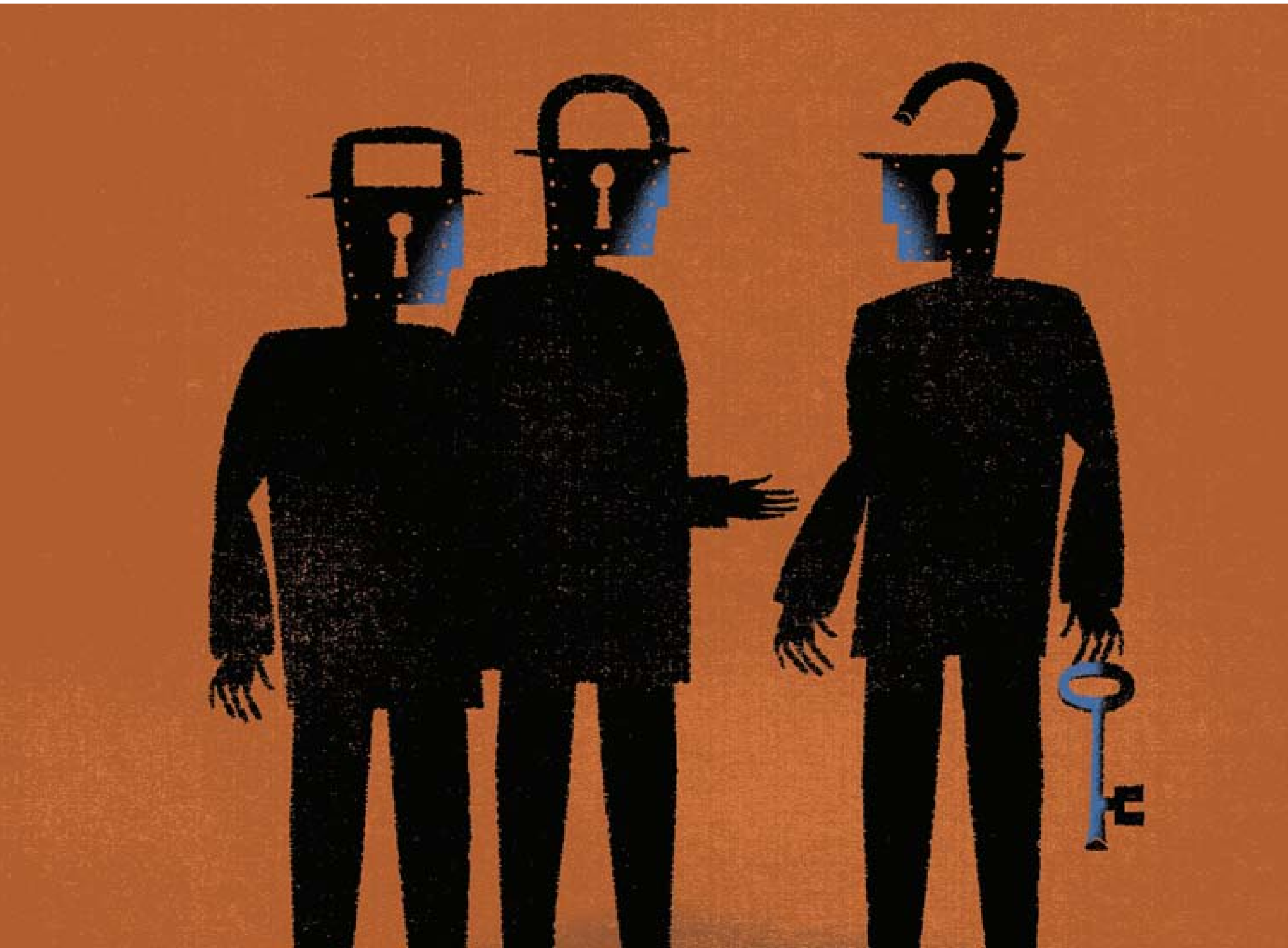
Capacity for Change

Why do some companies succeed at transformation while others fail? Is it the methods they choose, such as lean manufacturing, Six Sigma and business process reengineering? Maybe it's that old bugaboo, a lack of "leadership commitment." If so, then why has no one come up with a way to measure, predict or replicate the critical factors that make transformations succeed?

