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Action-Training for Effective Change

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Change management presents a major obstacle to many executives seeking to unlock the large latent profits inherent in their companies. Here's one company's action plan for improvement.

by Jonathan Byrnes

Recently a vice president of a leading company asked me how top managers could manage change to create a culture of growth. The company, like most, had been through a recent economic downturn. This thoughtful executive was now wrestling with how to refocus and coordinate her managers to achieve profitable growth.

The difficulty of managing change confronts many managers. I remember talking to the head of a major telecom company who said, in essence, that the company needed to change significantly to succeed in the newly deregulating world. His management team would have to think and act very differently. What should he do? Send a memo to all managers? Give a speech?

Change management presents a major obstacle to many executives seeking to unlock the large latent profits inherent in their companies. Profitability management, the theme of this column, is all about greatly improving a company's performance without the need for capital expenditures. But profitability improvement requires effective change management and ironically, for many managers, it may seem easier to spend money than to change their managers' behavior.

Change management has many components, including personnel selection, compensation, planning, and coordination. But the core issue is changing the way a company's managers do business. This encompasses what they focus on, how they go about their jobs, and how they work with each other. This critical, underlying element is what the vice president called "creating a culture of growth," and what the head of the telecom company saw as changing the company to succeed in a deregulating environment.

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Managing fundamental culture change is very different from managing incremental change to tune up a company's performance. Changing the way a company's managers do business requires that the managers internalize an understanding of how to work and relate to each other differently. In my experience, they must develop this new understanding, and work with it enough to really believe that the new way of doing business is better. They must do this together so they develop new ways to work together, and change each other. This takes time, and requires that the top manager be an effective teacher. And, the key to being an effective teacher is developing a well-structured teaching plan.

Training that works

After looking at how other companies managed change effectively, the telecom company head decided to create an action-training program. This is training with a very specific action-objective, different from general training programs that often seem to lack payoff. Here's how it worked:

This top manager had recently reorganized the customer-facing functions of the company into geographic market areas. Each was headed by a group vice president and had marketing, operations, and finance capabilities. The challenge was to manage each group's coalescence into a highly coordinated team with appropriate plans for market development, competitive response, and maximum profitability.

In order to meet these objectives, our executive structured a nine-month action-training program. In this program, the management team of each market area, about fifty managers, met off-site for sessions of one to one-and-a-half days. Each market area had its own set of sessions. The company chose to hold the sessions monthly, but the timeframe could have been somewhat compressed.

The company alternatively could have chosen to use action-training to address a more narrow set of issues, such as developing effective ways to target, sell, and manage major accounts that require tight interdepartmental coordination. This would have required fewer sessions and less elapsed time. In contrast, however, the telecom company head saw that deregulation was creating the need for fundamental change throughout the company.

The action-training sessions were co-led by an outside expert with a deep understanding of the company, industry, and management teaching process. Each group vice president was co-leader for his or her sessions.

The sessions combined carefully chosen teaching cases, discussion, and a session-by-session buildup of each market area's plans for change and growth. The concrete set of new plans, created by the company's own managers, was the specific deliverable; the action training was the enabler.

In each session the groups discussed teaching materials on an important area of business, first profitability, then competition, market development, strategy, etc. The case discussions focused specifically on the company's own business. The teaching materials combined business school cases, articles, and materials specifically written to prompt new ways of thinking about the company's own situation.

Between sessions, the group developed the relevant portion of the new plans. In the following action-training session, the group devoted about half the session to reviewing and discussing the planning work that had just been completed, further developing the plan. The other half of the session was devoted to new teaching materials and training for the next planning assignment.

