

**SmartTech:
Development of a Rapid Transformation Framework
for a Knowledge Intensive Company**

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Bachelor of Commerce, University of Alberta, 1997

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ABSTRACT

Smart Consulting and Tech Consulting recently merged to form a global IT Consulting company named SmartTech Consulting. SmartTech (a pseudonym) is looking for a transformation solution to unify their recently formed company, reduce duplication of skill sets, and improve revenues. As a 'knowledge intensive' company that generates most of its revenues through the utilization of its main assets -- the knowledge, skills and experience of its employees -- SmartTech needs a transformation framework that accounts for specific needs and circumstances of such a company. In particular, the sensitivities of the knowledge worker need to be respected for any transformation to be successful.

We propose such a framework, which we call Rapid Transformation, for knowledge intensive companies using a variety of methodologies: secondary research, interviews and surveys, and SmartTech's past transformation experiences. Implementation issues are explored in detail using SmartTech as a test case.

Keywords: Transformation; management consulting; knowledge; knowledge workers; framework

*To all those people
who were brave enough
to share their true feelings.*

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CHAPTER 1: INTRODUCTION: RAPID TRANSFORMATION IN KNOWLEDGE INTENSIVE COMPANIES

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."
Charles Darwin

1.1 Background

Technology, globalization, and mergers and acquisitions have all required organizations to be increasingly adaptable. Organizations have been forced to change with new customer needs, business drivers and the demands of the environment quicker than ever before in order to survive in this new economy. In addition, globalization has created its own challenges and companies have had to restructure, merge or acquire other businesses in order to compete. The need for companies to manage transformation well is evident, now more than ever.

Much research exists on how to implement transformation strategies throughout an organization, and many companies try to sell transformation as an "all inclusive package" complete with technology upgrades, new governance structures, and streamlined processes. Yet, most transformation efforts are reckoned to fail and it is generally agreed that managing change is difficult. "Although the growing need for change in organizations is widely acknowledged, it is asserted that up to 70% of change initiatives fail" (Higgs and Rowland, 2005). Successful implementation of a transformation process requires understanding the organizational structure, business and environmental drivers, culture, politics, people, and the specific needs and context of

that organization. A transformation approach that works for a manufacturing organization may not be as effective in a 'knowledge intensive firm', the focus of this study. Although transformation is a popular research topic, there are not many articles or books dedicated to studying transformation in this relatively new and fast growing segment of the economy. We expand on the notion of 'knowledge workers' and the specific needs of knowledge intensive firms below.

1.2 Introduction to Knowledge Intensive Companies

A 'knowledge intensive' firm can be described as an organization that relies on human capital as its core competency. Since the technology boom, the world has seen a rapid growth in human intellectual capital. There is an emphasis on knowledge intensive operations rather than capital or labour intensive (Alvesson, 1995). The industrial age was defined by accumulation and distribution; a company's primary resources were physical, tangible, and finite. In the knowledge-based economy, the organization's essence is defined by its ability to create, transfer, assemble, integrate, protect and exploit knowledge assets (Styhre, 2002). "Knowledge Intensive" companies primarily sold "knowledge" as a service. A few examples of knowledge intensive companies include teaching institutions, research and development (R&D), engineering companies, law firms, and management consulting firms.

A key differentiator of knowledge intensive companies is their employees, often referred to as the "knowledge workers". Knowledge workers are defined as:

"...individuals whose work effort is centered on creating, using, and sharing knowledge....In the days of the assembly line a worker could learn one process, acquire one skill and spend a lifetime being paid for doing it. For those who compete in the global knowledge work, this is no longer possible. The value of each employee goes far beyond a single capability or skill." (Bennet and Bennet, 2004)

As technology and machines are replacing the manual labour force, the market for knowledge workers has grown and will continue to grow (Scarborough, 1999).

As knowledge workers are the main assets of a knowledge intensive firm and generate most of their revenues, they need to be managed differently than manual workers. Issues such as employee loyalty and job satisfaction become more prevalent in this type of industry. It can be hypothesized that implementing a transformation project in a knowledge intensive firm will entail more risk in comparison to transformation in a manufacturing industry where their main asset is machinery and their workers are relatively easier to retrain. It is necessary for knowledge intensive companies to approach transformation in a different way than companies in other industries.

Perhaps one of the most complicated yet fascinating companies to study transformation in is a management consulting firm. As knowledge intensive firms, management consultancies rely primarily on their consultants' experiences and expertise to implement solutions for clients. Often hired to implement change management strategies in other industries, in recent years management consulting companies have been forced to change themselves. Studying transformation in such a firm is likely to generate insights for developing a framework for managing transformation not only in consulting firms but also in knowledge intensive organizations more generally.

SmartTech Consulting is a global management consulting firm specializing in technology, change management, and business strategy services. The firm is result of a recent merger between Smart Consulting, the consulting arm of a large accounting firm, and Tech Consulting, a

global firm specializing in Information Technology (IT) projects¹. Besides the need for internal restructuring brought about by the merger, the firm is facing major changes in its marketplace, political, legal and economic environment, as well as several challenges in managing its primary resource – people. SmartTech is looking for a transformation framework to help it meet those challenges and continue to grow

1.3 Aim

The purpose of this paper is to investigate and identify a rapid transformation framework for SmartTech. During the investigation, an external and internal analysis will be conducted, transformation literature will be researched and reviewed, and interviews and surveys will be conducted to gather information from SmartTech. Recommendations will be proposed and a framework will be drafted as a result of the analysis and research conducted.

1.4 Scope

The scope of this document will include first person interviews and surveys with SmartTech and external research on best practices of knowledge intensive firms. As the nature of the information is confidential, a limited number of interviews have been granted across the organization. To protect the anonymity of the interviewees, names will not be published and all references to interviewees will be referenced in the masculine form.

¹ SmartTech, Smart and Tech Consulting are pseudonyms used in place of the actual names of the companies involved. Due to the confidential nature of the information provided through the interviews and surveys gathered, the firm has asked that the name be withheld from this document. Both companies are large, global players with offices in multiple countries and continents.

1.5 Structure

This paper will begin with an introduction to the management consulting industry. An external analysis of this industry will be presented including the political, economic, and labour supply environment.

Following this, an overview and literature research on business transformations will be conducted. This research will be focused on transformation literature supporting knowledge intensive companies.

An introduction to SmartTech, and a short history of the factors leading to the current need for transformation, will be detailed. Analysis on the changes in the organization will also be documented and a change readiness SWOT analysis presented.

Other transformation options will be explored and analyzed. The most suitable option will be proposed. SmartTech's past transformation experiences will be detailed and lessons learned gleaned to support the recommended option.

A recommended transformation framework for SmartTech will be presented from the findings.

CHAPTER 2: THE MANAGEMENT CONSULTING INDUSTRY

In order to research and develop a successful transformation framework for SmartTech, it is important to understand the external environment and any factors that are affecting SmartTech. Several items will be addressed in this section in order to gain a better understanding of the external environment affecting the consulting industry:

- An overview of the management consulting industry;
- An overview of the management consulting industry in Canada
- The impacts of the new economy on the management consulting industry

An analysis of the external environment and the drivers behind a global change in the consulting industry will be presented.

2.1 Management Consulting Overview

Management consulting can be described as:

“An advisory service contracted for and provided to organizations by specifically trained and qualified persons who assist in an objective and independent manner, the client organization to identify management problems, analyze such problems, recommend solutions to these problems, and help, when requested, in the implementation of solutions (Canbeck, 1998).”

Management consultants are knowledge workers that specialize in an industry and/or a discipline and have the purpose of aiding companies in providing advisory services to their clients, often corporations.

Management consulting firms typically comprise of professionals with skill sets and experience that are sought after by clients wanting objective expertise on business problems.

Similar to other knowledge intensive firms, consultants “bill out” to their clients either by hour or by project. A common measure of a consultant’s performance and/or contribution to the firm is his/her “utilization” rates or “billable” rates. This is the percentage of time the consultant is working on a “billable” (or client-paying) project. Consultants fill out a time sheet regularly to capture their time spent on different projects, administrative work, training or vacation. Typically, a consultant’s target utilization rate is over 70%. This means that 70% of the time a consultant spends at work should be on client-serving projects that in turn generate revenue for the firm. The rest of the time, (30%) can be allotted to administrative, vacation, training, sales or other non-billable activities. Different consultancies will have different target rates for their consultants. Utilization rates are used to measure a region’s performance and are often a determining factor in promotion and salary increases.

A potential client seeking a consulting company’s help may send out an RFP² document, especially if the project is large and complex. The RFP highlights the requirements of the project and normally asks the consultancy to reply with a proposed project team, approach and resumes of key individuals expected to be working on the project. Usually, the RFP is sent to various consultancies for them to bid on. The consultancy is not required to send a response, unless they want to bid on the project. The team’s skills and experience will be a determining factor in whether or not the consultancy gets the project. In addition, a firm’s reputation in the marketplace for implementing “on time and on budget” can be a major consideration.

Started in the post war-years from companies with wanted wartime experience (Canbeck, 1998), the management consulting industry has seen significant growth, especially in the past 20 years. By 1980, management consulting was still in its infancy with an estimated 18000

² RFP: Request for Proposal

management consultants worldwide and estimated worldwide revenues of \$2 Billion USD. The largest management consultancy at that time – Booz Allen Hamilton, was reported to have \$150 Million in revenues. By the late 1990's, the management consulting industry grew to around \$35 Billion globally with an annual growth rate of 20%. Today, total management consulting revenues worldwide total approximately \$62 Billion and are growing between 10-30% varying from country to country, although demand has decreased significantly since 2001 (May, 2002). See Figure 2.1 for a summary of the consulting industry landscape in Canada.

Figure 2.1: Consulting Industry Landscape in Canada (2002)

Type	Examples
■ Strategy Firms	Bain, Boston Consulting Group, Booz Allan, Mercer Management, McKinsey
■ Big Consulting Firms*	Accenture, Bearing Point, Braxton, Cap Gemini Ernst & Young
■ Recruiters	Roland Berger, Egon Zender
■ HR Firms	Hewitt, Hay, Mercer HR, Watson Wyatt, Aon, Buck
■ Technology Firms	EDS, CGI, IBM, Sierra Systems, Fujitsu
■ Hardware Vendors**	Dell, IBM, HP, Sun, Unisys

* Consulting companies that were originally established by Accounting firms that offer general management consulting services

**Hardware vendors offering consulting services

Data source: CMAC³ "The Management Consulting Profession" 2002

Management consultancies traditionally offered strategy, business processing reengineering and recruitment services. However, two developments in the consulting industry

³ CMAC: Canadian Association of Management Consultants

deserve special mention, as they are relevant for understanding SmartTech’s environment. First, by the late 1980’s all large accounting firms started adding their own consulting practices, which were subsequently known as the Big Consulting firms⁴ (adopting the term from the accounting industry “Big Accounting firms”).

Table 2.1: The Big Consulting Firms (1995)

Big Accounting Firm	Associated Consulting Firm
Arthur Andersen	Andersen Consulting
Coopers & Lybrand	Coopers & Lybrand Consulting
Deloitte & Touche	Deloitte & Touche
Ernst & Young	Ernst & Young Consulting
KPMG	KPMG Consulting
Price Waterhouse	Price Waterhouse Consulting

Source: CMAC⁵ “The Management Consulting Profession” 2002

These firms started as a result of accountants “switching” over to “Business Advisory” services. Accountants are often privy to the internal workings of their clients. Seeing inefficiencies, accountants were able to sell their “advice” as consultants. Moreover, large accounting firms had well-developed client and industry networks. When high profile positions such as CEO or CFO needed to be filled at client sites, consultancies were able to help with the recruitment process by tapping into their large networks⁶.

