



KPMG Transformation Survey

Business Transformation: People. Process. Results.

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cutting through complexity

Business transformation has taken hold across the broad corporate landscape due to the confluence of several important triggers, including a tipping point in globalization, a major slowdown in Western economies, significant shifts in technology and energy costs, and the challenges of regulatory compliance.

Introduction

Ninety-three percent of U.S.-based multinationals have just completed a business transformation or are in the process of doing so, according to a KPMG survey of more than 900 senior executives from U.S.-based multinationals and asset managers, as well as one-on-one interviews with top executives. Business transformation has taken hold across the broad corporate landscape due to the confluence of several important triggers, including a tipping point in globalization, a major slowdown in Western economies, significant shifts in technology and energy costs, and the challenges of regulatory compliance.

Among the pan-industry trends uncovered by the research is the correlation between having a formal process and transformation itself: companies that have a formal process are more vigilant about assessing their business and operating models against their business strategy and are more active in transformation. In terms of executive approach, there seems to be unanimity on the issues regarding transformation among C-level and non-C-level executives. However, there are some significant disparities among different functions, especially between finance and executive management functions.

Seventy-one percent of respondents have a high opinion of their company's propensity for transformation, classifying themselves as Early Adopters or Early Majority. First Movers/Innovators (15%) are characterized by the way they approach technology as a source of innovation as well as by an emphasis on different organizational structures and processes to foster transformation.

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Respondents who have a high opinion of their company's propensity for transformation, classifying themselves as Early Adopters or Early Majority.

Process, Organization and Structures

The design of the transformation

process has to take into account organizational culture and how the organization can best accept the change, recognizing that transformation itself means change, says Stephen G. Hasty, partner, U.S. Innovation Leader for Advisory, KPMG. For example, some companies have a collaborative culture in which buy-in is crucial to affect change.

Some cultures are better suited for business transformations than others, says Hasty. Highly decentralized organizations often struggle with change because decision-making is filtered throughout the organization, and the biggest impediment to transformation is getting the individual parts of the business to align and engage with the new direction. Transformation will be hampered if the silos don't embed the change into every aspect of how they do business, because in many cases what might be optimal for an individual group might not be optimal for the enterprise.

Robert T. Vanderwerf, principal, U.S. Transformation Strategy Leader, KPMG, stresses the need for a holistic integrated view of business transformation strategy development. "Successful business transformation strategies are developed with an acute knowledge of the interdependencies between the firm's strategic and financial objectives, the markets, products, customers and channels of its business model, the core processes, operations, technology, governance, risk and controls of its operating model, and the people, culture, measures and incentives that enable it. It is a complex activity where successful businesses engage across their organizations to embed the change into every aspect of their business.

"I think that transformation needs to be driven from the top, but change is hard to cascade through the organization unless it is embraced from the bottom up," says George Barrett, chairman and CEO, Cardinal Health, Inc. "From a governance perspective, we use a number of tools at

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Chairman and CEO
Cardinal Health, Inc.

the enterprise level to help move us. We have an executive committee of my direct reports, and an operating committee that includes about 20 senior leaders, but I also take advantage of a strategy council, which we intentionally formed to operate outside of those governing bodies. I felt that it would create a safer environment in which to challenge our conventional thinking. We have also used other tools to encourage and promote ideas for change—protected innovation funds, idea labs, employee competitions and the like.”

At Lockheed Martin, transformation is integrated into the businesses, says Dr. Ray O. Johnson, chief technology officer. The five business areas, each led by an executive vice president, have internal business transformation processes. But it is the executive leadership team, involving the board, that sets guidance, oversees the transformation process and helps with strategic decisions. Johnson describes the process as neither top-down nor bottom-up, but rather fully integrated within the corporation, with everybody understanding their various roles in achieving the goals of the transformation process.

Mitchell L. Siegel, principal, U.S. Financial Services Transformation Leader, KPMG, stresses the need for executive support for business transformation. “Successful transformations link the business’s strategic objectives with the core capabilities necessary to deliver the results. The top-down view is necessary for business strategy to inform any operating

model change while the bottom-up view is crucial to the development of business and technical requirements that serve as the foundation for the execution of the transformative change. This combined perspective allows for an integrated approach to move the enterprise forward by fostering buy-in to the change journey at all levels,” he notes.

