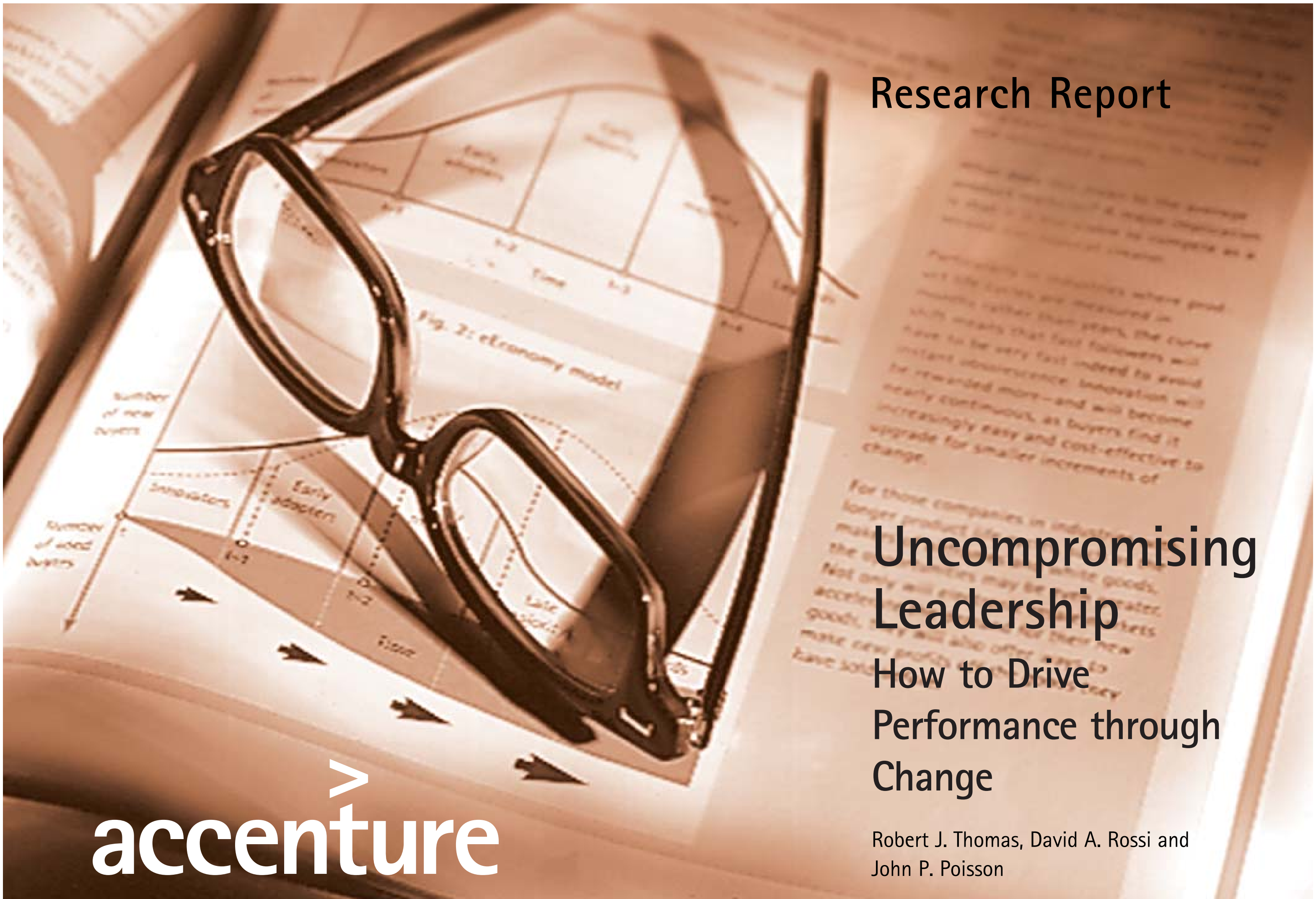

Research Report

Uncompromising Leadership

How to Drive Performance through Change

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Job one for a business leader is to improve business performance by executing change and by exploiting emerging opportunities for growth. But Accenture research shows that change has its downsides, like resistance from management and line employees. To avoid these common hurdles, while realizing gains in business performance, focus on four overlapping implementation strategies. First, act swiftly, but make sure that people deeply understand the reasons for or consequences of change. Second, organize a disciplined rollout and anticipate obstacles, but be willing to share control over the shape of change with subordinates. Third, focus on meaningful gains in efficiency or reductions in ambiguity, but increase input levels. Finally, demonstrate results quickly, but invest as much energy as possible to boost the business' capacity for change. By focusing on these four counter-intuitive methods, executives can maximize the upside of change, creating lasting business performance.

