TRANSFORMATION 2021:

What's Blocking Change and How to Overcome the Obstacles

Creating successful and agile organizations
in a time of unprecedented challenges

Chief Executive

myrtle
consulting group

We are in the midst of one of the most disruptive periods in a half century.
The Covid-19 pandemic surged at a time when great transformation was already under way. The pace at which the business landscape is changing has accelerated tenfold in 2020, and it is now a make-or-break time for leaders, who will succeed or fail based on their ability to promptly pivot and take action for the journey forward.

In July 2020, Chief Executive Group and Myrtle Consulting Group partnered to survey more than 300 CEOs and C-Suite executives on how they were preparing for the road ahead. This report presents our findings along with actions leaders can take today to create sustainable organizational change and overcome some of the trickiest leadership challenges we all face.

KEY FINDINGS

9 out of 10 business leaders are in the midst of organizational change, to varying degrees

Half of the respondents say Covid has increased the pressure for transformation

More than half of business chiefs plan to increase their allocation of resources in technology over the next 12 months, and 44 percent intend to allocate additional resources to the transformation of their entire business model

The majority of companies undergoing change say their biggest concern is internal capabilities and resources—well ahead of cost and ROI

Overall, CEOs are fairly confident they will achieve the desired results in the allotted timeframe, rating it a 7.3 out of 10, on a 1-10 scale

ORGANIZATIONS EMBARK ON TRANSFORMATION JOURNEYS FOR VARIOUS REASONS.

A change in the competitive landscape, innovation, business contraction/expansion or macroeconomic forces are all examples of triggers that have motivated leaders to make change within their businesses.

Historically, these triggers often occurred individually; Covid-19 has created a unique climate where all factors have not only converged at once but also suddenly. The result: a spate of unprecedented change across geographies, businesses and industries; a simultaneous shock to both supply and demand, with, on one end, challenges to the production of goods and, on the other, a demand shortage for numerous products and services. **Of the 326 CEOs surveyed by Chief Executive Group and Myrtle Consulting Group in July 2020, 89 percent said that their companies are currently undergoing change, with 53 percent saying those changes were either full-scale transformations or significant changes.**

The key challenge, of course, is enacting transformation deliberately, even in this challenging time—driving a process rather than being driven by outside forces. "The very nature of what we do as leaders is allowing the organization to adapt or to change," says Edwin Bosso, CEO of Myrtle Consulting Group and author of *6,000 Dreams: The Leader's Guide to a Successful Business Transformation Journey.* "Now, there are different skills in that transition. Sometimes we call it transformation. Sometimes we call it change, but that's our role as leaders."
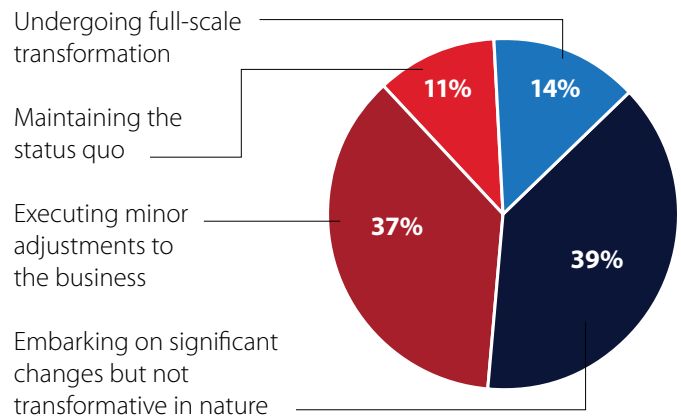
Worth noting:

Ninety-one percent of CEOs who are going through change today say they had begun their evolution prior to the crisis, and fully half say that Covid-19 was the catalyst for either effecting change or increasing the pace and intensity of the transformation.

