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**Enterprise Transformation**

Everyone seems to agree that talking about business process change is not the best way to get the attention of senior executives. Geary Rummler preferred to talk about changing Organization Performance. Michael Hammer always preferred Business Process Reengineering. Some people prefer Change Management. IBM prefers to speak of Enterprise Transformation. Of all the current candidates, I would side with IBM and talk of Enterprise or, perhaps, Business Transformation.

Let's be clear what we are talking about. We are talking about a major initiative, or a set of initiatives, to radically change and improve an organization. We all understand that organizations need to continuously change. Customers change, technologies change, government regulations change, and these changes require that organizations that want to survive and prosper, change. Some organizations respond with incremental adjustments while others make major changes that transform an industry.

Looked at another way, most process change is about improving efficiency or cutting costs. There's nothing wrong with these goals, but they are not the drivers of major transformations. CEO's who get excited about transforming their organizations are usually focused on Globalization, the Impact of the Internet and Social Media, the possibilities of Outsourcing, responding to major changes in technology (as, for example, the coming transition to 3D printing), and responding to major lifestyle changes in the culture.

It would be nice to think that one could build the capacity to change into the "genes" of an organization, but the data suggests that it's hard. This year's industry leader isn't necessarily the industry leader 5 years down the road. One of the most frustrating things about writing case studies is the frequency with which an organization gets everything right and becomes an industry leader, only to fail 3-5 years later.[1] It happens so often that one is inclined to think that excellence has a lot to do with specific leaders. One CEO gets excited about quality and efficiency and, in a few years, shapes his or her organization into a leading organization. Another leader comes in with a different focus, allows the organization to drift, and quickly loses the organization's competitive advantage.

Those involved in process change have always used a variety of approaches. (See Figure 1) Some have emphasized small scale, bottom-up incremental change. Others have emphasized larger redesign projects, often driven by departments or divisions. And then there have been those—Michael Hammer's name comes to mind first—who have advocated rethinking the business of the organization from scratch. The innovation folks tend to call this Discontinuous Innovation. Hammer always called it Business Process ReEngineering. What I am suggesting is that a good name for this more radical option is Enterprise Transformation.



Figure 1. Types of Process Change Initiatives

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Paul Harmon

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Leaders need buzz words to rally their employees and to focus their vision. Improving business processes and managing business processes simply don't have the ring needed when one is preparing to lead the troops out of the trench and into battle. Transformation has a better ring to it.

I don't mean to sound cynical about this. I really do believe that people need words that they can rally around, and I think Enterprise Transformation is a good one for today.

A nice example of corporate transformation at IBM is described in two papers, one an IBM white paper entitled: *The Road to a Smarter Enterprise*, and the other an academic study on Daksh and IBM. [2] In essence, these papers describe how IBM's CEO, Samuel Palmisano and his executive team, decided, in the early years of this century, that IBM needed to transform itself. The company faced a new globally integrated world that offered new business challenges. At the same time it was faced with new models of computing, based on the Internet and the increasing availability of laptops, phones, cameras, cars and appliances—all of which produced massive amounts of user data. And, IBM's clients were demanding help in dealing with this new environment.

IBM had already transformed itself under its previous CEO, Lou Gerstner (CEO from 1992-2001) by deciding to remain a single integrated company, and by radically changing its product mix, shifting from commodity items, like PCs and hard disk drives, to consulting services.

Palmisano and his team continued what Gerstner had begun by acquiring the consulting arm of PricewaterhouseCoopers, which added 30,000 globally distributed consultants to the IBM consulting group. Palmisano then decided that IBM needed to radically change how IBM distributed its workload to take advantage of lower labor costs in countries like India, Brazil and China, and in 2004 IBM acquired Daksh, an Indian Business Process Outsourcing (BPO) organization. This acquisition led to a new outsourcing strategy that combined Daksh's ability to execute with IBM's ability to innovate with business technology, and IBM began promoting Business Transformation Outsourcing (BTO). As IBM defined it, BPO was about hiring a firm to execute one of your existing processes, more or less as you had been executing it, usually on a short term contract. BTO, on the other hand, was about hiring a firm to manage a major process to achieve considerable measurable improvement in process performance, on a long term contract. In other words, IBM avoided becoming just another commodity outsourcer by leveraging its ability to significantly improve business processes with the latest technology.