Catherine Bessant, Global Technology & Operations executive at Bank of America, says that at BofA business transformations have historically been top-down, looking for direction from the top of the house, with Bessant specifically accountable for producing transformational direction for technology and operations. But increasingly the company is working to let real bottom-up feedback and analysis shape decisions and priorities related to transformation. This follows a finding by Bank of America that, while the concept of transformation resonates in a positive, exciting way to people at the top of an organization, people deeper in the ranks of an organization often perceive transformation to be code language for cutting jobs or creating more work.

At **Lockheed Martin** it is the executive leadership team, involving the board, that sets guidance, oversees the transformation process and helps with strategic decisions.

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Process, Organization and Structures *(cont.)*

Avnet, a global distributor of electronics

components and technology as well as a provider of IT and supply chain services, has a top-down approach to strategic-level transformation, with a team at the corporate level that sets the overall vision, mission and strategies. The leadership team is supported by Avnet's operational excellence team, which establishes the standards and mechanisms to support the transformation and make the strategy come to life.

But Avnet also has a vibrant mechanism to capture and encourage employee-led transformational improvements and solutions. Called Avnet Results, this global program has resulted in hundreds of improvements that collectively have had a profound and positive impact on the business, delivering more than \$100 million in benefits since 2005. For example, employees in Europe suggested a change in the floor plan in one of the company's warehouses, a change that saved almost one month of labor per year. Another team in Asia collaborated with a major supplier to implement inventory management that reduced inventory by millions of dollars.

"We are incredibly proud of the real savings and improvements our employees are delivering to the company, and recognize that they are key to continuous

improvement as well as larger-scale transformation," says Steve Phillips, Avnet's chief information officer.

Despite the strong culture of employee involvement in transformation at Avnet, Phillips recognizes the importance of change management: "Any business transformation initiative confronts obstacles, and one of the most common is related to change management. Often, the greatest challenge rests in ensuring people make the change and follow the new processes. At Avnet, we have a formal and successful change management approach. This focuses not only on communications and training, but also sponsorship, coaching and managing the inevitable resistance that comes with change."

In fact, having a formal process is correlated with transformational efforts. A majority (63%) of respondents from companies that are preparing for, are undergoing or have completed transformation(s) say that they have a formal process for prioritizing business transformation initiatives.

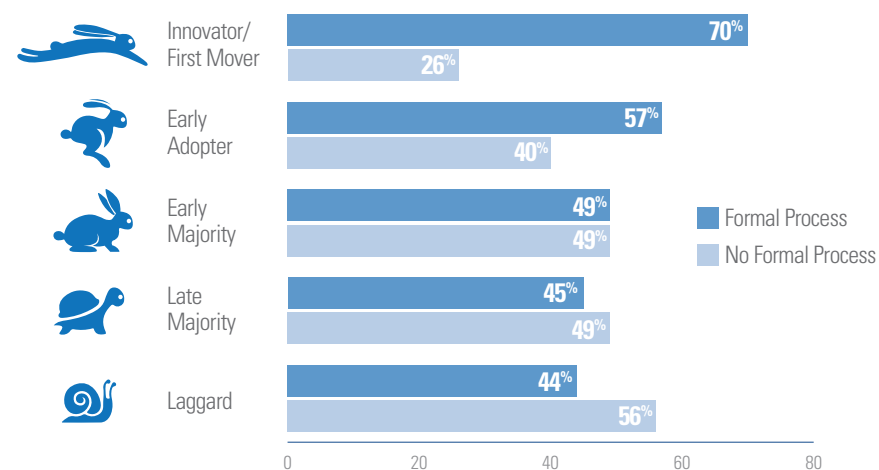
Also, there were many more respondents with a formal process at companies that are First Movers/Innovators in implementing business transformation than at latecomers (Laggards) (Fig. 1).

Having a formal process for prioritizing business transformation initiatives is correlated with higher vigilance in assessing the business and operating models against

business strategy, incorporating a regulatory agenda in transformation planning, being an Innovator and/or First Mover, and having a dedicated internal structure (Fig. 2).

FIGURE 1.