Second, with the emergence of technology and the ‘new economy’⁷, more and more firms started offering technology consulting services. Technology consulting services included providing

⁴ The market coined the term “Big 6” Consulting firms during the early 1990s. However, in 1998 when Pricewaterhouse merged with Coopers and Lybrand, the term changed to “Big 5”. In several years time, due to more mergers, it changed again to “Big 4”. For the purpose of this paper, the term will be referred to as “Big Consulting” firms.

⁵CMAC: Canadian Association of Management Consultants

⁶Anonymous. Extracted from SmartTech interviews and surveys

⁷“The New Economy”: Sectors of the economy which use significant inputs of information technology.

advice, implementation and programming work on issues related to computer systems, telecommunications and the Internet. These include, but are not limited to, implementation of ERP⁸ packages, IT strategy and advisory services and IT outsourcing. Other competitors entering the market included hardware/software firms like IBM that started adding consulting services to their hardware/software offerings. Even the Big Consulting firms, traditionally focused on business advisory services started investing heavily in developing technology consulting services.

The new economy proved very lucrative for not only management consulting firms but for their knowledge workers as well. As technology boomed, technology knowledge workers were highly sought after. For example, by the mid 1980s, leading consulting firms sometimes paid 25% bonuses to their staff for a two year commitment to work only on behalf of SAP⁹ clients and projects. Consultancies created crash courses to train and certify their consultants in a mad dash to staff huge global projects. Rates for qualified SAP and ERP consultants soared to a high of \$3000 US per day. Consulting firm recruiters even targeted their client's staff with relevant experience and it was not unusual for them to be offered twice current salary plus huge bonuses (Hordes and McMann, 2000).

For many, management consulting provided the additional allure of an attractive lifestyle. Consultants typically go to client sites, so if a consultant has a particularly 'hot' skill, they may find themselves travelling regularly to their project sites around the globe. However, extensive travel combined with the high pressures/stress of project work, contributes to the higher than average burnout rate in this industry. Through interviews, it was suggested that a typical management

⁸ERP: Enterprise Resource Planning Software

⁹ SAP: Systems Applications and Products software

consultant lasts 2-4 years in their position before they leave the firm. Nevertheless, consulting remains an attractive profession for many.

As the market matured, economic and political pressures emerged which would influence the competitive landscape of this industry.

2.2 Management Consulting in Canada

The management consulting industry in Canada followed the industry's global trends. Growth in the industry peaked near the beginning of the new century and began to rapidly decrease after year 2000. Currently in Canada, there are approximately 5000 management consulting companies and around 20 000 management consultants. Women account for 44% of those employed in the Canadian consulting industry. Approximately 70% of all business and government organizations in Canada have used the services of a management consulting at least once in the last 5 years (May, 2002).

2.3 Consulting Industry Environment: New Developments and Challenges

So seemingly, this new technology economy seemed impervious, at least for the moment to the cyclical routines of the economy. However, the technology bubble burst by year 2000. This began a global economic recession, combined with September 11 and a slump in capital markets.¹⁰

Knowledge intensive firms like consultancies were not prepared for this downturn in the economy.

¹⁰ It can be argued that this was not a "recession" per se as much as the market was stabilizing after a period of abnormally high activity.

The consulting industry has experienced its own brand of stress and change, driven by; 1) a tough economic environment, 2) new competitors and new technology, 3) changing customer requirements and industry consolidation, and 4) for those of us historically linked to major accounting firms, the audit independence issue (Hartz, 2002).

It is estimated that the consulting industry globally grew at over 15% from 1995 – 2000.

However, by 2001, the Top 50 firms grew only 2% and only 11 of the top 50 consultancies grew the revenue by double digits (as opposed compared to 56% in 2000). It is estimated that demand for IT consultancies fell by 6% in 2001.

The competitive landscape changed quickly for the consulting industry after year 2000.

Following the downturn in the economy, demand for consulting services also decreased. In addition, the industry faced several changes, including new political regulation, change in customer demand, and a shift in the labour market supply.

2.3.1 Political Environment: Sarbanes-Oxley 2002

Accounting firms benefited nicely from their consulting counterparts. Often, accounting firms would engage the client in an independent audit, and as a result of their audit, they would refer their client to the services of their consulting practices. It was a mutually beneficial process, as the firm on a whole would benefit from the profits. However, as regulatory boards like the SEC¹¹ started investigating the relationships between the accounting and consulting divisions of these firms.

Audit independence is an important factor in a professional audit for public stakeholders, and the tight collaboration and information sharing between the accountants and consultants could hinder the auditor's objectivity in a public audit. Hypothetically, an accounting firm may be

¹¹ Securities and Exchange Commission

motivated to manipulate the audit and in doing so, recommend consulting services to their clients in order to generate additional revenues. The client would be likely to hire the accounting firm's consulting division because they are already aware of the problem and can implement projects in a shorter period. Consulting services have the potential to be worth more than an audit, especially if the work is ongoing or involves a large scale software implementation. The SEC believed this close relationship between the accounting firms and their consulting departments might compromise the objectivity of the public audit.

US lawmakers were concerned that accounting firms have conflicts of interest between audit and consulting work with a particular client, which could compromise their independence. Under Sarbanes-Oxley, certain lucrative consulting work was banned, and audit committees must give prior approval to any non-audit work done by the audit firms. (Michaels and Parker, 2003)

This proved true in the case of the Enron scandal involving Arthur Andersen and Accenture Consulting (formerly known as Andersen Consulting). Enron was paying Andersen \$25 million USD for the audit and 27 million in tax and consulting fees. During the investigation, it was revealed that Arthur Andersen's audit of Enron did not disclose some significant losses. There were concerns that accounting firms have a financial incentive to sign off on overly aggressive accounting practices at companies that simultaneously pay them large sums for nonaudit work (Soloman, 2002). The SEC then passed the Sarbanes-Oxley act in 2002, which instituted formal changes to the structure of the major market players in management consulting.

The Enron/Andersen saga has also rocked the core of the accounting profession...The accounting industry's hard-line strategy to retain consulting and auditing practices under one roof was shattered by the Sarbanes-Oxley Act of 2002. Among other provisions, the act bans audit firms from providing many consulting services to their clients (Kaikati, 2003).

In addition, internal disputes between accounting and consulting arms of these firms were becoming apparent. Many of the consultancies were significantly more profitable than their

accounting counterparts at that time, but because of the revenue model in a partnership firm, consulting partners were required to share their revenues with the accounting partners. Arthur Andersen/Andersen Consulting provides a clear example: By the mid 1990s, Andersen Consulting was so successful that it quickly outgrew Arthur Andersen (accounting). Its revenue doubled from about \$5 billion USD in 1996 to more than \$10 billion USD in 2000. "Its imminent success led to rivalry among the two departments that subsequently erupted in a public feud (Kaikati, 2003)."

2.3.2 Economic Environment: Mergers as a Growth Strategy

Mergers and acquisitions were rampant in the consulting industry during the new economy. There seemed to be a definite trend towards consulting companies who linked up with other firms to gain rapid growth, and new skills and capabilities.

The total number of merger, acquisition, or alliance announcements involving consulting firms has increased more than fivefold, from fewer than 200 in 1996 to over 1,000 in 1999. Perhaps more interesting still, the percentage of total deals characterized as "mergers" as opposed to "acquisitions" has increased from just over 15% to more than half. This suggests that more and more deals are complementary in nature, with the resulting firm embodying new capabilities and perhaps a new market position, rather than merely a larger version of the acquiring firm. (Bushko,2000)

There were many reasons for the consolidation among companies. As suggested by Bushko above, some companies were motivated by adding complementary skills to their already established firms. As new technology organizations emerged from the new economy, many wanted to gain strategic consulting services quickly through mergers or acquisitions. Analysis of merger, acquisition, and alliance announcements during this time reveals that many of the deals involved new Internet technology or consulting firms and an established technology or consulting firm.

"Everyone will agree that management consulting firms are seeing increased interest among hardware and software organizations to build or acquire consulting

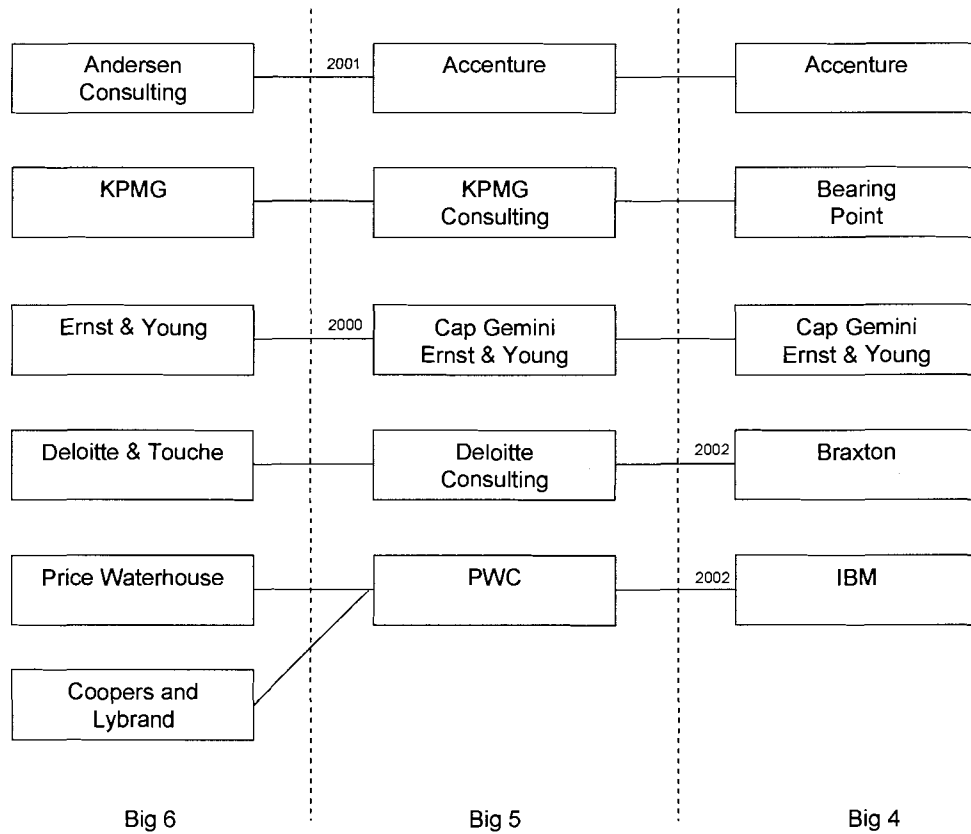
service capabilities. These companies want to expand their service offerings to grow revenue and protect their profitability. (Hartz, 2002)

Such acquisitions were about scope, involving two companies with highly complementary skills and very little overlap. An example of this is the USWEB/CKS acquisition of Mitchell Madison Group (MMG). USWEB/CKS, an e-commerce solutions firm, acquired Mitchell Madison Group (MMG), a strategy consulting firm with a focus on the financial services industry in 1999.

Some of the much-publicized deals, such as the PricewaterhouseCoopers merger in 1998, were "scale" plays: attempts to build the critical mass necessary to compete globally in labour intensive service lines, such as IT consulting and change management (Bushko and Raynor, 2000).

The Big Consulting firms were also undertaking re-branding strategies. Partially due to the Sarbanes-Oxley act and also as a reaction to the merger frenzy in the marketplace, most of the consulting arms of these groups decided to separate from their accounting partners and form their own independent companies. See Figure 2.2 for a brief overview of the changes in this sector.

