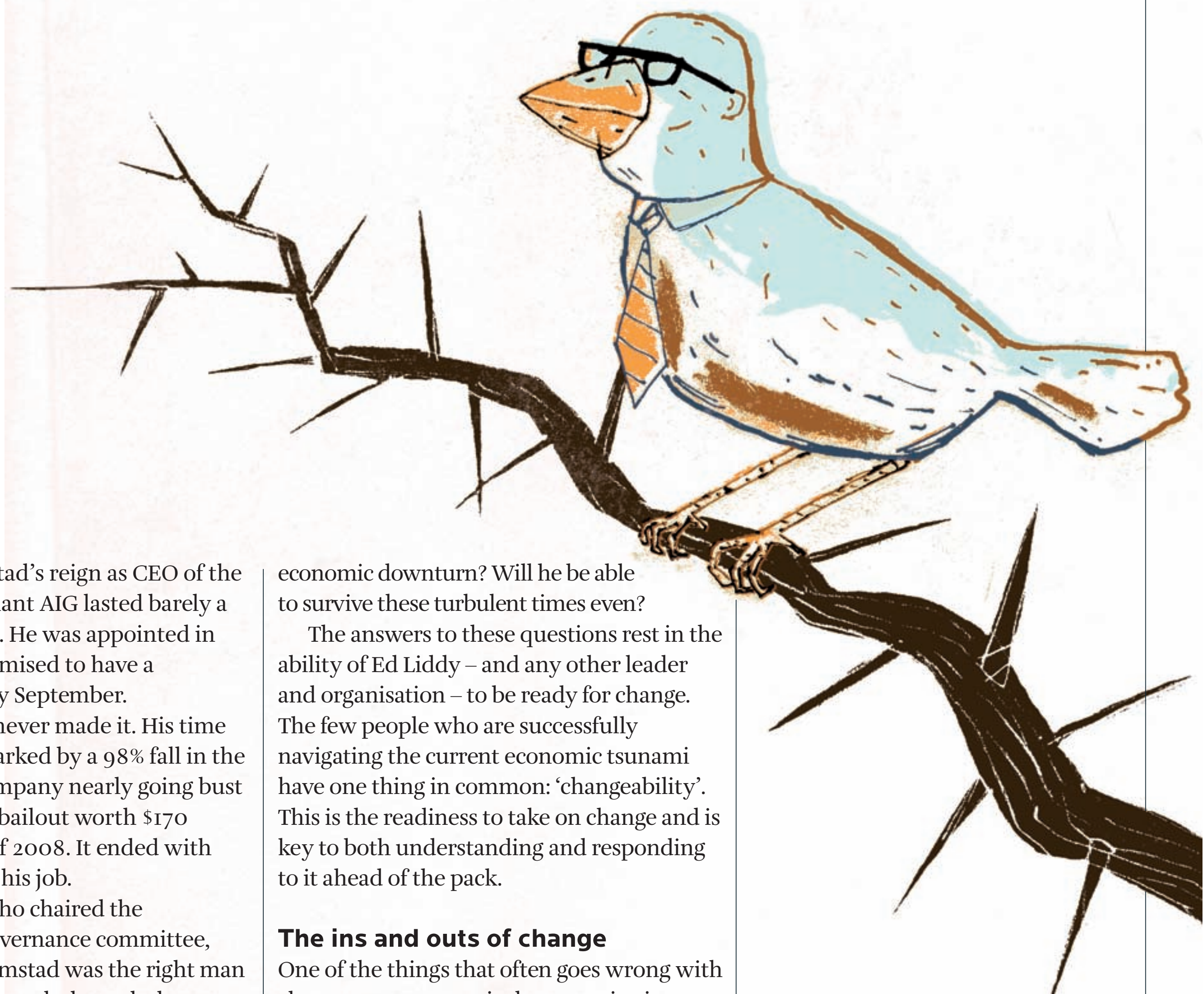
Change and survive

To survive these turbulent times a readiness to adapt and keep pace with the external environment is essential. Changeability – the ability to harness innovation – can decide a company's fate. By **Michael Jarrett**



Bob Willumstad's reign as CEO of the insurance giant AIG lasted barely a few months. He was appointed in June 2008 and promised to have a turnaround plan by September. Unfortunately, he never made it. His time at the helm was marked by a 98% fall in the share price, the company nearly going bust and a government bailout worth $170 billion at the end of 2008. It ended with Willumstad losing his job.

