

ACTIVATING TRANSFORMATION





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INTRODUCTION

Pandemic fallout, politics, international conflict, and societal unrest have put the spotlight on how organizations handle the unexpected. Suddenly, organizations must face the harsh reality of how prepared they are to embrace disruption and adapt accordingly. Leaders must reflect on their transformational capabilities and be well positioned to make the necessary changes to transform.

Beyond the apparent leap from crisis to crisis, the fundamentals of how we do business are changing, adding additional complexity to transformational efforts. The way organizations interact with their customers, employees, and society at large is changing at breakneck speed. In the digital age, employees connect with each other and outside organizations through platforms like Glassdoor and LinkedIn. Due to increased connectivity, customers are now able to interact directly with organizations and each other, often joining forces against an organization by voicing complaints on social media.

“What we need to do is always lean into the future; when the world changes around you and when it changes against you—what used to be a tailwind is now a headwind—you have to lean into that and figure out what to do, because complaining isn’t a strategy.”

Jeff Bezos, CEO of Amazon

This transparency and connectivity in the new economy mean that everything is on the table and every topic is open for discussion. As the platform economy evolves, there are both new opportunities and new challenges that arise with heightened complexity, making organizational transformation more difficult than ever.

To understand what makes transformations flourish in the new economy, Korn Ferry embarked on a comprehensive research program. We analyzed over a thousand public companies along with Korn Ferry proprietary data to uncover the critical factors that differentiate great transformations and drive extraordinary, sustained growth. We want to help our clients understand where to focus their resources and energy for maximum effect.

“By 2030, less than three-quarters of the leading companies in the S&P 500 will exist.”

Professor Julie Hodges

As a result of our research, Korn Ferry found that regardless of differences among the transformational organizations in our sample, they shared fundamental similarities in how they approached the vast challenge of continuous transformation.

Organizations must learn how to improve and build on wins to generate momentum and eventually move into a state of continual transformation, where results fuel further investment. Most importantly, Korn Ferry has found that successful organizations DISRUPT.

DISRUPT

Transformational organizations:

Develop

self-disruptive leaders

Cultivate self-disruptive leaders at all levels who can handle ambiguity, evolve continuously, and empower those around them to become decision makers.

Invest

in the future

Invest and take risks in all aspects of the business—all with an eye to the triple bottom line of people, planet, and profit.

Seek

big and bold ideas

Think outside the box and encourage others to do the same. Experiment with new ideas, celebrate failure, and be prepared to make tough decisions.

Rally

around the customer

Focus on total solutions to delight the customer and use employee experience to impact customer experience.

Unify

around purpose and culture

Unify customers and employees with a clear, concise, and meaningful purpose and a transparent culture.

Prioritize

partnerships and connections

Actively seek ways to share knowledge and capabilities inside and outside the organization through partnerships and networks.

Transform

continuously

Treat transformation as a capability, a continuous journey, and a competitive advantage.



The transformative organizations in our study were purpose-driven and leveraged the power of connectivity and platforms. The combination of influential self-disruptive leaders and clear strategies aligned to purpose united employees around shared goals and inspired customers to invest in the brand. The road to success for these organizations also relied on increased investment, tolerance for risk, acceptance of failure, and, most importantly, focus on people. At the core of transformation are the people who power transformation efforts—from the customer all the way to the CEO.

It is notable that the organizations we deemed highly transformational have upheld this DISRUPT model—and are even leaning into it more strongly during the multiple challenges 2020 brought.

While COVID-19-related market volatility makes reliable analysis difficult, an early review suggests that companies continue to draw on their transformation capabilities. Many perform above their industry average even in turbulent times. Korn Ferry will conduct an ongoing economic analysis in the coming months to further assess the longevity of the study's initial findings.

METHODOLOGY

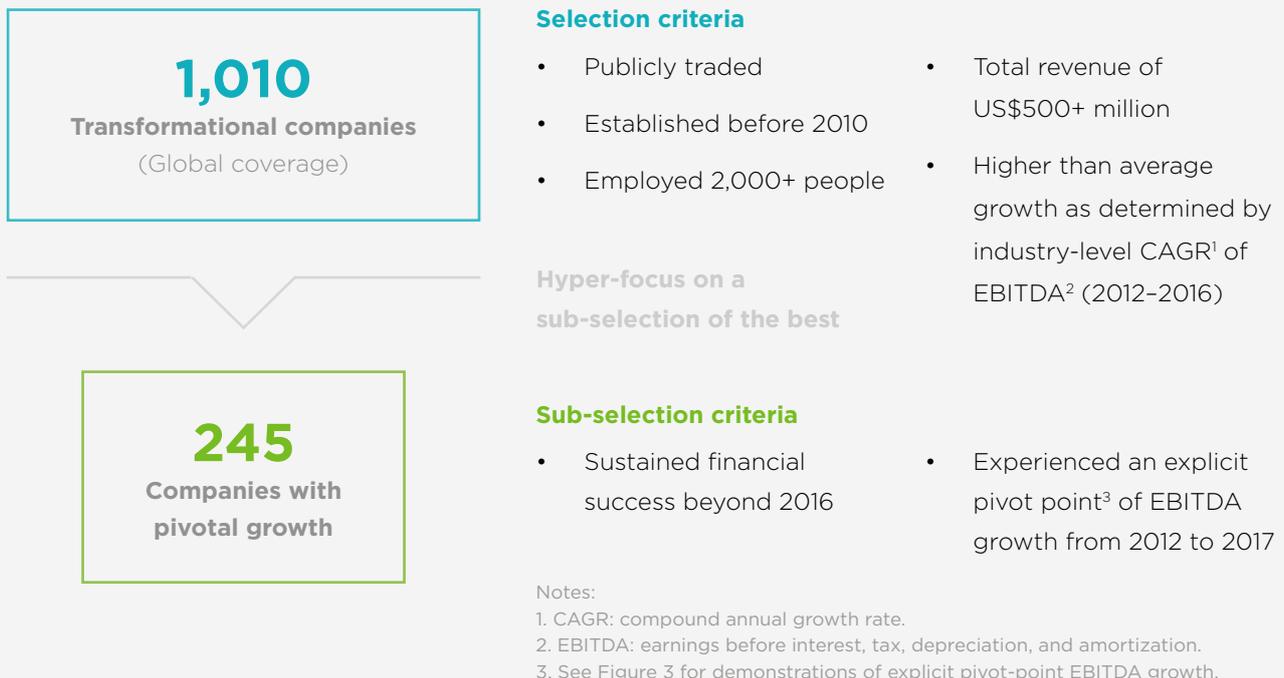
Through a comprehensive research study, Korn Ferry sought to determine which transformational factors led to positive performance. Our research unveiled what the most transformative organizations did before and during a sustained period of high growth. We also compared the leaders and talent from the most transformational organizations to those from less

