Transformation Objectives

The Art & Science of Transformation ®

White Paper Series

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The Art & Science of Transformation ™
White Paper Series

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Introduction

"If you don't know where you are going, you will probably end up somewhere else." [1]

In today's rapidly changing business environment, organizations of all types need to undergo frequent transformation in order to remain competitive and meet the needs of their clients or customers (Jugdey & Mathur, 2012; Savoleinen, 2013; Zekic & Samarzija, 2012).

In contrast to more modest change initiatives, transformation typically affects all areas of the organization as well external stakeholders, and involves a major development in the way the organization operates, either internally, or in its interactions with the outside world.

The need for transformation usually arises from what might be referred to as "life changing" developments in the external environment, such as a major shift in consumer preferences, the growth of fierce competition, or revolutionary developments in information and communications technology. Though these may sound dramatic, they are the kinds of ongoing developments that now characterize our world and the business environments that most organizations operate in.

However, many organizations have not yet developed the ability to undergo successful transformation as a proactive strategy for business success, and instead implement more limited changes as a "firefighting" response to immediate challenges. As a business strategy, this can do more harm than good, since short-term projects that are not aligned with longer-term business needs can result in considerable unanticipated costs, have negative effects on productivity and staff morale and fail to deliver the intended results.

Even when organizations embark on more extensive transformation initiatives, the risk of failure is high: according to research, only around 30% of transformation initiatives usually succeed completely, and 30% typically fail completely (cited in Ward & Uhl, 2012).

This paper is one of a series in which we explain why transformation projects often fail, and discuss a recommended "Art and Science of Transformation®" framework that can help promote successful change that delivers the intended outcomes.

This approach is designed to address and overcome the three main reasons why transformation projects typically fail:

1. An inadequate focus on the "art" of transformation compared with the "science"
2. The lack of a sufficiently holistic approach to transformation

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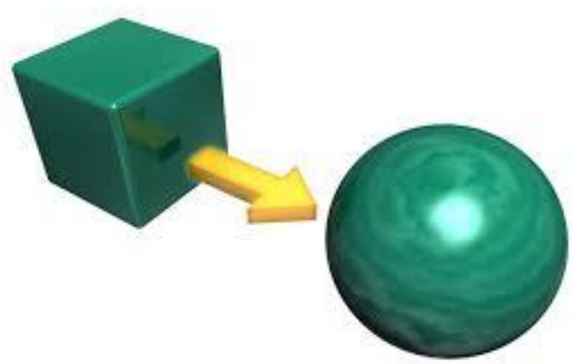
[11] Peter, L.J & Hull, R. (1969). *The Peter Principle: Why Things Always Go Wrong*. New York: William Morrow and Company.

3. A lack of understanding about what must change and what must stay the same when transforming an organization

In the current paper we discuss the importance of defining and measuring progress towards the objectives of the transformation, and the role of organizational purpose and core values in this process. We also examine the role of various organizational stakeholders in setting transformation objectives, and discuss the importance of performance measurement and of securing stakeholder engagement in helping to ensure the objectives can be met.

As in our previous papers in the series, our arguments are grounded in evidence from the business literature, and the paper has a highly practical focus, providing clear guidance for organizations that wish to develop their abilities to successfully transform using the "Art and Science of Transformation®" framework.



The Art and Science of Transformation®

Before discussing the role of objectives in the transformation process, it is important to distinguish transformation from more modest change initiatives and to outline our recommended Art and Science of Transformation® approach.

Firms have always implemented organizational change projects in order to improve operational areas of work, introduce a new technology or modify the way they deliver services, for example. But these have traditionally been more limited to a single department or functional area (Burke, 2010).

Transformation, in contrast, consists of large scale change which involves all areas of the organization as well as external stakeholders, and is conducted in a holistic way, in recognition of the interrelatedness of the organization's business strategy, culture and systems. Large transformation initiatives are becoming increasingly common and essential for business success, yet relatively few organizations are successfully achieving them:

- In a major survey of more than 300 European corporations, 82% of respondents reported that they were conducting at least two major change initiatives every year.
- PMI reported that in 2011 the average transformation project budget was US$4.4 and initiatives were increasingly large and "high stakes" in nature.
- The survey evidence suggests that only around 30% of transformation projects are typically successful, and 30% fail completely, with the remainder only achieving some of their objectives (Ward & Uhl, 2012).
- When transformation projects fail, they usually result in significant costs for the organizations concerned (Ward & Uhl, 2012); a study of more than 5,400 large-scale IT projects found that 17% went so badly wrong they threatened to destroy the organization (Bloch, Blumberg & Laartz, 2012).
- Monitor Deloitte (2013) report that 1 in 6 high-stakes projects overrun their costs by 200% and their schedules by almost 70%.

A growing body of research indicates that, when projects fail, this is seldom due to the inadequate use of project management tools and techniques. Instead, projects most often fail because of a lack of attention to the people-related aspects of change, in areas such as leadership, culture and communications (Economist Intelligence Unit, 2008); IBM Corporation, 2008); McKInsey & Co., 2008).

In our framework, we define the "science" of transformation as the use of change management tools, methods and techniques, such as those set out in the Project Management Body of Knowledge (PMBOK) and including for example planning, resource estimation and risk analysis. We define the "art" of transformation, in contrast, as the softer, people-related skills and attributes that are often personal in nature or develop from experiential learning. These include communications and inter-personal skills, leadership and the types of attributes sometimes referred to in terms of "acumen" or "emotional intelligence".

Though many sources now stress the importance of people-related skills in organizational transformation, the Art and Science of Transformation® approach highlights the importance of applying *both* art and science for successful change: what is important is identifying and achieving the "right" combination of art and science in any project. This often has as much to do with mindsets as with specific skills or expertise: the art and science of transformation® requires the application of both "right brain" and "left brain" thinking, In any organizational transformation, it is crucial to achieve the right balance of art and science (Figure 1).

ART
(Political Acumen, Business Acumen, People Acumen, Leadership)

SCIENCE
(Technique, Methodologies, Processes, Tools)

Right Brain – The "Art"	Left Brain – The "Science"
Random Intuitive Holistic Synthesizing Subjective Looks at Wholes	Logical Sequential Rational Analytical Objective Looks at Parts

Figure 1: The Art and Science Balance

The Art and Science of Transformation® approach also has the following characteristics:

- It involves a systematic, art and science-based approach to planning and implementing transformation, which is fully integrated with core business planning in the organization.
- It uses a holistic approach to identify and address the need for transformation in all inter-related components of an organization, including its people, culture, systems and processes.

This is the overall conceptual framework within which we discuss how to determine appropriate objectives for an organizational transformation, the role of key players in this process and the importance of measuring and reporting on progress towards the objectives and of stakeholder engagement in contributing to effective transformation in any organizational setting.

The Role of Objectives in Effective Transformation

In order to define appropriate transformation objectives, it is first important to establish a sound understanding of the organization's fundamental purpose and core values. The reason for this is that effective transformation can be defined as a continued focus on the organization's fundamental purpose and core values, while changing the way these are pursued in response to changing market conditions or other drivers in the external environment.

The objectives of a transformation therefore define what the organization intends to achieve in order to improve its ability to pursue its purpose and values more effectively within the current environment.

As discussed in our previous white papers in this series (Schroeder 2012; Schroeder 2013) an organization's core values and fundamental purpose are the "guiding principles" that should shape everything it does. As guiding principles, they can never actually be fulfilled, but act: "like an enduring star on the horizon" (Collins & Porras, 2005, p.8). Since they represent the very essence of the company and the reason it was established, they cannot be artificially created in an existing company, they can only be discovered or identified.

Yet many organizations have never properly identified and defined their core values and fundamental purpose, and frequently confuse these with their current business strategy. This results in a lack of direction for the organization and the inability to set and effectively towards longer-term goals.

The process of setting appropriate transformation objectives begins therefore with a clear definition of the organization's core values and fundamental purpose. We discuss these further in the following sub-sections.

Core Values

Organizations usually have a relatively number of core values, which define "how" they operate in pursuit of their fundamental purpose.

For example, the Coca-Cola Company states that its values "serve as a compass for our actions and describe how we behave in the world." Some specific examples of core values as formally identified on company websites include the following:

Coca-Cola Company	Collaboration, integrity, accountability, passion, diversity and quality.

PricewaterhouseCoopers (PwC)	Excellence, teamwork, leadership
Schroeder & Schroeder, Inc.	Professionalism, Empathy, Honesty & Integrity; Customer First (examples)

Values are important in determining the types of relationships that an organization has, both within the organization and with external stakeholders such as customers and business partners. An organization's true values will always be reflected in the way it interacts with others and conducts its business, whether or not these are the stated values included in its marketing literature. Organisations gain trust and respect by ensuring that their actions are always aligned with their stated core values.

Fundamental Purpose

The most common mistake that companies make when thinking about their fundamental purpose is to confuse this with revenue generation, or the supply of specific products or services. In fact, these are only outcomes of pursuing the organization's fundamental purpose, and will necessarily fluctuate and change over time.

It is essential to identify and use the real fundamental purpose as an ongoing business tool and, along with the firm's core values, as a guiding principle for transformation.

We contend that all organizations have a fundamental purpose that can be defined in terms of the types of human needs it is basically concerned with serving, either directly or indirectly through providing products and services to other organizations. There is considerable research evidence that the most successful of businesses define their purpose in this way, as well as successfully balancing the needs of their customers with those of their own employers, shareholders and other stakeholders (Collins & Porras, 2005; Denning, 2012; Kanter, 2011).