George Miles, who chaired the nomination and governance committee, thought that Willumstad was the right man to steer the firm through the turbulent market – how wrong they both were.

The new CEO Ed Liddy faces considerable challenges. What will make the difference to success or failure? How will he address the strategic challenges of managing during an economic downturn? Will he be able to survive these turbulent times even?

The answers to these questions rest in the ability of Ed Liddy – and any other leader and organisation – to be ready for change. The few people who are successfully navigating the current economic tsunami have one thing in common: 'changeability'. This is the readiness to take on change and is key to both understanding and responding to it ahead of the pack.

The ins and outs of change

One of the things that often goes wrong with change programmes is that organisations and leaders fail to reconcile or even understand their internal capabilities and the complexity of their external worlds.

We have seen this in response to the financial crisis. Organisations either respond to a change in the external environment without thinking of the internal repercussions, or attempt to force through changes that make sense internally but no longer fit the external context – this was the case at AIG. If your organisation does not possess changeability, heads will roll – they always do.

Readiness for change applies at the philosophical level – being open to and prepared to embrace change – but it also applies at the practical level. It applies to organisations that have developed the capability to adapt when faced by external demands. It is the precursor to those organisations that gain strategic agility.

Essentially, successful change is a function of how well an organisation's internal capabilities – its management capacity, culture, processes, resources and people – match the requirements of its external environment, the marketplace.

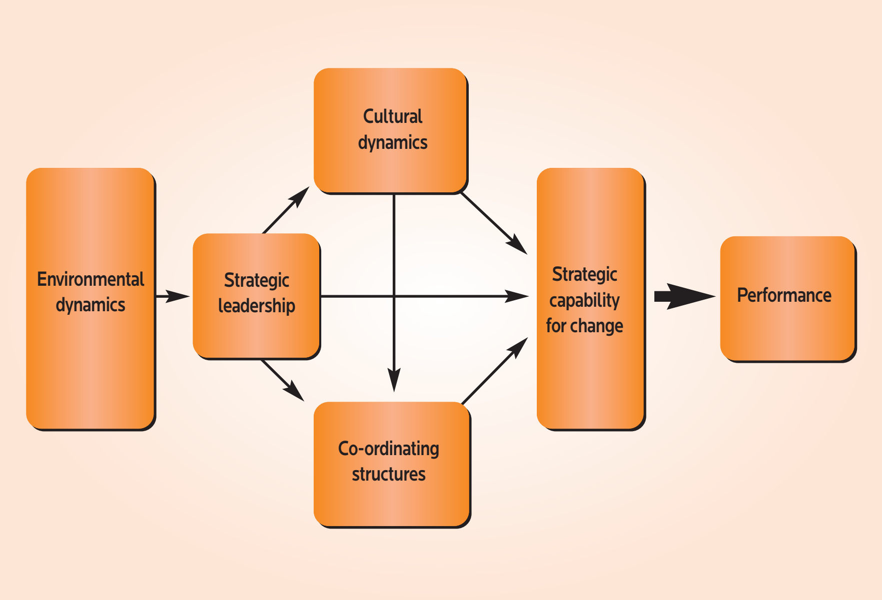
To succeed at introducing change, it is essential to understand that different situations demand different strategies. Managers who embrace changeability suggest that readiness for change is manifest in five factors: scanning the horizon; interpreting the trends; harnessing innovation and collaboration; countering resistance and coherent structures that enable fluid execution.

