

## **Four Factors of Company Transformation**

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### **I. INTRODUCTION**

In the past 40 years, Chinese enterprises have grown up with the tide of Chinese reform and opening. Next step Chinese companies will need a “self-reform” to move forward using intrinsic impetus. There are four key elements in analyzing the company’s intrinsic impetus. Beginning with the company’s top-level strategy, customer, leader and employee are three important roles in turning company’s strategy into reality. To create value, leader and employee should be customer-focus. By expounding the four key elements of the “self-reform”, combining with classic case, the way to gain continuous intrinsic impetus for a sustained growth is clearly illustrated.

ZTE’s “missing core” incident cause a sensation, sounding the alarm for the high-tech industry. On the positive side, it is truly set a higher standard for the growth of Chinese companies, requiring a certain level Chinese companies to become more competitive later. Therefore, in the meantime of recognizing the achievement of 40 years of Chinese reform and opening, the sustainable cultivation and maintenance of Chinese company’s competence are expected. To do that, a new starting point of an all-new “self-reform” compared to past 40 years’ achievement must be established for the Chinese companies, faced with the uncertainty of future challenges.

This paper builds a “self-reform” model consisting of four factors: reconstructing company’s strategy, customer-focus, leader’s resolution and employee’s change. To provide a reference for leaders when implementing enterprise transformation, some representative cases are given.

When talking of enterprise transformation, leaders often first pay attention to the problems currently faced. As a matter of fact, the first step a company should do is to clarify what to do and what not, that is to say, a company should roll back to strategic thinking to develop a corporate strategy and then implement the management philosophy to solve the problem. The right strategy can help companies to cultivate and maintain sustainable competitiveness, assisting the company’s subsequent transformation work, and lay the foundation for a successful transformation of enterprises. Thus, it is very important to formulate the correct strategy for enterprise transformation.

Many successful companies with 100 years history have gradually waned. Reason for that is these companies are too successful to transform, leaders are often accustomed to making decisions based on past successful experience when the environment is full of unknowns and uncertainties and existing products can bring high profits. In fact, in the era of the explosion of big data information, all industries can be subverted. Experience will only become an obstacle to company’s development. What matters for the company is the future, not the achievements in the past. Therefore, the leader needs to have zero-return thinking when formulating the company’s strategy, and to do that the company needs to forget the success, starting from zero. More specifically, in the process of transformation, the company must continuously judge and criticize the achievements it has made in the past and consider what practices to keep or desert in a timely manner when business environment changes and organization evolves.

When companies are faced with a rapidly changing market environment and unpredictable competitors and consumers, if their leaders are always immersed in the company’s past achievements and are reluctant to change their thinking that is solidified by past success, it is likely that the company is heading for decline. Nokia was once the world’s most powerful communications equipment manufacturer, ranking first in the world for 14 consecutive years. However, in 2011, Nokia suddenly declared bankruptcy, blamed on the lack of strategic zero-return thinking when their leaders made corporate transformation decisions. When Nokia was at its peak of development, the launch of Apple’s first iPhone failed to alert the Nokia’s leaders. They were complacent with the success of the company and were reluctant to give up their existing high profit products. Neglecting the impact of iPhone to the development model of the entire mobile phone industry. Nokia’s leaders voluntarily give up investment resources to develop new types of smart phones, instead they set existing markets as the company’s strategic goals, which lead to a situation Nokia missed the best transformation opportunity and was overtaken by competitors, eventually leading to decline.

In the past, China was in the seller’s market stage, and the market was in short supply. Companies mainly aimed at achieving scale growth. And at this stage companies provided products and services to customers from their own perspective and did not really pay close attention to customer’s value.

Now China has entered the buyer’s market stage where companies ushered in a customer-led stage. This stage is also a time to test whether the company can truly contribute to the customer’s value and truly grow.

To do this, the key core is companies stop being the self-centered, and create value on the basis of customer focus. Specifically, companies no longer provide products and services to customers from their own perspective but put themselves in customer's shoes. All the company's business is on the premise of customer orientation and all the resources and operating model of the company are developed to meet the customers' needs and value.