This can be explained further using Maslow's hierarchy of human need (Figure 2), which we discuss in more detail in our Organizational Purpose and Transformation white paper (Schroeder, 2013).

For example, consumers have basic needs for food and shelter but will often seek to satisfy higher level needs at the same time. For example, they may choose to eat at a restaurant with friends to satisfy the need for nourishment as well as that of social interaction. In most societies, people have complex combinations of needs that also often include psychological needs for status and self-esteem or a self-less desire to contribute to the needs of others and of society in general.

Figure 2: Maslow's Hierarchy of Human Needs

Defining an organization's fundamental purpose in relation to these universal human needs provides more consistent meaning to the firm's activities over time, as well as the flexibility to differentiate and develop brands that deliver enduring success despite changing market demands (Denning, 2012).

Evidence of the effectiveness of this approach is provided by the examples of highly successful global corporations:

- Collins & Porras (2005) found that companies such as Disney and Boeing, which have retained a consistent purpose and values while modifying their specific strategies and products over time, have outperformed their stock market competitors by a factor of 12 since 1925.
- Kanter (2011) conducted research with respected, financially successful corporations around the world, and found that a common factor between them was having purpose and values at the core of their organizational identity and defining their purpose in terms of meeting the various needs of stakeholders: employees, customers, business partners and shareholders.

Values and Purpose as Guiding Principles

There are a number of reasons why this consistent focus on values and purpose generates significant business benefits, and why transformations should always be addressed at improving the ways in which organizations are able to achieve this.

The benefits of a consistent focus on positive values and a fundamental purpose include:

- Being able to develop trust-based relationships with customers, employees, business partners and other stakeholders who share these values. The relationship capital that these represent is reported to be one of the most valuable business assets and is associated with benefits such increased sales, improved business performance, high levels of employee engagement and the ability to secure valuable skills and expertise (Kanter, 2011; Lory & McCalman, Nally, 2014; Tapscott, 2006).
- Providing direction to an organization, by guiding day-to-day decision-making as well as longer-term business strategy (McDermott & Sexton), and allowing for experimentation and innovation by reducing the business risks while ensuring that the basic essence and identify of the organization is retained (Collins, 1995).
- Providing a shared focus and identity for individuals within the organization and stability in the context of turbulent organizational transformation. This is especially important in the new business environment in which "organizations" may consist of virtual networks of employees who may never meet in person (Lory & McCalman, 2002).

To reiterate, therefore, transformation objectives should be defined in terms of what the organization needs to do to pursue its fundamental purpose, within the context of its core values, most effectively in the prevailing business environment.

Transformation becomes necessary when changes in the external environment result in an organization being unable to pursue its fundamental purpose as effectively as possible based on its current business strategy or operating model. In the following section we identify some of the factors that are driving the need for frequent organizational change in today's business world, and distinguish between two categories of transformation objectives that may arise from these developments.

The Drivers of Transformation

Identifying the Need for Transformation

Transformation should ideally arise from proactive business strategy, in which the competitive landscape, customer needs and preferences, and new business opportunities are continually monitored. In this way, the need for a transformation initiative will have a strong evidence base and will form a response to a major opportunity or perceived risk in the external environment.

For example, Yohn (2014) identifies three main strategies for continually scanning the business environment for threats and opportunities in relation to changing customer needs and preferences.

- Scanning: monitor different media, cultural developments, and competitor activity and identify the significance behind them.
- Listening: Identify what consumers are saying through social networks.
- Forecasting: Look for the development of common themes and innovations in seemingly unrelated fields.

In practice, many organizations will only recognize the need for a transformation initiative when disruptive factors in the external environment begin to have adverse impacts on business performance. The warning signs that point to the need for organizational transformation may include, for example:

- Falling profits
- Reduced market share
- Reduced sales
- Damaged reputation
- Low employee morale
- High absenteeism and staff turnover
- Stakeholder conflicts

These can be interpreted as symptoms that an organization's existing business strategy or operating model no longer serves it well. While the company's fundamental organizational purpose should not change, the means of achieving it must change if it is to survive and remain competitive.

The evidence that many companies do not heed this warning lies in the business lifespan statistics: the average lifespan for companies in the S&P index of leading US companies is now only around 15 years, compared with 67 years in the 1920s (Gittleson, 2012).

Factors Driving Transformation

The high levels and frequency of organizational transformation now being exhibited by many organizations reflect a number of factors that are dramatically changing the environments within which they operate and making older business strategies and operational models obsolete. These include, for example:

Industry competition	There is fierce competition in many sectors now that the falling cost of technology is lowering entry costs, and facilitating the use of low cost business models, such as virtual teams of non-permanent employees (Kaplan, 2012; Tapscott & Ticoll, 2000). Competition also sometimes takes the form of "disruptive innovations' (Wessel & Christensen, 2012), or revolutionary product developments that effectively make existing product categories obsolete, in the way that digital photography has now largely replaced film for example.
Socio-economic developments	Demographic changes, economic pressures and lifestyle trends are changing the relative value that people place on different types of products and services over time. In many western societies, markets are changing in ways that reflect the aging of their populations while in rapidly developing countries the changes often reflect growing levels of affluence. Organizations therefore need to adapt the products and services they offer in response to changing demands.
Transparency	The Internet has brought about greatly increased transparency of organizational information as well as industry knowledge: this increases business risks but also provides opportunities to cultivate positive customer relationships and collaborative business partnerships (Chesbrough & Appleyard, 2007; Creamer & Amaria, 2012; Nielson, 2012).
Relationship capital	Now that it has become easy for most individuals and organizations to develop vast networks of contacts via the Internet and social media, there is an increased emphasis on the ability to develop *authentic trust-based relationships*

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	as a business performance differentiator. This differentiator extends to customer relationships: Web 2.0 technologies have elevated the role and influence of individual consumers via social media and online review sites, and companies now need to engage and interact with customers on a personal level to build and maintain brand loyalty.
Sustainability	There are greatly increased demands in the current economy for businesses to be socially and environmentally responsible and consider the "triple bottom line", not just value to shareholders. This reflects an increased focus on "selfless actualization" or the ultimate level of human need defined Maslow's hierarchy. Nally (2012) reports on a survey that found an emphasis among CEOs on defining a fundamental purpose that reflects their organization's total contribution to society.
Globalization	To survive in the emerging business environment, many companies need to cultivate new overseas markets or global supply chains. This brings new challenges of identifying and addressing factors arising from different national or regional cultures.
Complexity	Today's business environment is not only characterized by change but by unprecedented levels of complexity and unpredictability. Gruman (2014) observes that this introduces a requirement for new mindsets and practices, including the empowerment of individuals and teams to function relatively autonomously; an emphasis on diversity to ensure that types of experience and ways of thinking are available to the organization, and the need to consider the impact of actions on the wider systems within which one operates.
Increased regulation	In many countries, an increasingly strict regulatory environment is requiring organizations to undergo extensive organizational transformations to ensure the requirements can be met. For example, global environmental legislation is driving a whole new emphasis on sustainability in many organizations, and the passing of the Sarbanes-Oxley Act in 2002 introduced a new focus on personal responsibility and accountability which necessitated both operational and cultural changes in

many U.S. organizations.

The need to respond or adapt to any or all of these types factors might be "life changing" for an organization, in the sense of necessitating:

- A radical change in what the organization needs to do to achieve meet its core purpose in ways that are best aligned with the needs of the target market.

  and/or:

- A radical change in how the organization achieves its core purpose in ways that optimally balance the needs of the market with the needs of other stakeholders.
- These needs are related to two distinct, though often inter-linked, categories of transformation objectives that we discuss further in the next section entitled "Setting Transformation Objectives". First, let's consider a few examples from the business literature of real-life organizational transformations that resulted from changes in the external environment:

Transformation Case Study Examples

Transformations Arising from Industry Competition

- Nambudiri & Ravichandran (2013) provide the example of REBI, a long-established public sector bank in India. The bank was traditionally inward looking and a low user of technology. As a result it was losing business to new, innovative private banks within the semi-urban and rural markets that it had once dominated. In response, the bank implemented "Project Restructuring", which focused on cultural transformation and a complete re-branding of the bank to focus on value for money, multi-channel and fast delivery of services and transparency of operations.
- Dutch-based insurance company Aegon was facing intense competition in its UK market, especially from companies selling direct to consumers rather than using financial advisers. It was also facing the challenges of increased industry regulation and a widespread lack of awareness and understanding among its target market about insurance products and services. In response, Aegon carried out a brand audit that looked at both internal culture and external market positioning, and used the findings to implement major changes intended to improve its competitiveness. These included an increased focus on the needs of customers including the provision of simplified financial; workforce skills development to support the change of business focus; the creation of a new, fresher brand that would make the company more distinct and increase its appeal

to customers; and cultural transformation underpinned by a framework setting out the expected new behaviours of employees and the values on which these were based. (http://businesscasestudies.co.uk/aegon/embracing-and-pursuing-change/implementing-the-change.html#ixzz33plZ3xdh)

Transformation Arising from Socio-Economic Developments

- Within the fast food sector, changing consumer demands are reflecting growing health-consciousness and a preference for natural food products and ethical operations, combined with the continued requirement for good value and convenience. While many participants in this market have chosen to focus on lowering costs and improving efficiency, Chipotle Mexican Grill has responded to the demands for high quality, natural food ingredients and socially conscious working practices, and despite its higher than average fast food prices has experienced rapid business growth as a result. The company also implemented an employee-focused culture that empowers staff and rewards those who perform well with management opportunities (Nisen, 2014; Yohn, 2014).

