The Change Side of Transformation – A Wolf in Sheep's Clothing?

How to go the last mile to make change approaches really effective

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Nearly 10 years ago Richard D'Aveni published an article that challenged the core beliefs of strategic thinking. The conclusion of this paper, titled "Waking up to the new Era of Hypercompetition", is simple but far reaching – our traditional thinking, that corporations have to develop strategies that will give them a "sustainable competitive advantage", is outdated. D'Aveni argues instead that the current phase of "Hypercompetition" calls for something else. We have to look for a competence that may be best labeled as agility – understanding the environment very quickly and coming up with appropriate responses that enable companies to adapt. At Arthur D. Little we have described this new business paradigm as the "Creativity Era". Over time we have developed approaches to deal with this challenge.

Today, companies, especially those in the digital arena like Apple or Google, have become masters in reinventing and transforming themselves – and whole industries. They have at least three features in common: They anticipate trends. They come up with innovative products, services and / or business models, and they transform a traditional and established business into a new structure.

In this article we will take a closer look at one angle of the anticipate-innovate-transform sequence – the capacity to transform. Our focus here lies on the human side – the change aspect – of transformation. So we will deal with individuals, teams, and organizational dynamics – rather than technical aspects such as transformation (migration) of IT systems – or changing business processes.

In the new era of "Hypercompetition", companies increasingly need to be agile enough to reinvent and transform themselves. In this article the authors take a closer look at transformation, focusing on the human or change management aspects which are widely recognized as being the key obstacles to success. Whilst there are some well-established approaches for managing these aspects, the success rate is still low. In this article the authors explore ways to improve the success rate through tailoring the approach to suit the type of organization and its prevailing culture.
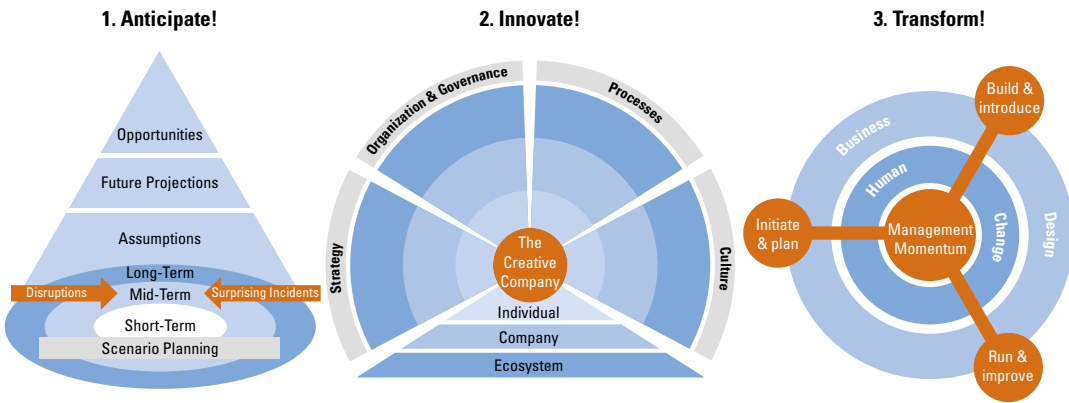
1. Anticipate!

2. Innovate!

3. Transform!

Table 1 **Core competencies in the "Creativity Era"**

Based on lessons from recent case examples, we will provide our insights into questions including: What does it take to transform a company? What are the typical failures and shortcomings in conventional transformation processes? How can we best overcome them?

Accepted models to deal with change are fine, but do not always lead to the desired results

Before we address questions, problems and shortcomings – here is some good news. Today, there is a widely accepted model to deal with the human aspects of change. In 1996 John Kotter published "Leading Change" – which is still essential reading for anyone involved in change management. Kotter's eight steps to successfully steer a corporation through times of change make good sense. Transformation programs require a compelling story ("Sense of Urgency"), a strong cross-hierarchical team ("Guiding Coalition"), a clear vision for where to go, good communication, empowered employees rather than just top-down procedures, quick-wins and consolidated gains which help to keep momentum, and finally a refined organizational culture that recognizes the right new behaviors. Arthur D. Little's own approach is based on this model (see below).