transformational organizations and arrived at a profile of leadership and talent needed to optimally navigate the transformation journey.

Using publicly available information and stringent financial criteria, we examined a global sample of 1,010 publicly traded companies deemed to be transformational (see Figure 1).

Figure 1: Selection Criteria

An illustration of how organizations were selected for the transformational companies study

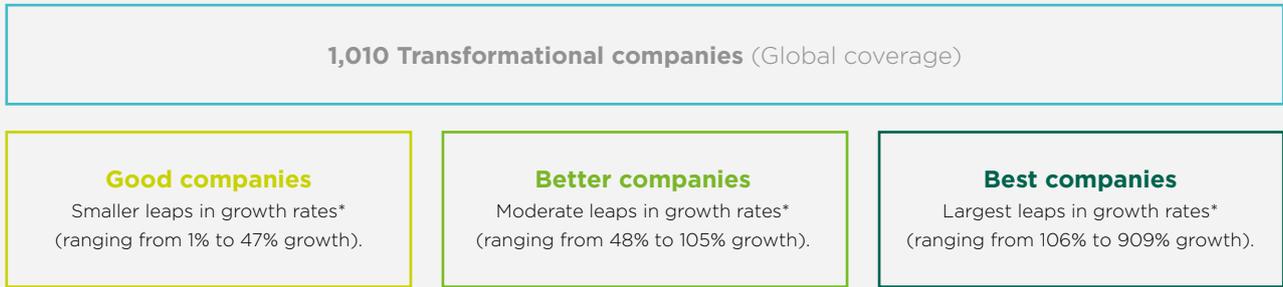


It was important to show that the organizations in our sample were indeed successful and able to sustain results from their transformation efforts. To prove this, we gathered data for each company in these groups and expanded our time period to include results through 2018.

The 1,010 companies were divided into three groups based on their growth rates in EBITDA during the transformation period (see Figure 2).

Figure 2: Group criteria

An illustration of how organizations were grouped



*EBITDA between 2012 and 2016

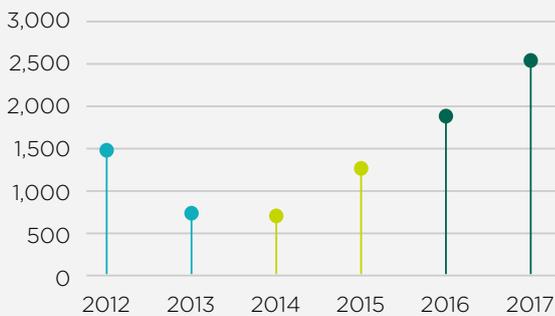
We narrowed our sample to 245 companies that experienced an explicit pivot point of growth between the years 2013 and 2017. Financial performance increased to a much higher level, as measured by EBITDA before and after a pivot year (see Figure 3).

Figure 3: EBITDA pivotal growth

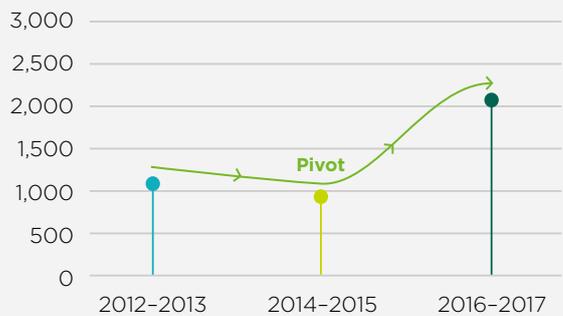
An illustration of pivot-point growth based on EBITDA from 2012 to 2017

Transformation Type 1 - Sample company A
Negative growth to very positive growth

Annual EBITDA (in millions)

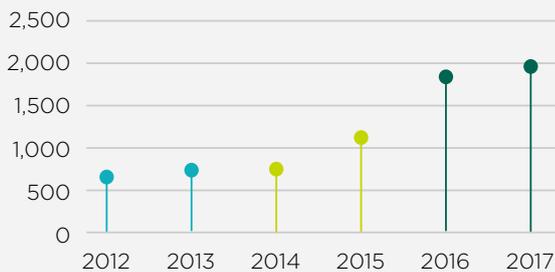


Average annual EBITDA (in millions)

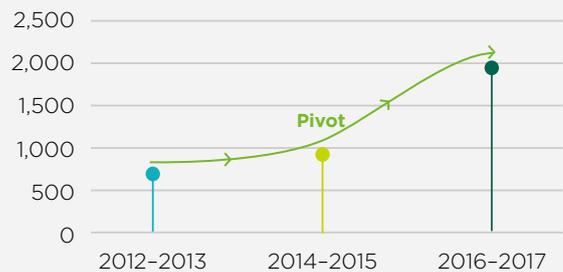


Transformation Type 2 - Sample company B
Low positive growth to very positive growth

Annual EBITDA (in millions)



Average annual EBITDA (in millions)



TALENT WITHIN

A great example of an internally sourced and self-disruptive CEO leading a remarkable transformation is the amazing story of Satya Nadella, who joined Microsoft as a programmer, rose through the ranks, and was appointed CEO in 2014 when Microsoft was struggling. He turned the organization around, making it one of the most valuable companies in the world. Nadella was number six on the list of most beloved CEOs in the United States, based on Glassdoor rankings for 2019.

