



LEADING TRANSFORMATION

CASE STUDY

Seek perspective

All of the boards Raj is on seek external input.

They invite two or three of their largest shareholders to speak to the board where they ask them,

1. How do you compare us with our peers?
2. How do you compare our management team to others?
3. How do you compare our portfolio with others?
4. Where is the market going?

They also invite their key customers, mixing those that have a more traditional approach and history with others that are disrupting their markets.

TEAM EXERCISE

To get a broader perspective, complement the insight provided by consultants by inviting a wide variety of people to speak to your leadership teams.

These may include:

- Former or current ambassadors
- Prominent authors
- Senior researchers
- Founders of disruptive startups

After a long period of relative global stability and economic success, the last few years have been tumultuous and exhausting. The world has moved from a predictable and steady environment to an unpredictable and volatile, one and the trend is likely to last.

Leaders and their companies must transform to remain relevant to the space around them. They will need to plan for an uncertain future while preserving strong revenues and high motivation among teams.

01 Sense the external environment

During a stable environment, leaders can rest on an inside-out approach where they identify what made the company successful and continue to improve the same. But during high volatility, they should be obsessed with looking at what is happening outside of the organization.

Bring in the views of your different types of customers. Keep your finger on the pulse of changes by having thought leaders speak to your board and executive team. Move to weekly forecasts of critical indicators to stay alert and maintain discipline in the outward-in approach.

02 Create options but be decisive

Based on the broad perspective, develop multiple strategy propositions. To have an open conversation with the board, you need at least two options that illustrate different approaches and goals.

Then be decisive. Volatility requires focus. You cannot be aware of your environment or communicate effectively when you are spread thin. Given the current climate, expect large divestitures and portfolio revisions over the next few years.

CASE STUDY

Leverage compensation

At Rohm and Haas, Raj Gupta used the following compensation techniques to incentivize top leaders to all pull in the same direction:

1. 75% of compensation was tied to company performance with only a small variable component
2. New skills from the outside were given an upfront equity reward that complemented the basic compensation system and matured over time.

Pick the right leaders for the current context. You do not need to change out the workforce, but you must ensure that the personality and capabilities of their leadership are suited to the challenges your organization will face. Do not be afraid to change key leaders.

“With the speed of change and all the uncertainty that is ahead of us, organizations need to think about focusing their portfolio, as opposed to diversifying.”

- Raj Gupta

03 Get your stakeholders on your side

Ensure alignment with key stakeholders to assure success and maintain support. Transformation is a long process throughout which success will ebb and flow. Therefore, you need strong relationships whose support will not be skittish at the first sign of things not going to plan.

“None of this is a straight line, short journey. It takes a minimum of five years to really go through a transformation.”

- Raj Gupta

Communicate constantly. When results do not meet expectations, do not pretend everything is fine. Be forthright about progress and transparent about errors. Long-term support relies on trust. Honesty is invaluable.

CASE STUDY

Adapt to context

Delphi went into bankruptcy in 2004 and only emerged in 2009. During that time, the CEO did 3 things to pull the company back:

- Moved production out of the US to more affordable markets
- Continued investment in technology
- Simplified the portfolio

In 2014, despite its success, the incoming CEO realized that its reliance on traditional vehicles would not be sustainable, so it pivoted towards electric and autonomous vehicles. To do so, they changed the board and acquired new technology companies.

Delphi went public in 2011 at \$22 per share, hit a high of \$185 per share in mid-2021, and is currently trading at \$110 per share (under its new name, Aptiv).

Understand how the different demographics among your stakeholders receive and interpret information. Then, use the available communication channels accordingly.

“Part of it is just admitting that you're not on the right path and are moving on instead of blaming others or blaming the environment.”

- Raj Gupta

04 Prepare for risk

By definition, a transformation will increase risk. Understand your risk so that you can mitigate it and pivot when needed.

Incentivize cohesion

Transforming to new business lines creates a risk for your core business. Design an incentive system that reflects that everyone is part of the same company and does not reward people in the new business more than in the others. Use career advancement as an incentive to get people to buy into the company's new direction.

Identify top talent in your core business and promote them to the new business. Make people feel part of the future. Let them choose whether they want to be part of the journey. Explain that it is not an either/or.

Do not neglect long-term investment

Transformation will also require you to risk short-term results in favor of long-term success. To ensure that you can remain operational while funding the transition to the future, be ultra-aware of your cash to avoid a crisis. Yet do not back away from investments in long-term R&D or crucial infrastructure, especially in your information systems.

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