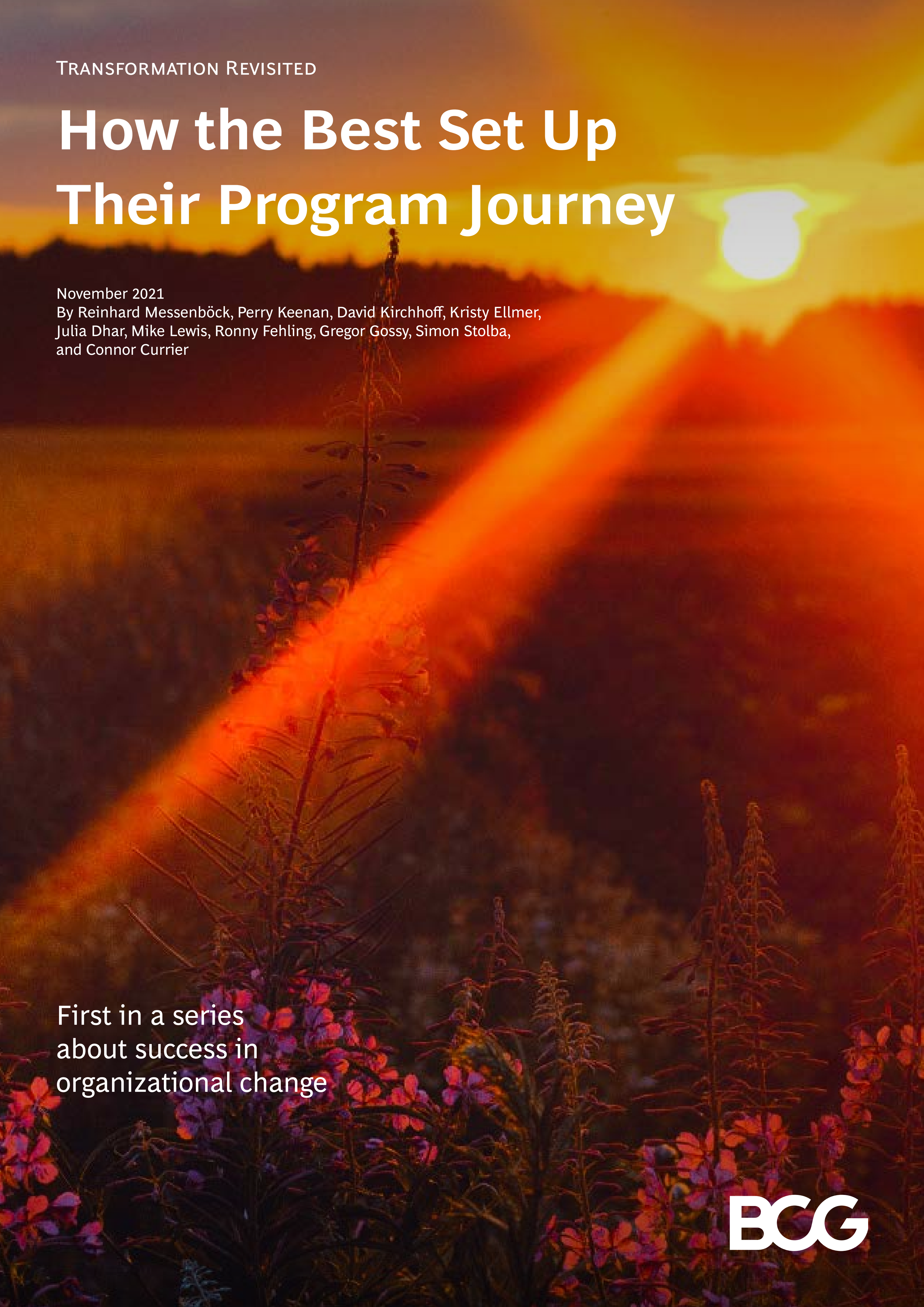

Transformation Revisited

How the Best Set Up Their Program Journey

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By Reinhard Messenböck, Perry Keenan, David Kirchhoff, Kristy Ellmer, Julia Dhar, Mike Lewis, Ronny Fehling, Gregor Gossy, Simon Stolba, and Connor Currier

First in a series about success in organizational change

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

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How the Best Set Up Their Program Journey

Transformations are critical to building competitive advantage and delivering shareholder value, especially in fast-changing industries. Yet Boston Consulting Group's analysis of data from more than 3,000 transformations indicates that over 70% of transformations fail. Although the failure rate has worsened during the pandemic, it has been at an alarmingly high level for years.

This is no surprise: transformations are inherently difficult. Their goals typically include significant shifts in operational processes, product offerings, governance, structure, other operating model elements, and—most importantly—the way people behave. Transformations usually impact several and often all parts of an organization, and they come with an expectation of a step improvement in performance. Almost always, the timeline is compressed and resources are limited.

For all of these reasons, successful transformations—those that buck the odds and meet their goals—are rare. Almost all successful transformations have three common elements:

- Holistic management of three change journeys—leader, people, and program
- Consistent leadership alignment
- Employee-centric change management, by which we mean a conscious effort to think first about the impact that a transformation is having on the organization's workforce

Our survey data shows that it is crucial to start with a few strategic priorities and adjust them as a transformation proceeds. Adding more to-do's just because you can is a recipe for underperformance. Instead, you should focus and deliver on what matters most at a specific moment. Peripheral parts of an organization deserve attention in their own right, but their needs should be treated as secondary during the transformation.

Successful transformations achieve their financial targets within the planned time frame. And crucially, their changes endure. Transformations can be considered successful only when the short-term value they create leads to medium- and long-term value as well, and when the organization locks in the required behavior changes.

All organizational transformations evolve over time and in that sense are journeys. The people journey in a transformation entails managing a transformation's impact on employees and maximizing employees' engagement. The leader journey is broad based, but it includes identifying the overarching transformation goals and targets, navigating cultural issues, and maximizing the use of data.

In this article, we focus on the program journey, which starts with establishing the transformation office (TO) and kicking off the transformation. Having a single unified transformation program with connected and consistent processes allows a company to move the transformation forward quickly, with maximum transparency, measurement, and accountability. The TO drives and shepherds the transformation while the business leaders drive the actual execution and deliverables.

Companies that successfully—and simultaneously—carry out the three journeys have an excellent chance of avoiding the most common transformation pitfalls. They end up in that relatively rare group of organizations whose transformations capture the level of value they initially imagined and put them on a permanently better trajectory.

Successful transformations are rare because transformations are complex endeavors. A simple one either isn't a true transformation or reflects too-modest ambitions. The amount of change that transformations demand typically causes people to feel a bit out of their depth as the transformation gets going. (You can take BCG's transformation diagnostic to learn about your own change readiness.)

Our survey work on transformations has found that having four things in place at an early stage is crucial to a program's overall success:

- A clearly articulated case for change
- A leadership team that is aligned on the what and the how of the change
- A robust communications infrastructure
- A transformation office

The last of these sometimes elicits skepticism from companies that believe they are disciplined enough to do without a formal TO. But our experience and the data suggest that the odds of transformation success improve considerably when a strong TO is in place (a 50% increase in value realization compared to transformations that don't have a dedicated transformation office). The TO offers many benefits:

- **Program Consistency.** A strong TO allows everything to be measured, tracked, and made visible and transparent.
- **A Source of Momentum.** The TO pulls in an organization's most senior leaders, reinforcing the idea that the transformation is the collective responsibility of everyone.
- **Impact Assessment.** A good TO creates a common place for measuring impact and minimizing value leakage, a common issue in transformations.
- **A Coordination Mechanism.** The TO helps coordinate across silos and functions, especially in highly interdependent areas. It also helps measure and manage scarce resources—including specific IT skills—across the portfolio to ensure that individual initiatives are set up for success.
- **A Development Resource.** Best-practice TOs coordinate change management tools ranging from leader coaching to communication plans to organizational pulse checks.
- **A Guarantor of Executional Certainty.** A first-rate TO ensures that a transformation is meeting its milestones and goals and that participants are excelling in their assigned roles.

Getting the Transformation Office Off the Ground

The initial period, when the TO is getting organized and starting to exert its influence, is crucial to any transformation program's success—and it is very intense. The businesses and leaders involved in the transformation learn about the processes they will need to follow, and they offer input on how to fine-tune those processes. Most leaders have their own approaches to managing projects, which may include their own tracking systems, periodic team meetings, and occasional hallway discussions. Quirky or unconventional project-management approaches are fine in normal times, but they don't work during transformations, when individual initiatives and portfolios of initiatives require the cooperation of multiple departments and the careful use of scarce resources. Everybody needs to align on one way of doing things—using the same process, accessing the same tools, and following the same cadence for reporting and meetings.

Five dimensions are essential to a transformation office. (See Exhibit 1.)

