

Transformation Champions

Turning Opposites into Complements



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Companies that continuously transform have a competitive advantage and outperform their peers.



Preface

The year 2020 has been impacted globally by the black swan event of COVID-19. Across all geographies and industries, we see and expect three stages in companies' experience of the pandemic: Respond, Recover, Reinvent to Thrive.¹

This report is intended for organizations looking to reinvent themselves – not just once in response to the crisis, but constantly, to stay alert, resilient and competitive.

Now more than ever, we believe that transformation is the new normal. However, in our daily discussions with business leaders we see that successful transformation is an enduring business issue and anything but a given.

We have engaged with over 150 companies and senior executives in the DACH region to identify those management practices that differentiate organizations with breakthrough transformation performance, and refer to these as “transformation champions”. By turning opposites into complements, we have identified seven management practices that can increase your chances of success.

We invite you to read our findings and reflect on your own transformation experiences.

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Management Summary

Now more than ever, we believe that transformation is the new normal. However, in our daily discussions with business leaders, we see that successful transformation is an enduring business issue and anything but a given. Over the past decade, 85 percent of companies have undergone more than one transformation. However, only 30 percent of companies have achieved their defined goals in this area. This was the starting point for our quest to find the recipe for transformation success.

Transformations are large programs designed to improve the sustained performance of enterprises and formed by a set of profound strategic changes in the customer experience, value proposition, operations, and/or organizational structure. When we analyze the triggers for transformation we distinguish between two dimensions: the competitive position of company and the disruption level of the industry the company operates in. For the purpose of this study we measure competitive position by total shareholder return versus the company's peers and the disruption level of an industry by the volatility in stock return.

Depending on the strength of both triggers, we differentiate between four different strategies that represent different balance points between transforming the core (i.e., what the company knows best) and transformation on the edge of the business model.

In our study, we engaged with over 150 companies and senior executives in the DACH region to identify those management practices that differentiate organizations with breakthrough transformation performance. We name them "transformation champions" compared to the weak performers or transformation laggards.

The mixed methodology design of our study includes the development of indices to objectively measure transformation performance and disruption levels, a tailor-made 36-question survey targeting executives across different industries, in-depth interviews with C-level executives from Swiss and German top-rated companies, and a review of more than 70 academic publications.^{2,3}

The survey framework reflects the academic articles and consulting reports. It features 13 main constructs, which were attributed to the four main elements of transformation: the WHY, the WHAT, the HOW, and the OUTCOME.

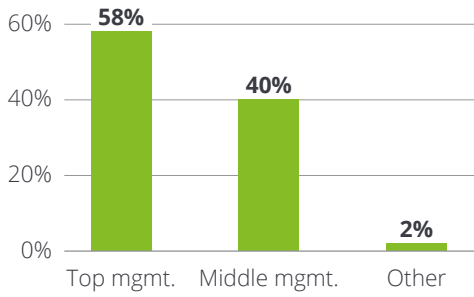
- The WHY section contains the reasons to transform and the position in the archetype
- The WHAT section focuses on the duration, scope, and goal of the transformation
- The HOW section discusses governance, leadership, funding, processes, and technology
- The OUTCOME section reports on performance and management practices

By turning opposites into complements, we have identified seven management practices that can increase your chances of success:

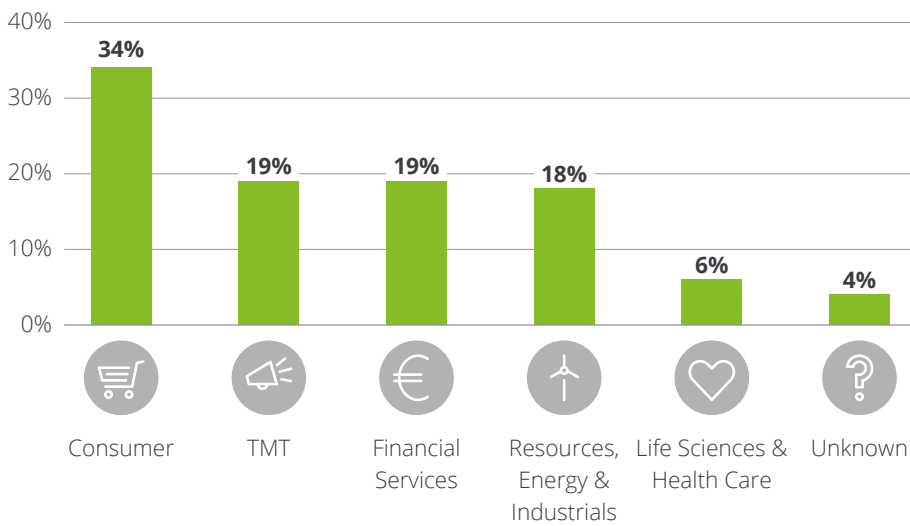
- 1. Goals – Think Customer First**
Embrace your customers with empathy AND analytical rigor
- 2. Scope – Use Both Hands**
Reinvent the core AND explore the edges
- 3. Focus – Get to the Heart of It**
Rethink your operating model AND your capital structure
- 4. Leadership – Lead with Purpose**
Build a coalition of new AND existing leaders to guide the change
- 5. Steering – Establish a Strong Nerve Center**
Empower decentral units to act independently AND build strong central TMO
- 6. Change – Own the Narrative**
Engage all stakeholder groups throughout the transformation journey
- 7. Capabilities – Stay on Your Toes**
Stay flexible in your transformation strategy AND firm in your routines

Fig. 1 – Demographic data of survey respondents (n=83 survey respondents)

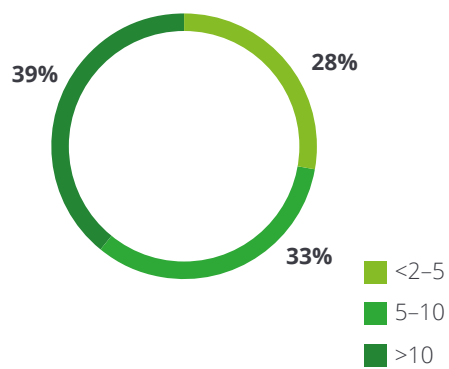
Job position



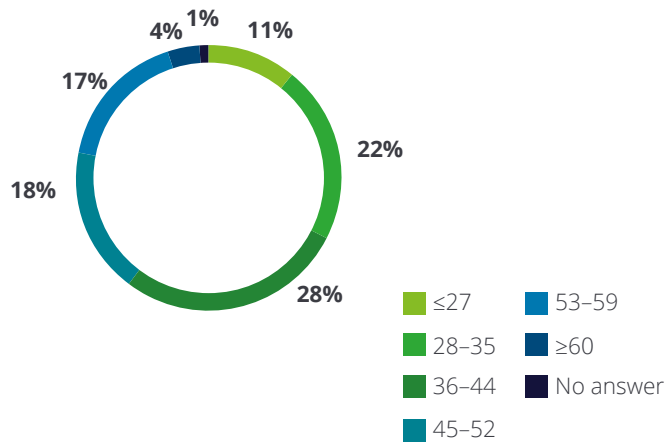
Industry



Job tenure (years)

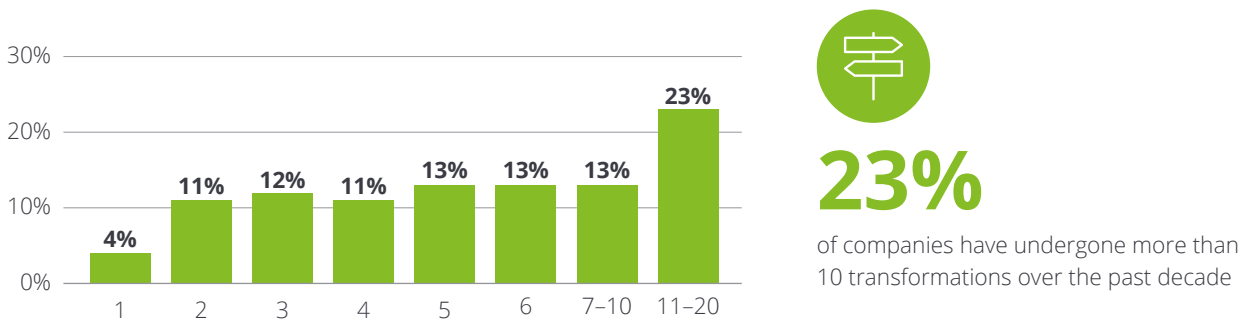


Age (years)



Transformation is the new normal

Fig. 2 – Overview of how many transformations companies have undergone in the last 10 years



Based on n=83 survey respondents

Company transformations are all over the business news headlines – no matter which industry or size, the corporate world is changing, and frequently. Looking at the numbers, 50 percent of companies have undergone six or more transformations in the last decade, with 23 percent experiencing more than ten.