Among the challenges to change that CEOs say they are facing within the current climate, limited resources tops the list (51 percent), followed by cost (28 percent) and ROI and proper scope definition tied at (21 percent).
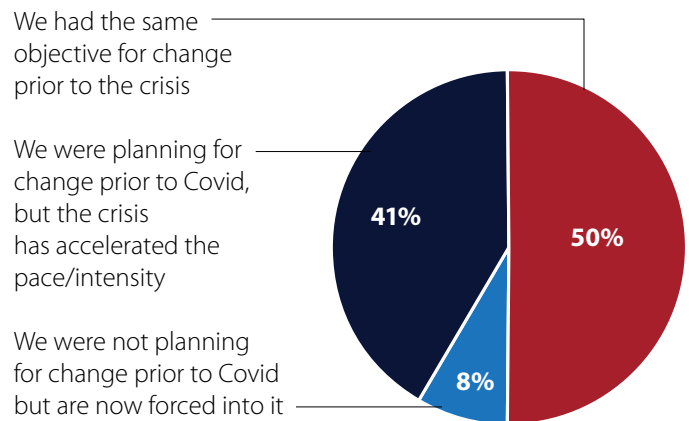
Our research also finds that the scope of change is very different depending on company size. Larger companies are taking on broader transformation initiatives, while smaller companies with fewer staff feel more constrained, tackling change at a slower, piecemeal pace.

Which of the following best describes your organization's aspiration for change over the next 12 months?

Undergoing full-scale transformation — 14%

Maintaining the status quo — 11%

Executing minor adjustments to the business — 37%

Embarking on significant changes but not transformative in nature — 39%

Note: Percentages may not add up to 100% due to rounding.

Was your aspiration for change the same prior to Covid-19?

We had the same objective for change prior to the crisis — 41%

We were planning for change prior to Covid, but the crisis has accelerated the pace/intensity — 50%

We were not planning for change prior to Covid but are now forced into it — 8%

Note: Percentages may not add up to 100% due to rounding.

For John Paul Amalfe, third-generation CEO of 75-year-old family-operated Momentum USA, a mid-sized aftermarket undercar manufacturer with facilities across North America, the crisis has added new areas of focus. The company had been aggressively pursuing capital investment into automation and technology in order to remain agile and maintain competitiveness in an increasingly automated sector, but Covid-19 has now forced him to also rethink all the health and safety protocols in place at the 600-employee company plants.

"Covid forced us to rethink basically everything that happens: breaks, lunches, temperature checks on the way in, masks within the production facility," he says, adding that they also needed to make arrangements for employees with respiratory conditions who could not do physical work with face coverings. "We had to come up with policy on all this stuff that didn't need to exist before Covid. We quickly had to build what we called our crisis plan so that from day one, when our employees entered into our building, they knew the new protocols that had to be put in place. And then, we needed all of our supervisors to enforce and make sure that everybody was following them."

He says the key to successful change—whether that's adopting new technology or implementing new processes, both of which disrupt employees' day-to-day—is to do so without losing sight of who you are and what's made the company a success.
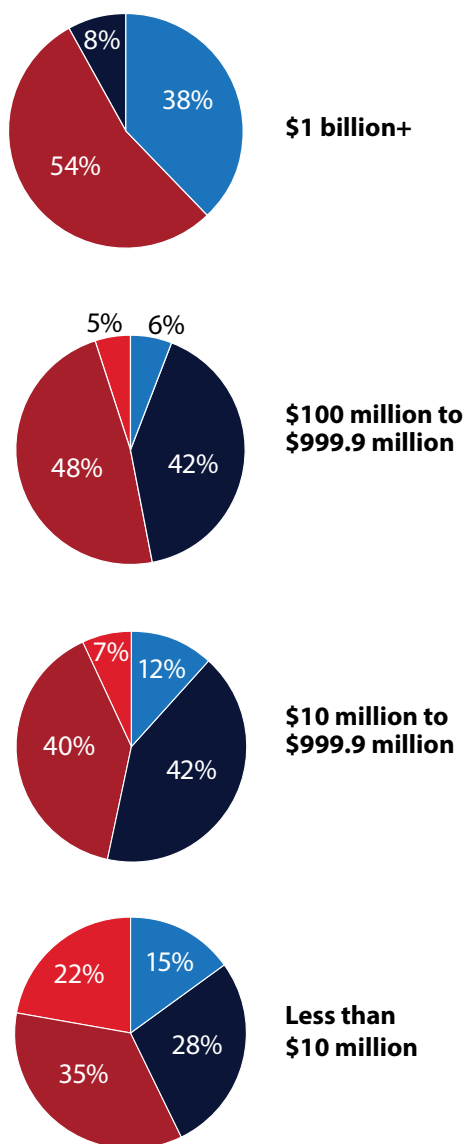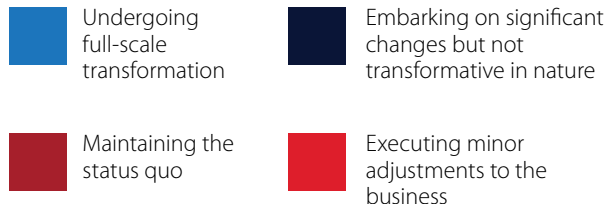
"You embrace the future and you embrace the vision of what you think is going to be important in the future, but you do that within the core company, within the vision of where you want to be, who you are, what you want to do," he says. "Yes, that is challenging, but we find that as long as you have willing employees that want to learn and want to improve, they can grasp and will grasp the way of doing things today and the way of doing things tomorrow."