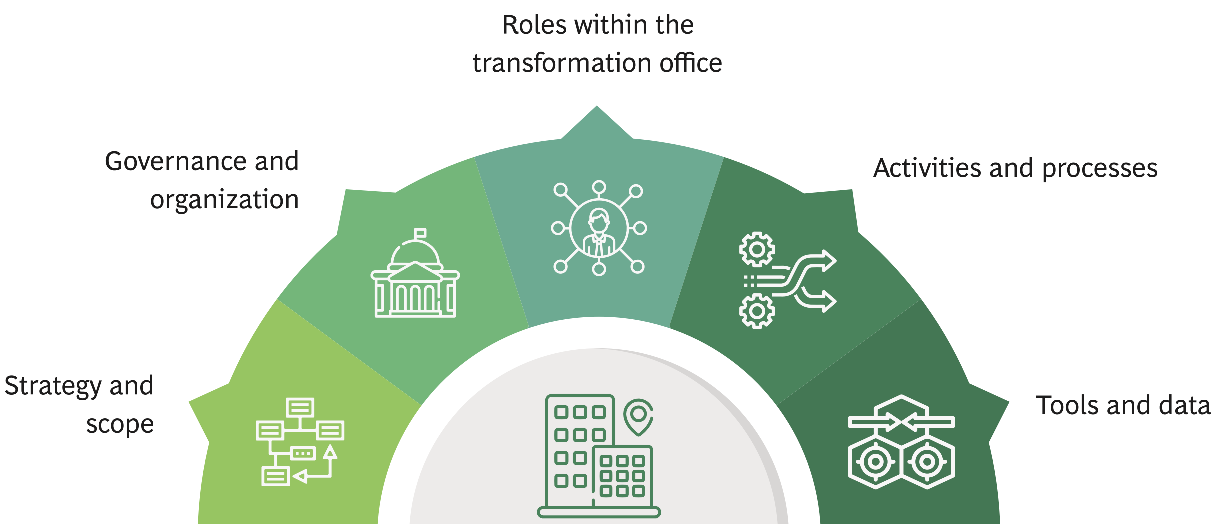
Strategy and Scope. The sponsor of the transformation program needs to be clear from the beginning. Ideally that person will be the CEO or CFO, although transformations can work with another senior leader heading the TO if that leader has a clear mandate. One of the sponsor's first jobs is to assemble a steering committee (SteerCo) to oversee the program's progress and make decisions quickly. Another key early task is to decide how activist the TO should be in driving the organization toward agreed-on goals and ambitions.

A critical activity during this stage consists of aligning the transformation's financial targets with the organization's existing financial systems. The company must decide what the baseline is—last year's results? this year's budget?—and then use that baseline to establish clear financial goals. This is an essential aspect of anchoring the transformation and allowing accurate measurement of value capture. Establishing clear financial goals also reduces the possibility of value leakage. Companies that aren't diligent about this often encounter problems as a result.

With the sponsorship established, the company needs to define and agree on the ambition and scope of the transformation. Successful transformations start with a big ambition, which the company then translates into prioritized initiatives. Big ambitions fuel transformations and keep them on track.

Governance and Organization. Having committed to a suitable ambition, strategy, and scope, the company should start to define the transformation office's governance and organization. If it has never had a TO, the company should begin by clarifying the role of the CTO vis-à-vis other leaders. One way to do this is by pinpointing different leaders' decision rights. Decision rights about strategic direction and objectives to achieve, of course, belong to the CEO. One level down, the CFO owns the financial goals. Then comes the CTO, who has decision rights over the company's scarce resources, as well as coaching responsibility and the power to hold others to account.

Exhibit 1 - Five Key Dimensions of a Transformation Office



Source: BCG case experience.

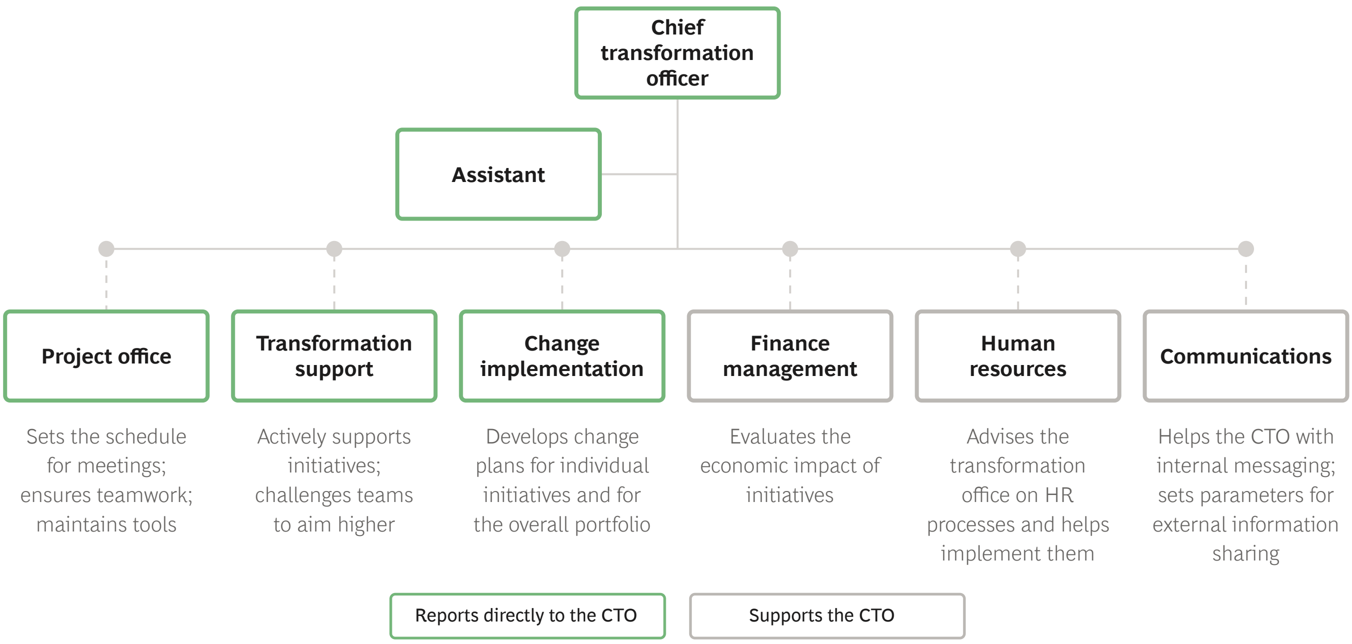
Other executives' decision rights tend to be narrower, limited to their own operating units or functions, which we call *workstreams* during transformations because of the many things they must juggle. There are quite a few ways to structure TOs, but in a big company it isn't unusual to have a full-time staff of 10 or 12 people working in one. (See Exhibit 2.)

After establishing the TO, the company needs to integrate the office into the organization's existing processes and operating systems. The company must decide whether to use existing staff or build up resources to run the TO. This typically involves decisions about the nature and amount of external support that may be required. In our experience it may also be useful to reexamine how the company handles some typical processes. Processes that are often problematic during transformations and may benefit from streamlining include the approvals needed for hiring and for procuring external support.

Roles Within the Transformation Office. The TO now needs to be resourced, which means making decisions about staff size and skill sets. Roles to fill include workstream liaisons, as well as staff to handle communications, finance, human resources, analytics, and digital/technology. The TO must also define its actual change delivery approach at this point. This involves having someone in the TO work with the different initiative owners to figure out what operational elements those initiatives require, such as training and communication. If the expertise needed for an ambitious change program doesn't exist in house, and if the right people for the roles aren't on staff, it may be an argument for considering third-party support.

Activities and Processes. In every transformation, it's crucial to implement common working rhythms, routines, and processes. This may seem obvious, but the devil is in the details, and devoting attention to this issue is of great tactical importance.

Exhibit 2 - A Transformation Office's Structure and Activities



Source: BCG project experience.

Transformation Voices

An Industrial Goods Executive on Working with Functional Leaders

"When we started our transformation, which was aimed at radically lowering our cost structure, one of the senior team's main concerns was whether there would be push-back from functional leaders. We found that the next level of leaders was indeed skeptical. Unfortunately, they were only voicing their skepticism in private conversations with their counterparts.

"I had one of my top HR people speak with each functional leader. It turned out that they were concerned about two things. First, why would we be doing this at a time when we had gotten back on a good growth path? And second, how would it affect their individual agendas?

"These questions made us realize that we needed a more fully articulated rationale. So we took the next three weeks to talk it all through. That's a lot of time to devote to meetings when you've already decided to do something. But it was worth it. The clarity in the case for change that we developed made all of us more excited. And it allowed us to speak with one voice about what we felt we needed to achieve. When we went back to the functional leaders after this hashing-out period, it was much easier to get them on board."

This interview has been edited and condensed.

One key thing to put in place is a common language, to differentiate between essential elements of the transformation. One nomenclature we have used includes the terms *program*, *workstream*, *initiative*, *project*, and *milestone*. These represent the main units of work in a transformation, ordered from largest to smallest, and they follow a clear hierarchy. (See Exhibit 3.)

People are assigned responsibility for the different units of work, and—through a set of processes that the TO runs—begin to make progress toward agreed-on transformation goals. Two key processes are stage-gate methodologies and an accelerated meeting cadence, both which we will discuss shortly.

Tools and Data. The fifth dimension of a successful TO involves the use of software and online tools to help with the job. These are, in essence, tracking tools that link initiatives to financial outcomes (plans and forecasts) and impact assessments. It's standard today to carry out this work in a digital impact assessment center, for faster access to data and more holistic decision making. The year-plus of the pandemic—during which companies have done much more work online—has shown how important it is to be able to handle such tasks virtually.

Exhibit 3 - Transformation Glossary: Units of Work and Who Handles Them

	Example	Example of people involved
1 **Workstream** Broad ownership silo, organized by operating unit or function; connected to P&L and/or budget ownership	Procurement	Procurement vice president (the workstream sponsor)
2 **Initiative** Specific area of opportunity under a workstream's ownership	Cut cost of office supplies by 20%	Procurement department head
3 **Project** Set of activities focused on a specific objective	Reduce internal demand	Director of global sourcing
4 **Milestones** Individual activities necessary to complete a project	• Recommend supplies budget cut for each corporate function • Centralize approval process	Multiple contributors (procurement manager, sourcing analyst, purchasing associate)

Source: BCG case experience.

The Case for a Robust Stage-Gate Methodology

Every initiative and every transformation follows a path from idea to execution. But no transformation involves just one idea and one execution challenge. Instead, each contains a constantly expanding set of ideas. The only way to manage them all is to systematize the effort—which is where stage gates come in. Stage gates ensure that initiatives move forward quickly and with regularly scheduled checkpoints to confirm that the originally envisioned outcomes remain realistic.

Companies often downplay the value of stage gates, viewing them as a bureaucratic imposition that slows things down. In fact, a good stage-gate process speeds things up and keeps them on course. (See Exhibit 4.)