Equally important, IBM was determined not to simply locate an outsourcing organization in India to serve the US and European markets. IBM made a major push to acquire BTO contracts in India and other developing countries where, once again, it offered its technology and innovation capabilities, in conjunction with its ability to execute at a reasonable cost.

In 2009, IBM had its seventh consecutive year of double-digit earnings per share, in spite of the world economic downturn. IBM achieved this for several reasons but, high among them was IBM's ability to grow and prosper in emerging markets that had been relatively unaffected by the slowdown in the more developed areas of the world.

What does IBM conclude from its experience? IBM suggests:

1. **Start a movement** - Transformation requires the active engagement of employees.
2. **Establish clear transformation governance** - The initial energy of a new initiative fades, and the effort ultimately succeeds only if there is a clear structure in place to see that goals are accomplished.
3. **Transformation requires a data-driven discussion** - It's important to gather volumes of data and then to analyze it to track what is working and where there are problems.
4. **Radically simplify business process** - IBM focused on eliminating, standardizing and automating work, with a special focus on eliminating

complexities that impede integration efforts.

5. **Invest in transformative innovation** - New technologies, new platforms, new approaches can't solve every problem but they can accelerate your processes and enable your people.
6. **Embody creative leadership** - IBM surveys suggested that the number one leadership quality needed for successive transformations was creativity—which IBM went on to associate with "broader and deeper thinking of systems and patterns, the ability to handle uncertainty with optimism and enthusiasm, more openness to a multitude of cultural differences, meaningful collaboration, and a spirit of restless reinvention." This may sound like fuzzy stuff, but IBM proceeded to pioneer classes in these leadership skills.

A recent BPO study named IBM's Daksh group the best managed BPO group. IBM's financial results amply demonstrate the success of its efforts. Over the course of Gerstner's and Palmisano's tenure, IBM went from a company that predominated in computer hardware sales to an organization that makes most of its money selling consulting services. At the same time, it transformed itself from an international organization with most of its employees in the US to a global company with its employees spread throughout the world. Moreover, it has expanded its geographic distribution so that it is able to prosper even when the US and Europe are in recession.

Several studies have shown that an organization is more likely to make the jump to excellence by undertaking a major transformation than by doing a large number of small projects. However, everyone knows that you can do lots of little projects and not do too much damage, while you can really mess up big time with a major transformation project. One bets the company on a transformation. If one gets it right and pulls it off, the company emerges as a leader with a significant competitive advantage that can last for several years. If one gets it wrong, the company can get mired in failure and chaos, at a minimum, and, in the worst case, it can lead to liquidation. A large number of major transition efforts fail.

That brings us back to leadership. Someone on the executive team needs to decide how much effort they are willing to put into a radical effort to change the company. Then, they need to plan the effort carefully and manage the initiative with the right mix of vision, commitment and caution. Transformation is business process work on steroids. It requires a whole series of major business process changes to make a successful transformation, but more important, it requires a leadership team that can support, organize and execute the changes. Transformation may not be right for your organization right now. However, it seems clear that the organizations that are going to dominate future markets will be those that have strong leadership and an ability continuously transform their businesses.

Till next time,

Paul Harmon

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Notes:

[1] In 1982 Thomas Peters and Robert Waterman wrote a popular book, *In Search of Excellence: Lessons from America's Best-Run Companies*. A few years later they did a survey of the same companies to see how they were faring. Some were still excellent, but many were no longer among the best. Excellence, they concluded, isn't something you master and then keep—it's something you constantly struggle to obtain and maintain.

[2] "Daksh and IBM: Business Process Transformation in India" by Ali Farhoomand. Asia Case Research Centre, The University of Hong Kong. 2007. (Available from Harvard Business School.)

The Road to a Smarter Enterprise: IBM's Transformation Journey. IBM Global Technology Services. October 2010.

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