Transformations are omnipresent, but they are not all alike: We differentiate between four archetypes depending on the level of disruption in the industry and the competitive strength of a given company.

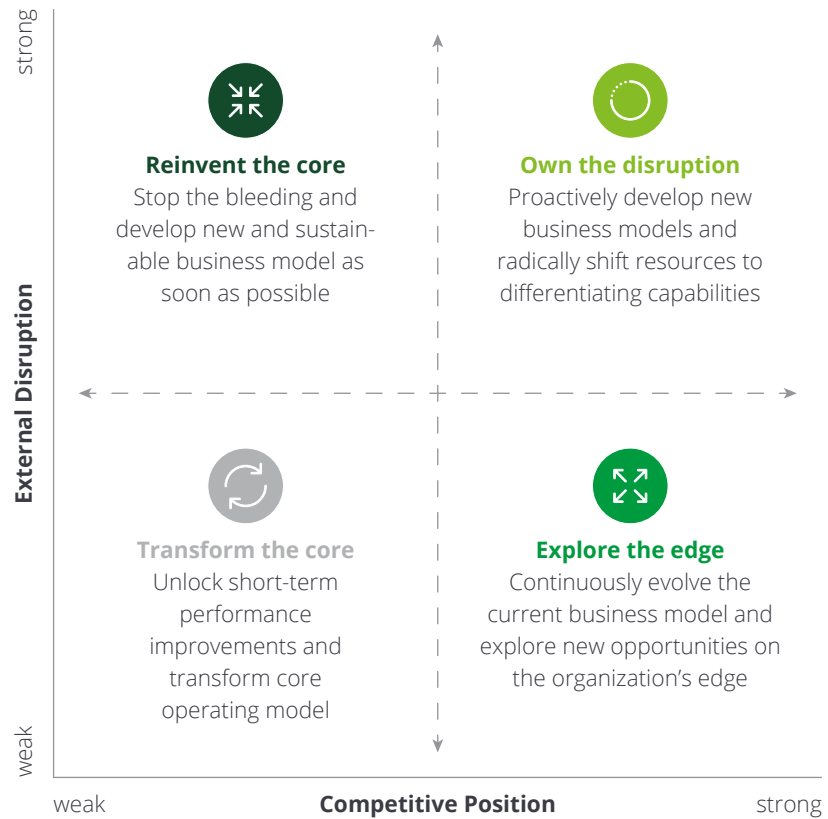
To maximize the success of the transformation, every organization requires a different approach depending on its position on the archetype matrix. The initial assessment of the company's position is therefore key for deciding whether to focus on the core business or create something completely new by actively driving and owning the disruption.

In our study, we measured the disruption level by stock price volatility (calculated from the annualized standard deviation aggregated to the industry level) and the competitive position by the two-year annualized total shareholder return (TSR), benchmarked against the local index. Overall, we found that stronger disruption and tougher competition over the last five years have changed the most suitable transformation approach for many companies.

The world is changing at a higher pace than ever before. Continuous disruption in the marketplace is fundamentally altering the business environment across all industries:

- The “topple rate” of industry leaders falling from their perch has increased by 75 percent⁴ in a generation. Due to new technologies and accelerated working cycles, industry barriers are blurring and unicorns prance unabated.
- Competitive evolution is clearly no longer linear, but rather exponential and disruptive. Companies try to keep up with ambitious transformations.
- Although the main trigger for transformation is often existential challenge, more and more industry leaders are starting to understand the urgency and taking action in good time through preemptive transformations from a position of strength.

Fig. 3 – Transformation archetypes



In 2020, almost half of all German and Swiss top companies face strong external disruption while being in a weak competitive position. High external disruption rose by 31 percent, while the number of companies with strong marketing positions remained almost constant. Another factor showing the increase in disruption is the 16 percent of IPOs that took place over the same period and that further increase the competition for shareholder investment.

However, the majority of our study participants say they are starting from a position of strength and own the disruption.

Overestimates of their competitive position may be due to the respondents knowing their own companies well (e.g. insight into internal performance measurements), but lacking deeper insight into their competitors, leading to bias when it comes to drawing sound conclusions.

This all points to the fact that transformations are difficult to implement in practice. No matter which source you consult, they all have one thing in common: with a success rate of only 30 percent⁵, transformations fail more often than they succeed, for two reasons:

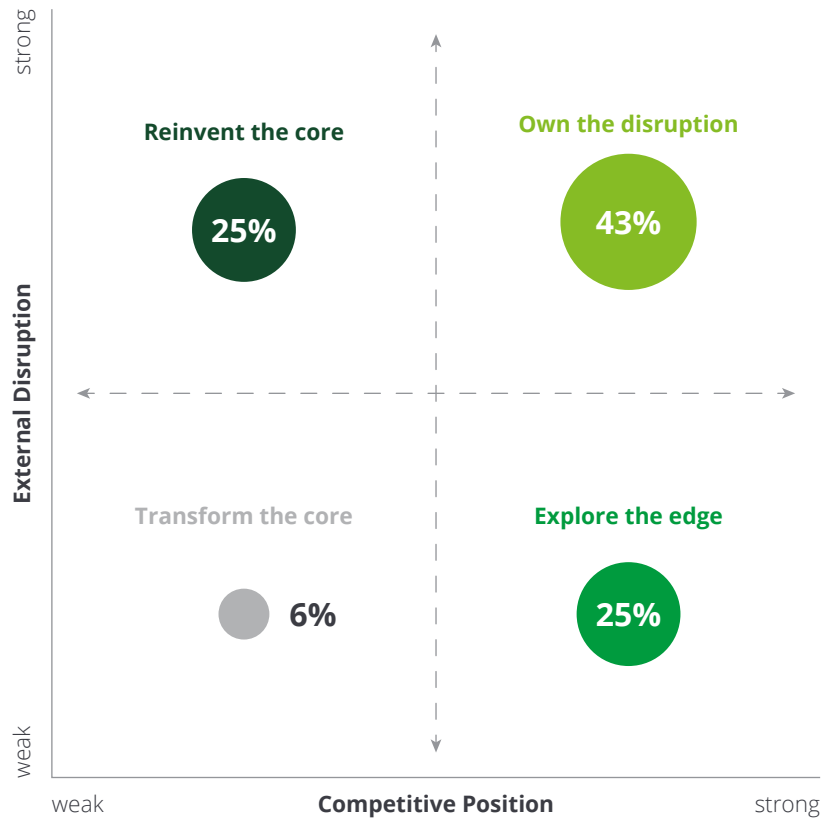
1. Inappropriate set-up

At the very outset of the transformation, it is crucial to set the strategy, goal, and funding correctly. Poor transformation strategies often have a strong focus on cost-saving measures or siloed initiatives that are not aligned with the company vision. Further, a lack of measurable goals and inadequate resource allocation impede success.

2. Inadequate execution

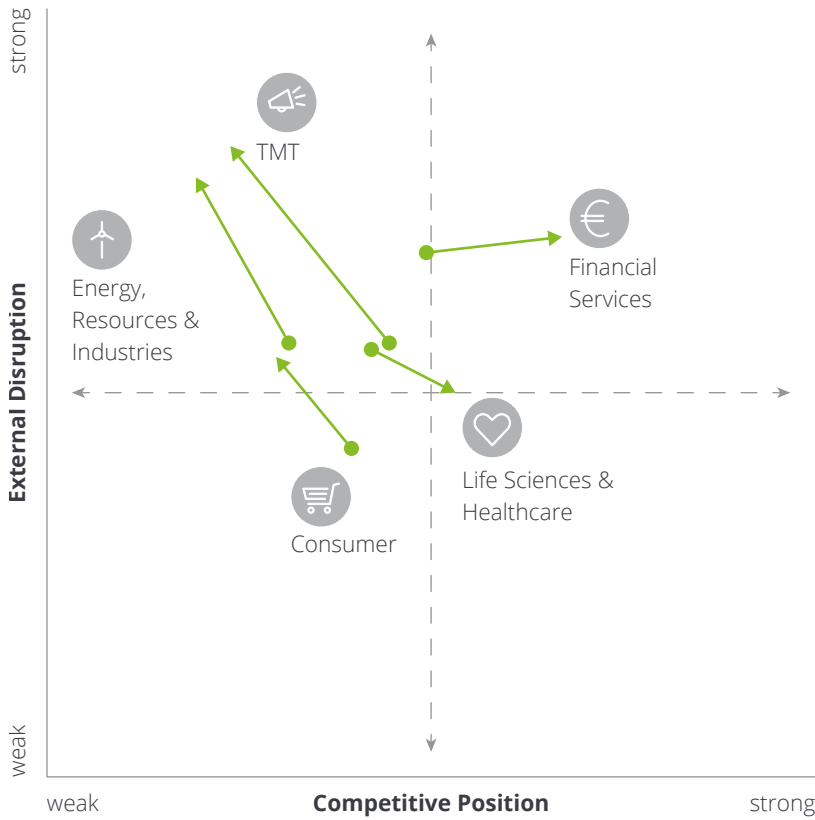
Even if the right strategy is chosen, its implementation is often underestimated. Duplicate or conflicting efforts, as well as time and cost overruns, mean that companies miss the execution premium and fail. Many transformations suffer from a lack of leadership support, involvement of the right stakeholders and/or activation of the entire company. Further, poor organizational alignment, usually due to the inability to transfer the case for change and target picture into the organization, leads to unclear expectations.