Figure 2.2: Rationalization of Big Consulting Firms (2002)



Data source: CMAC¹² "The Management Consulting Profession" 2002

Andersen Consulting formally left its audit partner to become Accenture in 2001. KPMG, unlike the rest of the Big Consulting Firms, decided to re-brand in 2002, calling itself Bearing Point. Ernst and Young Consulting was acquired by Cap Gemini to form Cap Gemini Ernst and Young Consulting in 2000. Deloitte Consulting formerly separated from its Deloitte and Touche in 2002 and took the name Braxton, a company they acquired in 1984. Price Waterhouse and Coopers and Lybrand merged in 1998 to form PWC and then was sold to IBM in 2002.

As some observers noted: "...although some of these mergers might be motivated by possible synergies between the firms' services, the sudden popularity of mergers is definitely linked

¹² CMAC: Canadian Association of Management Consultants

to the idea of exploiting economies of scale” (Sarvary, 1999). In knowledge intensive industries, resources are not easily trained as those in traditional industries, so mergers and acquisitions is an ideal way to acquire this type of expertise. Many mergers and acquisitions occurred during a time when the consulting industry was at the peak of the economic bubble. The consulting industry was consolidating and middle players were slowly disappearing. The result was that resources were acquired at premium rates and many firms paid significant amounts of money to acquire other companies. This affected the revenue streams of many companies. If the economic growth continued at the rapid pace of the 1990s, this would not have been a problem.

Consulting companies soon faced a lagging market and the financial impact of these mergers and acquisitions, as well as their normal operating costs, proved very costly. This forced many consulting companies to re-assess the way they did business.

Call it restructuring, rightsizing, redundancy, or downsizing, the meaning is clear: Demand for some consulting services is less than anticipated, while capacity levels are nonetheless at an all time high. And with capacity greater than demand, maintaining revenue, margins, and consultant skills at optimal levels becomes more of a challenge (Hordes and McMan, 2000).

Management consulting companies found themselves facing difficult internal issues they previously did not have, and many had to look internally and “doctor” themselves rather than their clients. For probably the first time, this industry was in need of a major transformation.

2.3.3 Labour Supply: Costly Labour Force

In the years leading up to year 2000, IT consultants specializing in hardware and software development were in high demand. Spurred by the potential ‘Y2K¹³ bug’, many businesses sought

¹³ Y2K: Year 2000

after any IT consultant that could enable business continuity past the year 2000. IT consultants with SAP, PeopleSoft and other “hot skills” became a scarcity and demanded higher salaries.

During the same time, consultants’ salaries increased rapidly. Among the Big 5 Firms, partner compensation increased by almost \$200K CAD over a 3 year period. Base compensation increased by 48%, averaging \$383,000 for 1995-1996, jumping to \$486,000 the following year, and reaching \$567,000 in 1998. This trend continued as the battle to recruit highly skilled consultants becomes more intense (Anon, 2000).

Senior management compensation also rose 63% from an average of \$101 000 USD in 1995-96 to \$165,000 USD in 1998. By 1998, the high end of the compensation range for senior managers reached \$250,000 as demand for more experienced senior managers with deep and well-balanced skills increased (Anon, 2000). These salaries were exclusive of any other bonuses they may have received such as signing and “hot skills” bonuses. These salaries were offset by the high prices the clients were willing to pay for the skill sets. But as the economy recessed, these resources would prove to be extremely expensive to maintain.

2.4 Summary

The management consulting industry enjoyed a period of high growth and prosperity between the mid 90's into the early millennium. During this time, both the company and the employees reaped the benefits of prosperous years. However, at the start of the new millennium, significant changes in the political and economic environment influenced this industry. As a result, this industry was forced to go through a transformation.

CHAPTER 3: BUSINESS TRANSFORMATION OVERVIEW

This chapter presents a brief overview of business transformation with relation to the knowledge intensive industry. The costs associated with transformation will be described along with a short example. Literature research on transformation thought leadership, frameworks, and best practices will be presented.

3.1 What is Business Transformation?

Imaginative organizational charts, new service-quality efforts, total quality management invasions, mergers and acquisitions, downsizing, innovative culture-change efforts, new CEOs and bankruptcies are all examples of change in our era. Transformations have permeated corporate culture for a long time. Called TQM (Total Quality Management), BPR (Business Process Re-engineering), restructuring, cultural change, turnaround, rightsizing and other terms, business transformation can be described as the process of altering the way in which an organization does business. It is the combination of strategic, process, organizational change, and technology development focused around one clear vision (Goonen, 2005). Often driven by revenue improvement, transformations affect the entire organization.

It can be said that the new economy has spurred much of the recent organizational change. As companies entered the information age, the speed, scope and even nature of change seem to have altered.

The new information technologies of the past 50-60 years have created a new era, marked by the ability of people to access and share information with virtually

anyone, anywhere anytime about anything on a continuous interactive and unrestricted basis. (Marshak, 2004)

As technology replaces business processes traditionally performed by the human labour, organizations have often profited from technology's efficiency, consistency, and reduced overhead.

New business paradigms dictate that change is necessary even for traditionally successful companies. As companies mature, it is important to keep up with the dynamics of the economy, customer needs, and technology innovation. As one change specialist remarked in an interview;

I think unquestionably it's the tendency for many companies to develop a strong comfort level based on current success. They often become complacent, almost arrogant, about their success. They focus solely on doing what they now do better, rather than building on the foundations for what they'll need to be doing when the world around them has substantially changed. (O'Reilly, ca 2005)

There are numerous examples of companies who have become complacent in their market; Beta (vs. VHS), Apple (vs. DOS), Sega (vs. Nintendo). These companies entered the market, arguably with products that were more superior but failed to react quickly to market demands and customer needs. If change is inevitable, then it follows that business transformations are necessary as well in order to re-align the organization to the new business model.

3.2 Knowledge Intensive Industries and Transformation

Implementing a transformation in a knowledge intensive company may be a very sensitive and complex process because such companies comprise of knowledge workers as the main source of revenue generation. As an integral part of a team, the knowledge worker is the ultimate source of knowledge, retaining, sharing, working and selling this on behalf of the company.

The individual brings personal experience, uniqueness, and diverse perceptions, capabilities and opportunities to the organization. A strong sense of self is essential for productive interactions, open communication and self-improvement,

and when accompanied by a willingness to learn and collaborate provides the foundation for organizational flexibility and growth (Bennet and Bennet, 2004).

To implement a transformation in a knowledge intensive company, it is important for the process to take into consideration the sensitivities of these workers. Human capital, unlike machinery or computers, has emotions, searches for meaning, and makes decisions and thinks for itself. Transformations, which often entail layoffs and job restructuring, must be planned carefully to address the needs of the knowledge worker.

3.2.1 The Human Side of Business Transformations

Business transformations often have a significant effect on the employees and their subsequent behaviour and productivity. In a knowledge intensive industry, implementing a business transformation can be a risky project as this can mean the success or failure of a company. Literature research supports the management of employees as well as the process changes.

The secret to real success is effective management of the emotional vulnerability that accompanies organizational change. Honouring employees' needs and helping them understand and make sense of what is going on can do more than just get them through the change. Under the right conditions, such understanding can enhance employees' personal and professional growth, add value to their lives, and lead to increased loyalty. (Iacovini, J., 1993)

When a company starts a major change effort, employees at all levels may feel stressed and confused, scared of stepping out of their comfort zone. Employees often crave security, respect, and empathy, which all need to be incorporated into the transformation strategy. Although it may be a business need driving the transformation, it is necessary to balance the expectations and needs of the knowledge worker for respect, friendliness, trust, and empathy to keep them loyal and satisfied workers.

This is especially true for knowledge workers as they are often in highly regarded positions. Knowledge workers identify with their positions and during a time of restructuring, many may go through feelings of frustration, confusion, helplessness, and low self esteem. The transformation strategy needs to be humane and consider the sensitivities of the employee. Customer service, innovation, corporate culture and the transformation process are just a few things that will benefit from a strategy that balances the needs of the corporation and the employee.

3.2.2 Business Transformation Leadership

Implementing a business transformation requires an exceptional leadership team. This may be especially true for knowledge intensive industries that call for a leader who can also balance the sensitivities of human behaviour and the objective realities of transformation.

Even more urgently we hear calls for organizational change and transformative leadership: for flexible structures instead of rigid hierarchies, for ecologically sustainable technologies and work modes, and for leaders and managers who are environmentally responsible and attuned to people and human needs (Riane, 1995)

In a knowledge intensive company, the leader needs to be in tune with his employees and try to anticipate their reactions. Change is a personal experience and in a large organization which depends on thousands of employees, leaders must still win their employees over one by one. A leader is looked upon to drive the change from beginning to end, oversee the 'Big Picture', but also have the ability to make or delegate day to day decisions. A leader should be the one championing, defending, defining, and moving the transformation along.

3.3 Transformation Challenges in Knowledge Intensive Companies

Implementing a transformation framework for a knowledge intensive company brings a set of challenges unique to this industry that makes the outcome of the process unpredictable. Faced with the task of terminating knowledge workers, it is important to take into account the reactions of their employees, the loss of knowledge, and the competition gaining corporate knowledge.

Knowledge workers are highly paid because of the skills sets and knowledge they possess. During a time of transformation that requires downsizing, knowledge intensive companies need to be aware of the potential loss of knowledge. Many management consulting firms set up knowledge databases in hopes of capturing all the experience and lessons learned in projects. The risk of downsizing employees is that some hold valuable information which needs to be transferred to other knowledge workers before they leave.

Another risk for knowledge intensive companies considering transformation is having the employee leave for the competition. This 'brain drain' can be detrimental to a management consulting company. An example will illustrate this point. A large management consulting firm needed to implement a transformation project which involved downsizing. The competition learned of this news and started wooing employees from the firm to join them. They were able to convince a business service leader to join them and start a similar business offering in their company. Not only did the business leader establish a competing business offering, but was able to recruit his "old team" to join his new firm. The competition was able to establish a new business offering in a smaller amount of time than if they were to develop it in house. The original company not only lost valuable employees, but also the intellectual capital, reputation and some existing clients.¹⁴

¹⁴ Anonymous. Extracted from SmartTech interviews and surveys

Management consulting firms try to counter such incidences by having a policy of incorporating "noncompete" and "anti poaching" clauses in termination packages. Anti compete clause excludes the terminated employee from contacting existing clients for business opportunities for a negotiated period of time.

Noncompete agreements typically restrict an individual from subsequently working for a company's competitors or within a geographic region for a set period. Because they often block a person from contacting old clients, the accords can make it difficult to continue a career in client-services businesses such as management consulting (Maher, 2004).

Anti poaching clause inhibits the employee from contacting existing employees of the company for recruitment purposes.

These clauses are not always effective but open the doors to legal action should the employee break the agreement. An example of a non compete clause being breached is a suit filed April 1999 involving Government Technology Services Inc (GTSI) against IntelliSys Technology Corp. and two former GTSI employees who are now with IntelliSys. The suit charges Intellisys with theft of trade secrets, tortuous interference, breach of confidentiality and nondisclosure agreements, and civil conspiracy.

"ITC has been stealing our employees. They are aggressively targeting GTSI employees. They took the whole PC-3 team," GTSI president Dendy Young said. "We invested heavily in those individuals. They know our strategy, our marketing plans and our pricing position (Frank, 1999)."

Although statistics involving the occurrence of poaching in the consulting industry is unclear, it is generally understood that this is a very difficult agreement to patrol and enforce¹⁵.

¹⁵Anonymous. Extracted from SmartTech interviews and surveys

3.4 The Cost of an Unsuccessful Transformation

Business transformations can be very costly to an organization. Depending on the size and the type of transformations, consultancy rates for implementing organizational change can cost millions of dollars for a company. Other non-monetary costs include pervasion of low employee morale, poor external and internal reputation, and loss of valuable resources. Implementing a business transformation correctly cannot only save a company money but also save them their corporate image, which is sometimes more valuable.

