



Australian Transformation and
Turnaround Association

INSIGHTS INTO HOW TO KEEP UP WITH TODAY'S CHANGING WORLD



WELCOME

The pace and poignancy of change has escalated in recent years. Few industries have faced the pace of innovation, change and disruption that they are experiencing now.

At the forefront of every chief executive's mind today is the question "How do I keep up with today's changes and rise in competition created by disruption?"

Consider, if Amazon - which is soon to hit Australian shores in a bigger way - can sell cars/real estate/financial products/groceries and more online how might it disrupt your organisation?

Chief executives, boards and senior management need to know the answer and have prepared a strategic response, a vision and an achievable action plan. This is easier said than done. In our experience many leaders have an idea of where their organisation should be heading, most don't know how exactly to get there and what action to take.

To assist senior leads to better understand and plot a course ahead the Australian Transformation and Turnaround Association (AusTTA) undertook research to explain where Australian business sits on the transformation pathway and to provide some insights as to how to translate that knowledge into actions for success.

The research was conducted through a survey of over 900 business, transformation and change leaders who cover industries from banking and finance, manufacturing, technology, consulting, government, academia and health.

Our research identified several notable trends:

- Many leaders/managers are unaware of the need to, or are resisting, change
 - Management resisting, or even worse, ignoring change is considered the greatest challenge organisations face over the next 18 months (42% of respondents).
 - This was closely followed by poor leadership (29%).
 - Identifying and developing leaders who can drive and implement change is a major requirement for Australia's future economic success.
- New technology requires new business models
 - The leadership challenge was followed by how to assess and respond to the impact of new technology (36%) increasing competition.
 - Over a third of organisations (35%) do not have anyone dedicated to assessing and managing change.
 - 43% do not have a change strategy or transformation business model.
- The business environment is changing as consumers are increasingly empowered
 - New technology is giving consumers more choice – and thus empowerment.
 - Employees are also becoming more resistant, less adaptable and demotivated by change (33%).

WELCOME

Running an organisation today is more challenging than ever before. Several of Australia's largest enterprises are ineffectively responding to the current landscape and are losing market share to innovators and digital disruptors. Those disruptors now include some of the largest organisations in the world – Alibaba, Amazon, AirBNB, Facebook, Google and Uber – all also now household names.

AusTTA was formed to help organisations, boards and executives overcome these challenges in order to maximise their ability to recognise, take affirmative action and emotionally cope with innovation, disruption, change and transformation.

Our point of differentiation is that we bring together a range of expertise, experience, tools and techniques to respond, to actively plan, take action and consider innovation alternatives in order to help leaders of change obtain tangible results. We are practical, pragmatic, compassionate and empowering.

We hope you find this report useful. If you would like any further information, or help transforming, please contact us. We are here to support leaders of change.

Adam Salzer OAM

Chairman and co-founder

Guy McKanna

Co-founder, board member and lead researcher

EXECUTIVE OVERVIEW



Leaders who resist change are on notice

While there is a lot of talk about innovation, digital disruption and change, there is little practical understanding of how to recognise what they are, identifying how they matter and appropriately plan to address these challenges. Our research identified a large number of leaders (42%) are at a loss as to how they should look for and competitively face today's challenges.

Too few admit that they may experience challenges to their market position, to their brand and their shareholder or investor value. Recent examples of this failure to consider these challenges include the record-pressing industry, Kodak and many more. In fact, management, and employees, who resist change are considered to be two of the greatest challenges organisations face over the next 18 months.

Accordingly, leaders of organisations, both public and private, are on notice that they have to do more to transform. Identifying and developing leaders and management who can drive change is a particular concern for almost a third (29%) of respondents (including a large number of board respondents).



New technology requires new business models

Automation, artificial intelligence and digital disruption are not things of the future: they are today's reality. For many people these are considered frightening changes, with over a third (36%) of respondents specifically concerned about the impact of new technology on their organisation.

Almost a quarter (23%) report that this new technology is also increasing the competition in their industry. To others, these challenges are seen as presenting opportunities. It is all about perspective and readiness to address challenges with new approaches.



How to transform?

