

# The Transformation Management Model: A Total Evaluation Route to Business Change Success

Richard R. Bahner<sup>1</sup>, Linda K. Stroh<sup>2</sup>

## Abstract

This paper discusses a business model we call the Transformation Management Process that enables organizations to respond more quickly and more creatively to changing market conditions, business and customer needs. The Transformation Management Investment Model is a Human Resources driven process that the authors have effectively executed in major multinational corporations.

## Introduction

It is the rare corporation that recognizes the need to integrate human resources policies, people, assets and procedures with changing business strategies. Rarer still is the organization that acts on this need. Yet, in today's competitive global market, an integrated strategy is increasingly necessary. This paper discusses a business model we call the Transformation Management Process that enables organizations to respond more quickly and more creatively to changing market conditions, business and customer needs. The Transformation Management Investment Model is a Human Resources driven process that the authors have effectively executed in major multinational corporations (e.g., PepsiCo, AT&T, Citibank, & Deutsche Bank).

## Need for Change

Given the speed with which change occurs in the global business environment, standard planning techniques and asset allocation methods have become woefully outdated. Indeed, achieving new levels of business sophistication is a never-ending process, requiring companies to rapidly reallocate assets to meet changing conditions. To effectively accomplish this reallocation the company needs a system that provides continuous evaluation and improvement, ensuring effective use of both business (hard) and organizational (soft) assets. In particular, what is required is a balance and alignment between customer, organizational and business investment. In today's market, organizations not taking such an approach run the serious risk of failing to meet the expectations of shareholders. Table 1 depicts the new reality of doing business in today's global economy and lists those factors that must be considered for alignment between business and organizational needs to occur.

Table 1

Global Market Trends: The New Reality

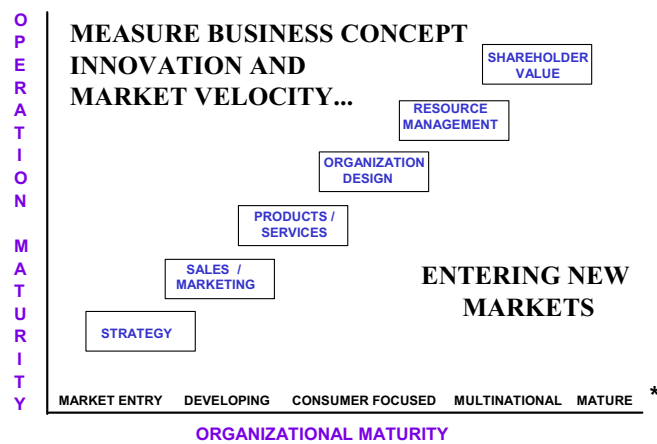
• Globalization is increasing
• Speed of change is accelerating
• Cost of transactions is getting lower
• Coordination of activities is better
• Connecting with "new" is increasing
• Networked competing is increasing
• Disintermediation is a real issue
• Customers demand aggregation
• Attention is becoming a big issue

<sup>1</sup> President, R. Bahner International, USA.

<sup>2</sup> Ph.D., HRIR/Loyola University, USA.

Among the distinguishing characteristics of companies achieving sustainable shareholder value is that the management in these organizations constantly evaluates the key operational drivers of the business and, in response to changes in the business environment, strategically reallocates the company's capital among those drivers, whether they are in marketing and sales or in some area of production. This process must occur every time the business changes marketing strategies, experiences a merger, acquisition or spin off, or moves to a new level of sophistication and globalization maturity. The result is a company experiencing an ongoing process of active, bottom line-oriented self-assessment and growth. Figure 1 shows the key operational drivers of this process and denotes the importance of effectively allocating capital among them.

When a company's organizational and business assets are in alignment, adjustments occur naturally. For this alignment to occur, however, the business must measure its organizational and business assets differently than it did at previous levels of maturity. It also must be able to reallocate assets rapidly to meet changing conditions.



\* Culture shift points

Fig. 1. Business transformation strategic drivers

### Aims and Process of Becoming a New Global Economy Company

The aim of the transformation management process is to help an organization align its human resource and business assets with its business strategy and customer needs, with the ultimate goal of enabling the organization to respond more quickly and effectively to changes in the global business environment. This is achieved through evaluations of customer, business and organizational needs; by investing in organizational needs to achieve desired business results; and by ensuring that each unit/division of the organization contributes to the company's profit. The key to the success of this process is garnering management's attention in the areas with the potential for the highest short-term return--that is, over a 6-to-18-month period.

