

Transforming Your Business Without Cracking the Egg

Twenty years ago, then President of PepsiCo, Roger Enrico, gave his famous ‘burning platform’ speech. Coming off a record year, he shook-up his executive team, congratulating them on having built a great business platform, and then throwing ice water on the group by telling them why their current business model was burning and unsustainable.

Enrico understood two things. First, businesses tend towards complacency. Second, the operating model, organization, processes, and technology that created today’s success must be continually reinvented.



In most industries, companies have reinvented and shifted their operating models constantly, looking for benefits of scale while searching for ways to drive accountability, customer focus, and overall competitive advantage.

But companies today face a new spin on past challenges. Global economic conditions, availability of credit, consumer confidence, and a variety of other factors are causing the need for faster change cycles. Delivering change faster requires an organization that has a higher level of coordination and consistency than was necessary even in the recent past.

Once again, the function that the organization must execute is changing, requiring a new look at the right form of organization and leadership to deliver on new promises.

Over the past two years, we have had the opportunity to work with several leading Fortune 250 companies on projects designed to examine and transform elements of the organization to face new business realities.

In one case, our client recognized that having product-unique engineering and operations silos was not workable going forward. This old structure bred duplication of functions, conflict, and hindered product integration efforts. A new form of organization was necessary to efficiently deliver required results.

In another case, a large regional operating unit recognized that a virtual call center approach serving millions of customers had become unwieldy and lacked the agility to be responsive on a market-by-market basis. A strategic decision was made to deconstruct the virtual model while still finding ways to maintain unit cost and customer service metrics available with scale.

In a third case, a client recognized that their customers were rethinking and reorganizing their businesses, and that a failure to make complementary changes would likely erode their competitiveness and market share.

Based on these and other experiences, we’ve derived six important learnings (or re-learnings) about transforming large, complex organizations:



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1. Follow your gut on senior people.

In his book *Good to Great*, Jim Collins makes the case that having the right ‘people on the bus’ is in fact more important than having the perfect strategy. Every time we have been through a transformation project and debriefed with our clients, the number one regret was that key leadership changes were not made sooner when it was believed that leaders were not a good fit with the desired future state.

Recently a client reminded me of one of his first executive coaching sessions, where his boss, the company President, told him, ‘Executives only have two difficult personnel decisions to make. The first is whether to hire someone, and the second is when to let someone go.’

We are not suggesting that this is an easy area for most executives, or that it should be. More often than not, the people in question have been important contributors in the past. And there tends to be a concern that their exit will cause a significant hiccup in current performance.

At the same time, there are significant consequences to putting legacy people in new roles when you do not genuinely believe they can perform to the requirements of the new position. Consider for example:

- If in fact they do not work out, they will have to be replaced eventually, leading to another period of disruption, and most importantly lost time that cannot be recovered.
- They are not likely to hire or promote people who will drive toward the new vision.
- Other senior leaders will overtly or quietly question your decision to keep these people and this will reduce overall confidence that the new organization will deliver results.

When filling newly created middle management positions in reorganizations, we are required to ask if anyone is ‘the incumbent’ for a position – that is, the newly defined role is 50 percent or more identical to their current position. If the answer is not a clear ‘yes,’ slates are created and candidates identified and interviewed. We believe that as difficult as it is, the same thinking must be applied at the most senior levels.

2. Design by committee is necessary and tolerable for awhile – but eventually you’ll need to enter the ‘iron cage’ stage.

We’ve always believed that implementation of change starts on the first day of the project. The importance of hearing people’s views, meeting and discussing options, and weighing alternatives as a team cannot be overstated. There’s no getting around the need for a leadership team to be ready to commit substantial time in planning and implementing a large-scale reorganization.

At the same time, there are limits to people’s stamina – handling business as usual and finding two or more days a week of time to spend on planning a complex change initiative is testing of any leader.

Our experience is to let the ‘process’ activities go on until an adequate foundation of understanding and buy-in are established, and then literally lock the group down until all the details are pinned. One client recently referred to this as ‘the iron cage stage.’ Tactically, the team might check into a hotel until the work is done. Mentally, the iron cage symbolizes a wrapping-up of the discussion and the beginning of implementation.

What’s interesting is that announcing the iron-cage stage actually tends to ignite a team – amazing work gets done, and genuine understanding and trust are built. This stage tends to solidify the team’s resolve about the change effort, heighten urgency, and greatly accelerate final deliberations and concrete implementation planning.

While tempting, it is important not to begin the change process with the iron cage stage. A certain period of exploration and discussion is absolutely vital if the team is to come to grips with the new reality and the importance of making changes.

3. Follow the 80-20 Rule.

Many of the reorganization projects we support involve thousands of people – at a minimum, most people will end-up reporting through a new chain of command. For many people there will be new job descriptions, roles, accountabilities, work processes and team members.