Our research into change management has yielded an explanation for why some companies succeed at transformation while others fail—one that surprised us by being both simple and overlooked: Success at transformation is determined largely by an organization's capacity for change. With such capacity, a company can tackle its transformation challenge head-on with confidence. Without such capacity, not only does the change effort risk failure, but also people wrongly label the corporate leadership as failing.

By transformation, we mean getting to the next level of performance, both internally and



externally. Many tactics can be deployed to achieve this transformation. For example, a company might do one of the following:

- Prioritize the change effort over other topics
- Increase measurement and control (as with a Six Sigma program)
- Standardize a change message to improve effectiveness and redeployment opportunities
- Create a trigger for change that renders some existing organizational activities irrelevant
- Invest in new communication and collaboration technologies
- Bring in consultants

The most important decision an executive makes is NOT WHY OR WHEN OR EVEN HOW TO CHANGE, BUT HOW to build the internal capacity to make any change succeed.

Each has its strengths. Choosing the right one depends on an organization's starting point, ambition and culture. As we review the options, a similarity emerges: Each is a tactic to step up interactions. Bringing in consultants, for example, amounts to adding temporary capacity for interactions. Setting aside time through leadership commitment takes a similar approach, although it filches the interactions from less-important activities. Increasing measurement and control seeks to make interactions more focused, as does standardizing the change message. Creating a trigger for change and investing in new technologies amount to other ways to force employees to increase their interactions.

Thus, we conclude that successful change involves more and better interactions, dedicated to a new purpose. Ideally, the new pocket sits on top of, or enhances, existing internal or external interactions. Alternatively, it can be carved out of existing interactions, ideally without putting the firm's operations in jeopardy.

This new set of interactions is what we call the "capacity for change." Some firms have the ability to create significant capacity, others do not. Those that lack the capacity for change will struggle, regardless of methodology, to achieve their objectives.

Assessing Your Capacity for Change

To say that a firm lacks the capacity for change is not to say that it lacks leadership or commitment. Rather, capacity for change is an outgrowth of organizational structure. Whatever its size, it has likely arisen from rational, smart decisions based on market conditions and corporate culture.

Let's illustrate using the anonymous case of Juniper Tree Technology.[1] This boutique technology firm specializing in corporate mail-server architecture has 40 technologists and 15 support staff. It has a flat organizational structure, with just three partners who pursue their own specialties. Employees love working there. It's a great firm of smart and supportive people who do outstanding work. The partners understand their markets and the direction of technological change. They are intuitively sound managers. But a new internal IT system fell flat on its face, because—as we'll explain—their firm had little capacity for change.

[1] *Company names in this article have been changed to protect confidentiality.*

Or take the disguised case of Engulf & Devour, a multinational fast-moving consumer goods firm. It sells everything from canned soup to bagged nuts, on five continents. It has grown tremendously in the past decade, largely through intelligent acquisitions that expanded its geographic, brand and product footprints. It's renowned for tight and effective links between marketing and R&D, which help the company consistently create great new products ahead of the competition. Its management is strategic and forward-thinking. But a firmwide cost-cutting effort never got off the ground, because E&D, too, has little capacity for change.

The disguised Tower Buildings provides another good example. It is a construction company that is staffed by skilled workers intimately familiar with their craft. Their collective skills and experience help the company churn out one amazing building after another. However, when Tower Buildings had to adopt new ways of working to reduce costs amid heightened competition in the construction market, things turned sour. Quality became inconsistent and staff got frustrated—not because Tower Buildings was doing the wrong things, but because it had little capacity for change.