One of the advantages of the Transformation Management Model process is that it helps companies attain unique positions in the marketplace, thereby achieving a strategic advantage. Another advantage is that it enables companies to achieve market differentiation, thereby fueling business and customer growth. As shown in Table 2, simply following the market leader is likely to result in diminishing returns. Rather, the company must develop its own special capabilities and leverage its unique strengths.

## Following the market leader leads to diminishing returns

• 1992 – 58% of the companies outperformed the standard & poors market average
• 1999 – only 31% of the companies outperformed the standard & poors market average

One of the greatest barriers to success for companies operating in the new global economy is that managers, accustomed to working in the "old economy," see change as linear and something to be pursued gradually, rather than as something radical and requiring rapid execution. It is thus incumbent on today's management to ensure that it has an adequate pool of leaders who think creatively and who are not only able to identify new goals, customers, markets, etc. but who can come up with execution methods on how to reach them.

For a business to develop a unique position in the marketplace and achieve strategic success, management must encourage innovative thinking and recognize the value in taking risks not only at the highest levels of the organization but throughout the company. Only then the business will be able to effectively reach new customers and thereby improve profit margins and fuel business expansion. Therefore a "Culture of Success", which encourages reasonable risk needs to be created and supported by organizations.

To reach the goal of utilizing their various resources and assets most effectively, companies need to be sure that decisions and ideas are generated at the lowest possible level of the organization. This facilitates the company's ability to respond swiftly to rapid changes in market conditions and equally quickly reassign assets to take advantage of market opportunities. An analogy to a professional sports team is apt here. Organizations following the transformation management model act like an ice hockey team, everyone knows the strategic goal and can adjust both tactics and reassign team members rapidly to meet changing conditions. The workers in such a company must be tough and talented, able to act quickly, able to change priorities and direction quickly and often; and able to work as part of creative and innovative teams. Most importantly, everyone in the organization must be clear on how to "score" and be prepared to "pass off" the economic puck quickly to create opportunities for the organization to win.

The key barrier to success in most companies attempting to reach this goal is the lack of leaders who understand and can operate comfortably under the conditions of the radically different, faster pace of the new economy (Stroh, Black, Mendenhall & Gregersen, in press). What are needed are leaders who can focus on the *-what's* (new goals/ideas/customers/markets, etc.) as well as the *how's* (processes, investments, execution skills) at the same time. The transformation process forces management to focus on both the 'what' and the 'how' simultaneously and therefore calls for a more sophisticated business leader. Focusing on A, B, and C level players through the development component of the process is a key element to assure that there is an adequate pool of top management leaders to meet the needs of the business. Based on our experience working in multinational companies, we developed the Strategic Talent Analysis Review System (STARS) as a key part of the transformation process that enables organizations to address the leadership challenge. This model shows it is important that you leverage the Organization Leadership to push and support the Transformation Process. This support is critical to create the "Culture for Success" that allows you to turn the Transformations into Profits. Putting the right people assets who understand what needs to be done in the right place at the right time will allow the change to be executed quickly throughout the organization.


### HR's Role in the "Transformed" Organization

Among the many crucial roles human resources play in the transformation process is in helping organizations foster environments in which innovative thinking takes place (Harvey, Speier, Novecevic, 2001). Encouraging and supporting the creation of such an environment throughout the organization is no longer a luxury but a necessity.

Among the ways HR can encourage innovative thinking is by conducting brainstorming exercises with top management teams and their staffs to identify what the company needs to do to grow and meet future demands (Hamel & Prahalad, 1994). By conducting such exercises every 24 to 36 months, the company can help to ensure that it will expand its customer base and meet the long-term needs of those customers. Table 3 suggests several strategic questions appropriate for such brainstorming exercises.

Table 3

Strategic business transformation questions brainstorming exercise?

Today 	3 - 5 years
Which customers is your business serving?	??
What channels do you use to service them?	??
Whom do you / will you compete with?	??
What is / will be your competitive advantage?	??
Where do / will your margins come from?	??
What skills / capabilities make you unique?	??
In what end product market do you participate?	??