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Uncompromising Leadership

How to Combine Speed and Commitment to Drive Change

Consider the following scenario: You have just read about a way to redesign a key business process that could substantially boost efficiency in your company's manufacturing operations, turning around loss-making plants. To stop the bleeding, you would need to implement change **quickly.** At the same time, however, sustainable performance improvement in return on investment and value creation would require long-term **commitment** from internal stakeholders, such as workers and management.

This is a potentially great opportunity, the kind that can transform a company. But the need for business leaders to create a paradoxical combination of speed and organization-wide commitment inevitably slows momentum and the will to change. From the start, implementation becomes a matter of making compromises and trade-offs, rather than maximizing the value of the opportunity. Should you concentrate on achieving a high level of commitment from employees, which would require a long and slow march toward execution, but would risk losing competitive advantages along the way? Or should you focus on action, moving quickly to implement change, even if doing so could mean alienating the very people whose buy-in you need to create enduring value?

There is a better way to address this leadership paradox. To drive performance Accenture research suggests that executives should minimize the distinction between insight and action, and then frame execution in terms of four discrete challenges.

- Act swiftly (speed element), but make sure that people deeply understand the reasons for or consequences of change (commitment element);
- Organize a disciplined rollout and anticipate obstacles (speed element), but be willing to share control over the shape of change with subordinates (commitment element);
- Focus on meaningful gains in efficiency or reductions in ambiguity (speed element), but increase input levels (commitment element);
- Demonstrate results quickly (speed element), but invest as much energy as possible to boost the business capacity for change (commitment element).

By thinking about execution in the context of these challenges during the implementation of a new business strategy or organizational design—that is, during that critical transition from insight to action—business leaders can turn what seem to be opposing elements into complementary ones. Companies that manage to resolve this paradox will be able to accelerate the critical move from insight to action, which Accenture research has identified as a key component of a high performance business.

Act swiftly (speed element), but make sure that people deeply understand the reasons for or consequences of change (commitment element).

The need for quick action can be the result of an internal business need, an external competitive need, or a blend of internal and external factors. At one stamping plant, a fabrication facility for a global automaker, the need for quick action was primarily internal. The assembler of truck, SUV and minivan parts had been unable to improve either quality or productivity, and this posed a serious threat to the profitability of the automaker's premier pickup and SUV lines.

To address the problem, the company spent more than $30 million in equipment upgrades at the stamping plant. But a year after implementation, the plant had yet to realize any significant benefits from the investment. The trouble was not mechanical, but human. Although senior managers had given workers new tools, they had not communicated the underlying business reasons for the upgrades. Consequently, the workers never adopted the value-creating complementary changes to the way they performed their work. To remedy the situation, executives began providing unionized workers with business-process training and used metrics to drive problem solving across the organization.

About the research

Despite the fact that change is ever more critical to sustained high performance, managers are neither trained nor rewarded for leading such change. This was the simple but dramatic lesson drawn from a study recently conducted by the Accenture Institute for High Performance Business, in which executives in 14 industries pointed out that the benefits of major change initiatives had been substantially delayed or negated due to a number reasons, all of which center around commitment:

- Lack of buy-in that change is necessary (64 percent)
- No senior management champion (44 percent)
- Lack of congruent reward system (36 percent)
- Inability or unwillingness to restructure (31 percent)

Why make trade-offs?

Consider how the following companies would have benefited from both speed and commitment, but ended up making value-depleting trade-offs instead.

At one truck manufacturer we studied, the executive team instituted a program to drive down costs while improving productivity. By communicating unequivocally with employees about new competitive threats and the dire consequences of inaction, executives put a premium on speed. To design and sell the initiative, they relied on a small, trusted cadre of senior managers to explain the initial vision and push it internally.

