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What's on your transformation risk checklist?

Part II

Unleashing a successful business transformation requires balancing—and rebalancing—two major drivers of change: talent and technology.

Our discussions with CFOs and other experts on transformation risks revealed just how difficult and delicate that equilibrium can be to find and maintain. Everything from differing priorities to resistance to change can work against a successful transformation. At the same time, the lack of supporting data and systems necessary to generate insights can handicap the people charged with driving the transformation, as well as the transformation itself. Here, CFOs have a critical role in reinforcing the need to sustain a shared strategic vision and ensure there are resources—people, data, technology, and capital—and alignment to fulfill it.

During a transformation, different risks are likely to be salient at different times. At the outset, it may be more important to make the right choices and frame the right transformation ambition. Later in the process, it may be more important to focus on cultural and behavioral risks that could hinder sustaining the transformation's long-term success.

Our research interviews and our CFO Transition Labs™ have helped us identify seven major risk categories that can impede transformations. In the first installment of this article— part of our ongoing *CFO Transformation Leadership Takeaway* series—we highlighted four of them: making the wrong transformation choices; resource risks; leadership commitment and continuity; and third-party or agency risks (see "What is on your transformation checklist, Part I," *CFO Insights*, October 2020.)

In this issue of *CFO Insights*, we'll identify and analyze the others—ineffective planning and alignment processes, behavioral risks, and, finally, the contextual risks that can threaten transformation—and we'll present finance executives with strategies for managing them.

Ineffective planning and alignment processes

Transformations typically require alignment on the process and outcomes of the many changes that will be made along

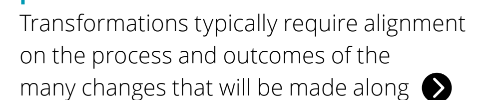
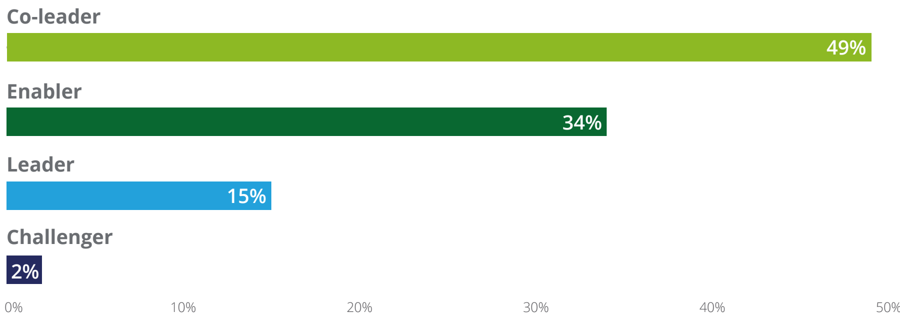


Figure 1: CFO role in business transformation

What is your primary role as CFO in the transformation? Percent of CFOs selecting each role (N=128)



Source: *CFO Signals*, Q1 2020, CFO Program, Deloitte LLP

the journey. Getting alignment requires stakeholder buy-in, governance processes to resolve challenges to policy changes, and planning and execution processes to build a shared roadmap for the effort. And there must be a willingness to hit the brakes as tough as that may be. As a retired Fortune 10 CFO said, "While meeting deadlines and timelines is important, it's more important to maintain operations and not put them at risk. CFOs should be prepared to slow down a timeline or even say 'stop,' to reassess, redesign, or even start over if problems or complications arise."

Stakeholder commitment

Transformations require commitment, alignment, and sponsorship from key stakeholders, and without the right level of commitment, they can be delayed, become harder to execute, or fail. Misalignment is not necessarily due to major disagreements or conflicts among stakeholders, but rather to differing priorities among them. For example, you might have a critical change project that weighs heavily in your annual performance review and for which you depend on other stakeholders. Yet, stakeholders may have other goals driving their performance reviews, and so might give less priority to your project. Thus, aligning stakeholders often requires a senior project sponsor who can make the transformation initiative a high priority for all and ensure commitment of the right resources. For each of your projects, consider getting a sponsor with the authority to align incentives across critical stakeholders.