Many knowledge intensive companies have undergone some form of change management in the last twenty years. Unfortunately, not all companies are successful in their implementation. According to change management literature, up to 70% of change initiatives fail (Higgs and Rowland, 2005). This could have very costly implications for the organization, as the following example illustrates.

At the peak of the technology bubble, Nortel commanded share prices of over \$200 CAD during the spring of 2000, though now it is currently trading below \$5. Wrought with accounting lawsuits and failed change initiatives, Nortel lost \$2.58 billion in 2005. In November of 2005, Nortel hired a new CEO – dubbed “Mr. Fix It”, Mike Zafirovski. Predecessor Bill Owens had implemented numerous transformation projects during the past several years in an attempt to turn the company around.

“Nortel is no stranger to restructuring. To date, its efforts have not been successful at returning the company to strong profitability,” wrote Scotia Capital analyst Gus Papageorgiou in a research note (Robinson, 2006).

Papageorgiou suggests the lack of a clear strategic vision to be the limiting factor of Nortel's past change management initiatives. Mike Zafirovski's change management project started one month into his tenure in December. The project involves a group of 80 “top-performing” employees

began working full-time alongside 12 consultants from McKinsey & Co., with another 40 colleagues helping part-time. Grouped into six teams, each led by the most senior members of Nortel's management team, they are tasked with finding ways to simplify how Nortel functions, generate new revenues, and expand its operating margins by US\$1.5 billion by 2008. Costs must be reduced, quality and processes must be improved and teams must collaborate more (Wahl, 2006).

The new CEO expects to spend another \$100 million over two years, including \$35 million in the second quarter on restructuring expenses.

3.5 Transformation Research Findings

From Kanter's "Ten Commandments for Executing Change" to Kotter's, "Eight Stage process for Successful Organizational Transformation" change leaders have many options to choose from. Despite the many theoretical roadmaps for managing organizational transformation, the failure rate is still very high. It may be suggested that what is currently available is a wide range of contradictory and confusing theories and approaches which may be accountable for the lack of success in organizational transformations (Todnem, 2005). However, the variety of theories provides companies more options to find a transformation strategy for their unique situation. We summarize the literature below, focusing on three different theories which would be of relevance for proposing a transformation framework for SmartTech. In discussion of these theories, we especially note those points that are particularly well suited for managing transformation in a knowledge intensive company in general, and for SmartTech in particular.

3.5.1 Best Practices in Transformations

As change management is a popular topic in the new economy, there were many theories available for research. Kotter's "Eight Stage process for Successful Organizational

Transformation" is a good guiding principle because of its focus on team and strategy. In his book, "The Heart of Change" Kotter suggests the following process model for change management (Kotter, 2002) :

Table 3.1: Kotter's Eight Stage Process

Increase urgency
Get the vision right
Enable action
Don't Let Up
Build guiding teams
Communicate for Buy In
Create short term wins
Make it stick

As SmartTech Consulting is a team oriented company, implementing a transformation would necessarily entail forming groups or teams. Communicating buy in may not be necessary in a traditional manufacturing industry, but with knowledge workers, it is crucial to the success of the transformation project. With knowledge intensive industries, especially one like SmartTech that is sensitive to shareholder perceptions, creating short term wins is also beneficial for both the morale of its employees and keeping the momentum of the transformation alive, but also promotes public confidence that the transformation is going well.

Although much research centres on theoretical approaches to transformation, Norman Augustine, Former CEO of Lockheed Martin, offers the following practical advice from his experience of merging 17 different companies. He presents the following "rules" or "best practices" for restructuring (Augustine, 1998):

Table 3.2 Norman Augustine's "Best Practices" for Business Restructuring.

Read the Tea Leaves
Move Expeditiously
To Think Outside the Box, Get Outside the Box
Don't Lose Sight of Day to Day Business
Be Decisive
Remember that Your Real Assets go Home at Night
Have a Road Map Even when There are no Roads
Make Mega Changes
Benefit by Benchmarking
Focus on the Customer
Create One Culture for One Company
Communicate, Communicate, Communicate

SmartTech is a global company with critical mass situated in two different continents with very different cultures and business models. Rule 10 "Create One Culture for One Company" is a good fit for SmartTech. Cultural differences can breed mistrust among employees, create silos within company departments and ultimately lead to an unsuccessful transformation. As SmartTech Consulting is a company comprised of teams of knowledge workers, it is critical that the entire organization is on board and "sing one mantra".

Augustine realizes in rule 11 that the company's real assets are its employees, as is the case for any knowledge intensive company. Successful change depends on individual people and their collective actions. "By showing trust in and respect for all employees, managers can empower people to do their jobs to the very best of their ability (Augustine, 1998)."

Rule, #12, is probably the most repeated rule in Transformation research which emphasizes the importance of communication. After his company's merger, Norman Augustine

met with approximately 30 000 employees face to face in 62 meetings at his individual plants and answered hundreds of questions relating to the changes. His motivation for scheduling the many meetings is encompassed in his quote: "The certainty of misery is better than the misery of uncertainty (Augustine, 1998) ".

According to Lientz and Rea (2004), there are 16 critical success factors for effective IT Change. Although this list refers to IT Change Management, there were specific points that can be utilized for SmartTech Consulting. The entire list is included in the Appendix . Although some points on this list seem prescriptive, the following points should be noted for SmartTech Consulting and for other knowledge intensive firms.

- *Involve many people in the lower levels of the organizations*
- *Focus on marketing of the change effort continuously from inception to after completion.*
- *Give credit to the people who do the process work (Lientz and Rea 2004).*

These points are specifically relevant to the success of SmartTech Consulting and other knowledge intensive industries because they heavily involve people and communication. Knowledge workers need to feel involved and if the organization is to survive a transformation, involving employees from the lower levels will help create buy-in from all levels of the organization. Continuously marketing the change to the organization will help reinforce existing and new employees of the ongoing transformation strategy. Because SmartTech Consulting would like to continue with their growth strategy, constant marketing of what the transformation is about, what stage it is at, who is involved will help new employees adjust to the churn. Finally, knowledge workers need positive affirmation. Giving credit to all those who help out in the transformation is important in implementing a winning rapid transformation.

3.6 Business Transformation Conclusions

Despite the long history of business transformations and a variety of theoretical approaches available in the literature, transformation success is still very low. As each company has its own unique needs and situations, it is imperative for change leaders to fully understand all factors involved and find the right guidelines for their own circumstances. Knowledge intensive companies should be especially careful to pick an appropriate change leader for their initiative as well as be sensitive to their employees' needs during the process.

CHAPTER 4: SMARTTECH BACKGROUND AND INTERNAL ANALYSIS

The aim of this chapter is to present an overview of SmartTech and investigate internal drivers for a transformation project. An internal analysis of the situation, any insights and the lessons learned will be derived and used as a basis for a transformation framework for SmartTech.

4.1 Overview of Smart Consulting

SmartTech is an amalgamation of Smart Consulting and Tech Consulting. As most of this document is based on Smart Consulting's experience, the analysis will be primarily focused on Smart Consulting's history.¹⁶

Smart Consulting started from a traditional accounting firm. Adopting a partnership structure like the parent firm, it operated under the parent accounting firm and retained strong ties and shared the same technology as the parent firm.

Smart Consulting was based in North America with offices worldwide including Canada, Asia, South America and Europe. In most of the major cities in Canada, each office ran its own administrative staff, HR, and IT help desk.

¹⁶ To preserve anonymity of the companies involved, many details of the two companies as well as specific dates have been left out.

The culture of Smart Consulting was different from that of its accounting counterpart. It was a professional firm, which promoted teamwork, lifelong learning and “life balance”. It enjoyed an excellent reputation in the marketplace as a fair and equitable employer.

Smart Consulting employed over 20 000 staff worldwide. Compensation was fairly competitive with other like firms before the merger. Most consultants were given a fixed salary with the promise of yearly bonuses. Nevertheless, it was the hope of becoming a Partner in the firm that attracted many candidates to this company. In a partnership firm, profits are divided between the partners, so although partners do have a base salary, it is their bonuses, which are more lucrative.

Smart Consulting offered strategy, recruitment, process re-engineering and organizational change management services. They were particularly known for their business re-engineering projects, but by the mid 1990's they were growing their IT services. The type of client and project work varied by region, however, energy clients and government work were their specialities. They were also known for their extensive healthcare expertise. Often, these practitioners were hired from the field to become consultants.

Smart Consulting made a large investment in their IT service offering prior to the decline of the dot com economy. During the boom years of technology consulting, recruiters were hired to specifically find Technology specialists. Consultants were given referral bonuses if they were able to recruit a new hire with specific skill sets. Of particular interest, Smart Consulting wanted to concentrate on growing their e-Commerce division. Smart Consulting looked for potential candidates with internet experience. Competing with other start up dot com companies, Smart was paying top dollars for these consultants, essentially using salaries to compensate for lack of stock options in a start-up.

4.2 Brief Introduction to Tech Consulting

Tech Consulting, prior to the merger, was well established globally. Based primarily in another continent, their focus on technology outsourcing and providers of IT skills made them a market leader. Specializing in large, complex software and hardware projects, Tech consulting also was known as a supplier of technology workers. Companies would be able to contract individual consultants with specific skill sets to work within their businesses for a period of time.

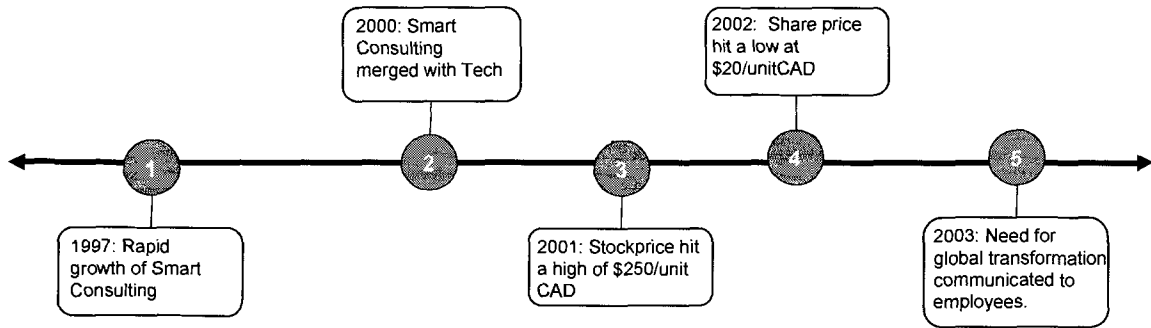
Tech Consulting was a public company listed on several stock exchanges. It was twice the size of Smart in terms of number of employees (approximately 40 000) and generated larger revenues per employee due to their specialized IT offerings and richer clientele.

Tech consulting was looking to enter the business advisory market and looked to acquire it through the merger with Smart Consulting.

4.3 Post-Merger Challenges

In order to understand SmartTech's need for change, it is necessary to study the post-merger situation. Below is a timeline of events, which occurred, that had significant impact on SmartTech's transformation decision. Internal analysis will be based on the timeframe from the merger of 2000 until their decision in 2003 to implement a transformation.

Figure 4.1: Events leading up to SmartTech's Transformation



Data source: Interviews/Surveys with the Canadian Practice (2004)

The Sarbanes-Oxley act triggered a change of events for Smart Consulting. Reacting to the SEC rules, Smart's parent accounting firm decided to sell the consulting division to an established global IT company. Initially, this seemed to be a mutually beneficial marriage. The merger occurred during a period when stock prices were still very high and the economic outlook was still optimistic. SmartTech's stock price hit a high of over \$250 CAD in 2001. However, following the downturn in the economy, demand for SmartTech's consulting services declined, and the company, now with a labour force of 60 000, found itself with large overcapacity. The company's stock had hit a low of approximately \$20 CAD in a year's time.

