



Business transformation: From crisis response to radical changes that will create tomorrow's business

A Capgemini Consulting survey



About the survey

The survey was carried out by TNS Sofres in June 2009, and comprised 302 top executives from companies employing over 10,000 employees from all sectors of activity. Countries covered by the survey: the United Kingdom (81 interviews), Germany (61 interviews), the Netherlands (80 interviews) and France (80 interviews).

It is imperative for businesses to be on the move. The changing world drives them to transform; it's simply a question of survival.

How do top managers view this challenge? What are their views on the experience of conducting major transformation programs? What kind of programs do they undertake, and with what results? This survey seeks to answer those, and other, critical questions.

A comparison with the results obtained for this same survey in 2006 – *Capgemini Consulting/The Economist Intelligence Unit Survey of The Trends in Business Transformation* – is enlightening. It shows in particular that managers have now reached a high level of maturity in the art of transformation. This survey also highlights those radical changes – even deeper than the effects of the current economic crisis – that will trigger the transformations of tomorrow.



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The business transformation in a changing world



Business transformation: now the norm

Transforming the business is a key management process that is now an everyday practice. In other words, managing a business now equates to transforming it.

For 82% of European managers, transforming the organization has become of vital importance in business. In France, managers are almost unanimous in this regard, with 94% saying that these transformations are an integral part of their daily existence. Further data backs this up. The companies interviewed stated that they launched, on average, one transformation project every six months. All told, the results show that today's senior executives

will inevitably see major and regular upheavals in their companies, such as changes in management systems, scope of activities, type of business functions and even shareholding.

Although the survey highlights that the economic crisis has accelerated and built awareness of business transformation, the "volume" of transformations is stable for almost one out of two managers. However, the crisis has affected the nature of the transformations undertaken far more than the number. This is a marked change, expressed by 68% of the managers interviewed.

Figure 1 - Business transformation has become a central way of working

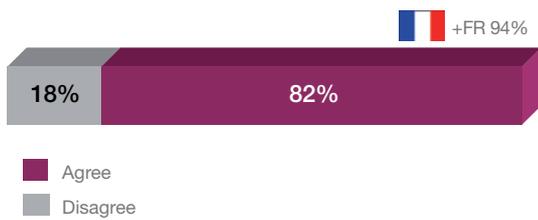


Figure 2 - Approximately, how many business transformation projects has your organization undertaken in the past three years, in total?

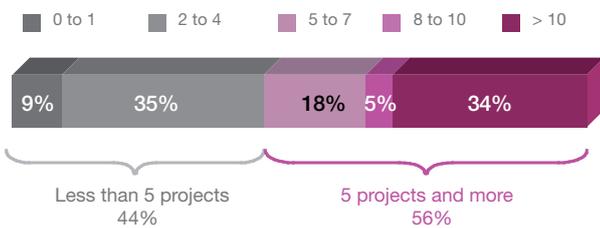
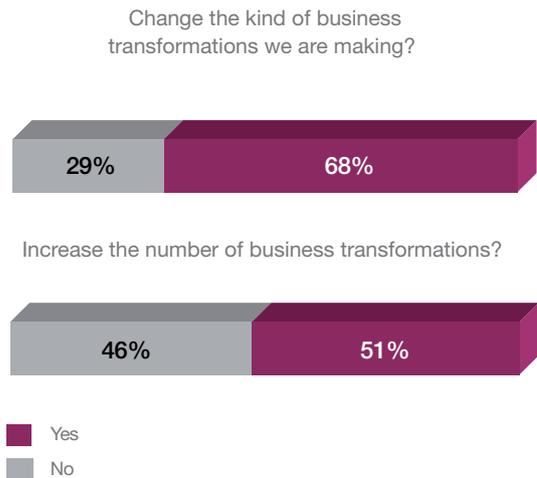


Figure 3 - The current economic crisis has made us...



Business transformation: reorganization is key in times of crisis

Three types of transformation have gained ground in the last three years (up by 15% on average, in each case, compared with the results of the 2006 survey).

