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The journal of
high-performance business

Changing ahead of the curve

By Tim Breene, Walter E. Shill and Paul F. Nunes

Many companies wait too long to attempt transformations, doing so only when the signs of trouble have become obvious. But that's almost inevitably too late. High performers, by contrast, change before they must, knowing that the best way to transform is from a position of strength.

In 2002, Fujio Cho, then president of Toyota Motor Corporation, kicked off a transformational program called Global Vision 2010. On one level, it was a surprising move. At the time, Toyota was not only Japan's No. 1 car-maker; it was the third largest manufacturer of automobiles in the world and the top-selling foreign brand in the United States, with the most envied balance sheet in the industry.

Cho's reason for shaking things up when business was so strong? "Any company not willing to take the risk of reinventing itself is doomed," he warned. "The world today is changing much too fast" (see sidebar, page 5).

Simply put, today's success is no guarantee of tomorrow's. Yet too many companies wait too long to transform, doing so only when they are already facing big problems.

In today's punishing business environment, once the signs of trouble have become obvious, it is probably too late.

Consider the findings of a 1998 Corporate Strategy Board study: Only 17 percent of Fortune 50 companies that experienced a pronounced downturn in revenue growth during the 40 years covered by the research ever managed to return to high or even moderate growth. That failure proved costly: 69 percent of these companies lost at least half of their market capitalization in the 10 years following their stall. The lesson for companies aspiring to be high-performance businesses: The best way to transform is from a position of strength.

Reinventing themselves

For its part, Toyota used its transformation program to dramatically improve its market

share and jump to the position of No. 2 automaker in the world. But the company is hardly alone in starting a transformational program at a time when it was already well positioned in its marketplace.

Take Nissan Motor Company, for instance, which launched its good-to-great Nissan 180 program in 2002, after recovering from near collapse in 1999. Or Best Buy Co., which launched its Customer Centricity transformation program in 2003, despite being the world's largest consumer electronics retailer in terms

of sales at the time. In 1999, when Procter & Gamble began its Organization 2005 restructuring, it was the biggest producer of household goods in the United States. (P&G is currently planning yet another restructuring.) And PepsiCo was the leading US convenience food and beverage company when it kicked off its transformation in 2005.

Accenture research into high-performance business has found that these and other successful companies are able to change ahead of the curve by embracing four critical goals.

1. Increase the company's capacity for early change by deliberately fostering continuous renewal as part of its everyday operations.

Former Intel Corporation CEO Andy Grove popularized the business admonition that "only the paranoid survive." Although clinical illness may not be a real necessity, there is no denying that high performers sense market changes very early and act accordingly. In these companies, the organization design and culture are intended to foster a kind of "creative discomfort"—the practical balance of fear and excitement that comes from successfully overcoming constant challenge.

One way companies create a readiness for constant challenge is by introducing a steady stream of capability-building and performance-improving initiatives, creating the expectation that change is constant. In his book *Jack: Straight from the Gut*, former General Electric Company chief Jack Welch describes these initiatives as "something that grabs everyone—large enough, broad enough and generic enough to have a major impact on the company." To be sure, initiatives are not transformations; they are more akin to an athlete's weight training: They give companies the strength and preparedness to take on transformation.

While at GE, Welch introduced at least four such major initiatives: globalization, in the early 1990s, which led to more international acquisitions and talent sharing; product services, in 1995, which helped grow the company's services business to \$19 billion in 2001 from \$8 billion in 1995; Six Sigma, in 1995–1996, which increased operating margins to 18.9 percent in 2000 from 14.8 percent in 1996; and e-business, in the late 1990s, which changed not only the company's strategic thinking but its talent management as well. These initiatives are credited with not just the financial improvements they drove but with creating a culture at GE that expects, and rapidly adjusts to, new directions and new approaches in the business.

Centrally led process improvement is but one way companies create the capacity for continual change. Another is through organization design. Consider 94-year-old Illinois Tool Works, a nearly \$15 billion high-performance business that provides specialty products and equipment for global customers. When one of its product lines approaches \$50 million in revenue, ITW splits it off into its own business unit. The company also

makes frequent, small-scale acquisitions, sharing its “ITW Toolbox” of management methods but imposing few other changes. The result is 700 business units today, each with its own leadership team.