Gary Hamel and C K Prahalad “Competing for the Future” HBS Press 1994.

Having the Top Management Team come to consensus on these questions will build a powerful commitment to the strategy. In addition, organizations need to develop a strong leadership base, to succeed in the new global economy and be able to create new markets. This requires that companies look at the fundamentals of how they are structured. For this to occur, organizations need to encourage radically new definitions of potential customers. HR support in helping to create this new environment is a key element of the transformation management model process. (Table 3 illustrates the need for such a new definition of potential customers.)

### Execution of the Transformation Management Model

The Transformation Management Model Process, graphically depicted in Figure 2 is designed to help manage change in a measured way by:

- Auditing the Business, Human Resources Processes and End Customers Needs
- Performing Investment Analysis on all areas of the process
- Aligning Human Resources People, Processes, Policies and Assets to support the Business Strategy
- Executing the Change and Leveraging the Organization
- Measuring Investment Performance of both Business and HR ROI and Rebalancing Investment to support the next period of change.

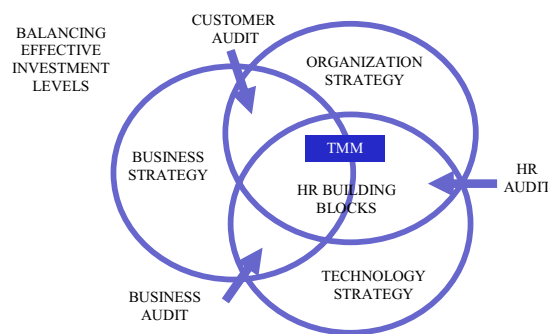


Fig. 2. Transformation management model. “Turning transformations into profits”

Understanding what you do not know and consciously challenging assumptions are a key to breaking out of the box and helping design new business models (Robinson & Stern, 1997; Caudron, 1998). This frequently is the outcome of the Transformation Management Model giving the company a strategic advantage to deal with the challenges of the new economy.

Human Resources needs to play a pivotal leadership role in establishing, supporting, and imbedding the transformation management process at all levels of the organization. In fact, all the support levers of change are in the influence and control of the human resources organization. How effectively HR helps manage the rate of change and innovation is critical to the organization's ability to stay competitive (Shah, 2000). The human resources challenge is to determine how to facilitate a new alignment to ensure creative, ongoing transformation. For most companies, this will require attracting, nurturing, and retaining diverse human capital.

## Diversity Issue

Table 4 provides an important message about the business need for diversity of thought to be successful in the new global economy. Organizations will succeed only if they can attract, motivate, and retain diverse talent (Jehn, Northcraft, Neale, 1999). This requires creating a business culture that can attract, motivate, and retain a global workforce. Organizations need to do this to be able to achieve consistent innovation, transformation and growth.

Table 4

### Do we need to think differently?

If you were to take the world and shrink it down to the size of a village of 100, but keep all current ratios the same as now, the human resources and marketplaces would look like this.....

• There would be 58 asians, 12 africans, 10 europeans, 8 latins, 5 north americans and 7 from all other areas
• 17 would speak mandarin, 9 english, 8 hindi, 6 spanish, 6 russian, 4 arabic and 50 over 200 other languages
• 33 would be christians, 18 muslims, 6 buddists, 5 athiests, 3 jews and 35 would identify with other belief systems
• Of the 67 adults in the village 50% would be illiterate
• Only 33% would have access to clean drinking water
• 20 would make 75% of the total income and another 20 only 2% of the total - only 7 would own their own car
• 60 would live in substandard housing
• Only " <b>one</b> " would have a college education

## HR Building Blocks Investment

To be an effective business partner and ensure that a productive business culture is established and maintained, HR must first be sure its own house is in order. In other words, it must be sure its processes, policies, assets and actions are in line with the company's overall business strategy. This will require continually monitoring these processes and policies as well as generating new ways to work. Thus, essential to the role of the new human resources professional is an in-depth understanding of the business, the ability to influence internal investment and a platform on which to recommend new policies and procedures that will help the organization achieve its goals first needs to demonstrate that they are effectively managing and executing the basic support processes of compensation, staffing, training, etc. (Harvey et al., 2001). The Business-Investment Support Platform (Table 5) was developed with the aim of ensuring that basic HR functions are managed consistently and efficiently, enabling energy and assets to be directed toward more future-focused strategic initiatives to achieve business goals and gain market advantage.