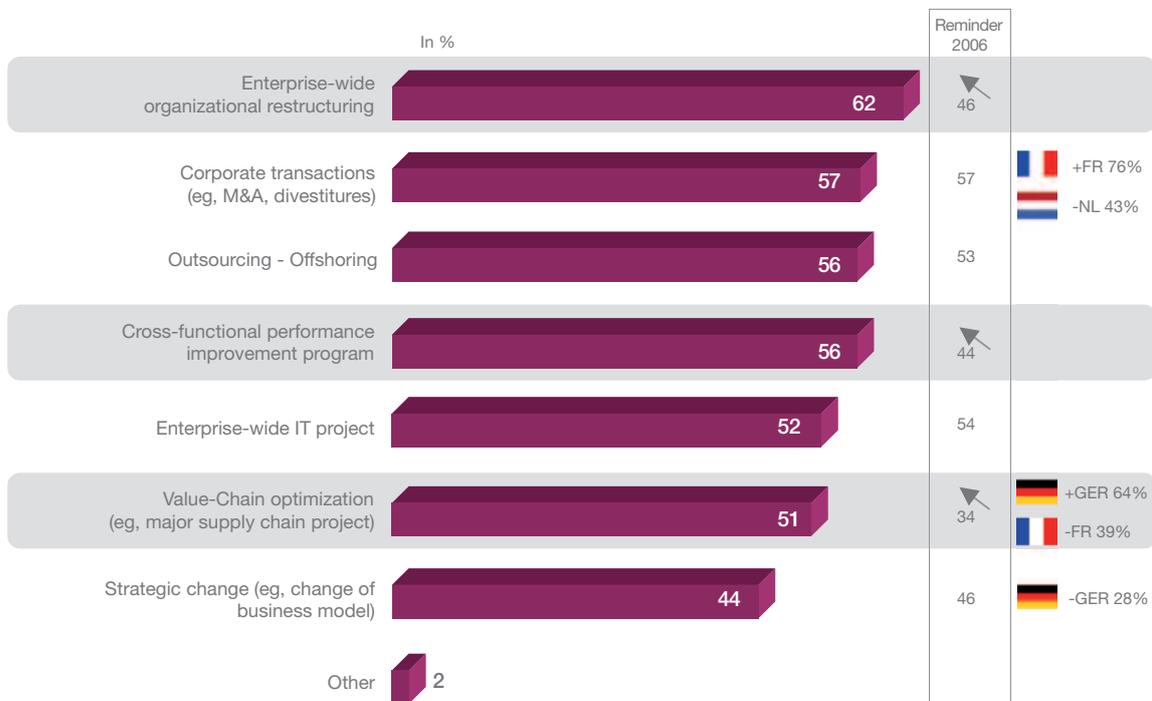
Companies are investing massively in drastic cost-cutting of all kinds: organizational restructuring (62%), cross-functional performance improvements (56%) and value-chain optimization (51%).

Although other types of transformation continue to be used frequently, their use remains stable. This includes such initiatives as strategic change (eg, a change of business model), mergers and acquisitions, or more isolated projects such as outsourcing, relocation or IT projects.

In times of crisis, it is clear that businesses favor quick-win initiatives that are focused on competitiveness and efficiency rather than longer-term market growth.

It should be noted that France differs from its European neighbors due to its higher number of mergers and acquisitions (76% of managers identified these as a company project within the last three years), and a lower number of value-chain optimization projects (39% versus the 51% average): French businesses rely on external changes rather than on optimizing their internal organizations...

Figure 4 - Which of following types of business transformation projects has your organization undertaken in the past three years?



A key issue at the heart of the transformation: the human aspect

A significant majority (more than three-quarters) of company managers are confident that their businesses have the capability to define a target (degree of ambition, results expected) and to structure the resulting transformation program.

According to respondents, their companies perform particularly well at this upstream stage of the transformation. Three areas in particular stand out: determining needs (79% of managers consider that their businesses do fairly well in this respect), setting up and managing project teams (81%), and setting objectives (84%). This indicates that businesses have gained in maturity in terms of their capability for identifying medium-term performance objectives.

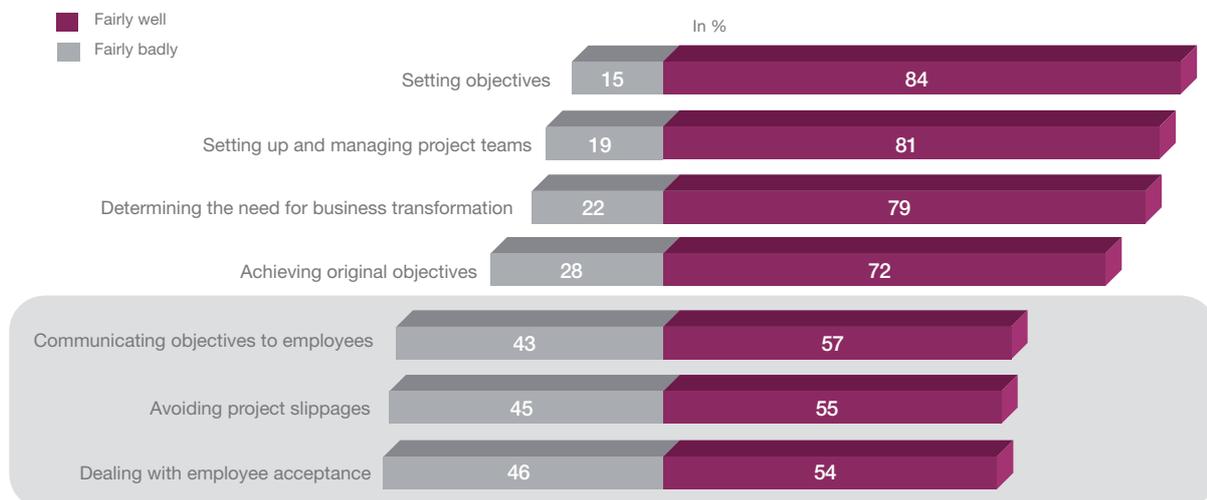
However, one area of dissatisfaction that ranks high on the list for 45% of managers is meeting deadlines. Meeting a target within the set time-frame, with the