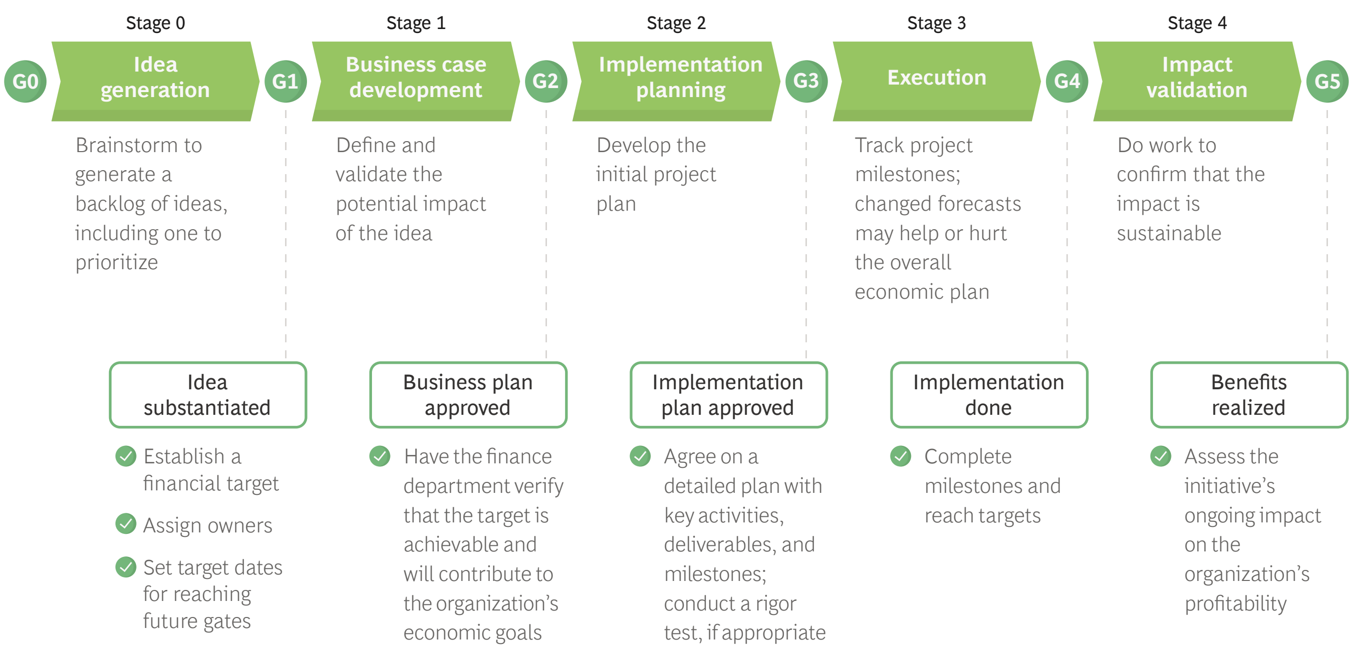
To see how a stage-gate methodology works, consider the example of a household goods company whose transformation aims to increase profit through digitization and customer centricity. One of the company's initiatives is to handle the sale of frequently reordered supplies exclusively through its online channel. To help deliver this initiative, the company has launched a project to ramp up its online pricing capability and offer discounts on online supplies during a transition period when both online and offline sales channels are still in use.

The Cross-Functional Team

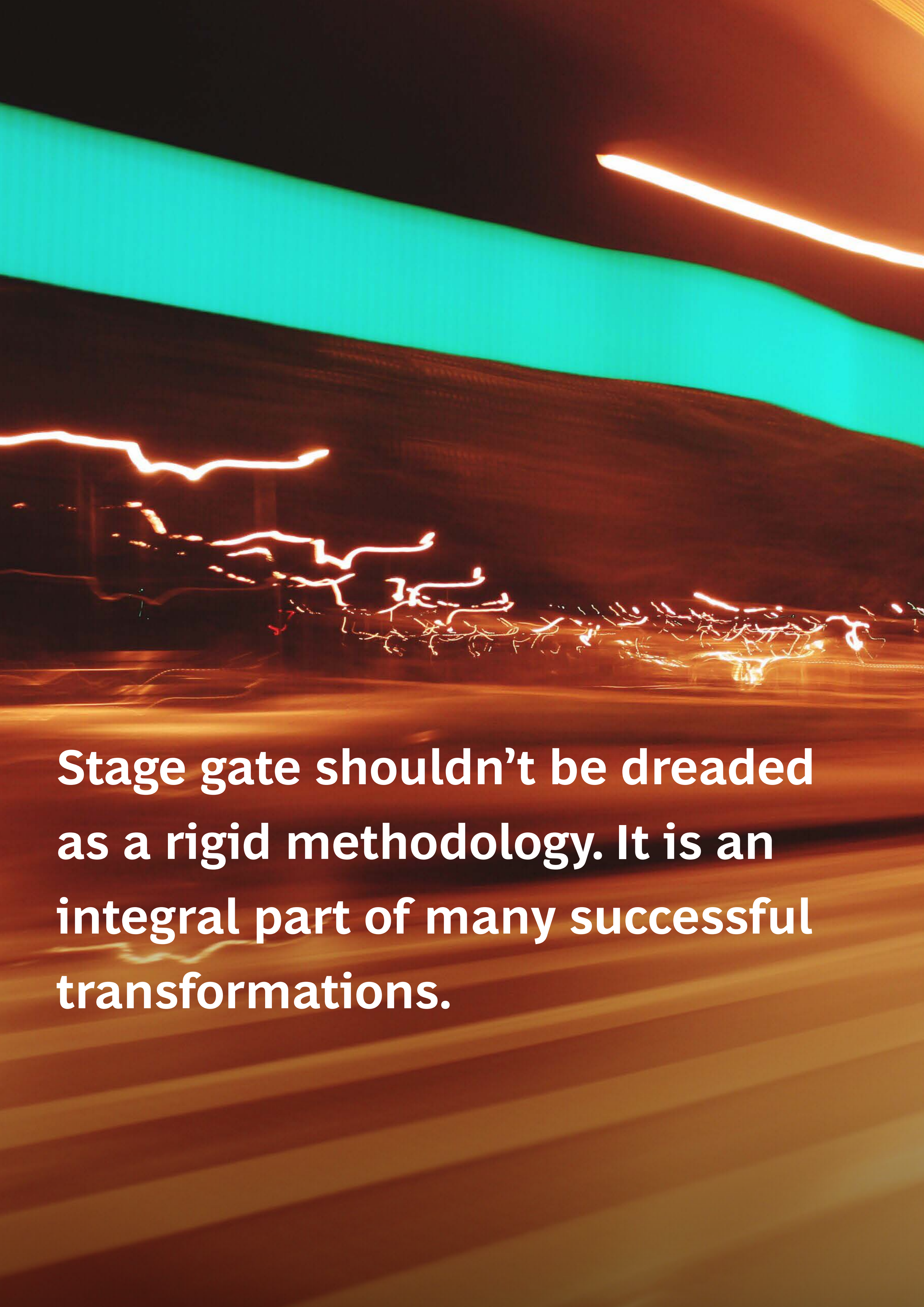
The core project team for this initiative consists of a product manager, the director of marketing, a regional retail liaison, an analyst from finance, and a VP of web development. At the idea generation stage, the team outlines the idea and describes its benefits in an initiative charter—a short description of the goal and how the team plans to achieve it. Stage 1 focuses on validating the business case—the ROI of the initiative itself and the eventual increase in per-unit profitability. If the initiative charter and business case withstand scrutiny, the team develops the key milestones of the initiative plan (Stage 2), including the location, length, and goals of any pilot. If the initiative passes muster in Stages 1 and 2, it moves on to Stage 3—execution. In Stage 4, the initiative is reviewed to determine if all of its goals have been achieved.

Each stage plays an important role in strengthening the project. By the time it gets to Stage 3, a project that began as a loose idea should have completed its transformation into an airtight plan.

Exhibit 4 - What Happens in a Stage-Gate Process



Source: BCG project experience.



Stage gate shouldn’t be dreaded as a rigid methodology. It is an integral part of many successful transformations.

The gates also contribute to the improvement process. At each gate, a group with a clear stake in the outcome looks at the work that the initiative team is doing and decides whether the initiative is ready to advance to the next stage. Individuals with go/no-go authority at the gates may include the workstream leader, who is usually the head of the relevant function (sales, in this example) and, often, another functional executive. The Transformation Office plays a key role in facilitating the movement of initiatives across stages and ensuring that the transformation machinery is working efficiently.

Setting up the stage-gate program requires significant work up front, but it provides multiple benefits that ultimately enable the overall transformation program to run smoothly and deliver full value. Four benefits of the methodology are especially noteworthy:

- The overall process creates structure and uniformity across a large and complex transformation. All initiatives and projects operate on a level playing field. The vetting process ensures prioritization of initiatives, ROI rigor, and smart execution plans with clear milestones before any project moves into execution.
- The execution phase (Stage 3) puts projects into active weekly tracking and monitoring, which creates transparency and focus.
- Including an explicit phase for measuring value delivery (Stage 4) ensures discipline in achieving targeted outcomes at the initiative, workstream, and overall program levels.
- The common language and process enables comparisons across the portfolio.

The stage-gate process works very well for companies undertaking agile processes and leveraging tools such as objectives and key results (OKRs). The OKRs define what things to do, and the stage-gate process ensures that they get done. The nature of the execution phase demands an agile mindset of quick problem solving and real-time adjustments. For many companies, agile methodologies—including concepts such as Kanban and Scrum—can be helpful additions to the stage-gate approach.

Some Stage-Gate Best Practices

Several best practices can make the stage-gate methodology more effective. First, successful initiatives or projects have well-thought-out milestones—specifically, milestones that incorporate some sort of financial impact. Such projects do better than projects without financial-impact milestones.