Fig. 4 – Transformation type self-assessment by study participants



The question therefore remains:
How can companies get transformations right and drive towards success?

Fig. 5 – Industry Overview: Disruption Differs among Industries



n = 467 companies (133 of the initially 600 analyzed companies missing due to ambivalent sector classification and missing TSR data)

2015 ● → **2020**

Positioning of industry in the transformation landscape

Competitive position

The competitive position of a given year was calculated taking the excess TSR of the last year. The TSR was calculated computing the last 24 monthly returns benchmarked to the local index. By subtracting the competitive position three years following the launch of the transformation from the benchmarked TSR of the transformation's starting year, the objective transformation performance was calculated.

Disruption level

The disruption level was calculated by using the volatility of computed 12 months stock returns of the different industry sectors, and then averaged to the industry level.

Transformation Champions – Turning opposites into complements



We have identified seven management practices that drive transformation performance – turning opposites into complements.

We found significant differences between the transformation performance of companies leveraging these management practices: Companies following four or more of the practices hit a success rate of 87 percent, while those using only one or none only succeeded with a 55 percent chance.



1. Goals

Think Customer First:

Embrace your customers with empathy AND analytical rigor



2. Scope

Use Both Hands:

Reinvent the core AND explore the edges



3. Focus

Get to the Heart of It:

Rethink your operating model AND your capital structure



4. Leadership

Lead with Purpose:

Build a coalition of new AND existing leaders to guide the change



5. Steering

Establish a Strong Nerve Center:

Empower decentral units to act independently AND build strong central TMO



6. Change

Own the Narrative:

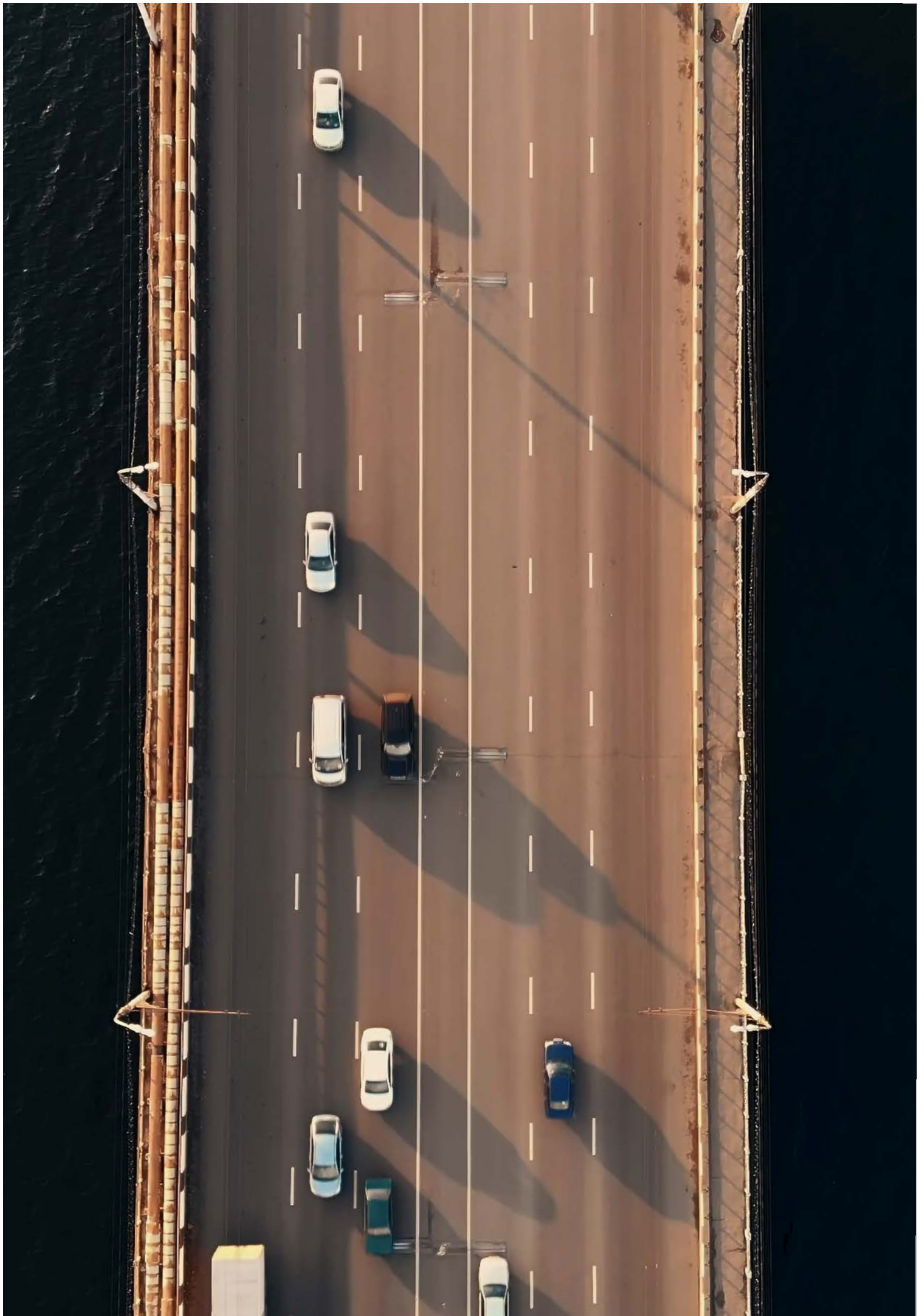
Engage all stakeholder groups throughout the transformation journey



7. Capabilities

Stay on Your Toes:

Stay flexible in your transformation strategy AND firm in your routines



Goals – Think Customer First

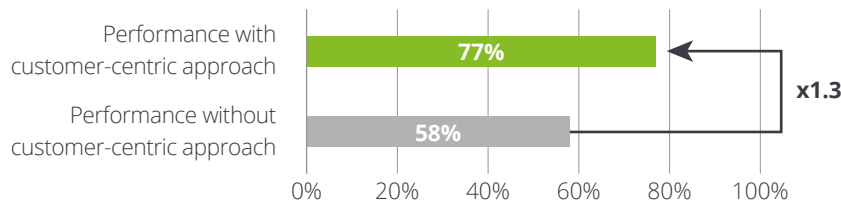
Embrace your customers with empathy AND analytical rigor

“The first rule of transformation success is to have your pulse on the market – listen to your customers’ demands and adapt accordingly.”

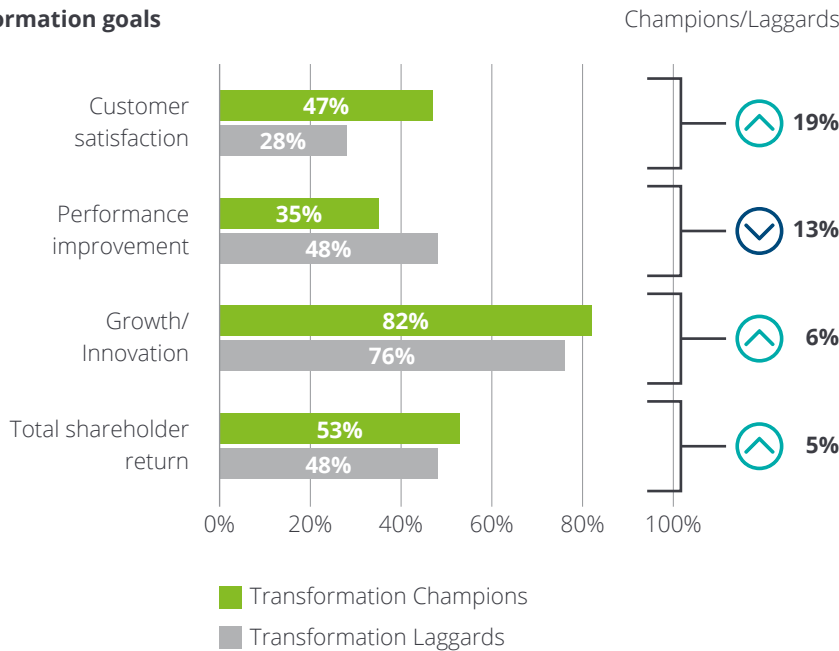
Former CEO of a DAX 30 Company

Fig. 6 – Key insight into transformation goals

Success rate



Transformation goals



Key Insights

Companies can improve their transformation performance by putting an emphasis on understanding what their customer truly need and thus aiming to increase customer satisfaction.