Table 5

## Human resources transformation business investment support platform

Platform Purpose	How HR plans to professionally support the strategic intent, business strategies and organization needs by linking Human Resources support directly to the business strategy to create the necessary environment for success.
Investment Approach	Business based resource allocation process to support most critical business needs based upon the maturity of the business and end customer needs .
Methodology and Measurement	Line management driven process integrating human resources planning with the business planning process and external customer needs.
Implementation for Results	Human Resources process standards to be implemented by local management and supported by geographic business organizations. Governed by appropriate local market conditions, business strategies and affordability.

Tantamount to effective execution, HR must be sure that its policies and procedures are clearly explained, understood, and, where possible, managed directly (i.e., online) by management or the employees affected. The key to the successful execution of this process is establishing specific objectives, a standard execution method (HR Product) and measures of success for each of the main HR Processes. The end goal of the support platform is to create a "Culture of Success" environment that will positively support the implementation of the business strategy. This is accomplished by eliminating barriers to success such as policies, processes etc. that will work against the strategy implementation by driving the wrong behaviors or rewarding the wrong actions. The platform also provides a way to prioritize HR Investment. This is important to assuring success because of the limited capital available during transformations. Given this fact we have found that the best approach is to invest in improving the base processes first i.e. Employee Relations, Communications and Information and then invest in higher-level processes in later accounting cycles. This flow is depicted in Figure 3 that shows how the model works to support the business and prioritize your use of capital. This approach is aimed at gaining management's confidence that the company's HR-related initiatives are contributing to meeting the company's overall business success.

Creating a business dashboard with the Business, Customer and Organization measures on it is a good way to have management understand how to integrate all the components that affect shareholder value and evaluate the success of all initiatives simultaneously.

In addition we recommend that all measures and reviews be conducted on an 18-month rolling-quarter basis so that corporate budgeting or annual reward programs and reinvestment decisions that are not affected by political issues do not encumber them.

## HR ROI

To ensure that Human Resources Professionals and Line Management understand all the investment issues we have designed a Business Audit we call the Business Standards Validation Process (BSVP). This facilitates Human Resources understanding of all the business drivers depicted at the top of Figure 3 and appropriate measures of the business. This is coupled with the Human Resources Planning Process (HRP) to form the major support intervention of the model depicted in Figure 4. This review process gives line management an understanding of how Human Resources Processes are measured and can affect the bottom line of the business. It also includes an evaluation of the health of the organization STARS (Strategic Talent Analysis Review System) and helps management evaluate what specific investments that need to be made in the next accounting cycle to improve the business. Once these investments are decided upon, Human Resources commits to an anticipated return to the business and then measures the success of the initiative during the next accounting cycle. Examples of the sort of initiatives and measures that have been used in successful model transformations to determine the return to the business are listed in Table 6. Through the use of these processes HR professionals come to better understand business issues affecting their organization and managers come to better understand how investments in such HR processes and initiatives such as training and recruitment can influence business outcomes.