Arthur D. Little's well-tried approach to transformation and change

Based on Kotter's logic, Arthur D. Little's own basic change management model recognizes three key success factors: Motivation, Enablement and Information. Project teams need to score well in these three dimensions to achieve what we would call a positive change culture.
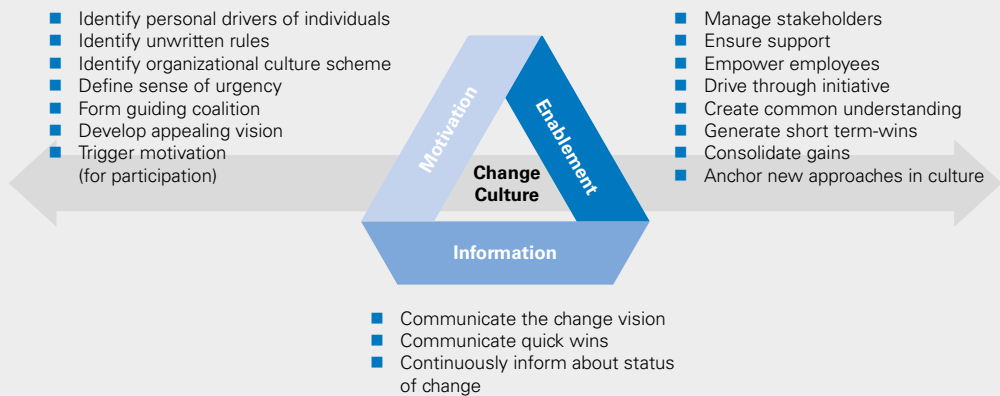
- Identify personal drivers of individuals
- Identify unwritten rules
- Identify organizational culture scheme
- Define sense of urgency
- Form guiding coalition
- Develop appealing vision
- Trigger motivation (for participation)

Motivation

Enablement

Change Culture

Information

- Manage stakeholders
- Ensure support
- Empower employees
- Drive through initiative
- Create common understanding
- Generate short term-wins
- Consolidate gains
- Anchor new approaches in culture

- Communicate the change vision
- Communicate quick wins
- Continuously inform about status of change

Table 2 **Arthur D. Little change management approach**

Source: Arthur D. Little, based on John P. Kotter and own case experience

This type of approach has certainly helped many organizations to manage change, and continues to be broadly applied. However, the other side of the story is that, in far too many cases, despite the efforts of dedicated change managers, transformation projects simply do not work. CEOs often complain that the identified improvements and cost savings did not materialize, that the project got stuck or that the success did not last.

A recent study looking at the success rate of large-scale transformation programs backs up these impressions and provides some evidence about the root causes. The authors interviewed 822 participants from 63 countries. Over 79% of study participants used a structured methodology to manage the people side of change. However, in spite of this, the key obstacles to project success were related directly to people.

1	**Ineffective change management sponsorship from senior leaders** (e.g. poor alignment among key stakeholders)
2	**Resistance to change from employees** (e.g. strong resistance of those with the greatest knowledge and expertise on current systems and processes)
3	**Insufficient change management resourcing**
4	**Division between project management and change management**
5	**Middle management resistance** (e.g. fear of loss of power)

Table 3 **Greatest change management obstacles**
Source: PROSCI Benchmarking Report 2014 – Best Practices in Change Management (n = 822 companies)

These findings correspond closely with the views of CEOs who ask us to support their attempts to turn around transformation projects that have run into problems. Nearly all of our clients had included change management expertise in their business transformation projects. But in the initial project phase they are confronted with problems that include:

• Mistrust: "We do not believe that this process is really open. It is most likely that the solution has already been decided"

• Cynicism: "Why should we invest energy and commitment in this process? Our comments are just window dressing"

• Opportunism: "I will keep quiet about what I really think. If I just wait, in the end I will be better off as I can just join the winning team"

The key point is that in today's business environment the ability to change has become a key factor for success. There is an abundance of change management methods available to foster transformation processes, and companies make considerable efforts to apply them. Yet, it seems that many of these conventional change efforts do not work or are even counterproductive.

Effective change and transformation projects require careful tailoring of the approach to make it fit

Our experience has shown that the key to successful change management is to recognize that not every situation is the same. Classical change paradigms are still very useful, but they must be tailored and interpreted according to the particular situation in order

to be effective. It is useful to characterize this "particular situation" in terms of two dimensions: "Change Intensity" and "Type of Organizational Culture".