A solution favoured by larger organisations, in-particular financial institutions, is to try to buy their way out of the 'change challenge'; either by buying a disruptor (25%) or creating their own disruptive subsidiary (12%) or forming an internal innovation lab or group.

As none can afford to acquire Amazon they may have to rethink a different strategy. Others have engaged the expertise and experience of independent consultants to assist them. Though engaging the 'right' specialist consultant can be a challenge in itself.



People versus technology – or both

Despite the increasing march of technology and artificial intelligence, organisations are still people operations – in that their customers and their employees are actual people. At the end of every decision is a person.

Our research indicates that people are becoming more resistant, less adaptable, to change. Change fatigue is already setting in. Dealing with people is still a major part of running an organisation and needs to be better addressed within any change and transformation.

FACTS AND FIGURES

Did you know:

- Over a quarter of senior executives in the US (27%) rate digital transformation as now being a 'matter of survival'. [MIT Sloan Management / Capgemini 2013-4]
- A third (33%) see digital transformation as a huge challenge. [Econsultancy]
- 87% feel that digital transformation is a competitive opportunity. [Capgemini Digital Talent Gap Report]
- Australia ranks fifth out of 30 OECD countries in terms of its overall proportion of innovationactive businesses. [Australian Innovation System Report 2016]
- Conversely, Australia's large businesses rank relatively poorly on this measure at 18th out of 29 countries. [Australian Innovation System Report 2016]
- Total expenditure on innovation by Australian business in 2014-15 was between \$26bn-\$30 billion. [Australian Innovation System Report 2016]
- 95% of digital disruption is evolution, small improvements in established processes rather than true revolution. [AusTTA]
- Transforming can be profitable: on average, every \$1 invested in innovation returns \$2 in sales. [Australian Innovation System Report 2016]
- Innovation-active Australian businesses are:
 - 40% more likely to increase income and profitability.
 - Two to three times more likely to report increased productivity, employment and training.
 - Three times more likely to increase investment in IT, almost five times more likely to increase the range of goods and services offered. [Australian Innovation System Report 2016]
- Existing organisations creating a disruptive start-up have a greater chance of success, and customer engagement if it is clearly separated from the owner's main business. [AusTTA]
- A quarter of the world's population is estimated to have smart phones. [Advertising Age]
- The amount of data stored is doubling every 18 months.
- Networking and collaboration are essential to a high performing innovation system. [Australian Innovation System Report 2016]
- The most successful disruptions and transformations tend to have a clear social purpose. [AusTTA]



"Because the purpose of business is to create a customer, the business enterprise has two – and only two basic functions – marketing and innovation. Marketing and innovation produce results; all the rest [business actions] are costs,"

- Peter Drucker (the father of modern business management consulting)