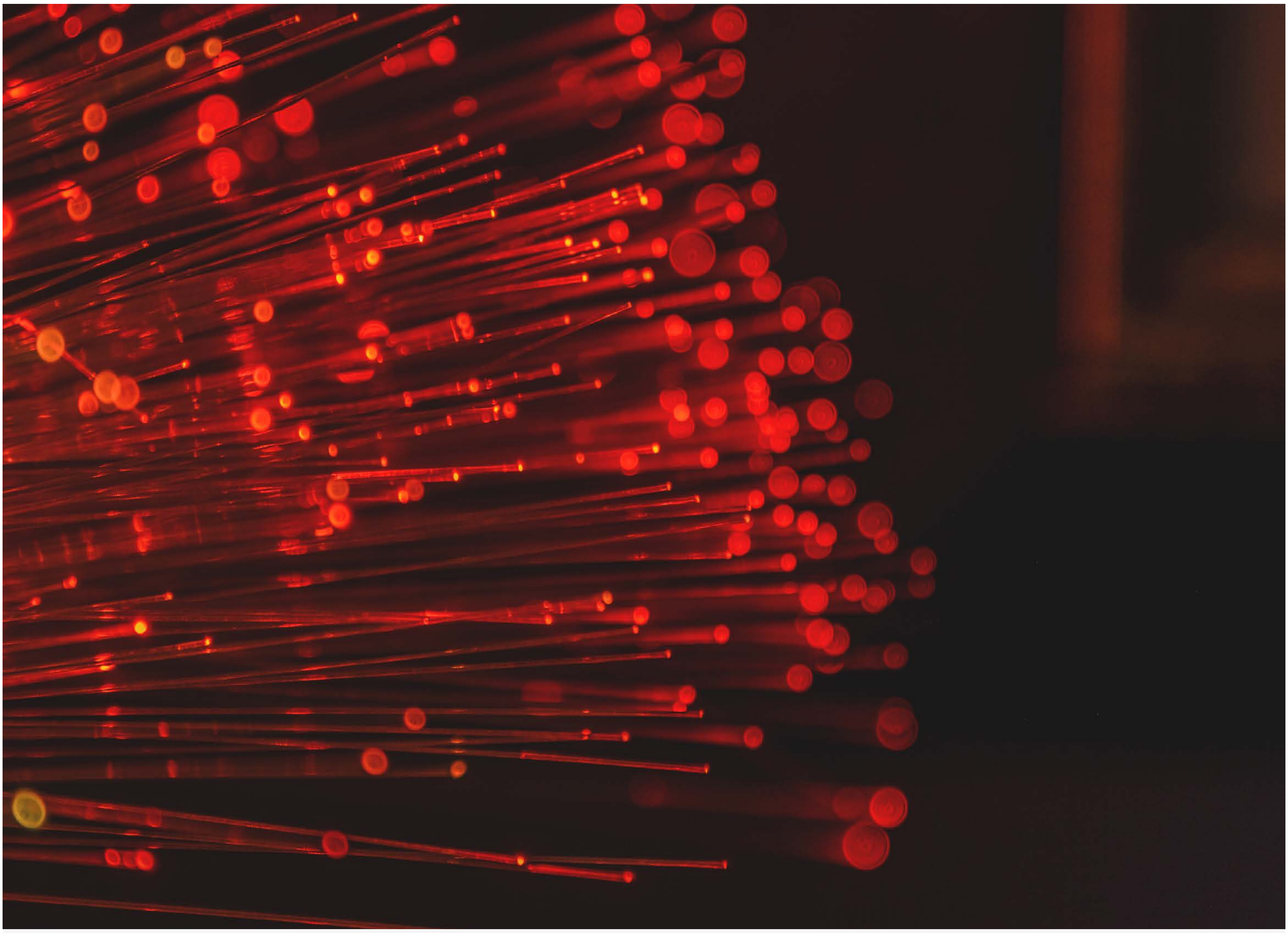
This finding emerged from a BCG study of 20,000 data points related to transformation projects and initiatives. Our study, which used machine learning software to identify transformation success factors, also showed an advantage for companies that make disciplined use of milestones. Specifically, a lower and therefore more manageable number of milestones correlates with project success rates that are 15% to 40% higher than those of projects that survey respondents thought had too many milestones.

Our analysis also shows that organizations pay a price (a 10% lower chance of success) for counting on a relatively small group of initiatives to deliver the bulk of a program's value. This is probably because the processes set up for projects as a whole don't work as well for projects that have orders of magnitude more at stake.

Finally, organizations struggle when they apply qualitatively different impact metrics—for instance, profitability, sales growth, and customer satisfaction—to the same initiative. When they do, initiatives are 40% less likely to succeed.

There is no guarantee that projects and initiatives will work if companies avoid the mistakes identified in our study. But the data does support an argument for complexity management, and it shines a light on problems that organizations should avoid if they can.

Another best practice, done in the midst of the stage-gate process, is to undertake something we call a rigor test, which is basically a discussion conducted just before the execution stage and involving all of a project's key stakeholders. Those performing the rigor test take a fresh look at the project—at whether its goals and milestones are reasonable and at how well understood its risks and interdependencies are. Rigor test discussions generally last no more than an hour, but it is amazing how often they expose some critical flaw: a milestone that has not been assigned or a dependency that no one has considered. After participants have addressed any flaws uncovered during the rigor test, initiatives can move into the execution stage with a much higher likelihood of success.



Transformation Voices

A Global Logistics CEO on Using the Right Metrics

“When we started our digital transformation, we had a broad spectrum of initiatives, and initially there was a lot of buzz around it. We used a rigorous stage-gate process—combined with agile methodologies—to ensure that only high-value initiatives received follow-on funding. Putting the stage-gate process into an agile construct vastly improved our decision making.

“Initially we were measuring only the individual dollar contribution from initiatives. After a few months, we also started measuring *overall* dollar outcomes. That is, we gave someone accountability for the ultimate economic result we wanted. We did this for the same reason that a person trying to lose weight gets on a scale once a week. Because that’s what really matters—the aggregate measure. The mechanisms for getting there—by, say, eating a specified level of carbs or eating only once each day—don’t make a difference if they’re not getting you to your goal.

“This led to the second important adjustment: the introduction of a portfolio view, where we were able to monitor and manage the risks, benefits, and costs of the whole portfolio. The portfolio view helped us do a better job of prioritizing the changes we were making.”

This interview has been edited and condensed.

A third best practice is not to allow initiatives to proceed without the finance department's explicit approval of the business case (Stage 1). Finance's job is to assess the initiative's likely profit, loss, one-time cost, and cash impact and to ensure that the project aligns with the organization's broader financial requirements.

Fourth, during the stage-gate work, successful transformation leaders assess the key success factors of their projects. A process that we call *DICE* allows them to do this by zeroing in on four factors: the duration between crucial milestones (similar to the aforementioned rigor test); the integrity of the project team (including the extent to which the project team has the necessary skills mix); the commitment of senior management and the broader team; and the effort, over and above team members' current commitments, that the project requires. Projects' DICE scores fall along a continuum ranging from "set up for success" to "in danger of failing." (See Exhibit 5.) The CTO, a workstream leader, or the SteerCo can use DICE at any point when such an assessment might help determine whether a given project or initiative is currently set up for success or whether intervention is appropriate.

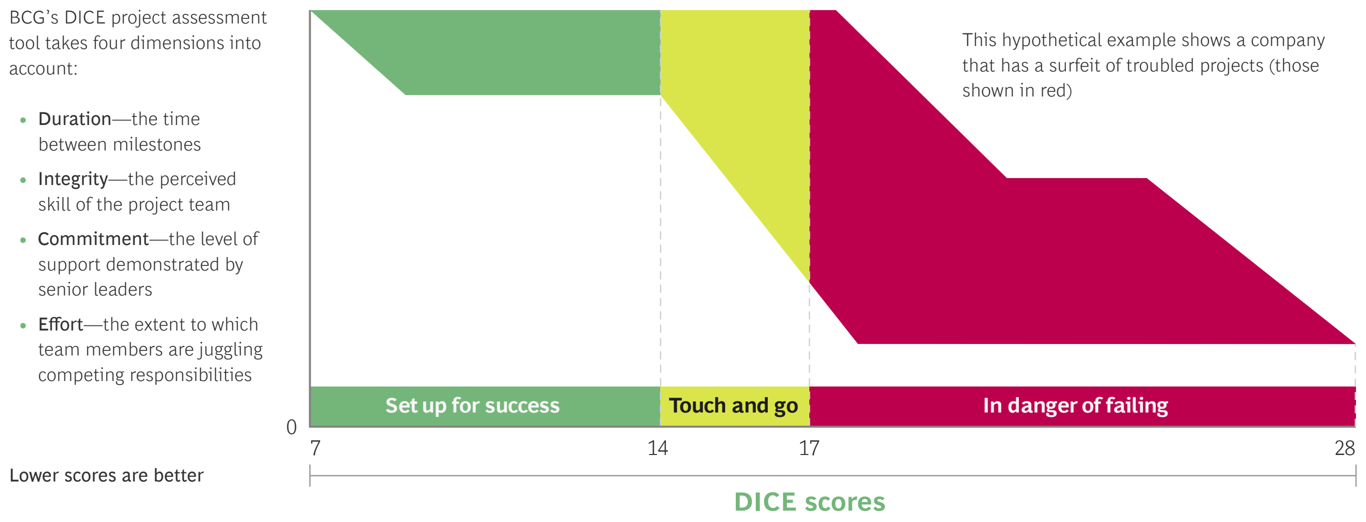
Companies need not dread the stage-gate process as a rigid methodology. Rather, they should embrace the process as a discipline that will help them do three things:

1. Thoroughly vet each business idea or project.

2. Effectively plan and manage the development of new services and organizational changes.

3. Measure each initiative's success.

Exhibit 5 - A Good Way to Predict the Success of a Project



Source: BCG project experience.

The Importance of Routines and Tracking in a Transformation Office

One thing that makes transformations so hard is the behavior change they require. A successful transformation depends on the collective adjustment of behaviors of people in the organization. Regardless of how they operated previously, initiative owners in a transformation must be inclusive and transparent. They may have to adopt a fail-fast philosophy or align resources with other initiative owners. At some point along the way, they are sure to encounter *some* new requirement that they won't be comfortable with. Ensuring that the changes happen anyway is the TO's responsibility.

