The Missing Element in Large-scale Change

Large-scale change. Most managers view it as the ultimate management challenge.

I remember when I wrote my Harvard Business School *Working Knowledge* column, "The Challenges of Paradigmatic Change." The column went out on the Web on a Monday morning, and by noon I received a flood of emails from my readers describing their experiences and asking questions.

Managing large-scale change certainly is a big challenge, and it requires a different set of building-block actions than improving the day-to-day business. Most of the change management literature focuses on this.

But, the most important thing I've learned from years of involvement in change management is that more often than not, the need for large-scale change is avoidable. And many large-scale change projects really are evidence of a prior failure to keep the organization on track in a changing world.

Certainly, from time to time a big abrupt change takes place in an industry – a change in technology, a new regulation, a major new competitor – and these require a strong, thoughtful response.

I remember talking to the head of a major telecom company, now one of the world's most successful, during the early days of deregulation. Aggressive new competitors were taking market share in the most lucrative markets, and the company's culture was rooted in the days of cost-plus regulation. I remember the questions clearly: How can I get our managers to understand that they need to manage differently? What do I do? Send them a memo?

I wrote "The Challenges of Paradigmatic Change" as a guide to managers facing this type of situation.

Most companies, however, have a very different situation. The world around them is changing, often at an accelerating rate, and yet they tend to do things in more or less the same way. They may get better and better at it, but nevertheless, it is more or less the same approach. Over time, they become more and more disconnected from their customers and markets, until eventually someone rings the fire bell for a big, disruptive change.

What can a manager do? The answer is obvious: Develop ongoing processes that keep the company on track all along.

But *how* can a manager do this? The answer to this question is not obvious at all.

In my experience, many managers make two big mistakes in change management:

- They fail to realize that managing change is not necessarily more difficult than day-to-day management, but it is very different;

- They fail to see that there are three very different types of change and that each requires a completely different change-management process – and they almost always prioritize them incorrectly.

Most managers focus on the first problem – how managing change is different from making day-to-day tactical improvements.

But the second is the real source of lasting management effectiveness and great financial performance.

There are three very different types of change: (a) constant weeding – tuning up the way you do things in fundamental ways; (b) new strategic initiatives – trying out new things and scaling them up if they work; and (c) large-scale change – fundamentally changing the way everyone does things.

Which is the most important? Judging from the literature and my own observations, most managers probably would rank large-scale change as most important, new strategic initiatives second, and constant weeding as the last priority – if it's a priority at all.

For most companies, this ranking is backwards.

Constant weeding. In most companies, the failure to institute an effective process for constant weeding is the biggest cause of suboptimal performance.

For example, in my research and consulting in over a dozen industries, I've found that even in the best-known leading companies, 30-40% of the business is unprofitable by any measure, and 20-30% provides all the reported profits and subsidizes the losses. Moreover, a lot of the marginal business can be turned around in a surprisingly easy way, and can become sustainably profitable.

In years of writing about this, no one has disagreed. Successful profit generation and profitability management requires four elements: (1) the right information – rarely available from accounting systems; (2) the right priorities – a strong focus on securing your best business and turning around high-potential underpenetrated accounts; (3) the right processes – almost always involving ongoing coordination of Sales, Marketing, and Operations; and (4) the right compensation – not assuming that all revenue dollars are equally profitable.

Yet how many companies have really focused on perfecting these four elements – successfully making profitability management (not budgeting and operating reviews) a core business process?

New strategic initiatives. This is the second change management priority. A vibrant, successful company should always be trying showcase projects – low risk experiments that enable it to try new things and "learn by doing." Unfortunately, the business case process (capital budgeting) discourages this – because, by definition, a showcase project has uncertain returns. This is a huge mistake.

The companion issue in managing new strategic initiatives is developing an effective process to scale up those that are successful.

I recently spent time with the management team of a very successful international service company. The company had a number of great showcase projects. But, after discussion, the managers realized that they lacked a strong, explicit process to scale them up, transforming the company's core business to incorporate these new ways of doing business. Without this, they remained isolated pockets of interesting innovation.

Large-scale change. This is the prime focus of most managers and writers. Yet in the absence of truly extraordinary circumstances, painful transformations should be only rarely be needed.

If a company has an effective process for constant weeding, it will stay highly profitable even in the presence of rapidly changing markets. And if it has an effective process for developing and scaling new strategic initiatives, it will carve out a lucrative competitive positioning as the market leader and as strategic partner to the most important customers.

If a company succeeds in these two critical change management areas, it will have accomplished the essential goal of large-scale change: repositioning the company for the future. But, without the need for abrupt, painful large-scale change.

When a company is in trouble, it is easy to get everyone's focus and attention. But the real missing piece in the jigsaw puzzle of change is an understanding of how important and feasible it is to avoid the need for abrupt large-scale change in the first place.

Doing the right things all the time through constant weeding and new strategic initiatives – this is the real missing element in large-scale change.