Governance

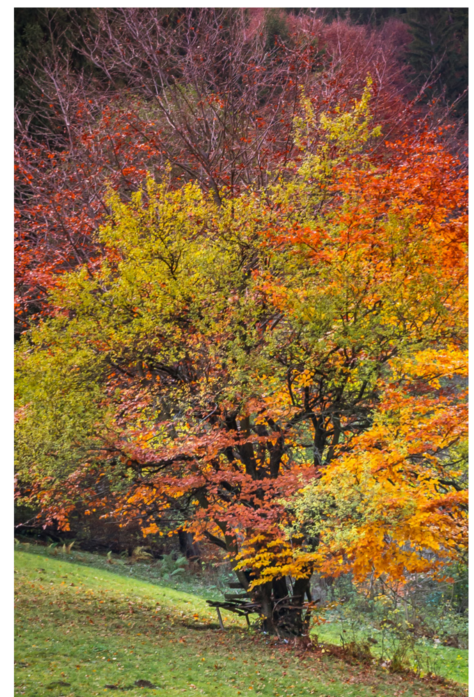
One mechanism to sustain stakeholder commitment and continuously realign it to a transformation is effective governance. A governance structure and process can help bring together the different critical stakeholders on a regular cadence during the transformation to keep them informed and committed, to seek their counsel on resolving problems, and to gain their support for future directions. Governance may be multilayered. For example, for major IT projects, there may be a business technology governance group of senior sponsors who set business direction, decide on major IT investments, and allocate funds. For specific projects, there may be operational governance where key stakeholders work together to deliver projects. Similarly, there may be governance groups to ensure technology choices are consistent with the company's technology roadmap and architecture. All too often in our CFO Transition Labs, we find inadequate governance structures and processes undermine success.

Planning to build structure and resolve ambiguities and uncertainties

Transformations can also fail due to lack of clarity or ambiguity about the purpose of change, new process and system specifications, and desired outcomes and the definition of success for the effort. For example, when companies are unclear about their strategic choices, their plans may not effectively translate into value-creating execution.

Ambiguity can be especially costly in transformations requiring new information and data systems. When there is ambiguity in the purpose, the project and system requirements may not be precisely defined or specified. Programmers and developers might do their best to interpret user requirements, but specific needs could get confused or lost. Such misunderstandings can lead to the development of systems that do not meet user needs. Thus, projects need the right level of definition and clarity, as well as mutual commitment to specifications across stakeholders.

Consider the case of creating an app to connect your company to clients or customers. Is its purpose to create convenience for them to request information or place orders in a secure manner on a mobile device? Is its purpose to inform them about new products you offer? Is its purpose for you to understand what individual customers are looking at for targeted marketing? Is its purpose to provide them with the ability to track their own accounts with your company, or all of the above? Clarity of purposes and their prioritization together usually provide a good starting point from which to drive the design of processes and systems that deliver to objectives.



Ambiguity can also arise from the unknown; in the preceding example, we may not know how customers will react to the new app. Even if customer focus groups are used to frame user requirements and specifications, it may be necessary to build a preliminary app, test it with users, and adjust the app features with ongoing user inputs across multiple releases to arrive at a product that meets business objectives. An iterative and agile execution process of development and testing can resolve the uncertainties of fully specifying all needs precisely at the outset of development. But doing so requires managing stakeholder expectations and acceptance of a process that includes a level of trial and error.

CFOs helping to drive transformations can mitigate the risks of stakeholder misalignment by having effective and clear sponsors for the project, governance systems to continuously align stakeholders to objectives, and agreements on how to specify requirements and resolve ambiguities and uncertainties in objectives, requirements, and approaches to execution. An effective governance process also can help the change initiative to effectively adapt to unfolding events and new information.

Figure 2: Crosstab: CFO roles for each transformation type

For each type of business transformation (row), the percent of CFOs selecting each role (column)

	Co-leader	Enabler	Leader	Challenger	*Number of CFOs who mentioned transformation type*
Business Strategy/Model/Offering Shift	42%	46%	10%	2%	*48*
Process Efficiency/Redesign/Automation	51%	31%	16%	2%	*45*
Technology/Systems Upgrade	55%	38%	7%	0%	*29*
Growth/Integration/Divestiture	80%	0%	20%	0%	*15*
People/Org Transformation	30%	30%	40%	0%	*10*
Finance Capability Upgrade	50%	0%	50%	0%	*2*
Number of CFOs who selected each role	*75*	*50*	*22*	*2*	

Source: *CFO Signals*, Q1 2020, CFO Program, Deloitte LLP

Behavioral risks

Habits

Habits, generally formed from repetitive behaviors, can become automatic—even subconscious—and can impede transformations if they do not support the ambition. As one practitioner noted, "I don't think people realize how difficult transformational changes can be and how much executive time, attention, and leadership are necessary to send the right signals about its importance and the behaviors expected."

Suppose you have used a personal spreadsheet for years to calculate a certain formula, but your company has introduced a new system to handle that. If you insist on using your method, the company no longer knows whether you have used the correct assumptions to calculate the formula—or if errors have been introduced into your spreadsheet.

When there are significant habits that need to change for a transformation's success, leaders may need to remove resistance to the change. Companies with a mindset to transform typically have leaders who believe they have a responsibility to create a culture that embraces change and discourages old habits that don't support the transformation.