A WORLD OF CHANGE

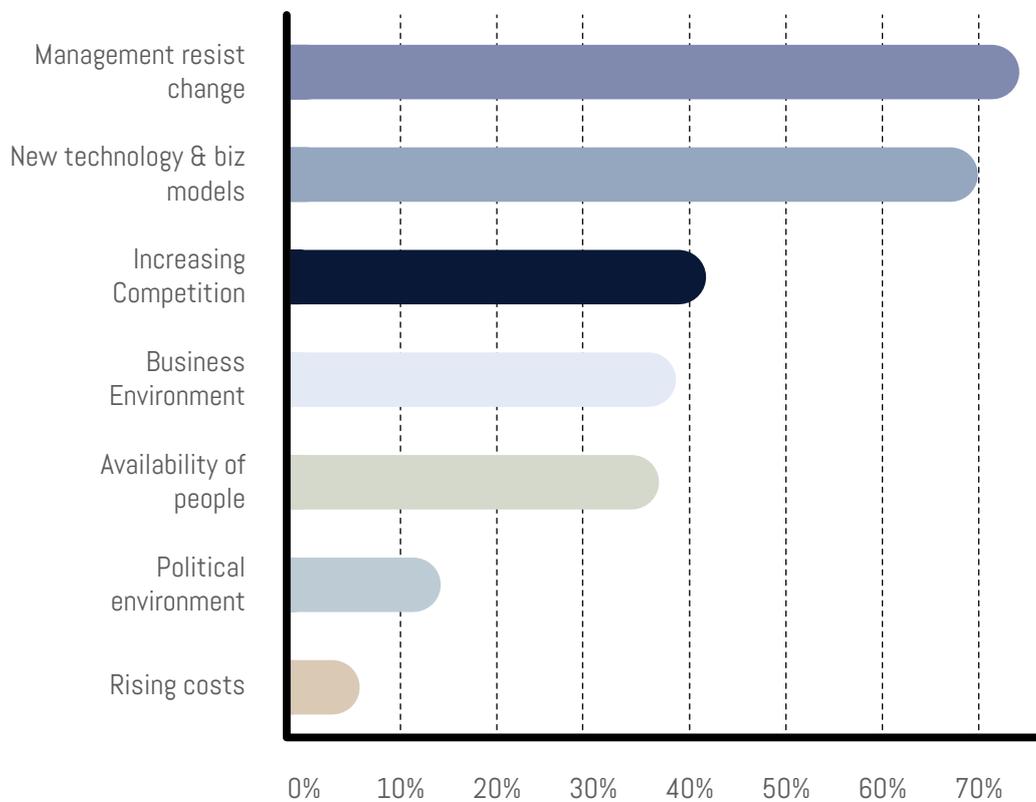
There is a wide range of challenges facing organisations and their leaders today, from the changing business and political environments through to changing consumer tastes.

However, the greatest concern is management's lack of understanding, resistance to change and/or poor leadership. These together concern over two-thirds (71%) of respondents.

Other major concerns include the impact of new technology (36%) and another third (31%) suggest new business models are required.

Interestingly, the political environment and rising costs are no longer a major concern, as shown in the graph below.

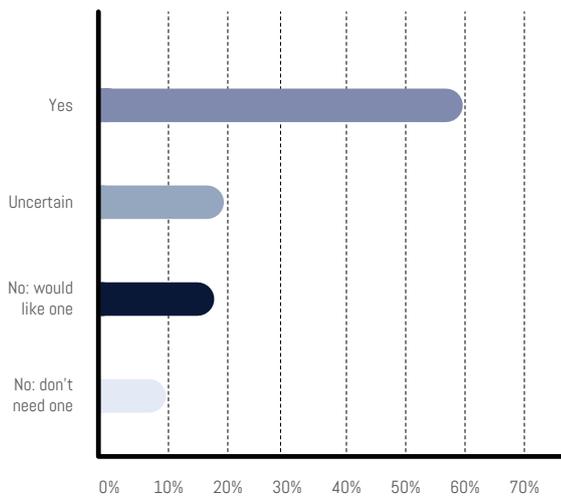
What is the greatest challenge facing your organisation this year and next?



Source: AusSource: AusTTA 2017. More than one response was permitted for this question.

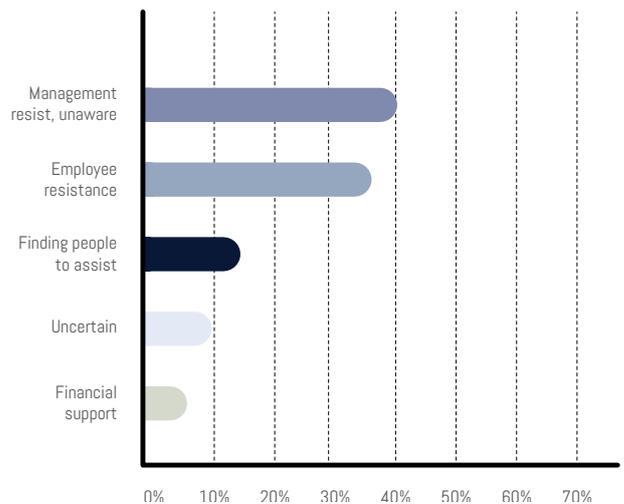
Given the recognition of the need for and to change, it is heartening to see that more than half (57%) of respondents said their organisation has a strategy to do so. Conversely, that means that two-out-of-five-organisations (43%) do not have such a strategy or are uncertain, as shown on the next page.