While an organization structure with this level of complexity can appear unwieldy, the design is, in fact, well suited to its intended purpose: achieving rapid and constant change. Illinois Tool Works finds that its novel approach allows the business

to more closely monitor and react faster to shifts in the market, like the time it quickly started a welding controls business after observing how its welding tools customers were using their products.

In the end, what high performers achieve through creative discomfort is better agility and the reflexes to constantly rebalance themselves—more akin to the nimble responsiveness and fierce thrust of a fighter jet than to the stable, predictable flight of a jumbo.

2. Generate confidence in early change by sharpening the company’s business acuity through the development of comprehensive market sensing and responding capabilities.

Organizations in trouble know “where it hurts.” But when the pain isn’t obvious, organizations need better sensing capabilities to detect their more subtle or hidden transformation needs. They also need a greater ability to act on insight, because changing from a position of strength often requires altering areas of the business that are currently successful, or at least profitable, and the likelihood of internal resistance to this kind of change is much greater.

At the heart of all successful change programs, and especially ahead-of-the-curve transformation, is the ability first to see new realities and necessities, then to form insights and convert them into effective strategies, and finally to catalyze the new strategies—to get others to act on the vision.

So how do accomplished early transformers manage to see both far *and* wide, capturing more data from the periphery of their vision? They do so by embracing data sources beyond what they get from traditional enterprise systems. They tap frontline employees for ideas, look beyond the walls of their company and industry, and listen intently to the voices of their critics.

For example, Procter & Gamble looks aggressively beyond its four walls for new data in part by assembling a team of 60 employees called “technology entrepreneurs,” who search worldwide for new ideas, using both formal and informal networks. In fact, one successful product, the Mr. Clean Magic Eraser, is based on a little-known product one P&G technology entrepreneur found while exploring a local marketplace in Japan.

The company also deliberately looks to specialized markets for ideas—for example, seeking to bring to the mass market products used only by professionals or the wealthy. This approach was behind the highly successful launches of a number of products, including the Crest SpinBrush, which combines the action of both a dentist’s tool and an earlier rechargeable version of the product. (P&G has since sold SpinBrush.) The company now uses the same approach to improve hair-coloring products.

To gain relevant data from outside one’s own industry, it also helps to define the company’s mission in the broadest industry terms. Howard Schultz, chairman of Starbucks Corporation, has said that his company

is not in the coffee business, serving people, but rather in the people business, serving coffee. This philosophy has led Starbucks to businesses like recorded music and digital radio. Breaking down strict definitions of industry also helps companies to seek and find solutions from other industries that can give them a competitive advantage in their own (see “Leading by imitation,” *Outlook*, January 2007).

For high performers, one vital source of new data is not really new at all: It is the input of critics, both inside and outside the organization, data many companies routinely disregard. Medtronic, a medical equipment maker, avoided at least two potentially disastrous mistakes—entering a market it knew nothing about, and exiting the angioplasty business—by heeding the criticisms of two board members.

The second essential component of business acuity is pattern recognition. Without the ability to quickly make sense of data, companies risk being swamped by their new, as well as their traditional, sources of information—a growing problem in a data-rich world. Mitigating this risk requires sophisticated methods of analysis and sense making.

Consider just two of the ways Procter & Gamble has created rigorous processes to gain value out of the insights of its technology entrepreneurs. One way is by the early identification of what would be most valuable for the company to know. Each year, P&G records which consumer needs, if addressed, would best drive the business. It then uses this list to better structure its search for new products and technologies, and to give immediate insight into the perceived value and likely success of new ideas. A second approach is what the company calls its “eureka catalog,” an online repository of promising new ideas and products, all thoroughly

researched and documented, that are made available for consideration throughout the organization.

The third leg of the business acuity stool is catalyzing change. We have seen astute executives who sensed new trends and opportunities but failed to get their organizations to act on these insights. There is no single best practice for companies looking to create the ability to act on insight. This effort can be directed by a strong chief strategist, inspired by a charismatic CEO or created organically from the contributions of a distributed set of influencers.

