Transformation Realised

13 November 2024

Building a better working world

The new normal is continuous, "non-linear" transformation

95% of CEOs plan for transformational change in 2024.[2]

External forces increasing volatility and pressure

Geopolitical
- War and conflict
- China-western decoupling
- Evolving policy, trade and regulatory landscape

Economic
- Inflation-recession / rising costs and margin pressures
- Shift to contingency, risk and resilience

Social
- Skills shortage/talent mobility
- Heightening of workforce and consumer/client expectations and 'value'

Technological
- Heightened cyber threats
- Advancing and disruptive technologies (e.g. Generative AI) and automation

Regulatory
- Responsible and secure use of AI, data and IP
- Ethics, independence and trust
- Legal and regulatory compliance

Environmental
- Multispeed ESG policies
- New/enhanced products and services
- Brand expectations

Non-linear Dynamic Continuous

Value-led Human-centric

Internal drivers increasing speed and complexity

Digital transformation & AI
- Digitise the value chain (infrastructure and operations) and evolve

New business models
- Post-pandemic business recovery/reinvention
- New products and/or services (incl. Growth strategies)
- Proactive and reactive risk services to manage these changes

Operational re-organisation and nearshoring
- Increase self-sufficiency
- Improve productivity and efficiency/cost reduction
- Process improvement

Changing value chains
- Friendshoring
- Sustainability and Resilience
- Dynamic synchronisation

Workforce transformation
- Changing generational demographic
- Upskilling/reskilling
- Employee experience

Customer & citizen
- Change focused on enhancing the experience of customers and citizens across the value chain

1. EY Global Board Risk Survey 2021 – Survey of 511 board members and CEOs.
2. EY CEO Outlook Pulse 2024
Note: Transformative Leadership Survey 2022; EY Knowledge analysis.

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Successful transformation is hard to achieve

Transformations can unlock significant value ...

25%

additional shareholder return achieved by companies involved in transformations vs. ones that are not

40%-120%

average CAPEX investment returns for companies involved in transformations

...however, they are hard to achieve

~70%

of transformation initiatives fail to deliver intended results

Typical transformation pitfalls

Poor governance	▸ Lack of program mgmt. team empowerment/ability to hold accountable ▸ Lack of clear responsibilities/participation requirements on all levels ▸ Critical decisions not being made or not escalated properly ▸ Insufficient prioritization among initiatives
Lack of transparency & consistency	▸ Low visibility on dependencies, achievements & program robustness ▸ Infrequent initiatives stakeholder matrix update ▸ Inconsistent methodologies (baselines, KPIs calc., planning periods...) ▸ Missing linkage to P&L and inability to properly reflect tracking
Inadequate tech backbone	▸ Lack or imbalance in tech backbone - fully manual (e.g. Excel) is resource intensive vs. complex systems cumbersome to update ▸ No clear vision of how software is to be sustained after launch ▸ Program info not well integrated across initiatives / tech ecosystem
Inadequate resources & capabilities	▸ Project and Change Management missing the necessary resources to derive relevant takeaways and the so-what necessary to successfully drive the transformation ▸ Capabilities gap especially with regards to Finance, IT, etc. ▸ Missing internal capability-building programs sustained post-launch
Limited readiness to change	▸ Ways of working not updated to embed the change ▸ Change fatigue hindering adoption ▸ Unmonitored change intensity and transformability of Business ▸ TMO efforts not commensurate to resistance to transformation

