The pandemic has forced companies to transform how they operate and connect with customers. It has also changed how business transformations are conducted—and how they succeed. More than ever, it’s all about people and technology.
Introduction

In the past two years, business leaders have been forced to adapt to unrelenting challenges. The pandemic shutdown created an unprecedented economic threat. Then the changes and challenges kept on coming. Today, corporate boards and C-suite teams are still trying to adapt to the impact of the pandemic—from snarled supply chains and labor shortages to remote work and new forms of collaboration, to new shopping habits and other changes in consumer behavior. COVID-19 has also revealed how unequipped many organizations are to confront such challenges. We have seen how slow and inflexible organizations can be—and why business transformation remains an urgent need.

In 2020, we published a comprehensive study on what made transformations succeed. Our research showed that companies that use an array of specific, targeted actions can dramatically increase their chances of success with business transformation. In this paper, we set out to understand how businesses can succeed with transformations today—what has changed and what remains the same. To learn how business leaders are thinking about the long-term health of their companies and how they are adopting new business models to drive growth and profitability, we surveyed more than 250 senior leaders across corporate functions and industries in companies that recently completed or are undergoing transformations.

Our research shows that corporate leaders are bracing for more change and recognize that business transformation can help them adapt quickly and make the most of the situation. We also find that the pandemic is changing how transformations proceed and succeed. Among the most important changes is an emphasis on the people issues that can make or break a transformation.

Three key findings emerged:

**Key finding #1**

**Pandemic-related change is not over.** The vast majority of the 250 transformation leaders we surveyed believe the ongoing effects of the pandemic will continue to bring changes that will shape decisions for years to come.

**Key finding #2**

**The emphasis has shifted to people and technology.** Most of the companies that succeeded with their transformations focused less on addressing business issues, such as responding to competitors’ moves, and invested more in their people and technology.

**Key finding #3**

**Transformation winners took three critical steps.** In this research, we found that 90 percent of companies that had successful transformations did three things: 1) built a culture that embraces new ways of thinking 2) used a mix of financial and non-financial incentives to spur change, and 3) carefully managed the pace of the transformation to maintain momentum while avoiding burnout.

We define organizational transformation as significant change that impacts many or all functions of the business and typically requires at least a year to complete. A transformation is intended to boost revenue growth and improve cost structure significantly—and goes beyond routine “continuous improvement” activities.

*See, Transforming transformation: Keys to major, sustainable change, KPMG US, 2020*
Pandemic-related change is not over

More change is on the way: nearly 80 percent of executives surveyed expected COVID-19 to continue to influence transformations and how they conduct business, as shown in Exhibit 1. Most leaders across industries worldwide now recognize the importance of flexibility and the ability to reinvent themselves and their organizations.

Even though companies have been working hard to keep up with new market demand as the pandemic approaches the two-year mark, most leaders believe their companies will need to stay agile to survive and thrive in a post-pandemic world.

Exhibit 1: Business leaders expect the pandemic to continue to drive change

Expectations about the impact of COVID-19

- More change is likely to come from COVID-19 (80%)
- There will be no additional change from COVID-19 (20%)
- We will revert to pre-COVID-19 normals (0%)

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Executives told us that change would continue for several reasons, such as the need to support a larger remote workforce and address new employee needs amid the “Great Resignation.” They also expect further digitization and investments in technology to improve internal processes and meet new customer needs—building smooth omnichannel experiences, for example.

What this means is that the transformation itself is likely to evolve as it proceeds. Before the pandemic, transformations succeeded by sticking to the original plan. Today, we believe business leaders need to be much more flexible about the transformation operating model, have regular access to detailed data and indicators to build regular progress reviews into program governance, and set expectations that there will be modifications. Nearly every transformation program will need to transform in flight.