In order to better understand the people, jobs, cultures, and other levers that foster transformation, data from proprietary Korn Ferry sources, such as leadership assessments and engagement surveys, along with publicly available data were analyzed and coded across 55 different variables.

For example, among the 55 variables, data gathered included:

- Corporate Social Responsibility (CSR) ratings (to test the importance of a triple bottom line).
- Social media presence (to test the impact of marketing campaigns and customer engagement).
- Employee satisfaction as assessed by Korn Ferry proprietary data and external sites such as Glassdoor (to test the connections between employee and employer objectives and values).

The goal was to narrow down the most impactful levers to help organizations prioritize their resource allocation, including time, attention, and capital. The culmination of our insights on the most universally critical levers comprise the DISRUPT model of transformation.



DEVELOP SELF-DISRUPTIVE LEADERS

Transformation is all about people—the right people, the right decisions, the right time. But in order to transform successfully, organizations need to move beyond traditional approaches to leadership.

Highly transformational companies cultivate self-disruptive leaders who can handle ambiguity, evolve again and again, and empower those around them to become decision makers. These future-ready leaders guide the journey—overseeing the process, managing challenges, building networks, and providing direction for the rest of the business. But they also understand that frontline leaders and individual contributors are the ones who will activate transformation—and make or break the ability of an organization to transform. A new kind of leader is emerging

in this increasingly disruptive economy. Gone are the days of command and control. Because the business landscape is becoming more volatile, more uncertain, and more ambiguous, the leaders of the future will need to start disrupting themselves first. In other words, they need to become more agile, more nimble, and more future-focused if they want to thrive in the new economy.

Self-disruptive leaders are more likely to be found at high-transformation companies, scoring significantly higher on qualities like direction, integration, and acceleration. These leaders have five key qualities they need to ADAPT—that is, the ability to Anticipate, Drive, Accelerate, Partner, and Trust. When organizations embrace the ADAPT model's proficiencies throughout the organization, they develop leaders ready for

whatever the future of work brings. They're highly "learning agile" leaders who shape the future. They adapt and seize opportunities quickly. They develop strong partnerships and working relationships, build trust across boundaries, and orchestrate collaboration. They propel results by striving towards realistic goals and steer organizations with a purpose-driven vision of optimism and growth. There's also more regeneration among executives at highly transformational companies, and more connectivity among managers and individual contributors—renewable sources of energy that are not reliant on one person or hierarchical structure.



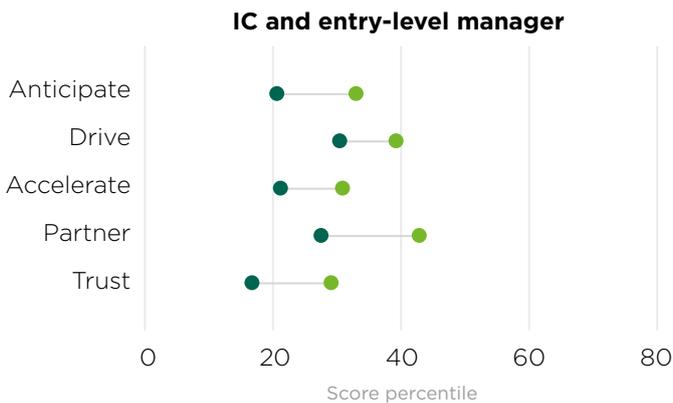
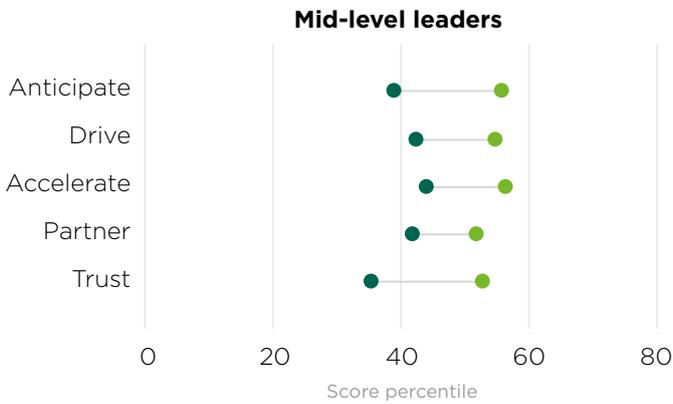
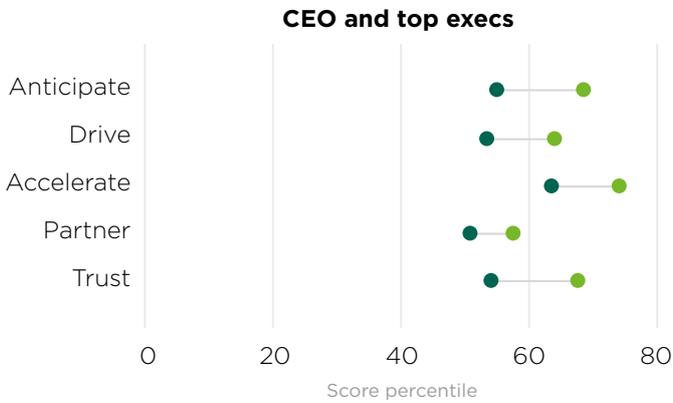
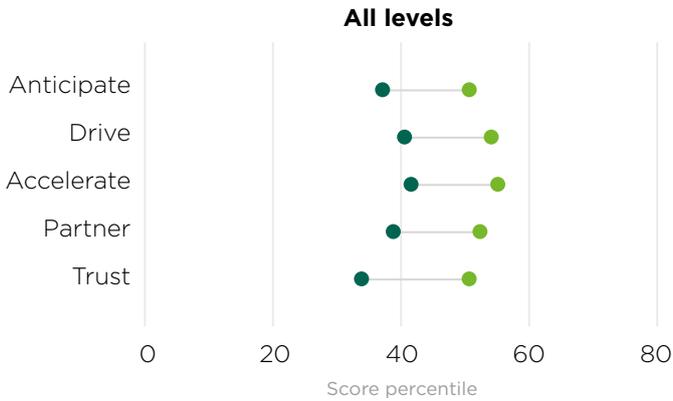
Table 1: ADAPT model