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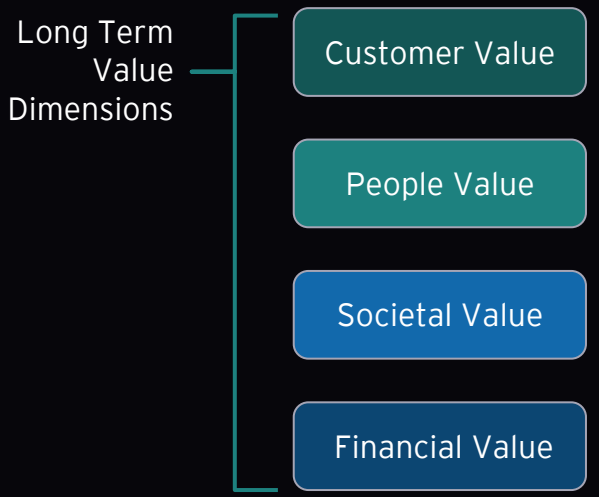
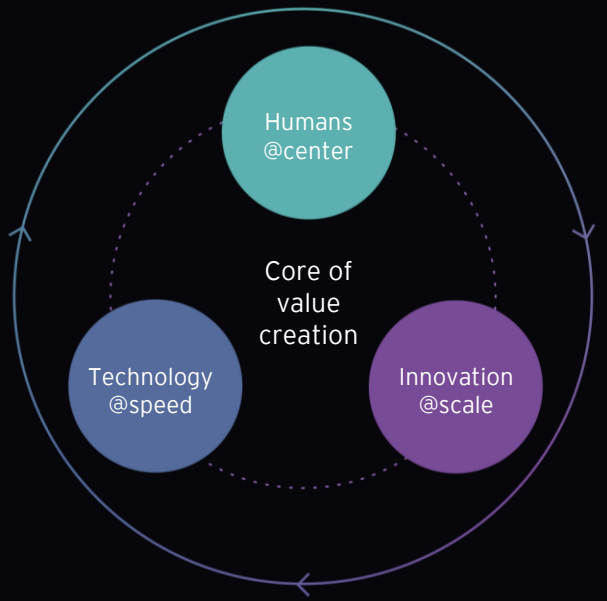
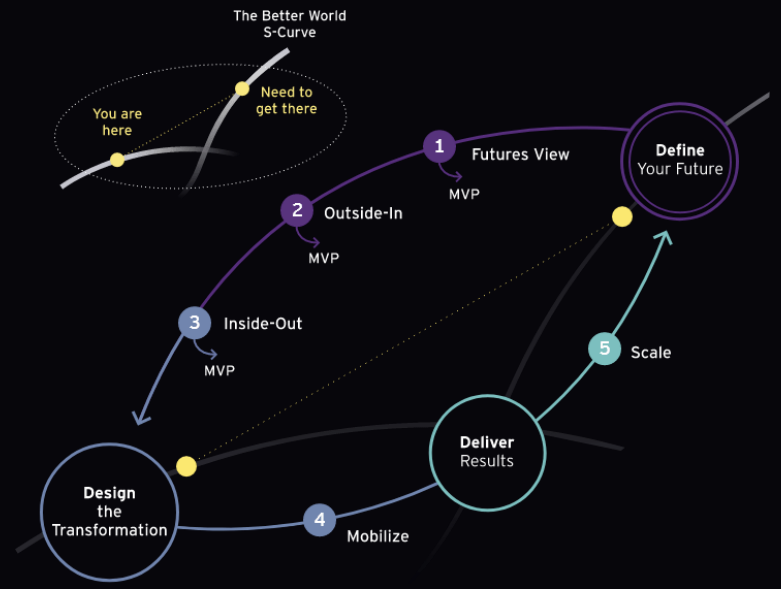
Transformation Realized







Long Term Value

The key to realizing transformation is a focus away from short-term return to long-term value.
By long term value we are focused on generating differentiated value around 4 different levers: Customer (end consumer), People (workforce), Societal (community, sustainability, regulatory), Financial (growth, cost optimisation)

New value drivers

The core of value creation sits at the heart of Transformative organizations. We call these value drivers Humans@Center, Innovation@Scale, Technology@Speed.
True organizational transformation depends on the integration of all three core value creation drivers.

Future back

Three key phases run in rapid and interconnected cycles:

