

# Business Transformation Simplified

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## Business transformation simplified: The 4x3 approach

Consistently successful organizations know that what works today won't necessarily get the job done tomorrow. Adapting to new market conditions, discovering new efficiencies and seizing opportunities as they develop aren't just ways to grow a company's market share and improve its bottom line. Nowadays, *a constant openness to transformation can be the key* to an organization's very survival.

Relatively few businesses, though, get transformation right. Every industry is littered with stories of companies that *wasted money, time and effort* in misguided attempts to transform themselves to keep pace with the times. I developed my 4x3 approach by analyzing *more than 40 successful and failed business transformations*, and then addressing common anti-patterns that emerged during those efforts.

### Why many business transformations fail

One thing I identified is that many organizations embark on their journeys with the primary assumption that new and modern technologies—including many that fall under the "cloud native" umbrella—will be the panacea to all their current problems. Thus, organizations rush to deploy these technologies within their ecosystems. This approach not only adds undue stress upon the entire organization, but also defragments the ecosystem by introducing additional complexities and failure points.

Yes, modern technologies are imperative for a successful transformation, but so are lightweight processes that can be automated in quick succession. Having the right technologies driven by optimized processes is key to setting up the transformation for success. Technology by itself can only be an accelerator for a transformation and cannot make it successful by itself. *Technologies should be selected* based on their ability to help organizations achieve their business outcomes.

Next, planning for a transformation journey also involves *identifying the right transformation change agents* that will drive improvements to an organization's culture, processes, people and technologies. Not having the right change agents in the right places, or not adequately enabling them, can dramatically impact the success of the transformation. Finally, my analysis also revealed that *many endeavors fail because organizations don't realize that change is not the same as transformation*.

### Target transformation, not just change

Some failing companies blame government regulations. Others point fingers at the digital landscape's rapid and sometimes feckless pace of change. Still others might blame personnel: ill-equipped managers, sandbagging employees or foolhardy executive leaders. Each of those factors might play a role in a given organization's struggles with transformation, but across the board, the most common reason businesses fail to adapt to changing markets is more fundamental.

Change—the incremental adjustment of current practices, policies and processes—has always been a part of doing business. And over time, most companies become set in their ways of managing change. *The very idea of change becomes rigidly defined, and success is measured against standards that themselves have failed to adapt to the times*. The result is a dangerous situation in which companies convince themselves that their current efforts to foster and manage profitable change are sufficient.

Transformation, on the other hand, represents *a comprehensive break from a company's traditional presumptions and the adoption of new operating paradigms*. It is in no way incompatible with change, but is fueled by a growth mindset, lean experimentation and an ability to accept failure as a necessary step for success.

Too many organizations fail to fully understand and honor the crucial difference between change and transformation. They may undertake initiatives to eliminate waste and redundancy, invest heavily in their technology infrastructures and develop innovative

new products and services—and yet they still fail to transform themselves in a way that supports long-term success. The problem doesn't lie with efficiency, technology or innovation. It lies with leadership's conflation of those healthy change factors with a commitment to proper transformation.

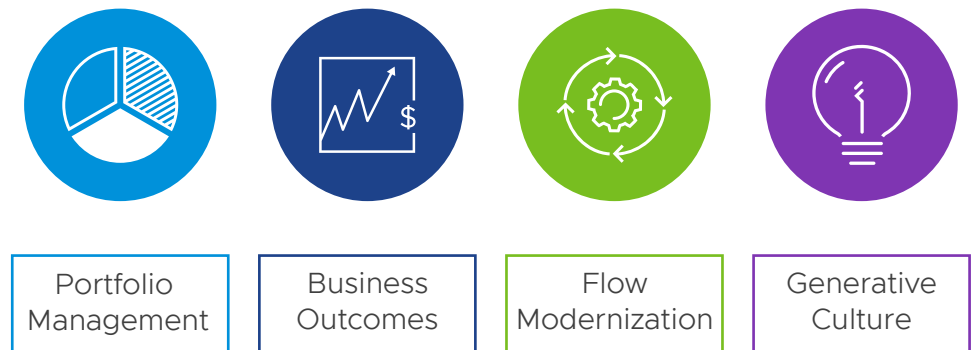
### Customers are the key

Customers drive market changes, and every successful business transformation is geared toward better understanding and serving current and prospective customers. This is easier said than done. Companies must be prepared to accept inconvenient realities—for instance, that customers most want features and services already being provided by competitors—and they must respond to those realities with new offerings at a pace that matches the market's ability to adopt them, at a high level of quality.