In addition, the merger between these two consultancies proved difficult for several reasons. Focused primarily on technology services and operating on a different business model, Tech inherited a consultancy with different skill sets, environmental landscape, business drivers, and less profitable clientele. Some of the main challenges facing the newly formed company are discussed below.

4.3.1 Cultural Differences

The two companies had very different cultures as their respective head offices were situated on two different continents. Each company had its own unique business drivers, client

base, and business models. A long term strategy for one company in one geographical location can be different from another due to level of industrialization, maturity and wealth of client base, types of strategic alliances, the level of competition, and the level of risk tolerance in the market to name a few.

For example, before the merger, Smart Consulting was used to taking on projects for “client investment” purposes. Smart Consulting would be willing to take a loss on an initial project with a new client to establish a solid client relationship in order to land a more profitable project later. In contrast, Tech Consulting was already established in its marketplace, retained higher profit margins due to their richer clientele, and did not necessarily need to make these investments. As a result, Tech expected similar profit margins with Smart Consulting and set these expectations as targets for all projects for SmartTech. Although Tech Consulting was hit with the technology meltdown, because of their efficient operations, good reputation and large client base, they were still in relatively good shape. Smart Consulting found it difficult to charge the high rates required to gain the profit margins expected of them. They struggled with Tech's high targets as their marketplace seemed to be hit worse by the economic downturn and since separating from their accounting arm, business had definitely dwindled. Smart Consulting had, in the past, benefited greatly from their audit partner's alliance. Now, due to the merger, Smart no longer received the same support they enjoyed before.¹⁷

This resulted in the restructuring of the business model again, which caused uncertainty within management and the rest of the company. Turnover in Smart Consulting's management positions rose drastically as they were consistently not able to meet expected targets.

¹⁷ Anonymous. Extracted from SmartTech interviews and surveys

4.3.2 Change in Management and Organizational Structure

The organizational restructuring that followed the merger posed several challenges. Firstly, Smart's operating model and organizational structure that was based on a partnership pyramid was now dissolved. The new company operated as a public company. No longer could the company provide incentives to employees to work harder to gain entry into a partnership. However, in place of a partner position, a 'bonus' structure was put in place to mimic the partnership model. This 'bonus' structure was no longer quite as rewarding as profits were to be shared among shareholders as well. This resulted in the loss of some partners and their staff who then started their own companies or joined the competition.

Leadership in Smart Consulting changed over several times in the period of two years and was extremely unstable. As SmartTech's stock price plummeted, they started losing their employees and office closures were seen. The lack of a strong, reputable, longstanding leader hindered the continuity of their transformation strategy. "The role of a CEO is critical in reversing a company's decline by replacing denial with dialogue, blame with respect and isolation with collaboration and helplessness with opportunities for initiative" (Kanter, 2003)

4.3.3 Public vs. Private Ownership

Smart Consulting's employees now had to adjust to working for a public company influenced by shareholders and stock price movements. Major company decisions were now under public scrutiny and were sensitive to outside forces. Internally, this meant less autonomy for management. Decision makers were much more reactive to market influences and this reflected in some of their choices and strategies. In a partnership model, it was not unusual for a partner to

head up a response to a major RFP¹⁸. Although assembling a team of consultants and creating a response to a client was costly, the payoff was potentially rewarding. As well, even if the team did not win the RFP, it was deemed as a good opportunity to gain exposure and highlight the firm's potential to a new client. This would allow them to be well positioned for any subsequent projects. However, as a public company, these intangible benefits were measured against immediate ROI¹⁹ and decision makers from Smart Consulting found it difficult to justify these types of projects.

In Smart's former structure, the partners would be able to weather the investment costs amongst themselves while keeping the long term goal in mind. In SmartTech, business cases and ROI seemed to pervade their investment strategies and what may publicly look like a risk in the short term was not easily accepted. This seeming oversensitivity to shareholder perception frustrated many leaders of former Smart Consulting. They believed SmartTech valued short term profits over long term growth. Not able to assert their ideas, and unaccustomed to the new culture, many leaders left taking valuable employees with them. This perpetuated the "brain drain".

4.3.4 Escalating Costs

SmartTech Consulting faced ballooning costs as they progressed into the early millennium. Major cost categories included high salaries and mandatory annulment payments to the parent accounting firm. Included in the acquisition of Smart Consulting were annulment payments in effect for several years after the initial acquisition. High salaries were of major concern to SmartTech. The bulk of Smart Consulting's IT consultants were hired at the height of the technology bubble. Smart Consulting had made a considerable investment into hiring IT consultants with eCommerce skill sets. However, Smart Consulting was inexperienced in this

¹⁸ RFP: Request for Proposal

¹⁹ ROI: Return on Investment

service offering and recruited most of their consultants at premium salaries. If market demand for IT services stayed the same as the year 2000 rate, then high salaries would be offset by revenue. However, when the dotcom bubble burst, the market had less demand for IT services and the e-Commerce trend did not take off as experts had predicted. By early 2000, Smart Consulting found themselves with an excess of highly paid employees and dwindling e-Commerce projects.

Tech Consulting, unlike Smart, was an established technology company with diversified technology offerings. Even though there was less demand in the marketplace for IT projects, Tech Consulting was able to manage better than Smart because they were the market leaders in their geographic locations, they were able to attract potential employees at lower costs and because they were able to forecast market needs better. Even though market demand had slowed Tech's overall utilization rates were competitive. Smart Consulting proved to be a very expensive deal for Tech.

Inevitably, downsizing of duplicate services ensued. After the acquisition took place, the company decided to centralize administrative functions, HR, IT help desk and consultant deployment staff. These positions were being redrafted and in some cases, eliminated. Employees were introduced to a new company logo, new name, and new policies and were trained on the new re-branding strategy.

4.4 Internal Environment SWOT Analysis

An internal environment SWOT analysis of SmartTech is presented below. This SWOT analysis is based on SmartTech's readiness for a transformation project.

Table 4.1: SmartTech Transformation Readiness SWOT Analysis

SWOT	Details
Strength	Because of the merger, the environment is ripe for change. Employees may be more emotionally prepared to embrace new change initiatives if implemented properly.
Weaknesses	As a public company, long term strategies may take a back seat to immediate returns on stock price. Long term strategies may necessitate short term investments, which may affect the company's revenues, which in turn may affect the stock price. Integration of the two companies, because of their differences in business models and culture will be a challenge that needs to be well planned and implemented.
Opportunities	The new re-branding strategy will allow SmartTech to abandon past inefficiencies and "start new". This is a good opportunity for SmartTech to restructure their internal processes with the understanding from the public.
Threats	As costs are increasing and SmartTech having just increased their headcount by a half, SmartTech will need to monitor their costs carefully, especially in a time of economic volatility.

4.5 Internal Environment Conclusions

The differences between the two merging consultancies, though initially seemed like a strong complement of skills sets, were now becoming more of a hindrance to integration.

Leadership issues developed, market demand decreased while capacity was at an all time high, and faced with a new company and new image, SmartTech knew they needed to implement a rapid transformation strategy. This framework would help unite the entire organization while also acknowledging each geographical location's unique needs and differences.

CHAPTER 5: SMARTTECH'S TRANSFORMATION – OPTIONS AND EXPERIENCES

Although SmartTech is looking towards implementing a “Rapid Transformation” process, it may be worth validating their other options to ensure that this alternative is the best fit for them. This chapter will present some special considerations the transformation framework should address as well as other options available to SmartTech. A quick analysis will be presented to determine the right implementation solution. SmartTech's past transformation experiences will be presented for analysis and key learnings.

5.1 SmartTech's Transformation Considerations

As discussions in previous chapters imply, the following key factors are unique to SmartTech and need to be considered in the transformation framework.

- Global reach with Regional Diversity
- Knowledge Intensive Company
- Transformation during Economic Uncertainty

5.1.1 SmartTech's Regional Diversity

SmartTech is a global company with regional offices worldwide. SmartTech recognizes the need for each region to tailor the transformation process somewhat to suit their environment. “A one size fits all mentality” will not work in this environment because their employees have diverse backgrounds and work in varying market environments. Transformation leaders need to be cognisant of how to convey and implement their strategy given this diversity while communicating a unified vision, goal and strategy.

5.1.2 Knowledge Intensive Industry Considerations

SmartTech's framework should consider the needs of the employees and focus on addressing the human aspects of change management. This would include incorporating effective communication channels, motivating employees with quick wins and ensuring effective leadership. It is important to be aware of employee morale to maintain sales and productivity targets and employee satisfaction amidst all the changes.

5.1.3 Transformation during Economic Uncertainty

During a time of economic uncertainty, SmartTech needs to be sensitive to how they implement and communicate the need for a transformation and the steps being taken to their employees. A framework that ensures ample communication is necessary to help mitigate any adverse reactions.

5.2 SmartTech's Transformation Options

SmartTech has several transformation options. We will evaluate these options along two dimensions: the length of the transformation ("rapid" or "long range"), and the leader of the transformation ("Head office" or "Regional office").

A "rapid" transformation is situational. Although research does not define a definite period of time for a rapid transformation, it is generally accepted that the timeframe may vary depending on the type of transformation project, but the goal is for it to be time-boxed and implemented quickly. For example, in their book, "The Reengineering Handbook: a Step-by-Step Guide to Business Transformation", Manganvelli and Klein (1994) define the timeline of Rapid Re-Engineering as six months to one year to produce substantive results. A common reason for a rapid transformation implementation is to lessen the time the organization is under stress.

“Long range” transformations typically last over a year and are suited for complex transformations where changes are done in stages so employees are able to adapt to each level of change. This gives some time of peace and adjustment for employees until the next wave of changes are implemented.

Figure 5.1 Analysis of Transformation Options for SmartTech

	Head Office Driven	Regional Office Driven	Hybrid
Rapid Transformation	<p>Option 1</p> <p>Pro: Head office will have more control</p> <p>Con: Difficult to have constant contact with employees remotely</p>	<p>Option 2</p> <p>Pro: Regional Office closer to their employees</p> <p>Con: May not have enough influence over employees</p>	<p>✓</p> <p>Proposed Solution</p>
Long Range Transformation	<p>Option 3</p> <p>Pro: Corporate messages may be communicated faster</p> <p>Con: May not get the buy in from employees located in distant offices</p>	<p>Option 4</p> <p>Pro: Able to monitor employee reactions better</p> <p>Con: Requires extensive long term communication. May be impractical</p>	

5.2.1 Option 1: Head Office/Rapid Transformation

In this option, head office will drive and control the rapid transformation project in each region. However, this may be an overwhelming task for a company such as SmartTech that has offices located in over 30 countries. It may also be challenging for head office to react quickly to each region’s response to the transformation.

5.2.2 Option 2: Regional Office/Rapid Transformation

It would be beneficial for the regional office to plan and implement the rapid transformation project as they are most knowledgeable and sensitive to their region’s culture and people.

However, without the head office's influence, there may not be enough urgency or power for regional office to implement drastic changes.

5.2.3 Option 3: Head Office/Long Range Transformation

Another implementation option is for head office to implement a long range transformation. An advantage of this option is that communication between all regional offices will be consistent. Any changes in the transformation process can be made quickly as well. However, in long range transformations, without face to face, employees may get weary of all the changes and start questioning the project.

5.2.4 Option 4: Regional Office/Long Range Transformation

If the regional office drives the long range transformation, it will be easier for them to gauge their own employee's responses to the changes. However, without the guidance of head office, regional offices may lose sight of the big picture in the long run and it is easy for the transformation to go off on a tangent, especially if there is a lengthy implementation timeline.