Jonathan Reckford, CEO of Habitat for Humanity International, says crises like the one caused by Covid-19 should not become a reason for stopping or putting transformation on hold.

"If it really is transformational change, it has to be an imperative," he says. "You can adjust the levers. You can adjust the schedule. You can adjust the scope. But in theory, if it's an imperative, you can't really not do it."

Reckford, who's leading the global nonprofit through

Aspiration / Company Size
(by annual revenues)

- ■ Undergoing full-scale transformation
- ■ Embarking on significant changes but not transformative in nature
- ■ Maintaining the status quo
- ■ Executing minor adjustments to the business

$1 billion+

38% / 54% / 8%

$100 million to $999.9 million

6% / 42% / 48% / 5%

$10 million to $999.9 million

12% / 42% / 40% / 7%

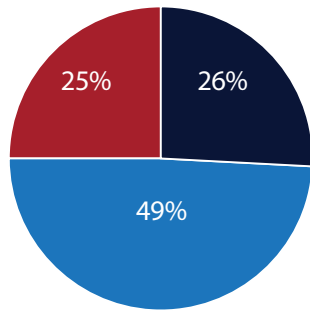**Less than $10 million**

15% / 28% / 35% / 22%

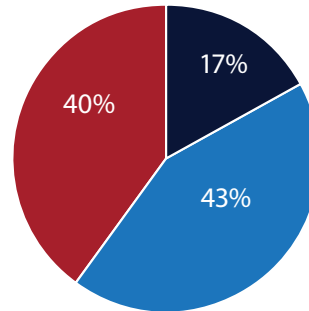Note: Percentages may not add up to 100% due to rounding.

Over the next 12 months, how do you intend to allocate resources toward the following areas compared to last year?
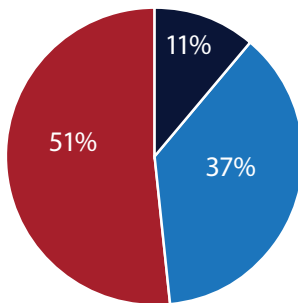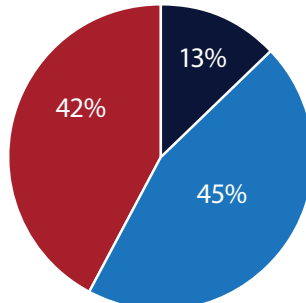
■ DECREASED   ■ SAME   ■ GREATER
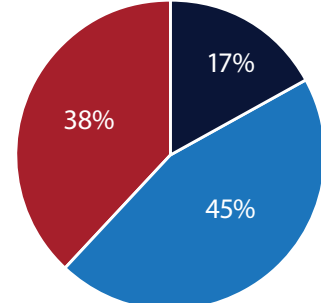
Organizational structure