This requires more than a bit more market research and a few more dollars spent on R&D. It requires a wholesale shift in the way a company sees itself in the marketplace. Transformation must be undertaken thoughtfully and purposefully—but also sustainably—in a way that makes the best possible use of the organization's core competencies.

### The 4x3 approach, four themes

Successful transformations can be wildly different in their specific goals and methods of execution but, from a bird's-eye view, they tend to follow a common structure of four themes: *portfolio management*, *business outcomes*, *flow modernization* and *generative culture*. Each of these themes is supported by three primary steps.



**Figure 1.** Four Overarching Themes for a Successful Business Transformation

Let's look at each in detail.

### Portfolio management

Among the most difficult—and also fundamental—questions any company needs to ask itself is: *What do we offer our customers?* That might be why so many successful companies find it easier to add to their portfolios than they do to reduce them. When a company divests an offering from its portfolio, it must be prepared to forgo some of the return on its long-term investments, including the investments it has made in its staff.

But divestment is a necessary step for most companies before they reinvest resources in a transformational effort. In turn, these are the major steps toward transformational portfolio management:

1. Change the criteria by which you evaluate offerings and initiatives. This change should be rooted in your organization's core competencies, and should be informed by thorough market analysis.
2. Restructure your portfolio, making individual plans for the divestment and addition of each offering or initiative.
3. Manage the entire process using lean-governance techniques, with full consideration given to compliance issues. Be sure to leave an audit trail, as much for your organization's benefit as for that of regulators.

### Business outcomes

To guide the process of transformation, organizations should develop a comprehensive system of measuring the outcomes of each step, and the progress each step represents toward fulfillment of the transformational strategy.

This theme is supported by three interdependent steps:

1. A strategy tree is the framework connecting a business's transformational vision to the discrete efforts that will combine to achieve that vision. Beginning with a simple statement of the organization's vision, it describes each Objective and Key Result (OKR) required for success, along with the work done by each department toward achievement of each OKR.
2. OKRs themselves should be reviewed both by the teams responsible for achieving them and by the executives responsible for the strategy tree. Teams must advise leadership on the feasibility of each OKR and what additional resources might be needed to achieve each; leadership must ensure that each OKR supports the strategy tree.
3. To guide each team as it pursues its OKRs, a comprehensive and broadly accessible metrics framework is absolutely essential.

### Flow modernization

For our purposes, flow is the movement of value from conception to realization. The term is often used while discussing product development, but it can refer to any business operation. Flow optimization is the means by which the journey from conception to realization is facilitated. If you have already implemented lean management practices, you might recognize this as optimizing processes and eliminating inefficiencies to increase intrinsic value.

Flow modernization is best achieved through three steps:

1. Value-stream mapping (VSM) is a lean approach to analyzing, optimizing and managing the generation and flow of value throughout an organization.
2. Since flow is so heavily dependent on IT infrastructure, companies should accommodate the need to support both locally managed and cloud-based applications. The former are usually brownfield investments that have already achieved some degree of in-house flow modernization; the latter are often greenfield investments whose deployment, management and use are more easily subject to flow-modernization procedures.
3. As part of its overall flow-modernization effort, an organization should develop a long-term plan to harmonize these two IT strains as fully as possible.

#### Generative culture

*Dr. Ron Westrum's typology of organizational culture* gives generative, or performance-oriented, culture pride of place over both pathological and bureaucratic (power- and rule-oriented) culture types. Generative cultures tend to support the highest rates of information flow and produce the most innovative and market-responsive results. A strategy of organizational transformation should seek as its final theme to instill and support a generative culture.

Again, three basic steps can achieve this goal:

1. Because generative culture honors performance above other considerations, the single most effective step toward instilling a generative culture is to move toward performance-oriented assessment of all employees.
2. Wherever possible, implement practices based on generative culture. These include proven approaches such as *lean*, *agile* and *DevOps* methodologies and practices.
3. Generative culture is notable for encouraging far greater psychological security among employees than other culture types. Companies that instill generative culture as part of their transformation efforts are wise to capitalize on this extra security by encouraging risk taking and experimentation, and by downplaying the risk to employee security posed by failed attempts at innovation. Even if the number of successes never exceeds that of failed experiments, the impact of successful employee innovation on the company's bottom line will be more than worth it.

#### Business transformation simplified

The COVID-19 pandemic has been extremely challenging and stressful all over the world. It has fundamentally changed human behavior and has also challenged technologies and industries in every vertical. Many incumbent industries were not prepared for this overnight shift to an all-digital world and have been severely impacted. However, organizations that were on a business transformation journey are faring better than their competitors, and are embracing this crisis as a compelling event necessary to accelerate their transformation.