5.3 Proposed Transformation: Rapid Transformation (Hybrid)

Rapid Transformation involving both the regional office and head office is the best fit for SmartTech because it leverages the regional office's knowledge of the environment and head offices' rigour and management of the overall transformation progress. In this scenario, head office will structure a high level framework that will guide all regional offices' implementation. This framework will provide the guiding principles and will enforce a level of consistency among all regional offices but also give them the flexibility to structure an implementation plan that is best suited to their environment. This implementation plan will need the approval of head office. Head

office can act as a program management office, collecting status reports of each transformation project underway while providing regional offices with guidance.

A rapid transformation was preferred over a long range transformation because it minimizes the level of stress SmartTech's employees will endure. This option acknowledges regional differences and empowers the regional offices to gauge the reactions of their employees and help them within the context of their own environment.

5.4 SmartTech's Transformation Experiences

SmartTech's own past transformation experiences support implementing a Hybrid Rapid Transformation. SmartTech implemented a successful rapid transformation in Spain. One-on-one interviews²⁰ were granted with the head of the Spanish operations and other change leaders to talk about their recent rapid transformation. Learnings from this experience will be leveraged for the proposed transformation framework.

A head office/long range transformation project is being implemented in SmartTech's Canadian division. Various reports indicate that this transformation was not as successful as planned. Canadian consultants were surveyed for insights into their transformation process.

The output of this analysis will drive the transformation strategy recommended for SmartTech.

5.5 SmartTech Spain: History

Under a European head office, Smart Consulting entered the Spanish market in 1992 by buying out a small technology consulting firm and establishing themselves in a developing market.

²⁰ . For the purposes of anonymity, all interviewees will be referenced as male in gender.

Spain started to develop their commerce in the early 1990s. Although still considered not as technology savvy as other countries in Europe, it was determined to shed their image as a developing country. Spain went through somewhat of a technology growth, especially in the financial and banking industry. Because of many factors including opportunity for growth and a relatively cheap labour market, Smart Consulting did very well, as did many other technology consulting firms. Customers were calling Smart for help instead of them having to solicit the market for projects. By the year 2000, they had approximately 1000 employees.

5.6 SmartTech Spain: Challenges and the Need for Transformation

After year 2000, the Spanish market felt the same effects as the rest of the world economy. A slowing economy and the meltdown in technology stocks led to a decline in market demand for SmartTech's services and an overcapacity in most of its offices (as discussed in Chapters 2 and 4) , including Spain. In addition, the Spanish office faced its own unique challenges, discussed below.

SmartTech had operated a wholly owned subsidiary in Spain, which offered slightly different outsourcing services to its clients. This subsidiary traditionally operated autonomously from SmartTech as their business models and products were different. SmartTech decided to take the opportunity of a global merger to integrate this subsidiary into its mainstream operations as well, in order to establish a stronger, more integrated service offering and business line. As a result, SmartTech went from an organization with 1000 employees to 2500. However, merging these different companies proved to be more difficult than first thought.

All three companies had different governance structures with different leaders. The employees also operated very differently. As in most mergers, there is usually a period of

“stabilizing” within the companies. In order to create an integrated culture, SmartTech decided to structure the company into three different service streams. The new service streams were designed such that the three different companies were each now a service stream. The old leaders of the companies then became the leaders of the new service stream. However, this encouraged the silo effect within the companies.

Despite attempts by SmartTech to build an integrated culture, a sense of competitiveness prevailed as the three distinct companies fought for resources and, especially, for leadership positions. Due to the merger, there were many redundant management positions. The organization became top heavy. Within the next 4 years, 4 different CEOs led the company, each time with different leadership teams. Although there were attempts at restructuring the organization, it was often not enough to cover the losses and low morale of the company.

As a result, the image of the SmartTech Spain internally and externally had been tarnished. After the successive departures of the leadership teams, not only did they take valuable knowledge workers with them, but they libelled the company, in at least one case, publicly. After the first leadership team left, they took a significant amount of employees with them, enough to form another competing company, which still exists in the market today.

5.7 The Rapid Transformation

After four years of significant revenue losses in their Spanish operations, it was decided that, once again, a new leadership team would be put in place. A new CFO and CEO were hired in the fall of 2003. This time, a different strategy was deployed. Both leaders came from outside the Spanish operations and both had experience in company transformation. They were given 6 months to transform the company starting in 2004.

5.8 Planning

Before any transformation was implemented, both new leaders assessed their current situation and did some preplanning. They tried to meet with everyone personally and analyzed their financial situation including their overhead expenses. It was determined that vast changes were needed. Speed of delivery was a vital component as the company had “bled” for the past four years. The changes would be implemented swiftly so the “healing process” could begin.

5.9 Implementation

The following changes were implemented within a four month span in 2004:

5.9.1 Major Pyramid Alignment and Restructuring

The new leadership team, through negotiations with the union, decided to lay off over 160 people. While analysing the structure of their organization, it became apparent to the new CEO that management made up much of the organization. The organization chart resembled a trapezoid more than a pyramid. Many management positions were reduced. A common risk with laying off company leaders is that they may entice other valuable employees to leave with them, thus promoting “brain drain”. However, due to the economic instability, anticipated employee departures weren’t as high as expected. With strategic restructuring the pyramid widened, which allowed for more opportunity for upward mobility of consultants. Annual overall costs were reduced by approx. 12%.

A whole middle management layer was also eliminated from the organizational structure. The change management team implemented a shared services model for their administrative staff and they shrunk support services. Now there is one secretary for every 4.5 client serving employees. It was not uncommon before the changes for a single secretary to be under one

manager. Even the new CEO shares his secretary. This resulted in over 4M Euros in annual savings.

5.9.2 Renegotiation with Suppliers

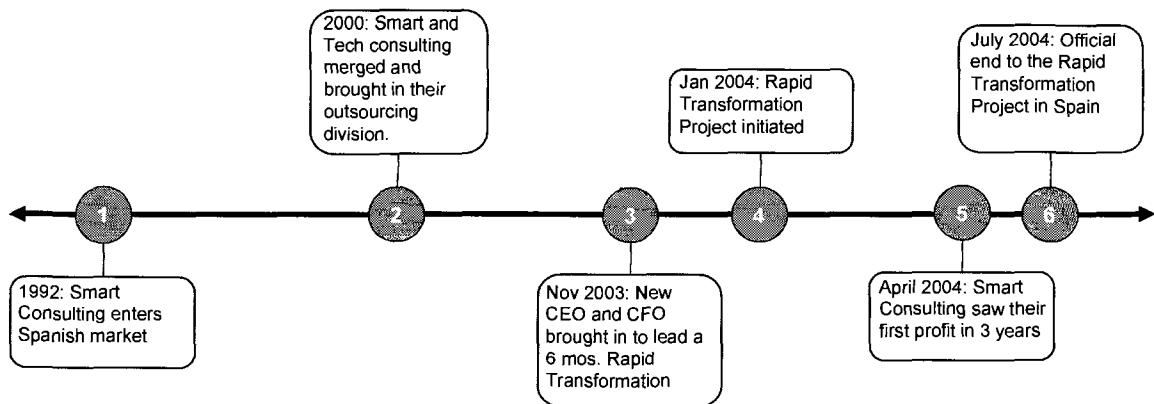
Overhead costs were high and other than salaries, procurement costs came under scrutiny. All procurement costs above 50 000 Euros were renegotiated. Building rental was a significant expense but their multiyear lease on their new building was about to come up for renewal. After challenging negotiations, over 3 million Euros were saved from the yearly cost of the building lease. This opened the door to other building contracts to be reduced. All purchases were centralized and a common procurement process was implemented. This resulted in over 6 million Euros in savings.

5.9.3 Non-Billable Consultants

The former business model allowed consultants to be hidden. A consultant's utilization was not measured. The new structure put in place designated each consultant as either a chargeable resource or a non-chargeable resource. Chargeability is the potential of a consultant to sell itself on a client project and produce revenue. It was generally desirable to give consultants a high chargeability target. Compensation and bonuses were modified to be structured according to the yearly chargeability of consultants. This helped motivate the workforce to sell more projects and generate more revenue for the company.

All these actions resulted in the SmartTech rapidly transforming their operations. By the 4th month of implementation, the operations had reached breakeven. Less than 6 months after implementation, they were able to make a profit.

Figure 5.2: Transformation Timeline for SmartTech Spain



Data source: Interviews with SmartTech Spain (2004)

5.10 Leadership Qualities

Transformation can be quite prescriptive' however, in many cases, the leader and the management team plays just as an important role in a successful transformation. During the interviews, the CEO was asked why he took on this role. His answer was frank: "It is late in my career and I have really nothing to lose. To me, this is fun.²¹" When asked why this was a success, he named a few factors:

1. No history. He was able to become a successful leader because he didn't know anyone. He was flown into this situation from another country and he had no history or emotional attachment to this office.
2. Nothing to prove. He reached a point in his career where he wanted to do this – he wasn't here to prove anything to anyone. He knew that retirement was close by and his career wasn't dependant on the success of this transformation.
3. Carte blanche. He was also given enough freedom to lead. SmartTech trusted him enough to delegate the changes as he chose fit. Although he reported the transformation progress to head office, head office acted as a guide. This type of liberty came because of his long history with the company and his previous experience with transformation projects. Head office had confidence in his leadership ability. This type of carte blanche may not be suitable in all circumstances

²¹ Anonymous. Extracted from SmartTech interviews and surveys

4. Ability to create his own team. He was allowed to hand pick his own management team. He preferred people in their late 30s and early 40s and told them they had the ability to succeed him in a few years. He had one rule for them: they must work as a team and no compete amongst themselves. The market was their competition.

When asked what he would improve upon, he admitted that he made some mistakes with letting certain employees go. However, he felt that making mistakes is a good way of learning and he would have rather made more mistakes in the beginning and would have acted quicker.

Though logic and education come into play, the CEO of SmartTech Spain said he mainly used his experience and intuition in making most of his executive decisions during the transformation process.

When the management team was asked what leadership qualities made SmartTech's CEO successful, answers included;

1. Action oriented
2. Communicative
3. Open
4. Executive (professional)

5.11 SmartTech Canada: Long Range Head Office Transformation

SmartTech implemented a long range change strategy in Canada. However, survey results from employees and former employees of its Canadian operations felt the implementation did not go very smoothly. Of the interviews and surveys conducted in Canada, the following themes were prevalent: Communication, Leadership, Culture, and Implementation.

5.11.1 Challenges in Communicating to Employees

Surveys indicated SmartTech had access to many channels of communication. Correspondence regularly came from head office by form of email, conference calls, video

conferencing, and voicemails. However, many interviewees indicated that there was lack of adequate communication amongst the change leaders and the rest of the organization. One interviewee commented that the correspondences from head office were often so “vague” that they were really just to boost employee morale but offered little in terms of details of the transformation.

Another interviewee remarked that the correspondence seemed “cold” and impersonal. Most of the correspondence in this case came through electronic means – emails. Some commented that although they were receiving a barrage of emails and impersonal change “updates” – as they were working hard to maintain their targets, they often did not have time to read the updates. One interviewee said he was fatigued by all the emails and sceptical of their intended purpose and in the end, ignored them all. They preferred having more personal updates from their managers or change leaders. There was some positive feedback on face to face communication being conducted by SmartTech but unfortunately, these were not as frequent as once promised. SmartTech’s employees felt isolated.

Consistency of message was also misleading. Some commented that SmartTech’s communication simply wasn’t consistent. In one situation, after a wave of lay-offs, management promised that there would not be any more reduction in headcount. However, more employees were terminated a short time after this announcement, which only decreased employee morale and trust in the company further.

It is interesting to note that most interviewees knew that big changes were coming and expected restructuring to occur. However, most were confused as to how the company was doing it and what was expected of them. The management team changed several times in the span of a few years and service offerings were changing rapidly too.

