

# TRENDS LEADING TOWARDS BUSINESS TRANSFORMATION

Successful business transformation requires a shrewd vision of the organization in the future. The first management questions are therefore: what business are we in and do we want to remain there for the next few years? What products and services will we deliver and to which markets and customers? What mix of distribution channels will we be using? Who will be our partners and who will be our competitors? How do we generate a profit? In short, the general strategic questions we are used to.

The next question is: what type of transformation do we need to bridge the current situation with the envisioned future? It is obvious that a business transformation process should match the size of the gap between the current and desired situation.

So, what is an appropriate business transformation process? To answer this question, a 20-year old framework might be of help. Professor Venkatraman (see interview on page 28) developed this framework as part of the Management in the 1990s Research Program<sup>1</sup>. This program was conceived as a close collaboration between academic researchers at the MIT Sloan School of Management and representatives of major companies.

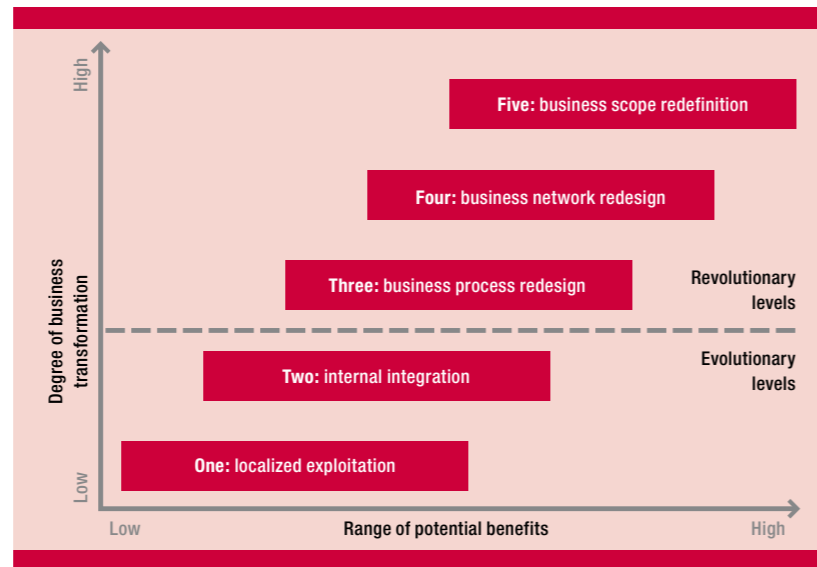
Venkatraman suggests five levels of business transformation, as illustrated in figure 1.

- **Stage 1: localized exploitation** relates to improvements within business functions, such as the finance department, HR department or warehousing activities. This stage does not require organizational changes but rather refers to the introduction of information systems or the adjustment of individual tasks and jobs. Benefits of changes are typically efficiency gains and improvements in accuracy.
- **Stage 2: internal integration** permits business activities to be interconnected along a chosen direction, for example increased interdependence between marketing and R&D or between marketing and manufacturing. At this stage, relatively minor organizational adjustments typically follow implementation, while the functional divisions of the business and their working methods remain largely unchanged. Benefits are typically departmental efficiency gains but also might include some effectiveness improvement through, for example, the reduction of throughput time within a business process.
- **Stage 3: business process redesign** results from a fundamental rethinking of the most effective way to conduct business. At this stage, the configuration of business activities is questioned.

Business processes are developed (redesigned) so that they fully exploit IT capabilities, aiming at a high level of alignment between organization, people and technology. Benefits are much greater than the previous two phases and relate to efficiency and effectiveness improvements at the business process level.

- **Stage 4: business network redesign** requires organizations to substantially change the nature and degree of interrelatedness within an industry and amongst organizations that work together. Business network redesign includes any organization or representative who can contribute to the business' effectiveness; it changes the collaborations and business transactions of an organization with suppliers and customers. At this stage, IT is a major contributor to the necessary any-to-any communication, while work flow management makes co-ordinated parallel activities possible, eliminating geographical, time-based and organizational boundaries. Benefits, as well as the associated risks of failure, have a strategic nature, rather than an immediate effectiveness or efficiency impact.
- **Stage 5: business scope redefinition** relates to the possibilities of enlarging or shifting the business mission and scope. This stage relates to the decision to break out and exploit opportunities in the marketplace, in products and services, in distribution channels, in partner networks, and so on. In fact, we talk about regenerating everything,

Figure 1: Venkatraman's five stages of growth



the complete business design. Like the previous stage, benefits and also associated risks of failure are strategic rather than anything else.

At any stage, business transformation represents, to a degree, creative destruction: carefully and creatively abandoning the management principles, organizational structures and processes, competencies and prevailing culture, and IT that used to work in the past, while adopting those required in today's and tomorrow's economy (see figure 2).

This creative destruction of obsolete management principles, organizational structures and processes, competencies and prevailing culture, and IT tears the traditional 'inward' hierarchical bureaucracy down and at the same time constructs an 'outward', agile network organization.

Of course, this cannot be done overnight. The organization needs to carry on generating revenues, whilst also working on sometimes radically new and innovative business constructions. Managing the two simultaneous processes of creative destruction and construction is, by definition, chaotic. It requires living with the confusion of having multiple lifecycle curves

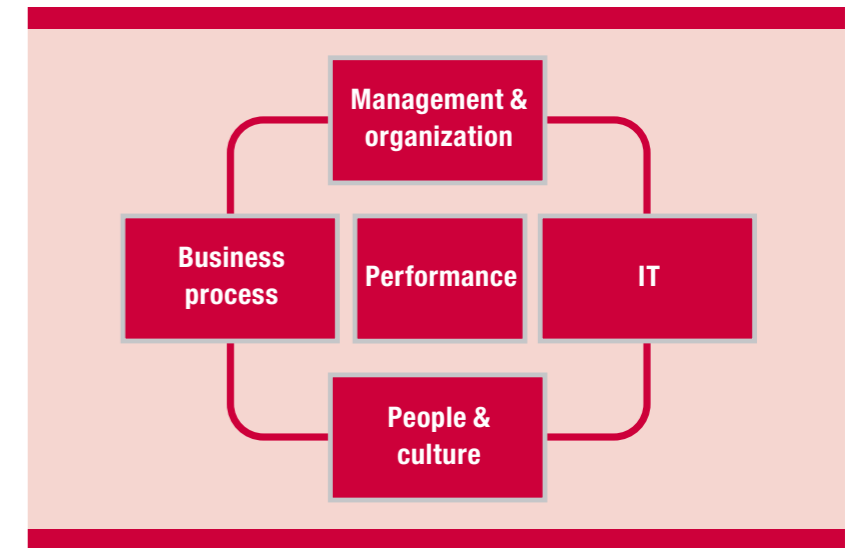


Figure 2: Alignment of processes, management, people and technology  
operating at the same time, during which the past and the future coexist in the present. Some businesses are therefore struggling with intensely complex, almost paradoxical changes.



