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Change Management or Reinvention?

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In today's business lexicon, the term change management is the most used. However, change management is often unsettling and rarely understood. What is change management then? And how do companies harness it? Every Chief Executive Officer (CEO) knows how to create cross-functional teams, redesign business processes to reduce costs and improve performance. So, why then do most change management efforts fail to deliver the desired results? CEOs looking for a fundamental shift in their companies' capabilities do not need to just improve processes, people and technologies. Instead, they need to reinvent their companies. Reinvention is not changing what it is, but creating what it isn't. Find out how companies must confront their life threatening problems, and summon the courage to abandon what it is, for what it wants to be.

Involuntary successions of CEOs in 2002 increased by more than 70% over 2001, according to a study from management consultant Booz Allen Hamilton. Of all CEO departures globally in 2002, 39% were forced, compared to 25% in 2001. More than a quarter of CEOs of the Fortune 500 companies were removed from their positions in 2004. CEOs are being replaced at a faster rate throughout the world. There is no longer any hiding place for CEOs who can't deliver superior results. All these CEOs were highly capable people with a solid track record of achievement. All had promised turnarounds and all had spearheaded de-layering, down-sizing, outsourcing and offshoring business processes to low-cost destinations and re-engineering programmes to deliver those promises (see *Offshoring: Saviour or Value Destroyer?* by Pal and Hammond) . But, despite their effort, the competitive vitality of these companies continued to ebb away until their boards felt compelled to act. What went wrong? Most blamed their CEOs for poor "leadership". Our experience of working with large companies suggest, most change programmes fail because most boards of failed companies saw the problem as "leadership" and solution as "change management" - a rather simple diagnosis of a very complex problem.

Every CEO of a large company knows how to create cross-functional teams, task force, and re-design business processes in ways that reduce costs and improve performance. In fact, many of today's CEOs have climbed to their career summit because they excelled in incremental change management initiatives. The reason these very successful CEOs lost their jobs is that such incremental change is simply not enough for many companies today. These companies do not need to improve themselves, they need to reinvent to survive and then prosper in the modern business environment.

In a business world, where investor capital flows promiscuously across borders, where demanding customers switch at will and where competition increasingly comes from outside the company's conventional value chain, successful CEOs guide themselves today by a simple principle that would be unfamiliar to most of their predecessors: uncertainty and complexity are the challenge. Reinvention is the path. Success is the goal. How companies and their CEOs can build the agility to turn initial beneficial change into lasting advantage and success is dependent on their ability to create and execute a new operating model of reinvention.

What is reinvention?

Reinvention is not changing what a company is, but creating what a company isn't. A butterfly is not a caterpillar or a better or improved caterpillar. A butterfly is a different creature altogether. When a company reinvents itself, it must alter the company's deep rooted assumptions and invisible premises on which its decisions and actions are based. It is, therefore, imperative that CEOs must first determine the new *context* of transformation required to achieve the business outcomes they seek. The new context is the sum of all conclusions that key stakeholders of the company have reached. It is the product of their experience and their interpretation of the past and it determines the company's social behaviour or culture. Unspoken and even unacknowledged conclusions about the past dictate what is possible for the future. In other words, to reinvent itself, a company must first uncover its hidden context. Only when a company is loosing momentum, threatened by increasing competition, unable to attract new customers, losing sales, is forced to break new ground, will confront its past and begin to understand why it must break with its outmoded present. But, it doesn't have to be like this. Foresighted CEOs can see some of the problems well in advance, yet many resist breaking away from the past, believing what made them a success will continue to produce results in the future. While many CEOs don't have the courage or see the need to throw away the context they have created. Unless CEOs orchestrate the creation of a new context, all that the companies are doing will at best produce episodic change with cosmetic improvements.

Why reinvention?

If a company genuinely reinvents itself and alters its context, it has the means to alter its culture and achieve unprecedented results in service offerings, quality, market share, operational excellence and finally financial performance. It will also have the ability to sustain these improvements regardless of any fluctuations in the market.

Four dimensions of reinvention

The activities involved in reinventing a company require creating a new context, developing a reinvention programme, executing the work-streams of the reinvention programme, and measuring the results of execution and improving on work practices (see Figure 1).

