Inside the Mind of the CEO in Belgium: “Back to Reality”

A PwC Consulting Report
December 2001
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Preface

At the end of 2000, PwC Consulting conducted a survey to assess the strategic priorities of CEO’s in Belgium. This was linked then to a global study of CEO’s presented to the Davos forum in January. At that time, most Belgian CEO’s were optimistic about the growth of their company in the coming years. E-business was seen as a major engine propelling this anticipated growth. This was also the case globally.

One year on, we launched a new survey to re-ascertain the CEO mindset. Questionnaires were sent out between 1 October and 15 November 2001. The intent was to evaluate how companies are positioning themselves in the new economy. Fifty responses were obtained from a variety of sectors representing a well-balanced group of companies, national and foreign, large and small, and located all over Belgium. The results are summarized below. They also take into account the point of view of PwC Consulting and of respected academics.

Key findings

Most companies have initiated e-business driven transformations in the last two to three years. Many of them, however, remain uncertain as to how to best complete these transformations. As strategic priorities are changing, the focus is on "back to reality" - with human capital, profitability and the customer being the three core axes - but without putting at risk the potential for future growth.

Today, CEO’s still consider transformation as a ‘must’ in the present economic context. The expected level of transformation has never been higher. But CEO’s also realise that “transformations in progress” need to be revisited to assess if they still fit with today’s strategic priorities.

As a result, investments in e-business are expected to be higher in the coming three years, as part of well-designed transformation processes. E-business, clearly, is still on the CEO’s agenda, but it has evolved from a major driver to a key enabler.
Strategic priorities in the new economy

2000 Strategic Priorities (1=low 5=very high)
1. Growth & Innovation 4.6
2. E-business & Transformation 3.8
3. Mergers–Acquisitions–Alliances 3.7
4. Shareholder Value 3.6
5. Globalisation 2.8

In the 2000 survey, growth and innovation were the key priorities. E-business was seen as a change factor and as the principal mean to achieve growth. New business models of outsourcing, partnerships, networking organisations… appeared. A direct result of this was that the shareholder value of companies was expected to rise dramatically. E-business driven transformation was based on new levers, including decapitalisation (reduction of asset base) and the split of corporate activities (branding, operations and innovation).

The resulting business models are summarized in the following graph.

Which e-business driven transformations?

Caution, not revolution

Findings from the 2001 survey show that with regard to timing, 49% responded that they were fast followers, 27% latecomers and 24% considered themselves pioneers. E-business driven transformations were still in a limited pilot phase for 67% of respondents, while 33% had opted for an enterprise-wide implementation. In 63% of the cases, the business approach was incremental. These figures reveal that e-business driven transformations are in fact taking place at a relatively slow pace compared to the e-revolution that was expected less than two years ago.
Testing out transformation models

Interestingly, companies have also chosen different models for their e-business driven transformation. One third of organisations entered a transformation (by reinventing themselves entirely) by making all processes web-enabled. A ‘bubble-in’ transformation was pursued by about another one third of the respondents. In this model, a laboratory-like environment is created within a company to incubate e-business. A ‘bubble-out’ approach has been chosen by about 10% of the companies. This involves the creation of a pilot cell outside the company. Finally, one fifth decided to participate in an e-marketplace.

The diversity of these models and the results they obtained in the last two years may indicate that companies are somewhat static in their e-business driven transformation process, and very concerned about which direction to commit resources.

Barriers and resistance to change

The CEO’s were also invited to indicate possible barriers to the e-business driven transformation of their company. The barriers mentioned were not linked to information technology or human resources, but rather to economic uncertainty. Among the internal barriers most frequently noted are the implementation costs and uncertainty of returns, unclear benefits, and the fact that other projects have higher priority. Notable external barriers include market conditions and the lack of successful business cases. In other words, the resistance to change may well be linked to the lack of strategic thinking regarding e-business opportunities.
Strategic priorities are changing

Focus on corporate strategy
When asked to define their new strategic priorities for the future, CEO’s provided substantially different answers from those collected one year ago. Interestingly, the five major strategic priorities today all rate above four, meaning they are all given high importance. In the previous survey, only ‘growth and innovation’ scored more than four on average. This confirms that the focus is again on strategic thinking, whereas in 2000, strategy was being swept aside by the e-business hype.

