastly different views, expectations and orientations of leadership. Differences in company culture, information technology and systems, major processes, accounting approaches, and business criteria had created barriers for years.

- The corporation decided to merge the three sibling aircraft companies into one entity – Lockheed Martin Aeronautics.
NWL: Focus on Mass Retailers

- Mass marketing was redefining the face of retailing throughout the world and the Newell Company was well positioned to take advantage of the changes that were occurring.
- Focused on the process of taking underperforming companies and, by applying the principles of Newellization, reshaping them into outstanding performers producing exceptional financial results.
- By implementing the profit improvement and productivity enhancement process, Newell brought newly acquired companies and product lines up to their high standards of profitability.
- In this way, the future of the company would best be served by supplying products to the large mass retailers.
RBK: Brand Resuscitation

- A prolonged period of losing to the competition and not foreseeing market changes precipitated the need for major change -- sales and profits were the lowest they had been in almost a decade. Chairman and CEO recognized the need for change.
- By 1997, Nike had grown to be considerably larger than Reebok, particularly in the US market, where it had grown a 47% market share. Reebok’s share in the US had dropped to 15% in 1997.
- Reebok’s market share, profits and other financial measures were well below its previous record of success, and the company was fast losing ground to its competitors.
- The company had been losing its focus on quality and innovation in terms of consumer products and their relevance, just as consumers were learning more about how to choose between products and brands.
- By the time the need for change was recognized, there was large debt, large overhead (SG&A), and low margins on reduced sales numbers.
UPS: Beyond GDP Growth

- **CEO, Oz Nelson, Observations**
  - All package delivery needs are being met
  - Growth will be driven by GDP growth
  - Is that acceptable?

- **Transformation Driver & Resulting Vision**
  - Growth will come for global supply chain service providers
  - UPS is not a global supply chain service provider -- yet
LMT: Approach to Transformation

- The transformation approach was built around setting clear intents, supporting the deployment of operating capability to meet those intents, and then executing with the capability to achieve outcomes equal to the intents.
- Could not identify a proven, available change methodology and tool set that focused on the full scope of transforming a large-scale enterprise.
- A three-step approach and terminology employed that were familiar to the senior leadership, managers and employees adopted from familiar terms in the aircraft development business – system requirements review, preliminary design review and critical design review.
  - System Requirements Review: Collectively baseline each organizational leader on the restructure expectations of the company and their organizations. Make a preliminary assessment if leader is addressing the full expectations.
  - Preliminary Design Review: Collectively agree that expectations are being addressed and confirm that the organization leader is designing a capable structure to meet all objectives.
  - Critical Design Review: Approve structure, document remaining interface issues, and approve six-month implementation action plans.
NWL Approach to Transformation

- People thought that Newell was in the acquisition business, but they were not. They were building a package for the mass retailers and acquisitions were but one of the tools to create that package.

- As part of its acquisition planning, Newell looked for branded, staple consumer products with long product life cycles, products that had the potential to reach the company’s high standards of profitability.

- Unrealized profit potential was one of the primary factors that attracted Newell to the (over 80) companies it acquired and “Newellization” was the improvement process that was applied to the newly acquired product line to bring them up the Newell’s standards.

- Newell quickly redirected acquired businesses to focus on their more profitable core products while pruning away unprofitable ones and aligning themselves with the corporate core strategy. It was profit growth, not sales growth, that was important.
RBK: Approach to Transformation

- Clean up the balance sheet
- Fix the income statement
- Reconnect with the customer
- Segment product development and marketing strategy
- Partner effectively with retailers
UPS: Approach to Transformation

• Intent
  – Sell new, complementary services to existing customer base
  – Termed Synchronized Commerce
  – Expanded market from $60B to $3.2T

• Scenario-Based

• Imperatives
  – Winning team: Attracting and developing a highly skilled, diverse, and aligned global workforce
  – Value-added solutions: Providing customers with value-added services combining movement of goods, information, and funds
  – Customer focus: Building customer loyalty and expanding UPS’s services worldwide
  – Enterprise excellence: Creating an environment of high-quality service and value

• Strategy Roadmap
  – Plan for critical initiatives in pursuit of imperatives

• Note that the UPS IPO in 1999 was the largest in the history of the NYSE and provided the needed resources
Elements of Transformation

- $\Delta_1 = \text{Focus on Customer}$
- $\Delta_2 = \text{Increase Operational Efficiency}$
- $\Delta_3 = \text{Change Enterprise Culture}$
- $\Delta_4 = \text{Execute, Execute, Execute}$
$\Delta_1 = \text{Focus on Customer}$

- And Probably the Customer’s Customer
- Segment Market by Needs & Desires
- Offer Desired Products & Services
- Using High-Leverage Channels
- Communicating Value Proposition
Δ₂ = Operational Efficiency

- Characterize Value Delivery Processes
- Standardize Processes, But Not Products
- Centralize Enabling Processes
Δ₃ = Enterprise Culture

- Leadership-Driven
- Disciplined Execution
- Accountability for Outcomes
- Aligned Incentives & Rewards
- Collaboration & Teamwork
\[ \Delta_4 = \text{Execution} \]

- Agree Upon Metrics
- Negotiated Targets
- Timely Feedback
- Discussion & Diagnosis
- Revisit \( \Delta_1, \Delta_2, \Delta_3 \)
- Execute, Execute, Execute
Analysis of Cases
- Driver(s) of Transformation
- Approach to Transformation
- Elements of Transformation
  - $\Delta 1 =$ Focus on Customer
  - $\Delta 2 =$ Increase Oper. Efficiency
  - $\Delta 3 =$ Change Enter. Culture
  - $\Delta 4 =$ Execution

Real Cases (4)
- Lockheed Martin
- Newell Rubbermaid
- Reebok
- UPS

Initiatives/Tasks (125)

Competencies (18)
Executive (20%)
- Leadership
- Vision
- Strategy
- Acquisitions
Analytical (60%)
- Financial mgt
- Industrial engr.
- Product mgt
- Reengineering
- Supply chain mgt.
- Change meth.
- Org. design
- Planning
- Market research
People (20%)
- Culture & change
- Marketing
- Collaboration
- Communications
- HR & training
Summary

- Definitions & Examples
- Enterprise Challenges
- Theory of Transformation
- Transformation Framework
- Transformation Methodologies
- Transformation Case Studies
- Transformation Competencies