degree of ambition required, and bringing the teams into the transformation process, are profound challenges that respondents feel insufficiently prepared for. The main points of friction are mastering the operational aspects and performance of transformation projects.

This can be explained largely by the lack of mastery over the human aspects of transformation. The weak points highlighted by managers include the ability to ensure company staff understand and accept the projects (46%) and communicating project objectives (43%).

Finding the right levers for action, building a project that is meaningful for people, providing incentives and support for the teams on a long-term basis, remain priorities for companies but also the “sticking points” for project management. They are, however, essential if a transformation project is to become ingrained in people’s behavior and deliver financial results.

Figure 5 - For each of these points, would you say that your organization handles its business transformations fairly well or fairly badly?



Overall transformation management: “Could do better”

Managers have a mixed view on the efficiency of their companies in terms of transformation management: fewer than half believe that their company excels in this area (except for Germany, where a majority 57% assess their performance as positive).

Figure 6 - Business transformation is something our company excels at



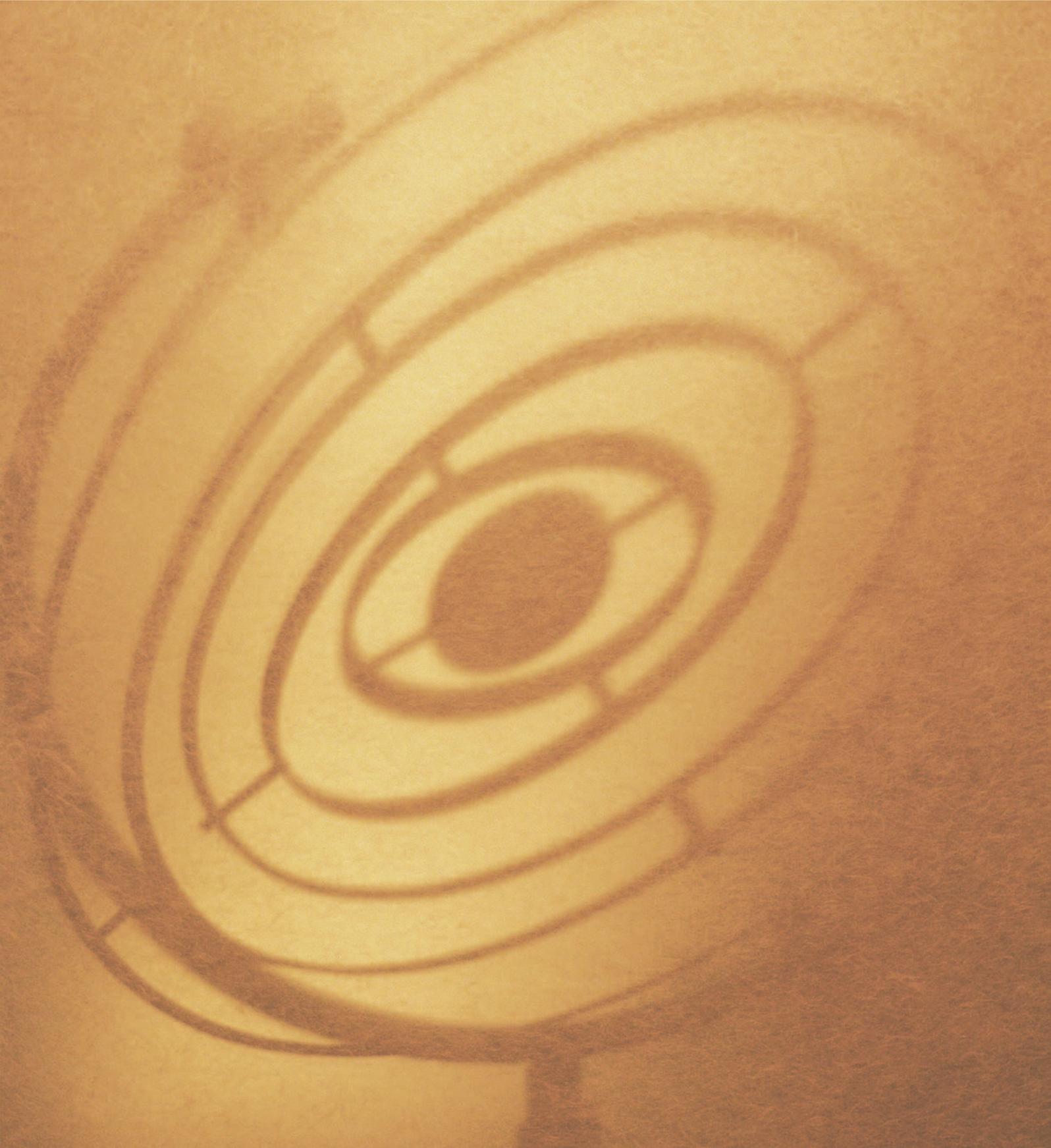
Although company transformation remains a field where managers consider more progress needs to be made, matters have improved considerably in the last three years (a mere 30% considered they excelled in business transformation compared with 47% in 2009).