These examples dramatize the three interrelated factors that drive any organization's capacity for change *(see figure 1)*:

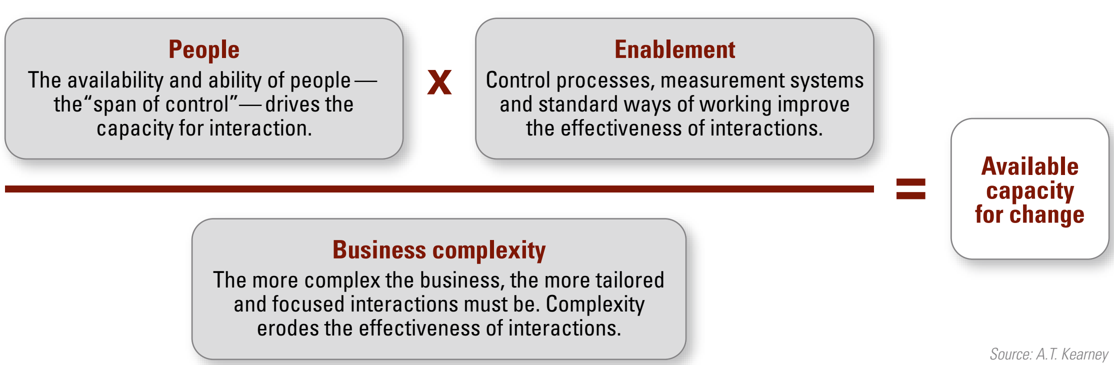
- People: span of control
- Enablement: control and measurement systems, processes and standards
- Business complexity: degree of tailored and focused interactions

As we look more closely at each factor, recall that capacity for change is determined by interactions, and each factor affects the number of interactions available for the change effort, the quality of interactions, or both. Thus, they all affect the "level of interactions" available to create transformation.

People. Creating change typically requires significant interaction among people, especially between managers and their subordinates. Several factors determine how much basic capacity a company has for interaction. Of these, the span of control—the number of employees that each manager supervises—has a direct impact on the number and nature of these person-to-person interactions. Businesses with a small span of control have more interactions, and thus more opportunities to bring about transformation.

FIGURE 1

Capacity for change is determined by three interrelated factors



Source: A.T. Kearney

Some businesses have a small span of control because that's their corporate culture. Others operate in industries that simply require more interaction to run the business. Either way, when there's lots of interaction, there's more room to redirect some of that interaction toward change.

Conversely, some companies have a large span of control. There's nothing wrong with that—fewer middle managers implies greater efficiency. Better defined or automated processes may improve task performance, yet they increase span of control and therefore reduce interactions and capacity for change.

WHEN THE DETAILS OF GRANULAR CHANGE CAN BE LEFT TO THE INDIVIDUAL, rather than passed down through a hierarchy, THE COMPANY DOESN'T NEED SO MUCH CAPACITY AT THE TOP.

That's what happened at Juniper Tree. With just three partners (all productively engaged in project work), there weren't enough resources to lead the switchover to the new IT system. Who was going to manage the change, explain its importance to the support staff, hold their hands through difficulties, and ensure that they used the new software as intended? The firm's structure had no space for that. Note that no one at Juniper Tree would claim that partners "weren't sufficiently committed" to the project. In addition to investing the money, they'd spent some of their time on change management (certainly more than they'd wanted). They did not grasp, however, how much interaction was required, and how ill-suited their span-of-control structure was to effect it.

Enablement. We have thus far addressed the most basic form of interaction: direct in-person contact or similar exchanges by phone, email, videoconference or instant message. But interactions can be enriched by defined processes, planning cycles, measurement techniques and automation. The more such processes and systems a company has, the more it can redirect not only interactions but also underlying support processes toward the change effort.

For example, let's say that Apex, Inc., wants its salespeople to spend more time understanding customer needs, and has decided to do so by doubling the length of the average sales call. If Apex has been measuring and monitoring data on sales-call length, the transformation will be easier. A manager can look at the data to determine if the goal is being achieved. The direct interactions between manager and salesperson start at a higher level and with a common understanding of the real issues. Similarly, a company with well-defined processes spends less time reinventing the wheel. One with effective planning cycles needs fewer ad hoc interactions regarding operational decisions.

For Tower Buildings, the workers are so wonderful that it had never needed these types of systems. Indeed, they would have been a waste of money. But when new ways of working were required, workers did not bother to change their habits, or did so haphazardly. The result was a failed transformation. Many organizations are full of experienced people carrying out tasks without clear processes or systems. While they're good at what they do—many may claim the favorite aspect of their jobs is "not being tied down"—their lack of consistent processes, measurements and systems creates an obstacle to change. In other words, rather than changing an underlying process, you must convince individuals, one by one, to modify their unique habits, and then continually check compliance.