"Change Intensity" describes the scale of change / transformation – covering four levels, from modest to substantial:

- Tuning – for example, the introduction of a new customer relationship management approach

- Adaptation – such as adding a new sales channel to an existing dealership structure

- Reorientation – for example, setting up a new organizational structure

- Re-creation – which describes the complete reinvention of a business

There are no sharp boundaries between these levels of change intensity, but there are big differences. For example, it is obvious that the task of "creating a sense of urgency" will differ dramatically between a "Tuning" exercise and a "Re-creation". To determine the "Change Intensity" of a program a set of criteria can be applied, for example through a workshop format, before any change or transformation activity starts.

With "Type of Organizational Culture" we consider the "Personality" of an organization. There are four broad types, as shown below, based on the axes of Flexibility/Discretion vs Stability/Control, and Internal focus/Integration vs External focus/Differentiation.
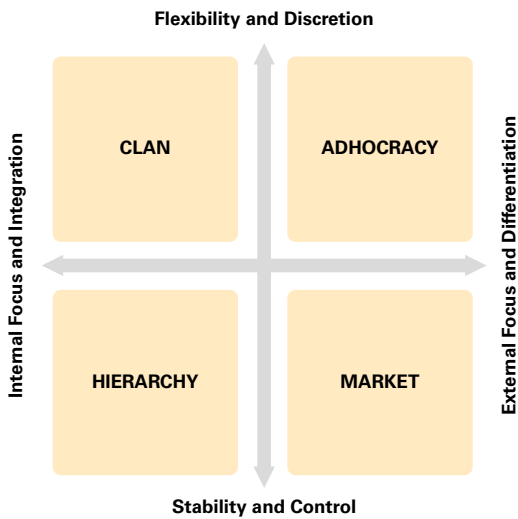
Flexibility and Discretion

CLAN	ADHOCRACY
HIERARCHY	MARKET

Internal Focus and Integration

External Focus and Differentiation

Stability and Control

Table 4 **Cultural types**
Source: Arthur D. Little based on Nadler and Cameron/Quinn

For example, a company that cherishes personal relationships more than rules is referred to as a Clan culture, whereas a company that emphasizes ranks, titles and rules is a Hierarchy culture. There are also companies that are strongly driven by market needs (Market), and those that value flexibility and responsiveness to new ideas and innovations above all else (Adhocracy). Again, there are no sharp boundaries, but each of them requires a different "medicine" when it comes to change and transformation.

Combining the two dimensions provides a valuable framework to help tailor the change program approach, as shown below.
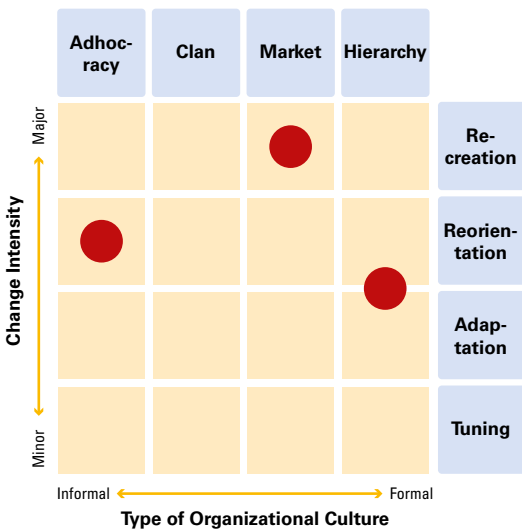
Adhoc-racy	Clan	Market	Hierarchy	
		●		Re-creation
●				Reorien-tation
			●	Adap-tation
				Tuning

Change Intensity (Major ← → Minor)

Informal ← → Formal
Type of Organizational Culture

Table 5 **Framework to tailor change / transformation programs**
Source: Arthur D. Little based on Nadler and Cameron/Quinn

We see examples of companies with cultures in all four categories, from Adhocracy to Hierarchy, and in some larger corporations there may be more than one culture type in different locations or business units. Many change programs aim to preserve the prevailing culture during transformation, while other programs require a shift from one culture type to another as part of the process. Transformations with the greatest "Change Intensity" are clearly the most challenging to achieve.

The way this approach works in practice can be best illustrated by introducing the following three real-life case examples, two of which focus on the biggest challenge of "Re-creation", and one on "Reorientation."