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“An organization that does not disrupt itself internally can never be successful in a business transformation.”

GAUTHAM PALLAPA<sup>1</sup>

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<sup>1</sup> Pallapa, Gautham. *Business Transformation Simplified: 3 Guiding Principles*. 2020. <https://tanu.vmware.com/content/intersect/business-transformation-simplified-3-guiding-principles>

In the [previous section](#), I talk about four predominant themes that consistently emerge in a successful business transformation: *portfolio management*, *business outcomes*, *flow modernization* and *generative culture*. I also break down each theme into three primary steps. However, there is another lesson I've learned on my transformation journeys, and from my experiences partnering with organizations on their business transformations: Transformations are continuous by nature.

This can pose a problem to an organization undertaking this arduous and stressful journey, because the concept of a never-ending transformation is neither sustainable nor palatable to the workforce. As humans, we've become accustomed to measuring self-value and success at regular intervals. What's more, the dopamine hit we get each time we achieve something or meet a milestone is extremely addictive.

We create milestones and checkpoints as constructs to feel a sense of accomplishment—targets to meet and comparison metrics to achieve—all so that we regularly feel successful, and to enjoy the euphoria that dopamine provides. Therefore, trying to garner support for an arduous, never-ending journey is an almost impossible task. Passion for the cause and the wills of some people might move the transformation for a short duration but, eventually, it will peter out.

One effective solution to address this challenge is for leaders to clearly define what the target state for the transformation is, and to celebrate milestones and accomplishments along the way. That is, to *celebrate continuous change in the state of a system*. This also enables leadership to declare success when the target state of the organization is reached.

Once success is declared, however, there is a high probability that entropy will increase within the organization. As we all know, the natural tendency for anything in the universe is to lose order and decay. That is the important principle of entropy—it defines the degree of disorder in a system or environment, and always increases over time.

This decay manifests in business transformations because the workforce, having become psychologically relieved of the stress that it has undergone in achieving the first target state, tends to relax and slow down. This results in complacency within the organization and the propensity to rest on prior laurels. The energy required to further the goal of continuous improvement wanes, and inertia sets in quickly.

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“If the rate of change on the outside exceeds the rate of change on the inside, the organization is failing to transform.”

JACK WELCH<sup>2</sup>

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This disorder and decay translate to cultural apathy, process overheads and inertia within the workforce—the very things that necessitated a business transformation in the first place. Hence, it is imperative to ensure that the energy is not reduced once the target state is achieved. Organizations should introduce the concept of Kaizen (continuous improvement) and ensure that the leaders and change agents stoke the fires of transformation constantly. Kaizen also introduces continuous milestones and targets, but this can only be achieved when it becomes part of the organization's culture.

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<sup>2</sup> Welch, Jack, and Suzy Welch. 2005. *Winning*. New York: HarperBusiness Publishers

### Three guiding principles

In order to keep the embers of business transformation continually burning, organizations need to have guiding principles that can be used for progress review at regular intervals, along with course correction (or pivoting) as needed. I've captured what I believe to be the three most valuable principles in a business transformation haiku:

Heritage is past  
Improve flow for fast value  
Delight your users.

#### Heritage is past

Revere the past, but don't stick to it. *Heritage apps* (or what some people might call "legacy apps") brought the enterprise to where it is today. But today the enterprise needs to be more *nimble, agile and cloud native* to scale and deliver at the needed speed. *Application modernization* is important in business transformation—along with containerization and other cloud native patterns—and the ability to seamlessly move workloads across private and public cloud infrastructure is a vital part of modernization efforts.

There are three predominant variations of *application modernization strategy*:

1. Migrating to modern infrastructure (also known popularly as "lift and shift")
2. Partial refactoring (deconstructing the app and rewriting front-end and other lightweight modules as microservices, while still maintaining a monolithic backend)
3. Complete refactoring (strangling the monolith completely and redesigning using modern software development patterns)

This can be a daunting task for organizations that have a large heritage app portfolio. The optimal approach to take is to analyze the portfolio, evaluating and sequencing apps that provide the most benefit to the organization—by improving the status quo around technical debt, speed to market and/or customer experience—and then modernizing those apps in an order that makes sense.

A note of caution: Many will undertake the first phase and declare victory once they have completed modernization of the first wave of applications. It is a tedious and painstaking process, *but it must be seen to the end*. Also, due to the rate of change in technology and methodology, the initial apps that were onboarded might require revisiting faster than you'd expect. We need to make inspection and analysis part of our culture, and ensure refactoring is a continuous and conscious effort that must be budgeted into our daily work.