The Innovative Edge and a Formal Transformation Process

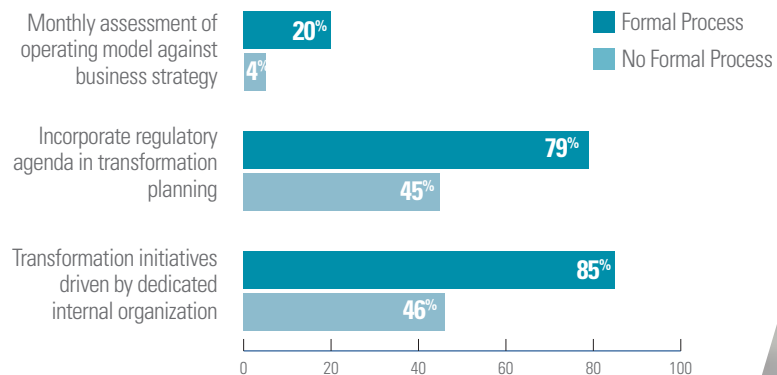


Does not add up to 100% because NA not included

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— Steve Phillips
Chief Information Officer
Avnet

FIGURE 2.
Characteristics of a Formal Process



An **Avnet Results** team in Asia collaborated with a major supplier to implement inventory management that reduced inventory by millions of dollars.

Metrics

Metrics are an integral part of the transformation process. According to the survey, the largest percentages of respondents say their organizations integrate data analytics after the scope of transformation is defined or after specific milestones are reached (32% and 33%, respectively) (Fig. 3).

Todd Lohr, managing director, U.S. Transformation Enablement Leader, KPMG, says that metrics should be established before the start of transformation: "You actually start with metrics, looking at the outcomes that you're trying to achieve, and then work backwards. Don't build the solution first and then decide how you are going to measure success." Currently, only 14% of respondents surveyed say that their companies employ this practice, while 17% set up success metrics at the end of transformation.

Vic Bhagat, chief information officer, EMC Corporation, agrees with the fundamental importance of metrics for transformation: "It's not about driving transformation for the sake of driving transformation. You put metrics on it. If I drive this transformation, what's the impact on the bottom line? Is it going to deliver significant savings and help free cash flow? Is it going to create that bandwidth to give top-line growth where sales can better connect with our customers?"

Bank of America's Bessant points out that defining metrics for transformation is challenging because it requires a forward-

looking view. The most effective metrics are outcome-based and not process-based, she emphasizes. BofA has a strategic effort under way to transform its technology architecture, aiming to make its components more elastic and able to flex with demand. However, defining metrics to measure elasticity of assets is an iterative process.

Christa Carone, chief marketing officer at Xerox, says that at her company, the technology, metrics and processes employed during transformation are a function of the company's being a Lean Six Sigma company. "We have really quite a skilled workforce in helping with process management, and there are a number of tools and technologies that they apply to ensure that we're fast and accurate and pretty nimble in our approach to process

improvement. So I would say that Lean Six Sigma is a bit of a secret sauce behind how we manage processes through a business transformation," she says.

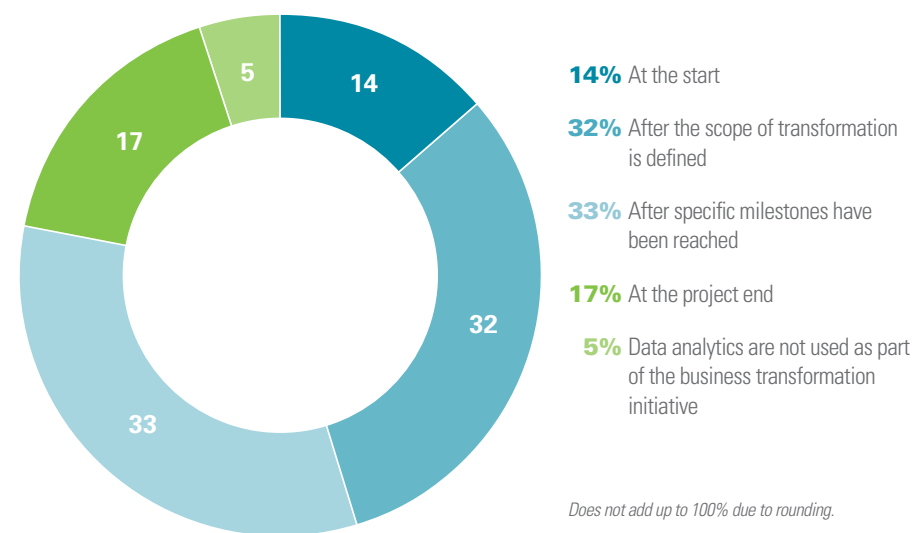
"There are some very important metrics for us: specifically the growth in profit contribution which comes from our new strategic priorities, our margin rates and our total shareholder return," says Cardinal's George Barrett. "But success really has to be measured over time—it's all about sustainable competitive positioning."