Transformations relating to Relationship Marketing

- A major transformation in culture and branding was also undertaken by Great North Eastern Railway Ltd (GNER) in the UK which, after being awarded its franchise, realised that to compete with other forms of transport it would need to focus on relationship marketing, especially with its first class travel passengers. The company developed a new brand focusing on the “ultimate travel experience” from the perspective of the customer, which has required considerable shift in working practices and mindsets, and extensive retraining of staff. (http://businesscasestudies.co.uk/great-north-eastern-railway/creating-an-ultimate-travel-experience/the-mission-statement.html#ixzz33pn2SYEP)
- Rolls Royce is an example of a company that had to transform its whole business model from one focused on manufacturing to one focused on customer service and relationship marketing. It has also completely changed its product line from cars to aero-engines in response to market competition. When the company first started to actively grow its share of the aero-engine market in the 1970s, the emphasis was on cost and efficiency. Now that the market has become more much competitive, Rolls Royce has transformation its whole organizational culture to be focused on relationship marketing and providing a complete customer care service, including after sales service. This has required a major cultural transformation, including for the empowerment of its employees to make on the spot decisions tailored to the needs of individual customers. (http://businesscasestudies.co.uk/rolls-royce/competing-within-a-changing-world/conclusion.html#ixzz33pbDIgks)

Setting Transformation Objectives

The earlier sections of this paper set the context for defining transformation objectives by discussing the meaning of transformation and the factors that often necessitate this form of large-scale organizational change. In this section, we now address two important questions:

- Why is it important to define transformation objectives?
- How should transformation objectives be defined?

The Importance of Transformation Objectives

Having clear objectives is proven to be associated with successful transformation. Though this may seem obvious, the reality is that many organizations carry out transformation initiatives without any clear sense of what they are intended to achieve.

In an executive survey conducted by McKinsey (2008), respondents who reported successful organizational transformations were more likely to others to indicate that their goals were both "clearly defined and truly transformational". But a quarter of respondents in their survey of transformation projects said that the target was not well defined.

Having a general vision of the proposed transformation is not enough, clear objectives are important to turn this into a "viable undertaking" (Monitor Deloitte, 2013). Concrete objectives can be translated into a specific strategy and plans for how to achieve these, or what Fernandez & Rainey (2006) refer to as a transformational road map, "offering direction on how to arrive at the preferred end state, identifying obstacles, and proposing measures for overcoming those obstacles."

Having clear objectives for the transformation is also important for:

- Ensuring that the proposed initiative is directed at achieving the fundamental purpose of the organization, within the scope of its core values, since this is the key to transformation success.
- Helping to secure internal and external stakeholder commitment to and engagement with the initiative, by clarifying what the transformation is intended to achieve, and providing a basis for communications that explain why.
- Providing a standard of accountability for the organization and project stakeholders, and helping to ensure individual stakeholders cannot deliberately or inadvertently change the goals during the implementation process (Fernandez & Rainey, 2006).

- Defining the desired end state against which detailed project plans and budgets can be developed, helping to ensure that the initiative is appropriately resourced in terms of time, stakeholder inputs and money.
- Defining the desired end state against which transformation progress can be monitored and measured.

How to Define Transformation Objectives

Having set out some of the main reasons why it is important to clearly define the objectives of an organizational transformation, in this section we distinguish between two main categories of transformation objectives to assist organizations in the process of defining their objectives.

These two categories of transformation objective are distinguished by the different ways in which they are intended to improve an organization's ability to pursue its fundamental purpose, within the scope of its core values. We define the two different types of transformation objectives as follows:

- **Strategic Transformation Objectives** are concerned with realigning the organization more effectively with the exact needs of its target market. These focus on "what" the organization does to achieve its fundamental purpose, and relate to its interactions with external stakeholders, primarily its clients or customers.
- **Operational Performance Objectives** are concerned with ensuring that the organization's fundamental purpose can be optimally achieved in ways that effectively balance the needs of the market with the needs of other stakeholders, such as employees and shareholders. These focus on "how" the organization goes about achieving its purpose, and relate primarily to the ways things are done within the organization, including interactions between internal stakeholders.

  Transformation initiatives will often, but not always, include both types of objectives. Invariably, the use of new strategic transformation objectives will also require a major change in how the organization goes about its work in order to achieve these. However, some transformation initiatives may only have operational performance objectives, for example when transformation becomes necessary in order to improve the effectiveness or efficiency with which existing business strategies are pursued.

Table 1 provides examples of types of transformations that require strategic transformation objectives and operational performance objectives, respectively. In other words, the examples in the left hand column are concerned with transforming "what" an organization does in order to pursue its fundamental purpose, and those in the right hand column are concerned with "how" it goes about pursuing this purpose in operational terms. The two types of objectives are discussed further in the following sub-sections.

Table 1: Examples of transformations requiring strategic and operational objectives

Examples of Transformation in "What" an organization does	Examples of Transformation in "How" an Organization operates
Moving into a new industry sector or market niche	Changing from large scale manual systems to IT / ERP systems
Introducing a major new product or service line	Merging with another company or going into partnership
Developing and marketing a completely new "brand" for the company	Implementing a new leadership style
Targeting new geographic markets	Restructuring or reorganizing core business processes
Introducing a new focus on economic and social sustainability in all areas of the business	Changing delivery mechanisms, e.g. from store-based to online shopping

Strategic Transformation Objectives

The need to realign the organization more effectively with the exact needs of its target market often arises due to a shift in consumer preferences, or a decision to redefine the target market by expanding overseas, for example. It may also result from deliberate efforts to generate a better understanding of the needs and preferences of its current target market.

Strategic transformation objectives might be based, for example, on introducing a new product or service designed to meet the needs of the market more effectively, or by changes in marketing or branding to appeal more to the emotions as well as the reasoning of target customers. These objectives are important to ensure that the organization can stay competitive or become a market leader in its industry niche.

The use of a tool such as Maslow's hierarchy of human needs can be useful for the purpose of analyzing and defining an organization's brand positioning, starting with the basic level of human need and adding the various components that relate to higher level needs. Few organizations can compete effectively by producing purely functional products and services, at least in the B2C market and in the B2B service sector: they need to add value of various kinds in order to appeal to higher level needs and ensure that their offerings stand out from the competition.

This is particularly true of service industries in which the customer or client "experience" is central. Favaro (2014) points out, for example that wealthy individuals tend to choose financial advisors based on personal characteristics or connections, and not because of the range of investment products they offer, while Virgin Airlines attracts customers who share the types of "offbeat, non-establishment" approach.

Another useful tool for use in this process is the concept of "value discipline". Identifying the firm's value discipline involves understanding why customers choose to buy from one organization versus another offering the same set of products or services. This value discipline is what the organization must consistently address in order to remain competitive in its market while pursuing its fundamental purpose and usually consists of excelling at either operational excellence, product / service leadership, or customer intimacy. Each of these have implications for the definition of operational transformation objectives.

- **Customer intimacy**: which involves accurately segmenting and targeting markets and developing offerings that are tailored to exactly meet the needs of these market niches. This is the strategy of firms such as Lvmh Moët Hennessy, Hermes and Louis Vuitton, which rely on a relatively small target market within which consumers are prepared to pay high prices in return for having their specific needs and preferences met.
- **Product leadership**: which means consistently enhancing the customer experience with new leading edge products and services, thereby making the offerings of rivals obsolete. A leading example of a firm that focuses on product leadership is Apple, Inc., which continually introduces new products in a "disruptive innovation" fashion (Wessel & Christensen, 2014). These replace its own earlier offerings in the interests of long-term profitability and the retention of a competitive edge over others in its markets.
- **Operational excellence**: this addresses a perceived customer preference for low cost and convenience, and is focused on developing competitively priced products and services that can be obtained with minimal inconvenience or difficulty. Companies that epitomize this model include Walmart and Amazon.

Whichever strategic value focus is adopted, Yohn (2014) argues that it is often better to develop a cohesive identity and brand targeted on specific market segments rather than addressing too many different customer groups.

In summary, strategic transformation objectives will generally be concerned with improving performance in relation to:

- The ability to identify and monitor the specific needs of the target market
- The development of products or services accurately aligned with target market needs
- Expanding markets or targeting new markets
- Effective brand positioning and marketing

Operational Performance Objectives

Operational performance objectives will be required when a company needs to improve *how* it conducts its activities in pursuit of its fundamental purpose and its desired strategic transformation objectives.

To understand this, we need to consider the various groups that have a "stake" in the organization. These include its customers or clients, its employees, business partners or contractors, and its shareholders. All have different and often conflicting interests in the way the organization operates. For example:

- Customers and clients generally want to maximize the value they receive for the price they are prepared to pay; they often also wish to satisfy higher level needs, for example by awareness that they are helping protect the environment by choosing a firm that operates sustainable working practices.
- Employees want to be well and fairly compensated for the jobs they do, but will also often seek to satisfy higher level needs for interesting and satisfying work. Frequently, individuals will choose to work for a firm whose values they share, even if this means earning less that they could in a different organization.
- Shareholders are primarily concerned with increasing revenue, but also need assurance that the organization is properly governed and operating in an ethically sound way.
- Business partners and suppliers want to get the best value from their contracts with the organization, but may be prepared to compromise in order to build authentic business relationships with a firm whose values and purpose is closely aligned with their own, since this generally results in multiple business benefits.