Scanning the horizon

Senior management teams that constantly scan their environment tend to outperform their less eagle-eyed counterparts. They run constant 'radar sweeps' of their surroundings. This involves using external data – such as competitive analysis and customer insights – as well as internal and 'soft' data, information picked up in corporate corridors, through industry networks or on grapevines. The detection of new trends in the environment is often a stimulus for change and it means that contingencies can be planned as the environment changes, rather than waiting until the storm reaches their bows.

Tesco, one of the world's largest retailers, is renowned for constantly keeping watch on its competitors' prices, strategies and moves. The company is acutely aware of its changing environment and is primed to respond. Its entry into international markets such as Poland or the USA, was supported by thorough research of local markets. This included researchers actually living with families to understand their markets.

Figure 1: Harnessing change



Interpreting the trends

You can tell a lot about the forthcoming weather by reading the clouds, changes in the wind and the subtleties of waves. This is also true in the corporate world. Trends and data from the external environment need to be absorbed and used in decision making. Senior management teams that are able to draw accurate and incisive conclusions based on organisational routines and good judgement are more likely to achieve change.

Such teams are not trapped by mental models, emotional biases or problems of bounded rationality, where knee-jerk reactions result in poor decision-making. The best teams challenge assumptions, making better sense of the external world. This leads to meaningful insights into organisational change.

IBM's disastrous years in the early 1990s demonstrate an organisation that failed to read the signs, mistakenly underestimating the threat of both Intel and Microsoft. Bill Gates and Steve Ballmer, on the other hand, have successfully steered Microsoft through

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choppy waters thanks to their insights, good sense and decision making.

Microsoft's move into the hardware market, with the Xbox and Zune, together with its move to open source collaboration, was a strategically defensive move. Both these actions went against its initial strategic intentions, but making sense of swirls in the market meant these changes were fully embraced.

Harnessing innovation and collaboration

Teams that operate at high levels of performance go beyond mere delivery. Such organisations create open cultures that reward learning and creativity. Companies that successfully harness ideas create conditions that allow individuals and teams to gain synergies from working together. This is characterised by an openness to difference and diversity, a willingness to innovate, to use conflict as a source of new ideas and to deploy processes that turn ideas into action.

Google demonstrates a high level of innovation. It has a working model of '70-20-10', where engineers can spend 20% of their time brainstorming and 10% on anything that is of interest to them. Gmail was a product of this. The model aims to stimulate creativity and teamwork by merging the line between work and play. Not surprisingly this attracts bright people and the virtuous loop of innovation continues.

Marissa Mayer, vice president of Search Product and User Experience, is one of the driving forces and champions of innovation in the company. She says: "Creativity is often misunderstood. People often think of it as an unbridled, unguided effort that leads to beautiful effect. If you look deeper you'll find that some of the most inspiring art forms are fraught with constraints."

Procter & Gamble provides a world-class example of harnessing ingenuity. Famous for products from nappies to toothpaste, P&G is constantly scouting the world for new ideas. In recent years, it slashed its R&D budget and developed an 'outside-in' approach to product and process development, which it called 'Connect & Develop'. Chief executive AE Lafley announced that 50% of P&G's ideas should come from outside of the walls of the company. It does so through its Connect & Develop website and scouts who identify and network with technology entrepreneurs throughout the world.

Countering resistance

Dysfunctional cultural barriers are commonplace in organisations resistant to change. People and culture are often quoted as 'derailers' of change. These are the anchors that hold the organisation back and can often take the form of dysfunctional routines such as nasty politics, power and the unsavoury side of organisational change where people's self-

