

Leading Enterprise-Wide Change Initiatives

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Consider the following scenario:

You are a member of your company's top management team. Performance indicators suggest that your firm's global competitive position is softening. Several long-term customers have left you and are now working with one of your newest competitors, who achieves 20 percent lower costs, higher product quality, and 50 percent faster order fulfillment than you. At the same time, you've realized that your traditional short list of benchmark competitors may no longer be a reliable source of competitive intelligence.

At the quarterly gathering of your company's Presidents' Council, the CEO and top team concur that the situation is urgent. To remain successful, your company must take decisive and far-reaching steps. The goal is to become a global leader – and remain one well into the 21st century. The CEO will announce a transformation program, Global Vision 2000, during the annual Leadership Congress next month, when the company's top 500 executives from around the world will listen to motivational speeches from top management gurus and learn about major developments in your industry and your company.

During the last decade, this scenario has become familiar. Once-dominant companies all over the world are reeling from relentless changes to the business environment. In their efforts to recapture the magic that once made them great, they have been launching major transformation programs. Invariably, such programs begin in a surge of optimism. All CEOs and their top teams want transformations to energize their organizations, motivate their people to reassess their behaviors, focus attention on achieving excellence, help to pinpoint specific ills to be addressed, and challenge their staff to continually improve their operations. However, these laudable outcomes rarely happen. Transformation efforts fail far more often than they succeed. Too often, such failures create lingering cynicism within the organization, widening the trust gap between the company's top management team and its work force.

Why do some large-scale transformational efforts succeed in energizing people while others fail, leaving people cynical or even hostile? And what can business leaders do to manage large-scale change efforts successfully? To explore these questions, I have been conducting a major research study – the Developing Global Organizational Capability project – in which we have gathered the views of more than 2,500 managers and executives from 28 large companies around the world about building world-class global organizational capability.¹ Early indicators from the study suggest that the key to success in a transformation program is the CEO's and top management team's *commitment to following through* on the promised vision of building a revitalized company. Great change leaders support this finding, saying that the hardest part of leading change is not envisioning the transformation process, but implementing it. A major difference between a revitalized organization and a floundering transformation effort lies in the top team's commitment to the ongoing hard work of making the vision a reality.

During an interview for the Developing Global Organizational Capability project, Sir David Simon, Chairman of British Petroleum, reflected that, „Today, execution *is* strategy.... They are inseparable.... Sustained competitiveness will not be achieved without the total commitment of this entire organization to aligning our objectives with our behaviors and organizational processes.“

Obviously, achieving follow-through and alignment is more easily said than done, or large-scale transformations would have a much higher success rate than they do. Specifically, what can top management teams do to ensure success? Early analysis of the research data and interviews with CEOs who have led successful transformation efforts suggest that top teams should implement two linked approaches simultaneously:

- Take the 10 steps that will bring about successful transformation.
- Align the 5-M's™: meaning, mindset, mobilization, measurement, and mechanisms for renewal.

Taking the Ten Steps

In the early 1980s, British Airways had one of the worst on-time records in the industry, a crippling cost structure, and a reputation for poor quality and poor customer service. Industry cynics quipped that BA stood for „bloody awful.“ *Yet* today, BA is the global benchmark for airline excellence. In the past seven years, it has consistently ranked among the most profitable airlines in the world, and it enjoys a worldwide reputation for excellence in service, safety, and punctuality. How did BA transform itself? The change did not come quickly or easily. BA reinvented itself by dedicating itself to operational excellence, committing itself to following through on its vision, and strategically aligning its core organizational processes. BA also embedded its transformation capabilities into the organization, ensuring that it will be able to continuously renew itself.

My interviews with transformation champions such as BAs Sir Colin Marshall, Philips' Jan Timmer, and BP's Sir David Simon, and my consulting work with many companies, have shown me that great change leaders follow 10 steps as they work to create successful transformations (Exhibit 1). Let's take BA as an example, to see how Sir Colin's actions relate to the 10 change steps.

Sir Colin Marshall, BA's Chief Executive until 1996, took personal responsibility for the company's transformation by serving as change champion. He first created a „burning platform“ by honestly stating BA's lack of competitiveness and outlining the inevitable consequences of continuing down such a path (Communicate Urgency). His top team created the BA Vision 2000 change process, calling for BA's transformation from a state-run bureaucracy to a world-class, customer-focused airline. They held many meetings to communicate and clarify the necessary changes, and they challenged thousands of employees to help create the new British Airways (Clarify the Change Process). BA instituted a fierce cost-cutting program and eliminated redundancies in headcount (Act Quickly and Decisively). While top management focused time and attention on the transformation effort, numerous task forces helped to link Vision 2000 with operating plans (Focus Energy). BA committed tens of millions of pounds to ensure that the effort had every chance of success (Commit Resources).