Is this a sign of growing professionalization? Or is it due to the types of transformation that are being forced by the economic crisis, which are easier to master than transformation for development and growth?

While noteworthy progress has been made in terms of transformation management, areas for improvement have also been revealed. In one sense, this highlights the complexity of business transformation. As a key process, its nature changes depending on whether we are in times of crisis or growth. Does the weight of the current recession and the resulting focus on the short-term prevent managers from capturing and analyzing the deeper changes that are happening?

In the second part of this survey, we take a look at some of those profound, long-term changes, so that managers can combine a long-term view with their more short-term, daily commitment to the ongoing transformation of their business.

**Deciphering a changing world
what changes form the basis of
tomorrow's transformations?**



In periods of intense turbulence, managers tend to have a short field of vision for analyzing the trends that will shape the future.

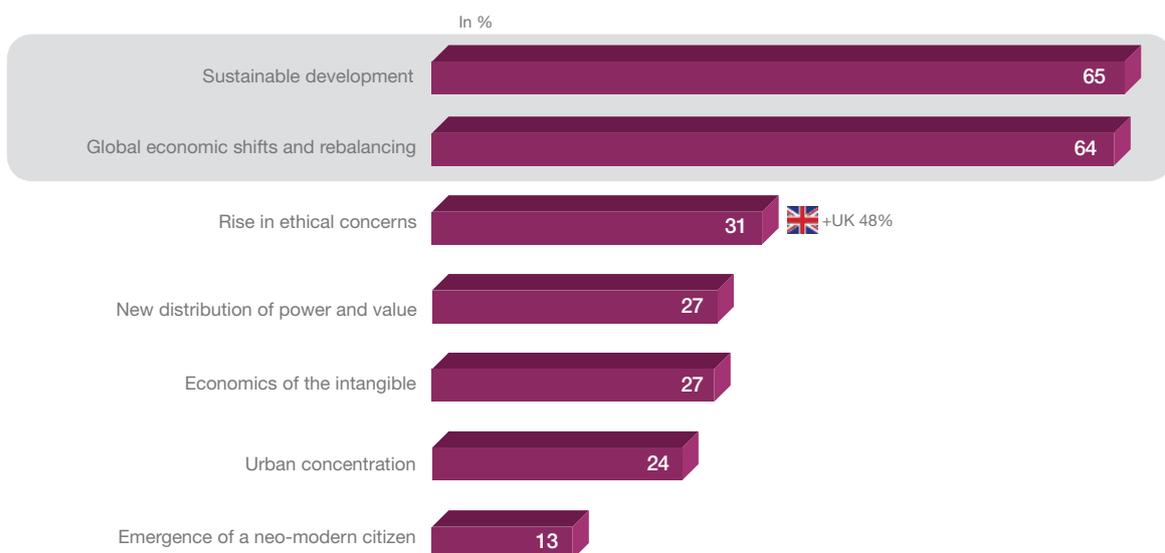
However, the world is changing profoundly, and we cannot afford to ignore those changes - they occurred before the economic crisis and will become even more visible when the recession subsides. Companies must be ready now to identify the changes and deliver the resulting transformations that will be required.

How do European managers view the world of today and that of tomorrow? Have they identified any issues that require an in-depth review of their development models? Which major changes will dictate their business structure in the coming years? Which major issues will become a management hot topic? How can you balance a long-term vision with analysis of short- or medium-term impacts?

We asked more than 300 managers their views on the major changes of tomorrow. This survey provides an overview of their thoughts on the transformation issues that will dominate as we emerge from the crisis. Do these managers' points of view reflect public opinion, influenced by the widespread media treatment of certain issues, or are they beliefs based on experience and background knowledge? The survey sheds interesting light on all these questions.