5.11.2 Numerous Leadership Changes during the Transformation

After the merger occurred, regional leadership changed several times which led to much confusion for the organization. Many employees felt that their regional leaders were leaving SmartTech for the competition. Rapid transformation has a greater chance of being hindered as new leaders are put in place because the transformation strategy and process needs to be relearned and internalized with every change. Consistency of the message and the implementation process is compromised as each leader has their own individual way of leading. An interviewee commented that during the transformation, he had an average of one new boss every 4-6 weeks. If they contacted him about the change in position, he would have to re-introduce himself and describe the project he was on for each new boss. Employees felt they did not have a chance to bond and trust their immediate bosses. In a time of constant change, this is detrimental to the entire change process.

An interesting comment was made from another interviewee who suggested that their "new" director of services was not aware of some of their internal changes even though it was being broadcast publicly to news agencies. It seems that the transformation process was not being communicated effectively to the management team who in turn was unable to provide timely feedback to their employees. It seemed that this was intensified by new hires or newly promoted managers who did not receive adequate training and briefing on the transformation process so they were not able to share much information with the rest of their direct reports.

5.11.3 Differences in Culture Bred Mistrust

When Smart and Tech consulting merged they combined to form a 60 000 strong workforce. Both companies, prior to the merger had operated in a business model unique to their geographic area. SmartTech mandated a new business model (based on Tech's consulting's

market strategies) throughout the new organization but this met with some resistance.

Interviewees described the new business model, imposed on them from the “head office” not suitable for their marketplace. Consultancy rates were raised to a level that was not viable in some regions.

“The clients (current and potential) the market, the skills and services available locally and competitive price/resource availability were not considered. The sole business driver was the profit/contribution margin. This is totally illogical, if you can’t sell at the current price, raising it doesn’t create more contracts.”²²

The communication strategy was also a product of two competing cultures. In one culture, the organization tended to be more traditional and bureaucratic than the other. This led to differences in communication styles and mistrust between the two subdivisions.

5.11.4 Speed of Implementation: Too Fast or Not Fast Enough?

Change was occurring at a rapid pace at SmartTech Canada. Many interviewees thought the change was almost too rapid, unstructured and inconsistent. Beleaguered by mass communication, many interviewees started ignoring the emails and were looking to leave the company. Interviews and surveys suggest that the employees felt the rate at which changes were taking place was too rapid, yet the process dragged on for years without producing any noticeable positive effects. Employees were losing patience as their fellow peers were leaving or laid off at a steady rate. A former employee remarked:

“I also lost patience in (SmartTech’s) transformation program when the management implemented endless number of projects. I wondered how long is it going to take to transform the firm and what is in it for me? I did not see my stake and prosperity in the firm increasing in proportion to the changes implemented at SmartTech”²³

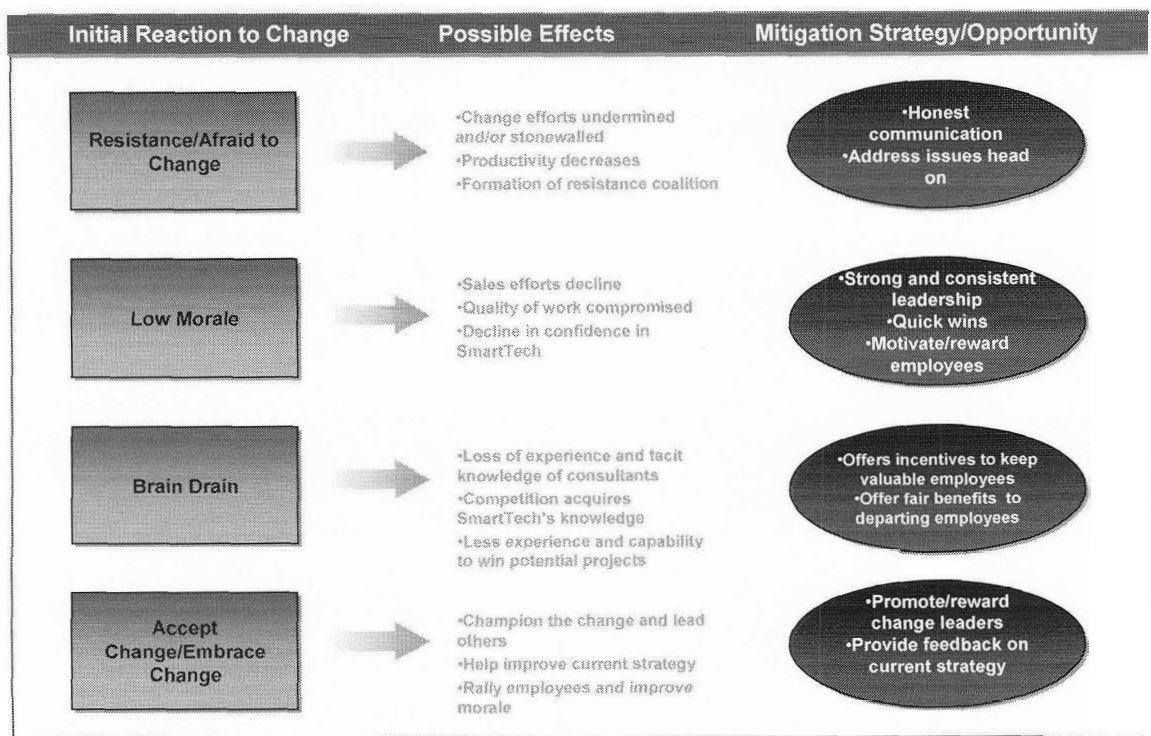
²² Anonymous. Extracted from SmartTech interviews and surveys

²³ Anonymous. Extracted from SmartTech interviews and surveys

SmartTech Canada's transformation did not fare as well as their Spanish counterpart. They closed all but one office in Canada, and have been working at a loss since the merger happened. The transformation effort was formally initiated in early 2001 but as of 2004, it was still in progress.

Figure 5.3 summarizes the reactions of the interviewees and their subsequent effects. Mitigation strategies are also suggested.

Figure 5.3: SmartTech Canada's Reaction to the Transformation (2004)



Data source: Survey's and Interviews from SmartTech Consulting Canada (2004)

5.12 SmartTech's Transformation Options and Experiences Conclusions

Although there are various ways SmartTech can implement their transformation project, SmartTech preferred a rapid transformation. Through analysis and investigation into their past

transformation experiences, a rapid transformation involving both the head office and each regional office was deemed the best fit for their specific situation.

CHAPTER 6: RAPID TRANSFORMATION FRAMEWORK FOR SMARTTECH

As determined in Chapter 4, there are three key transformation considerations for SmartTech. First, in undertaking a rapid transformation of a knowledge intensive company, it is important to be sensitive to its unique aspects. In this type of organization, people are the assets and this is a major consideration. Second, different geographic regions may need to tailor the transformation according to their market and cultural requirements. In order to implement a successful global rapid transformation, it is necessary to balance the needs of its people within the contexts of their market with the transformation's goals and requirements. Third, managing transformation in times of economic uncertainty imposes additional complexities.

As suggested earlier, an “off-the-shelf” transformation framework will not be suitable for SmartTech. In this chapter, we propose a rapid transformation framework that can help SmartTech meet the key challenges it faces. This framework is a result of synthesizing insights and information from a variety of sources and analysis described earlier:

- Literature research on business transformation tailored to SmartTech's environment;
- Key takeaways from the Internal analysis of SmartTech;
- Lessons learned from interviews and surveys; and,
- Past transformation experiences, both successful and unsuccessful.

In particular, we note that the importance of the information gleaned from the various interviews and first person perspectives, which we believe give our recommendations more

realism. Management consulting is not a widely documented field, and access to such information and perspectives is not often shared publicly.

As SmartTech possesses the skills and experience in transformation and organizational restructuring projects, guiding principles rather than an implementation process is outlined in this chapter. It is proposed that this framework be the basis of their global transformation approach and be adopted by each region. Each region then needs to be analyzed and treated uniquely before implementing the process befitting for that environment.

The following six guiding principles should be decided at SmartTech's head office:

1. Create a unified vision
2. Assess the readiness of the region
3. Choose an appropriate transformation leader
4. Develop an effective communication plan
5. Create a rapid transformation process
6. Keep the long term goal in mind

After SmartTech's head office completes these steps, they can then delegate to each region the rapid transformation process and let the transformation proceed at the regional level. Although implementation methods may vary in each region, as long as each they comply with the decisions and framework developed at head office, there should be consistency and clarity of goal.

6.1 Create a Unified Vision

SmartTech needs to create a global transformation vision. Many transformation theories stress having a unified vision for the rapid transformation. Kotter describes aspects of what makes an effective vision (Kotter, 2002):

Characteristics of an Effective Vision

- *Imaginable: Conveys a picture of what the future will look like*
- *Desirable: Appeals to the long-term interests of employees, customers, stockholders and others who have a stake in the enterprise*
- *Feasible: Comprises realistic, attainable goals*
- *Focused: Is clear enough to provide guidance in decision making*
- *Flexible: Is general enough to allow individual initiatives and alternative responses in light of changing conditions.*
- *Communicable: Is easy to communicate can be successfully explained within 5 minutes.*

Because SmartTech has offices worldwide, it is necessary to find a vision, which is suitable and retains its meaning in all languages, cultures and markets they have presence in. By informing the employees that the company is united and works as a team to reach their goals, this may give them the confidence they need in a time of economic uncertainty.

6.2 Assess the Readiness of the Company.

A readiness assessment is important in determining if, in fact, the region is ready for a Rapid Transformation. A readiness assessment may shed insight as to how effective a transformation project will be at this moment. It would be helpful for SmartTech's head office to understand, at a high level, each region's readiness for change. A high level questionnaire such as the one below can be used to draw an overall picture of the change readiness globally. The following templates are a guide only and SmartTech needs to work with the regions to develop a more comprehensive list of questions when they do finally plan the transformation.

Figure 6.1: SmartTech's Regional Transformation Considerations – Sample

Regional Considerations – Before Implementing a Rapid Transformation	
<input type="checkbox"/>	Do they need this transformation? If so, is this the right time?
<input type="checkbox"/>	How ready are they for this change?
<input type="checkbox"/>	How simple/complex will this transformation process need to be?
<input type="checkbox"/>	What are the risks/threats in this region if the gets implemented?
<input type="checkbox"/>	What are the possible political and procedural barriers to this transformation?
<input type="checkbox"/>	To what extent can they implement this transformation, and how long will it take?
<input type="checkbox"/>	What type of leadership profile is effective in this region?

It would also be helpful for SmartTech to analyze the metrics in each region and learn about the details of each region's market to help guide each region during the implementation process.

Figure 6.2: High Level Readiness Assessment (Region) - Sample

Transformation Considerations for each Region			
Regional Employees Considerations	#	Possible Impact on the Transformation	Comments
Total # of employees			
# of Sr Directors			
# of Sr Managers			
# of Managers			
# of Consultants			
# of Admin			
Type of skills sets			
Unionized?			
Current Morale			
Compensation Totals			
Avg length of employment			
Regional Office Considerations			
Total Revenues			
Total Expenses			
Expenses by Type			
Utilization rate of Office			
Chargable rates for office			
Client Types			
Avg revenue per project			
Office Org Structure			
Regional Market Conditions			
Competition Analysis			
Recruitment Opportunities			
Market potential			
Good time to implement?			
Anticipated reaction from Market			

A major consideration for SmartTech's transformation framework is to consider each region's diversity and culture in carving out a process. By creating regional readiness assessments, this will help give head office a good picture of how each region may react to the impending transformation.