Practical considerations for executives

Engage your customers.

1 in 2 business model transformations is successful if triggered by changing customer needs, as opposed to only 1 in 3 if triggered by shifting product strategy or market threats. Engage directly with your customers to ensure meaningful business model adaptations.

Focus on analytics.

Given the massive amounts of customer data available today, it is impossible to understand customer needs, desires, and preferences without considering customer analytics. Collect detailed data on your customers, analyze them, and derive actionable insights.

Embrace empathy.

As well as analyzing measurable data, you should also dig into data that can only be excavated through empathy: personal stories, experiences, interactions, and emotions that resist quantification and modeling. Leverage methods such as design thinking to do so, experience your customers’ perspective by shopping your company’s channels and contacting your call centers, and talk to customer-facing employees to gain their insights. These experiences can help identify areas for improvement.^{6,7}

Scope – Use Both Hands

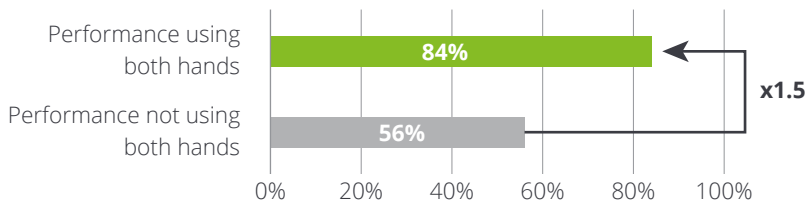
Reinvent the core AND explore the edges

“We decided to enter the services market to make sure that our core remains state of the art and answers the questions of tomorrow.”

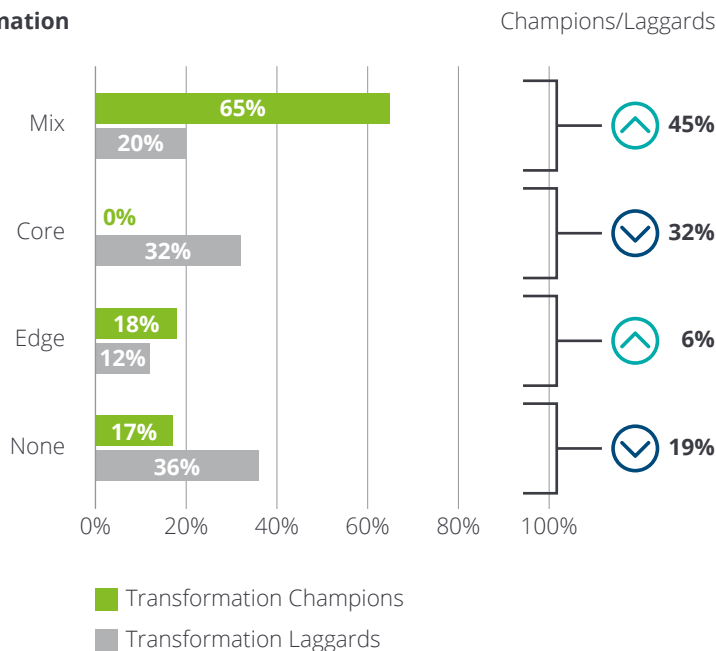
Member of Executive Committee, Fortune Global Top 100 Company

Fig. 7 – Key insights on transformation scope

Success rate



Scope of transformation



Key Insights

Companies can improve their transformation performance by both addressing their core and exploring the edges.

Practical considerations for executives Address both core and edge.

A company's core business is what it knows best. Edges, on the other hand, align with fundamental shifts in the market, require minimal investment to initiate, and show high growth potential. Simultaneously transforming the edge and the core can improve transformation performance. If changing the core and the edge in concert is not possible due to resource constraints, companies should sequence their core and edge transformations.

Finance the edge from the core.

The natural tendency of an edge initiative will be to look back to the core for resources. Taking part of the core business profit and reallocating it to growth initiatives is a valid lever. Looking towards the core for additional people resources should be resisted, however, as it will only raise latent institutional antibodies.

Grow the edge to create a new core.

If chosen well, edges have the potential to drive significant, sustainable returns for the business. As the edge scales, a new core will supersede the old with distinct practices and capabilities.⁸

Focus – Get to the Heart of It

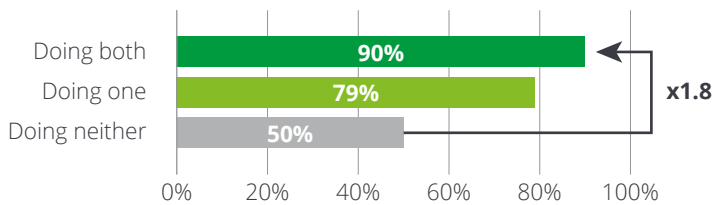
Rethink your operating model AND your capital structure

“Merging the capabilities of several departments and transforming into a customer-centric service organization was key to success.”

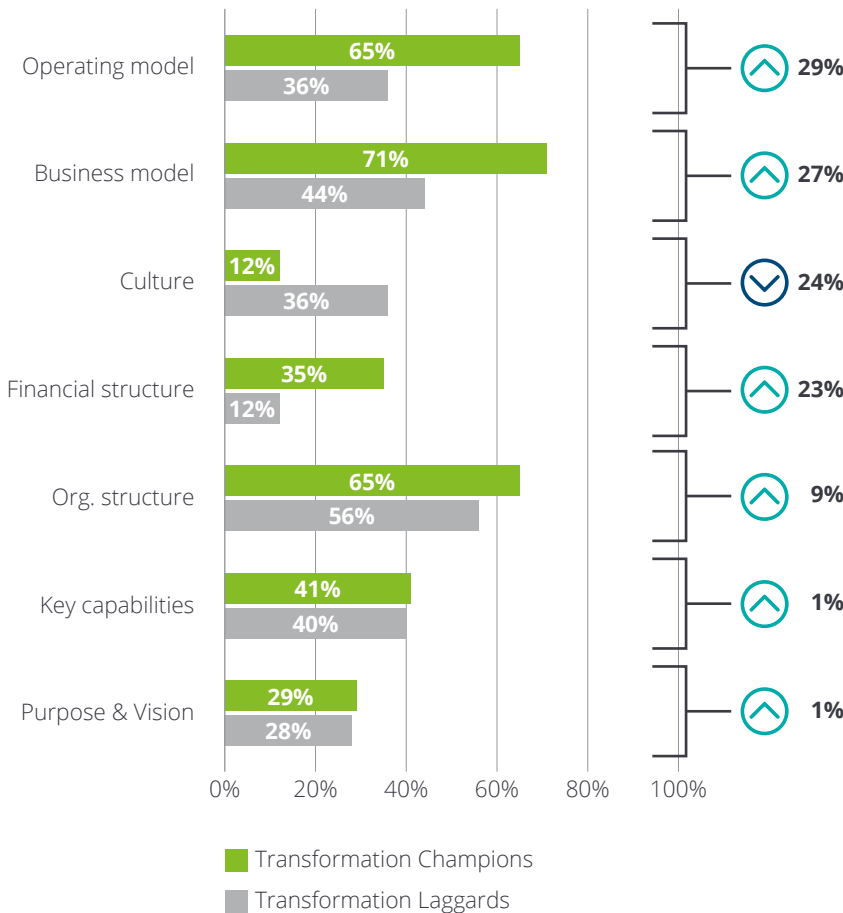
Chief Cybersecurity Office, DAX 30 company

Fig. 8 – Key insights on transformation scope

Success rate



Elements addressed in the transformation



Key Insights

Companies can improve their transformation performance by changing both their operating model and capital structure.

Practical considerations for executives
Build a customer-centric operating model and break silos.

With rising customer expectations, only those companies able to translate expectation into experience will improve their bottom line. This insight asks for fundamental changes in the operating model design to overcome companies' inability to translate new customer-centric strategies into distinct operational tasks.

Establish financial agility.

To capture value opportunities, companies need to adapt their financial allocation processes as well. Cash flow is key here: Transformation leadership must aim to reach cash flow break-even as quickly as possible and fund growth from within, rather than seeking more and more funding. This view embraces the principles of lean startups, including minimum viable products, to minimize and quickly eliminate the external funding required.

Go further.

Companies need to fundamentally change their operating models, but also accomplish a complete shift in mindset and culture. Overall, adopting agile ways of working in operations and culture will help ensure their survival in unstable markets and even allow them to thrive during tough economic times.⁹

Leadership – Lead with Purpose

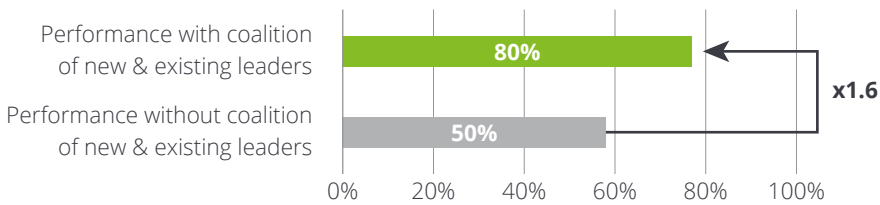
Build a coalition of new AND existing leaders to guide the change

“Selecting the right leaders to guide us through the transformation was the most important factor.”