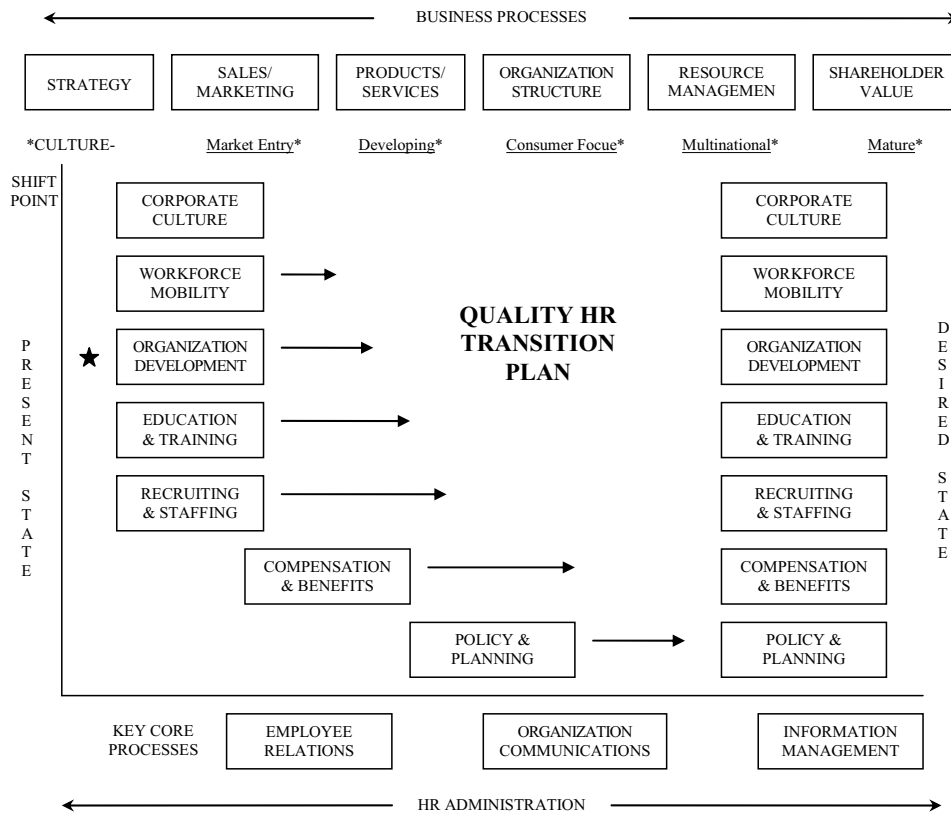


Fig. 3. Human resources business support platform

Table 6

Human resources support platform

Process	Objective	HR product	Success measure	Key change issue
1	2	3	4	5
Recruiting & staffing	- Supporting organization change process	- Position filling process	- Speed of filling open jobs	- Global staffing standard
Education / training	- Developing core skills / competencies to support business	- Management training initiatives	- External customer satisfaction survey	- Training linkage to business plans
Organization development	- Developing future leadership	- Performance management - Succession stars plan	- Market share increase	- Global management support system
Workforce mobility	- Efficient utilization of global talent	- IA program development - Regional plan - Assimilation program	- Speed to market	- Effective planning - Employee assimilation

Table 6 (continuous)

1	2	3	4	5
Corporate culture support	- Effective management of change process	- EE attitude survey - BSC / EVA scorecard initiative	- Stock price - Productivity increase	- Consistent global rollout required
Workforce information	- Effective human asset management	- Human resources mis system	- Administrative cost per 100 employees	- Information ownership
Employee relations	- Effective managing the workforce	- Negotiations authority process	- Employee turnover - Work actions	- Defining minimum standards
Employee communication	- Effective managing workforce perceptions	- Employee communication process	- Employee attitude survey results	- Global cultural issues
HR strategy	- Linking HR & business strategies	- Business standards validation process	- Revenue - Share of wallet	- Key / top management commitment
HR policy	- Support behaviors required to execute business strategy	- HR policies measures and standards	- Business strategy execution / culture change	- Support standards in place globally
HR planning	- Effectively utilizing organization resources	- HR strategic investment support plan	- Talent inventory review	- Process governance -time / resource commitment
Compensation / benefits	- Effective controlling business costs	- Total remuneration approach	- Ratio of employee cost to revenue	- Global evaluation standards