Edgar Purvis, business leader, Emerson Climate Technologies, explains his company's approach to metrics, timelines and returns: "The challenge of a transformational business model is that if you suspect that the metrics you are using are off, you have to ask yourself, 'What are the other metrics that will give

you confidence that you're spending your money wisely?' I don't think Emerson will ever be a company that is going to throw \$100 million or \$200 million around on some idea that is 10 years away from a market realization. We are all about investing in near-to-market technology. At Emerson you probably have two or three years to demonstrate in some financial terms that the venture technologically has a future."

FIGURE 3.

At what stage is data analytics integrated into your business transformation initiative?



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— Todd Lohr
Managing Director
U.S. Transformation Enablement Leader
KPMG



Transformation and Executive Function

The CEO is, in effect, the Transformer in Chief.

“Every successful CEO you will ever see over a long term is known for anticipatory transformation,” says Bessant.

How do different executives approach transformation? The survey shows that C-level and non-C-level executives see essentially eye-to-eye on most issues regarding transformation.

There is, however, some disconnect in how executives from different functions perceive the growth drivers as well as the importance of technology and its role as a trigger for transformation. This disconnect is especially visible between the executive management function and finance function: executive management is optimistic about the global economic climate as a growth driver and it looks to technology and its benefits as a reason for transformation; finance departments are less enthusiastic about these drivers (Fig. 4).

KPMG’s Siegel believes that the main gap in approach to transformations is still generally between technology and operations, often because the business strategy is not available to the IT department. “As consultants, this is the first point we raise,” says Siegel. “If you’re trying to optimize your IT shop, what are the business and operating model imperatives that you are trying to optimize them around? Do you need enhanced analytics pushed into sales channels to achieve greater customer wallet share through cross-sell and up-sell initiatives? Is scalability required to enter new markets or approach new customer segments? Is greater system agility and configurability necessary to drive acceleration in product development timeframes? It’s difficult to develop an effective IT strategy without guiding principles from the business strategy.”