People farther down in the organization must exhibit new behaviors, too. For instance, in a transformation that involves moving to multichannel distribution, a manufacturer's retail-store liaisons may have to enter their pricing changes into a central system and accept the need to collaborate with web colleagues.

The human element is what makes such changes hard. At an individual level, the very idea of change creates a lot of internal conflict. Behavioral scientists have names for these conflicts:

- **Status quo bias** is people's tendency to favor the known over the new.

- **Intention-action gap** refers to people's tendency not to do what they say they will do—and sometimes not even to do what they intend to do.

- **Loss aversion** is the phenomenon of fearing failure more intensely than seeking success.

One or more of these behavioral norms exist in all of us, and they are among the impediments to any transformation. They likely explain one of the most common complaints that arise during transformations—that a key leader isn't committed or isn't taking the transformation seriously. Everybody is counting on that person to deliver something, and it's not getting done.

In addition to problems of individual adjustment and acceptance, a host of top-down problems are common in transformations, most of them caused by two fundamental issues:

- Desired behaviors are not clearly articulated, so people don't know what is expected of them.

- The business context in which people operate is not reinforcing these desired behaviors.

We strongly believe that people act rationally within their business context. So if a behavior that should be happening in an organization isn't, it's usually owing to one of the two issues listed above.

In the past, we have written about how organizations can, by reducing complexity, eliminate problems in their business contexts. But even after an organization has improved its context, inertia can discourage people from operating differently. A framework we call *ATAC* can overcome this and help with behavior activation. ATAC has four main components:

- **Anchoring** is the discipline of keeping the organization focused on the transformation's main objectives and ambitions. It requires some kind of metric, often a financial one. Good TOs continually ask about progress toward achieving these metrics. This ensures that the rest of the organization gets the message.

- **Transparency** is essential to encouraging behaviors that align with the main transformation objectives. It implies visibility throughout an organization, including in the organization's lower levels. Companies can promote organization-wide transparency in many ways, including through dashboards, checklists, and personal check-ins.

- **Accountability** refers to the need to make each individual responsible for expected behaviors throughout a transformation.

- **Consequences** are crucial to keeping the transformation on track. They entail responding to unmet goals and underperforming staff with targeted management support and performance coaching. When appropriate, consequences can be positive—in the form of celebrating success verbally or through tangible rewards.

The tools that a TO uses to adjust the business context during a transformation aren't revolutionary. They're the basic tools of organizations: meetings, decision rights, tracking protocols, and other enablers of transparency. But when a good TO uses these tools with judgment and discipline, it can create a powerful impetus for new behaviors and can set up a transformation for full success.

There's no such thing as a glitch-free transformation. Even in a well-run program, 20% of initiatives won't achieve their desired impact, and even more initiatives (30%) will typically be at risk. But having this level of at-risk projects is actually a positive indicator. If all of the initiatives in your tracking system are proceeding perfectly, you're not aiming high enough.

Tracking is the key to minimizing problems. In regularly scheduled meetings—once a week or once every two weeks—the TO brings together the owners of each workstream to discuss the status of their initiatives, projects, and milestones. In a best-in-class transformation, the TO doesn't wait until the end of the transformation to see whether their initiatives will meet their goals. Instead, it engages the workstream owners to continually update their forecasts on value delivery. This creates opportunities for agile problem solving and for pivoting to maintain momentum and reach key targets.

An effective CTO will assemble the heads of different departments—operations, finance, production, marketing, and human resources—to break down silos and push the organization to work together. In addition, he or she will schedule weekly SteerCo meetings to make the decisions that no one else can. (See Exhibit 6.) To underscore the transformation's importance, the program sponsor (CEO, CFO, or other top leader) should attend these weekly meetings.

The meeting cadence is intense—by design. A transformation isn't business as usual, and it shouldn't feel like business as usual. The level of transparency, accountability, and cross-functional cooperation that transformations require is higher than the level at which organizations function naturally. At least initially, the program should make the people involved feel a little uncomfortable. A TO may even want to lean into the intensity, issuing "half the time" challenges to initiative or project teams to shock them into thinking in radically new ways. In many organizations, increased pressure works. Initiatives with shorter periods between milestone deadlines and faster impact updates see a boost of between 5% and 15% in their success rates.

Project owners and milestone owners need to know that the TO is counting on them to make progress every day, and they should also know at the end of one week's meeting what they need to achieve before the next week's meeting. At the same time, the meetings give participants a chance to identify and remove roadblocks. This often requires decisions and follow-up actions by higher-level executives. Indeed, transformations often "flip the pyramid," forcing executives to solve problems for people one, two, or three levels below them. "Nowhere to run, nowhere to hide, and no one to blame but yourself," is the way one executive put it to us, at a point when he was just starting to understand what his company's transformation would demand of him.

It's a little bit like what happens when you sign on with a personal trainer. Initially, the workouts are beyond your ability and it's frustrating. But with progress comes confidence and greater trust in the process.

Well-run TO meetings follow four best practices:

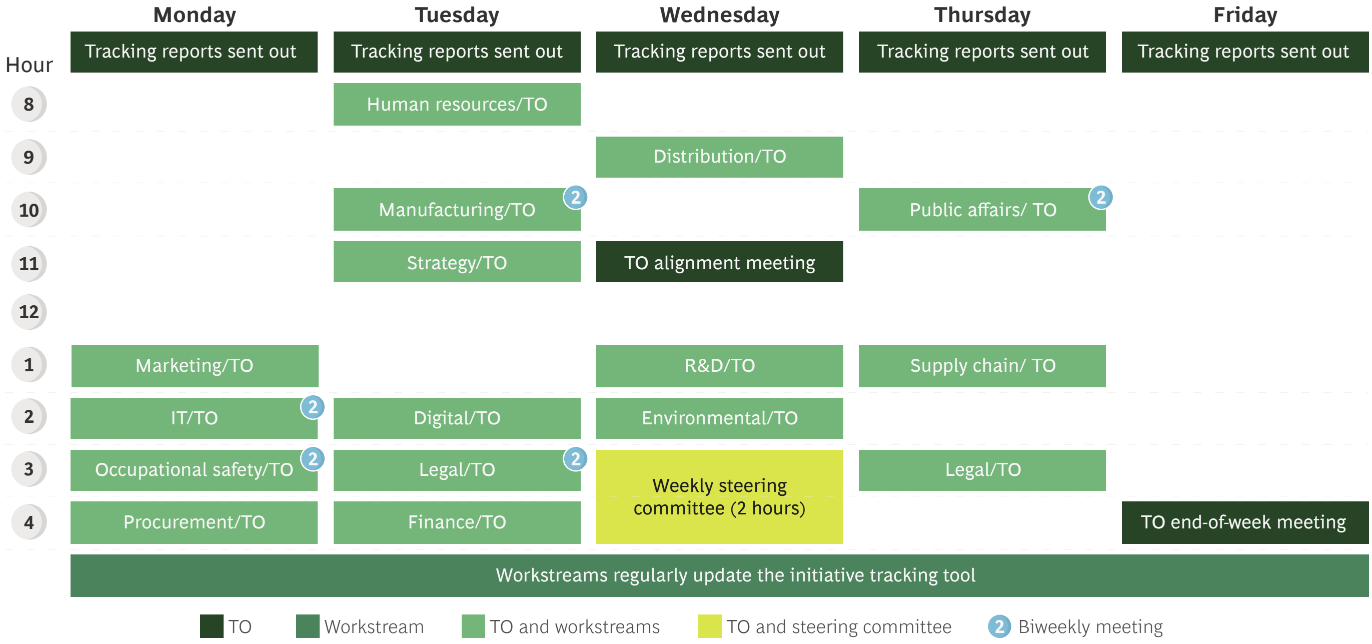
- **Focus on cross-department problem solving.** In a transformation, the biggest opportunities inevitably require cooperation across functional boundaries. A good TO helps different functions understand what they have to gain by collaborating. By emphasizing what's optimal for all participants, the TO increases managers' trust in it and allows the CTO to emerge as one of the leaders of the organization.

- **Maintain a bias toward working sessions.** "They're killing us with all these meetings" is a common complaint in organizations, and the risk that people will feel overburdened in this way increases during transformations, with all the newly required touch points. A TO can reduce this feeling by making it clear that the centerpiece of most meetings will be the centralized data system, containing the status of milestones and other important data—not newly created PowerPoint decks. Indeed, prior to each meeting series, the TO should hold an initial meeting whose agenda should be the content of the weekly meetings, with special attention to the transformation's special nomenclature (as illustrated earlier in Exhibit 3) and likely rhythms.

- **Set aside time for uplift.** The TO should devote portions of some of its meetings to more personal interactions such as a daily uplift moment recognizing a key accomplishment driven either organizationally or by a specific member of a project team. The uplift moment can be short and simple, based on an understanding of the many ways in which celebrating small successes can inspire people.

- **Have tools to support the process.** A crucial part of the transformation process is simply having the right reporting tools, so people can access information in real time. The most important tool is software for tracking each workstream's initiatives and projects, and for creating a portfolio view. Each project, of course, has a charter developed at the initial idea-generation stage, as well as a business case and milestones. When a software package includes these three elements, the contribution that each project is making to the full transformation becomes easier to see. This is the portfolio view. For smaller transformations, companies may be able to make do with simplified tools such as Excel and Microsoft Project. But in our experience, bigger programs—and ones that integrate financial insights—usually require purpose-built transformation software. For our clients, we recommend using Key, a cloud-based program that we developed. The best-managed transformations also have an impact center, which pulls in details from a system like Key, and also pulls reports from other parts of the company (whether sales or other performance indicators) to help the TO get a full picture of what's happening.