Case study 1: "Re-creation" in a Clan environment

A global leader in logistics with offices around the world had suffered from long-term margin erosion. Over the years it had applied a number of typical fixes, including process improvement and IT modernization. When all of these failed to lead to the desired effect, it appointed Arthur D. Little to run a project to drive change through stronger governance. Driven by the corporate headquarters, the central steering system for this highly decentralized corporation was to be strengthened to allow for a more consistent approach to alignment and efficiency. The deliverables were clearly specified as "new structure and organizational charts", "steering system", "new job descriptions", and "shared service centers". After a phase of conceptual development, the new governance system was to be implemented. On the way, "communication and change" were to be addressed.

Assessing the transformation task

Looking at the tradition, project history and competitive environment of this company, we concluded that this project was much more than just a change of structure and governance. It was a major reorientation (i.e. a Re-creation), which was being initiated from the top. Like many other companies, this client was very well structured and organized in a formal sense. However, in analyzing the current culture, it became clear that the real power was not at the top, but actually resided in a number of pockets and niches. And it was bound not to the formal hierarchy, but to individuals who entertained personal relationships and "old boys" networks. Both of these elements meant that a tailored interpretation of the classical change program model was needed.

Shaping a tailored change program

Based on an initial assessment, the normal meaning of "Sense of Urgency" was turned around, so that rather than articulating and communicating top management's "urgency", instead we explicitly focused on the views of the many decentralized units. Next, the "Guiding Coalition" (i.e. the change team) did not follow the traditional headquarters' logic, but rather reflected the perceived – not the formal – position and profile of employees and managers. This turned out to be a very colorful and cross-hierarchical group.

A Clan culture does not always communicate through project newsletters, web sites and formal company information. It is also not always receptive to more modern and "hip" ways of communication but instead prefers the personal approach. All formal communications were therefore kept to a bare minimum, with no glossy newsletters, no big "town hall" announcements or declarations, and no formal message cascades. Instead, a number of personal exchanges, talks and regular phone conferences were introduced to reinforce key messages, building on the availability of empowered employees across regions and markets. Competition and regular monitoring were used as incentives, with different units competing against a common target. They were measured, monitored and advised but never controlled. "Quick Wins and Gains" were a cornerstone of the corporate culture. Every project step and every communication was intended to make a clear reference to results.
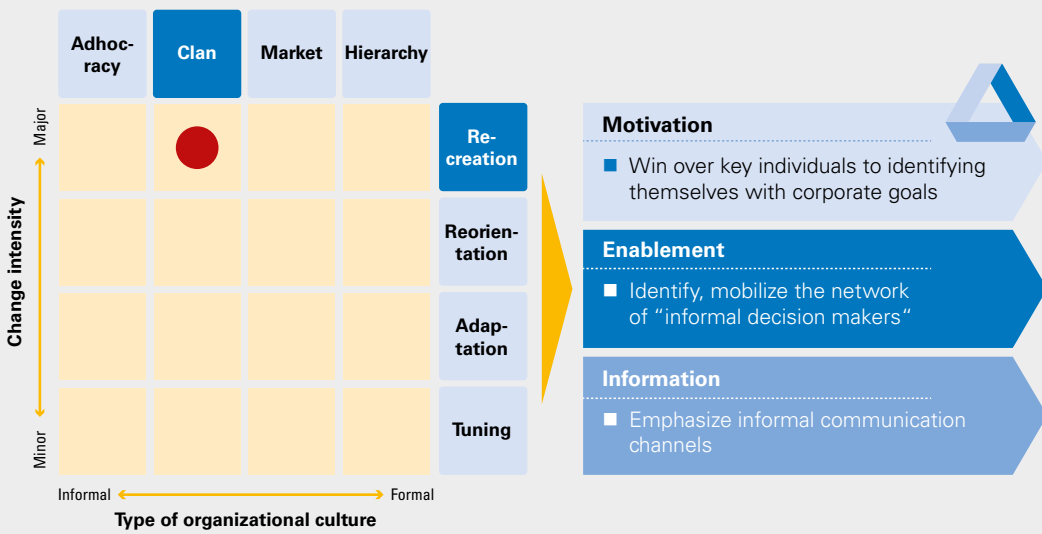

Table 6 **Key learnings for major transformation in Clan Cultures**

Source: Arthur D. Little, based on Cameron/Quinn

Results and learnings from this case study

At the end of this project, all the specified deliverables were in place with a new organizational set-up that harmonized a previously diverse structure. This was supported by new job descriptions and all the other project deliverables. The key difference, however, was that the change was discussed, adopted and personally promoted throughout the company. Whilst the general change paradigm was followed, lasting results were achieved through interpreting, adapting and bringing it to life within the organization in a way that suited both corporate culture and the nature of the change.