Managers emphasized to workers the importance of hitting quantitative targets and reducing inconsistencies in the way work was performed. Executives empathized with line workers, acknowledging that the pace of change was painful; nevertheless, they did not seek a high level of worker input or commitment during the program's design and implementation. While execution occurred with considerable speed, the initiative did little to enhance workers' willingness or ability to go through another change program in the future.

Indeed, if anything, leadership's reliance on the burning platform of competitive survival upped the ante for subsequent change efforts. In other words, the next threat had to be painted in even more dire terms to persuade workers that change was actually critical. Instead of becoming motivated for change, employees started referring to leadership as "the boys who cry wolf."

Conversely, during a reorganization effort aimed at improving customer relationships at a major oil company, executives sought a high level of input and commitment from employees across the organization. Those executives, working on project teams alongside management and employees, designed the change process in two distinct phases.

In stage one, they developed a future vision, analyzed how work flowed internally and assessed their competitive situation; then they developed a change plan. This stage did not have a predefined end date, but focused on enhancing buy-in. During this phase, executives used employee focus groups and interviews to design change, tapping into ground-level insight to determine how to move forward.

Stage two focused on implementation. During this phase, senior management used several pilot programs to customize approaches, and then to develop and formally distribute quantitative and qualitative outcomes. Like stage one, this phase was designed to get the right fit and build support. However, this also meant that executive-level tolerance for slow, incremental change was built into the system from the start.

The outcome? Once they understood the performance improvements that would result from the changes being introduced to their work environment, the workers were able to boost productivity and increase quality. For their part, senior managers had opened up a new avenue of process innovation that had been closed during traditional task-specific training efforts.

To cite another example, a combination of both internal and external factors created an urgent need for change at the specialty paper division of a leading North American paper manufacturer. The division was facing new global competition that was rapidly turning its products into commodities. Internal challenges were perhaps even more complex. From 2000 to 2001, the division's profits had declined by $20 million—the prime reason that companywide return on invested capital had dropped by more than 13 percent during the same period. The division's challenges were further complicated by a significant shift in its product mix, requiring senior managers to completely rethink how the unit's product flowed through its integrated mill system.

To establish a broadly supported rationale for change—while informing workers about these imminent threats—leadership executed a coordinated transformation program at three of its mills. One piece of this program focused on identifying and dispersing leaders who understood how to drive change throughout the organization, rather than relying on just one or two charismatic leaders at the top to provide the energy and a road map for change.

The other key piece of this effort was developing a true understanding of customer profitability using actual cost and revenue as opposed to standard costing assumptions. Results of this marginal economic analysis provided workers and executives with a plan for rebuilding the company's customer base while reducing expenses. As a result of this coordinated effort, the division was able to increase performance, securing valuable clients while swiftly wringing out more than 10 percent of total manufacturing costs.

Organize a disciplined rollout and anticipate obstacles (speed element), but be willing to share control over the shape of change with subordinates (commitment element).

Nurturing commitment to change requires a mixture of inspired leadership and a laissez-faire management style that lets workers grow and innovate on their own. Getting ideas implemented quickly, though, requires an aptitude for anticipating potential problems, which are more likely to be social than technological.

Thanks to enlightened management at one company, local unionized workers—who were traditionally hostile to sweeping change—took an active leadership role in business transformation. However, this kind of distributed effort would not have been possible if executives had not considered beforehand how to turn influential adversaries into advocates for change.

Sometimes senior management itself can create hurdles to change. One business unit at a Fortune 50 company faced overcapacity and eroding profits. Despite a series of cost-reduction and revenue management initiatives, the unit still had been unable to deliver on its return on invested capital goal, failing to improve the bottom line over a three-year period.

When charged with developing an internal plan to transform the business, senior management came up with a program that was an order of magnitude below what was needed to effect the needed change. It became obvious that many on the development team lacked a ground-level understanding of how the unit could be turned around most effectively. So the executive in charge of the initiative sought input from his workforce, which had not been called on to lead change efforts in the past. To realize the goal of unlocking innovation across the manufacturing system, this executive traded high-level control for workforce involvement in devising and implementing the program.