Of the seven changes covered, most managers believe that two major changes in particular will affect their business within the next three years: sustainable development and global economic shifts and rebalancing.

Figure 7 - Overall, of the 7 transformations which have just been described, which 3 will have the most impact on your business in the next 2 or 3 years?



Sustainable development

On the issue of sustainable development, cited by 65% of interviewees, managers tend to see this as an area of opportunity rather than constraint. For 69% of interviewees, the boom in clean technologies and green business stands out as the most important change.

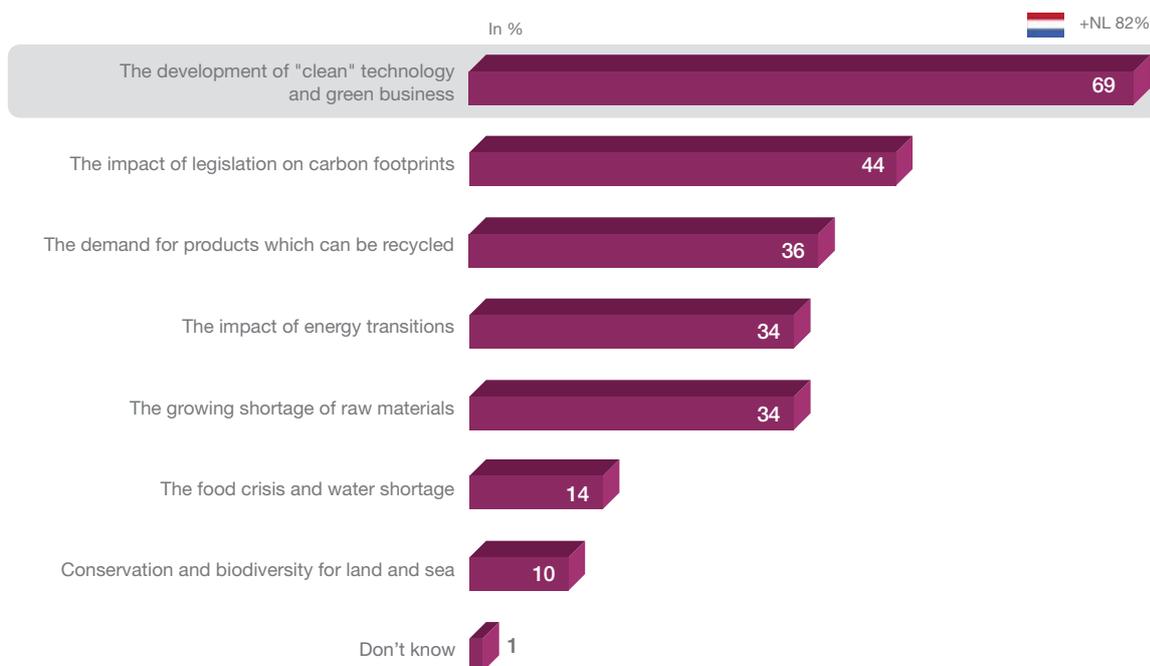
Managers are even wagering on green growth being used to create new markets. Nonetheless, are these efforts to “green” their offerings based on deep reflection and the need to rethink their business models and processes?

The impact of new carbon footprint regulations has not been ignored. For 44% of managers, it will affect their business. The impetus provided by the authorities is still decisive in encouraging companies to act on issues that commit them to wider responsibilities.

However, two-thirds of managers do not see recycling products as a medium-term priority for their companies. The same proportion does not believe it is necessary to transform within the next three years in response to the risk of energy and raw material shortages.

Finally, the conservation of biodiversity is rarely considered to have much impact, maybe because it is considered a “luxury” for some or not on the business agenda for others. 10% of companies do include it specifically, however, in their corporate social responsibility.

Figure 8 - Sustainable development : of the following issues, which ones do you think will have the most impact on your business?



Global economic shifts and rebalancing

Global economic shifts and rebalancing generated by the emergence of new powers constitute the second major change according to 64% of managers.

The way European managers represent the countries referred to as “emerging” is changing. These new powers now increasingly play an active role in modifying the global economic order: they are, in fact, driving forces of innovation, according to some 40% of the European managers. The same number of managers also believes that these countries have taken a big leap in moving from low value-added economies to knowledge-based economies. This development will have a marked impact on business, since the emerging countries are now markets where businesses have to be present not just for trading, but also for designing the products of tomorrow. It is no longer simply a question of a subcontracting opportunity, but of acknowledging the place secured by these countries in certain sectors, thereby remapping the contours of global competition. European managers are fully aware of this shift - both cultural and economic - which calls into question a company’s development strategy.