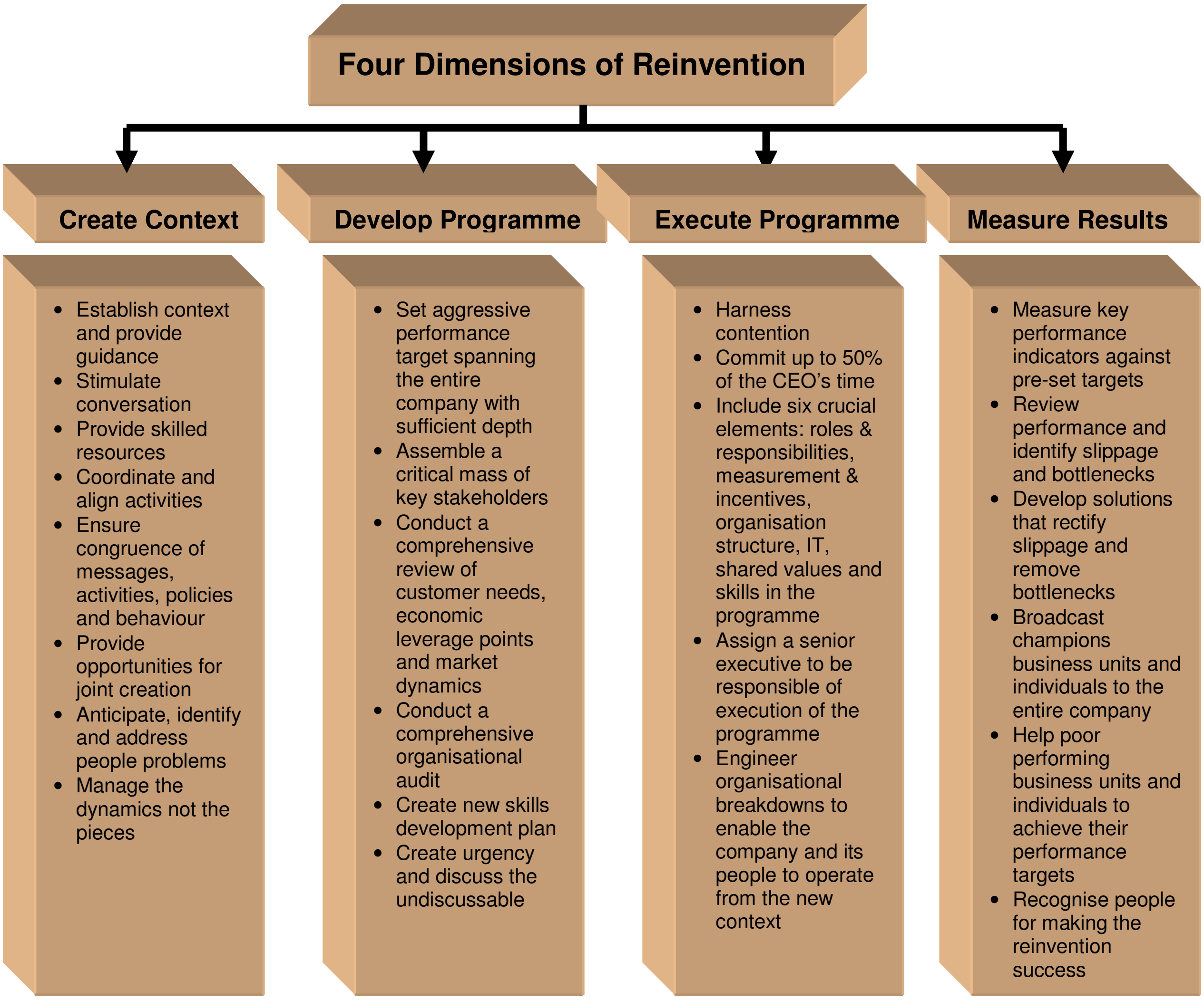

Figure 1: Four dimensions of reinvention

Making reinvention work

Companies today are full of "change management survivours"; cynical people, who have learned how to live through change programmes without really changing at all. Their reaction to any change programme is the opposite of commitment. They say things like, "I will buy into it when I see the results", or, "All sounds exciting, but what happens when we don't get our bonus?" For these cynics, reinvention is another management fad in an endless series of management fads. This reaction illustrates the real reason so many change programmes fail.

It is not uncommon to find senior executives who are unwilling to think rigorously and patiently about themselves and their ideas for their companies' success. It is not uncommon to find senior executives, who perch like a threatened aristocracy, entitled and insular. Flurries of restructuring or downsizing are like the desperate attempts of uncomprehending heirs who try to slow the decline of the family estate. Each successive reaction is misconstructed as bold action to "get things right." When leading a company into the future, senior executives come to a fork in the road. As they come face-to-face with their companies' needs to reinvent themselves, many senior executives hope for the best and opt for the prudent path of change. Even when they choose reinvention, their feet get cold. Thrown into the unfamiliar territory of reinvention, where the steps along the path and the outcomes themselves are often unpredictable, many senior executives think, is to get things back on track – the old way. It is not surprising that many senior executives decline to reinvent themselves and their companies. There is another choice, but it requires senior executive reinvention, a serious enquiry into oneself as a leader. This is not a psychological process to fix something that is wrong, but an inquiry that reveals the context from which a senior executive makes decisions. People have contexts just as companies do. Our individual context is our hidden strategy for dealing with life, it determines all the choices we make. On the surface, our context is our formula for winning, the source of our success. But on closer examination, this context is the box within which a person operates and determines what is possible and impossible for him or her as a leader and by extension, for the company.