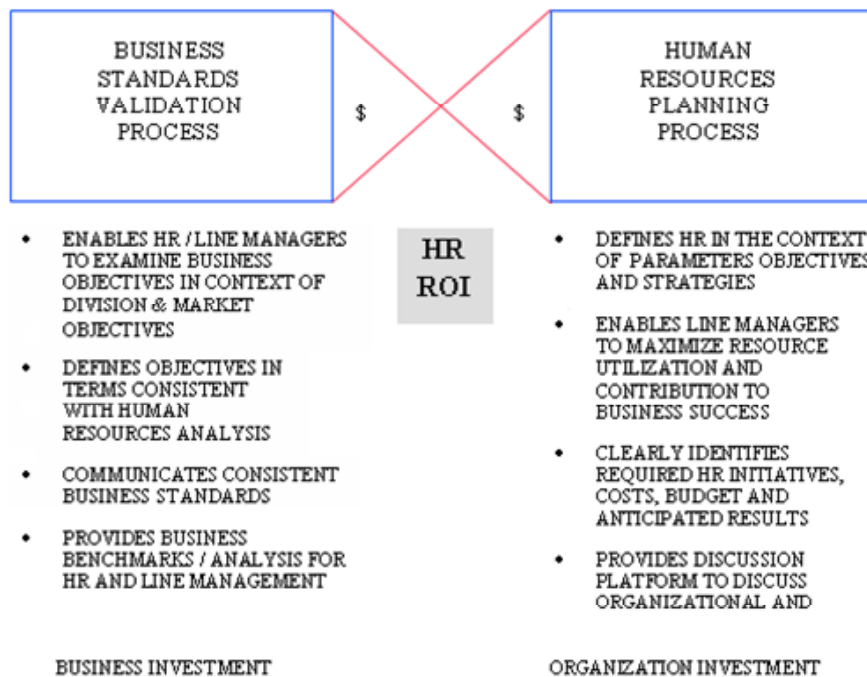


Fig. 4. Transformation support interventions

In order to assure effective use of capital during the transformation process and buy in for the change, both Line and HR Management must participate in the investment interventions deci-

sions as part of the overall process. Annually they assess the (next) areas that should be invested in and what levels of return are required from each. The measurement discipline and periodic re-evaluation are critical to the success of effectively implementing the business strategy and the requirements of any new business operations model.

### Assuring Change at the End Customer Level

The third area to be considered in obtaining optimum economic pull through from the transformation is the Customer and integrating the market needs into the total process. One of the areas in which HR can be particularly effective is having a point of view in the area of managing corporate governance. The closer to the marketplace decisions can be made, the more effective the corporation will be in reacting to changes under market conditions. Yet frequently control is delegated to the wrong level of the corporation. Human resources can serve a valuable role by making top management comfortable with allowing decisions to be made as close to the end customer as possible. Figure 5 shows the dynamics of the governance process and the competing forces that need to be balanced to assure that a business flourishes. As organizations move through the globalization continuum through organic growth or through mergers and acquisitions there will be shifts in the governance control within the organization. This is natural and cyclical. The most successful businesses pay attention to these changes and assure that the rebalancing of control toward local management occurs as quickly as possible. A consistent management development program that line management has a great deal of confidence in is a critical element to succeeding in this rebalancing. If Corporate Management has a high degree of confidence in the field management's ability to deal with business issues effectively then they will release assets and decisions to be made by local management where capital can be used most efficiently. Without this shift, organizations may soon find they are overtaken by competitors who can respond more quickly to market changes and gain market share, business and profitability at the expense of slow adapters.

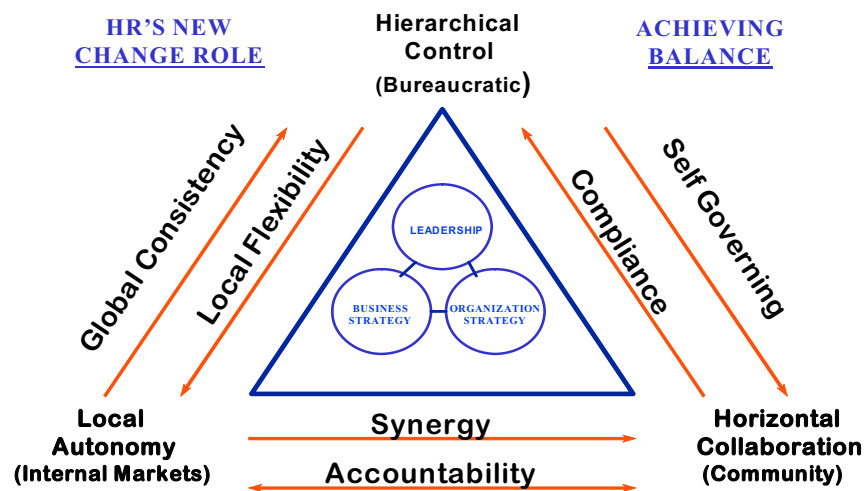


Fig. 5. Organization Governance - Supporting the Change

To ensure that any initiatives it proposes have a high degree of acceptance and ultimately success, HR must explain how these initiatives will add to the company's ability to act faster and more effectively in response to customer demands in the marketplace. In other words, to be per-

ceived as a value-added player in the organization, HR needs to agree to be held accountable, for all areas of the business and, helping the company remain profitable.