Working with both management and line workers, the executive built a network of practitioners throughout the unit's individual locations to rapidly share performance improvement ideas across boundaries that previously had been created as a result of local profit and loss focus. Since rollout, the initiative has saved the company more than $400 million.

Focus on meaningful gains in efficiency or reductions in ambiguity (speed element), but increase input levels (commitment element).

Many executives assume that increasing the number of sources of input will muddy their change vision and slow down implementation. Our research and work with clients suggests just the opposite: The greater the number of input nodes, the clearer the vision to improve performance and the swifter the execution.

Some companies may want to build both formal and informal networks—using technology or cross-functional teams—to gather and refine ideas about how best to effect change. Others may want to introduce training programs in which line workers acquire valuable skills, but also have a chance to collaborate without management supervision about the best way to refine, implement and extract value from a new approach.

A leading manufacturer of consumer and office products had been facing a number of competitive and internal difficulties. For several years it had faced overseas competition, a consolidating customer base and maturing markets that threatened profitability in two of its four business units.

These pressures reduced operating margins and increased the need for major capital investment. Even higher-than-expected growth in the other two business units would not cover the company's losses. In response, the manufacturer executed a transformation program, targeting economic and organizational levers of the return on invested capital.

On the customer side, the company implemented a new channel strategy that included a direct-Web channel in its largest business unit. By eliminating merchant and distributor costs, the company was able to realize performance improvement by increasing prices and reducing operating costs, resulting in significantly improved margins. Working closely with knowledgeable managers and line workers to identify inefficiencies, executives also reduced manufacturing costs by 8 percent throughout the corporation. On the organizational side, management designed and then implemented a business-unit organization structure focused on customer segments. Then it sold off an underperforming business unit.

To make performance improvement stick after cutting costs and improving competitive positions in its remaining business units, the company planned and implemented an enterprise system. This codified business process improvements but also built a clear and ongoing line of communication between workers and executives, one that could be used for continuous improvement and to accelerate the next round of change.

All in all, the company increased performance by focusing on making these changes take hold through broad participation in the change process.

Demonstrate results quickly (speed element), but invest as much energy as possible to boost the business' capacity for change (commitment element).

Long-term value realization from any change initiative is a function of how short-term results are built back into the business system. Business leaders that do this effectively create a result that outlasts the lifespan of any individual change initiative: an organization that is able to continually turn insight into action.

To capitalize on short-term results, a company should focus on communicating numbers and stories from individual change initiatives in a way that resonates with the hearts and minds of employees. At one organization's manufacturing plant, a change initiative reduced operating costs by 16 percent in less than two years. This short-term win built momentum for the creation of new work processes, ones that were more compatible with the company's strategic goal to adapt quickly and realize economic value from future quality initiatives.

Similarly, a business unit at another manufacturer developed a network of databases to capture and share detailed information on results from performance-improvement initiatives. Unlike many sharing mechanisms Accenture has seen across industries, this knowledge network provided detailed information on problems being solved, activities to implement the solution, business-case justification for action, and ongoing performance metrics to monitor and sustain economic value.

Although the database network was originally developed as a tool during a concentrated cost-reduction effort, the organization continued to extend its use and capabilities into areas like safety and productivity improvements. This capability also paid dividends during a series of mergers and reorganizations as the group was able to efficiently transfer knowledge and leverage intangible assets to accelerate the capture of the benefits of synergies.

In the face of significant price increases for energy and materials, the two largest cost drivers of its operation, one manufacturer Accenture studied was able to restore profitability through a step-change, performance improvement initiative. In addition to driving significant costs out of its operation, the organization bolstered its ability to improve again.

For one thing, the step-change reduction in manufacturing costs had required leadership to take a ground-level view of how to improve worker skills. Following its initial success, executives expanded the step-change capabilities into customer management to offset increases in employee wages and benefits. Equipped with executives who had a newfound understanding and influence over operations—as well as employees who felt the tangible upside of change—the group developed a bias for action it did not initially possess.

Conclusion

Moving forward, as executives master these four challenges, long-held divisions of labor—between planning and implementation, between leaders and followers, and so on—will become obsolete, making room for new organizational forms. We believe those businesses able to accelerate this process will emerge as top performers in their industry. For them, today's paradox will inform tomorrow's practice.

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