Operational performance objectives are generally concerned with reconciling these needs in the optimum way for overall business performance and involve changes to internal operations of as well as the interactions or relationships that occur between people within the organization. They are generally concerned with improving either a) efficiency, or b) cost-effectiveness and include, for example:

- Ensuring that internal operations and relationships are properly aligned with the core values of the organization and a shared understanding and commitment to achieving the fundamental purpose.
- Reducing the overall financial and non-financial costs to the organization, e.g. by using more efficient or cost-effective working methods, tools and processes.
- Improving the responsiveness and speed with which operational processes and working methods (interactions of people) are able to pursue the fundamental purpose.

If we consider the three main business strategies defined earlier, we can see that each of these has different implications with regard to the setting of operational performance objectives:

- Customer intimacy requires a high level of agility to respond quickly to unanticipated changes in customer demands and preferences. This model also calls for extensive integration across the organization to deliver "seamless" customer experiences (Yohn, 2014).
- For an effective product leadership strategy, there must be a strong internal focus on product or service innovation as well as the flexibility to adapt operational processes to the production of different products and services over time.
- For operational excellence, the priority is to ensure that operational and supply chain processes are as efficient and cost effective as possible.

Depending on the business model adopted, the operational performance objectives of a transformation will generally be concerned with improving performance along one or several of the following dimensions:

- Levels of knowledge/understanding of customer requirements
- Products/services meeting defined quality standards (in relation to preferred business model)
- Innovation performance: numbers of new products/services developed and successfully brought to market
- Levels of employee awareness and understanding of business goals and objectives
- Level of integration between areas of the organization
- Speed of product development
- Speed of delivery
- Speed of responsiveness to changing customer demands
- Production costs
- Delivery costs

Operational performance objectives for a transformation should not be confused with the more limited *project goals*, such as the targets for completing the project within a particular timescale and budget.

Operational performance objectives are the intended organizational changes that will result from the project and improve the ability of the organization to balance the needs of its stakeholders.

However, the variables included in operational performance objectives and the project goals are often similar, and include the types of factors identified in the Project Management Body of Knowledge (Version 5, PMI, 2013) as follows:

"Success is measured by product and project quality, timeliness, budget compliance, and degree of customer satisfaction." (p.7).

A project which successfully achieves these types of factors in one which will generally satisfy the needs of all main stakeholders, such as the CEO, CFO, operational managers, employees and customers. In a similar way, the ultimate outcomes of the organizational transformation must ultimately reconcile and satisfy the needs of its stakeholders. In fact, it could be argued that transformation is all about people, and all about relationships.

The Importance of Relationships

An important aspect of the Art and Science of Transformation® approach is its central focus on the role of relationships between people. The ability of an organization to effectively pursue its fundamental purpose always depends on the involvement and actions of various people, including the organization's employees, managers and organizational executives, its clients or customers, business partners and suppliers.

A useful way of thinking about the desired the objectives of a transformation, therefore, is in terms of how the organisation intends to influence its internal or external relationships so that it can pursue its purpose most effectively.

As noted earlier in the paper, "relationship capital" is now recognized to be one of the most important economic assets, associated with a range of benefits including improved organizational learning, better innovation performance, increased market share, improved financial performance and reduced costs. But not all types of relationships are equally valuable, especially in the current business environment in which most organizations have numerous "weak ties" but relatively few "strong ties" or authentic trust-based relationships. We discuss this issue at more length in our *Trust, Relationships and Transformation* white paper (Schroeder, 2013).

The ability to build trust-based relationships with other organizations, customers and between employees within the organization is likely to be one of the main factors that improves a firm's ability to pursue its fundamental purpose and to experience strong business performance.

Improving this ability to develop authentic business relationships requires that:

- The organizational purpose and values are properly and clearly defined and made transparent both within the organization and to external stakeholders. This will provide a focus of identity and the basis for effective team working throughout the organization, and to attract employees, customer and business partners that share these values and purpose.
- Appropriate leadership styles are used – "servant leadership" is known to be most effective in building the trust of employees. This involves empowering employees,

respecting their views and involving them in decision-making, rather than just telling them what to do (Rogers & Riddle, n.d.).

- Organizational leaders, managers and employees have the right skills and attributes to develop trust-based relationships internally and with customers or other external stakeholders. These include, for example, good interpersonal and communication skills, respect for others, honesty and transparency, and are discussed more fully in our white papers on Trust, Relationships and Transformation and Building Authentic Business Relationships.

- Relationship building is a central focus of business strategy and, as such, receives appropriate levels of commitment and resources. An important part of this is redesigning organizational systems as necessary to ensure that they promote rather than hinder relationship development. For example, the performance management and compensation systems should acknowledge and reward employees appropriately for their contributions to relationship building.

- The organizational culture is supportive of relationship building: there is a need to ensure that the organizational norms are promoting selfless, co-operative behaviours, team working, and a focus on the needs of clients and customers. Our white paper on Cultural Transformation (Schroeder, 2012) explains how to undertake a cultural transformation initiative to ensure that corporate culture is well aligned with a desired business strategy, which might include for example an emphasis on relationship building and relationship management.

- Effective branding and marketing techniques, which appeal to emotion as well as rationality, are used to build consumer trust, and this is sustained through ensuring that products and services meet expectations of quality, reliability and usefulness (Afzal et al., 2010).

    - Halliburton and Poenaru (2010) explain that rational trust is derived from perceptions of competence and reliability, while emotional trust arises from the feeling that the customer is receiving care and concern from the product or service provider.

    - Emotional trust can be built through "benevolent" customer care activities such as customer relationship management and service guarantees (Kantsperger & Kunz, 2010)

    - Researchers have found that emotional and rational trust in a product drive between 22% and 44% of customer loyalty with other contributing factors including previous experience of the brand, open communications with the company, and perceived value (Halliburton & Poenaru, 2010; Joel, 2009).

    - Trust in a brand makes a consumer less likely to shop around: IBM (2012) refers to the trust a company has built with customers as "cognitive monopoly" over their competitors.

- An effective social media strategy is used to positively manage the organization's online presence and its interactions with individual customers: this is crucial now that consumers place more trust in the recommendations of other people than in formal advertising. The Nielson Global Online Consumer Survey (2012) found that 90% of consumers trust recommendations from friends and 70% trust online review sites.

Organizational Roles and Transformation Objectives

In this section we highlight the importance of leadership as well as stakeholder involvement in defining and the objectives of a transformation, and describe in this context the respective roles and responsibilities of different individuals and groups in the organization.

Our discussion about the art and science of transformation® and the role of fundamental purpose in this process demonstrates that transformation objectives must be identified and clearly defined in the context of top level strategic planning. We explained that effective transformation means pursuing the organization's purpose (serving specified human needs), within the context of its values, in ways that effectively and optimally meet and reconcile the current needs of the target market and of key stakeholders.

Since this involves the use of both strategic transformation objectives and operational performance transformation objectives, it is clear that these two distinct types of objectives require will different forms of input and expertise. In particular, the following two stakeholder groups have ultimate responsibility for defining appropriate and achievable transformation objectives:

- The Executive (CEO and C-suite), under the guidance of the Corporate Board, in the case of the strategic transformation objectives.
- The Operational Management team, under the guidance of the Executive (CEO and C-suite), in the case of the operational performance transformation objectives.

However, setting transformation objectives should not be a top-down activity, this process will need to draw on the knowledge and expertise of whoever is best placed to identify what is needed to improve the organization's ability to pursue its purpose, in terms of meeting the needs of its target market.

Setting strategic performance objectives will generally require a good understanding and broad view of the market and the business environment that the organization operates in, and is likely to be led by organizational executives supported by relevant senior managers.
However, in some cases the required knowledge and expertise will be held by relatively junior staff, particularly those that are needed for the purpose of defining operational performance objectives.

Additionally, the input of employees from functional areas of the organization will often be important to ensure that the proposed transformation initiative is feasible within the proposed timescale and budget, taking into account factors such as the expected human and financial resource requirements, the organizational infrastructure and technology and any potentially conflicting initiatives.

In some cases there may also be a need to secure the advice of an external consultant, elicit the input of business partners or conduct customer research in order to identify and understand how the organization needs to change in order to improve its business performance, and how to translate this into concrete objectives.

Since transformation is concerned with meeting an organization's fundamental purpose more effectively, and this based on customer needs, the direct involvement of these stakeholders in the process of objective setting is often one of the most effective ways of ensuring that the transformation will be successful.

Overall, therefore, the process of setting transformation objectives should be a highly participative one, involving a range of key stakeholders in order to secure the knowledge and information necessary for determining what type of transformation is required.

The organizational leadership will play an important role in this process, but one that is concerned mainly with facilitating and supporting the development of the transformation objectives by the organization as a whole rather than setting and implementing them from the top down. This reflects a new approach to leadership that many theorists now recommend for use in today's volatile business environment, as discussed in the following sub-section.

A New Kind of Leadership

Various theories have emerged to describe the most effective form of leadership in today's business environment, which are highly relevant to our discussion of objective setting process in organizational transformation.

In brief, approaches such as chaos theory and complex systems theory highlight the complicated, unpredictable nature of the environment in which most organizations now operate and emphasize that "command and control" forms of leadership cannot be effective in this environment (Institute of Management Accountants, 1998).

Firms likely to be most successful are those in which employees at all levels are empowered with responsibility and decision-making authority within their own roles and areas of accountability. This provides the organization with greater agility and responsiveness to the changing external environment, since individuals are more likely to be aware of external developments affecting their own specialist or functional areas, and can adapt to these without the need to consult or involve their management hierarchy.