Self-disruptive leaders excel in five core areas, as illustrated by the ADAPT model

Leadership quality	Description
Anticipate	Demonstrate contextual intelligence to make quick judgments and create opportunities; focus on the societal needs that the organization wants to serve; provide a direction to unify collective efforts even among disoriented environments.
Drive	Energize people by fostering a sense of purpose; manage the mental and physical energy of self and others; nurture a positive environment to keep people hopeful, optimistic, and intrinsically motivated.
Accelerate	Manage the flow of knowledge to produce constant innovation and desired business outcomes; use agile processes, quick prototyping, and iterative approaches to rapidly implement and commercialize ideas.
Partner	Connect and form partnerships across increasingly permeable functional and organizational boundaries; enable the exchange of ideas; combine complementary capabilities to enable high performance.
Trust	Form a new relationship between the organization and the individual that centers on mutual growth; integrate diverse perspectives and values; help individuals to uncover their sense of purpose and facilitate them in providing their maximum contribution.

Figure 4: ADAPT results by level

- Companies with high transformation scores
- Companies with low transformation scores



Additionally, a substantial majority of high transformers in our study demonstrated high levels of leadership stability and internally sourced executives.

- 83% of transformative organizations had stable leadership at the CEO level with minimal CEO changes over the course of their transformation.
- 96% of highly transformative organizations had CEOs with extensive industry experience.
- 81% of these organizations' CEOs were promoted from within.

No company can achieve transformational capabilities without self-disruptive leaders at all levels of the organization. These leaders embrace the organization's purpose. They use their high levels of mental agility, collaboration, and emotional intelligence to continually point to the company's purpose and foster the right partnerships and investments that will carry these companies successfully into the future.

INVEST IN THE FUTURE

Our research found that transformational organizations who invest in themselves take on more debt to fund their future—a move that requires both the leader and the strategy to be risk tolerant. These investment risks, when done with purpose, pay off. Transformational companies with the largest growth rates also had the largest debt ratios during the transformation process; however, debt ratios were significantly reduced over time to (almost) the levels of companies from other groups.

To prepare for the future, we found that high transformers invest in their business to maximize financial returns and invest in social and environmental impact. Their focus is on the triple bottom line (people, profit, planet). The most transformational organizations focus resources in all three areas, recognizing that they can be mutually reinforcing.

Additionally, the “Best” transforming companies reduced their debt ratios more than companies in the other high-performing groups after their growth pivot point. This investment through the rapid accumulation and then reduction of debt implies a balance between future thinking, risk tolerance, and discipline—a difficult but not Herculean task if investments are made in the right areas of the organization.

Table 2: Debt ratios

Significant differences in debt ratios among transformational companies

Transformational category	Average net debt over EBITDA (before pivot)	Average net debt over EBITDA (after pivot)	Average net debt change	Percentage of companies that reduced net debt
Best: Largest leaps in growth	7.68	2.84	-483.4%	78.8%
Better: Moderate leaps in growth	3.98	2.84	-114.8%	76.0%
Good: Smaller leaps in growth	3.00	2.72	-27.2%	48.0%

Transformational organizations invest, but where they invest matters. All these high-transforming companies, regardless of industry, invested new money in R&D, and the most transformational companies invested 78% more than companies that had moderately successful transformations and 115% more than their industry's average.

According to International Data Corporation, spending on the technologies and services that enable the digital transformation of business

practices, products, and organizations is expected to reach \$2.3 trillion in 2023.

While many organizations may say they prioritize R&D, few do so on the large scale required to make bold strides in innovation that produces transformational growth.

Table 3: Research and development spending

Differences in R&D investment among transformational companies

Variable	Best (Largest leaps in growth)	Better (Moderate leaps in growth)	Good (Smaller leaps in growth)
R&D investment relative to industry before the pivot	115% more than industry average	176% more than industry average	21% more than industry average

Note. Statistically significant differences were found between Best and Good groups' R&D investment.

While transformative organizations are investing in their future, they are also focusing resources on creating a positive global impact. This outward focus is important as the world continues to face challenges of all types. According to the United Nations Sustainable Development Goals Report 2020:

- Climate change is still occurring much faster than anticipated. The year 2019 was the second warmest on record.
- School closures kept 90% of students worldwide out of school in 2020.
- 71 million people were expected to be pushed back into extreme poverty in 2020.

- Half the global workforce may be significantly affected, with their incomes estimated to have fallen by 60% in the first month of the crisis.

“We believe climate change will become one of the most important investment factors over the long term.”

Remy Briand, Head of Environmental, Social and Governance (ESG) at Morgan Stanley Capital International (MSCI)

The challenges could considerably affect all aspects of an organization, the customers who support it, the employees who make it run, the future workforce, and the very world we live in. Transformational organizations understand that to do well, they must invest in both themselves and society.