Does your organisation have a strategy to face increasing competition?



Source: AusTTA June 2017

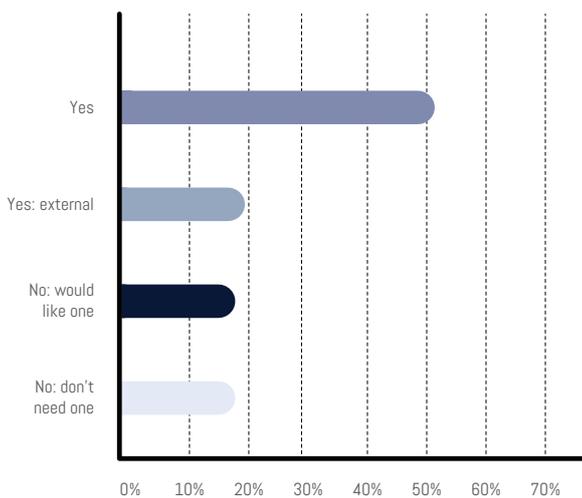
What is your greatest barrier to transformation?



Source: AusTTA June 2017

For those organisations addressing their need to transform, respondents report that employee resistance, or of the need to evolve, is their main barrier to transformation. This was followed by management resistance and engaging people to assist with the transformation process, as in the graph above to the right.

Does your organisation have a dedicated transformation or technology adviser?



Source: AusTTA June 2017

The biggest people / employee issue?



Source: AusTTA & SUPER Recruiters July 2017

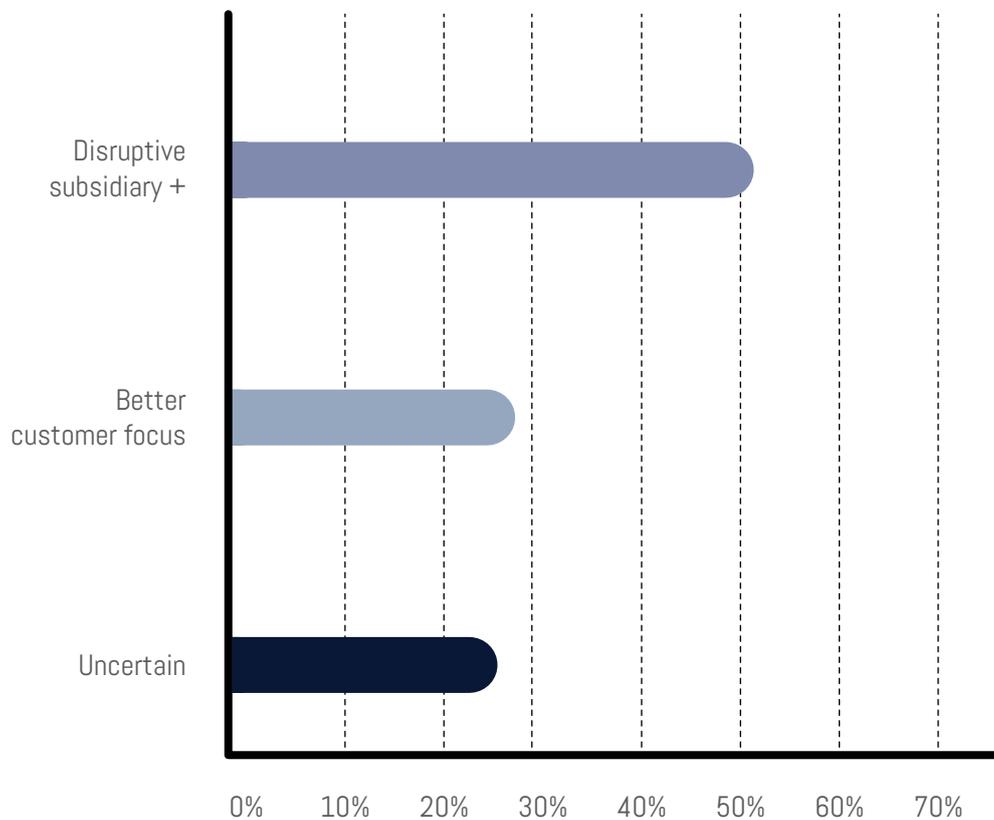
Like finding the best technology to meet digital disruption, so too is finding the best people to assist in transformation is equally a major challenge. Respondents cited identifying candidates with an appropriate cultural fit in addition to technical expertise as their greatest people challenge.