Exhibit 1

The Ten Steps to Leading Enterprise-Wide Change Initiatives

<p>1. Communicate Urgency</p> <p>Tell it like it is. State your company's situation honestly and accurately. Create a „burning platform“ that will stimulate action.</p>	<p>attention on the future. Generate hope and enthusiasm by helping people see how they can fit into the new vision.</p>	<p>8. Reward New Behaviors</p> <p>First and foremost, walk the talk by practicing the new behaviors yourself. Demand the same from your top team. Find visible ways to reward people who consistently practice the new behaviors.</p>
<p>2. Clarify the Change Process</p> <p>Develop and communicate clear mechanisms for information-gathering and decision-making. Appoint the „best of the best“ to the change team to signal top management commitment.</p>	<p>5. Commit Resources</p> <p>Provide the financial, technological, and human resources required for world-class execution.</p>	<p>9. Share Successes Broadly</p> <p>Celebrate visible signs of change within the organization. Acknowledge past mistakes, but don't dwell on them. Build confidence that more can be done.</p>
<p>3. Act Quickly and Decisively</p> <p>Move quickly. Immediately put a stop to whatever is causing the worst damage. Remove all obstacles – including people – that are blocking the revitalization agenda.</p>	<p>6. Develop Capabilities</p> <p>Strengthen organizational readiness and individual preparedness to meet the new challenges. Develop people and bring in new blood at all levels to reinforce the company's new direction.</p>	<p>10. Embed Transformation Capability</p> <p>Position the organization for continuous revitalization and renewal. Make sure that people understand that change is not something to survive, but a permanent part of the company's competitive environment.</p>
<p>4. Focus Energy</p> <p>Clarify the benefits of the change – to everyone in the organization. Rivet everyone's</p>	<p>7. Realign Measures</p> <p>Create stretch goals. Set new expectations and establish new measures commensurate with the new direction and expectations. Communicate these measures broadly and clarify the new accountability system.</p>	

In this atmosphere of cutting back and reducing head-count, BA also implemented several significant educational initiatives, including Putting People First and Managing People First, aimed at changing mindsets and giving employees the skills to meet the company's new performance expectations (Develop Capabilities). Sir Colin Marshall's change team developed more than 240 measures to assess BA's performance in improving customer service and quality. He personally reviewed this report, first monthly, then weekly. Sir Colin also made a point of answering several customers' letters about BA's service every day. The message was clear (Realign Measures).

To demonstrate his commitment to changing employees' behavior, Sir Colin instituted a performance-pay and a profit-sharing program, both novel in the United Kingdom at the time, linking rewards to the company's newly established performance measures (Reward New Behaviors). BA also took time to celebrate the changes; when new performance milestones were reached, BA hosted celebrations for both employees and customers (Share Successes Broadly). While BA had a wellcrafted set of objectives, Sir Colin announced that BA's strategy was a variable, not something carved in stone by top management. He also declared that BA's learning capability and core values were its only fixed assets (Embed Transformation Capability).

Aligning the 5-M's™

To truly understand the BA success story and others like it, we must look at more than a company's capacity to manage change effectively. Successful transformations require excellence in both change management and process management. A company that can integrate and align these capacities will achieve nothing less than a core competency, or what I refer to as an organizational capability. Transformation champions build *hope* by offering people a new and compelling vision for the future; they also build *trust* by embedding managerial accountability and performance measures into the transformation process.

In order to successfully execute organizational transformations or other enterprise-wide strategic initiatives, companies must align five process capabilities, which I refer to as the 5-M's: *meaning, mindset, mobilization, measurement, and mechanisms for renewal* (Exhibit 2). After a preliminary analysis of the Developing Global Organizational Capability study results, combined with my experience working with CEOs and top management teams around the world, I feel strongly that the fundamental responsibility of the CEO and the top management team is to ensure alignment among the 5-M's, whether the challenge is leading a large-scale change effort or implementing a major new strategic initiative. As we shall see, it is the alignment of the 5-M's that creates world-class organizational capability. Excellence in three or four of these capabilities won't do, and neither will managing them as sequential processes.

Exhibit 2

The 5-M's

Meaning

- Enduring values
- Compelling purpose
- Tangible vision

Mindset

- Congruent culture and behavior
- Openness and trust
- Walking the talk

Mobilization

- Focused energy
- Global reach
- Removal of obstacles

Measurement

- Strategic focus
- Customer-oriented
- Accountability-driven

Mechanisms for Renewal

- Organizational commitment
- Embedded processes
- Individual ownership

Let's first create a working definition for the 5-M's, then see how companies can use them to build an integrated and strategically aligned organization that can sustain competitiveness.

Meaning. Employees are yearning for a better sense of their organizations. Top teams must do more than simply communicate a vision. They must craft a compelling sense of purpose or meaning for their organizations. They must define the company's core values as well as fundamental purpose and tangible vision that will encourage employees to give 100 percent of their energy to the organization.