Contrary to previous observations on responsible and sustainable growth, however, there is no consensus on the more structural foundations of this change. European managers give equal importance to numerous developments: emerging markets as vectors of new bases for innovation, their change into knowledge-based economies, the ongoing adjustment to Western companies’ localization strategies, the arrival of new world champions on the scene that shake up the competition, the ChinaAmerica axis or the BRICS effect that opens up huge consumer markets.

This wide range of views demonstrates the new protean economic order and shows that the issue is complex. The new order is both an area for opportunity and of uncertainty or anxiety, since the power of its new players is not easy to define.

The only area of consensus is the low level of importance given to sovereign wealth and investment funds for funding the global economy. These are no doubt considered as “followers” rather than true “drivers” of change.

Figure 9 - Global economic shifts and rebalancing: of the following possible changes, which do you think will have the most impact on your business?



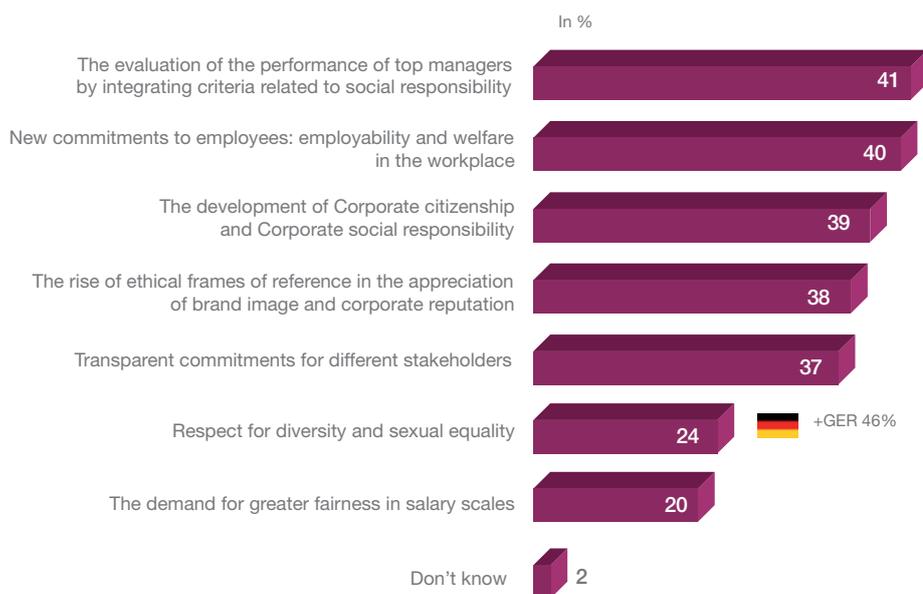
Rise in ethical concerns

Rise in ethical concerns introduces new criteria into the area of governance efficiency: integration of social responsibility for top managers' performance evaluation, new commitments with regard to employability and well-being in the workplace, development of CSR, increase in ethical frames of reference for corporate image and reputation, transparency in terms of commitments to different stakeholders, and more. It is, above all, in these criteria, involving the relationships between the company and its stakeholders, that the challenge is felt.

Some 40% of European managers feel that the way their companies are viewed will be based partly on these new criteria. They feel that their employees' demands in relation to their work have changed: the aim for fulfillment, detachment and even disengagement as far as company values are concerned, and the wish to build a life based not only on a work ethic.

In comparison, the importance of demands for equality and fairness (salaries, gender) has been put into relative perspective.

Figure 10 - Rise in ethical concerns: of the following trends, which ones do you think will have the most impact on your business?



New distribution of power and value

New distribution of power and value seems to be characterized principally by the rebalancing of power between management, shareholders and employees.