Business complexity. The more complex a business is, the less "wiggle room" it has in its interactions. Complexity forces interactions to become more focused and tailored, which makes it more difficult to redirect some of those interactions to the change effort.

Again, we're not criticizing the complexity of businesses, per se. We admire a firm such as Engulf & Devour, with its ability to juggle premium-branded (differentiated) products and mainstream products while competing with distributor-owned branded products all made on the same production lines and sold through the same account managers. The ability to manage multiple competitive situations and multiple sets of key success factors, critical to E&D's profitability, requires sophisticated systems of formal interactions. Our point is simply that such a structure doesn't leave much room to create interactions that can be redirected to the creative cost-cutting efforts required by the companywide initiative.

Complexity obviously rises after an acquisition as the new, larger firm faces multiple units, processes and measurement standards. Yet it was the transformation potential that led to the merger in the first place. Thus, after the acquisition, immediate changes are required. Sometimes the changes require culling redundant staff. The merger disrupts traditional patterns of interaction, and the layoffs reduce the number of interactions, precisely when significant interactions are required. Is it any wonder that merger integration is so fraught with peril? For more on complexity, see "Cultivating Smart Complexity" on page 33.

Securing Capacity for Change

A quick way to get a feel for a company's capacity for change is to track the three factors during the company's recent history. Has the company's business become more complex through acquisitions? Has the company introduced new standard processes and consistent and broad measurement? Has the company become leaner and flatter? Tracking these factors will help you discover ways to increase capacity for change, thus improving the odds of success for whichever change initiative you undertake. You can then design a change approach that ensures the proper capacity is devoted to the change effort.

There's plenty of advice on this topic. The headings in this section may sound familiar to anyone who has been involved in a transformation initiative. But note how these traditional best practices are in fact ways to ensure a company creates and maintains sufficient capacity for change.

Get top management commitment. This is perhaps the most common piece of advice concerning change management, yet it's frustratingly hard to pinpoint, quantify or measure. It's certainly true that if leadership isn't committed to change, followers won't be either. Yet look what happens when we recast this advice in terms of capacity for change. Now it's harder for the bosses to skirt by with lip service. The change agent can press management with tough questions about span of control or measurement systems, and management can see up front what the commitment to change will look like on the ground. In the case of Juniper Tree, its large span of control meant that management commitment to the project needed to take the form of, say, a project-management office for the new IT system. Faced with the issue in concrete terms, Juniper Tree management would have responded appropriately.

Create a business case for change. The business case is part of the effort to gain management buy-in. It also represents a series of focused interactions that align people toward a common goal. In that sense it is starting to carve out the pocket of capacity that will be devoted to the change effort.

When you don't have to REEXPLAIN THE CHANGE OBJECTIVES to a stream of people stopping by the office, you free up MORE CAPACITY FOR MORE-MEANINGFUL INTERACTIONS.

Communicate change objectives. Some people need this advice because deep down they don't really know their objectives. Let's assume that creating the business case has taken care of that. Still, clearer, more effective communication of objectives means less interaction is required for that task. When you don't have to reexplain the change objectives to a stream of people stopping by the office, you free up more capacity for more-meaningful interactions that will actually transform the company.

Frame the change objectives appropriately. Top-notch transformation initiatives frame the change objectives in a context that empowers individuals to experiment and drive appropriate change themselves. Thinking of this practice in terms of capacity for change demonstrates that it amounts to reducing—or, more accurately, dispersing—the required capacity for change. When the details of granular change objectives can be left to the individuals involved, rather than passed down through hierarchical layers, the company doesn't need so much capacity at the top.

Measure and track progress. This piece of advice is often offered in the form of, "keep the change initiative on people's radar screens." But that way it sounds a little bit like nagging. When we instead think of measuring and tracking progress in terms of capacity for change, we see it achieving two productive goals. First, the quantifications and reminders help insulate the pocket of interactions dedicated to change from the onslaught of other day-to-day activities. Second, like any other control-and-measurement system, they enrich individual interactions by establishing a common ground, such as a set of agreed-upon numbers or process steps. When everyone knows that the red must reach the top of the fundraising thermometer placed in the public square, a glance quickly transmits information on progress toward that goal. In this case, we note with approval, the change initiative alone is enhancing the organization's capacity for change.