Mindset. If meaning is about crafting a sense of what we want our company to be in the future, mindset is about understanding how an organization's systems and its people's behaviors can either reinforce or undermine this meaning. For example, if a company's mission is „to be a customer-focused, globally-minded entrepreneurial firm,“ but its promotion and compensation systems reward bureaucratic, obedient, and risk-averse behaviors, this company will have a gap between its meaning and its mindset. And, needless to say, this company's top management team will encounter significant challenges in earning the trust of its workforce.

Mobilization. Organizations are teeming with energy. The challenge facing top management is channeling this energy into an agenda for action, then developing processes and resources to achieve world-class execution. The added complexities of geographic dispersion, unfamiliar customers and competition, and cultural differences make mobilization a strategic rather than a tactical concern in today's world.

Measurement. Few companies take the time and energy to establish metrics that will prove whether their change efforts are making progress. Take the company example mentioned in the definition of mindset. Chances are good that this company has not established measures that will prove whether it is really making tangible progress toward its objectives. The consequences of not establishing measures, or of establishing the wrong measures, are obvious – employees will revert to old behaviors and the change effort will be unintentionally

undermined.

Mechanisms for Renewal. World-class companies don't think of transformation as another program to struggle through or as another tumult to survive. Change has become a fact of organizational life. High-performing companies find ways to embed change into their strategic, organizational, and people-development processes.

For sustainable change to take place, each of the 5-M's must be evident in the organization. A compelling statement of meaning might be encouraging in the short term, but if top management's mindset contradicts the statement of meaning, or if the organization's people are measured against dimensions that don't match the new statement of meaning, then widespread cynicism is sure to follow. Organizations that can strongly align the 5-M's with their organizational goals will create powerful and hard-to-duplicate organizational capability.

Using the 5-M's to Audit Organizational Capability

Continental AG („Conti“) is the world's fourth-largest tire manufacturer. Based in Hannover, Germany, Conti has been a technology leader for more than 125 years, first in rubber products, then in carriage and bicycle tires, and presently in automotive tires, wheel systems, interiors, and antivibration systems and components. While Conti enjoyed a reputation for the highest technological capability, it needed to increase its economies of scale in manufacturing, reduce its cost structure, and enhance its marketing know-how in new and emerging markets around the world. While it is number four in its industry, by the mid-1990s Conti was running well behind the „big three“ tire manufacturers, and the company considered itself in danger of being viewed as a regional player by an increasingly global customer base.

In 1995, Hubertus von Grünberg, Continental's newly appointed Chairman of the Executive Board, took steps to correct this situation. His goal was to transform the company from a respected regional player into a formidable global player. Mr. von Grünberg knew that Conti could not hope to grow into a global player by incremental steps. It would have to restructure its processes, organization, and costs, and it would also have to grow rapidly through strategic partnerships and alliances with companies that could deliver value in key emerging regions throughout the world.

Mr. von Grünberg challenged Conti to build a strong cadre of leaders who could create these partnerships in the near future. In response, Conti's human resource development executives created an action-learning program called Change Masters. The program's goal was to equip Conti's senior managers with the skills, capabilities, and mindsets needed to lead both strategic change and strategic alliances. Conti was already engaged in and planning a large number of alliances, and „change team“ members from seven alliances attended the program.

Continental developed Change Masters around the 5-M model. The change teams assessed their proposed or current alliances along the 5-M's. They evaluated the clarity of the alliances' purpose or *meaning*, assessed whether the key players had the proper *mindset* to run the alliances effectively, determined whether the resources were in place to *mobilize* the effort, identified the appropriate *measures* to confirm that their alliances were making tangible progress, and established *mechanisms for renewal* so that their alliances would continue to flourish.

In a sense, the 5-M's were used to conduct an organizational capability audit, helping Conti to pinpoint its key challenges in managing both strategic change and partnerships. Once key gaps were identified, follow-up steps were put in place. Conti is now beginning to implement its alliances. Importantly, the 5-M model has given the company a means of spotting alliance vulnerabilities early on, as well as a process for dealing with them, enabling Conti to become a company dedicated to continuous renewal and revitalization – and giving Conti the opportunity to achieve its goal.

Conclusion

Transformation champions build world-class global organizational capability one step at a time. They have no easy answers, but they do have a commitment to doing the hard work, a dedication to the task, superior follow-through, and a zeal for building a strong bond of trust within their organizations. They are masters of change management processes, but they also align meaning, mindset, mobilization, measurement, and mechanisms for renewal into a powerful and sustain-able organizational capability.

¹ *The Developing Global Organizational Capability research project was led by Douglas A. Ready, who was joined by Arnoud De Meyer, INSEAD. The study was sponsored jointly by Arthur D. Little and the International Consortium for Executive Development Research.*

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