Our research found that transformational companies score high on public indices like corporate social responsibility (CSR) scores. Companies who excel in transformation score well above the average score of 50 for CSR (as rated by CSRHub).

Table 4: CSR and brand rating

Differences in CSR and brand ratings among transformational companies

Variable	Best (Largest leaps in growth)	Better (Moderate leaps in growth)	Good (Smaller leaps in growth)
CSR Rating	64.24	64.43	49.81
Brand Rating	52	50	44

Note. Scale is 1 to 100 for both variables. Significant differences of means between Best and Good, and Better and Good for CSR and for Brand.

In 2019, CEOs joined environmental organizations to launch the CEO Climate Dialogue. These highly transformative organizations took impressive steps to combat climate change:

- Microsoft upped its renewable portfolio enough to power 1.5 million US homes.
- Google announced the largest-ever renewable energy procurement deal, which makes its total clean energy portfolio large enough to power Uruguay.
- Tyson Foods announced a new partnership with Proforest, an organization focused on sustainable natural resource management.

The disruption from the COVID-19 pandemic has surfaced many organizational and people-related challenges. Transformational organizations are responding by reacting quickly and with employees and customers front of mind.

Centene, a healthcare insurer that focuses on managed care, has committed the following to

their employees (and society) during the global health crisis:

- Providing paid leave for clinical staff who choose to join a medical reserve force.
- Waiving cost-sharing for COVID-19-related treatment and emergency paid sick leave.
- Issuing a one-time payment of \$750 to employees in a small number of critical functions.
- Continuing to hire and looking to fill nearly 2,000 open roles.

Transformational companies develop strategies that shift toward future growth, the triple bottom line, and related outcomes. This shift requires strategic clarity as well as an adaptive strategy. Companies in our sample demonstrated a financial commitment to new opportunities and a respect for how their organization affects the world.

SEEK BIG AND BOLD IDEAS

Seeking big and bold ideas requires organizations to carefully evaluate their processes, procedures, structures, and people. Transformational organizations that adapt and thrive spend time and money investing in exploration. They understand fully the power of experimentation and are very open with investors that they value this mindset. And these companies applaud both successes and failures, because the goal of these investments in innovation is to learn—and use this learning to their competitive advantage. These companies understand that they need to reassess their talent and make tough choices—about the people they bring in and the people they let go—to support their endeavors.

While looking for evidence of transformation, Korn Ferry found that the majority of organizations who were transforming made bold changes to their structure, redesigned themselves, and changed the way they did business. Tying their efforts to their core strategy, either freeing funds to support the transformation or bringing in new perspectives, will take their transformation efforts to the next level.

EXPANDED THINKING

Tyson is focused on all protein and is investing in the exploration of plant-based options.

Elon Musk, CEO of Tesla, welcomes failure and expects his employees to as well, “Failure is an option here. If things are not failing, you are not innovating.”

Google’s invention laboratory has built failure into the process of discovery and spends significant time seeking what does not work.

Alibaba Group CEO Daniel Zhang implemented a major organizational restructuring, which increased operational efficiency and improved customer experience by optimizing the company’s vast ecosystem and data.

Amazon offers a variety of store options. Amazon Go stores famously require no cashiers—customers walk in, grab what they want, and leave. Cameras and IoT devices figure out their totals.

Beacon Roofing Supply uses e-commerce functionality to distribute building products. Contractors can order materials 24/7 and use Beacon 3D+ to take virtual construction measurements without needing roof access.

Not all organizational changes are due to new technologies, innovations, or leaders—some changes are necessary for survival when the unprecedented occurs. During the COVID-19 crisis, transformational organizations have had to make bold decisions. Delta offered early retirement packages and buyouts, which about a fifth of their staff took. More than 40,000 Delta employees have opted for temporary leaves of absence since the pandemic began, and work schedules for most employees have been cut by 25%.

As organizations seek new ideas, our research found that the jobs at transformative organizations are more complex and require more mental agility from leaders. Enabling transformation requires leaders to look at how to create fluid environments where

people collaborate quickly and efficiently and without fear of failure. With no way to know how things will change, transformative organizations need to be as responsive as possible. They must create agile and collaborative working conditions for faster decision making and execution.

Our analysis of Korn Ferry jobs and pay data shows that roles at transformational organizations are already preparing for the needs of the future. We found that transformational organizations have higher job complexity on average, meaning that the jobs at these organizations were bigger, bolder, faster, and harder. These roles required higher levels of accountability, problem solving, and know-how—a finding that was true at all levels, from the individual contributor all the way to the CEO.

Table 5: Job complexity

Job complexity point count among transformational companies

Transformation status	Job complexity
Failing to transform	279
Actively transforming	378
Successfully maintaining transformative behaviors	300

Successful organizations think outside the box and challenge their people to do the same. Korn Ferry’s research on the future of work found that even the jobs at these organizations are evolving. They need big thinkers who can focus on collaboration and seamlessly manage the intricacies of the modern world as they execute on the next big thing. As jobs grow bigger and more complex, they will demand greater cognitive capabilities. People will not only need greater knowledge and expertise, they must also apply that know-how in unfamiliar situations. These changes require leaders who are ready, willing, and able to seek and embrace big and bold ideas.

It was not surprising to find during our analysis of learning-agility assessment data for transformational organizations that mental-agility scores rose over time at the executive and senior executive levels in transformative organizations. Mental agility is the extent to which an individual embraces complexity, examines problems in unique and unusual ways, is inquisitive, and can make fresh connections between different concepts. Self-disruptive leaders with high mental agility approach complicated issues, new challenges, and unfamiliar situations with broad curiosity and enthusiasm. As these organizations grew their transformational capabilities, the right leaders were placed at the helm.