Choosing the Right Change Approach

In our study of popular approaches to change, we found a great deal of wisdom. When we reviewed them through the lens of capacity for change, however, we found a helpful way for companies to distinguish the best change approach for a specific situation. There are two main tactics: broad mobilization and focused intervention *(see figure 2)*. Broad mobilizations maximize the efficiency of interactions, but potentially lack depth. Conversely, focused interventions go deep, but potentially lack breadth. Let's take a closer look.

Broad mobilization. One type of change program is characterized by a companywide effort with a single overriding message. Obvious examples are lean manufacturing and Six Sigma programs. Values-based programs, such as General Electric's mantra, "Be number one or two in a market, or get out," also fit into this category.

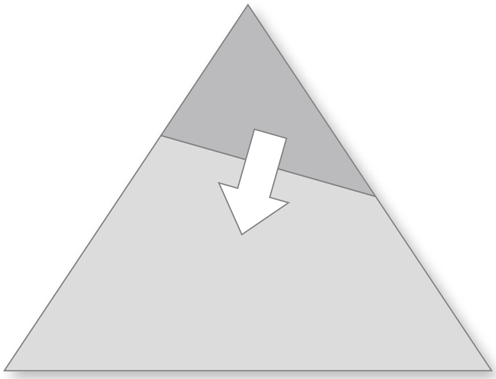
Their strength is in the simple and consistent change message linked to a matching methodology and measurement approach, which improves interactions. Employees firmwide start with the same methodology, assumptions and goals. When people from different departments and geographies meet in the company cafeteria, they have a common goal. They can discuss the challenges faced in ways others can understand, and they can exchange best practices.

Measurement provides a focus for the interactions, cutting short tangential discussions, triggering inescapable and unignorable conclusions, and keeping a set of facts and goals front-and-center to serve as the subjects of future interactions. Broad mobilization programs also emphasize leadership commitment,

FIGURE 2

Two approaches to transformation

Broad mobilization

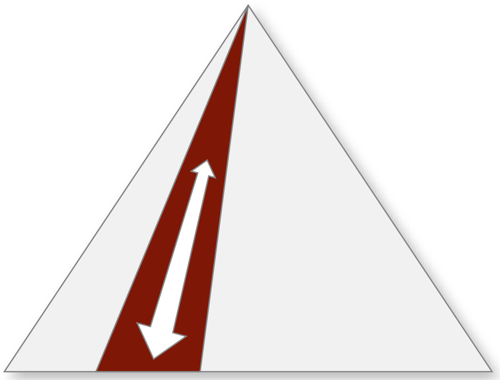


Characteristics
- Single, companywide, measured

Premise
- Entire organization is mobilized toward common goal
- Typical examples: lean manufacturing, Six Sigma

Drawbacks
- Insufficient depth to address major structural issues
- Risk of complacency
- Program objectives might not align with strategic objectives

Focused intervention



Characteristics
- In-depth, intensive, tailored

Premise
- Attention to specific part of business to address structural issues with steep change
- Typical example: business process reengineering

Drawbacks
- Limited capacity within organization
- Intervention requires clear strategic direction
- Risk of focusing on the wrong priorities

Source: A.T. Kearney

which because of sophisticated measurement systems, will almost invariably result in something good.

However, broad mobilizations have their drawbacks. To be successful, they must meet stringent requirements, and they must have a common change objective and mechanism that applies throughout the company. Do the strategic imperatives of the many different businesses sufficiently align with the overall change objective? A related difficulty is that programs that focus on process excellence can be less effective when the required change is more substantial. If a company requires extensive and major restructuring to reach new levels of competitive strength, tinkering with processes (as productive and beneficial as it may be) amounts to missing the forest for the trees.

When everyone KNOWS THAT THE RED MUST REACH THE TOP OF THE FUNDRAISING THERMOMETER placed in full view, a glance quickly transmits information ON PROGRESS TOWARD THAT GOAL.