- DECREASED: 26%
- SAME: 49%
- GREATER: 25%

Leadership & people

- DECREASED: 17%
- SAME: 43%
- GREATER: 40%

Technology

- DECREASED: 11%
- SAME: 37%
- GREATER: 51%

Processes

- DECREASED: 13%
- SAME: 45%
- GREATER: 42%

Operations

- DECREASED: 17%
- SAME: 45%
- GREATER: 38%

Product/Service

- DECREASED: 9%
- SAME: 47%
- GREATER: 43%

Entire business model

- DECREASED: 19%
- SAME: 37%
- GREATER: 44%
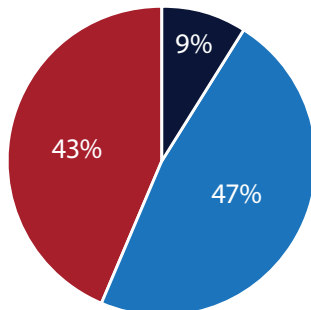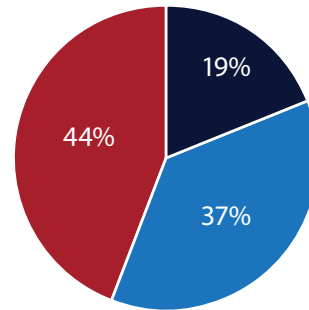
full-scale transformation, says that while there were certain elements of his organization's original plan that the constraints of Covid-19 have made harder to accomplish, there were also some that were sped up as a result of the crisis.

"We were able to do some organizational changes that would have been very difficult in a non-crisis," he says, noting that he has also used the urgency of crises in the past, such as the Indian Ocean tsunami and Hurricane Katrina, to learn about scaling. "The crisis gave us freedom to do things differently, take those lessons and share them around the world."

CHALLENGE ONE:
PLANNING FOR LIMITED CAPABILITIES AND RESOURCES

When it comes to change, the top concern on the minds of CEOs in their change process is having limited capabilities and resources. This does not come as a shock amid the context of high unemployment and social restrictions. Numerous companies have had to furlough or lay off employees to weather the storm, in addition to containing costs and operating from remote locations, thus making any transformation that had already begun all the more challenging to execute as planned.
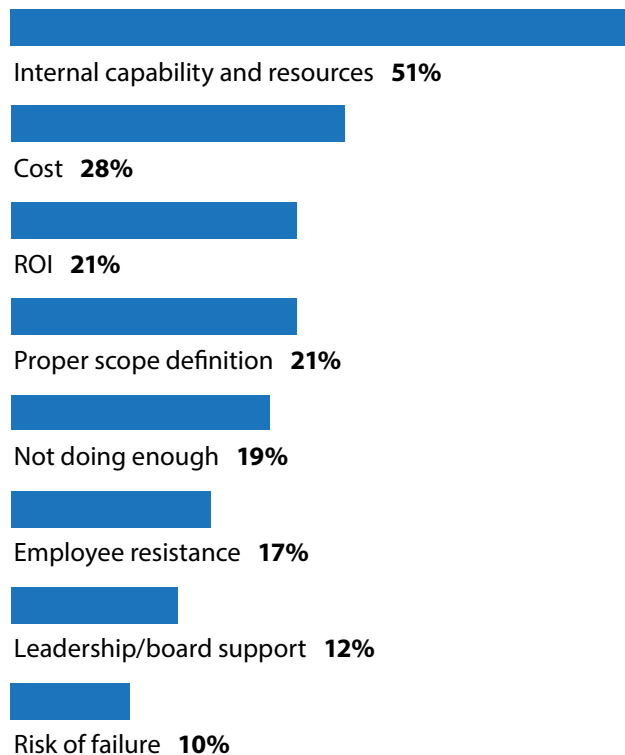
Implementing change that has repercussions on various parts of the organization, particularly on employees, requires a great deal of considerations firsthand. Almost every area of an organization has direct or indirect impacts on human capital, so implementing new processes or new technology needs to include considerations for training, upscaling or recruiting people.

Where, in the past, companies would have sent employees to a training session as part of their human capital investment, the focus has now changed to building or advancing productivity through improved processes and operations, which, in turn, improves the skills of the workforce, so a company needs fewer resources in order to deliver the same level of output.