Traditionally, provide products and services, and customers accept them passively, which makes customers and enterprises stand in opposition. If the products and services provided by the enterprise cannot meet customers' needs and customers do not accept the products, companies are difficult to complete effective transformations. Drucker believes: "Only customers can create jobs, customers are the cornerstone of the company and the lifeblood of survival. The core of the company's core competitiveness lies in creating customer value." Specifically, companies need to do the following two points to ensure the firmness and realization to be customer oriented.

With the continuous development of the global market, many upstream activities (such as supply, production, and logistics) have been commoditized or outsourced. To seek the driving force of create value, most enterprises have now focused to bring downstream activities with competitive advantage. Stephen Jobs said: "From the customer experience, and then back to the technical level", so to achieve the goal of using the downstream activities to gain a competitive advantage, companies need to fully reach the end customers, and put their emphasis on the production to meet customers standards and needs. To be more specific, the business development direction of the company is to touch the end customers, allowing customers to participate and maximize all aspects of the value chain. The strategic planning of a company is no longer independently formulated by itself but is integrated into the customer's fundamental needs. The company chooses what to do and what not, and the customer considers at their end. In terms of the realization of customer value, the company stands in the customer's position, uses the customer's way of thinking, and provides a satisfactory product for the customer by rationally distributing and utilizing the resources of accompany.

In 2013, the domestic feed market experienced overcapacity and depression. Faced with the severe challenges, the New Hope Group started implementing a major strategy of separation of production and sales, from "company + farmers" to "base + terminal" mode which extends the company's value creation capabilities from farm end to consumer end. On the supply side, the New Hope Group launched the "Fuda Plan" to help farmers to carry out efficient farming; on the demand side, the New Hope Group extended to consumer end, promoting product development and channel optimization. Through unremitting efforts, the New Hope Group has developed into a leading enterprise that provides upstream and downstream products for the agricultural industry chain.

In the era of scientific management, the efficiency of organization comes from the division of labor. With the advent of the artificial intelligence and digital era, the boundaries of enterprises have been broken, and efficiency is no longer derived from the division of labor, but from the synergy between departments. Faced with the ever-changing business environment, companies must build a high-performance team to respond quickly to customer needs, which is the key to transformation. To do this, companies need to work together to contribute to customer value. Specifically, the leader should develop company processes, operating systems, division of labor, and incentive policies on basis of customer orientation. And the leader also should guide the work of all employees around customers, all customer-centric. Serving customers is not only the responsibility of business departments, sales departments and field staff, but also the responsibility of manufacturing, research and development and finance departments and all other cause of employees.

Professor Kurt of Harvard University believes: "The failure of corporate transformation is largely due to the inability of organizations and leadership." Therefore, in many cases, the failure of enterprise transformation does not result from the emergence of problems but from incomplete of transformation itself. In today's changing environment, organizations are always faced with the complexity of uncertainty and change. Transformation is a continuous process, once begins, it will not stop. If the transformation has not played its due efficiency. The reason for that maybe the difficult and painful process transformation may not be completely implemented due to the doubts and oppositions of employees. If not supported by the employees, the transformation will be difficult to implement. Thus, the leaders need to have firm beliefs to withstand the tremendous pressure to promote the transformation of the enterprise in various ways, so that the transformation will continue.

IBM is the world's largest information technology and business solutions provider with three fundamental beliefs: respect for individuals, customer service first and excellence. When Gerstner took over IBM in 1993, the company had suffered losses for three consecutive years, totally \$16.2 billion. In order to get the company out of trouble, Gerstner adheres to the company's belief and establishes the core values of "win, team, and execution" and transforms it into a corporate performance management system. All leaders and employees must revolve around these three aspects to develop a "Personal Commitment" PBC and a work plan to complete in the coming year. Gerstner internalizes the company's values into employees' belief, helping them

to once again get out of trouble and achieve a successful transformation. By 1996, IBM had a total turnover of \$77 billion and had a net income after tax of \$6 billion.