1. Define your future
2. Design the transformation
3. Deliver results

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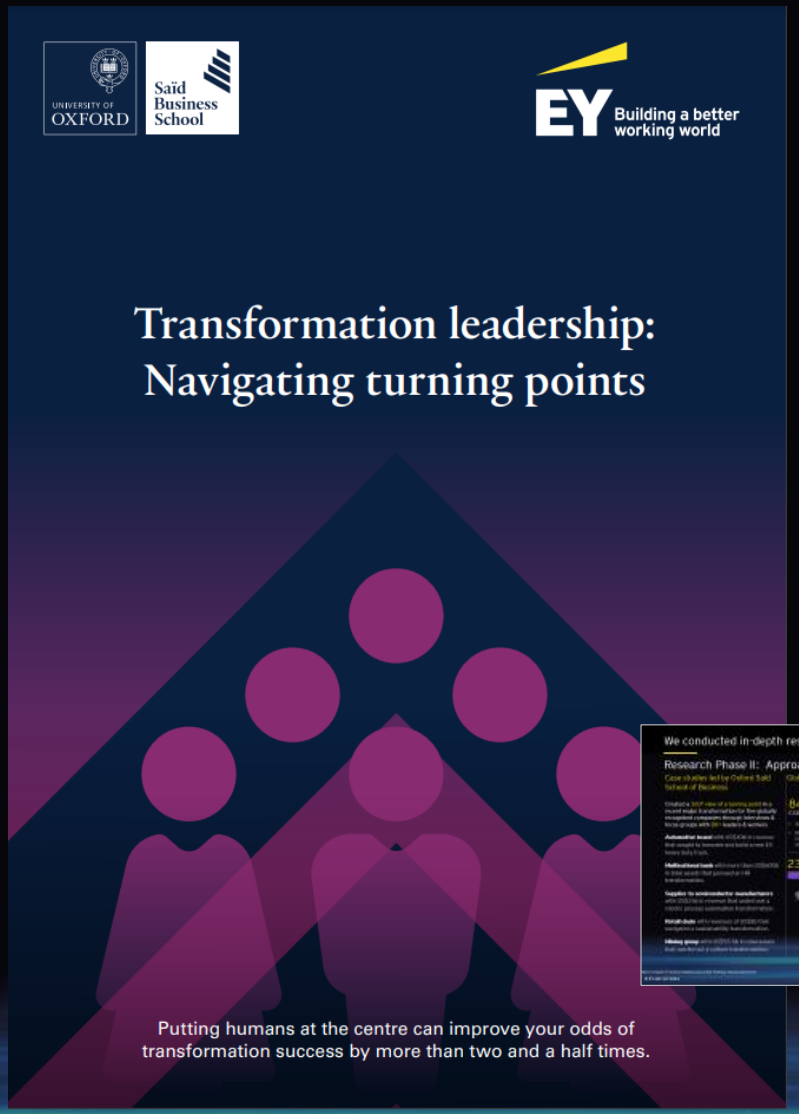

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The 6 conditions of a successful transformation – 2.6x more likely

ACCELERATORS

Disciplined freedom

Drive forward and learn as you go.

- Create autonomy for the organization to execute – delegate authorities and decision rights.
- Encourage experimentation.
- Incentivize the shift – shift key behavioral indicators (KBIs) and key performance indicators (KPIs).

I have agency

Purposeful tech

Use technology to bring vision to life.

- Link your tech roadmap to the vision.
- Make it real – quickly. Use technology to quickly show what the vision means.
- Invest in your people to develop required mindsets and skills.

It's real - I can see what it means for me

Radical interdependence

Accelerate horizontal working.

- Design an operating model that fosters connectivity and collaboration – shift incentives where needed.
- Work with thought leaders in the workforce to cocreate new ways of working.

We are working this together

FOUNDATION

Purposeful vision

Break from the status quo.

- Disrupt: Look elsewhere to have your thinking challenged.
- Build belief: Clearly communicate to people "why" change is needed.

Something I believe in

Adaptable leaders

Foster leaders who:

- Constantly work on themselves.
- Practice courage – leaning in as the going gets tough.
- Align and unify.
- Emphasize "we," not "me".

Leaders who I believe in & believe in me

Psychological safety

Plan for the emotional journey of both the workforce and leaders.

- Build a deeper understanding of the emotional state of the workforce.
- Manage the stress, keeping it a positive force without leading to anxiety or apathy.

I am listened to

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Three steps that put humans at center to successfully navigate a turning point

Identified three steps using predictive modeling on 1600+ turning points and 40+ factors

Sensing

Building an early warning system to rapidly detect the emotional and behavioral signals that an issue has emerged

Sense-making

Convening the right mix of leaders and workforce to identify the root causes of an issue and co-create a path forward

Acting

Take actions that address the root causes of an issue to re-establish the six drivers for transformation success.

