Crafting your transformation ambition

“Transformation boils down to getting to the heart and soul of an organization and creating a new set of behaviors and experiences that shape the beliefs and culture of the organization. Together they influence the kind of behaviors and actions that ultimately drive and sustain results. Culture is a critical part of sustaining a transformation.”

Mark Buthman, Retired CFO, Kimberly-Clark

Transformations are usually high-stakes efforts for leaders and their organizations. They require a step-function improvement in performance, are multifaceted in the ways they change an organization, and often entail more than a year of considerable effort and energy by the executives and staff involved (see “What changes in a transformation—and why it matters to CFOs,” the first installment in our CFO Transformation Leadership Takeaway series).

Setting forth a transformation’s ambition at the outset of the journey is instrumental to recruiting and aligning key stakeholders and to increasing the likelihood of making the effort successful. A transformation’s ambition should help answer two key questions for stakeholders: Why should they undertake or support the effort, and what will result from that hard work?

Our interviews with executives who have been key to their organization’s transformation, as well as multiple Deloitte practitioners, found that an effective transformation ambition communicates both the motivation and critical goals (or intent) for such an effort. It also can form a bond between transformation participants and stakeholders throughout the journey. As one former CFO noted, “I ask myself and others: What is the vision that is going to cause somebody to want to come here and work for us? If others can’t buy into our vision, they are just coming to the workplace for a job and three or four years from now, we may get a collection of people—but not a winning organization.”

In this issue of CFO insights, we’ll outline the key components of a transformation ambition, and explain how such an ambition can guide a successful transformation—and help lead to a winning organization.
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Ambition = (motivation) + intent

So, what might a transformation ambition look like? For an industrial products company, the following could serve as an example:

“By 2025, we will have transformed from a purely industrial products company to the leading provider of solutions and services around our products, where services generate the majority of our revenues and deliver high premiums for our stock.”

For a software company moving to the cloud, the transformation ambition might sound like this:

“As our customers leverage the cloud for greater flexibility, 90% of them will subscribe to some or all of our cloud offerings by 2023.”

What both of these statements reflect are the two major components of a transformation—the motivation (in other words, what’s driving it), and the intent. In the first example, management perceives that the company’s stock is not valued as highly as it could be, and the company may no longer be attracting key investors or delivering shareholder value. In the second example, meeting changing customer demands serves as the motivating force. As for intent, both ambitions flesh out with tangible directions and measurable goals for success.

“Above all, every decision has to support a very customer-centric strategy. Everything we do on the back end is geared toward making us more efficient as an organization in order to serve customers, and everything we do on the front end of technology is about directly impacting the customer and associate experience.”

Brett Biggs, Executive Vice President and CFO, Walmart

In taking a deeper dive into the motivation component of the equation, our interviews identified five main categories underlying the triggers for transformation:

1. Better fulfilling customer demands: Customers can motivate companies to transform their product offerings, as well as where and how companies go to market to better meet customer needs. For example, when many customers began using the internet to purchase online, traditional brick-and-mortar retailers introduced online channels and transformed their business models to address changes in customers’ buying preferences.

2. Technological disruption and obsolescence: Today, technological change—often to better meet customer needs—is a core driver of companies’ transformation efforts. New technologies can require companies to develop new competencies and change how they operate. For example, newer CAR T-cell technologies for personalized cancer medicines are transforming how pharmaceuticals manufacture, price, and deliver medicines to the patient. The result can be a fundamental change to the existing business model. Technological obsolescence also can drive transformation efforts. For example, existing mainframe enterprise solutions may neither scale nor be able to adapt to changing business needs. This constraint can drive major change efforts to modernize or replace a company’s enterprise system.

3. Competitor moves: Existing or new competitors can motivate transformational change. For example, when competitors merge, it may force your company to seek similar deals to take advantage of economies of scale. Similarly, new entrants from an adjacent industry may enter a market to take advantage of economies of scope, motivating incumbents to follow suit and seek similar advantages. As technology advances and customers seek convenient solutions, there is greater convergence among industries that were previously separate, and they can find themselves competing for the same customers.

4. Investor demands for higher performance: Activist investors and changing investor preferences for industry sectors can put pressure on companies to transform. For example, they can force divestiture or listing of subsidiaries to unlock value from a conglomerate. Alternatively, they may force changes in go-to-market strategies. Increasingly, activists are a critical stakeholder in transformation efforts.

5. Macro-economic, demographic, social, or regulatory change: These forces can also motivate transformational change. For example, as climate and sustainability considerations advance across communities, companies are rethinking their sourcing and production of products. Anti-trust laws and other regulations can also force transformational change in companies.

The intent of a transformation, the second half of the ambition equation, is usually to fundamentally change the trajectory of the business and deliver a higher level of performance on select goals. So, a transformation ambition could present a clear picture of the critical future state of the business—three, five, seven years out—and serve as a thesis for enterprise value.

In shaping the transformation’s intent, questions to explore might include: What will the business look like a few years out? What will be different about its business model? What and how will it sell, and who will sell it and where and to whom? What talent, systems, and other infrastructure will be needed for the transformed organization to operate effectively? How will achieving that ambition drive total shareholder return?

Making a transformation’s ambition relevant, urgent, tangible, and personal CFOs can play a vital role in crafting, communicating, and delivering a transformation’s ambition. Valued for their independence, objectivity, and critical role in communicating to investors, finance chiefs can bring realism to framing a compelling and tangible ambition before it is announced internally and externally. Then, once the ambition is shared, CFOs must be key champions who, along with the CEO and
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“Investors typically look at revenue and either EPS and/or cash flow. When you are going through a transformation, as we did from perpetual software licenses to subscriptions, the optics of the top and the bottom line may not really explain the business well. So, you have to look at what other metrics give a clear picture of how the new business model is growing and make sure you’re communicating those effectively to investors.”