#### Improve flow for fast value

Delivering features that provide delight, convenience and utility has become essential—a reality underscored in times of crisis, such as the COVID-19 pandemic, when norms are thrown along the wayside and tools that just work can see massive adoption in a matter of weeks. Speed to market and the ability to deliver value quickly have therefore become imperative, not optional.

However, organizations also need to ensure software quality, as any growth of this digital ecosystem will also bring with it an increase in bad actors trying to exploit it. Adhering to lean, agile and DevOps methodologies for modern software development will help ensure total quality while improving delivery.



### Value-stream mapping to eliminate waste

Improving processes and increasing process utilization are primary tenets of lean methodologies. A popular technique to drive this is *value-stream mapping* (VSM), where we analyze, design and manage the flow of artifacts and information required to bring a product to a customer. It also emphasizes the elimination of waste in processes and a reduction in handoffs, while maintaining total quality of the product.

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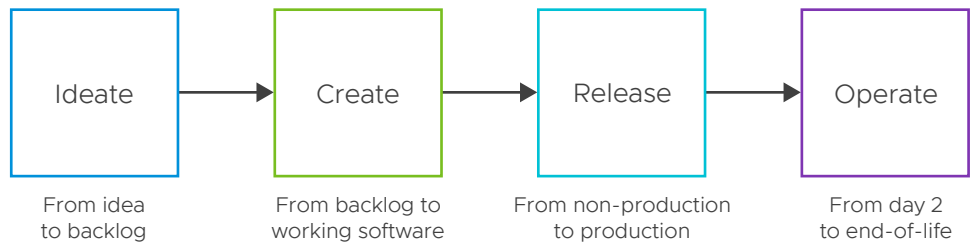
“While a value stream flows horizontally in the organization, a strategy that redirects it vertically causes a cascading waterfall.”

GAUTHAM PALLAPA<sup>1</sup>

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### Flow modernization

Whereas VSM focuses on increasing process utilization, the objective of *flow modernization* is to reduce the amount of friction required to transform an idea into working software that generates value for the organization—through business outcomes or revenue. This is commonly referred to as *concept to cash*, or *inception to implementation*. Flow modernization relies heavily on lean methodologies such as lean experimentation, hypothesis-driven development and agile frameworks (such as extreme programming) to develop lightweight processes for the smooth flow of value through the organization.



**Figure 2.** Modernize the Flow of Value Within the Organization

### Delight your users

As mentioned before, in a world where there’s a heavy—and at times rapid—shift toward digital and e-commerce, and a commensurate reduction in physical footprint, customer loyalty depends on continually delighting them with usable and delightful features. These features must improve users’ quality of life and act as a digital twin for experiences they have cherished in the physical world.

This is a fundamentally challenging undertaking that’s amplified by the ease of multihoming, where a customer can move to a competitor without any tangible effort. *Customer-centricity* is therefore core, and providing an outstanding customer experience must become the mission for organizations. Embracing design-thinking techniques, empathizing with your customers and investing in innovation are essential for customer delight.

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“Technology is meant to be an enabler, not the sole focus, of transformation. Many endeavors fail because they make this mistake. Customer delight is at the center of success.”

GAUTHAM PALLAPA<sup>1</sup>

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While the effects of pandemics, recessions and other large-scale calamities are horrific overall, there are always silver linings. Tectonic shifts in the digital landscape mean that revenue and stock valuation could drop for start-ups that might have been ahead of the curve, and incumbent enterprises that might have been playing catch up can spend some of their excess cash on technology innovation and market capture. There's no better time to do it, now that we've seen what a worst-case scenario looks like and the types of innovation that will ensure adoption and resiliency are more clear.

### Prepping the transformation

Once the four themes have been internalized, preparing for an organization-wide transformation that implements them is a critical phase best achieved in three steps:

1. Identify change agents within the organization and empower them to act.
2. Carefully assess the current state of the organization and identify milestones that signal progress.
3. Communicate every step with all employees. Then communicate some more.  
Transformation can be an intimidating prospect, even when the goal is more stable and happier employment.

*A detailed discussion on beginning the transformation [is available here](#).*

### Conclusion

Business transformations, while complex, do not have to be hard. Many efforts fail because organizations do not appreciate and recognize the difference between change and transformation, and are not courageous enough to fundamentally question the status quo. The 4x3 system described here seeks to demystify the process for leaders and rank-and-file employees alike. It is itself the product of much experimentation, and has been applied successfully at a variety of enterprises. This simple yet effective framework enables teams to develop strategies that not only achieve a successful business transformation, but also ensure that it persists within the organization.

That is the only way to make the hard work of transformation continually relevant and valuable to customers.



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