RALLY AROUND THE CUSTOMER

While most executives say they want to deliver a great customer experience, the reality is that good intentions and executive proclamations are not enough, and fall short of including employees as customers. In contrast, highly transformative organizations obsess over both external customers and internal customers—after all, employees are an organization’s most effective brand ambassadors.

The value chain between the employee experience and customer experience is well established. When companies create a great employee experience, they can take it further by recognizing that the lines between employee, customer, and investor are blurred. Rallying around this expanded definition of customer means providing the best support by connecting with the customer on all levels. Connection with the customer includes social media and the use of data to anticipate customers’ needs with solution-oriented products and services that feel personalized.



SOLUTION ORIENTED

1 Sanofi, a biopharmaceutical firm, intends to improve patient outcomes by investing in digital healthcare such as digital clinical trial operations, digital medicine solutions, and integrated diabetes care that incorporates mobile technology.

2 Amazon continuously transforms in the name of the consumer. It collects extensive data on how users interact with the site, and all that data is analyzed to anticipate what consumers and sellers need next.

3 CVS wants to be a place where customers come to get healthy. It banned tobacco products from stores in 2014 and has become the fastest-growing provider of walk-in clinics. This client-oriented approach has helped CVS climb the Fortune Global 500 with around \$195 billion in annual revenue.

Companies that only focus on the current state (what the customer wants)—and not what could be (what the customer needs)—often fail at transforming. When organizations look at how to help their customers achieve their goals and meet their objectives, they will often generate very innovative and successful ideas.

This allows the company to stay true to what will grow its bottom line—creating what customers need next. More than 65% of Great companies, with a compound annual growth rate (CAGR) of earnings per share (EPS) of 25% or higher, emphasize agility in approaching the market. Their focus is on their core mission rather than the specific destination.

Transformative organizations incorporate the customer into everything they do, starting with their employees. Treating employees with respect pays—and makes a difference to customers. Our research found that higher ratings on employee experience show significant relationships with positive financial outcomes. These include employee ratings of their internal experience of the company’s culture as well as their perceptions of the employer and its brand overall.

Table 6: Employee experience ratings

Significant difference in high-visibility ratings among transformational companies

Variable	CAGR of EPS for years 2014–2019		CAGR of market cap before and after the pivot year	
	<i>r</i>	<i>p</i>	<i>r</i>	<i>p</i>
Employees’ Culture Glassdoor Rating	0.20	0.01	0.13	0.09
Overall Employee Glassdoor Rating	0.16	0.04	0.12	0.10
Brand Glassdoor Rating	0.19	0.01	0.17	0.03

Note. *r* = Pearson correlation coefficient. CAGR = Compound annual growth rate. For this study, we considered the correlations at *p* < 0.1 as statistically significant.

According to an external Korn Ferry online survey of 5,500 global consumers, only 25% of respondents worldwide said that employees “make me feel they are on my side.” This reinforces the importance of the employee value proposition and experience: every employee is a brand ambassador, is needed to build trust with customers, and is core to delivering better customer service. A rigorous focus on the customer requires serious investment as well: Korn Ferry insights on customer experience for 2020 found that, on average, leading organizations invest nearly US\$1,500 per service associate per year in training and development. This is about 50% more than laggard organizations. Transformative companies invest in their customers and in the people who are on the front lines engaging with their base.

Further supporting the importance of the employee experience, data shows that a diverse workforce generates 38% more in revenue from innovative products and services. Empirical studies have found evidence that diversity in the workplace produces increased knowledge sharing, flexibility and creativity, and as a result, better team performance. Transformative organizations recognize the importance of diversity and inclusion as it relates to performance. A diverse and engaged workforce is the cornerstone for a great customer experience and is a solid base that supports all other transformational efforts.

Delighting the customer is a responsibility that falls on all employees of an organization; however, the spotlight often shines most brightly on the CEO. CEOs have been recast as influencers in this new economy, in some cases receiving celebrity status and scrutiny. With the rise of the impact investor and the activist employee, the ability of an organization’s CEO to connect and use their voice is more important than ever. Our research found that CEOs who are active on their individual social media account saw larger pivot points of growth for their organizations. This implies that leaders who embrace their roles as influencers and use their platform to listen to their customers and support their employees have their finger on the pulse of what could help their organization transform and what their customers truly care about.

EMBRACE DIVERSITY

Delta is looking to remove economic, racial, and barriers through special programs.

“There are two schools of thought—you can continue to fish and hope you get the best talent to bite, or you can farm. Our pipeline strategy is to grow, inspire, and nurture our future talent and ensure we have an employee base that’s reflective of world we serve.”

Keyra Lynn Johnson,
Chief Diversity Officer, Delta

93% of Korn Ferry consumer survey respondents worldwide would defect to another company after three or fewer bad experiences.

UNIFY AROUND PURPOSE AND CULTURE

According to Korn Ferry research on purpose, people are motivated by the desire to understand their environment and find meaningful ways to invest their time and effort. As people increasingly rely on work to define their own meaning in life, organizational purpose and culture have become more important than ever for organizations to define. Korn Ferry's study on intrinsic motivation found that people who thrive in their fields and have the resilience to pursue their passions despite setbacks and obstacles are often able to do so because they are working toward fulfilling a purpose.

We know that activating purpose and providing autonomy spurs great innovation. When pairing Global Innovation Index scores with the International Social Survey Program (ISSP), a global survey that measures how employees rated the "usefulness" of their jobs and "helpfulness to society," we found that the more aligned people in a given region were to a personal purpose, the higher the innovation score was for that region.