Proponents of chaos theory contend that the most effective approach to developing business objectives is to provide top-level guidance regarding the scope of the objectives but let the specific objectives arise naturally out of what is referred to as "chaos", and which might be interpreted as the concurrent activities and decision-making continually occurring in a flexible, agile business environment. This is not actually chaos in a literal sense, a clear definition of and shared understanding of the organization's core values and fundamental purpose serve to unite the organization and to ensure that all stakeholders are working towards the same objectives.

This is what Uhl-Bien et al. (2007) refer to as a "complex adaptive system", consisting of "interdependent agents who are bonded in a cooperative dynamic by common goals, outlook, need etc." (p.299). Leaders play an enabling rather than an influencing role in this type of system (Plowman et al., 2007).

Higgs & Rowland (2005) identify three main roles of leaders in the complex and unpredictable business environment as:

- Shaping behaviours, e.g. controlling what gets done, making others accountable, using own experience of change to shape implementation, being expressive and persuasive.
- Framing change – establishing "starting points for change", designing and managing the journey and communicating guiding principles.
- Creating capacity – creating individual and organizational capabilities and communication and making connections.

There is another important precondition for the success of a complex adaptive system in an unpredictable environment: clear role definition. This is best explained using the concept of the "requisite organization" Jacques (1950), which sees roles and the relationships between roles as the "building blocks" of an organization, providing an overall structure that enables it to adapt to the changing environment while retaining its ability to perform effectively and pursue its business objectives.

The theory contends that clear role definition helps clarify goals, accountabilities and authorities and also promotes creativity and innovation within functional areas. The role of leaders is therefore to ensure that roles are clearly defined, so that the individuals occupying these roles can take responsibility for and be accountable for performance within their scope.

Based on this theoretical framework as well as our Art and Science of Transformation® approach, we recommend that organizational leaders establish or facilitate the implementation of cross-organizational working groups or other participatory mechanisms for use in reviewing current strategies as practices and identifying the need for transformation to improve the pursuit of the organization's fundamental purpose.

The objectives of transformation should evolve naturally from this process, and can be refined as necessary with additional input from relevant stakeholders to ensure they are both feasible to achieve, and correctly targeted at improving what the organization does, or how it goes about it.

Involvement of Customers

Involving an organization's end users in the setting of transformation objectives can also be a very powerful way of helping to ensure that they are based on an accurate understanding of their needs and preferences, in other words targeted correctly at the organization's fundamental purpose, which should be defined in terms of these needs.

Though customers and clients may not be directly involved in the formulation of specific objectives, their involvement in customer research and participation in online company blogs and forums, or in the innovation co-creation activities increasingly being used by some of the most forward-looking companies, can be instrumental in ensuring that the objectives are grounded in a strong evidence base about what needs to be changed.

Examples of B2C companies who involve their customers in this way include:

- The pharmaceutical company Novartis, which uses online communities to collaborate with patient groups in determining the development of new drugs (cited in Berman, 2012).
- The online clothing retailer Threadless.com, which bases its product design decisions on the submissions and votes of participants in its online consumer community (cited in Hoyer et al., 2010).
- Microsoft, which holds "co-creation workshops" with consumers, in which brainstorming processes are used to help the company produce more innovative ways of marketing its products (http://advertising.microsoft.com/en-us/cl/3563/co-creation-marketing-solutions).

Similarly, organizations in the B2B sector can ensure that their services are accurately targeted at the needs of their clients as well as the end users of services, by developing and implementing relationship marketing activities and strategies designed to improve understanding of client requirements and preferences.

Doing so is likely to be an effective business strategy in itself, supporting the development of authentic trust-based business relationships by demonstrating attention to client needs and willingness to adapt the organization's service offerings to ensure that these can be met.

To conclude, Table 2 summarises the key roles of organizational stakeholders in the process of setting objectives for a transformation. These include the Executive Sponsor, Transformation Steering Group and Transformation Project Manager, whose roles are discussed in more detail in other white papers in the Art and Science of Transformation® series.

Stakeholder	Key Roles
Corporate Board	Endorses the transformation objectives, and ensures they reflect the interests of shareholders as well as customers.
CEO and other C-Suite Executives	Ultimately responsible for finalizing the strategic and/or operational transformation objectives, ensuring that are aligned with the organizational purpose and values and balance the interests of all key stakeholders (customers, shareholders, employees and business partners). Leads on developing strategic transformation objectives, with input from relevant stakeholders.
Executive Sponsor of Transformation	Ensures that the transformation objectives are properly aligned with the fundamental purpose of the organization. Plays a leading role in drafting both strategic and operational objectives for the transformation. Ensures that relevant input is secured from functional areas of the organization and external stakeholders.
Operational Management Team	Plays the leading role in formulating the content of the operational performance transformation objectives, with oversight from the Executive Sponsor and other executives. Seeks input as necessary from functional experts within their individual areas of responsibility.
Transformation Steering Group	Ensures that the proposed transformation objectives suitably balance the needs of all key stakeholders, as well as being aligned with the fundamental purpose and values of the organization. Identifies any required revisions or modifications of the proposed objectives.
Transformation Project Manager	Responsible for ensuring that the strategic and/or operational transformation objectives are achievable and properly aligned or integrated Develops project-level goals based on the top level transformation objectives, for use in guiding completion of the transformation within defined time, cost and quality parameters.
Employees across the Organization	Provide input as required to the strategic and operational objectives through working groups and other participatory and decision-making mechanisms.
Customers and Clients	Participate in customer research and social media forums and improve the organization's understanding of their needs and preferences.
Other external stakeholders: business partners, consultants etc.	Provide advice and input as required to assist the organization in improving understanding of how to pursue its purpose in the changing business environment.

Table 2: Roles of Organizational Stakeholders in setting Transformation Objectives

Measuring Transformation Performance

It is not enough to set transformation objectives. Organizations undergoing transformation also need to design and implement systems for monitoring and measuring progress towards the achievement of their objectives. Indeed, one of the main reasons why it is important to define specific transformation objectives is to have a clear end state defined, so that progress in transforming the organization towards this can be monitored and measured. Without the ability to monitor progress, it is unlikely that the transformation will succeed.

Successful transformations generally involve a systematic and holistic approach to monitoring and measuring performance. PricewaterhouseCoopers' (2009) research into company mergers showed that the most effective involved both quantitative and qualitative monitoring of integration performance, including measures of customer satisfaction and employee engagement.

There are a number of important reasons to monitor and measure the performance of a transformation initiative and progress toward the defined transformation objectives.

- To provide a clear target outcome for the change initiative against which progress can be measured and which defines "success" for the transformation.
- To provide a regular indication of the overall "health" of the transformation initiative and its likelihood of achieving the objectives within the intended timescale and budget, so that any corrective actions can be taken.
- To provide information on the effectiveness of specific transformation methods and strategies and identify required modifications.
- To drive successful transformation by providing evidence of progress and of any organizational benefits arising from the initiative, which will serve to inspire and motivate organizational stakeholders and justify the continued investment of resources into the transformation.
- To provide information on cumulative financial and non-financial costs of the transformation so that the return on investment (ROI) can be assessed to a reasonable degree of accuracy.

Despite these important reasons to monitor and measure transformation performance, surveys indicate that relatively few companies attempt to do so.

For example, a study by KPMG (2010) found that two thirds of companies surveyed did not attempt to measure the return on investment of their projects and more than a quarter did not review the resulting business benefits. Similarly, most of the companies surveyed by PricewaterhouseCoopers (2009) were not using any performance indicators to systematically measure their merger integration performance.

Issues and Considerations

There are many possible reasons why organizations fail to measure progress towards transformation objectives.

Organizational leaders may not fully understand need to do so, they may feel that it is too difficult to identify what needs to be done, or that measurement is not appropriate for the type of transformation they are undertaking. They might have concerns about the time, effort and resources that will be required. There are also often concerns about the potential risks or adverse effect, for example reduced productivity or demotivation among employees if they perceive that there is excessive monitoring of their work.

None of these are valid reasons for avoiding the use of performance measurement, but there are a number of important questions and considerations to be taken into account when planning a performance monitoring and measurement system, in order to maximize the benefits and avoid any negative impacts.

The remainder of this section provides information and guidance which address these, and are intended to help make the process of implementing a transformation performance measurement system less daunting and to highlight the benefits of doing so.

The Art and Science of Performance Measurement

As highlighted earlier, the science of transformation refers to formal project management tools and techniques as well as the left-brain systematic approach to change, while the art of transformation refers to the people-related aspects of transformation and the right-brain, holistic approach to thinking about and implementing what needs to be done to achieve a successful transformation. It is essential to achieve the right combination of art and science for success in any transformation initiative.

Performance measurement of transformation progress falls largely into the "science" of transformation, since it requires a logical, systematic approach and the application of relevant specialist knowledge and tools to design, implement and analyze data from monitoring and measurement systems.

However, effective transformation performance measurement must also necessarily incorporate a focus on the "art" of change, both in terms of a holistic approach and the importance of monitoring and measuring people- and cultural-related changes. Our discussion of performance measurement therefore highlights the importance of combining art and science in transformation performance measurement, and of including both quantitative and qualitative measures of progress.