### The Importance of Stars

As we have discussed the fastest way to make transformations successful is to assure that the right people, who already understand and support the need to change, are put into the key leadership positions at the right time. This greatly facilitates imbedding the new business culture and allows for rapid implementation of new strategies at the end customer level in multiple markets. The process that we have used to accomplish getting the right management in place is the STARS system depicted below:

Competition for innovative, creative employees has always been tough, but today securing such employees is critical to the continued success of the business.

To gauge its progress in undertaking its responsibilities in the transformation process, management needs to conduct periodic reviews of the organization's skills, its ability to manage change, and its leadership-renewal capabilities. These reviews should be done in conjunction with the business reviews by line management to discuss investment issues. The form these reviews take is less important than ensuring that discussions occur on an ongoing basis and that line management is clear on both the business and organizational goals necessary for the company's continued success.

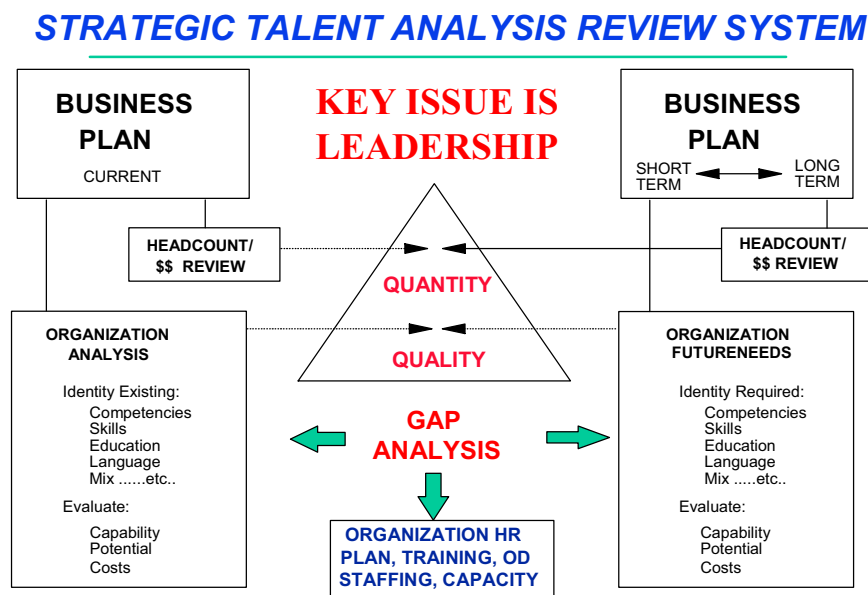


Fig. 6. Developing new "new" talent

This intervention is included in the management planning cycle to assure that management plans for required changes and that performance is tied to achieving the business strategic results. This discipline is an effective means to get line management to recognize and commit to certain levels of investment in the organization during the budget cycle so that organization investment progress can be made and monitored. This process also facilitates the measurement of the organization's capacity to effectively manage change. It assures that the reward and other HR processes are aligned with the business strategy and the organization maintains the capacity to manage

transformations. This process is the key area that top management must focus its time and efforts on to assure the continuing success of the business.

### The New Role for the IT Organization

As part of the transformation process, companies may want to consider ways IT could be used more effectively. In that achieving efficiencies and competing in the global marketplace will increasingly require enhanced technological capabilities, IT is likely to continue to be essential to running global companies. Given that it is usually easier to teach technical people about a business than it is to teach businesspeople about technology, it makes sense that IT professionals could take on an expanded role in the organization of the future.

Table 8

The new “new” it department- facilitating transformation

• It is the most diverse and flexible group in the entire organizaion
• It has to be fast moving and transforming continuously to keep pace
• It is a feeder department for the new “new” ideas, processes and business models
• You can teach it people the business you can not teach many business people it
• Partner it with sales / marketing to invent / construct the new “new” business models

The technology group is typically the most diverse in the company. Assuring that some of these people move into management positions is important for any company that hopes to operate profitably in our increasingly technological world. Finally, because of the diversity of the skills and abilities represented in most IT departments, IT professionals are an important source of ideas on ways to enter new markets and create new business models and opportunities.