These steps aren't linear, they form a continuous loop to enable adaptation

12x Leaders that put humans@center to navigate turning points are 12x more likely to significantly improve transformation performance[1]

Near-term value

2.2x Resolve underlying issues to get the program back on track

2.1x Improve the speed of execution

1.5x Improve workers' emotional wellbeing[2]

Mid-term value

1.9x Lead the entire program to overperform its KPIs

Long-term value

1.8x Improve workers' ability to execute the **next** transformation

1. Ordered logistic regression using maximum likelihood estimates; Turning point's impact on transformation performance estimated by bootstrapping; "above" or "below" average refers to a one standard deviation increase or decrease, respectively, in average adoption of the three steps.

Source: Transformative Leadership Study 2024; EY Knowledge analysis

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A turning point is often a culmination of ‘shocks’ to the transformation

1. Operating Model Issues

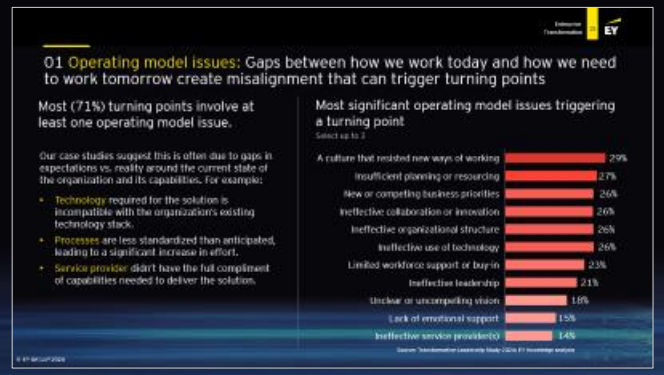
Gaps between how we work today and how we need to work tomorrow create misalignment that can trigger turning points

2. Human system dynamics

Failing to make a series of shifts in system dynamics in a timely manner creates friction that can trigger a turning point

3. External disruptions

Being in a state of transition makes the organizations more vulnerable to sudden external shocks



Source: Transformative Leadership Study 2024; EY Knowledge analysis

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People's emotions and behaviors are the lead indicator of a program's health, but often overlooked in monitoring transformation progress

Five of the top six signals that a major issue has emerged in a transformation are based on people's emotions and behaviors.

Yet organizations often fail to compliment measures of progress like timelines and budget, which are lagging indicators, with measures of people's emotions and behavior, which are more leading indicators.

This may explain why 70% of leaders believe they could have detected issues sooner in their transformation.

Signals that a major issue has emerged

Select up to 3

Source: Transformative Leadership Study 2024; EY Knowledge analysis

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Are we looking behind us…

… or at what's coming?

- Sensing is emotional as much as it is rational
- Our data shows that the signals to pay attention to are behavioural, rather than process related
- KPIs are important, they need to be complemented with key behavioural indicators (KBIs).
- Leaders can anticipate the issues that precipitate turning points

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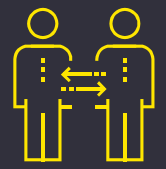
Key takeaways: What leaders can do to navigate turning points in ways that lead to elevated impact from transformations.

Anticipate challenges

Organizations are more likely than not to hit major challenges that will require a turning point

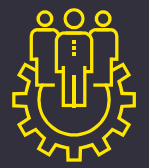


Listen to the organization

An organization where people feel listened to requires leaders to build high-trust relationships, long before problems occur

Leaders could be the reason issues are not raised

By being present, physically and emotionally, leaders can address the subconscious suppression of the free flow of communication



Constantly shape the environment so people can thrive

Several case studies experienced the locus of power and control for future transformation shift from a few at the top of the hierarchy, to many at the base

Co-create and jointly problem solve

The main enabler of successful transformation is getting the team involved, empowering them to address the problems and test and learn together

Think adoption, not go-live or day one

Ensure the transformation program and adoption of new ways of working becomes the new normal

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Appendix

Building a better working world

Research Phase I: Approach

Qualitative interviews with transformation leaders

- Led by the Oxford Saïd School of Business
- 25 senior leaders across 10+ sectors
- Titles such as:
  - CEO, real estate
  - CTO, finance and banking
  - COO, motor sports
  - Chairman, consumer goods
  - Managing director, health care

*Chief experience officers (CXOs), chief trust officers (CTrOs)