6.3 Choosing an Appropriate Transformation Leader

"Good management controls complexity, Effective leadership produces useful change"
John P. Kotter

Choosing an appropriate leader is a significant factor in whether or not the Rapid Transformation will survive. A large number of transformation projects fail in part because of the lack of competency of the leaders to manage change.

"..the results of a survey, which showed that managers have neither the expertise nor capacity to implement change successfully and that managing change according to textbook theory is difficult (Higgs and Rowland, 122)"

An interviewee mentioned the lack of management knowledge, expertise, vision and leadership skills as major contributing factors, in his opinion, to the failure of the Canadian division.

To initiate a global transformation project, SmartTech should choose a leader to guide, support and oversee all the regional transformation teams. This leader needs to have transformation experience but not necessarily at SmartTech. In the case of the Spanish region's transformation, it was beneficial to pick a regional leader from another geographical location.

The global transformation leader will act as a program management office, corresponding, tracking and reporting to management on each region's transformation progress. Because of each

region's differences, it is advisable to appoint regional transformation leaders to guide the transformation process in their respective areas.

Because each region has its own unique way of leading, it is difficult to recommend specific traits of a transformation leader. However, theories contend that there are specific skills that a transformation leader should have. Kanter identified several classical skills for a successful change leader (Kanter, 2000):

1. Tuning into the environment
2. Challenging the prevailing organizational wisdom
3. Communicating a compelling aspiration
4. Building coalitions
5. Transferring ownership to a working team
6. Learning to preserve
7. Making everyone a hero

These traits are particularly suitable for a knowledge intensive industry like SmartTech. The change leader must be able to understand the environment, their employees and their reactions to the transformation process. This allows the organization to be proactive rather than reactive to employee resistance. Building coalitions is also important in a company like SmartTech, that relies on its' employees for momentum and buy in. Finally, a leader that can encourage, motivate and support their employees and makes everyone feel like a hero is important in knowledge intensive industries where everyone looks to be respected and treated as individuals.

A transformation leader's behaviours are critical to the success of a rapid transformation project. Higgs and Rowland (2005) identified eight types of leadership behaviours, which affect a change environment.

1. *What leaders say and do. The communication and actions of leaders related directly to the change*

2. *Making others accountable*
3. *Thinking about change*
4. *Using an individual focus*
5. *Establishing "starting points" for change*
6. *Designing and managing the change journey*
7. *Communicating guiding principles*
8. *Creating individual and organizational capabilities*
9. *Communicating and creating connections.*

Lessons learned from the SmartTech's Spanish region could also improve future rapid transformations. SmartTech chose a leader who was well experienced in managing change and was near the end of his term. It is also possible to choose an ambitious young leader and pair him up with a mentor rich in change experience. SmartTech decided to choose someone not familiar with the environment, but was able to learn it quickly. It was successful in this situation because the new leader had no prior emotional or historical attachment to this region or its employees. He was able to make often tough, objective decisions regarding the business.

In a knowledge intensive company, employees identify with an effective leader. In order to implement a successful transformation in a knowledge intensive company, SmartTech needs to carefully choose the right leader for the job.

6.4 Develop an Effective Global Communication Plan

In a knowledge intensive company, effective communication is key to a successful transformation project. In SmartTech's Canadian region, almost all surveyed indicated that there was a significant communication gap between what was broadcast and what was actually happening. As research suggests, it may not be what is made public but what the leadership team does that is a form of communication. Duck (1993) suggests that "management is the message"

and the actions of the management, what they say or do not say, delivers a message to its employees.

“Too many managers assume that communications is a staff function, something for human resources or public relations to take care of. In fact, communications must be a priority for every manager at every level of the company. This is particularly true during a change effort when rumours run rampant (Kanter, 2000):

The message needs to be consistent, clear and repeated endlessly for it to permeate the organization.

A communication plan including the goals, message and reasons for transformation should be drafted out prior to implementing a rapid transformation. In order to adapt the plan at its regional offices, sensitivities such as culture, history, size/geography, and organizational structure needs to be considered region by region.

- Culture: In considering the culture of the region, it is important to understand the type of employee, how they prefer to receive their communication, and what types of protocol are considered effective in that environment. How can the message be communicated so that the employee can trust the deliverer? (i.e. In a certain region, communication may be better conducted in informal coffee shops with a team rather than conference calls)
- History: How new or old the division is may affect the type of communication that it receives. In some cases, where there is much history, some perhaps longer explanations on why this change is coming about may be needed. As well, in a division where employees have been established for some time, there might be resistance to change that the communication plan may need to address. In newer divisions, this problem may not be as important.
- Size/Geography of the Region: This factor is important to consider as this may dictate the type of communication channels the division will employ. In a smaller division, it may be feasible to communicate face to face more. However, in a larger division, conference calls, video conferencing, and other electronic devices may need to be utilized but should not take the place of face to face meetings when the situation calls for it.

- **Organizational Structure:** The structure of an organization may determine how the change teams are put together, and who communicates the transformation to the others. In a flatter organization, roles may be very organic and little importance is placed on titles. However, in a top down structure, certain leaders may be called upon to send out the messages in a more formal setting as they may hold the trust and respect of the rest of the division.

The importance of developing an effective communication plan cannot be stressed enough. However, effective communication goes far beyond a pen and paper process. It is intrinsic in the organization and its change leaders. Communication however, involves at least two parties. It is necessary to incorporate a feedback process so the employees can communicate back. Employees need to feel heard and have their ideas respected and acknowledged. Management should take this opportunity to understand employees' reactions and opinions and if necessary, change their transformation approach accordingly.

A major consideration in implementing a rapid transformation is that SmartTech is a knowledge intensive company. Knowledge workers need to be informed. If SmartTech wants to motivate their employees to create buy in for their transformation, they need to communicate effectively and often.

6.5 Create a Rapid Transformation Process

After adequate planning and analysis, it is time to develop a rapid transformation process. For each transformation situation, the environment and drivers will vary and the project needs to reflect the uniqueness of these factors. However, literary research and SmartTech's past transformation experiences list the following critical success factors to consider for a rapid transformation implementation.

1. Take time to understand all the problems before implementation: This is especially true if SmartTech decides to bring in a leader from a different division or company. However, even an existing leader who knows his region well needs to take time out to listen and see the big picture in an objective manner before they start their planning their implementation.
2. Timebox the implementation and be quick. In terms of a rapid implementation, it is important to create a plan with a definite timeline. Normally, in organizational restructuring, when a company "bleeds", it is best to make major cuts swiftly so employees have a chance to get over it and move on. In the case of the Canadian division, the cuts kept coming constantly but they were relatively few in number each time. In all, over three offices were closed but this was done over a period of several years. This led to low morale, scepticism, and low productivity among the remaining employees.
3. Create key performance indicators to measure change impacts and successes: Knowledge workers like to know their environment and the status of any given project. Have key performance indicators and giving out reports on how the company is doing will help gage the company and give them some sense how the change is affecting and improving the company.
4. Set up "quick wins": Positive reaffirmation is an effective motivator for a knowledge intensive company. Incorporating quick wins in the implementation plan will help keep the momentum moving forward in a company like SmartTech.
5. Rewards should tie in with the change: Rewarding employees that help guide the change or stay with the company during the entire change process will motivate employees to keep an optimistic look on the transformation project. Going through a rapid transformation is difficult for everyone involved, but when a company is comprised primarily of knowledge workers, it is important to try to retain the employees that are valuable to them in the long term. The promise of rewards can be a good way to stop the brain drain from occurring.

6.6 Keep Focused on the Long Term Goal

Rapid Transformation is implemented in the short term, so the company can survive in the long term. Normally, a rapid transformation is just one of many steps of change for an organization. Rapid transformations affect the organization greatly in a minimal amount of time. When conducting a rapid transformation, it is easy to lose sight of the long term goal, especially when one is fighting fires in their division. However, keeping the long term strategy in mind will help facilitate decision making, motivate employees to persevere and will help unify the organization to one common goal. In a time of economic uncertainty, it is important to rally the

employees and make them aware that this transformation is being implemented so the company can stay alive and competitive in the long term.

6.7 Rapid Transformation Framework Conclusions

In Chapter 4, it was determined that there were three major considerations that the framework must address in order to be effective for SmartTech;

- Global reach with Regional Diversity
- Knowledge Intensive Company
- Transformation during Economic Uncertainty

These aspects are addressed in this framework. By including the regional office as the project implementer, it will be easier to be cognisant of each region's specific needs. As well, a change readiness assessment is done for each region so head office is aware of each region's change capability. Including extensive two way communication channels and being mindful of choosing a transformation leader will help the knowledge worker be confident, informed of the transformation process, and create buy in. Having a unified vision and keeping the long term goal in mind will remind employees that SmartTech has the long term future in mind.

CHAPTER 7: SMARTTECH'S RAPID TRANSFORMATION – FINDINGS AND SUMMARY

SmartTech's recent merger of two consulting giants necessitated a transformation project to help unify the entire organization. As SmartTech is a knowledge intensive company, we discussed the unique aspects of knowledge intensive firms and the importance of knowledge workers. We argued that knowledge intensive firms operated differently than the traditional industrial companies and these differences need to be addressed in any transformation strategy.

In order to understand SmartTech's background, the management consulting industry was explored. At the time, this industry was going through some significant changes that would impact SmartTech's need for transformation. The Sarbanes Oxley ruling, the decline in market demand and costly labour supply all added to the pressure for organizational restructuring.

A literature review was performed in order to find a transformation process. From the many methodologies for transformation available in literature, three different frameworks were considered as they were aligned with knowledge Intensive companies. A theoretical framework, practical lessons learned from a CEO, and critical success factors for information intensive companies were explored for SmartTech.

SmartTech's background was detailed and key points for consideration were extracted. A SWOT analysis was presented to determine the change readiness of the company.

Despite the fact that SmartTech preferred a rapid transformation, other options were considered in order to determine the best solution for SmartTech. In both the analysis of the key

points and leveraging SmartTech's past transformation experiences, a rapid transformation involving both head office and the regional offices was recommended.

Finally, a framework involving six guiding principles was detailed. Key points in the framework include:

- Creation of a unified vision;
- The importance of choosing the right transformation leader; and,
- Development of a global communication plan.

This framework is the best fit for SmartTech because it incorporates the company's regional sensitivities, focuses on employees, and considers the economic uncertainty of the environment.

In the new economy, change is constant and knowledge intensive companies like SmartTech may need to consider transformation projects more frequently in order to stay competitive. Knowledge intensive companies need to be aware of the paradigm shift from restructuring an industrial company to downsizing knowledge workers. The goal of this framework is to consider employees as human beings with feelings and emotions rather than an employee number. Perhaps knowledge intensive companies need to be brave in the face of change, in order to communicate honestly and with integrity with their most valuable asset, their employees.

APPENDIX: CRITICAL SUCCESS FACTORS FOR CHANGE MANAGEMENT

1. Involve many people in the lower levels of the organizations
2. Implement change in orderly waves
3. Try to limit involvement of Upper Management
4. Restrict the roles and responsibilities of the king and queen bees
5. Proactively identify and manage issues and problems as they arise
6. Except for a core change team, ensure that all other team members and participants keep doing their existing jobs
7. Measure almost on a continuous basis
8. Assume that after and during change reversion will surface
9. Plan ahead for resistance to change
10. Have specific tasks in the change effort jointly performed by several people
11. Utilize two managers to head up the change effort
12. Establish a two tier steering committee approach to oversee change
13. Identify longer term IT and other actions and get them started early
14. Focus on marketing of the change effort continuously from inception to after completion.
15. Gather lessons learned from the work as you go
16. Give credit to the people who do the process work.¹

Source: Lientz and Rea (2004) "Break Through IT Change Management: How to Get Enduring Change Results"

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