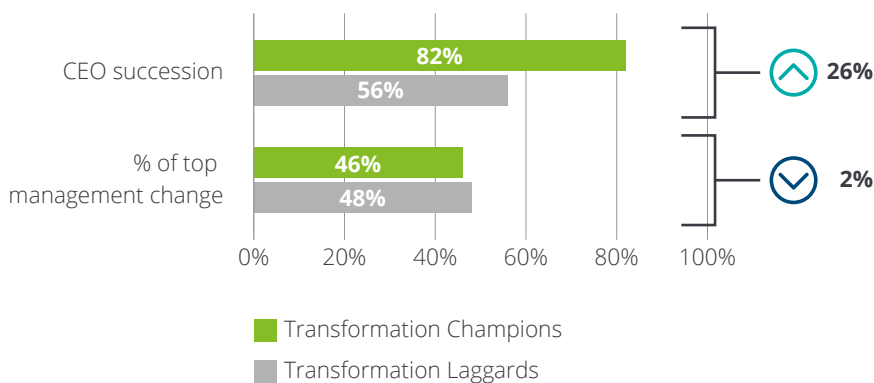
Chief Cybersecurity Office, DAX 30 Company

Fig. 9 – Key insights on transformation leadership

Success rate



Occurrence of leadership change



Key Insights

Companies can improve their transformation performance by balancing the need for creating leadership momentum with keeping leadership continuity.

Practical considerations for executives Changing of the guard.

Use the momentum of a new leader: New CEOs benefit from their unbiased position, as they have no inherited dependencies and distinguish themselves by challenging and comprehensively changing the status quo. This drive allows companies to take advantage of the dynamics of change and benefit from the impetus provided by their new leader. Such conducive leadership momentum can also be achieved by incumbent CEOs if they take great care to continuously absorb new ideas and impulses.

... but stay with your leading team.

CEO succession is beneficial only if stability is maintained in the management team. CEOs must also be careful not to hold onto the next management level for too long. In fact, CEOs need to build a coalition of existing leaders by seeking advocates who show potential to support the transformation. Repositioning management is therefore essential, but it should be done thoroughly by pre-evaluating the management team to identify those who reject or hinder change.

Steering – Establish a Strong Nerve Center

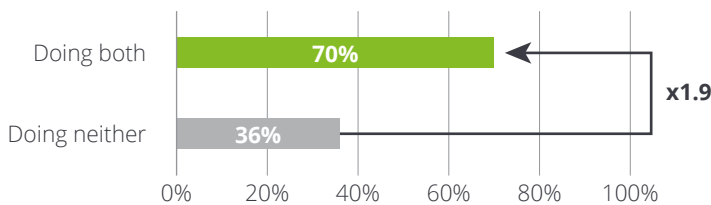
Empower decentral units to act independently AND build strong central TMO

“Our strategy evolves from bottom-up ideas that are discussed and prioritized by our top management team and board.”

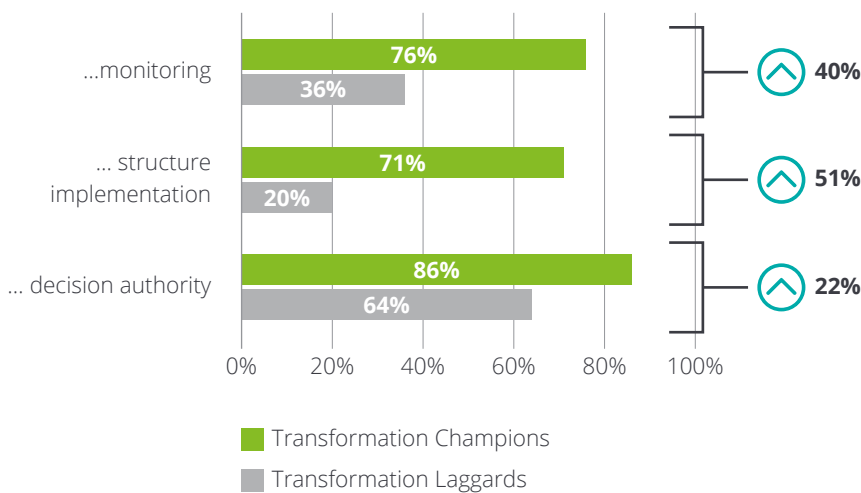
Chief Strategy Officer of a Global Manufacturing Company

Fig. 10 – Key insights on transformation steering

Success rate



Existence of strong TMO...



Key Insights

Companies can improve their transformation performance by empowering decentral units and building a central transformation management office (TMO).

Practical considerations for executives Empower decentral units.

A recurring topic in the executive interviews was the importance of enabling the entire organization to do its part towards transformation success. By breaking down strategic objectives and defining both joint initiatives and individual contributions for each department, it is possible to provide a sense of responsibility for everyone.

Build a strong central TMO.

While empowering decentral units is essential for transformation success, we found that involving middle managers too extensively can hinder performance. Middle management interest and motivation tend to decrease naturally along the transformation journey as excitement about the change is outweighed by tiredness due to an increased daily workload. Therefore, it is crucial to establish a central TMO that is mandated by the CEO to steer the transformation. The role of the TMO is threefold: Correctly implement strategic decisions, efficiently monitor progress, and engage and align with stakeholders. In addition, implementing systematic monitoring and giving TMOs strong decision authority indicates better performance.

Change – Own the Narrative

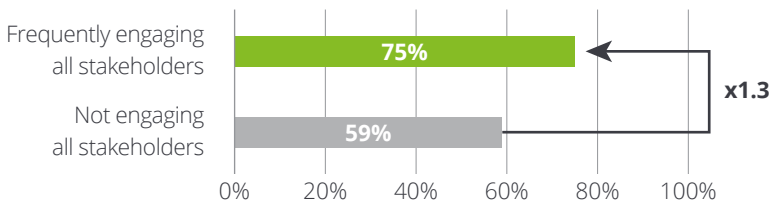
Engage all stakeholder groups throughout the transformation journey

“If you lose control of the narrative, you are lost. It is important to keep the narrative fresh.”

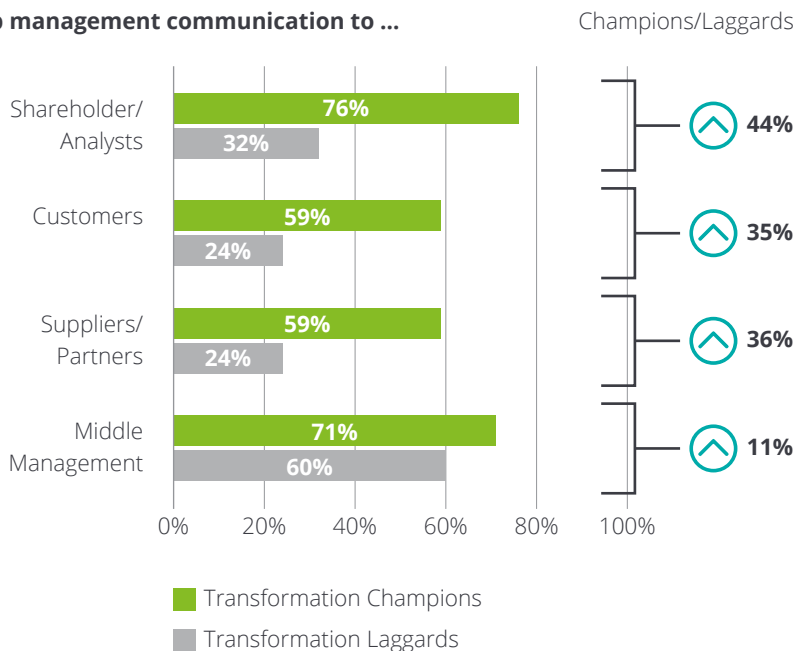
Former CEO of a DAX 30 Company

Fig. 11 – Key insights on transformation change

Success rate



Regular top management communication to ...



Key Insights

Companies can improve their transformation performance by communicating frequently with all stakeholders and sharing a compelling narrative.

Practical considerations for executives

Communicate regularly with shareholders, analysts, and customers.

Change management often focuses only on the organization and its employees, but transformation leaders must also consider the broader ecosystem. The difference between transformation champions and laggards in the frequency of communication with shareholders, analysts, partners, and customers is dramatic.

Create your narrative.