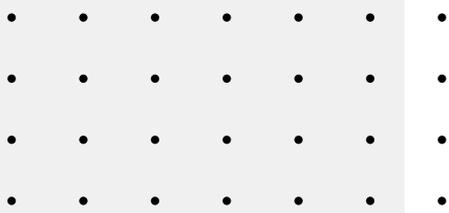
The most transformational organizations have clear, concise, and outward-focused purpose statements that state exactly what the organization aims to have an impact on, beyond financial gains.

Korn Ferry research identified four quadrants of organizational purpose most commonly used by organizations (see Table 7).



Table 7: Four quadrants of organizational purpose

Quadrant	Subtheme	Description
Self/Doing	Transform	Transform or revolutionize the industry; bring in radical change to the very basic foundations, beliefs, or assumptions upon which the business is built.
	Advance	Enhance and improve the product or service through research, innovation, or continuous improvement.
	Profit	Generate financial return and deliver shareholder value.
Self/Being	Be the best	Outperform competitors to become the industry leader in market share or quality of product/service.
Others/Doing	Impact	Serve customers and generate a positive impact, making a difference for people through products and services.
	Partner	Educate, facilitate, or empower customers to achieve desired organizational objectives.
	Promote	Create or promote a condition that benefits the broader community or the world at large.
Others/Being	Be trusted	Be trusted by or have a positive relationship with customers.



PURPOSE DRIVEN

Transforming
the health of the
community, one
person at a time

Centene Corporation

Power with heart

Kansai Electric Power

Organize the world's
information and
make it universally
accessible and useful

Google

Redefining
what's possible

Micron Technology, Inc.

Korn Ferry found that companies with others-oriented purpose received higher Drucker Institute ratings on customer satisfaction, employee engagement, and overall organizational effectiveness than did companies with self-oriented purpose. The Drucker Institute Index, which determines the Management Top 250, is an annual ranking produced in partnership with the Wall Street Journal. Based on Peter Drucker's most essential principles, it evaluates a company's "effectiveness"—that is, "doing the right things well." The Drucker Institute company ranking of organizational effectiveness is based on five components: Customer Satisfaction, Employee Engagement and Development, Innovation, Social Responsibility, and Financial Strength. The difference between employee engagement "doing" and "being" purposes was marginally significant. Transformational organizations had clear purpose statements that focused on desired impact outside the organizations—this is consistent with our findings that organizations focused on society and customers outperform their competition.

A purpose statement is important, but to be truly purposeful, transformational organizations must hire and retain employees who are aligned with and embrace the organization's culture, purpose, and strategic goals. Culture is the environment of norms and values that employees experience in an organization. It does not need to be considered "great" to be effective. However, the culture and purpose of an organization should always be transparent. Transformative organizations do their best to be very clear about their culture, purpose, and what to expect as an employee. According to Korn Ferry research on culture transformation, 72% of executives agree that culture is extremely important to organizational performance. Only 32% believe their own organization's culture is aligned to its business strategies.

There's no doubt that success in the digital age hinges on culture. In this environment, organizations must create cultural alignment or risk failure. Netflix's culture playbook highlights its expectations of radical transparency and performance. It openly admits its workplace expectations are not for everyone, saying, "Our model works best for people who highly value consistent excellence in their colleagues."

When embarking on a transformational journey, organizations want employees who are up to the task and will stay the course. They are not interested in trying to keep people who do not want to be part of the journey—regardless of how talented those people may be. They are looking for employees who are ready to embrace the organization's purpose and will positively contribute to transformational efforts.

When culture and purpose are in sync, employees execute on the strategic goals of an organization—not because they have been told to, but because they want to. They're working with the internal systems and processes, not fighting against them. In our research on culture, Korn Ferry found that businesses that align culture to strategy and engage and enable their people to deliver see a 117% greater return on investment than those who don't. They get a 145% higher return on their assets and a 56% greater return on their equity.

The companies in our sample are well established, with an average age of 61 years. These organizations have learned to broadly define their purpose and cultivate and evolve their culture over time. And they invest in broad capabilities before they even know how they might use them in the market. This way, they can be ready to reinterpret purpose at any time and have a culture that will be ready and willing to pivot.

PRIORITIZE PARTNERSHIPS & CONNECTIONS

Transformational companies actively seek ways to share ideas and capabilities inside and outside the organization. Partnership, collaboration, and openness are fueled by the understanding that competitive advantage comes from the ability to constantly invent, evolve, and innovate. The result is the ability to move farther, faster, together.

Successful businesses have a clear understanding of their capabilities and understand that they cannot and should not do it all. Instead, they constantly look for synergies with other organizations. They actively pursue win-win partnerships or opportunities to acquire other businesses to rapidly gain capabilities or regional representation and realize their transformational goals.

Transformational companies demonstrate an awareness of the market and consumer needs by expanding their reach—and their innovative capabilities—through active partnerships around the world. Highly transformational organizations prioritize partnerships.

THE POWER OF PARTNERSHIPS

“Are we partners or competitors? The answer is simple: Yes, we are.”

Gavriella Schuster, CVP of Worldwide Channels and Programs at Microsoft

Microsoft has partners who are competitors but views these partnerships as a win-win for the customer, Microsoft, and their partners. Strategic partnerships have been a cornerstone for Microsoft.

CEO Satya Nadella identified partnerships as an area to focus on as part of Microsoft’s transformation journey. That is why his first big hire was for the role of VP of business development, to help partner with outside companies.

The most highly transformative organizations in our sample had substantially more partnerships in total, on average 32% more than companies in the bottom third. While companies in the bottom third had no more than 12 partnerships, several companies in the top third had as many as 32.