The context for reinvention is exactly the opposite of a traditional change programme: senior executives start shifting their behaviour and when that produces higher performance, the excitement and belief down the ladder follow. Success of any reinvention programme depends on many factors (see Figure 2), which include persuading hundreds or thousands of groups and individuals to change the way they work, a change people will accept only if they can be persuaded to think differently about their jobs and future. In effect, CEOs must alter the mind-sets of their employees - not an easy task – but it is easier when CEOs themselves have changed their mind-sets.

Role	Factor	Action
Senior Executives	Commitment Communication Financial rewards Non-financial rewards Leadership Performance targets	Put initiative at top of agenda Clear and unambiguous message Financial incentives if initiative is success Recognition for high performance Identify owner/champion Uphold targets with consistency
Functional Managers	Decision making authority Ability to manage people Ability to manage projects	Exercise control on defined activities Provide feedback on status of initiatives Reach milestones on time
Frontline People	Motivations Skills Tools	Reward for improving morale Train on major aspects of initiatives Make IT and techniques widely available

Figure 2: Factors for successful reinvention

Making reinvention work is hardest in organisations where people spend more energy into thwarting things than starting them—but in the nicest possible way. People pay lip service, making only limited effort to appear compliant. Employees feel free to do as they see fit because there are hardly ever unpleasant consequences and the new context is often misguided and seems worthy of defiance. The seeds of resistance among employees were sown when these organsations were much smaller.

A word of caution

The single most important thing about large companies is that they get there by doing the very things that once made them big. And most CEOs mechanically and emotionally resist new truth – that their past ways of achieving success no longer provide assurance to bright futures. They fear making decisions beyond what they know best and feel comfortable with. As a result, they become the main barriers to reinvention.

Reinvention is hard work. Achieving sustainable shift to a company's future requires reinventing the capabilities and behaviours of a large number of people throughout a company. But companies struggle with the complexity of the problem and defining the activities that will drive the organisation to the right solution, without disrupting current operations (see *Why integrate, when you can aggregate?* by Pal and Hammond).

What does all this mean for CEOs?

Successful leaders of reinvention, such as Lou Gerstner at IBM, John Reed at Citigroup and Jack Welch at GE, are legends. Their reinvented companies have achieved unprecedented competitive power, a pride in everything they undertake and exceeded returns to shareholders. These individuals were not just CEOs, they were leaders with a realistic vision of where they wanted their companies to be and how. All these leaders took risks – in the future of the companies' they led and their own reputations – to reinvent a brighter future for their companies.

Today, many established and older companies, such as Microsoft and Sony, need to reinvent themselves as they find themselves in corporate midlife crises, as their products mature. Not only do they need to defend their established market positions against nimbler companies, such as Google and LG, they also have to continue to innovate and expand.

Innovation and reinvention are key. But unlike entrepreneurs working from the proverbial garage, the heads of companies with tens of thousands of employees worldwide also need to worry about how their companies are organised, operate and behave. Is the corporate structure stifling rather than stimulating new ideas? Is it holding back fledgling chief executives, who, without opportunities to spread their wings, will hop off to establish the next generation of agile challengers? If the answer to these questions is yes, reinvention, rather than a euphemism for cost cutting and redundancies, may be the solution to improve performance. But the form of that reinvention is likely to be different for different companies. For example, Sony's CEO Sir Howard has to find a way to encourage cooperation between Sony's operating unit "silos" because, by enabling independence to operating units, Sony has sacrificed the benefits of cooperation. By contrast, Steve Ballmer of Microsoft has collapsed seven business units into three in an effort both to make decisions faster and to push decision making deeper into the organisation. What appears not to have worked at Sony may work in the different corporate culture of Microsoft.

Reinvention also provides an opportunity to ask other tough questions. Is the company getting the most out of its existing portfolio? If not, are disposals, spin-offs, strategic alliances, or outsourcing more efficient ways of improving returns? Whether the company gets its reinvention right may also be the best gauge of the skill of the CEOs themselves.

Reinvention is not changing what a company is, but creating what a company isn't. Often crises force CEOs to reinvent their companies. But, it doesn't have to be like this. Foresighted CEOs know that reinvention is the only way they are going to make a positive difference to their companies and by extension avoid involuntary successions.

About the authors

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About Centrix

Centrix is a leading independent consultancy that brings together the best of business, service and technology to create lasting value for its clients.

What Centrix Brings

Centrix help companies grow their business through reinvention that delivers both short-term impact and create long term value; improve operational efficiency by prudent and integrated cost reduction programmes, such as strategic offshoring and outsourcing; devise practical method to secure access for enterprise (SAFE) stakeholders; formulate service aggregation strategy; reconfiguring end-to-end processes, systems and services to allow offshoring of processes and technology in the most secure way; design and build shared services organisations; and create integrated security management against risks and threats (SMART) for enterprises. Centrix's approach is set apart by capabilities that help companies tie operating and technology decisions to what customers' value most. When companies reinvent their business to what really matters to the customer, they achieve performance breakthroughs.