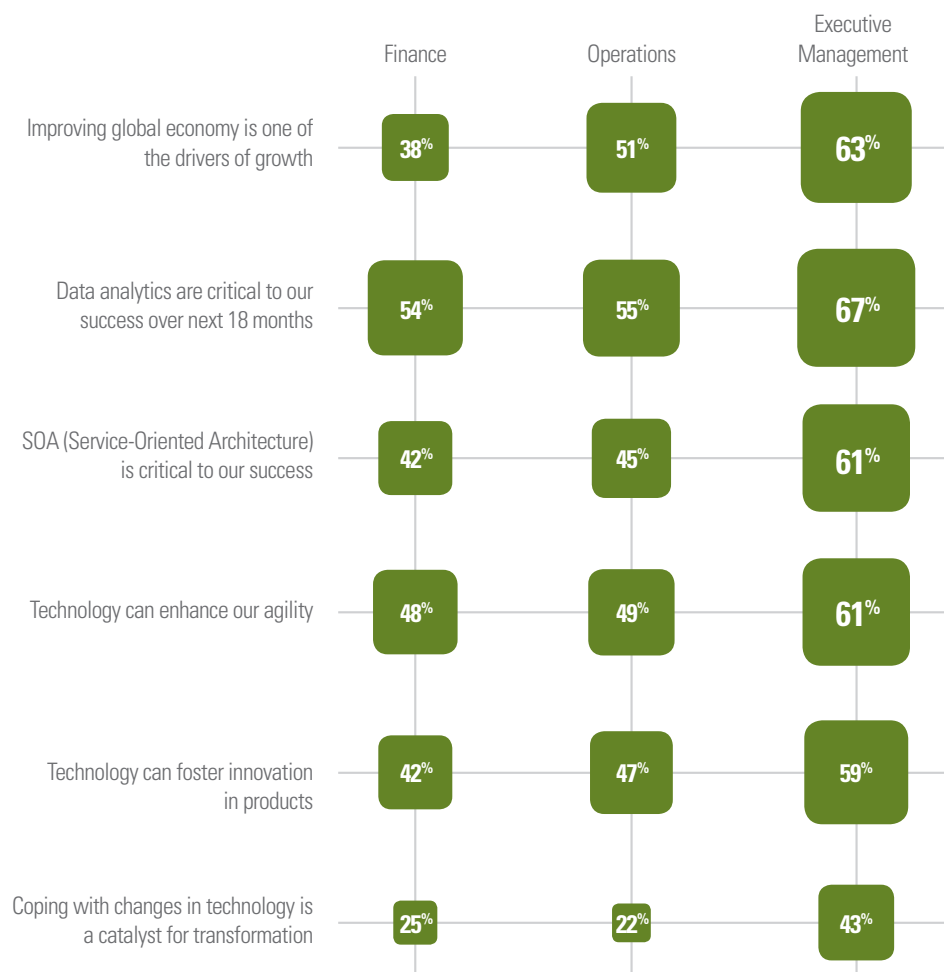
Siegel sees an evolution toward business-led IT enablement, where CIOs and CTOs are becoming more attuned to the organizational business strategy to ensure linkage to their IT initiatives.

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— Catherine Bessant
Global Technology & Operations Executive
Bank of America

FIGURE 4.

Perspective by Executive Function



Percentage of respondents who answered yes.

First movers, laggards and the majority in between

A vast majority of respondents (71%)

believe their companies are early to the transformation table, and classify themselves as either Early Adopters or Early Majority. In the minority are First Movers/Innovators at 15%, followed by Late Majority and Laggards at 14%.

How do First Movers do it?

First, it needs to be noted that how respondents classify their companies on the transformation spectrum depends somewhat on how they define transformation. The highest percentage of those who consider their companies First Movers (31%) can be found among respondents for whom transformation means continuously evolving organizational areas or processes. Those who define transformation narrowly—as localized projects within functions and processes—includes just 7% of respondents who call their companies First Movers. A narrow definition of transformation may prevent an organization from becoming a true innovator.

First Mover status also depends on the industry. Bank of America's Bessant believes that, as one of the first banks to pursue interstate banking, BofA would be considered a First Mover. She notes, however, that, as a sector, banks are not perceived as First Movers, especially when compared with technology or defense.

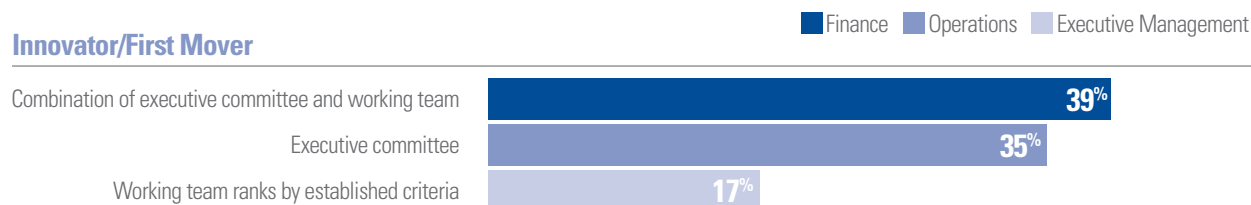
A majority of respondents from across the transformation spectrum recognize the value of technology to create organizational efficiencies and lower operating costs. However, more First Movers adopt a customer-centric approach to technology than Late Majority. For example, more First Movers believe that technology can contribute to innovation in product development (56% versus 43% for Late Majority).