It is impossible to create an absolutely precise plan covering all aspects of how the new organization will perform. We have spent hours with senior executive teams discussing ‘use cases.’ Typically these use cases are based on recently completed or newly planned projects. In talking through exactly how these projects will move through the new organization, executives become far clearer on roles and accountabilities, as well as their resource requirements.

Although a healthy level of ‘what-if’ dialogue is critical to understanding how the new organization will operate, it is impossible to work out every detail of process and governance in advance of making changes.

While working use cases, we document all of the discussions and create charts depicting work flow – these become critical communication and training tools later in the change process. Nonetheless, the time comes to agree that we’re 80 percent aligned, and commit to working through the details in real time once the new organization is put in place.

Helping the senior leadership team accept the reality that major organizational change is iterative and that not everything will be accounted for out of the gate allows them to move beyond planning. They come to recognize why trust and collaboration are fundamental values required to ensure a successful transition well beyond the organizational announcement stage.

4. Help the new organization find its cadence.

At the end of day one, week one, and even at the end of quarter one, the new organization will probably seem asynchronous. It will not have an established rhythm. Help it find one.

Historical governance needs to be evaluated to find out what’s working, what’s not, and what’s missing. This is a time to revisit meetings of all types, as well as operational reporting schedules and employee communication vehicles.

Governance defines the decision making and integration processes that provide both the glue and the grease to keep the organization unified and moving forward. Defining these mechanisms, getting them on the calendar, and creating clarity on the objectives and expectations from each will remove any residual allegiance to past practices. It also helps calm concerns caused by uncertainties associated with the restructuring.

5. Culture is the last thing to change.

Very early in almost every organization redesign effort there is a discussion of how the old culture is a detriment to meeting future business requirements. Whether transitioning from a ‘utility’ to a ‘trusted business partner’, or from sales focused to retention focused, senior executives tend to articulate early on their concerns about the capacity of existing people to adopt a new mentality.

Reflecting back on point (1) above, concerns over the ability to lead a new culture is a major consideration in assessing the ability of senior managers to be successful with a redesigned organization. And, reorganization is often accompanied by an influx of new senior leaders, either for this very reason, or because in designing the new organization it becomes apparent that new or different combinations of skill-sets are required.

Our experience is that actions can be taken from the outset of planning a re-organization that support a transition to a new culture. The executive leading the charge can support this by spending a significant amount of time with their team in a 'teach' mode – literally tutoring the team on new requirements. In addition, in senior team meetings, a norm of questioning assumptions and mental models helps to unfreeze past thinking.

Of course, communications is a major element of any change process, and flawless execution of emails, road shows, talking points, and all other basics is the ante for success in altering a culture.

It is useful to keep in mind, however, that while typically one of the first things to be discussed in the change process, culture is likely to be the last area to actually look and feel different. Working on the culture every day in every way possible cannot be minimized just because the results are so long in arriving. When cultural changes do take root they are powerful and often the key to sustaining the new operating model.

6. Respect and attention to detail will keep the egg from cracking.

Going into most major change efforts, we are given the mandate 'don't crack the egg.' Put more succinctly, it is not acceptable to compromise business continuity during the change process. As one client told us, 'the challenge is threading the needle' – an executive can't use the reality that there is a risk of discontinuity to not make the required changes.

Our experience is that there is little cause for concern if the change process is well coordinated and managed, and if peer and leadership support has been built. While there is a significant amount of time required from leaders to plan and carry out the change process, we continually find that senior leaders find the required time. They do not drop the ball, and they do get the change work done.

In working on change projects, we encourage our clients to set two goals from the outset. The first is business continuity. While there are well documented cases indicating that shortly after change is introduced performance tends to deteriorate temporarily, we don't believe that this has to be the case – even if a number of senior leadership roles change.

The second goal is people-oriented. We believe that when the change is complete, while not everyone will say they agreed with it, we would like to hear all say that they understood the business case, and they feel that they were treated respectfully.

Respect takes on different forms at various levels of the changing organization. Initially the change effort will impact the top 2-3 levels of the organization – they must feel that personnel decisions are unbiased and fair. Below the top levels, there is enormous value in keeping mid level operations people in the loop – even finding the time to pay extra attention to them.

They are the ones often left out but the ones who can make or break continuity. To these people, candor, including acknowledgement of errors and the need for corrections, and open lines of dialog, constitute 'respect.' If we can achieve these two goals it will go a long way toward keeping the egg intact.

As the industries consolidate, and launch new and more complex products and services, companies will continue to struggle with how best to organize for competitive advantage. It is our opinion that until there is stability in the product and competitive sets – which may not be for quite some time, the competency that needs to be honed in executives is leading rapid cycles of organizational and operational change. Keeping these lessons learned in mind will help ensure success.