Exhibit 2: Active transformation governance helps companies shift gears at the right moments
Sample governance approach

Therefore, forums to debate and agree on the difficult tradeoffs required to adjust the roadmap are more critical than ever. We recommend “active transformation governance” (Exhibit 2) to help keep efforts on track. Being active means more than just marking milestones and reporting on progress. A transformation management office (TMO) should constantly track inputs from the marketplace, adjust timelines, and carefully manage resources and investments throughout the transformation.

Success requires constantly tracking inputs from the marketplace, adjusting timelines, and carefully managing resources and investments throughout the transformation.

Exhibit 2: Active transformation governance helps companies shift gears at the right moments
Sample governance approach

Activity tracking is table stakes: The TMO tracks the status of initiatives and the overall program

Active transformation governance includes:

- Adjusting the program, such as pulling forward initiatives that can be accelerated to increase the speed of delivery
- Augmenting plans for teams that are not meeting their targets or don’t have enough resources
- Accelerating execution with extra resources, incremental investment or further analytical support
- Stopping initiatives that are not able to provide sufficient ROI

Before COVID-19, most transformation planning was built on assessments of business issues and needs; people and technology were seen as mere enablers of change. For many companies, that has changed: they know that they transform only if their people transform. About half of the companies we surveyed said people were the primary aim of their transformations (Exhibit 3).

Most senior leaders now understand that what determines a successful organizational transformation is whether or not people succeed. A transformation today must protect and improve working conditions, offer more flexible work environments, and enable better ways of working that don’t simply force people to accomplish more with less. It should also protect employees’ mental health. We see this shift as a strong positive since many traditional transformation programs have put the experiences of their employees last.

Accelerated digitization since the onset of the pandemic has revealed the inadequacy of technology infrastructure at many companies. These organizations have struggled to provide remote data access, real-time business intelligence, and communication tools to help employees work and collaborate from home. The pandemic has also shown the pitfalls of digital transformation, including chasing “shiny objects” and making big investments in technologies that do not yield the expected returns.

Our research confirms that transformation success depends a great deal on how well companies choose and deploy technology. In our survey, Companies that succeeded with their transformations were about three times more likely to have adopted new technology. Technology investments are not only critical for transforming business models and streamlining internal processes, but also for managing the transformation itself. Successful transformations have dedicated systems to gather data, check progress against goals, and measure value capture.

Companies that succeeded with their transformations were about three times more likely to have adopted new technology.

More than half of the companies we surveyed adopted data collection, analytics and storage technology, financial tracking and reporting systems, and/or automation as part of their transformations (Exhibit 4).
Exhibit 4: Technology increasingly underpins organizational transformation
Technologies implemented most often during transformations during the pandemic

Most companies that did not bring in new technology during transformation cited its high cost or complexity; others pointed to barriers such as resistance from senior leaders or the IT team (Exhibit 5).

Exhibit 5: Not every company adopts new technology during a transformation
Rationales for not adopting new technology during a transformation

Our view is that nearly every successful transformation now requires a hard look at digital capabilities—taking a much more bottom-up approach than was common before COVID-19. We still believe top-down strategies can help senior leaders align on objectives and priorities, but we also find that systems are designed better and used correctly when the needs of employees are considered, too. A “connected enterprise” designs every business process, function, and relationship to meet customer expectations, create business value, and drive sustainable growth in a digital world.
Three specific actions improve the chances of success

In our research and our work with clients across industries, we have found that multiple factors contribute to the success of a transformation. But three stand out because they are powerful and often overlooked:

1. **Fostering a culture of trust that embraces continuous change**

2. **Adjusting financial and non-financial incentives to spur change in the organization**

3. **Managing the pace of change through the TMO to maintain momentum without burning people out**

Companies that pursued all three of these actions succeeded more than 90 percent of the time with transformations compared to a little over 35 percent for those companies that did none. As with any large program, many factors ultimately determine success, but our view is that pursuing these three actions improves the odds significantly.
Fostering a culture of trust that embraces continuous change

A culture of trust, innovation and experimentation is critical to successful transformations. According to our findings, companies that succeeded with transformations were three times more likely to have fostered a culture that embraces change. Embracing change means creating an environment where people feel free to question how things are done, true innovation is encouraged—and failure is regarded as a valuable learning experience. Trust in leadership is also necessary and allows innovation to flourish and people to embrace ongoing change. Trust is critical in driving growth in the post-pandemic world.