Exhibit 6 – A Chief Transformation Officer's Regularly Scheduled Meetings…



…Include a Status Check of Key Projects Within Initiatives…

Initiative	Project	Owner	Plan G4 date	Forecast G4 date	Plan 20XX EBITDA	FC 20XX EBITDA	Status in tool	Comments
Revenue uplift	Project 1	Jonathan B.	03/26/20XX	04/15/20XX	$39.5 million	$39.5 million	Off track	Dates of milestones
Revenue uplift	Project 2	Michelle A.	05/30/20XX	05/30/20XX	$17.6 million	$17.1 million	On track	
Utility savings	Project 3	Daniel B.	07/13/20XX	07/28/20XX	$16.6 million	$16.6 million	Off track	Milestone #10 overdue
Revenue uplift	Project 4	Anne H.	10/22/20XX	12/29/20XX	$5.9 million	$5.5 million	Completed	
Real estate	Project 5	Aaron V.	05/01/20XX	05/01/20XX	$4.7 million	$4.8 million	On track	
Real estate	Project 6	Frank W.	06/15/20XX	06/15/20XX	$4.1 million	$4.0 million	On track	
Other	Other				$7.6 million	$7.0 million		
Total					**$96.0 million**	**$94.5 million**		

…and Multiple 'Milestones Due' Reports

Project name	Project owner	Milestone owner	Milestone	Plan Date	Forecast Date
Utility savings in production site 2	Daniel B.	Daniel B.	Renegotiate energy contract with current provider	11/15/20XX	11/15/20XX
Utility savings in production site 2	Daniel B.	Aaron B.	Complete solar panel installation on factory rooftop	12/06/20XX	12/06/20XX
Revenue uplift	Daniel B.	Hannah X.	Define list of customers for revenue increase	12/10/20XX	12/10/20XX
Revenue uplift	Daniel B.	Joao W.	Finalize price increase model with finance and controller	12/11/20XX	12/11/20XX
Manufacturing 4.0	Daniel B.	Johannes F.	Build MVP for advanced robotics with external vendor	12/14/20XX	12/20/20XX
Manufacturing 4.0	Daniel B.	Lena L.	Select site for advanced robotics pilot	01/05/20XX	02/15/20XX

Source: BCG case experience.

Transformation Voices

A CTO on the Need to Track Progress on a Single System

"A major challenge was just getting everyone into the same rhythm. As at a lot of companies, the leaders at ours all had individual ways of tracking, measuring, and reporting on their activities. There was quite some resistance to the idea of asking everyone to adjust to one system. I have to say, however, that this was the right battle to fight. I had initially let one division that was doing reasonably well go with their own way of reporting and measuring success. That was a mistake. It produced a lot of extra work whenever we reported overall results, and it made it impossible to manage scarce resources—for instance, in IT. With different measures of success, there was no quick way to put this business and others on an even footing and to know which one deserved additional investment.

"If I were to do it again, I would insist even more strongly on one unified approach. The initial pain would have been more than compensated by the reduced workload thereafter, when everything was in one system. Also the ability to steer the transformation and integrate it into one story would have been so much easier. Next time I'll know better."

This interview has been edited and condensed.

Collectively, these routines help TOs reinforce the rigor of timeliness, the need for speed, and the necessity to achieve objectives. Ultimately, these routines build trust as people in the organization see the value being created, get a better picture of required behaviors, and take more ownership of and responsibility for their work. As leaders and contributors throughout the organization see projects paying off, they become advocates of the new way of working.

The Transformation Office's Role in Issue Resolution and Problem Solving

Imagine an ambitious transformation three or four months after it has begun. Senior leadership and the board of directors have approved the program's targets and shared them with investors. The transformation office is in place and has worked with the workstream and initiative leads to translate a large, complex undertaking into an expansive portfolio of projects, each with its own charter, owner, business case, and milestones. The projects have been loaded into a transformation management software program. The TO has created a schedule of reports and touch points that it will use to keep things on track and enable teams to meet targets. Now it's time for execution and delivery.

Although thousands of activities are going on at this stage of a transformation, the organization's senior leaders, including its CTO, will focus primarily on a small subset of these activities. This goes back to the reality that you can't do everything in a transformation equally well. Even a giant multinational must narrow its main focus to 20 or so initiatives that senior leaders see as make or break.

Some of these initiatives will eventually come through beautifully, exceeding expectations and internal forecasts. Others will veer off track in terms of timing or value delivery. And if too many high-value initiatives fall short, the transformation as a whole will underperform.

A good TO acts in multiple ways to reduce the number of missed targets during a transformation:

- It creates processes—such as stage gates, DICE, or a similar TO assessment mechanism—that identify issues early.
- It flags the most important issues up the leadership chain, to the CEO if necessary.
- It forces stakeholders to resolve issues quickly—or to rethink the initiative if no quick solution is available.
- It pays special attention to critical projects that are off track.
- It deals with interdependency failure points.
- It helps reprioritize projects when disruptions occur.

In the absence of a transformation office, companies' attempts at issue resolution might suffer from a problem that plagues many cross-functional initiatives—that of having no one with the authority to make a decision. A simple idea that we call *boomeranging* can mitigate this. Boomeranging ensures that non-executive staff can circle back to those with decision-making authority whenever they need to—thus increasing the odds that operating decisions will be made quickly and on a clear factual basis. SteerCo members are often part of the boomerang in successful transformation programs, whether it's explained to them using that metaphor or not.

Let's look at three of the most common issues that threaten transformations and see how these issues can be avoided or addressed.

Common Issue #1: Critical initiatives or projects are shown as being on target (green) in transformation reports and meetings, but in reality they aren't.

Potential Cause. Off-track initiatives are seen as failures rather than as opportunities for refocusing and adjustment. This leads to the transformation equivalent of grade inflation—or in the lexicon of project tracking, to lots of green lights and very few yellow or red lights.

Potential Solutions. The organization must make it clear from the beginning that it is aiming high. It should remind transformation participants that, at any given time, high ambitions mean that some projects and initiatives won't be where they are supposed to be. Indeed, for a transformation to have a chance of full success, a certain number of projects should have a 50% or 60% likelihood of success (versus 95%). A good transformation office will communicate this explicitly, with the CTO emphasizing that the organization's objective isn't to have a portfolio consisting solely of projects that show up as green in the tracking system. (Some CTOs might to go so far as to say, "Yellow is the new green," to emphasize what they are going for.)

Demonstrating support amid temporary underperformance and missed goals isn't the only way to encourage risk taking among initiative owners and project leaders. Organizations can also adjust certain contextual elements, such as how they handle performance management and how they think about financial rewards (de-emphasizing flawlessness and putting a higher premium on engagement, for example). And they can adjust their funding mechanisms to reinforce the point that a project's current color in the traffic light schema is only one of the factors relevant to determining the investment that it should receive.

Transformation Voices

A European Bank Executive on the Value of Stretch Targets

“One of the hurdles we had to get over at the beginning involved the very high expectations that we had set for savings. The savings targets were useful in driving home the idea that we weren’t looking for incremental adjustments. This was about breakthrough change. Initially, we had great success with this: the executives heading our initiatives were willing to challenge the status quo and propose radical solutions.

“Over time, however, the pace became slower and the results less impressive. Quite a few initiatives began falling short.

“I realized that I needed to dig into the initiatives more deeply—to really challenge if they were set up to achieve the goals we had. Basically, I was identifying “watermelons.” That was our term for the many initiatives that had a green status when looked at from the outside, but turned into red lights everywhere when we dug into them. Whether because of inadequate resources or insufficient ambition or some other problem, these were initiatives that shouldn’t have been moving forward.

“Sniffing out watermelons became my new hobby. It did not make me a popular man, but it was necessary.”

This interview has been edited and condensed.

Common Issue #2: The overall forecast for the transformation program is falling short of the target.

Potential Causes. Important projects are underperforming, and there aren't enough overdelivering projects to compensate. Or the first wave of projects that entered the execution phase (Stage 3) is concluding, but there aren't enough second-wave projects in the holding pen and in earlier phases (Stages 0, 1, and 2) to fill the resulting void.

Potential Solutions. Value slippage is extremely common in transformations. To manage it, the TO should ensure that finance team members constantly work with workstream leaders and initiative owners to assess their value forecasts. The most important number to look at in each case is the workstream leader's overall target, not the performance of specific initiatives.

Take the example of a cost reduction effort that a global head of operations is running. Five big initiatives may be associated with this effort: automation, outsourcing, renegotiation of supplier contracts, management delayering, and a reduced manufacturing footprint for the organization. The numbers could show that all of these initiatives are on track to produce their expected dollar savings. But cutting costs in one part of an organization can increase costs or create new ones elsewhere. So the most critical thing to do—with the finance department's help—is to forecast what the organization's run-rate costs will be after the changes are in place.

This highlights another key role of the TO: transformation portfolio management. Although transformations often take place over 18 to 36 months, most individual projects can be executed in 2 to 4 months. As projects reach completion, the company needs to replace them with a new wave of priority projects. The TO helps workstream owners ensure that they have the right balance of projects in development (Stages 0, 1, and 2), in execution (Stage 3), and in impact validation (Stage 4).

Common Issue #3: Something unexpected happens that requires a sudden course correction in the transformation program.