The key to the success of a business transformation is often in the organizational approach. With that in mind, KPMG analyzed whether and how First Movers differ in approach from the rest (Fig. 5). The analysis revealed certain characteristics of First Movers' organizational approach to transformation. For example, more of them:

- tend to have a formal process for prioritizing business transformation initiatives
- use a combination of an executive committee and a working team to prioritize transformation initiatives
- handle transformation in a centralized, top-down manner
- have a dedicated internal organization to handle transformation (Fig. 6)

FIGURE 5.
Process by which your organization prioritizes business transformation initiatives (top three answers)

Innovator/First Mover



Early Adopter



Early Majority



Late Majority



Percentage of respondents who answered yes.

FIGURE 6.
Is the execution of your transformation managed/driven by a dedicated internal organization?

First Mover

76%

Early Adopter

70%

Early Majority

63%

Late Majority

57%

Percentage of respondents who answered yes.

Conclusion

It's transform or wither in today's business environment, with multiple transformation triggers—including technology, regulatory and globalization shifts—creating strong pressure simultaneously. Most corporations understand this, with 93% of survey respondents saying that they have just completed, are planning or are in the midst of a business transformation. The research and interviews conducted point to the importance of the right aligned corporate culture, business design, organizational structure, process, technology and information architecture and the application of metrics in business transformation and their correlation with results.

Execution is the hardest part of transformation. More than half of companies undertaking transformation fail to achieve the desired business result, according to KPMG analysis. A formal process that spans from strategy to execution is critical for success. In addition, the process should not be viewed as a one-time event that is triggered through seismic activity but rather a continuous program that monitors strategic catalysts, identifies business and operating model changes and embeds these changes in the organization through a focused holistic execution process.

The biggest challenge to transformation may be a leader wedded to a past or current success. Executives cannot lull themselves into complacency based on the present revenue stream, but must keep transforming for the future.

Top-down corporate cultures are better suited for business transformations than overly decentralized companies. The transformation process has to be carefully aligned with corporate culture at the outset. Leadership and engagement are essential to manage the change associated with business transformation. As part of an overall change management program, stakeholder involvement should be actively managed throughout all levels of the organization.

Silos are an impediment to business transformation. If the silos have power over whether to accept a change, they may hamper a transformation that would be good for the enterprise as a whole. To prevent silos, consider encouraging collaboration among different functions within one unit. For example, deploy IT professionals within non-IT departments.

Establishing a formal process is correlated with being active in transformation. That process should include metrics set up at the start of business transformation. The most effective metrics are outcome-based, not process-based. Key to a transformation program is value-centric approach that defines enterprise value at the onset and provides visibility into value capture as part of the transformation strategy development through execution.

KPMG has identified seven critical transformation components as part of its Transformation Methodology.

- 1 Value Management** – embed a value-based and metric driven approach to the strategy development and execution of the transformation
- 2 Leadership and Engagement** – employ rigorous cultural alignment and change management constructs throughout all levels of the organization
- 3 Business Design and Management** – continuous approach to assessing the business model, operating model and execution of that model against the strategic and financial objectives of the business and the dynamic market environment
- 4 Organization Design** – develop flexible value chain oriented capability constructs leveraging leading sourcing, process, information and technology architecture
- 5 Process Excellence** – leverage enterprise process governance and lean design principles to design and implement high performing processes
- 6 Information and Technology Enablement** – enable business and processes design and management with data and analytics and leading technologies
- 7 Transformation Management** – provide structured, centralized management of the transformation program

Contributors

KPMG and Forbes Insights would like to thank the following executives for sharing their time and expertise:

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Catherine Bessant, Global Technology and Operations Executive, Bank of America

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Steve Phillips, Chief Information Officer, Avnet

Edgar Purvis, Business Leader, Emerson Climate Technologies

Mitchell L. Siegel, Principal, U.S. Financial Services Transformation Leader, KPMG

Robert T. Vanderwerf, Principal, U.S. Transformation Strategy Leader, KPMG

Methodology

This report is based on a survey of 910 executives at U.S.-based multinationals and banking or asset management firms conducted by Forbes Insights in June and July of 2013. Executives were evenly split among 13 industries/sectors. Out of 709 corporations, 90% of executives came from companies with revenues over \$1 billion. Out of 201 banking or asset management firms, all had assets under management of at least \$5 billion. Sixty-seven percent of respondents were C-level executives, and the rest were managing director or above. They represented all major corporate functions.

For further information about this survey, and how KPMG can help your business, please contact:

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