The diversity that is typical for IT groups presents another challenge for human resource professionals--namely, understanding, accepting, and motivating these employees so that they may exert the necessary positive impact on the company. Traditional employees will have to be motivated too, of course, but, because of the cultural diversity found in IT employees, they may need to be treated especially sensitively. The STARS process is a good way to assure that the proper management mix is maintained throughout the organization to assure the proper levels of creativity and innovation for the business.

### A New Type of Human Resources Professional is Required

Effective managing the transformation process requires a totally different view of the role of human resources. The real value-added role is in facilitating continuous learning and change within the organization to deal with the new diverse global marketplace and new realities.

If human resources professionals are to take on the much-needed role of chief change officers, they will need to become true business partners. They will need to be capable of influencing top management to embrace initiatives that will allow their organizations to quickly mature and evolve.

The new HR role is that of consultant, facilitator and chief change officer. To meet the requirements of this role the HR Leader and HR Organization in general must focus their energies and resources on value added activities for the business, eliminate / outsource non value added activities while still maintaining understanding and control over information and re-skill the HR Organization to deal with the complexity of the execution of the Change Management Leadership Role for the business.

## Getting Management to Pay Attention to the Right Areas

Our experience shows that it is very important to have management easily and quickly come to consensus on decisions as to where to invest. To do this effectively we suggest utilizing a simple and effective software tool to facilitate the decision process, The Performance Profiler © by Quantisoft. This flexible and easy work with tool creates spidergraphs out of Excel data so people can quickly see the areas that need to be addressed. Since most Line Executives are visual it provides a very practical way to present information and measurements on multiple issues and can be adapted to do top level reviews of both Hard Side and Soft Side issues, investment performance etc. as well as Performance Management issues that need to be addressed by individuals utilizing existing information and databases. This factor is especially important because, while being extremely effective in influencing the best-cost decisions, the tool does not add much cost to the Transformation Management Decision Process Model.

## Putting it All Together: Effective Execution

To institute the transformation management process effectively requires that both management and HR professionals take a totally new view of the role of human resources. These new HR professionals need to be willing to take risks; understand the company's markets, products, systems, processes and organizational capabilities; understand the end customer needs and market realities, to be leaders in executing change initiatives; promote diversity as a key enhancement strategy; and to embrace a business approach to HR that facilitates the creation of a positive, future-focused business environment. In short, the new HR professional will function as a true Business Partner and Chief Change Officer in defining, encouraging and measuring the effectiveness of investments and returns for the organization, facilitating discussions and providing new ideas about how best to utilize corporate assets to execute the business strategy and help influence the direction and the running of the company.

The responsibility to help manage the highest cost portion of the company's asset base is a great opportunity. To take advantage of the opportunity Human Resources Professionals need to have a process that is very relevant to the future success of the business and capable of facilitating the execution of the processes. Becoming skilled at dealing with the issues of Transformation and Change is a powerful skill and a critical, essential concern for the future success of the business.

## References

1. Hamel, G., Prahalad, C.K. 1994. *Competing for the Future*. Harvard Business Press.
2. Harvey, M., Speier, C. Novecevic, M. 2001. A theory-based framework for strategic global human resource staffing policies and practices. *International Journal of Human Resource Management*, 12, 7, September, 898-915.
3. Jehn, K.A., Forthcraft, G.B., Neale, M.A. 1999. Why differences make a difference: A field study of diversity, conflict, and performance in workgroups. *Administrative Science Quarterly*, 44, 741-763.
4. Robinson, A.G., Stern S. 1997. *Corporate Creativity: How innovation and improvement actually happen*. San Francisco: Berrett-Koehler.
5. Stroh, L.K., Black, S., Mendenhall, M., Gregersen, H. (in press). *Globalizing People Through International Assignments*, Lawrence Erlbaum.
6. Shah, P.P. (2000). Network destruction: The structural implications of downsizing. *Academy of Management Journal*, 43, 101-112.