The art of performance measurement does not just involve collecting and reporting on qualitative measures of progress, however. Traditionally, business performance measurement systems have been focused mainly on financial and other quantitative indicators. The design and use of a more holistic system incorporating more qualitative measures also often requires a significant cultural shift within the organization, as well as different types of skills in system design, data collection and presentation and in the interpretation and use of the results.

The need for a new approach and mindset is needed in particular at the highest levels of the organization, where executives and senior managers will be used to decision-making based on "hard" financial information. This is increasingly inadequate in today's business world where the drivers of success are often "softer" people-related factors such as business relationships, trust, employee engagement and customer satisfaction, and organizations need to measure their performance against these qualitative and often very intangible factors (Nally, 2012; Shane 1997).

Good Practice Principles in Performance Measurement System Design

There are a number of important considerations involved in determining the overall design and scope of a transformation performance measurement system, including its overall scope, data collection processes and tools and analysis and reporting methods.

Above all else, this should be based on ensuring that the system can provide the information needed to ensure that the organization can achieve its transformation objective, but it is also important that it will not require too great an investment in time and resources or have other negative impacts such as demotivating employees.

Specifically, the following points should be considered when developing and implementing a transformation performance measurement system.

- The system needs to be able to provide evidence and understanding of progress to date, as well as what needs to be done to stay on track or improve future performance.
- It should enable the organization to measure two forms of transformation progress:
- Process, or whether the transformation initiative per se is progressing as intended. For example, are employees receiving sufficient information from the organizational communications system to enable them to understand their new roles and responsibilities? Is the performance measurement system itself being operated as intended and producing regular reports on progress?
- Outcomes: or concrete changes in the direction of achieving the transformation objectives. For example, if the transformation involves developing and marketing a new product or service line, have key stages such as design and testing been

completed? Have customer service staff been trained in providing the new service?

- The system should be designed not just to measure progress towards the transformation objectives, but should also be designed from the outset to be able to measure the longer-term value generated by the transformation initiative. Many of the true costs and benefits of a transformation will only emerge after the initial transformation project has been completed, especially employee-related factors such as improved performance and increased engagement (Meng & Berger, 2012).
- The system should be sophisticated enough to generate useful and accurate information but simple enough to be implemented and used without too great a resource burden on the organization, and to be readily understandable to all participating stakeholders.
- Progress reports should be produced at intervals long enough to allow real progress to be made, yet short enough to keep stakeholders engaged and motivated to achieve the transformation objectives, including any interim goals.

- Similarly, in determining how to define successful progress at key milestones of the transformation, the success indicators must be challenging enough to represent real progress and to deliver interim benefits to the organization, yet not too hard to achieve that they are demotivating to staff.
- To be useful in identifying what is working and what needs to be changed in the transformation initiative, the system must be able to investigate relationships among variables so that effects can be attributed to particular activities or factors. This is also helpful in helping to avoid subjective interpretations of causal factors, which can result in finger pointing between stakeholders and unwillingness to accept personal responsibility for problems.
- The transformation performance measurement system should be closely integrated with the organization's individual and team performance management system, to ensure that employees are encouraged to contribute effectively to the transformation, and rewarded for their achievements in doing so.
- Roles and responsibilities for managing the performance measurement system, collecting data, reporting on progress against key performance measures and interpreting and acting on the results should be clearly defined from the outset. If this does not happen, it is unlikely that the system will be effective in driving effective transformation.
- The system must be supported by an appropriate IT infrastructure that makes the processes of data collection, monitoring, analysis and reporting as efficient, user friendly and cost-effective as possible.
- The data collection and analysis system should enable information to be collected and analysed using methods that allow the key questions to be answered. In this respect it is important to distinguish between the use of quantitative and

qualitative data, as well as different forms of measurement, as we discuss in the following sub-section.

Types of Performance Measurement Data

In the past, business performance was generally measured in mainly quantitative, financial terms. It is now generally accepted that this is an inadequate form of performance measurement, since it neglects the more qualitative, intangible factors that contribute so much to overall business performance and growth.

It was calculated in 2000 that only between 10 and 15 percent of market value generated by the Standard and Poor 500, was being captured by traditional financial measures (Webber, 2000, cited in Striteska and Spickova, 2012). Since then, it is likely that non-financial measures relating, for example, to relationship capital and brand awareness have become even more significant.

When measuring performance against business transformation objectives, therefore, it is important to use both quantitative and qualitative measures to provide a comprehensive understanding of the progress being made, as well as any threats to the ability of the initiative to achieve its objectives which need to be addressed. Doing so is one important aspect of the Art and Science of Transformation® approach.

Quantitative Data: are important in enabling the organization to compare its performance against defined benchmarks and to provide information on performance against time and cost criteria. These include, for example:

- Financial measures, e.g. net income, revenue growth, profit, sales
- Time-related measures, e.g. percentage of project activities completed on time
- Numerical measures of customer satisfaction/brand awareness (e.g. percentage expressing a certain opinion, or exhibiting a defined level of awareness)
- Numerical measures of employee awareness/engagement with the initiative (e.g. percentages expressing a certain view).

Qualitative data: are important in helping to explain why certain quantitative results are being achieved, but also helps capture information on factors that are not easily quantified. These include, for example:

- Brand perceptions
- Forms of stakeholder participation
- Characteristics of organizational culture or "climate"
- Evidence of positive employee attitudes (e.g. engagement, commitment, motivation)

- Reactions and responses to a specific component of the transformation, such as communications
- Both quantitative and qualitative data are important in measuring performance against transformation objectives because:
- Different types of measurements are necessary for measuring different types of objectives and the strategies being used to achieve them, for example a cultural transformation versus the introduction of a new manufacturing system.
- There is a need to generate complementary information to provide insights into the different dimensions of transformation, such as increased brand awareness and the numerical impact on sales.
- Qualitative factors can often be quantified (e.g. percentage of satisfied customers), but the numbers only tell part of the story: it is important to examine relevant issues qualitatively, for example to examine the types of reasons why customers are satisfied or dissatisfied with the brand.
- Conversely, having collected qualitative data, for example by exploring employee attitudes to the transformation in focus groups, quantitative data can be used to investigate how widespread or representative the identified views are among the wider population of employees, using a questionnaire survey, and to monitor changes in these findings over time.

Quantitative and qualitative data used for the purpose of measuring transformation performance can be either primary or secondary in nature:

- **Primary data** – is new information collected specifically for the purpose of measuring transformation performance. Primary quantitative data might consist of operational information such dates on which activities were completed, or information generated from structured surveys, for example using Likert scales to measure employee and customer attitudes. Primary qualitative data can be generated using in-depth interviews or focus groups with transformation stakeholders, for example. The advantage of using primary data is that it can be designed to meet the specific information needs of transformation performance measurement, while the main drawback is the additional cost and time involved in data collection.
- **Secondary data** is that which was originally collected for a different purpose, such as management information, but which meets certain requirements of the performance measurement system. The benefits of using secondary data include the cost of data collection, and the ability to benchmark transformation progress against historic performance data. Though qualitative data is more often primary in nature, researchers are identifying innovative ways to explore stakeholder views through analysis of comments on social media sites or other online forums (e.g. Meng & Berger, 2012). A drawback of using secondary data is that it may not have been collected in exactly the right form to meet the needs of the transformation performance measurement system.

Selecting Performance Indicators

The variables against which transformation progress is measured are its performance indicators. The selection of this will depend on the specific objectives of the transformation. As a general guide, however, it may be useful to consider the findings of a review of transformation literature conducted by MacBryde et al. (2011). They identified nine primarily art-related success factors that are critical in transformation, and which might be considered for inclusion in a transformation performance measurement system:

- Leadership capability,
- Senior management commitment,
- Clear and shared vision,
- Employee buy-in,
- Conducive environment/culture;
- Effective communication,
- Collaboration and teamwork;
- Clear transformation plan
- Performance measurement in place.

More generally, following points should be taken into consideration when selecting performance indicators for the transformation initiative:

- They should accurately reflect the specific transformation objectives that they are intended to measure, and be capable of generating the types of information needed to demonstrate whether progress is being achieved.
- Collectively, they should represent the various dimensions of organizational performance necessary to achieve the transformation objectives, including quantitative and qualitative factors, and be suitable for use in investigating the inter-relationships between them and the relative contributions of each factor to overall transformation performance (Striteska and Spickova, 2012).
- The total number of indicators included should not be too high – it is important to identify and focus on the expected main drivers of progress, while retaining the flexibility to investigate and incorporate the contributions of other factors based on emerging insights (MacBryde et al., 2011). LaValle emphasizes the importance of starting the selection process with the key questions that the organization wants to answer, and not just collecting all information relevant to the transformation objective. This will help prevent information overload and confusion, and ensure that the key messages can easily be identified.

- However, the main indicators of transformation performance should be retained over time and defined in the same way. Evolving and changing indicators makes it difficult or impossible to compare current with historical performance.
- It should be possible and feasible for the organization to obtain the data to measure performance against the selected indicators, without too much of a burden on its resources.

Additionally, it is helpful to take note of the following best practice criteria for selecting business performance indicators, as identified based on a review of the literature by Carlucci (2010):

- Relevance: providing timely information to make a difference in decision-making.
- Reliability: representing what it is meant to, and being reasonably free from error and bias.
- Comparability and consistency: enabling users to identify similarities and similarities between two sets of data, and being defined and measured in the same way over time.
- Understandability and representational quality: indicators must be interpretable and easy to understand, easily communicated and concise.

(adapted from Carlucci, 2010).