Changeability – doing things differently

- **Understand the underlying forces** that drive your environment – do not be fooled by the headlines.
- **Constant vigilance** and developing multiple scenarios help plan for the unexpected. Shell has constantly employed this technique. During the days when oil looked like it was going to fall to $10 a barrel it looked at its strategic response, as well as other scenarios such as $50 a barrel.
- **Take out the fat** – act quickly, manage costs, de-layer and re-engineer but do not overdo it so that nothing is left when the economy recovers. As one executive put it: "Cut out the fat, but not to the bone."
- **Focus your energies** on the longer goals of the business – do not forget why you are in business. Ian Powell, a new senior partner at PwC, talks of the importance of managing costs but also of the firm being ready for the upturn.
- **Acknowledge that the little things matter** – lots of small changes can help in the short term.
- **Innovate and collaborate** – take advantage of the opportunities. The economist Joseph Schumpeter popularised the view that in the troughs of business cycles there are opportunities for innovation and creativity. Semi-conductors first came to the market in the recession of 1957, Microsoft was born in the recession of 1974 and the tech boom started during the recession of the early 1980s.
- **Take your people, clients and shareholders with you.** Nothing is worse than a lack of engagement from these key stakeholders.

interest drives behaviour rather than the good of the company.

In one case, food manufacturer Biscuits Co., the rivalries between manufacturing and sales and marketing were so great that they actively sabotaged each other's initiatives – even though they knew the changes were beneficial for the long-term survival of the company. It took a new managing director to resolve the matter. The task for those looking to implement change is to break through the drag factor of inertia.

Greg Dyke, former director general of the BBC, wanted to cut through the dysfunctional dynamics that were impeding changes. He needed to get a grip of the organisation, slim down processes, increase the speed of decision making and align the organisation onto its core purpose and focus. He achieved this by launching a campaign to cut through all the barriers and unhelpful legacies of the past.

Coherent structures

Companies that rate highly on changeability also have high levels of structural coherence. It is easy for workflows to operate, communication around tasks is fluid and silos are minimal. Conversely, companies that find it difficult to change talk of organisational silos and the difficulty of working across units.

Toyota, the Japanese car manufacturer, is steeped in a culture of continuous change and process improvement. It is part of its organisational DNA and is inculcated into each and every worker through key principles such as kaizen, challenge, teamwork and respect for others. These characteristics lead to fluid execution in daily work.

The Indian steel maker Mittal has grown through the detailed and fluid execution of its acquisitions. Lacklustre mines, such as were found in some Eastern European operations, were rapidly turned around and placed into local hands within a year of operation. Mittal's M&A 'SWAT teams' make things happen quickly.

Does changeability make a difference

In testing the five factors against a series of independent questions on actual change, marking differences in levels, scale and duration, a significant and positive correlation between readiness, overall change and organisational performance can be seen. During periods of environmental turbulence, companies that have changeability perform significantly better than their counterparts. It helps explain why HSBC does better than HBOS.

AIG's Ed Liddy has a huge task ahead of him. Many executives face similar challenges. There is an emerging consensus among economists that the recession will last until 2010. Yet while the bad news continues, there are strategic opportunities.

According to London Business School's Professor Andrew Scott this is a good time for companies to consider mergers and acquisitions. It is a good time to buy cheap assets that complement, hedge or extend your current business model. During good times the opportunity cost of restructuring is high, causing inconvenience and disruption of activities and affecting efficiency.

Now is a good time to make the decision to reallocate resources, shift talent and make the hard choices that have been delayed for one reason or another – be it fear, resistance or a lack of courage. However, to reap the benefits of these, you need to build organisational capabilities that enhance the five factors of readiness. ■

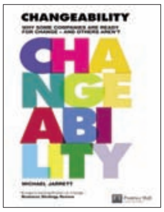
Leadership

In times of adversity, wisdom holds the reins of sanity. Insightful leaders make all the difference to success or failure; RBS and HBOS are current examples.

Allan Leighton is experienced at change. During the crisis years at Asda, as CEO and president of Wal-Mart Europe he helped turned the company around. Working very closely with his top management team, Leighton made quick decisions to keep the company from haemorrhaging money. They sold off their unprofitable business units, raised cash to meet their enormous debt, restructured the stores and reduced overheads.

They also worked on the long-term goals. The strategic focus went 'back to basics' and was supported with a cultural change programme. The leadership team understood the changing nature of the market. However, their further insights meant working on both the short-term needs of survival as well as the longer-term needs to meet future goals.

Pasteur said that fortune favours the prepared mind. It is also true for organisations and is true for your organisation.



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