Case study 2: "Re-creation" in an Adhocracy environment

A travel management company had seen remarkable success, growing its business within 10 years to become a national market leader. Consequently, it had embarked on a course of international expansion, creating subsidiaries across the world. However, it could not seem to globally replicate the success achieved in its home market. The company therefore initiated a change program to address the issue.

Assessing the transformation task

Initially the company had pictured itself as having an entrepreneurial, but controlled, "Market" culture. Hence, the original aim was to replicate this culture internationally, promoting entrepreneurialism and taking steps to limit the growth of the unwanted bureaucracy that usually accompanies global operations. However, the initial assessment, which included management workshops, collation of work-practice examples and a structured questionnaire, revealed a different picture. Instead of being a Market culture, a core pattern of Adhocracy was apparent – rather than relying on stable structures and controls, the organization flexed rapidly according to signals from the market, new ideas, and signals from financial investors, for example. Whilst Adhocracy was well suited to a high-growth start-up environment, it was less suited to international growth – with so much flexibility, how could new people hired in foreign markets understand what they needed to do? A senior management workshop was held to envision the desired culture and values of a successful global company, and to illustrate the huge gap between this and the current situation.

Shaping a tailored change program

The assessment showed that the culture of the company was such that the classical approach of "Creating a Sense of Urgency", "Building a Guiding Coalition" etc. would not work straight away. Too much emphasis on cooperation and collaboration on top of a weak core process foundation had, in the past, created a sense of cynicism and frustration instead of excitement, and resulted in slow motion instead of rapid growth. Therefore, the change program was reconfigured to focus first on clarity of head office core processes and culture. This was actually almost the opposite of the original intention of focusing on "limiting bureaucracy". However, once this had been done, the rest of the change program could be carried out much more effectively.

Results and learnings from this case study

In this example the gap between the current situation and the desired ambition was too wide to be able to make the desired change in one step – the prevailing Adhocracy start-up culture was unsuitable for a coordinated international organization. The key lesson is that transformation programs need to carefully consider the current situation and the ambitions that are being formulated. Whilst in some cases a bridge can be built by classical change management methods, if the gap is too wide work may need to be done initially to build a firmer foundation – even if it feels "counter-cultural" at first. This will avoid meeting hurdles later on that cannot be easily overcome.
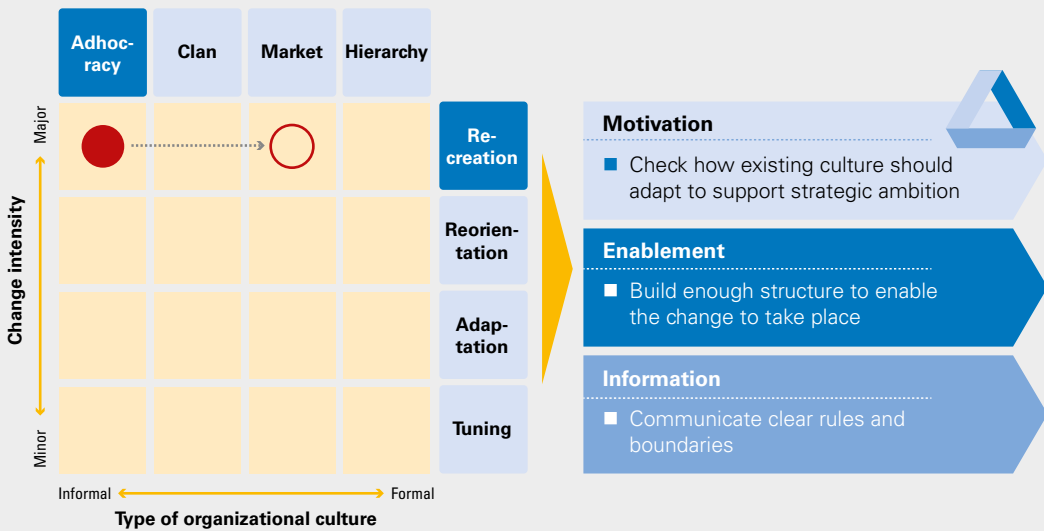
Table 7 **Key learnings: Re-creation from an Adhocracy to a Market culture**