Quantitative survey on transformation practices and outcomes

935 CXOs and their direct reports

- Minimum 100 each: CEOs, CFOs, COOs, CISOs, CMOs, CSOs, CTOs and CHROs
- Minimum 50 each: CDOs or CTrOs*

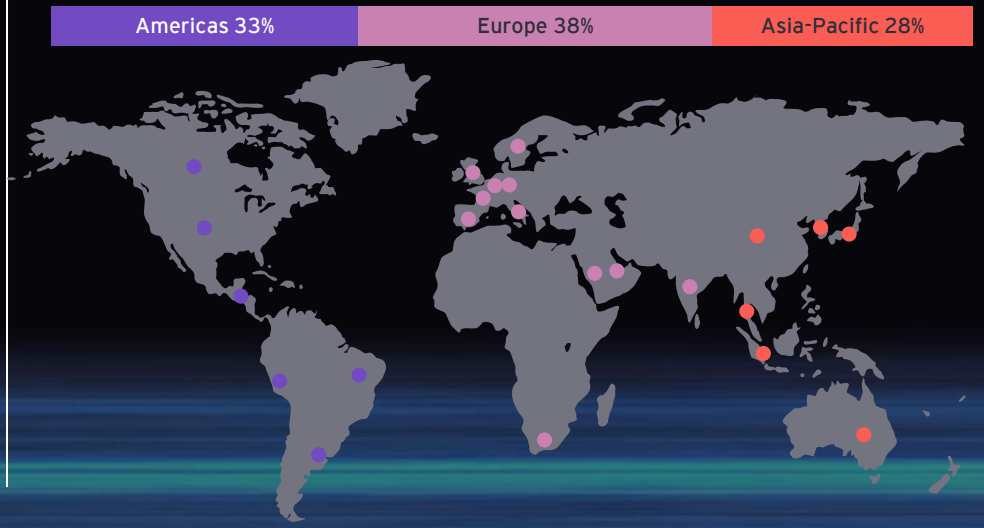
1,127 members of the workforce

- 500 middle management
- 500 individual contributors

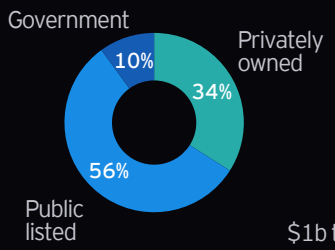
50:50 split on outcome of the transformation

- Each respondent selected and evaluated a transformation at their organization from the past five years

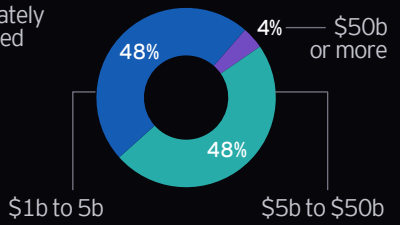
23 countries



Ownership



Annual revenue



7 industries **16** sectors

Minimum 150 per industry and 50 per sector

1. Advanced manufacturing and mobility: automotive and transportation; manufacturing, chemicals and industrial products
2. Consumer: consumer products; retail
3. Energy and resources: mining and metals; oil and gas; power and utilities
4. Financial services: banking and capital markets; insurance; wealth and asset management
5. Government
6. Health sciences and wellness: health; life sciences
7. Technology, media and entertainment telecommunications

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We conducted in-depth research on turning points

Research Phase II: Approach

Case studies led by Oxford Saïd School of Business

Created a 360º view of a turning point in a recent major transformation for five globally recognized companies through interviews & focus groups with 80+ leaders & workers

Automotive brand with US$40b in revenue that sought to innovate and build a new EV heavy duty truck.

Multinational bank with more than US$600b in total assets that pursued an HR transformation.

Supplier to semiconductor manufacturers with US$25b in revenue that undertook a robotic process automation transformation.

Retail chain with revenues of US$8b that navigated a sustainability transformation.

Mining group with US$55.5b in total assets that carried out a culture transformation.