Many organizations use mergers and acquisitions to transform when they are lacking the capabilities to produce and develop products on their own, or to enter into new markets. For example, Gilead Sciences, the leading maker of drugs for HIV and hepatitis C, made a move into cancer treatment, spending \$11.9 billion in cash to buy Kite Pharma, the developer of a treatment that attacks tumors by genetically modifying patients' own white blood cells. The deal recasts both Gilead, a company focused on viruses and tumors, and the field of cell therapy for cancer, which now will be guided not by start-ups but by larger, established pharmaceutical firms.

Table 8: Merger expenditure at transformative companies

Average change	Merger and restructuring costs
Best (Largest leaps in growth)	340%
Better (Moderate leaps in growth)	178%
Good (Smaller leaps in growth)	-3%

Note. Numbers in the table represent the percentage change in merger spending in the two years before the pivot year, as compared to three and four years before the pivot year.

Investing in a merger or acquisition typically pays off for transformational companies. In our study, the relationship between merger and restructuring costs leading up to transformational growth was significant in most industries. Companies with the highest leaps in growth had higher merger and restructuring costs than the lower-growth organizations.

The overarching theme is that transformational organizations have realistic expectations of what they can accomplish alone. They are constantly evaluating their capabilities and know when to connect with partners to assist. Competition among organizations is changing and the lines continue to blur as the world becomes a more connected place.

TRANSFORM CONTINUOUSLY

Transformation is not a straightforward or fixed process, nor is the outcome guaranteed. Korn Ferry's research has shown that transformation is continuous and relies more on building capabilities than following a strict process. Transformative organizations create constantly adaptive systems that respond to customers and further their purpose as a continuous activity, not as the traditional three-year transformation journey of the past.

Given limited resources, companies must be able to fully understand and pull the right levers to succeed in their transformation journey. To build the capability to transform, organizations and their leaders should follow Korn Ferry's DISRUPT transformation model, which highlights the catalysts for successful transformation.

During the process, organizations will be able to master and automate skills and tasks which

will generate more efficiency and success. The organization does not let this mastery and automation become stale; rather, the leadership and employees always look for ways to make things better. They seek opportunities to further fuel growth and results. In this context, being clear what organizational capabilities are, and how they add value, is an important first step.

In one study, executives stated that building organizational capabilities is a top-three priority for their companies. Organizational capabilities are what an organization needs to be good at in order to achieve business objectives. The combination of processes, systems and tools, skills, knowledge and behaviors, and organizational structures allows a company to deliver a defined outcome (e.g., ability to innovate or ability to respond to customer needs). Organizations are looking to build their transformation capabilities.

According to the Bureau of Labor Statistics, the job outlook for change occupations is expected to grow 11% from 2019 to 2029, much faster than the average for all occupations in the US economy, which are only expected to grow four percent.

Transformation, even when executed well, may create challenges that organizations and their leaders need to learn from. Organizations that actively DISRUPT will not only survive the unknown—they will thrive and shape the future because of it.



THE KORN FERRY TRANSFORMATION MODEL



For agile organizations, transformation is a capability to be exercised again and again to stay relevant and anticipate change. It is not a linear journey. It may involve parallel efforts, setbacks, and risks, and it is never-ending. That is why the most successful companies build resilience and agility as the foundation of their transformative capabilities. Transformation becomes a perpetual cycle, where results fuel further investment in success. Our findings led to

the creation of a new proposed model for organizational change that represents both the human and organizational aspects of transformation.

Importantly, it is not necessary to pull all the levers at once to transform continuously. For example, the Amazon flywheel is a continuous cycle that centers on rallying around the customer. You may need to focus your energies on investing in culture, or, in prioritizing research opportunities.

The cycle of transformation requires a mindset shift that emphasizes agility. As the organization transforms, its people re-imagine and re-design their work as they identify their goals, learn, and grow. Successful organizations must learn how to improve and build on these wins to generate even further momentum and eventually move into the highest cycle of transformational capability. This ultimate cycle is one that is perpetual.



THE FINAL WORD

In the new economy, it has become very apparent that the world's population is more connected than ever. Organizations are no longer operating regionally; they are operating across the globe. With global presence comes the need to understand various cultures, nurture relationships, work purposefully, and understand the massive impact businesses have on the well-being of humanity. The most transformative organizations understand and embrace their responsibility to the triple bottom line. They embrace the responsibility that comes with their purpose. They know they are more than a product or a service, but rather they are solving problems and serving needs. They know that their customer is diverse in race, age, and socioeconomic status. Most importantly, the most transformational organizations embrace the idea that we all do well when we all do well. They also understand that achieving this requires disrupting the status quo.

Disrupt, once a word filled with negative connotations, is now synonymous with innovation. It is embraced by organizations that seek to be the ones who lead in new directions. Most organizations grasp that they will be disrupted by new technologies, new market opportunities, new business models, and more. But, disruption can also force changes with little or no warning. Pandemics. Social unrest. Politics. To handle disruptions, good or bad, organizations and their people must be agile. They must adapt. They must be ready to pivot at any time for any reason. The most adaptive organizations are proactive and seek ways to disrupt before being disrupted.

Authors

Research team

Jean-Marc Laouchez

President, Korn Ferry Institute

J. Evelyn Orr

SVP, COO, and Head of Research,
Korn Ferry Institute

Maggie Patrick

Senior Manager,
Korn Ferry Institute

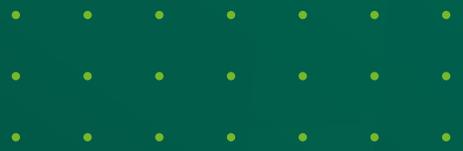
Rachel Caruso-Novack

Director, Korn Ferry Institute

Amber Benusa

Director, Korn Ferry Institute





About Korn Ferry

Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organization structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers. Our 7,000 experts in more than 50 countries deliver on five core areas: Organization Strategy, Assessment and Succession, Talent Acquisition, Leadership Development, and Total Rewards.

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