POTENTIAL STRATEGY: GET HELP

In a time of limited resources, CEOs often turn to external partners to help them carry on their change initiatives. External support can bolster internal expertise and capabilities and scale the needed human capital to make changes happen faster. They can also provide needed perspective at a time when leaders could get myopic in the face of so much change, primarily because these ex-

CEOs' Top Concerns with Their Change Strategy

Internal capability and resources **51%**

Cost **28%**

ROI **21%**

Proper scope definition **21%**

Not doing enough **19%**

Employee resistance **17%**

Leadership/board support **12%**

Risk of failure **10%**

*Respondents were asked to select two.

perts are trained to address the complexities of change management, which can very rarely be matched by internal leaders or team members.

Additionally, an outside consultant can navigate up and down the hierarchical layers of the organization to accelerate change, unlike most internal resources that are not in a position to do so. And, especially at an all-hands-on-deck moment such as this, your existing team simply may not have the bandwidth to run the business and tackle transformation effectively at the same time.

CHALLENGE TWO:
FORECASTING COST AND ROI CONSIDERATIONS

Financial considerations are second on the list of concerns CEOs have when looking at their change strategy. The cost of any project and, logically, the return on the investment are crucial considerations for all CEOs, no matter the project. But while many business cases can be approved or rejected mainly on ROI, the case for change in today's fast-paced corporate setting should not rest solely on financial considerations — but they will have financial implications.

POTENTIAL STRATEGY: KPI TREES

The key is establishing KPI trees to create a clear picture of the relationship between lower-level metrics on activities and higher-level goals, which are defined in financial terms. As transformation is executed and improvements are made, you can confidently expect that the improvements will result in visible financial gains through the transformation.

Imagine employees of an organization understanding the financial contribution of their activities and other business processes. The tree would distribute accountability and decision points throughout the firm and would provide insights into trade-offs and priorities.

Of course, mapping the KPI tree for your organization is only half the battle. Employees will need to learn to work with KPIs.

CASE STUDY: METRICS MAKE CHANGE

Denise McIntosh, the CEO of Springfield, Missouri-based industrial manufacturer Custom Powder Systems, says she experienced similar pushback from the leadership team when she proposed a significant project that implied change to not only the corporate culture but also the ERP system more than a decade ago. "For years, I had people fighting me on it," she says of her idea to implement an open-book management style based off Jack Stack's *The Great Game of Business*. "And wow, if we had only done this 15 years ago."

The project entails tracking and sharing every bit of financial data with all employees—with the exception of individual salaries—so that "everybody in the company knows what things cost and has line of sight and know that whatever they're doing, they understand how it fits into the big picture," she says. "We've tried to do that over the years. But when Covid hit, I said, 'We finally have enough information from our ERP system that we have to do this, or we may not survive. We have to get everybody on board understanding where we are, where we've been and where we want to go, because otherwise we may not be here to talk about it in six months.'"

She says implementing this change has impacted every segment of the company and affected every person in the organization. "Given that people are finally making the connection on how you can make a profit doing this," she says, "I know we can [get through this next phase]. I've needed the whole group with us to do it, but we have it now."

The project had such great outcomes that the company decided to expand it to a personal level, giving all employees financial literacy courses so they can take the wealth of knowledge home and improve their lives however they can—that impact on workers' lives and, by extension, the community would have been difficult to predict looking only at cost and ROI figures in a spreadsheet.

> **❝ As long as you have willing employees that want to learn and want to improve, they can grasp and will grasp the way of doing things today and the way of doing things tomorrow."**
>
> —John Amalfe, CEO, Momentum USA

CHALLENGE THREE:
PROPER SCOPE DEFINITION AND THE FEAR OF NOT DOING ENOUGH

More than a fifth of CEOs in the study report scope definition as a top concern in their change process (third on the list of concerns, tied with ROI). This is not surprising considering that ill-defined program scopes cause numerous problems.

Some the issues companies often encounter in a transformation is a scope—which is the description of the area of focus of the transformation—that drifts from the originally defined target, is summarily defined and rushed, or is missing the target completely. Leaders who take the time to establish a clear scope definition by reasoning out why the company is transforming and linking what they are trying to accomplish to their company's strategic purpose have a much better chance of success.