Fear and fatigue

A powerful emotion that can inhibit change is the fear of the unknown. Although management may believe the company must transform to survive, the notion can be frightening. As another practitioner said, "to transform, a company's leaders have to be willing to say, 'We're going to take some risks and go into an area that's not safe or predictable.'" Consider cloud computing. Many management teams were initially reluctant to consider the cloud as a resource out of fear of cybersecurity risks. Over time, as users gained more confidence in the way cloud service providers secured their services, more applications and data are being moved to the cloud. Another fear of change includes future job loss—especially with certain types of change initiatives. Fear can be paralyzing or lead to active resistance to the execution of a change initiative.

Diminished autonomy and power

Some change efforts may impact power relationships and the autonomy of individuals in an organization. For example, when the group-level CFO seeks greater transparency into the business units and their work-in-process inventories, it may reveal information that dramatically alters the power between the center and business units. The information the group CFO gathers may reveal the shortcomings of business unit CEOs and undermine their power and influence in the overall group. Thus, requests for information by the center that undermine local autonomy and power are likely to be resisted. To overcome resistance to changes in power, it is likely CFOs will have to accumulate their own power or have the power of the group CEO as a sponsor behind changes to information flows that alter the distribution of power in the organization.

Social dissatisfaction

Resistance can also be triggered when work roles are transformed, leading to less work satisfaction or a change in worker status. For example, many CXOs try to improve operations and realize savings in their operations by implementing shared services solutions. These solutions can provide for more specialization and help define career paths. But, while moving key staff from multiple locations to a centralized shared services center may appear to reduce costs, the real outcome could be reduced satisfaction and increased turnover—undermining the cost savings and other benefits.

In addition, when jobs and the location of jobs are redefined through a shared services initiative, the satisfaction of workers who are highly experienced sometimes declines. They may have less connection with their local clients and less of a sense of being appreciated and valued by these clients. These changes may engender resistance to change or reductions in productivity, undermining change efforts. These and other adverse impacts can be mitigated by considering the "socio-technical systems" prevalent

in an organization, anticipating social satisfaction impacts of work redefinition, and developing plans to mitigate them.

Culture

A fourth category of behavioral risk arises from the prevailing culture in the organization. In some CFO Transition Lab sessions, we hear that some specific group is unwilling to change, due to the belief that they are "special and different" from other groups in the company. As beliefs drive behaviors, the prevailing beliefs may have to be disaffirmed before the culture is modified to be able to accept a change, such as the implementation of common operating protocols across business units or a common ERP system.

Addressing behavioral risks requires some level of anticipating the habits, emotions, conflicts, social satisfaction, and cultural beliefs that drive resistance to a transformation—or lead to fatigue months after the transformation is launched. Once these risks have been anticipated, they can be addressed through thoughtful communications, the redesign of work, and actions to mitigate fears and concerns. In the words of one interviewee, the executives who effectively drive a transformation think about communications aggressively throughout, and some companies allot 10% to 15% of the transformation budget to this area.

And as Peggy Smyth, CFO, National Grid US, notes, "While technical competencies are critical, a lot of change management comes down to communications: how to tell a story and how to tell it in a pictorial way, how to develop relationships, and how to become a trusted advisor to help others understand their role and responsibilities in the transformation and deal with change." When strategies to change behaviors that are detrimental to the transformation do not work, however, new talent supportive of the changes may have to be recruited.

Black swan and other contextual risks

All transformations occur within a broader economic, business, and social context. Sometimes the context can unexpectedly change. As we write this article, we are now going through the COVID-19 pandemic, which has led to the widespread shutdown of various businesses as social distancing becomes vital to help minimize contagion. It is hard to foresee what other black swans may occur; nevertheless, see Deloitte's value killer studies, which identify a number of risks that can destroy value and shift the context for transformation. Given unforeseen major events, adopting protocols for crisis management and decision-making can help a leadership team respond to these black swans and value killers. During these times, management's attention and other resources can be diverted away from transformation efforts—to deal with the black swan or value killer event. This, in turn, can delay the transformation and—in extreme cases—bring it to a halt.

Of course, not all risks to a transformation can be controlled, and not all events can be anticipated, but having a process about what to do in a situation that's unexpected is still important.

The takeaway

Our research interviews and CFO Transition Lab sessions have helped us identify seven major risk categories that can impede transformations. Of course, not all risks to a transformation can be controlled, and not all events can be anticipated, but having a process about what to do in a situation that's unexpected is crucial. In Part I of this series, we discussed the following four risks: 1) making the wrong transformation choices; 2) resource risks; 3) leadership commitment and continuity; 4) third-party or agency risks. In Part II, we focused on 5) ineffective planning and alignment processes; 6) behavioral resistance to change; and 7) black swan and other contextual risks. It is important to note that during a transformation, different risks are likely to be salient at different times. At the outset, it may be more important to make the most informed choices as possible and frame a compelling transformation ambition. Later in the process, it may be more important to focus on cultural and behavioral risks that could hinder sustaining the transformation's long-term success.

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