Ken Stillwell, Senior Vice President and CFO, Pegasystems

it should neither be grandiose nor unrealistic. Nor should it be purely tactical, lacking imagination. As another practitioner observed, if the ambition or vision is crafted with care and sustained throughout the transformation, the benefits will follow.

In addition, the ambition should be relevant across the organization nationally and globally, and not only to leadership. It should be worded to motivate and reflect a sense of urgency, particularly in cases in which an organization is perceived as doing well, which often creates further resistance to change.

Overall, a transformation’s ambition should also be tangible and reachable. There is rarely a shortage of areas to embark or improve upon—and, often, more opportunities for change exist than an organization can handle at once. Therefore, it’s crucial to prioritize around critical tasks that deliver the ambition. Prioritization can be thorny: Some people might want more analysis (adding more time) before moving forward, while others may seek quicker decisions, relying more on judgment, knowledge, and experience.

CFOs also may want to develop their own personal version of the transformation’s ambition to guide their actions and those of their finance organization. But they don’t have to craft this in a vacuum. For example, a CFO in the transportation industry knew that he needed to evolve the capabilities, skills, and talent in his finance organization to modernize it. He also understood that he didn’t have a well-defined vision, so he invited his team to help envision what the future of finance could be and asked some of his direct reports to own the design and define the outcomes of the transformation program.

Mark Lipton, author of Guiding Growth: How Vision Keeps Companies on Course (Harvard Business School Press, 2003), notes in his blog, “Successful vision requires personal passion about how you want to make an impact on the world—whether you run a corporation, a nonprofit, or a government agency. Regardless of the organization’s motive (to make money or provide social good), there must be clarity about what you want to change or create. ...As long as the gap between believing and doing persists, no vision will be effective.”

Communicating the journey and outcomes

For the transformation’s ambition to be effective, the milestones and achievements reached should be communicated up and down the organization, as well as to the board of directors.

A CFO of a major distributor understood the importance of communication in engaging stakeholders in finance’s transformation journey. According to one interviewee, the CFO’s approach included “creating a communication vehicle describing the attributes of the company’s future finance organization, with key messages and visuals. He consistently used the communications in a visual and transparent way, including at town halls, to express the future of the finance and accounting organization and what the experience would be for its people.”

Externally, CFOs also should be prepared to speak confidently about the transformation’s ambition at the outset and keep the investment community regularly informed on how it is progressing and enhancing shareholder value. In instances in which the transformation is an attempt to address investor concerns or attract more investors—or possibly a new class of investors—it’s especially critical to keep the investment community informed of how the transformation’s ambition is...
materializing, as well as its impact. This may require persuading investors to consider new metrics to better understand progress toward the ambition. They may also need to understand the short-term downsides of the transformation.

Overall, the organization’s financial stability and reputation could be impacted by how well these communications are managed, and failure to attend to this so-called “soft” area could slow down the transformation or bring it to a halt altogether.

“Going into the transformation, we had a lot of meetings with investors, sell-side analysts, and credit-rating agencies to make sure everybody was on board with the vision and what the company was going to look like when we were finished. Throughout the quarterly earnings calls, we made sure we provided updates and fielded questions. We also attended a number of investor and sell-side analyst conferences during the transformation period to make sure everybody was up to speed.”

Brian Stief, Vice Chairman and CFO, Johnson Controls

Living the ambition with new mindsets and practices
CFOs supporting transformations must go beyond acting as stewards of the organization’s assets to becoming a catalyst for growth and development. As one practitioner put it, “CFOs should recognize that in a transformation they are directing capital to a portfolio of ideas, in essence a microbusiness. Their job is to run a bit faster, demonstrate curve-leading ROI, learn quickly from the results, and kill the less successful projects more quickly than what they would normally do in the business.”

Still, while CFOs should allocate capital to a transformation effectively and prudently, they should take care not to be overly risk averse or entrenched in traditional capital allocation processes or metrics that may not capture the value of the ultimate transformation. This doesn’t necessarily mean increasing funding. For example, one former Fortune 500 CFO we interviewed reduced capital spending from 7% to 4% of net sales over a few years to help foster an entrepreneurial view of investment and accomplish more with limited resources. That step helped to drive higher productivity and performance and freed up capital for the transformation.

In short, CFOs may need to live the ambition with new mindsets and practices of their own—and be flexible enough to take the steps necessary to drive the greatest value from the transformation.

Takeaway
Transformations are expensive and require a lot of energy and time. For these reasons, people want to know, “Why now, and where to next?”

A transformation’s ambition can communicate the motivation and, more important, the overarching goals of the transformation with clarity to critical stakeholders. The transformation’s ambition also can establish the aspirational “North Star” and a bond among stakeholders to guide collective action. Therefore, crafting a clear and well-thought-out ambition at the outset of the transformation can bring stakeholders together and be the basis of ongoing communications to sustain energy and effort throughout the transformation journey.

“At any point, we have many experiments and prototypes in development. If they show favorable results, they can be scaled up significantly. Of course, some will fail, and they might be the ones people get emotionally attached to. That’s when, as CFO, I need to be surgical and cut the emotion out. I believe you need to fall in love with something to drive it, but there comes a time when you need to be absolutely dispassionate to cut your losses and move on to other things.”

Srinivas Phatak, Executive Director, Finance and IT, and CFO, Hindustan Unilever Limited
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Endnote


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