POTENTIAL STRATEGY: THE A.L.I.C.E. METHODOLOGY
To help CEOs through a more thoughtful exercise at scope definition, including tighter metrics, Bosso created the A.L.I.C.E. methodology:

- **A** = articulate the problem
- **L** = list the ways
- **I** = identify the means
- **C** = capture the enablers
  (i.e., other areas/players that will enable the change)
- **E** = evaluate synergies and interdependencies

There are many ways to set the scope and define the area of transformation. They can be categorized across three realms: physical, functional and organizational effectiveness.

Physical or Geographic	Functional	Organizational Effectiveness
• Four walls of factory	• Production	• Leadership
• Number of plants	• Sales	• Processes
• Region	• Logistics	• Management Systems
• Country	• Operations	• Organizational Structure
		• Technology

Identifying the reasons why the status quo is no longer an option and how the organization must transform are important parts of properly defining the scope of change. One of the most common hurdles to accomplishing this, however, is failing to recognize self-censorship.

According to Bosso, self-censoring is "what happens before you even start talking transformation to your closest circle," he says. "As you start understanding what's happening to your business, what's happening to the context in which you operate, and as you start considering your options for your business, that voice in your head that says to you, 'No, this will not be possible. No, you will not be able to do this.'"

Leaders must overcome this self-censorship and have the confidence to formulate a bold vision of where their companies should be, how they can get there and what the challenges and enablers will be along that journey.

CASE STUDY: CHANGING THE QUESTION

Reckford, the Habitat for Humanity CEO who's led the global nonprofit's tremendous growth, from serving 125,000 individuals a year to helping more than 7 million people last year alone, says he believes that the audaciousness of questions leaders ask themselves is at the root of true transformation—and how leaders can alleviate the fear of "not doing enough."

"Our vision has always been a world where everyone has a decent place to live," he says. "Everyone is obviously a big number, and we were building houses all over the world but not on track to hit that goal. I think we calculated that at our current very fast growth rate, it was still going to take a thousand years to eliminate the housing deficits in the world. And that seemed unacceptably slow."

He says because of that, he changed the framing question from how many houses Habitat could build to what it would take to meaningfully reduce the housing deficits in all the geographies the organization serves.

"That's a much more audacious and challenging question, but it forced us to think more about how we could influence markets and policies. It really pushed us into advocacy," he says, adding that for such a bold objective to be moved from concept to reality, leaders must be able to demonstrate how the opportunity is greater than the pain of the change.

"Ultimately, people aren't going to change just because you think you've got a better way; they're going to change because standing still doesn't work," he says.

Identifying and communicating the reasons why the status quo is no longer an option are critical parts of the task of properly defining the scope of change. To achieve them successfully, leaders must understand the emotional cycle of change and learn to overcome resistance.

CHALLENGE FOUR:
OVERCOMING (OR AVOIDING) EMPLOYEE RESISTANCE

Depending on the scope of change, employee resistance can be a considerable deterrent to undertaking a transformation. Even those companies making a minor change such as swapping out an old system or improving an outdated process can experience resistance from those impacted by the change.

POTENTIAL STRATEGY: PUT THEM IN CHARGE/ ANSWER THE UNSPOKEN QUESTION

Understanding group dynamics can be advantageous, especially when dealing with individuals who are vocal about their resistance. Change management experts suggest, for example, that high-potential individuals known to be resistant should be selected as team members and made responsible for implementing tools. By making them part of the solution, you disable their propensity to resist.

The team must work tirelessly to achieve goals and objectives but must keep people front and center. It is important to get employees to articulate their fears so they can be addressed. Even if you can't give everyone what they want, acknowledging fear and showing empathy will help build the mutual trust necessary to strengthen relationships with and within the team.

Further, understanding human urgency is exponentially more important than explaining transformation activities. The key to winning others over is being able to find answers to the common, unspoken question: What's in it for me? That answer is an individual one and is often completely unrelated to the overall transformation objectives.