This disconnect reduces the trust that is essential to risk-taking and makes employees—especially middle managers—resistant to change and wary of sharing new ideas or calling attention to things that are not working. Survey respondents cited a range of barriers, including resistance from middle management, challenges adopting new ways of working, and a fear of repercussions for calling out the need for change (Exhibit 6).

Most of the respondents who succeeded in shifting their cultures sought feedback from their employees in open forums. These meetings helped establish the trust critical for growth. Leaders also modeled the behaviors expected of employees—praising collaboration and experimentation, and encouraging people to take risks by celebrating both wins and failures. About 40 percent of respondents brought in external change-management experts and/or established change-management offices.

We are finding that bottom-up "zero basing"—a challenging but powerful approach—can help companies make the mindset shifts required for true transformation. Instead of asking finance teams to scrutinize every expenditure to build a bottom-up budget, business leaders rethink budgets from the bottom up based on their deep understanding of the trade-offs between costs, risk and value of the services and products they provide.

More companies now see zero-based budgeting as a critical tool for prioritizing investments and making other strategic decisions.

Exhibit 6: Transformations require a host of cultural challenges

Barriers to embracing new ways of working cited by survey respondents

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle management resisted change</td>
<td>60%</td>
</tr>
<tr>
<td>Difficulty with adapting to the new ways of working</td>
<td>50%</td>
</tr>
<tr>
<td>Lack of training on the new ways of working</td>
<td>40%</td>
</tr>
<tr>
<td>Fear of repercussions for calling out a need for change</td>
<td>35%</td>
</tr>
<tr>
<td>Senior leaders resisted change</td>
<td>25%</td>
</tr>
<tr>
<td>We did not consider how to adopt new ways of working</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

Many leaders claim to want “out-of-the-box thinking” but we find that many do not reward or celebrate it.
Putting the right incentives in place to change behaviors and ways of working

In our client work and research, we have found that companies that reached their transformation goals were 2.5 times more likely to have taken a deliberate approach to developing new incentive plans for those involved in the transformation. Incentives are particularly important because they reinforce new ways of thinking and accelerate the program—and because many transformational activities add to employees’ day-to-day work, which can create resistance to change (see “How a new incentive plan made a transformation more successful”).

How a new incentive plan made a transformation more successful

A leading U.S. healthcare provider was preparing for an IPO, and its valuation was based in part on its transformation plan. In an IPO readiness review, the deal team refined multiple areas of the transformation plan including compensation and benefits, which had been focused on short-term goals.

The company redesigned its new incentive structure to engage employees in the pursuit of growth to support long-term enterprise value and a higher valuation—goals that would be met by a successful transformation. The new incentive compensation design became a focal point of the HR communication strategy during the IPO process and increased employee engagement. The IPO succeeded and 90 days afterwards, the stock price was about 60 percent above the initial price—and employees across the organization remained aligned around new growth objectives.

Often, companies that include a new incentive structure in the transformation plan rely primarily on short-term financial rewards such as larger annual bonuses (Exhibit 7). Longer-term incentives such as stock options are not used as widely even though they can be more clearly linked with the long-term nature of transformational change and success.

In today’s environment, the most important incentives may be nonfinancial. As the so-called Great Resignation shows, mid-career employees are looking for more than money. Many want recognition, new chances for advancement, and more flexible work environments. About 50 percent of the leaders we surveyed found that nonfinancial incentives, such as flexible work options, professional development opportunities, and company-wide recognition, helped keep employees engaged and motivated during COVID-19. Designing these programs requires care and insights, but they can be cost-effective ways to encourage change and keep a transformation on track.