Source: Arthur D. Little, based on Cameron/Quinn

Case study 3: "Re-creation" in a Hierarchical environment

The department responsible for building and maintaining track infrastructure for the public transport provider of a major city was a highly specialist organization. It was staffed by highly experienced and competent employees. The newly appointed head of the department realized early on that numerous changes were going to be required if the organization was going to cope with two challenges – a major increase in new-build and infrastructure programs over the next 10 years, and the impending loss of highly experienced people only a few years from retirement. It was critical therefore to shape a new high-performing, collaborative, team-based organization before these experts left.

Assessing the transformation task

The head of department realized that while the company had strong systems and controls for its core track infrastructure maintenance activities, it was very weak in terms of arrangements to manage the human requirements needed to create a a collaborative, team-oriented organization. It was clear that a "quick-fix redrawing of reporting lines" would not be sufficient.

The initial assessment, which was conducted by means of a thorough interview program encompassing all employees within the department and its key stakeholders, confirmed that there was a strong Hierarchical culture. With the aim of controlling risks and avoiding accidents, the former department head had kept strict control over operations, holding onto all power and letting no one else take true responsibility without first checking with him. This command-and-control leadership style, in combination with weak guidance from company leadership on the department's strategic goals, had resulted in a severe lack of trust in the leadership team among people in the department. There was a widespread opinion that no one outside the department saw, understood, or recognized the hard and important work the people there did. It was now necessary to maintain the engagement of key staff, to build trust in the organization, and to create an environment where young and talented employees could start to take responsibility and grow their experience.

Shaping a tailored change program

The change involved a significant Reorientation from a purely Hierarchical culture towards a more Market version. Stronger involvement of key people in important decisions, as well as broader participation of all employees in the transformation project, were key to building trust, not only for the program itself but also for the new leadership of the department and company. A common vision for the department's desired future state,

empowering the need for change, was created. Based on this, a comprehensive one-year transformation program was developed.

The transformation program set up a mission-oriented organization with clearly defined roles, responsibilities and authorities that addressed the identified gaps between the department's current situation and the desired position. One key aspect was to provide people with short-term measures to make their day-to-day work easier. Despite some initial resistance from a handful of people in the organization who feared losing power, employees demonstrated strong commitment throughout the whole project, with full ownership of the results that were generated.
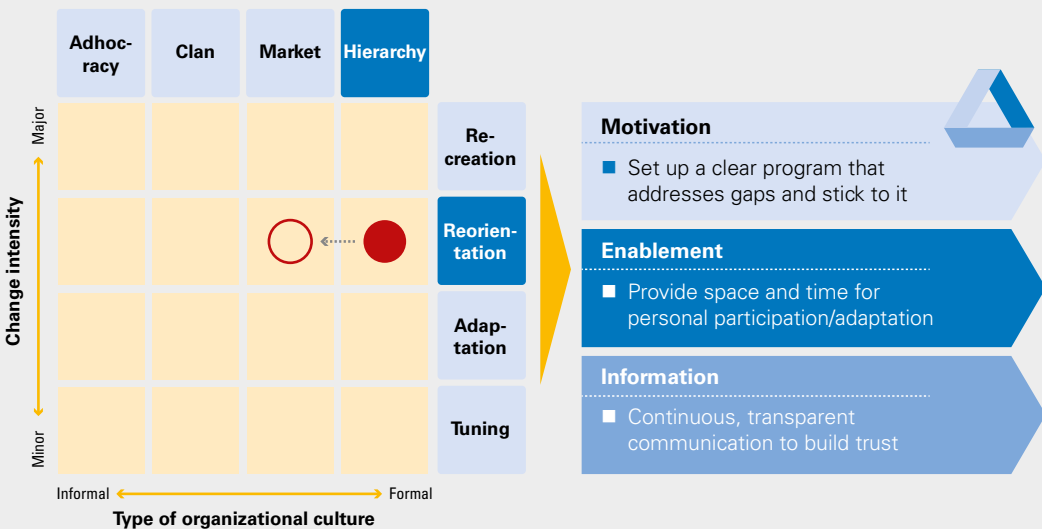
Table 8 **Key learnings: Reorientation from a Hierarchy to a Market culture**

Source: Arthur D. Little, based on Cameron/Quinn

Conclusions

The examples above illustrate that change programs are very individual exercises, and careful tailoring is necessary to avoid falling into the common pitfalls of adopting a "standard" change management approach. However, by considering the two dimensions of "Change Intensity" and type of "Organizational Culture", it provides some ideas on how to orient the change program:

- More informal cultures (Clan and Adhocracy) do not respond well to the tactics of classical change approaches, such as workshops, newsletters, blackboards and web sites. For major changes (Re-creation or Reorientation), there is a high risk that change programs that rely on traditional tools can even be counterproductive.