Analysis and Reporting

The ways in which the findings of transformation performance measurement are analysed and reported on will be determined by two key factors:

- The type of data collected: whether quantitative or qualitative, and the source of the material (operational records, surveys, interviews, social media sites etc.)
- The information needs of the organization for decision-making about the transformation: this will depend on the specific objectives and which areas are most directly involved in implementing the changes. Performance reports should provide these areas, as well as the organizational leadership, with the necessary information to guide and direct their actions towards successful achievement of the objectives.
- It is usually advisable to have a regular performance-reporting schedule, which is integrated with decision-making processes, such as transformation steering group meetings. However, a best practice performance measurement system will also allow stakeholders to make ad hoc requests for "live" information at any point in time to meet their specific information needs.
- When considering how to report on transformation performance, it will be important to take into account that:

- The intended strategy, by which the objective is to be achieved, will vary depending on the context or the particular product or service being developed. For example, if a company is developing a new product line intended to address lower levels of human need (e.g. convenience foods), the most appropriate way to increase "value" will generally involve driving down costs while for others (e.g. luxury good and services that address multiple human needs), the most effective approach will be focused on improving benefits. It will be important to accurately reflect the underlying transformation strategy in the messages conveyed by the transformation performance reports.
- The dimensions of achievement are inter-related, and progress against one dimension may have a negative impact (at least initially) on others. Again, this should be reflected in the performance reports, for example when presenting statistical information this should be interpreted using a textual commentary that explains the relevance of the quantitative findings in relation to the transformation strategy.

In general, good practice transformation performance reports should:

- Be concise and clear, so that the important messages are easily identified
- Include a combination of visual and textual commentary
- Include historic analysis of progress to date, and forecast the likelihood of achieving the objectives based on the existing trajectory
- Identify any risks to successful achievement of the objectives
- Identify any opportunities for improving transformation performance
- Be tailored to specific audiences, such as organizational executives, or functional areas of the organization, in terms of language and focus
- Be updated and disseminated frequently enough to inform key decision-making, but not too often to cause information load and confusion.

Data Generated from:	Examples of Analysis Methods	Examples of Presentation Methods
Management information (e.g. cost and time data)	Regression analysis Causal analysis Root cause analysis Trend analysis Variance analysis Forecasting (e.g. time series, simulation)	Line graphs Scatterplots Bar charts and histograms
Quantitative survey data	Descriptive statistics Regression analysis Trend analysis	Pie charts Bar charts, histograms Cross-tabulations Line graphs
Qualitative data (from interviews, focus groups, social media sites etc.)	Content analysis Thematic analysis Social media analytics	Textual commentary Charts and graphs

Table 3: Examples of analysis and presentation techniques for performance reporting

Some examples of the types of analysis and presentation methods used for presenting the findings of performance measurement based on different types of data are shown in Table 3. There are many expert sources of information and guidance on the use of these different methods, and we recommend that readers identify and consult those that are most relevant to their own information needs.

The Balanced Scorecard

The widely used Balanced Scorecard (Kaplan & Norton, 1996) can be a useful technique for reporting progress towards achievement of transformation objectives, and depending on the forms of data collected this can be used alone or in combination with other outputs such as textual reports on the findings of customer research or employee focus groups.

This is one version of the scoreboard method that displays information on the key indicators of business performance in a highly visible format. For example a "traffic light" system based on green, yellow and red colour-coding is used to signify that performance against particular indicators is on target for successful achievement (green); is within an acceptable range of variation but should be closely monitored (yellow), or is out of control and requires immediate correction action (red) (Institute of Management Accountants, 1998).

The general Balanced Scorecard model focuses on four main dimensions of performance: financial, customer-related internal processes, and organizational learning and growth, which are each integrated with a performance management system which sets out a strategy for achievement of the business objectives and defines roles and responsibilities in relation to this (Figure 3). The overall system is based on the importance of achieving the right balance across these dimensions, and also between addressing short-term and longer-term goals (Striteska and Spickova, 2012).

Figure 3: The Balanced Scorecard model, from http://balancedscorecard.org/

The main benefits of the Balance Scorecard for transformation performance reporting include the following:

- This method is already used by and highly familiar to many organizations and their employees: it was estimated that 47% of companies worldwide were using this tool in 2010 (Bain & Co, 2011). It is therefore relatively straightforward to incorporate transformation performance reporting into core business performance reporting in these organizations.
- It is not just a measurement system but a whole management system that enables the organization to translate the findings of performance measurement into achievable action plans (Balancedscorecard.org)
- It provides a relatively simplistic and understandable way of monitoring progress towards transformation goals, and identifying linkages between core transformation activities (Uhl & Gollenia, 2012).

- It provides an easy means of identifying roles and responsibilities in relation to the objectives at different levels of the organization, referred to in the Balanced Scorecard system as "cascading" (Kim & Hatcher, 2009; Uhl & Gollenia, 2012).
- It helps to encourage team working towards shared objectives and provides positive reinforcement of positive behaviours by acknowledging successes (Institute of Management Accountants, 1998).

For use in measuring performance of a transformation initiative, this system can be adapted to the main "strategic themes" corresponding to specific transformation objectives, which might relate for example to customer relationships, innovation or product development and implementation (Perry, 2011).

A basic performance measurement report enables the organization to monitor progress against the performance indicators at a glance (Fukushima & Peirce, 2011) and this can be supplemented as necessary by more detailed performance reports providing the types of information needed to manage and guide the transformation.

Securing Stakeholder Commitment

While the previous section focused largely on the "science" of measuring performance against transformation objectives, this final main section of the paper examines the "art" involved in securing the engagement or "buy in" of organizational stakeholders to the objectives.

Securing the engagement of all key stakeholder groups to the transformation objectives is important for the success of any transformation initiative. For most forms of transformation, these groups will include the employees of the organization, its leaders and senior managers and corporate board members, as well as external stakeholders including customers, business partners, suppliers, and often even the general public.

Effective engagement has both attitudinal and behavioural dimensions ((Uhl & Gollenia, 2012): the stakeholders need to believe that the transformation is a good thing, as well as acting in ways that contribute to the achievement of the transformation objectives. When stakeholders are adequately engaged, they will willingly carry out their defined roles and responsibilities in relation to the transformation, interact with others in ways that promote the desired changes, and endorse the resource requirements for the initiative and related activities such as communications and cultural change measures.

Internal Stakeholders

Communication

First, it is essential to ensure that the overall purpose of the transformation and its specific objectives are made clear to all internal stakeholders, as well as setting out their roles and responsibilities relating to the initiative so that these can carried out.

Organizational leaders and managers play an especially important role in this process, since they will convey messages regarding the transformation and its objectives to other employees directly as well as indirectly through their own actions and behaviours, for example their willingness to allocate staff time to the transformation activities. They also facilitate two-way communications between organizational leaders and more junior staff, an important precondition for effective transformation.

The internal communications strategy for a transformation initiative has the following main purposes:

- To persuade internal stakeholders of the purpose and expected benefits of the transformation, based on a compelling overall vision and clear objectives
- To help clarify roles and responsibilities and raise awareness of these across the organization

- To ensure that all organizational members receive the same general information about the transformation, so that they in turn present consistent messages to the outside world, helping to secure external stakeholder engagement
- To keep organizational members informed of transformation progress, helping to secure their trust in the transformation leadership and enabling them to respond in positive ways to any emerging opportunities or risks in their own areas of work.

Some best practice principles to take into account when planning the communications strategy include:

- Frequency: this will depend on the nature of and timescale for the transformation initiative, but generally all organizational members should be provided with sufficient information at the outset to ensure they understanding the reasons for change and how it will affect their own area of work, and this should be followed up with regular progress reports as well as additional reporting of exceptional events or achievements.
- Format: multiple forms of communication should generally be used, including verbal reports in team or departmental meetings, and written updates – ideally from the CEO or the Executive Sponsor of the transformation, in emails or newsletters. Two-way communications should be facilitated and encouraged, so that more junior staff can seek and readily obtain the information they need to understand and engage with the initiative. Perhaps most importantly organizational leaders must consistently model the types of attitudes and behaviours necessary to achieve the organizational purpose, this is one of the most powerful forms of indirect communication of organizational messages (Karp &, Helgø, 2009; Liedtka, 2006).
- Tone and focus: in general the communications should present positive messages that focus on the benefits of transformation and why it is better to change than stay the same. However, this must be based on evidence or a well-reasoned case. It is also important to be honest and transparent about any expected negative short-term impacts, while highlighting any planned measures to alleviate these effects. This will help build credibility and trust in the transformation and its leadership.
- Tailored to audiences: the communications should be easy for different stakeholder groups to understand and identify with, and tailored to their interests and information needs. More detailed information may be required by those most directly affected, for example those whose departments are being merged or reorganized, and this might focus on addressing their potential concerns about any negative effects, while others may just require a more general overview of the developments, and an understanding of their purpose.
- Timely: general communications about the initiative should be disseminated on a regular but not too frequent basis, while more detailed information should be provided to teams and individuals whenever it is needed to guide their actions.

- Inclusive: it is essential to ensure that all internal members of the organization receive adequate communications about the transformation, regardless of their position in the organization or contractual arrangement. Nowadays, many firms rely on the extensive use of non-permanent contract employees or freelance staff, and it is important to keep these individuals well informed about the transformation since they are likely to be involved in contributing to the objectives. Further, involving contract staff in this way is likely to increase their sense of identity with and loyalty to the organization and motivate them to achieve high levels of performance.