Proactively design a communication plan and determine your key messages to each of your stakeholders along every step of the transformation. A new strategic trend found in many corporations is the practice of labeling key strategic themes such as transformation programs. Labels clearly mark the priority and direction of the initiative and enhance stakeholders’ understanding and acceptance of your transformation activities.

Control your narrative.

Narrative is also a powerful tool for managing the so-called “valley of death”, the drain in commitment that is likely to set in 12-18 months into the transformation process. It can be overcome by aligning all stakeholders and rallying them behind a compelling narrative.

Capabilities – Stay on Your Toes

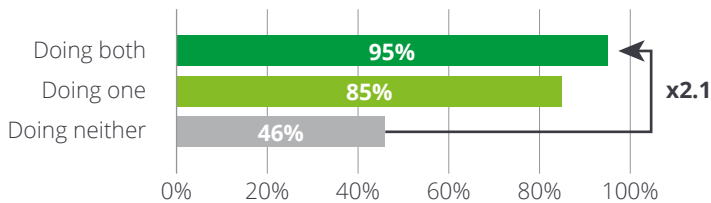
Stay flexible in your transformation strategy AND firm in your routines

“Adaptation in scope and speed was crucial for our transformation success.”

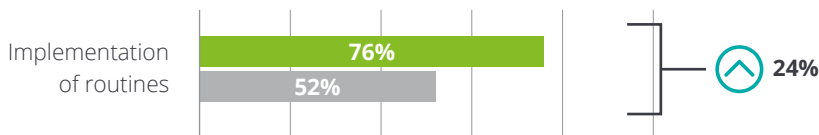
Chairman of the Supervisory Board of a Global Retail Group

Fig. 12 – Key insights on transformation capabilities

Success rate

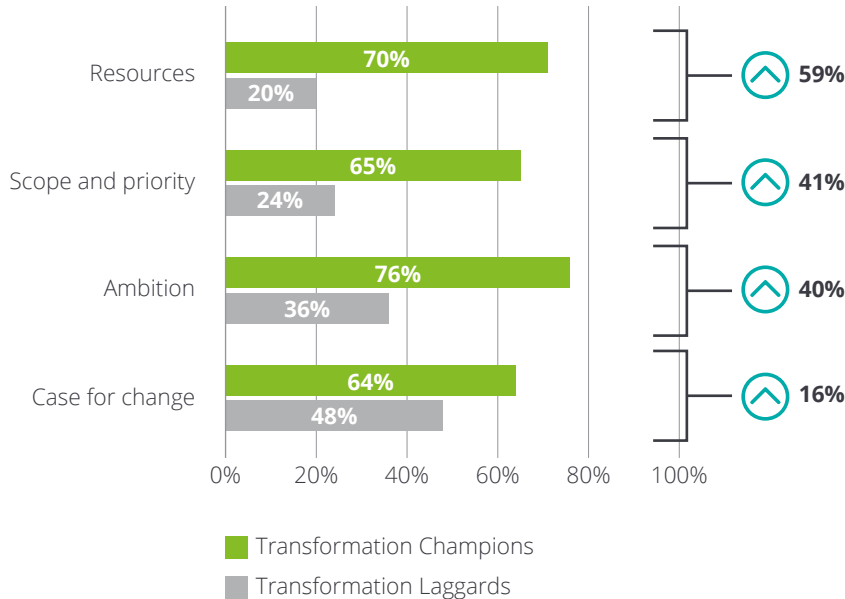


Transformation capabilities



Champions/Laggards

Adaptation* of ...



Key Insights

Having a solid framework of structures and routines for the transformation while regularly adapting the transformation strategy is a key to success. As our study results reveal, however, there is no significant correlation between the number of transformations experienced and performance. In fact, 31 out of 66 companies with substantial transformation experience still failed to create value through their transformation programs.

Practical considerations for executives

Stay flexible.

The ability to adapt is a key transformation capability. Make sure to regularly adapt the scope and priority of your strategic initiatives, as well as your objective and the case for change, to incorporate lessons learned and reflect any changes in external factors. Flexible allocation of financial and non-financial resources between initiatives helps create the highest impact in any given phase of your transformation journey.

Be stable in your structures and routines.

Define structures in such a way that they break down the strategic objectives for the organization and ensure clear understanding of the expected individual contributions. In addition, make sure that your routines are in line with the organization's heartbeat, taking into account major milestones such as reporting and Supervisory Board meetings.

Benefit from digital tools.

Particularly in times of upheaval, it is important to promote continuity and progress while also absorbing new ideas. Digital tools can help. Our data show that companies using digital tools tend to adapt more and show higher performance in their transformation.

* Participants that agreed to have adapted the listed elements in their transformation



Case Study #1 – Corporate transformation of a leading IT and digital service provider for banks

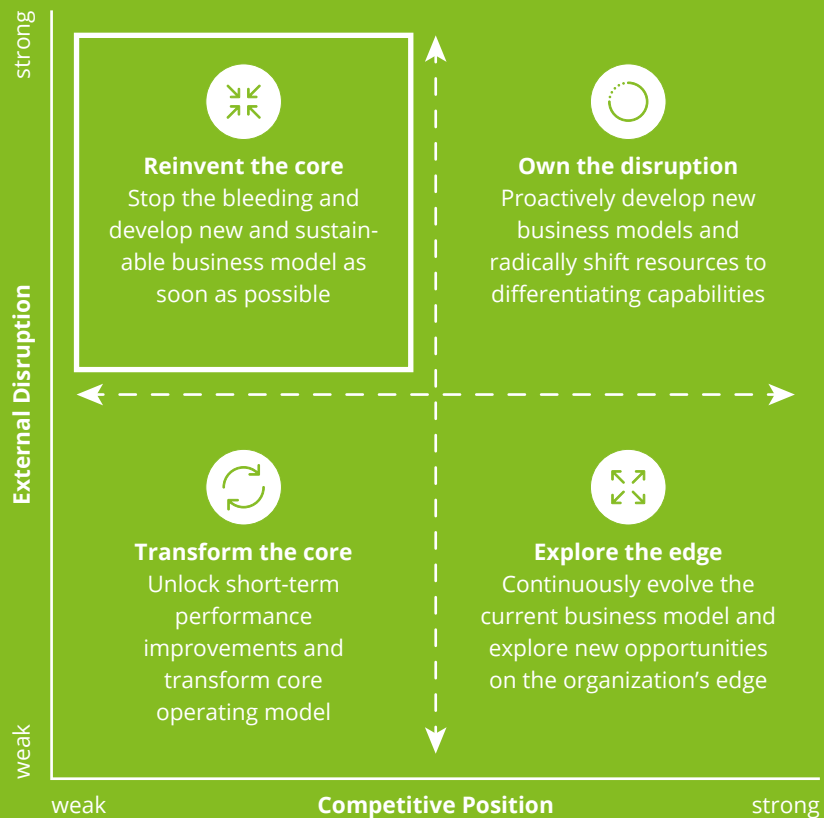
Facing increasing disruption, an IT and digital service provider for German banks performed a holistic corporate transformation to reinvent the core and build the foundation for a new sustainable business model.

Why – The case for change

Several years after a merger, the company experienced significant business and technology related challenges:

- Lack of service quality and client focus, leading to increasing complaints from clients
- Structural issues in processes, systems, and the organization
- Dissatisfaction among many employees and managers
- Migration to new banking software as a key challenge, along with ongoing integration procedures

Fig. 13 – Transformation Imperative



What – Strategic response

Led by the management board the company undertook a holistic firm-wide transformation, addressing all relevant challenges.

The team:

- set up a purpose-led transformation architecture with a new vision, strategic objectives and KPIs
- designed and implemented a new organizational model in alignment with the strategic objectives, removing functional silos that made hand-overs slow and resulted in inefficient interactions
- designed and established a new agile steering methodology and established a flat management culture as well as an agile working mode to increase delivery speed and customer satisfaction