Enterprise transformation relies on employee transformation. In many cases, the transformation work is slow because employees are not aware that the company has reached a very perilous moment. As the evangelist of the enterprise, the leader needs to constantly let the members realize the crisis to overcome the difficulty during transformation. Sun Zi said: "The up and down with same desire will win". Therefore, in order to achieve organizational goals and promote enterprise transformation, leaders and employees need to be united, all members should have a strong desire for survival and sense of crisis, which in turn alert employees eager to seek for life, enhance their understanding of transformation, mobilize their enthusiasm, and initiative them to accept change. Only by letting employees feel the crisis facing the company, will employees think about how to do better in order not to be filtered out, and will the transformation become smoother.

Giving employees a sense of crisis is not companies deliberate action, but from the transformation's need. To transform the "crisis sense" into a "security sense", and let all the staff actively cooperate, the enterprise needs to do the following three things:

A shared vision is an image or scene shared by people in an organization. It will inspire people's courage to do what they must do to achieve their vision, to encourage "creative learning," and to create a sense of unity between members and organizations. Niu Jiyu pointed out that the shared vision is an organic combination of organizational vision and personal vision. Some research has shown that building a shared vision is an important means for companies to maintain their vitality and competitiveness. For companies in transformation, a shared vision is one of the important factors that influence whether transformation can be successful or not. Therefore, companies should not only be bound to achieve the development goal, but also link the transformation with the interests of employees. A shared vision can be built if personal vision is effectively integrated enterprises vision. While helping companies achieve their vision of transformation, employees truly feel the benefits that transformation brings, and help employees recognize and support the transformation of the companies. The shared vision enables employees to expect a better future with the company, to stimulate enthusiasm and creativity, to fully commit themselves to work and to promote the company's transformation.

In 2013, when there was resistance in the development of the New Hope Group, Chen Chunhua, CEO and Co-Chairman of the company, proposed a new vision "building a beautiful world-class farming and animal husbandry enterprise" which also double the income of the struggler, fully immerse the interests of employees into the vision after transformation, gives employees a good hope and motivation, and pump strugglers with positive energy.

In the process of company transformation, people are unwilling to accept new changes due to their habits or inherent inertia. To eliminate this conflict do good to a smooth transformation. Many leaders believe that employees are unwilling to cooperate because they are unsatisfied with the interests, but it's just part of the reason. In fact, the biggest reason is they are worried that they are incompetent or unable to support future development. Knowing this, if company can provide learning and training opportunities for employees, and enhance their confidence in future work, one can believe employees will probably actively cooperate and promote corporate transformation. For instance, the New Hope Group established the online and offline dual training system, naming "Cloud Education" in 2015. The New Hope Group has initiated some internal talent training, such as "Management Trainee", "New Power Plan" and "Specialist Program" and other employee growth plans. Meanwhile, The New Hope Group opened "New Hope Overseas Training Course" and "New Hope Overseas Cadre Training Course", cooperating with multinational companies and exchange personnel. These measures provided new opportunities for their employees to eliminate their fear of future work and enhance their competency.

"No innovation, it will perish" as once said by Henry Ford, founder of the Ford corporate. Business needs transformation to encourage employees to innovate for the future which is full of changes and uncertainties. Meanwhile, innovation requires tolerance and understanding failure. If employees are criticized or fired for making mistakes, they will easily lose the courage to innovate and dare not to innovate. It is difficult for R&D to innovate without trial and error. To encourage innovation, employees should be forgiven for making mistakes. If a company has only R&D investment but no R&D tolerance, all R&D will become a waste full of conservation.

As a communication technology company that produces and sells communication equipment, Huawei has created an atmosphere of openness, encouragement and tolerance for employees to ensure innovation. This is an important reason for Huawei to dare to innovate and ultimately achieve innovation. "Assuming that the new research can be accomplished easily, it must be genius work with rare probability; assuming that a new research project can't be done, Huawei will get talents," as said in Huawei's memo. The philosophical "fault-tolerant thinking" advocated by Huawei has greatly inspired the innovative spirit of employees and made the company a leader in the industry.