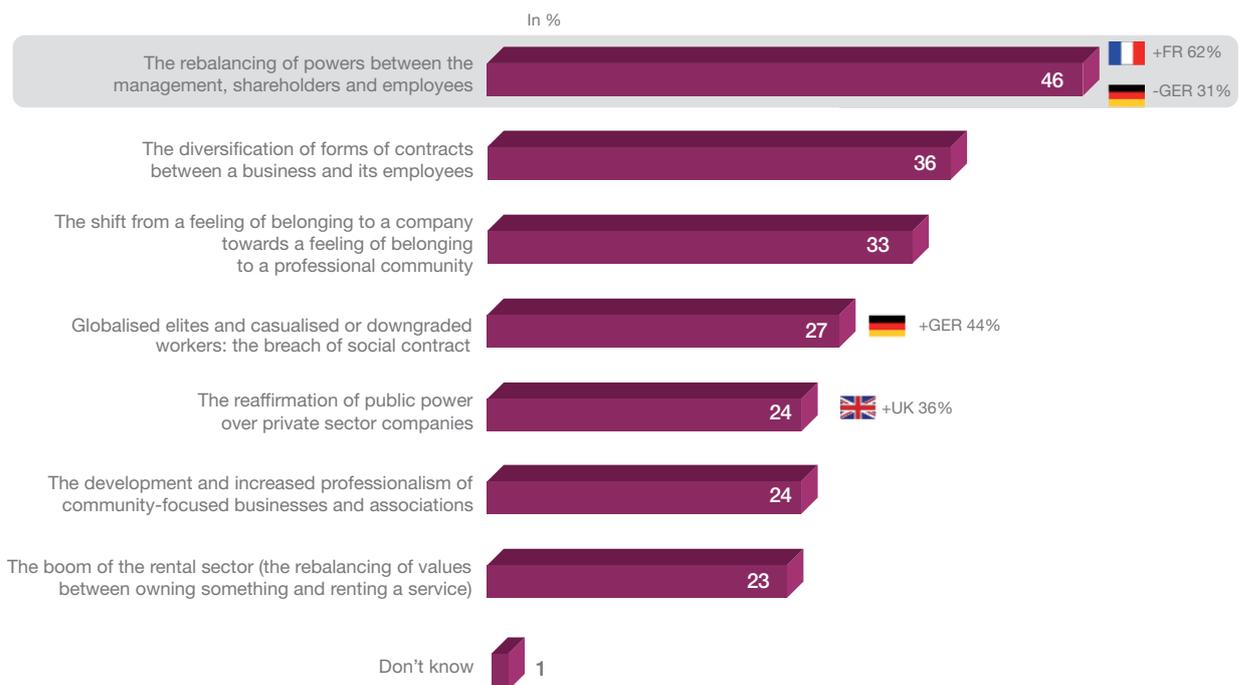
Although there is no consensus in Europe on this general question, this trend is the most frequently emphasized issue in this part of the survey (46% on average). It even exceeds the development of ties between the company and its employees (diversification of forms of contract as well as a shift in feeling of belonging from the company to a professional community - the importance of changes in relationships is felt here too).

It is interesting to note that this theme shows the greatest divergence of opinion from one country to another. In France, the question of rebalancing of power is mentioned by more than one in three managers. In Germany, 44% of managers point to the influence of changes in society, over and above the relationship between a company and its employees, such as the break between globalized elites and national casualized or downgraded workers. In the United Kingdom, the reaffirmation of a powerful public

authority over the private sector is mentioned by 36% of managers. This subject is still highly nationalized, marked by the different cultural outlooks that characterise the individual management styles and economic backgrounds of each country.

Nonetheless, global thinking on the necessity of redesigning the company is developing in light of the shared observation that the social contract is weakening as a whole. As the last market confronted by globalization, in the wake of the financial, product and services markets, the labor market clearly needs to be reformed and modernized. New forms of social contract have to be devised within the company. Clearly, it is in this particular field that management requires transformation, and that a European management model needs to emerge from national specificities. European managers feel directly concerned about this issue and expressed the need for transformation. Are they ready to rethink their management models?

Figure 11 - New distribution of power and value: of the following possible trends, which do you think will have the most impact on your business?



Economics of the intangible

Development of the economics of the intangible owes its importance to that fact that it facilitates change, and is a source of connectivity, and therefore of speed and efficiency. For 45% of managers, it helps a new corporate model to develop in network form: it enables new ways of organizing the business with modular, more flexible structures (45%), new service models based on interactive multi-channel customer relations (40%), acceleration of digitalization due to technological innovation (38%) and development of companies' connectivity and capacity for networked collaboration and innovation (39%).

This means a new digital business model, where operational agility and intervention capability are strengthened by the new technology. Managers are aware that the current digital revolution is causing an upheaval in the company, its working methods and, above all, the dynamics of its relationship with the environment. This will require new ways of working.

However, European managers are less aware today of the emergence of the intangible as a strategic asset. This is probably because this has already been integrated (insofar as authorized) by current accounting standards.

Figure 12 - Economics of the intangible: of the following trends, which do you think will have the most impact on your business?



Urban concentration

With urban concentration, it is the dynamics created by the development of new technologies in towns that managers consider important rather than the trend for growing urbanization and demographic concentration per se.

New infrastructures for sustainable digital cities (49%), growing dispersion of work and living spaces (47%) and non-stop urban living (37%) offer new market opportunities (or, for almost one manager in two, lead companies to adapt).

Mobility, accelerated by the new technology, is a key transformation lever. It also affects society by generating new demand from urban populations, which has an undeniable effect on the organization of work. This is to be borne in mind for the new business models.

Figure 13 - Urban concentration: of the following issues associated with increasing urban concentration, which ones do you think will have the most impact on your business?