Nokia’s exceptional ability to catalyze and accelerate change derives, in part, from the company’s active extension of its network of strategy influencers. Every six months, Nokia asks as many as 400 of its employees from across the company to spend up to two months researching and reporting on key questions of interest to senior management. By relying on input from all levels of the organization, managers gain access to issues, concerns and ideas that allow them to better see the future of market demands and business challenges. They also gain a broadly distributed cohort of employees who understand the need for new activities and can act as early sponsors of change.

Regardless of the approach companies take to strategy formation and execution, our research makes one thing clear: It works only if, as a capability, it is valued and nurtured by the company’s top leadership. Our research strongly suggests that in all likelihood, a number of key activities we observed to be catalysts of early change would not have occurred without the support of the CEO. These include effective resource reallocation, shifting activities by shifting funding, and investment in proof-of-concept initiatives intended to demonstrate the wisdom of new directions.

3. Overcome management resistance to early change by carefully and continuously evolving top management teams.

When change programs don't succeed, the failure can often be traced to the lack of management alignment, buy-in and active support. This is especially true for companies whose attempts to change are not driven by desperation.

To overcome the risk of derailment by management team issues, high performers create top management teams prepared to drive successful early change by assembling and empowering the right team for the right challenge. This consists of three activities: putting the right people on the team; supporting them with the right resources; and ensuring that everyone on the team is pulling in the same direction.

Selecting the right people requires delicately balancing both today's and tomorrow's agendas. It demands promoting the next generation of leaders early, putting them into pivotal roles that will change the future of the company. Wal-Mart Stores does this with its strong promote-early-from-within culture, what Sam Walton called "picking 'em green." These individuals' increased dedication and hard work are seen to make up for any lack of experience, and the company also views early promotion as a way to train leaders in its own way of doing things.

However, not all requisite skills can be sourced internally. A significant

Toyota: Innovation, passion, transformation

In 2002, Toyota was the world's third leading auto manufacturer, with a fast-growing share of the US automotive market. Even so, the company refused to rest on its laurels. Sponsored by and driven from the highest levels of leadership, Toyota's transformation program set out to reinvent the company, establishing a dramatic "stretch goal" of a 15 percent global market share by 2010, up from 10 percent near the end of 2002.

The theme of the company's Global Vision 2010 program—"Innovation into the Future: A Passion to Create a Better Society"—was sweeping in scope, and its guiding principles were not merely financial. One goal was to transform Toyota into a "driving force in global regeneration by implementing the most advanced environmental technologies." As it turns out, this socially conscious goal had profound implications for the company's top and bottom lines. As the price of oil and gasoline rose to unprecedented levels, Toyota had the environmentally friendly cars consumers wanted, while some of its US competitors were stuck selling low-mileage SUVs.

By August 2006, Toyota's share of the US auto market was 16.1 percent, up from 10 percent when the transformation program had begun. In Europe, market share rose to nearly 6 percent from 3.8 percent—and it jumped to a whopping 44 percent (excluding minivehicles) in Japan. Now the world's second largest automobile manufacturer, Toyota is realistically within reach of its stretch goal.

That Toyota set out to transform itself is not unusual; most other automakers have declared similar intentions during the past decade. Some have done so numerous times. But Toyota went beyond its well-known "continuous improvement" programs. It transformed itself ahead of the curve, and thus was able to achieve what others could not: sustainable advantage over the competition.

portion, often judged to be 10 percent to 30 percent, must come from outside the company.

Take the example of Amgen and its president and CEO, Kevin Sharer, who became chief executive of the drugmaker in 2000, after almost eight years as COO. Sharer didn't see what he felt he needed in his leadership team: the kind of fierce competitive mentality that prevailed at the time at large pharmaceuticals companies. Accordingly, he set out to reshape many of the company's most important positions. By 2004, 4 of Amgen's top 11 officers had been brought in from the outside. Moreover, 60 percent of the R&D staff was new—hired during the preceding three years. Amgen and its shareholders have benefited from this infusion of outside perspectives—from January 2004 through January 2006, the company has had a total return to shareholders of nearly 30 percent.