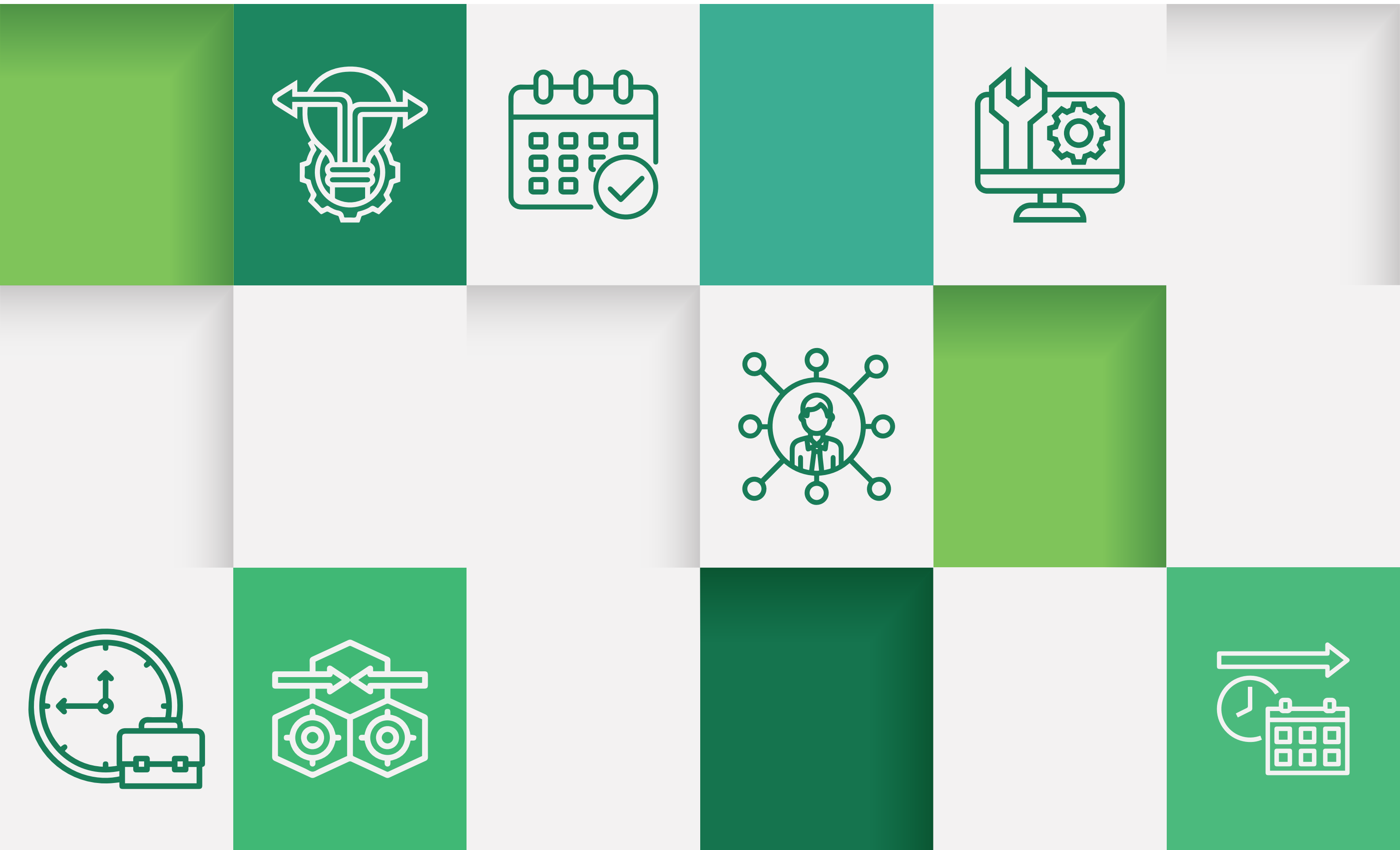
Potential Causes. A major disruption may result from some external factor, such as a new CEO, a financial downturn, or a regional health or environmental crisis. Indeed, during the early months of the COVID-19 pandemic, some companies that were in the midst of transformations experienced such dramatic drops in demand that they had to decide which parts of their transformation programs to maintain.

Potential Solutions. When a disruption occurs, a TO can leverage the change process and program that is already in place. One inspired example of this involved a client of ours that was facing a liquidity scare during the pandemic. The company had to quickly switch to initiatives with more favorable cash flow impacts, and away from many original initiatives that had been designed to maximize EBITDA. They managed to do this quickly because the work they had already done in properly building business cases for each project had included information on each project's cash impact. With the finance team's help, the TO identified cash-consuming projects that needed to be paused and holding-pen projects that offered immediate cash flow benefits. Had the TO not developed properly vetted business cases at the outset, its response to the disruption would have taken much longer.

The larger point—relevant to any kind of disruption—is that the CTO and the TO have the tools to organize an agile response to many problems and disruptions that can occur during a transformation.

Throughout a transformation program, a good CTO and TO should actively identify problems, work with owners and leaders to solve them, and keep the whole program operating on schedule. On a day-to-day level, the CTO functions a bit like a coach of elite Olympic athletes. Such athletes benefit from being pushed and challenged—and so do many talented organizational leaders. Just how far can they stretch? The TO earns the right to find out by demonstrating its own skill at problem solving and by obtaining needed resources. Although the CTO isn't the one who stands on the podium and collects the gold medal, he or she is at least partly responsible for what the people in the organization achieve.

Making Transformations Work for the Long Term



The changes at the start of a transformation are rapid-fire and stress inducing, but those first few months are also when a transformation's benefits are most apparent. This is partly because leadership teams focus on easy-to-execute projects at the start of a transformation, in order to create buy-in and excitement and to accumulate success stories for use later when the going gets harder. We refer to the early phase of a transformation as "funding the journey." This roughly six- to nine-month period is about funding because of the initial money that the company is committing and because of the cash that some early projects generate, which the company can invest in later ones.

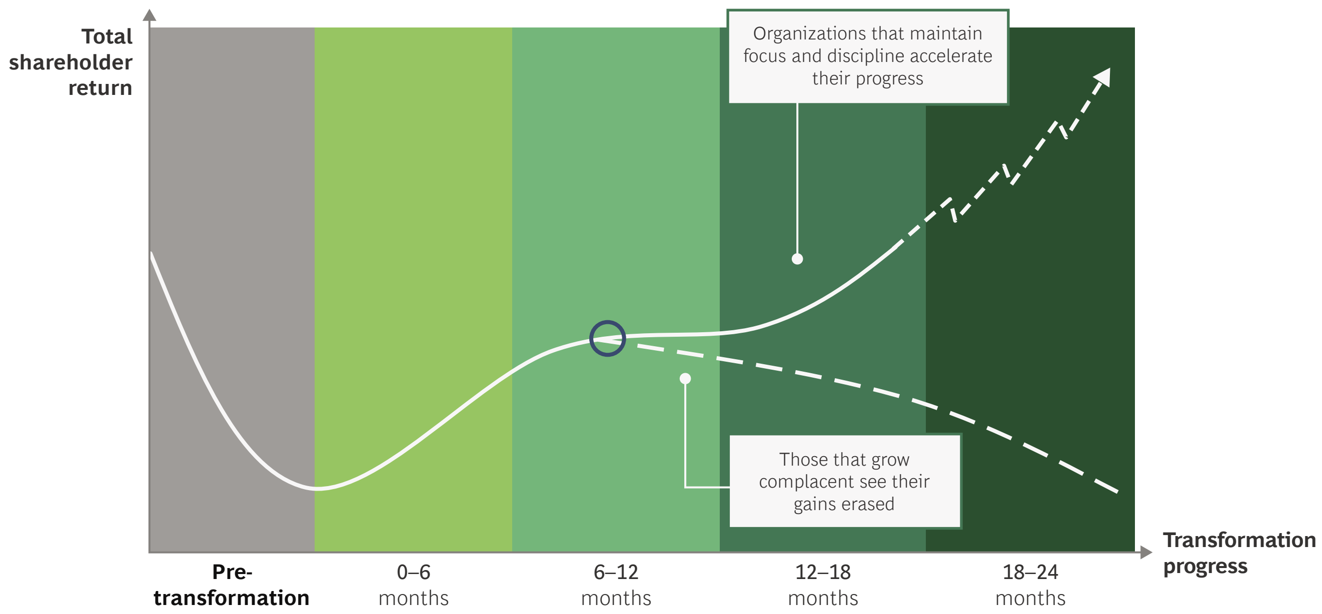
The big opportunities in transformations usually take longer to execute—18, 24, or 36 months, not 7, 8, or 9. For instance, a company looking to reduce finance-department costs could undertake a delayering exercise. That's a quick project that would certainly free up cash. Alternatively, the company could opt to automate parts of its finance department or outsource part of the finance function to a low-cost country. Those projects would have a higher payback but a longer gestation period.

Another type of organizational change that takes time is a capabilities upgrade—for example, shifting an engineering organization from waterfall development to agile. Such an effort can be a gigantic value creator and a source of competitive advantage. But no one would expect to fully realize it in the first months of a transformation, and perhaps not even in the first year.

The second phase of the transformation is what we call the "medium term." The transition to this part of a transformation is a risky time. (See Exhibit 7.) It's a time when the CTO must do three things:

- Replenish the pipeline of initiatives in Stages 0, 1, and 2.
- Ensure that the overall program retains its energy and that existing processes and routines maintain their power.
- Take corrective action if the energy or enthusiasm of leaders or the broader organization begins to flag.

Exhibit 7 - Most Transformations Hit a Turning Point One Year In



Source: BCG case experience.

Changes in Transformation Leadership

One thing that complicates performance in a transformation's medium term is the likelihood of personnel change. In a situation where an external consulting firm has established the transformation office and is running it, this is often the time when the organization retakes control of the TO. This is a big transition. With good knowledge transfer and training (including job shadowing, in many cases), a transformation can retain its momentum. Without those things, the transformation can come apart.

Even a transformation that hasn't included consultants and doesn't have a moment of external-to-internal transition must weather significant shifts in personnel, since TOs tend to be temporary assignments. For this reason, detailed documentation about transformation processes is crucial. So is a well-thought-out set of role charters and job specifications. The people who do well in TOs have ample reserves of confidence and resilience—along with a facility for financial analysis and an obsession with details. They also need to be able to develop soft skills.