Global survey of leaders and workers led by EY

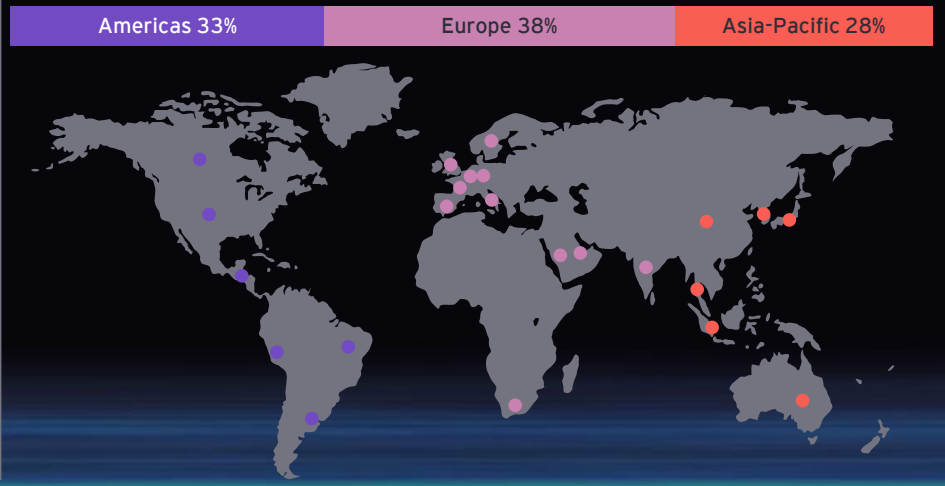
846
CXOs and senior leaders

- 50% CXO; 50% Senior executive
- Minimum 50 each: CEOs, CFOs, COOs, CISOs, CMOs, CSOs[1], CTOs and CHROs

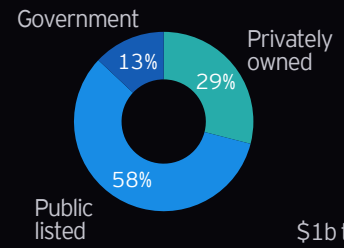
840
members of the workforce

- 400+ middle management
- 400+ individual contributors
- Mix of business functions

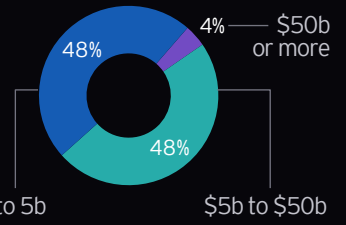
23 countries



Ownership



Annual revenue



7 industries **16** sectors

1. **Advanced manufacturing and mobility:** automotive and transportation; manufacturing, chemicals and industrial products
2. **Consumer:** consumer products; retail
3. **Energy and resources:** mining and metals; oil and gas; power & utilities
4. **Financial services:** banking and capital markets; insurance; wealth and asset management
5. **Government and public sector**
6. **Health sciences and wellness**
7. **Technology, media and entertainment telecommunications**

Source: Transformative Leadership Study 2024; EY Knowledge analysis

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01 Operating model issues: Gaps between how we work today and how we need to work tomorrow create misalignment that can trigger turning points