Having the right team in place is a powerful first step, but it does not ensure success. For new initiatives to work, they must be supported by the best resources and talent available. Over time, rival power structures and fiefdoms will develop. These must be broken down, because if today's barons are not aligned with tomorrow's agenda, they will withhold resources, secreting away budget and skilled employees that would be better used in the new initiatives. They become implicit if not explicit resisters of change.

High performers prevent the creation of fiefdoms by making continuous top management changes. Leaders are seen as resources that belong to the entire organization, not to the businesses or activities they manage at the moment. They are therefore regularly called to serve in new roles. In making such leadership changes, high performers do not let excellence in a current role stand in the way of reassignment.

The best companies regularly perform leadership shake-ups, often with an eye toward the education and growth of key people. In 2004, Citigroup swapped the roles of two of its executives—Sallie Krawcheck, chairman and CEO of Smith Barney, and Todd Thomson, Citi's CFO and head of strategy. The company saw great promise in both people, and used the switch to build their skills: Krawcheck would learn to oversee the company's financial operations, and Thomson would get to build new leadership muscles by running a major operating unit. In a similar move, Wal-Mart swapped the chiefs of its US and international business units in 2005, hoping that the executives would bring their strengths to the other part of the business.

Nokia has taken the wisdom of job swapping and resource management to new levels, designing its organizational structure with such constant shifts in mind. Business units and functions are made up of teams of people with common competencies and skills. This modular workforce structure allows Nokia to change quickly and relatively painlessly by simply reorganizing leaders whose capabilities move with them. In 2004, the company was able, with minimal disruption and in just a week, to reorganize from nine business units to four, while creating two new horizontal business units, simply by assigning 100 leaders to new roles.

The final step in evolving the top management team during transformation is goal alignment, which is driven by the need to establish and maintain a high level of trust throughout the change. A recent study of 100 CEOs and their top management teams found that lower levels of trust among group members made them less effective in their collaboration and, significantly for early change, less likely to strongly endorse the strategic decisions they had taken together. Some companies rely on long employment

tenure to help build trust, but many high performers manage to create it through the careful establishment of shared values, objectives and rewards.

Yet creating alignment is often harder than defining metrics and rewards. As every CEO knows, one of the biggest challenges companies face in regularly changing leaders is determining what to do with the executives who have been replaced. Firing them is hard to do when the company is changing ahead of the curve, because it is unlikely these leaders have failed at anything, and they are instead simply not right for the immediate need. And, clearly, firing leaders indiscriminately is an enormous

waste of investment and potentially demoralizing to the organization.

Still, allowing displaced leaders to linger can create a cadre of walking wounded. These leaders, finding themselves in unfulfilling alternative roles, can become sources of dissension within the ranks and disruption of change initiatives. One company that has addressed this nearly intractable problem is Wal-Mart, where, according to one of the company's former human resources executives, a demotion is not stigmatizing. What Sam Walton referred to as "steppin' down" is seen as a natural result of attempting certain jobs "green."

Four key preconditions for transforming ahead of the curve

Companies that successfully transform their businesses from a position of strength first must create four preconditions within their organization.

Precondition	What early transformers do	How
Capacity to change	Increase the company's capacity for early change by deliberately fostering continuous renewal as part of its everyday operations
Confidence in change	Generate confidence in early change by sharpening the company's business acuity through the development of comprehensive market sensing and responding capabilities
Will to change	Overcome management resistance to early change by carefully and continuously evolving top management teams
Early behavior change	Accelerate the behavior changes needed to start and sustain transformation by using leading-edge tools and techniques for sensing and responding to organizational change barriers and opportunities

4. Accelerate the behavior changes needed to start and sustain transformation by using leading-edge tools and techniques for sensing and responding to organizational change barriers and opportunities.

High performers know widespread behavior change is necessary for successful early transformation. They also know they have a responsibility not just to encourage it but to ensure it. While traditional project management methods and tools are helpful (and rapidly improving), they are not enough, because they presume stable and predictable outcomes, such as a linear progression of tasks within phases. But for companies changing ahead of the curve, there are many times when elements of the strategy are unknown or need to be created as the transformation unfolds.

Toyota, for example, did not know all the answers when it embarked on its transformation. The goal was not communicated in a cookbook-style manual but instead through four core principles meant to be thoughtfully considered and embraced in myriad ways in every corner of the organization.

