

EMC PERSPECTIVE



## Reader ROI

- Repeated reinvention (transforming by realigning people, processes, technologies, and resources) has become a requisite competency for many competitive businesses.
- As with any core business activity, for maximum impact, transformation must be measured, managed, and improved.
- Effective metrics must, in turn, be aligned with the four interlinked causal elements of the transformation program:
  - Transformation strategy and plan... which enable...
  - Successful plan execution... which delivers...
  - Targeted business changes... which yield...
  - Realized business benefits.
- A well-targeted measurement program will provide early warning of problems and help manage transformational risk.
- It will also provide on-going learning and insights to improve competency going forward.

# The Metrics of Business Transformation

The fact that a company enjoys a position of dominance today is, of course, no assurance that it will continue to enjoy that position in the future. Unexpected sources of competition—spurred by factors that include new technologies, diminished global barriers, and creative business models—can materialize with little warning. Few enterprises, however well-honed and successful, are able to ignore the threat of today’s aggressive business environment.

Indeed, the imperative to respond and reinvent is so pervasive that many leading managers operate in a context of on-going business change. They accept as a given the need to continuously transform and realign people, processes, technologies, and resources into responsive new configurations. And, recognizing that there is no business “end state” in sight, they are prepared to do this over and over again.

As the complex activity of transformation becomes increasingly central to successful business operations, it is important that it be measured, managed, and improved like any other sustained and mission-critical business function.

But what does this mean? How do we measure a complex activity like transformation? How do we manage risk and assure that business goals are delivered as expected, on time, every time?

## Delivering the bottom line

Consider the following comment from a Pfizer annual report:

“We launched a company-wide productivity initiative, called Adapting to Scale (AtS), which involves a comprehensive review of our processes, organizations, systems and decision-making. We achieved annual cost savings under the AtS productivity initiative of approximately \$800 million in 2005 and expect this program to yield annual cost savings of about \$4 billion by 2008.”

Clearly an important measure of the performance of Pfizer’s AtS transformation initiative, which will be watched by managers and investors alike, is its success in delivering forecasted benefits.

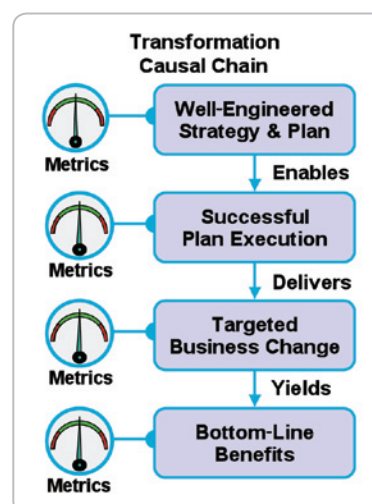
Comparing realized benefits to expected benefits is good business practice for any initiative, not to mention one as complex as business transformation. However, as the only metric, it is insufficient.

## Unwinding the causal chain

In our work, we have learned that business transformation is, in fact, a sequential chain of four interlinked measurement domains.

- Transformation strategy and plan... which enable...
- Successful plan execution... which delivers...
- Targeted business changes... which yield...
- Realized business benefits.

To transform, a business must develop and successfully execute a well-engineered plan based on a sound strategy. But these alone are not sufficient. The plan must cause desired business and operational changes to come about, and those changes must yield business benefits (such as cost savings). All are areas that demand measurement and fact-based management.



## Engineering the transformation strategy and plan

The transformation activity must have an underlying strategy and plan as its foundation. These are of great importance because they establish the operational methodology for achieving expected benefits. The plan, like any plan, will include activities, milestones, resources, budgets, and schedules.

Because a timely and well-engineered plan is more likely to deliver benefits than one that is late or poorly constructed, it is important to measure:

- **Timeliness.** A delayed plan may be worse than no plan at all. Was the plan developed in the expected timeframe?
- **Completeness.** Does the plan include activities that address all expected sources of benefit? Was anything left out?
- **Quality.** Will the plan work? Although quality may be difficult to measure, committing to a poorly planned transformation could entail more risk to the business than doing nothing at all. One way to assess the plan is to enlist the judgments of internal and external experts and auditors.

However, even though it is necessary, the timely development of a quality plan is not sufficient in itself to guarantee that bottom-line benefits will be delivered.

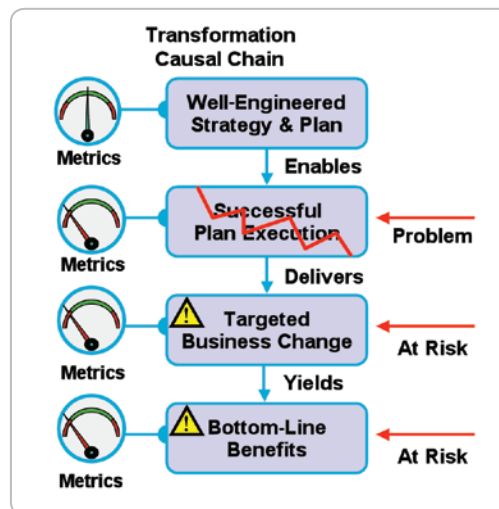
## Executing the transformation plan

Any plan will be only as effective as the quality of its execution.

To monitor execution, we should be prepared to capture classic project performance metrics, such as:

- Schedule compliance (on time according to the plan)
- Budget and resource adherence (on budget)
- Scope discipline (scope consistent with stakeholder expectations)
- Quality

Some would argue that measuring the plan, its execution, and the eventual realization of business benefits is sufficient. But is it?



## Measuring plan-driven change

In the causal chain, situated squarely between the plan and the eventual business benefits, are the transformational changes that the plan is expected to effect.

It is only during the plan's execution that it is possible to assess its performance. To do so, we must measure the changes it delivers, keeping in mind that an effective plan delivers only the changes it was designed to bring about.

We must be prepared to measure plan-driven business changes which may be organizational or operational in nature. For example:

- Reduced handoffs
- Accelerated decision making
- Improved transactional throughput
- Reduced cycle time
- Streamlined cost structure
- Better-aligned skills
- Lowered IT application maintenance effort
- Faster product development

Note the difference between these changes and the business benefits (such as increased revenues) that they are intended to deliver.

Realized change is a critical area of measurement because it provides an objective measure of the quality of the strategy and plan. The failure of a well-executed plan to deliver expected change indicates that something is amiss with one or both. This disconnect undermines the likelihood that business benefits will be delivered as expected.

Looked at another way, it is preferable to detect a problem with the strategy or plan early in the transformation process, when there may still be opportunities for remedial intervention, than to be unaware and at risk.

## Realizing benefits

As the Pfizer example illustrates, the purpose of business transformation programs is to drive business benefits. Bottom-line benefits typically are easy to measure because they are stated in terms of existing financial or operational measures.

If, despite the changes brought about by the plan, business benefits are unrealized, the model by which business change translates into business benefits must be flawed. For example:

“A 20 percent reduction in product development cycle time by was expected to increase revenues by 10 percent. However, despite reduced cycle times, revenues remained flat.”

Well-chosen metrics can help us understand such issues so that corrective actions can be taken and future transformation activities made more effective.

## Bottom line

In today's change-burdened world, transformation is a competency that companies require to thrive. It is also an activity that is complicated. However, the causal chains that link strategies, plans, and execution to actual change and business benefits are complex. A failure at any point in the chain places the benefits of the program in jeopardy.

Measuring at the correct points in the chain allows problems to be diagnosed early, while remedial actions are still possible. This improves the performance of the current program and increases the likelihood that future programs will be successful.



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