How – Transformation journey

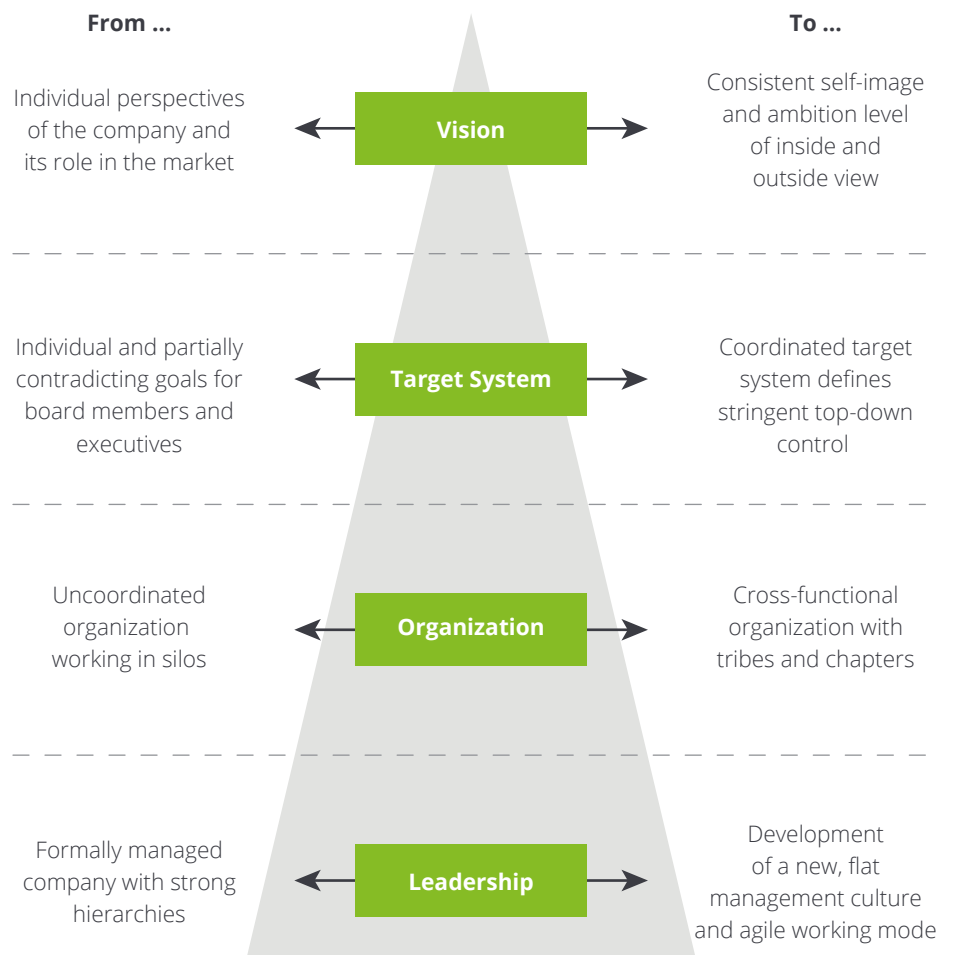
All measures along the strategic response defined for the IT provider were implemented through agile transformation initiatives and steered by a central transformation office that reported directly to the CEO.

The combination of strategy and execution with agile ways of working helped the company navigate their transformation journey and enact the key success factors outlined in this report:

- The revised vision, top strategic objectives, and key results were developed jointly with more than 200 managers and employees, increasing buy-in and serving as the transformation's north star throughout the transformation
- All transformative topics, including the new organization design and cultural change, were anchored in the target system and executed through strategic initiatives

- A strict balance between the long-term strategic view and short-term planning ensures that the transformation is agile and adaptive while not losing sight of the overall picture
- New cultural guidelines were established and formed the basis for all transformation activities, including organization design, process design, and the collaboration model

Fig. 14 – Transformation Strategy





Case Study #2 – Business transformation of a leading industrial technology conglomerate

Seeing digitalization of the industry creating new risks and opportunities, an industrial technology conglomerate transformed their cybersecurity function to better safeguard their business and drive external growth.

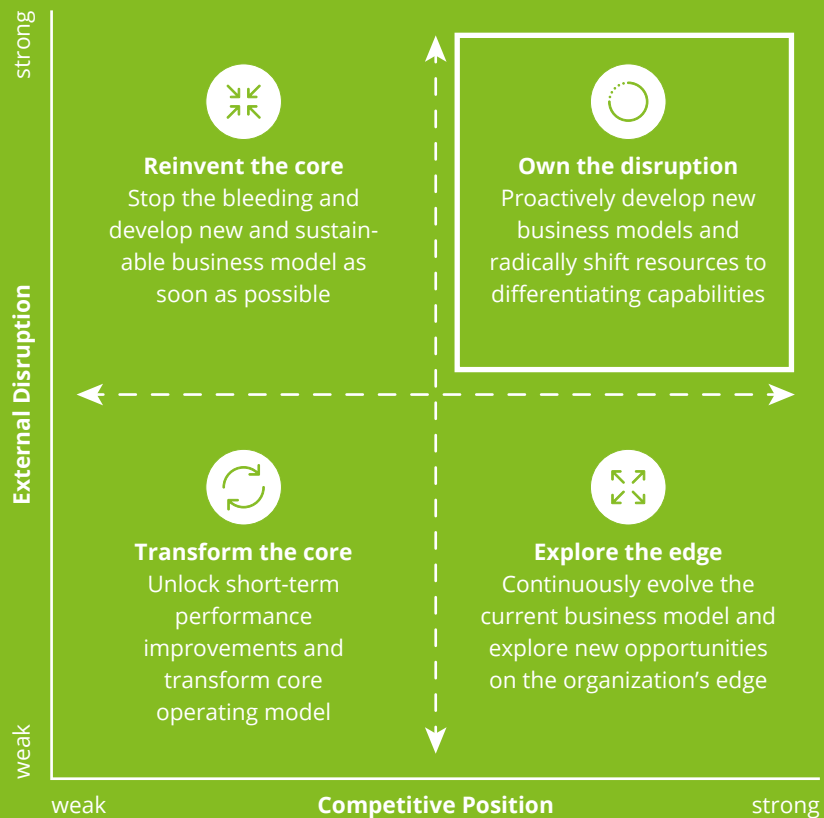
Why – The case for change

Starting from a position of strength, the technology group set out to own the disruption by putting digitalization of their business model and operating model at the top of their strategic agenda. Their main goals included:

- Expand their software and IoT business to drive future growth
- Growing digitalization of internal processes to drive efficiencies

In this context, developing leading cybersecurity capabilities was identified by the management board as a key strategic priority to safeguard a growing attack surface, differentiate existing lines of business and build a new business in itself.

Fig. 15 – Transformation Imperative



What – Strategic response

To deliver on their vision to become the industry-leader in cybersecurity services, the strategic response included the following elements:

- Transform a formally governance-driven organization into a customer-centric service organization
- Strengthen the corporate center while giving more autonomy to the decentral businesses in line with the overall strategy
- Identify and pilot first offerings to be scaled to the external market
- Embed a new mindset and culture

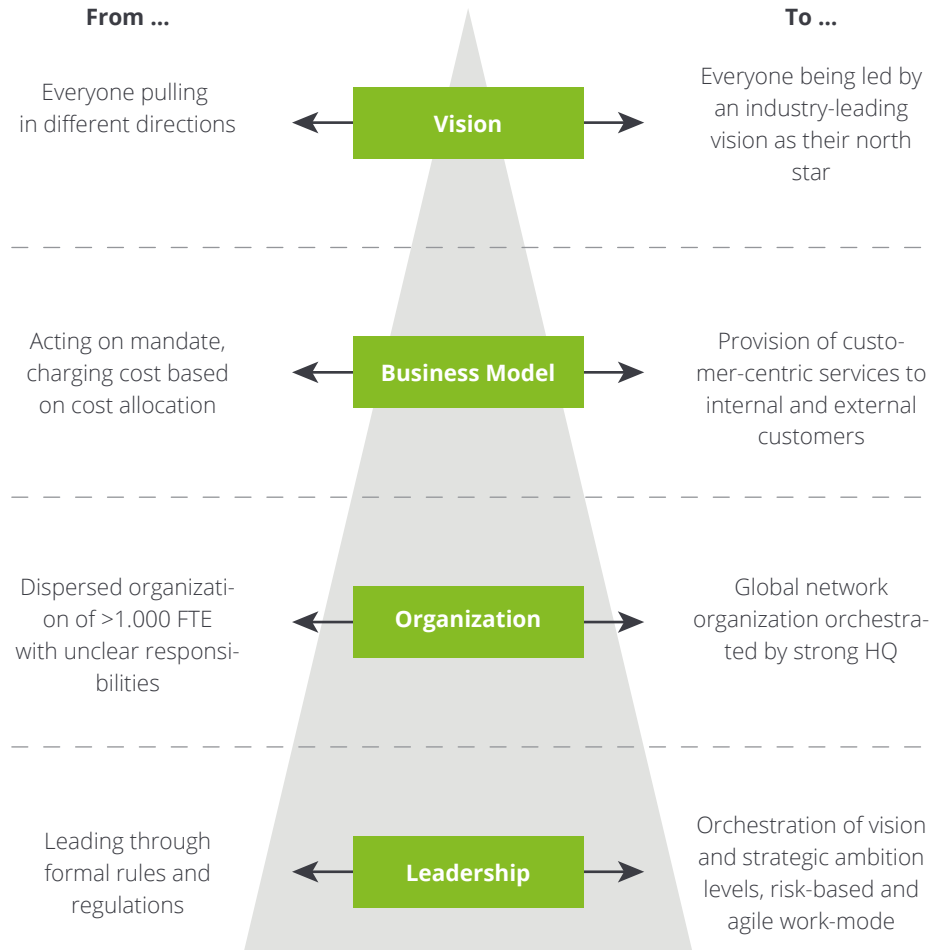
How – Transformation journey

At the beginning of the transformation journey, the transformation team developed a strong case for change and vision. By aligning stakeholders across business, IT and cybersecurity, forming a strong coalition to drive the change.