Back to basics
The three most frequently mentioned priorities relate to people, profitability and customers. CEO’s are anxious to lead change and to align committed and motivated people with the right skills and competences, to cut costs while increasing revenues, and to set up customer-driven organisations.

We can conclude that, after a short period of hype, leaders have gone back to the core realities of business.

From ‘e = driver’ to ‘e = enabler’
Also noteworthy is that transformation is now linked with strategy. Previously it was associated with e-business. This highlights the fact that e-business has evolved from a driver to an enabler.

In 2000, e-business was more hype than substance. Companies were adapting their organisation and their strategy to fit the needs of e-business, but without fully comprehending its uses or requirements. E-business, real or imagined, was the driver of change.

Today, companies have established other strategic priorities. These affect the corporations widely and also imply a high degree of change. While these transformations involve e-business, it is now only as a tool or an enabler.
Levels of transformation remain high

The current strategic priorities identified by CEO's will require a high degree of transformation. Compared to the previous survey, expected transformation levels are substantially higher, while the prospect for growth is slightly diminished.

E-ambition diminishes

The effect on the levels of ambition for e-business can be seen readily. Today, the majority of companies rely on e-business mainly for value chain integration and channel enhancement. Value chain integration is defined as the use of e-business to improve the entire existing supply chain, from the initial manufacturer to the end-user. Channel enhancement implies a better customer-oriented organisation in order to increase revenue.

A facilitating role for e-business

CEO's responses to the question “To what extent will e-business be part of your company's transformation?” confirm a facilitating role for e-business. Only 14% asserted that e-business will drive the transformation, while 72% noted that e-business will act as a facilitator. The remaining 14% stated that e-business will have no impact on corporate/enterprise wide transformations.

Enterprise wide transformations

In today’s transformations, e-business plays an enabling role within each new strategic priority. The enterprise wide transformation implies a wide range of actions to reduce costs, increase revenues, reduce working capital, etc. E-business will play a supporting role in each of these actions. It will play a particularly crucial role in four areas: process support and redesign, product development, customer services, and content/information. Furthermore, e-business is still considered a vehicle to sustain growth.

E-investments on the rise

CEO's forecast higher investments in e-business in the coming two to three years. These additional investments will most likely be dedicated primarily to B2B and B2C customer relationships. The focus is clearly on the customer, even though analysts previously expected e-business to have greatest impact in the procurement area. It may indicate that when capital is limited, it is preferably spent on building and sustaining the customer relationship. Little investment is forecasted in the B2E relationship area, a surprising fact given the importance of human capital as a strategic priority.
Ideas, people, projects

Enterprise wide transformation will require a balanced focus on ideas (uniqueness), people (alignment and motivation) and projects generating results. Themes frequently mentioned by CEO’s in these areas are the need for innovation within an organisation, the mobilisation and reassurance of people, the efficient deployment of resources, and change monitoring.

Guidelines for the future

During their enterprise wide transformation, it is particularly important for corporations to balance and integrate a number of elements, including:

- **Virtual or physical organisation**: Depending on different factors (sector, timing, …), a company will have to rely on one more than the other, but will generally need a combination of both.
- **E-technologies and other technologies**: Mobile, CRM, ERP and other technologies have also a key role to play in enterprise wide transformation processes.
- **Push and pull strategies**: Traditional push models, which start out from the supplier, are complementary with pull models from the customers where e-business can be the starting point.
- **Enabler and driver**: In an enterprise wide transformation, e-business is an enabler, but it could, at times, retain some driving role in the way it affects overall strategy.

Future transformations

Several types of transformations are envisaged in the future, including mobile-driven transformations, human capital-driven transformations, and even cultural transformations.

Finally, there is a psychological aspect driving change. Before the advent of e-business, mergers and acquisitions were the driver behind transformations. During the e-business driven transformation phase, technology was the main driver. Today, the driver behind enterprise wide transformations is the “back to business reality” phenomenon.
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