A CASE STUDY: THE GWC APPROACH

Nick Eleftheriou, president and CEO of Pioneer Industries and former 3M executive, says employee resistance was a top concern for him when deciding to build a framework for scaling to have an organization that matches the revenue growth. "This company started 35 years ago in the owner's garage and has scaled now to be a nationwide company selling in all 50 states with tens of millions of dollars of revenue," he says. "There's still a lot of processes that need to exist that don't or are in development, and, as an entrepreneurial company, we still have people who

operate like we did 10 years ago, and we can't do that if we are going to continue to grow."

To do so, the company has been working over the past year to implement an operating system focused on personal accountability and encouraging people to operate within the framework more independently—a strategy he learned from Gino Wickman's book *Traction: Get a Grip on Your Business*. He says this has allowed him, as CEO, to become more of a visionary and taper his operational oversight focus that, he says, was not conducive to long-term growth. "It's a matter of really building the leadership team and then encouraging them to continue building their own teams."

Since this transformation is affecting employees directly, in their respective functions, he says the company has had to do a lot of "people work," having open and honest conversations with employees to make sure they understand their new role, that they want it, and that they have the capacity to do it—something he calls the GWC approach:
1. Do you **G**et it?
2. Do you **W**ant it?
3. Do you have the **C**apacity for it?

"We really stress being open and honest, so we have a people analyzer tool that we use for not just the leadership team but for everybody in the organization," he says, adding that the company also has a 360 peer evaluation system based on how they adhere to core values and keep the focus on the greater good of the company. "Obviously, it's a process and it takes time, and not everybody comes to the same epiphany at the same time. Everybody has to go through their own mental process, but we've been encouraging that honest behavior. We've had people who had been very resistant either agree to move into a different position, in some cases step back from their roles, be reassigned. It's done in a way that is not a judgment on the person. It, in fact, takes a lot of courage for people to do that. And I think that that is something that is done with a lot of respect for the person and in a way that they don't feel like they're being put on the spot."

> **❝ Ultimately, people aren't going to change just because you think you've got a better way; they're going to change because standing still doesn't work."**
>
> —Jonathan Reckford, CEO, Habitat for Humanity

CONCLUSION

Change is everywhere, whether you're driving it or not. Leaders who do not recognize change or the need for change are often placed in a reactive role, where they must deal with the effects of change they did not create. This can lead to unintended consequences and a loss of focus.

Rather, leaders must view transformation as the very core of their mission and promise to employees and communities. Transformation is a highly human-centric task, and it must be carried out by and through people, with a human-first perspective, and sustained through engagement. It is not merely the act of upgrading technology and implementing new processes; it is a rallying call for all those touched by the change, in the present and the future.
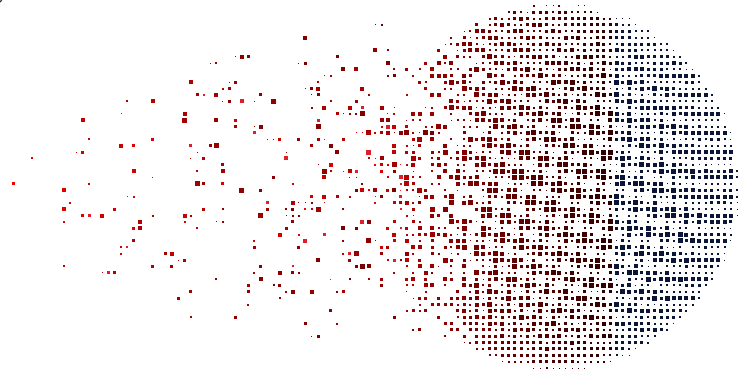
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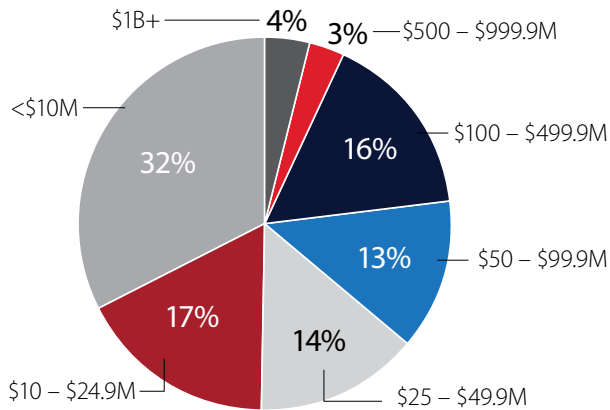Gayle Erickson, Art Director, Chief Executive Group