- More formal organizational cultures (Hierarchy and Market) are more conducive to classic textbook change program approaches. This is particularly true for modest changes (Tuning and Adaptation), but will also work for major programs, provided that structures and hierarchies are also suitably modified.

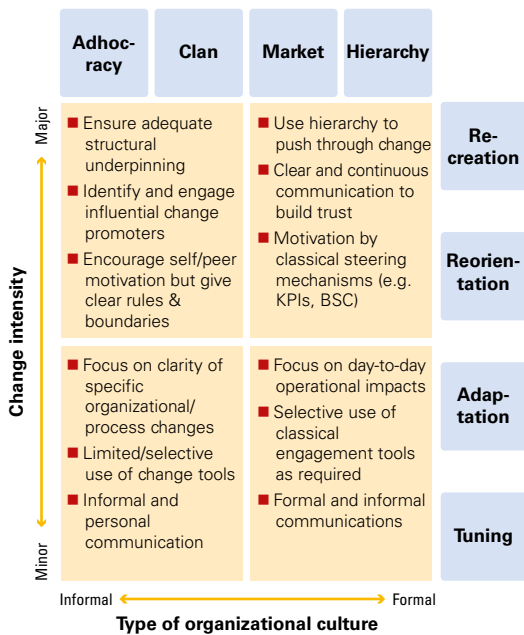This is illustrated in the generic summary below:

	Adhoc-racy	Clan	Market	Hierarchy	
Major	■ Ensure adequate structural underpinning ■ Identify and engage influential change promoters ■ Encourage self/peer motivation but give clear rules & boundaries		■ Use hierarchy to push through change ■ Clear and continuous communication to build trust ■ Motivation by classical steering mechanisms (e.g. KPIs, BSC)		**Re-creation**
					Reorientation
	■ Focus on clarity of specific organizational/ process changes ■ Limited/selective use of change tools ■ Informal and personal communication		■ Focus on day-to-day operational impacts ■ Selective use of classical engagement tools as required ■ Formal and informal communications		**Adaptation**
Minor					**Tuning**

Change intensity (vertical axis, Major ↑ to Minor ↓)

Informal ← → Formal

Type of organizational culture

Table 9 **Generic Change Strategies**
Source: Arthur D. Little, based on Nadler and Cameron/Quinn

Insights for the executive

In this era of Hypercompetition, the capacity for companies to transform themselves is a key success factor. Today, we have well-established methodologies and approaches that can help to get the transformation job done effectively.

However, the continued low satisfaction rate, especially in terms of the "people" side of change, means that we need to avoid applying these classical methodologies in the same way for every project. Instead, we need to carefully consider the cultural "personality" of the organization and the intensity of the change that is being sought, and define an individual approach that fits. Using the "Change Intensity"/ "Type of Organizational Culture" framework can help in this process. We summarize the Dos and Don'ts as follows:

Do's	Don'ts
Do focus on precise management of the "hard facts" of the change: Organizational charts, role descriptions, processes, but....	...don't underestimate the importance of the "soft factors" and hidden cultural barriers: the "unwritten rules" in your organization
Do apply state-of-the-art change management methods, but...	...don't skimp on the initial assessment to tailor the change approach to your context
Do use formal approaches where these are effective, but…	...don't underestimate the need for informal and unconventional approaches in many situations

Table 10 **How to make Organizational Transformation effective?**
Source: Arthur D. Little, based on Nadler and Cameron/Quinn

Standards and methodologies are important – but very often it is actually the unconventional, informal, and sometimes counter-intuitive techniques that make all the difference between success and failure. With this mindset, executives shall be well equipped to make the wolf step outside the sheep's clothing and engage in a fair match.

Illustration by Sylvia Neuner

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