Respondents also noted that their employees are increasingly becoming “resistant to changes with technology” creating ongoing pressure for development, training and education.

PATHS TO PROGRESS

Our research also noted that a quarter (25%) of financial service organisations report they are “uncertain” about how to deal with digital disruption, as shown below. This is a concern, given that this industry is already experiencing significant disruption and change.

How do you see the way forward through digital disruption?



Source: AusTTA & SUPER Recruiters July 2017

Over a third (37%) of leaders of our financial institutions seek to try and retain control of change – and said they prefer to acquire or start their own disruptor. (As none can afford to acquire Amazon, they may have to this strategy.)

Transformation experts note that controlling an innovator or disruptor, especially by a behemoth, also often stifles it and sees it echo the parent and eventually lose much of its innovativeness. One of the best ways to help such a subsidiary is to let it operate separately and see what aspects thrive and that can then be adopted by the benevolent parent.

Respondents also noted that engaging expertise through experienced consultants who have been through and driven the change and transformation process was worthwhile, and is included in the top response shown above.

Just a quarter (24%) of institutions said they took the approach of focusing on the needs of their customers over the needs of their organisation. This is a proven way to disrupt and transform and comes with a greater chance of sustainable success.

WAYS TO TRANSFORM

When asked, “what is the best way your organisation is addressing the challenges of change?” respondents provided a range of approaches:

- “Set a clear vision of goals” to work towards.
- “Take a total focus on customer value.”
- “Align each part of the organisation to the strategy.”
- “Publicly agree that the need for transformation exists.”
- “Organise an innovation strategy and invest in innovative ideas.”
- “Formalise transformation programs.”
- “Deploy cross-functional teams to directly tackle the challenges.”
- “Bring in new, switched on staff to drive change internally.”
- “Acknowledge the need to respond, change and start to hire change agents with new skills.”
- “Evolve our operating model and investing in learning/knowledge.”
- “Be better, faster and more globally focused - and create the best tech!”
- “Develop a CEO-led program and supported by the Board; including training, affecting the entire company.”
- “Engage every level and focus on empowering front line staff” to be better able to address change.”

Technology versus people?

One of the mistakes many organisations, both private and public, make in approaching transformation is that they focus on the technology and its capabilities, rather than the end user/consumer. Technology is a means to an end, not the starting point.

Rather, this technology is creating an era of customer empowerment. It is not a technology revolution, but a customer revolution. As such, leaders must refocus on the human needs of their customers, and employees, if they are to thrive.

Many enterprises will have to rethink their business models, processes and operations to provide better and more tailored service that offers consumers significantly better value, efficiency, effectiveness and greater control.

Increase focus on social purpose

Professionals interviewed for this research said they also expect to see a greater focus on ‘social purpose’ among leaders, boards, senior management, marketing and HR departments as younger consumers increasingly express interest in what organisations stand for, support and add value to.

This shift will increase as more of them reach voting age and move into positions of influence. We contend that organisations need to be aware of this shift and each needs to identify its own unique social purpose, readily communicated, in order to not only survive, but to thrive.

Digital disruption versus transformation

Digital disruption focuses on technology as a means of improving and often expediting product and service delivery, empowering customers at the same time and increasing competition.

Transformation incorporates this and takes a wider and more holistic approach to addressing change, bringing together a larger skill set. It also helps make innovation more sustainable. (AusTTA incorporates the Australian Digital Disruption Association.)

CONCLUSION

We are at a point in economic history where disruptive companies are moving into industries that were previously considered untouchable due to the demand for their physical goods and services. That demand may still be there, but the delivery, servicing and execution of that demand is new, thanks – in part – to new and even old technology and the way it is applied. This is empowering consumers and affecting almost all industries and organisations.

Organisations understanding of how to recognise the threats, understand opportunity, embrace the concept of unknown innovators and competitors, then plan, implement and how to successfully transformation is poorly understood. This is despite its importance for the Australian economy, industry, government and the wider community.