Today's newest methods and tools recognize organizations as complex, adaptive systems. Our research into high-performance business has taught us the importance of creating and managing a powerful performance anatomy in a company and the critical role played by leaders in making this happen (see "How to create a culture of high performance," *Outlook*, January 2007). We are seeing leading companies applying new methods and tools to actively measure and manage aspects of corporate culture, an underexploited area of change intervention and management. These methods and tools focus on recently identified aspects that are critical to successful transformation, such as employee attitudes, skills development, behaviors, energy sources and employee engagement.

These new methods and tools are helping companies to quantify differences in employee attitudes, values and behavior, not only between companies but also between individual departments, geographies and functions within a company. Accenture, for example, now has an extensive database of more than 20 years' experience of the behavioral characteristics of more than 400 organizations and 7,000 leaders that enables deep quantitative comparisons, both within and across industries. This information provides a level of detail that, compared with the detail offered by traditional data sources, is roughly equivalent to the difference between an MRI and an X-ray. It supports unprecedented precision in change making, allowing surgical procedures that do not harm the surrounding corporate tissue.

Consider the experience of gaming giant Harrah's Entertainment. In its 2005 acquisition of Caesars Entertainment, the company used these new tools effectively to measure and manage the attitudes, values and behaviors of thousands of employees in both companies, across organization and geographic boundaries. The lessons learned were profound.

One insight came from recognizing that while Harrah's was a strong statistical outlier of customer orientation excellence, Caesars was also far above average—just not as much. Management then understood that the approach to introducing new customer service changes could not be "let us teach you how to do it"—which would most likely cause resentment—but rather had to be more along the lines of "let us help you make your great customer service even better." The tools also helped Harrah's to identify both the

casinos where culture change could contribute the most to business performance, and those where culture change would create the greatest risk to current profit levels.

Social network analysis is another recent technology-enabled technique that allows managers and executives to track the effects of strategic initiatives on employee behaviors. It enables management to identify the effect change initiatives are having on the patterns of communications and influence occurring within the farthest reaches of the organization. In particular, social network analysis helps companies identify “energizers” who can be further leveraged as well as “de-energizers” who must be dealt with.¹

Few leaders can successfully execute a change program alone. Identifying, and rewarding, change energizers is therefore critical to management, as is rapidly dealing with those whose attitudes can sink the program. De-energizers are often hidden, however, since they can be very good upward managers, showing a different face to subordinates and peers than to those who evaluate their performance in traditional ways.

One professional services organization that used the tool found important energizers and de-energizers in a surprising place: recruiting. Because the company’s recruiters interact with so many employees in addition to recruits, across so many organization boundaries, they have an unusual ability to profoundly affect the attitude of larger parts of the organization by their own attitude. By giving more management focus to its recruiters, the company discovered a powerful new way to disseminate information and a new lever by which to energize a broad range of employees.

Because strategy evolves, even in a structured, ahead-of-the-curve transformation, high performers use these tools repeatedly, in a continuous cycle of learning and acting. Many high performers also use tools based on the US military’s OODA (observe, orient, decide, act) loop, piloting activities and approaches that seem to make sense to create rapid learning loops in the organization. Behaviors, and the attitudes that drive them, are not always dictated in early changers, but they are rarely, if ever, left to chance.

Mastery of early change is highly demanding. Change too soon, or too often, and it can be more disruptive than productive. Change too late, and recovery may no longer even be possible. And yet achieving high performance requires skilled management of this important yet delicate balance, in a world where the speed of change and the intensity of competition makes leapfrog performance improvements through late-in-the-game transformation unlikely.

All of the four keys to transforming ahead of the curve not only help take a company beyond the competition; they also take the company beyond such traditional management techniques for incremental change as continuous improvement or best practices. The top companies set their own terms for change, knowing that their chances of maintaining high performance are significantly lessened if they are rocked back on their heels and forced to change under pressure. At all times, high performers seek to control their own destinies.

¹ “What Creates Energy in Organizations?” by Rob Cross, Wayne Baker and Andrew Parker, *Sloan Management Review* (Summer 2003)

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