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Exhibit 7: Non-financial incentives are increasingly important

Incentives used most often in transformations

- Short term financial incentives were used (e.g., increases to annual bonus)
- Long term financial incentives were used (e.g., stock options)
- Non-financial recognition programs were set up (e.g., public praise)
- Potential for early promotions for key players in the transformation
- Increased flexibility (e.g., remote work, flexible hours)
- Establishing roles/title (e.g., Chief Transformation Officer)
- Other

Managing the pace of improvement

Our research shows that companies that reached their transformation goals were twice as likely to have actively managed the pace of their transformations to accelerate sustainable improvements. Those that moved too slowly suffered “transformation fatigue” and made it more difficult for employees to change their ways of working. On the other extreme, companies that moved too fast put intense stress on some teams and failed to sustain the changes they sought. Companies that did not manage the pace of transformation well placed the blame on competing priorities, failure to align the organization on the plan or timeline, and not assigning roles and responsibilities to the right people.

Exhibit 8: How companies managed the pace of successful transformations

1. Defined and communicated clear transformation milestones
2. Provided regular feedback on progress against milestones and other expectations
3. Established relevant and well-defined KPIs
4. Set up a program management office for the transformation
5. Communicated often on transformation progress
6. Regularly sought input from employees on the transformation

Change management is essential for successful transformation. Introducing change takes finesse and sensitivity, and making the changes stick in every department and function takes time, patience, and a clear plan. We recommend a portfolio approach to managing the changes required in a transformation. And, as we have learned during the pandemic, it also takes empathetic and engaged leadership (see “Leading the change”).

The complexity of transformations has grown and it is common to have multiple large-scale, enterprise-wide initiatives unfolding at the same time. This can cause confusion, burnout, and anxiety for employees, who may already be nervous about navigating new ways of working. In our experience, successful transformations use a portfolio view of the changes occurring and purposefully create the journeys their employees will take (Exhibit 9). The employee view is critical in deciding which priorities to center on and how to sequence initiatives in ways that do not overburden employees and to provide a clear vision of where to focus.

Focusing on the leadership experience is equally critical. Navigating transformations while managing the business and evolving customer/consumer expectations can be overwhelming. Today, empathy, curiosity, and resilience are key factors in creating strong change leaders who can guide their organizations through transformation. Creating a safe space for them to enhance these capabilities and coach them through transformational change will create the right environment for success.

Exhibit 9: A portfolio view of change
How KPMG can help

The KPMG Elevate platform builds on our sector and functional expertise to provide clients with a broad and more customized array of services and insights during transformations. While each Elevate engagement is unique, they all unfold in two phases: rapid quantification of opportunity with a seamless transition to capturing value (Exhibit 10).

Exhibit 10: Elevate uses a two-phase approach to value creation
We move from quantifying opportunity to capturing value

We help clients quantify the value of opportunities across a series of levers to transform performance using transaction-level data. We then help clients track the value identified, manage program costs, and make all transformation efforts transparent to stakeholders, including leadership.

After exploring performance in every corner of the organization, an Elevate team customizes the levers they will use to help meet the client’s aspirations, ensuring that every opportunity ties into corporate and portfolio strategy, systems and tools, and governance structure.

A typical Elevate engagement begins with a six-to-eight week sprint to uncover value, followed by planning and waves of implementation over three to four months.

Quick wins starting in the second month generate excitement about change—and cash to help fund subsequent efforts. We also set up a transformation office and begin tracking value and managing leakage in the second month, and usually start planning and launching priority initiatives within about three months.

In every case, our goal in Elevate is to help clients define and achieve bold aspirations for performance transformation.

Disruption will continue in the post-pandemic marketplace, making transformation essential for driving profitable growth across industries. The winners in the years ahead will have a deep understanding of the steps required in the journey and what makes transformations successful.
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