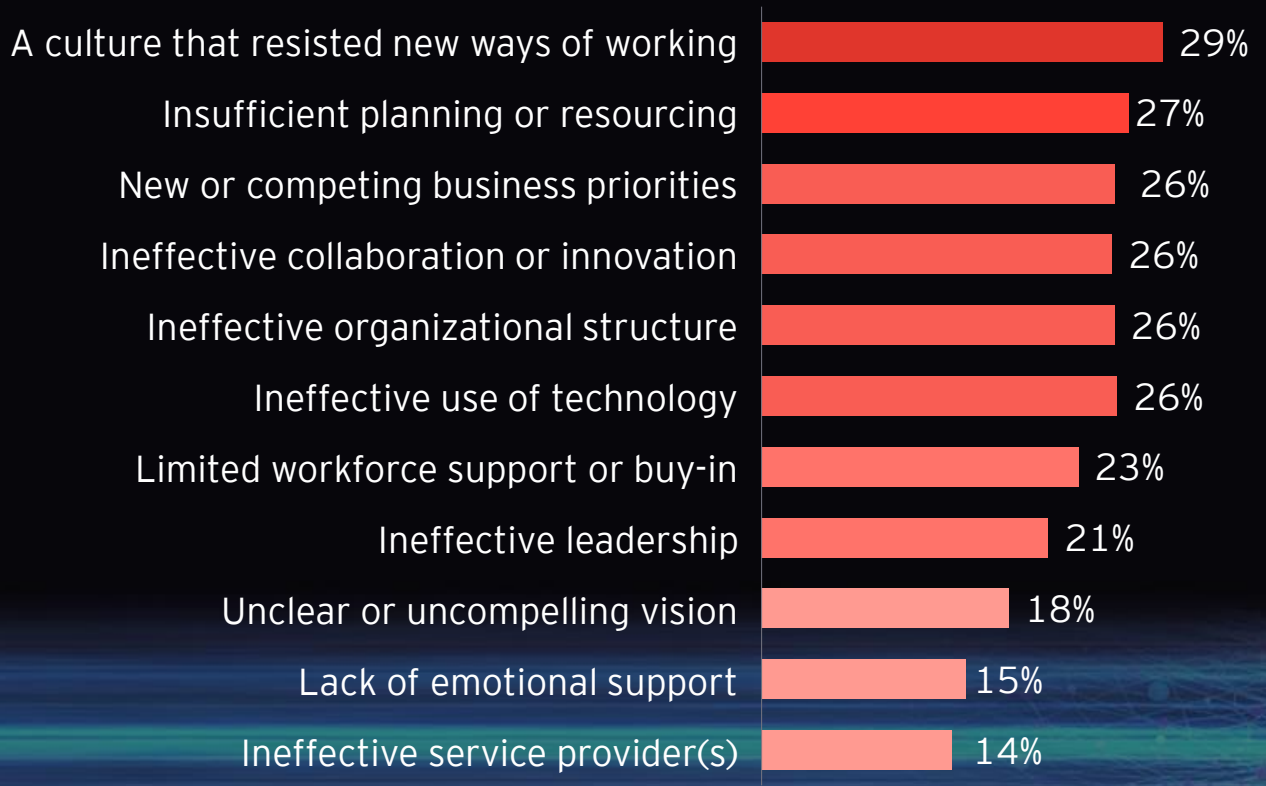
Most (71%) turning points involve at least one operating model issue.

Our case studies suggest this is often due to gaps in expectations vs. reality around the current state of the organization and its capabilities. For example:

- Technology required for the solution is incompatible with the organization's existing technology stack.
- Processes are less standardized than anticipated, leading to a significant increase in effort.
- Service provider didn't have the full compliment of capabilities needed to deliver the solution.

Most significant operating model issues triggering a turning point

Select up to 3



Source: Transformative Leadership Study 2024; EY Knowledge analysis

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02 Human system dynamics: Failing to make a series of shifts in system dynamics in a timely manner creates friction that can trigger a turning point

75% of turning points happen during planning or early implementation.

These moments require a series of shifts in system dynamics. Failing to make these shifts in a timely manner create predictable moments where issues can emerge and trigger a turning point.

Ownership Who feels ownership of the vision for the future	Few →	Many	*"In the beginning there were parts that they were complaining, 'Oh, but **it was better before**' or 'this part was better before, why can't we go back to that?' And to be honest, I got caught up in that myself as well a little bit."*
Power Who has decision-making authority and control of resources	Status quo →	Future state	*"...it's super important for me that I **make sure that the management team is the first team**, and that we build from the strength that we have had before, and then evolve as a team over time in the same vision and the same alignment."*
Confidence Individual and collective confidence in the organization's ability to deliver the transformation	Doubt →	Belief	*"I was a little surprised at how much of the upfront education and discussions to lay the foundation – how little of an impact that had. It was really once they're building the bot and **personally experiencing the successes and failures before it clicked**."*
Capability Capabilities needed to scale and deliver the transformation vision	Limited →	Robust	*"People are involved, and they can see, "Okay, this is where we will go... and [these are] the issues that we are having on a day-to-day basis"... So, they are involved... **They must be part of creating the solutions** to make it better, because they are the ones that know."*

Source: Transformative Leadership Study 2024

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03 External disruptions: Being in a state of transition makes the organizations more vulnerable to sudden external shocks

External disruptions are becoming more complex, frequent, and interconnected, creating sudden shocks that can impact a program.