Emergence of a neo-modern citizen

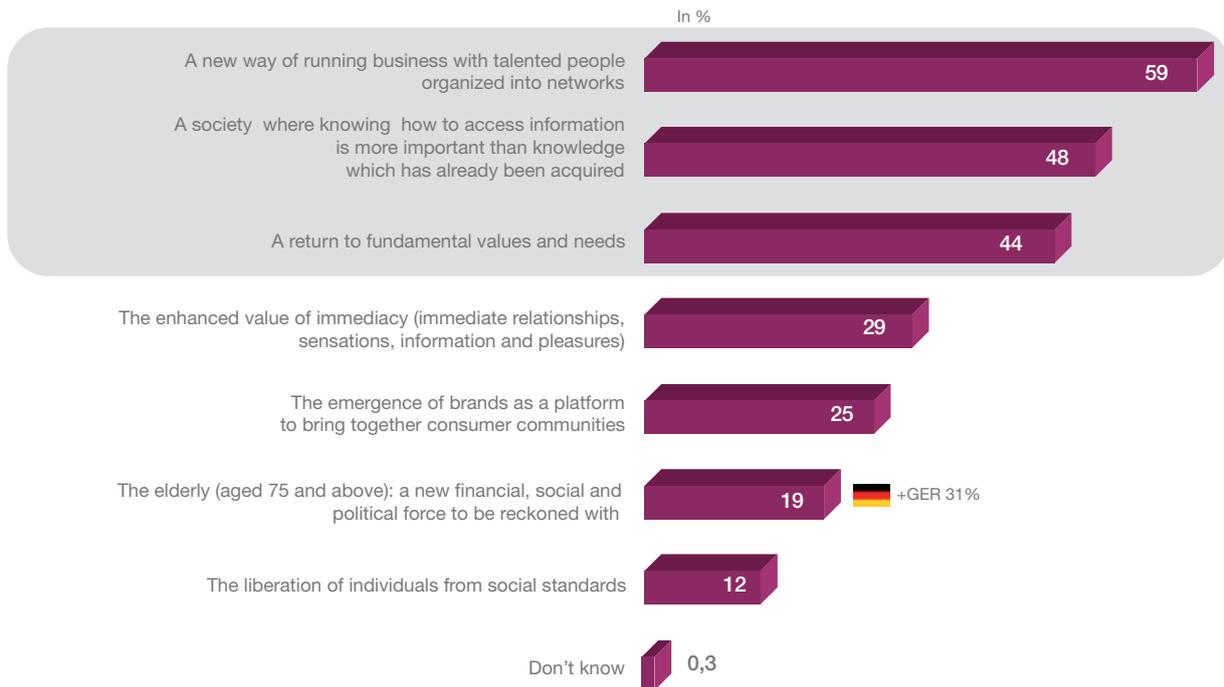
The emergence of a neo-modern citizen, which reflects a change of perspective in the West, is not such a strategic issue for respondents.

A large majority focus on issues involving networking (new methods of doing business with talented people organized into networks, a society where knowing how to access information takes priority over existing knowledge, etc.). However, they are not quite so attuned to the major demographic and social trends of the next three years, such as the emergence of the “oldest old” elderly population (75 years and above), new consumer values and liberation from social standards.

Is this an effect of a focus on purely managerial issues relating to the networked business: new connections between workplace and personal life, the effects of the information society, rapid widening of business territories, and new links between employer and employee?

Does this mean that, although Western culture is still essential for inspiring and stimulating change, the Western world is no longer a base point or benchmark?

Figure 14 - Emergence of a neo-modern citizen: of the following possible transformations, which ones do you think will have the most impact on your business?





In conclusion, it is clear that European managers view the challenges of our changing world as no longer “limitless”, but in terms of “a small planet”.

Due to upheavals and developments at opposite ends of the earth, it is evident that the challenges of tomorrow will stem from interaction with other societies and cultures, rather than from the internal dynamics of our Western societies. This is a “condensed” world, which magnifies the impacts on the company and produces economic and social models of a radically different nature.

This new world, whose outline and rules will have to be redefined, carries as many threats as opportunities for business, as expressed by the managers taking part in this survey. Although they have not fully mastered the effects of the system, they are aware of the extent to which global acceleration has given birth to a new business model in a new economic area.

Will our businesses be able to transform to confront the situation? These are the stakes involved for transformation and the art of management: understanding the changing world, seizing footholds, getting the company into motion. The managers interviewed are more confident than those interviewed several years ago, although they are not excessively optimistic about their transformation capabilities. What they need to do now is grasp the major world changes to establish the transformations of tomorrow: this means being far-sighted today in order to remain a step ahead tomorrow.

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