Australia's 'restructuring' industry has previously been somewhat limited in focus. It has tended to concentrate on protecting business at risk, rather than building new businesses with a focused commercial and social purpose that fully embraces the technologies and models becoming available.

Need for leaders to be and do more

Our association advocates for better understanding of the need for a wider and more comprehensive approach to sustainable innovation, digital disruption, to transformation. (It is why we focus on education and further industry training, thought leadership, networking and advocacy to benefit all.)

Our research indicates that one of the biggest mistakes organisations (both private and public) make when they approach innovation, digital disruption and transformation is that they focus too much on technology and its capabilities. Technology is a facilitator, a means to an end, not the starting point.

To be sustainable, there needs to be a wider and more holistic focus on transformation of the whole organisation, its operations and how these benefit the end user.

New models for organisations and operations

Changes are happening in a range of sectors, media, telcos and more – where that value has been transferred to disruptors like Google and Facebook. These might seem like technology plays, but in reality they are customer service – customer control – plays and investments.

Power is increasingly in consumers' hands; in particular their computers and mobile phones, which now makes customer service the biggest game in town.

To meet increasing competition, many established organisations have to rethink their model to provide better and more tailored services that offer consumers significantly better value, efficiency and control.

It is the internal attitudes and structures of organisations that often have to change the most as disruption is occurring at an industry level and in every operational function. This is what will differentiate organisations that can adapt and embrace the opportunities that are arising every day will differentiate themselves to be better placed to meet the future and the ongoing challenges and opportunities that transformation creates. This multi-function approach is key and includes – people, process, technology and culture.

Do

Understanding the nature of a disruptive influence, and acting early, is the difference between industry leadership as opposed to industry participation. Or from a social perspective, the difference between confidence and mediocrity. As change has always been inevitable, the key is a systemic transformative approach to helping and educating our leaders, and by consequence their people - and our community.

We suggest being proactive, not just reactive, to the 'change challenge'. As the sign in Facebook's Silicon Valley headquarters reception used to say "Done is better than perfect".

For leaders of change

AusTTA calls on leaders of organisations to better understand the greater breath and depth of what is required for effective transformation and to embrace it in their own organisations.

We have identified the lack of nationally recognised practical and academic qualifications for transformation professionals in order to help organizations find the find partners and as a result our group brings together seasoned professionals who have turned-around existing companies as well as others who have actively supported the expansion of new, disruptive ones.

A key objective of the association is to "assist leaders of change", indicating that it is there as a resource for senior management, not just for its members. We also seek to reduce the stress and risk of transformations on employees and social stakeholders during change management.

AusTTA has also developed, in conjunction with the Australian National University, a Fellow of Transformation course to raise the level of understanding, knowledge and application of transformation.

For secrets to transformation success

Visit www.austta.org.au

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ABOUT

This research was undertaken by the Australian Transformation and Turnaround Association (AusTTA) in May 2017. It was distributed to 900 people and the preceding is their responses. A quarter comprised external transformation advisers, a fifth were C-suite leaders (20%) and in-house transformation leaders (20%). All responses were provided anonymously. Several senior respondents were interviewed separately for greater depth.

About the Australian Transformation and Turnaround Association

The association brings together innovative problem solvers who are working on the frontline of innovation, change, strategy, planning, transformation and turnaround management - the people who make day-to-day decisions that shape the future of organisations in Australia and help new ones grow.

It aims to:

- Improve understanding of experienced transformation and turnaround skills
- Promote understanding of transformation techniques at an individual, organisation and community level
- Assist organisations to restructure successfully
- Minimise the distress caused by digital disruption
- Return under-performing organisations to sustainable viability and accelerated growth
- Maximise the opportunities resulting from organisational transformation
- Support dynamic growth in emerging organisations based on new technology and/or new business models
- Reduce risk and accelerate growth for emerging organisations.

Join the group to learn, share ideas, information and network with like-minded people. Or contact us if you would like help to grow and future-proof your organisation.



Australian Transformation and Turnaround Association

For those transforming legal eagles

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