Chief Executive

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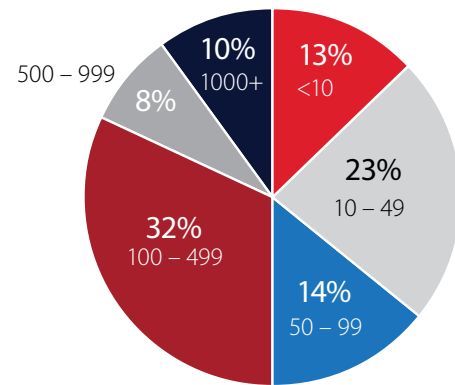
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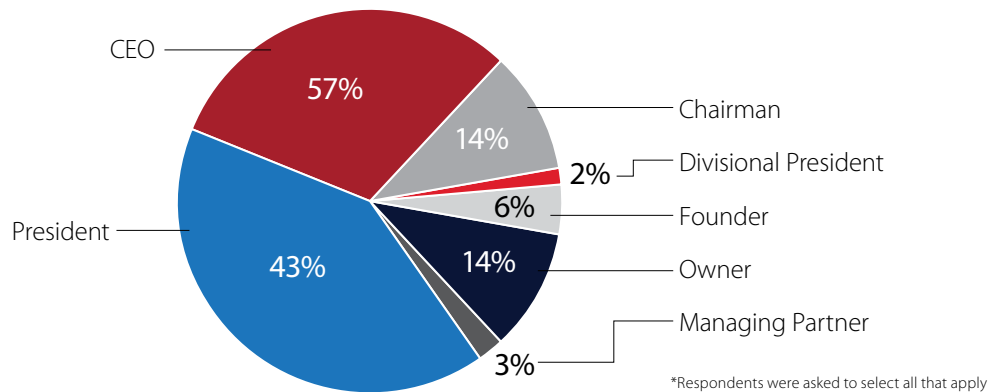
DEMOGRAPHICS

COMPANY SIZE (BY ANNUAL REVENUES)

- $1B+ **4%**
- $500 – $999.9M **3%**
- $100 – $499.9M **16%**
- $50 – $99.9M **13%**
- $25 – $49.9M **14%**
- $10 – $24.9M **17%**
- <$10M **32%**

COMPANY SIZE (BY # OF EMPLOYEES)

- <10 **13%**
- 10 – 49 **23%**
- 50 – 99 **14%**
- 100 – 499 **32%**
- 500 – 999 **8%**
- 1000+ **10%**

TITLE

- CEO **57%**
- President **43%**
- Chairman **14%**
- Divisional President **2%**
- Founder **6%**
- Owner **14%**
- Managing Partner **3%**

*Respondents were asked to select all that apply

SECTOR

Advertising/Marketing/PR/Media/Entertainment **4%**

Construction/Engineering/Mining **6%**

Energy/Utility **0%**

Financial Services (Banking, Insurance, Brokerage, Investments) **6%**

Government and Non-Profit **2%**

Health Care (Providers and Payers) **3%**

High Tech/Telecommunications/Information Technology **6%**

Manufacturing (Consumer Goods) **10%**

Manufacturing (Industrial Goods) **28%**

Pharmaceuticals & Medical Products **2%**

Professional Services (Legal, Consulting, Accounting, Architecture) **12%**

Real Estate **3%**

Retail Trade **2%**

Transportation (Airlines, Trucking, Rail, Shipping, Logistics) **2%**

Travel and Leisure (Hotels) **1%**

Wholesale/Distribution **5%**

Other **9%**

GEOGRAPHIC FOOTPRINT

- U.S. only **59%**
- International **41%**