Focused intervention. At the other end of the spectrum is a change approach that is deep, focused and tailored to the change requirements of a subsection of a business, department or process. This specificity achieves efficiency in interactions. While employees cannot share challenges or results with strangers, their internal conversations can quickly move to a deeper level of meaning. Furthermore, leadership's commitment frees up sufficient capacity within the department for employees to sink their teeth into the change effort.

Focused interventions can bring about structural change and true process reinvention. However, they too have some risks, depending on where management intervenes. Because a focused intervention requires so much capacity, it cannot be extended across the entire organization. (No organization has sufficient capacity for change to intervene everywhere simultaneously.) Management must choose wisely. If it tries to intervene in a department that doesn't genuinely need major structural change, the transformation initiative could be overkill and waste precious capacity.

A hybrid approach. Wouldn't it be great to combine broad mobilization and focused intervention to achieve a transformation that is both wide and deep? Some companies have bolted lean manufacturing initiatives onto their Six Sigma programs in an attempt to add structural change to process improvements. Such programs, however, have not always met with success—probably because these hybrid approaches bump into the organization's limits on capacity for change.

We don't want to sound unduly pessimistic, but business trends today tend to demand both types of transformation. Regulatory changes and increased consumer awareness of safety crises are forcing companies to take greater control over their value chains. This trend suggests the need for broad mobilizations, such as measurement programs and companywide process improvements. At the same time, consolidation, channel proliferation, increasing value-chain modularity, new-market entrants and increased competitiveness require companies to address their performance structurally, through deep interventions.

The situation calls for thoughtful, strategic and nimble leadership. A company may need to move back and forth between mobilizations and focused interventions, achieving steep changes in specific places followed by smaller-but-steadier improvements. Leadership must always keep an eye on internal capacity for change, however, always seeking opportunities to grow that capacity so that it can be applied to the next necessary transformation, whether broad or focused.

Against this background it is reassuring that new collaborative technologies increasingly allow us to take our ability to interact to the next level—creating more capacity for change. Ironically, they also require us to alter our ways of working, consuming capacity for change in the process.

Making Change Succeed

Thinking about capacity for change starts companies down the road toward explaining the great mystery of why some transformation efforts succeed while others fail. Its message is clear: Whichever methodology you choose, your transformation initiative will succeed only if your organization possesses sufficient capacity for change. In a global business environment where transformation takes on increasing urgency, the most important decision an executive makes is not *why* or *when* or even *how* to change, but how to build the internal capacity to make any change succeed.

Consulting Authors

GILLIS JONK is a partner based in the Amsterdam office. He can be reached at gillis.jonk@atkearney.com.

JEROEN SLAATS is a consultant in the Amsterdam office. He can be reached at jeroen.slaats@atkearney.com.

executive agenda

ideas and insights for business leaders

Executive Agenda® is published by A.T. Kearney to offer fresh perspectives and encourage discussion on subjects of interest to senior executives and opinion leaders worldwide.

A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world's leading corporations across all major industries. A.T. Kearney's offices are located in major business centers in 36 countries.

AMERICAS	Atlanta | Boston | Chicago | Dallas | Detroit | Mexico City New York | San Francisco | São Paulo | Toronto | Washington, D.C.
EUROPE	Amsterdam | Berlin | Brussels | Bucharest | Copenhagen Düsseldorf | Frankfurt | Helsinki | Kiev | Lisbon | Ljubljana London | Madrid | Milan | Moscow | Munich | Oslo | Paris Prague | Rome | Stockholm | Stuttgart | Vienna | Warsaw | Zurich
ASIA PACIFIC	Bangkok | Beijing | Hong Kong | Jakarta | Kuala Lumpur Melbourne | Mumbai | New Delhi | Seoul | Shanghai Singapore | Sydney | Tokyo
MIDDLE EAST	Abu Dhabi | Dubai | Manama | Riyadh

For information on obtaining additional copies, permission to reprint or translate articles, and all other correspondence, please contact:

A.T. Kearney, Inc.
222 West Adams Street
Chicago, Illinois 60606 U.S.A.
1 312 648 0111
email: insight@atkearney.com
www.atkearney.com

PUBLISHING ADVISER
Wayne Boley

EDITOR
Patricia Sibo

DESIGN
Kevin Peschke

ATKEARNEY®