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The action-training program followed the outline of profitability management developed in this series of columns. This is the session-by-session program that each group followed:

- Month 1: **Business blocks.** The group divided each market area into market segments, called "business blocks," which were geographic clusters with similar characteristics, such as a group of suburbs or a city center.
- Month 2: **Profitability baseline.** The group constructed a "70 percent accurate" spreadsheet-based profitability analysis with return to assets for each business block.
- Month 3: **Competitive inroads.** The group looked carefully at competitors in each business block. They estimated where each competitor would seek to make inroads, and what losses might occur. They modeled this using the profitability spreadsheets.
- Month 4: **Market development.** The group projected its market development plans for each business block, and estimated the profitability impact in light of competitor activities.
- Month 5: **Strategic alternatives and resources.** In this critical segment, the group formulated strategic alternatives in light of their understanding of competitive dynamics and market opportunities. They estimated the profitability impact and resource requirement of each alternative.
- Month 6: **Strategy selection.** The group decided which clusters of business to pursue aggressively, where to focus on improving marginal returns, and which clusters did not warrant aggressive investment in market development. The group made detailed projections and developed a resource budget.
- Month 7: **Reconciliation with corporate needs.** The key managers of all of the market areas combined their projections and resource needs, and reconciled these with corporate requirements. Where necessary, they made adjustments to gain alignment.
- Month 8: **Implementation.** The group determined the broad implementation steps needed to achieve their objectives, how the functional managers had to coordinate with each other, and a rough timetable with responsibilities.
- Month 9: **Final plans.** In the final session, each manager in the group created a set of department plans within the framework of the group's plans. This concluded the planning cycle.

Leadership and muscle memory
This process was extremely effective at several levels, spanning organization development, insightful planning, and coordinated implementation. The process is suitable for other companies in other industries as well. The payoffs included:

Effective leadership. Each group vice president was in the room all the time with his or her key managers and staff. This was critical. Because the analysis was unfolding session by session, everyone had an opportunity to shape the group's views, and everyone was shaped by these views. As the months passed, the group developed not only new plans, but also a deep understanding of how to do business in a new way. The group itself changed the views of those managers who were resistant at first. The group vice president could give the managers real-time coaching, feedback, and development, while at the same time listen to them and understand their perspectives. It was a very intense, effective leadership and management development experience.

Effective plans. The teams developed fundamentally new, appropriate sets of analysis and plans at a very detailed level that could not have been achieved by a small group of staff planners working alone. The new plans represented the best joint understanding and analysis of the company's best managers. They were appropriate for the new era, and not just adapted from old plans from the old era. They embodied a deep understanding of the profitability drivers and profitability potential of every part of the business looking into the future. Starting very early in the program, the managers used the findings to improve their decision-making.

Effective teamwork. Beyond effective plans, all the managers in each group developed a shared, detailed understanding of their business, with all its potential and risks. Managers began to understand intuitively how to coordinate with each other to maximize the company's profitability.

Muscle memory. Over the sessions, each group developed "muscle memory" in their understanding of profitability management. Muscle memory is a term used in fields ranging from learning the piano to learning golf. It means that for continued effectiveness, one must go beyond an understanding of what to do, beyond getting it right a few times, and practice until the muscles are trained to get it right all the time. At the risk of sounding like a parochial Bostonian, this is why basketball star Larry Bird spent hours practicing his shots before each game.

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A classic problem with traditional company training is that it teaches techniques, but it fails to develop the muscle memory necessary for continued success. Action-training develops the deep understanding, teamwork, and muscle memory needed for effective change. In the process, it creates both a permanent capability for profitability management, as well as a set of highly effective plans that lead to immediate profitable growth. With the comprehensive analysis and understanding developed through an action-training program, planning cycles in subsequent years can go much more quickly while producing much more effective results.

Getting it

Importantly, it took four to five months for the majority of each team to really "get it," that is, to really understand the difference between incremental change, or tuning up old plans, and profitability management, in which the management team coordinates to discover and develop the highest payoff portions of the business, improve the profitability of the marginal pieces, and avoid the inherently unprofitable parts.

In my experience, four to five months is the timeframe for cultural change under the best circumstances. In this period, an effective top manager can get his or her management team to do business in a new way.

Change management is not more difficult than other aspects of management, but it is very different. It requires a different set of management tools and approaches. There are clear pathways to success and known timeframes for effective change. For many companies, action-training can produce this transformational change, with both immediate and lasting benefits.

See you next month.

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