Involvement

However, providing internal stakeholders with information about the purpose of a transformation and its specific objectives is not enough to secure their engagement: employees at all levels of the organization, including those in managerial roles, are often suspicious of change and the potential impacts on their own jobs and areas of work and need to be persuaded of the longer-term benefits.

Even if they understand and support the need for transformation on a rational level, this may not inspire them sufficiently to perform at a high level in pursuit of its objectives; they also need to connect with these emotionally.

As discussed earlier in the paper, involving employees in the formulation of transformation objectives is likely to be one of the most effective ways of securing their commitment and helping to ensure that they work collectively towards achieving the transformation objectives.

But it is often not possible to directly involve employees throughout the organization when initially developing the objectives of a transformation, and it is even more important that any major organizational transformation should include an internal stakeholder engagement strategy. This should be incorporate communications as well as direct involvement in determining how to implement the transformation objectives in their own areas of work.

This is important because individuals typically adapt to change through an established process as shown in Figure 4. This involves becoming aware of the desired changes; achieving understanding of the reasons for them; actively translating the required changes to their own work situation, reaching a commitment to personally change their behaviours and, ultimately, internalizing the desired behaviours. It is only through this overall process that new thought patterns are established that will lead to sustainable changes in organizational norms and behaviours to support the desired transformation.

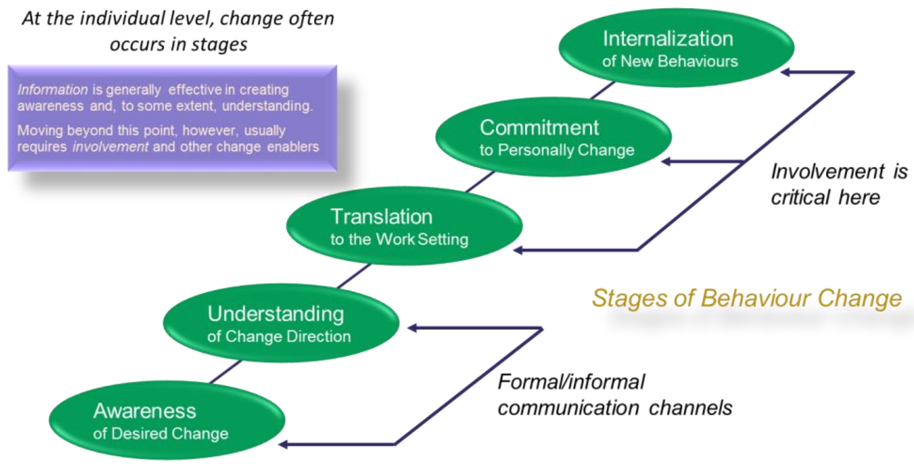

Figure 4: Stages of Employee Behaviour Change during Transformation

In a similar way, senior stakeholders such as the CEO, other executives and members of the corporate board, regardless of their initial level of involvement in planning the transformation and setting objectives, need to receive regular and clear communications regarding the objectives and progress of the initiative, and be consulted and involved as appropriate in any key decisions affecting their own areas of responsibility.

Evidence of the importance of employee involvement in transformation is provided by the results of employer surveys. For example, McKinsey (2008) found that among executive respondents from companies in their survey who had been most successful in undergoing transformation, more than a quarter indicated that they would spend more time engaging staff if they had to carry out the transformation again.

External Stakeholders

It is also important to secure the support of key external stakeholders to the transformation objectives. These include the organization's clients or customers, as well as their business partners, regular suppliers and often even the general public.

Business Partners

Depending on the type of transformation involved, business partners, suppliers or other organizations may be directly affected, and may be required to make changes to their own practices or operations if the transformation is to succeed. In these cases, representative of these organizations should be closely involved in developing the transformation objectives and planning the transformation strategy and activities, ensuring that their own employees are involved in these as necessary and receive communications about the transformation in a similar way to the internal stakeholders. It will be especially important to tailor the communications and any involvement strategies to the potential concerns of the external stakeholders about how the initiative will affect their company and/or its relationship with the organization conducting the transformation.

Customers

As discussed earlier, transformations should always be focused on improving the ability of the organization to meet the needs of customers and clients. But when a transformation involves developing a new product or service or delivering existing offerings in a different way to customers, for example by through an online store, there is still a need to raise awareness of this among the target market or convince them of the value of this new approach.

This should generally be conducted through marketing strategies, including advertising the new products or services in ways designed to appeal to the needs of consumers, as identified in the market and customer research which provided the evidence base for the transformation. These forms of communications need to be carefully tailored to the needs of the target audience, and should effectively articulate the ways in which the products or services are designed to meet these needs. This is the basis of effective branding (or re-branding), which has been defined by de Chernatony & Riley (1998) as "a network of associations in the consumer's mind", which is valuable to them if it appeals to their reason or their emotion.

The company should also seek opportunities to interact directly with individual customers on social media websites and other online forums, such as the customer comment area of the organization's own website, in order to disseminate information and raise awareness of the new product or service. They should also build on the loyalty of existing customers to help promote the new product or service, for example by offering early opportunities to try out the product for free or at a discounted price, in return for an unbiased review.

The Central Role of Trust

Earlier in the paper we discussed the importance of building trust-based relationships with stakeholders inside and outside the organization, and the role of transformation in improving the ability to do so. Trust is equally important during the process of transformation.

Since transformation involves extensive organizational changes often over a prolonged period of time, one of the main challenges is to build or sustain trust among internal and external stakeholders during the transformation process, which is likely to help in securing their patience in waiting for the transformation objectives to be achieved and the expected business benefits to be realised.

In particular, there needs to be trust:

- That the objectives of the transformation will be achieved;
- That the expected business benefits of the transformation will result from the objectives being achieved.
- That the process of transformation will be effective in achieving the objectives
- That the leaders of the transformation are competent and acting in the best interests of the organization as a whole.
- That serving the interests of the organization as a whole will ultimately be in the best interests of all stakeholders.
- In the brand itself, and the way that it is being modified or developed through the transformation objectives.
- Researchers have identified two important components of trust, which must both be present if trust-based relationships are to be built or maintained:
- Rational trust, which involves making cognitive judgement's about the ability and likelihood that the other person or organization will deliver what they promise, based usually on their reputation or past performance, and
- Emotional trust, which is based on the feelings that are invoked in response to the words and deeds of the other party; this is promoted by factors such as openness of communications, willingness to share information and evidence of a caring attitude.

Having authentic relationships already in place based on a combination of rational and emotional trust is likely to be one of the most important factors contributing to successful organizational transformation.

During the initiative, however, it will be important to continually ensure that the stakeholder engagement strategy is designed to promote both kinds of trust, for example by demonstrating evidence of achievements to date, concern for stakeholders' own interests and perspectives and how these will be affected by the transformation, and open and honest communications at all times.

To summarise some key points arising from this section, Table 4 sets out some of the main art and science skills required for securing stakeholder engagement with the transformation objectives.

Important Art Skills for Securing Stakeholder Engagement	Important Science Skills for Securing Stakeholder Engagement
Ability to understand the perspectives and concerns of stakeholder groups, and design communications and involvement strategy that address these	Ability to systematically map the stakeholder population and analyse the characteristics and perspectives of key groups
Strong and appropriate leadership styles (e.g. servant leadership) to inspire and motivate staff	Application of best practice project management methods and techniques to the communications and stakeholder involvement strategies to ensure they are appropriately planned, resourced, implemented and monitored
Excellent written and oral communications skills to effectively convey the purpose and expected benefits of transformation objectives in ways that are effectively tailored to particular stakeholder groups	
Ability to design branding and marketing communications materials that appeal to customers, and help build or sustain customer loyalty throughout the transformation	
Demonstrating the qualities necessary to build or sustain trust from business partners and associates (e.g. honesty, transparency, good communications, reciprocity) to overcome potential risks to existing business relationships during transformation	

Table 4: Art and Science Skills for Securing Stakeholder Engagement

Concluding Comments

The purpose of this paper has been to highlight the importance in any organizational transformation of setting appropriate transformation objectives, measuring performance against these and communicating the objectives to all organizational stakeholders. Having clear objectives is the first step towards a successful transformation, yet many organizations either fail to set these, or do so incorrectly due to a misunderstanding of what constitutes effective transformation.

In providing guidance on the use of transformation objectives in the paper we have used our Art and Science of Transformation® approach as a conceptual framework. This emphasizes the importance of addressing the people-related aspects of transformation as well as applying best practice project management tools and techniques to any transformation initiative. It is both a holistic and a systematic approach to transformation that is focused on improving the ways that organizations pursue their unchanging fundamental purpose by adapting their business strategies and practices to the current environment in which they operate. People are at the centre of this process in every way.

As we have discussed in the paper, fundamental purpose should only ever be defined in terms of the human needs that the organization ultimately serves, since this provides clarity and clear direction over time. An organization's purpose and values are also instrumental in enabling it to build and sustain authentic relationships between stakeholders both within and outside the organization, and develop the relationship capital that is one of the most important and profitable business assets a company can have. The objectives of transformation, as we have described, must therefore be defined in terms of adapting what the organization does, or how it achieves this, to realign the organization with a changed external environment and optimize its ability to pursue its fundamental purpose.

Other Schroeder & Schroeder Inc. white papers focus on different aspects of the transformation process, and expand on many of the issues touched on in this paper, such as how to build authentic trust-based relationships, transform the organizational culture and help ensure that the executive sponsor and the project manager of a transformation effectively fulfil their roles. These and other information relating to the Art and Science of Transformation® approach can be obtained on request from harold@schroeder-inc.com.

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