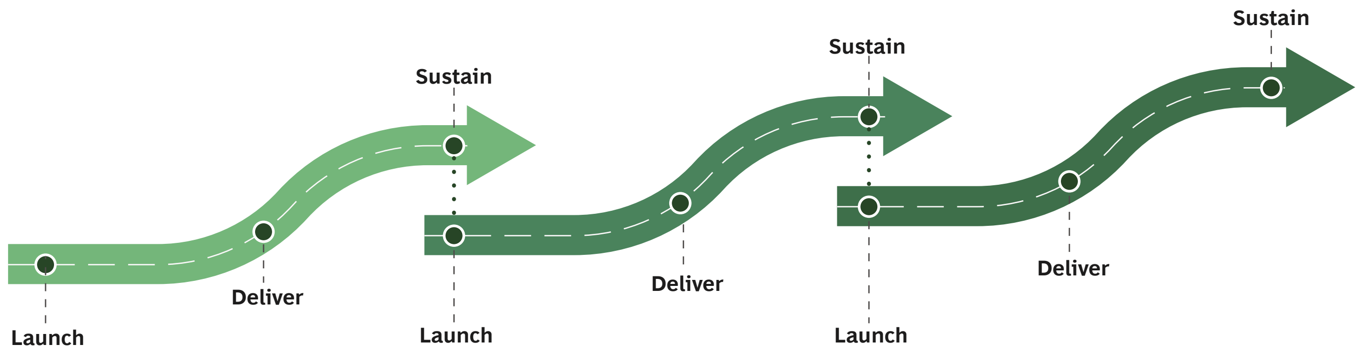
Transformations are like multistage rocket launches. The lift-off gets most of the initial attention and induces the greatest amount of nail biting, but the people in the command center never really rest. They know that to complete the mission, the spacecraft will have to re-accelerate and adjust course periodically, and fire its rockets at appropriate moments in later stages.

Likewise, in an organizational transformation, companies can recapture energy that dissipates over time, by starting another large theme or initiative. In a space mission, you'd never see a mindset of "Everything is going great—we can coast a bit." There's always one more thing to do, a new way to ensure or improve an outcome. The same is true in an organizational transformation: a period when things are stable and running well is often the best time for reinvigoration, which may involve destabilizing things with a healthy challenge.

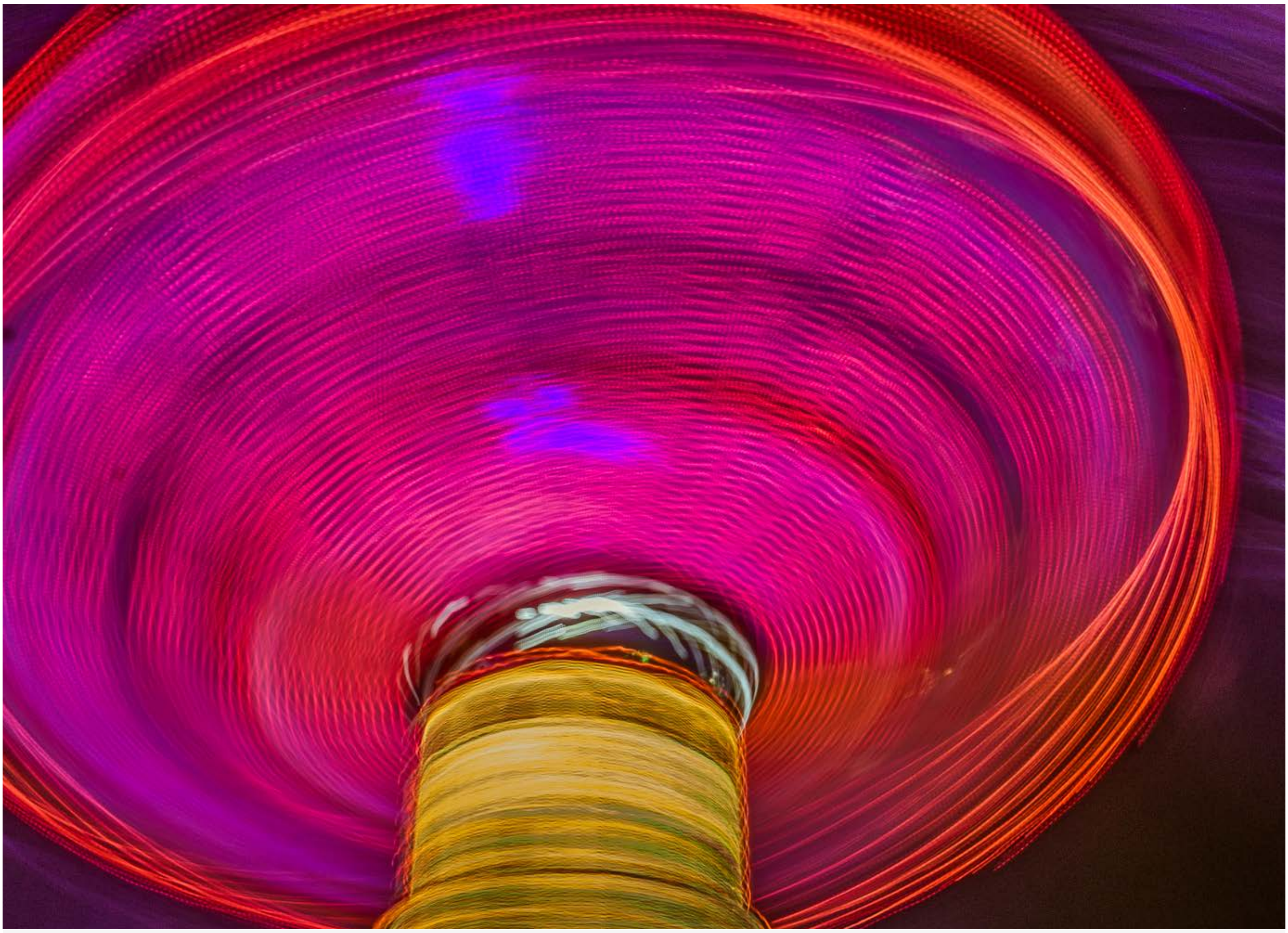
Nonstop Transformation

A company that has established a transformation office may eventually ask, "Why on earth would we dissolve this function?" Obviously, the only place where you are likely to hear an argument for always-on transformation is at a company that is extremely happy with what it has been able to achieve in an existing transformation. Most such companies are in fast-changing industries and have everything riding on three or four major new initiatives in any given year. The role of the TO at these companies is to ensure that the company executes future initiatives with the same level of rigor and process discipline that they maintained during earlier transformation-related projects. It's about executional certainty and speed—and about turning agility into a competitive advantage. (See Exhibit 8.)

Exhibit 8 - The Rhythms of an Always-On Transformation



Source: BCG case experience.



Transformation Voices

A Retail CTO on the Constant of Organizational Change

“By the time we started our transformation, retail was already under intense pressure from online shopping and from shifts in consumer behavior. Like a lot of other retailers, we started much too late. It was immediately obvious to the leadership team that almost everything had to change, but no one was actually able to frame what the target would be and when we would be done.

“We had a succession of meetings in which we struggled to come up with a future state we could all agree on. And then, in one meeting, our CFO said, “The only thing that is sure about our future is that we will have to continue to change once we have achieved it.” We all recognized the truth of what he had said, and it changed our focus from what we would become to the skills we would need to build. This reduced the anxiety significantly, as we could finally articulate the next level of stability for us: one rooted in our ability to keep changing, rather than our ability to operate a specific model. With that new focus, the idea of ‘always-on’ transformation—which is where we were headed—lost some of its scary aura.”

This interview has been edited and condensed.

In a company engaged in always-on transformation, the TO becomes part of the company's management operating system, joining a host of other disciplines such as finance, performance management, and strategy. The TO has a highly targeted role at these companies: to focus on the organization's step-change initiatives and on its "big rocks." This differs from continuous improvement, although that is important, too. (See Exhibit 9.)

Not surprisingly, some companies nowadays make strategy and transformation part of a single executive's brief. Strategy informs what's in the pipeline, and the TO ensures its execution, so one person oversees both things.

Exhibit 9 - How Always-On Transformation Differs from Continuous Improvement

Continuous improvement
focuses on…

- Incremental changes
- Bottom-up ideas
- Organically generated initiatives
- Individual team designs and execution
- Small-team management
- Measurable results in short time frames

Always-on transformation
is about…

- "Big-rock" and step changes
- Top-down programs and initiatives
- Dynamically managed portfolios of initiatives
- Interdependencies in design and implementation
- Large, cross-functional initiatives
- Performance gains that accelerate over time

Source: BCG case experience.

Conclusion

Toward Better Transformations

Transformations are here to stay—and they will always be difficult endeavors. But our decades of collective experience and the survey work we've done to understand transformations have given us a clear picture of what they require.

Success comes down to a few key things. Manage your processes rigorously, and institute strong governance. Use a stage-gate methodology to maximize the value of your initiatives, and use software and data to keep those initiatives on track. Put a transformation office at the center of everything you do. Perhaps most importantly, set the bar high—and then look for the right times, places, and ways to raise the bar. If your organization is struggling, this mindset of "never good enough" will help you strengthen it. If your organization is already good, the right transformation might just make it great.

About the Authors

Reinhard Messenböck is a managing director and senior partner in the Berlin office of Boston Consulting Group. You may contact him by email at messenboeck.reinhard@bcg.com.

Mike Lewis is a managing director and partner in the firm's Houston office. You may contact him by email at lewis.mike@bcg.com.

Perry Keenan is a managing director and senior partner in the firm's Chicago office. You may contact him by email at keenan.perry@bcg.com.

Ronny Fehling is a partner and director in BCG GAMMA's Munich office. You may contact him by email at fehling.ronny@bcg.com.

David Kirchhoff is a managing director and partner in BCG's Austin office. You may contact him by email at kirchhoff.david@bcg.com.

Gregor Gossy is a partner and associate director in the firm's Vienna office. You may contact him by email at gossy.gregor@bcg.com.

Kristy Ellmer is a managing director and partner in the firm's Boston office. You may contact her by email at ellmer.kristy@bcg.com.

Simon Stolba is a consultant in BCG's Vienna office. You may contact him by email at stolba.simon@bcg.com.

Julia Dhar is a managing director and partner in BCG's Boston office. You may contact her by email at dhar.julia@bcg.com.

Connor Currier is a lead knowledge analyst in the firm's Boston office. You may contact him by email at currier.connor@bcg.com.

For Further Contact

If you would like to discuss this report, please contact the authors.

HOW THE BEST SET UP THEIR PROGRAM JOURNEY