In a next step, the team defined and implemented a new organizational structure and facilitated the process to select a new leadership team to lead this organization. After transitioning to the new organization, the team helped to shape a more customer-centric service portfolio and optimize the service delivery model accordingly.

To ensure the sustainability of the transformation and enable ongoing improvement, the team established new and agile management routines and helped strengthen the departments.

Fig. 16 – Transformation Strategy





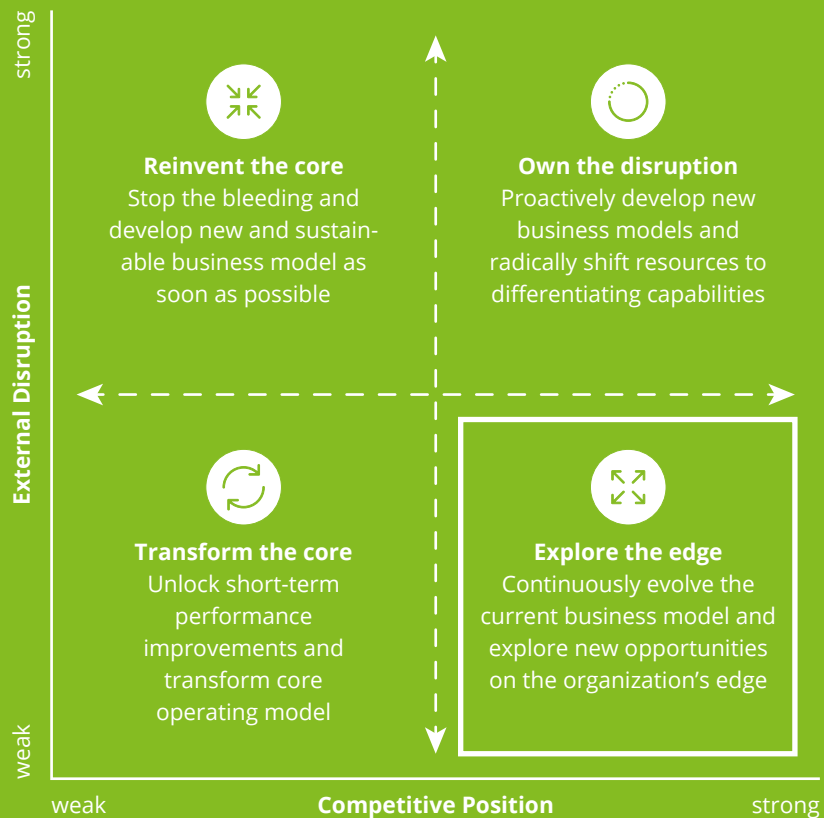
Case Study #3 – Corporate transformation of a leading sanitary products company

To stay ahead of competition in its market, the sanitary products company strengthened its core via an acquisition and seamless integration.

Why – The case for change

Observing industry consolidation and sectoral convergence, the company found a natural extension of its strategy while staying within its existing business model. Acting from a strong competitive position, the company needed to ensure the proper integration of its strategic acquisitions to come out on top of the industry consolidation.

Fig. 17 – Transformation Imperative



What – Strategic response

The company stayed true to its tradition of strategic focus, which evolves from bottom-up ideas that are discussed and prioritized by the top management team and board. With this approach the company:

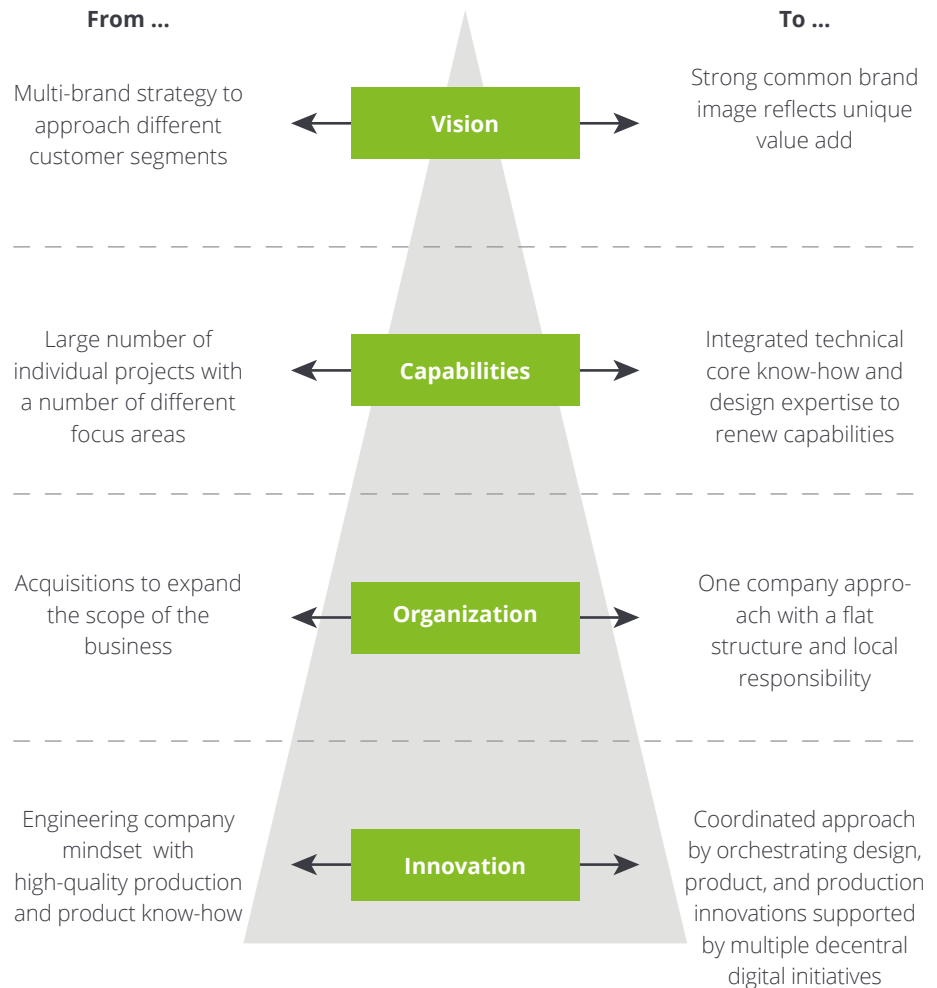
- Successfully developed a unified brand image that signals their capabilities by establishing a coordinated approach to innovation
- Ensured a flat company structure while integrating new acquisitions

How – Transformation journey

In its continuous transformation, the company decided to apply a selective focus in terms of its acquisition targets, focusing on its existing core market in Europe and on companies that brought additional technological and design know-how. To ensure their seamless integration, the company decided to adopt a flat organizational structure in which multiple aspects of their innovation process – design and technology – can be addressed at once.

- Despite gradual disruption in the core business, the company continuously monitored the environment and adapted transformation capabilities accordingly
- When orchestrating the transformation, deciding on the optimal speed was a critical consideration
- When addressing acquisition integration, paying attention to organizational culture, talent acquisition and retention as well as employee branding was key
- As the company is renowned for its high quality products and strong traditions, it was worthwhile to patiently and gradually strengthen their competitive advantage

Fig. 18 – Transformation Strategy



Methodology of the Study

To ensure accurate and relevant observations, a mixed-method investigation was used, encompassing 70 academic publications, 83 high-quality responses and 9 interviews with C-level executives.



Desktop research

We reviewed over 70 academic publications to create the survey and interview framework. In addition, quantitative data analyses of over 10 industries were conducted to contextualize and triangulate the survey and interview findings. Data was sourced from the Thomson Reuters Eikon, Bloomberg and Compustat platforms.



Quantitative data from our tailor-made survey

The survey targeted leaders of the largest private and publicly-listed companies in the DACH region involved in major transformations over the last decade. From November 2019 to January 2020, the survey was sent to 3000 executives. From the 212 survey responses collected, the highest quality responses were considered in the analysis, resulting in a sample size of 83. Four criteria were set to define the quality of the responses: respondent's level of involvement in the transformation, completion time of the report, accuracy of the company name and overall logical reliability of the response.



Expert interviews

From December 2019 to March 2020, a series of structured interviews were conducted with board members, CEOs, CSOs, CFOs and other C-suite executives from leading companies in the DACH region. The interview covered 7 industries. The interviews brought valuable insights on transformation and provided additional support to the survey results. We continued gathering information about transformation until no additional interview could dispute existing findings or provide novel constructs and the point of theoretical saturation was reached.^{10, 11}

Notes

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