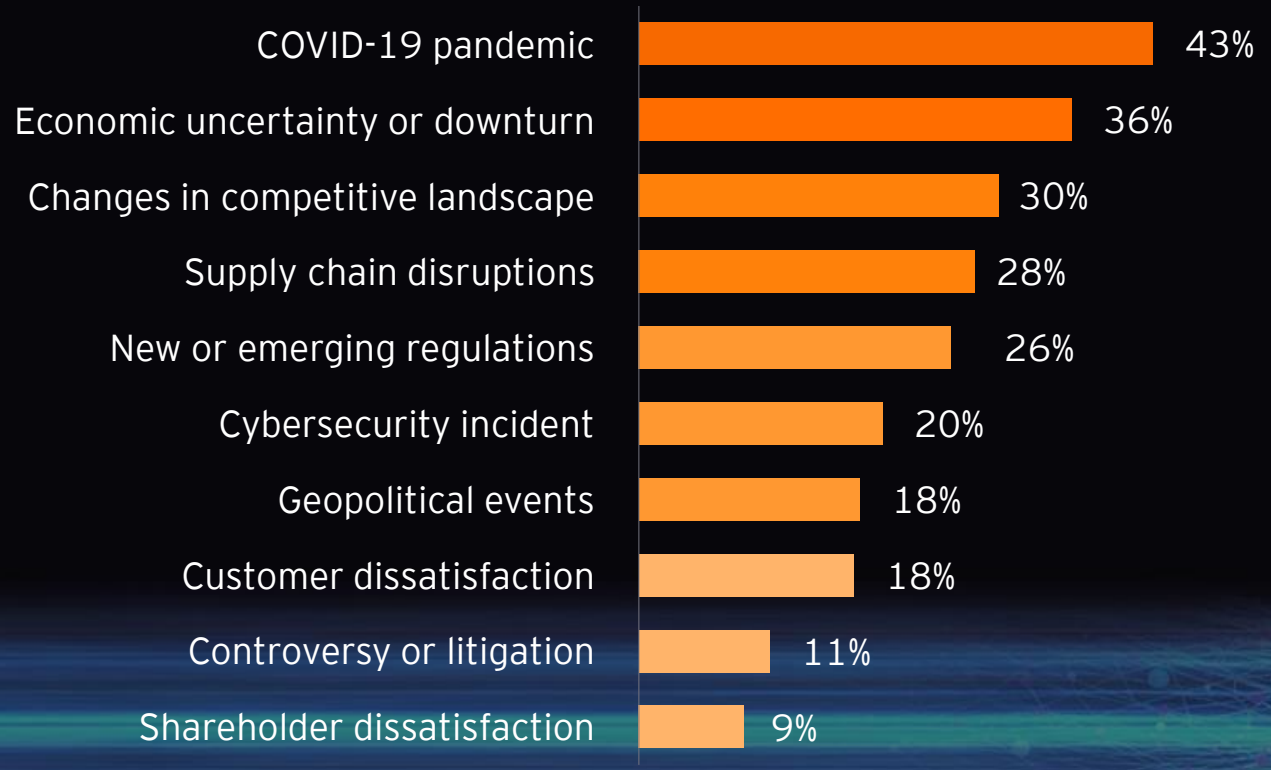
Half (48%) of turning points involve at least one major external issue.

Recent examples include:

- COVID-19 triggering an economic and supply chain shock
- The rise of generative AI shifting business priorities
- Geopolitical events shifting the global landscape

Most significant external issues triggering a turning point

Select up to 3



Source: Transformative Leadership Study 2024; EY Knowledge analysis

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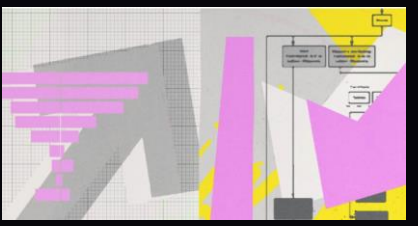
Links to research and further information

6 Key Levers of a Successful Organizational Transformation



Organizational transformations are extremely difficult on a personal level for everyone involved. A team of researchers found that in successful transformations, leaders not only made sure their teams had the processes, resources, and technology they needed — they also built the right emotional conditions.

Is Your Organizational Transformation Veering Off Course?

Nearly all transformation efforts face significant challenges that can derail the whole program. How can leaders identify these turning points — and get things back on track? New research, based on surveys of more than 1,600 leaders and employees involved in transformations, suggests that changes in a team's emotional energy — their collective mood, vibe, and intensity of emotions — often signals that there's an issue.

Transformation Leadership: Humans@Centre | Saïd Business School

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