A key role of the CEO is to integrate strategy, organization, and financial architectures in time-sensitive, complex environments.

Over the past twenty years, I have partnered with numerous leadership teams who have successfully guided their businesses through major change. Consider for example, the situation Richard North faced in late 2002. He was the newly appointed CEO of InterContinental Hotels Group (then called Six Continents and part of the Bass Group, PLC) who inherited a business with conflicting strategies, bloated overhead, deteriorating financial position in the post-9/11 recession, byzantine management processes, a public spin-off targeted within six months, and a looming takeover battle. How could he possibly address all these issues and establish a redesigned business that could quickly turnaround and be attractive for investors? By applying the methodology and principles described in this article and my forthcoming book, Richard achieved the seemingly impossible. He redefined strategy, realigned a new leadership team, cut nearly $200m in overhead, redesigned a corporate center and three global regions, defeated a takeover attempt, and successfully spun off from the Bass Group on target, as planned.

A key role of the CEO is to integrate strategy, organization, and financial architectures in time-sensitive, complex environments. He or she is the arbiter of the strong functional perspectives and biases across the senior leadership team and different departments. CEOs and senior executive teams will find these pillars helpful in establishing cross-functional strategy and design teams that can resolve organization dilemmas and further integrate overall strategy, design, and financial architectures. I have found that these teams may actually provide significant solutions to complex organizations and it is a powerful developmental experience to train the next generation of leaders.

The need

- Companies, irrespective of current performance quadrants, seek to improve.
- Every day, senior leaders, boards of directors and major investors are wrestling with the question of inadequate performance. How deep is the problem? Is there a big enough prize to warrant the required effort? What steps and actions should be taken?
- Ineffective leadership and organization conflicts plague many change efforts and impede fundamental change.
- The fifty percent of companies below the performance median need to realign or face continued decline.
- Top Tier companies also experience the pressures of the organizational lifecycle – growth, maturity, decline, and renewal. These companies don’t have a perpetual guarantee of high performance as industry and company dynamics change. Eventually, even they need to turnaround and transform. The list of top performing companies changes almost yearly!
- Consequently, there are always plenty of candidates who need assistance in their turnaround and transformation processes. This article is for you, whoever and
Core Concepts

The key principles and concepts are presented here as ten pillars of successful turnaround and transformation. Each pillar individually is insufficient to transform a company, but collectively, these principles and practices lead to powerful change. The Ten Pillars reveal that it’s not just strategy, not just organization, not just financial restructuring, and not just execution that make a sustainable difference over time: it’s the disciplined integration of all four. An effective application of these pillars is achieved through leveraging the power of “best and brightest internal teams” to completely transform a business by unifying the process of problem solving and redesign. These teams use their unique knowledge of the business to craft a distinctive new strategy, align costs and capital in an attractive financial model, and then rapidly and efficiently implement the new architecture. In my experience, a sustained integration of the following principles or pillars is vital to a successful transformation.

1. Size the Prize:

A fundamental tenet of change theory is “felt need” – the identification and motivation underlying needed change. Leaders must respond to this “felt need” but must also clearly communicate their specific goals and aspirered outcomes in order to marshal the efforts of everyone else in the organization who will make changes. An organizational vision or mission statement is a good start, but insufficient. The lofty high-level concept needs more definition. “Size of the prize” defines many important components of the future enterprise, including strategy and target customer/market position, cost model and financial realignments, new role expectations, and economic value in the markets. In addition, a defined timeframe and deadline for the broad changes needs to be stated. Can we clearly define the prize, and is it enough to compel change?

2. Appoint Bold Leadership:

Because the complexity of the issues and decisions can be paralyzing, the senior leadership team must be bold, decisive and aggressive in moving the organization forward in a compelling new direction. Leaders will make significant trade-offs in strategy direction, new organization process and structure, costs and resources and key talent. These decisions have a domino effect across the entire organization, starting with their own team. They then cascade selection from the top leaders to build the first and second line teams. Accordingly, it’s important to have the right talent in the right places to competently make difficult choices, beginning with the senior team. Key attributes of boldness needed in a turnaround leadership are: a) action orientation - drive for results; b) entrepreneurial - quick to see, innovate and change; c) objective, skeptical and decisive; d) passionate about winning – providing clear strategy direction; e) engaging and trusting in their teams - inspiring and motivating others; and f) preferably seek consensus, but willing to be autocratic as needed. Ultimately, they are all about quantum change. Are our leadership teams sufficiently capable, decisive, and driven for the same significant results?

3. Clarify the Organization “Crown Jewels” and Craft New Strategy:

It is vital to not dilute the company’s core source of competitive advantage by allowing competing views to encroach and confuse. When companies try to compete in too many areas, they lose their distinctiveness, which is often a contributing factor to the company decline. To refocus a business on its core, clarity about future advantages is required in two areas:

- Customer Distinctiveness – What is most valued by your target customer set? It may be low cost, innovation, speed, quality, etc. Development of your customer value proposition to deliver this value will help focus the organization on becoming distinctive to your most prized customers. This will also define why customers loyally choose your offering over those of competitors.

- Organization Distinctiveness - Where is your chosen advantage along the value chain? Is it raw materials, manufacturing or processing, distribution, product design, channel management, or customer needs? You can’t be excellent across all, so you need to choose where you can be distinctive and build comparative advantage.

The answers to these two questions set an important platform for further developing strategy and building an organization design uniquely tailored to your strategy. It is the step that most companies, in my experience, rush past in their efforts to fix financials or redo structure. Disciplined conclusions in these two areas set the conceptual platform for resolving many critical strategy and organization issues that are otherwise very difficult to resolve. Do we have clarity and agreement about the “crown jewels” of the business – its strategic assets, value chain processes and activities, and customer distinctiveness - that make the business unique and give it an advantage? How do we leverage strategy with these “crown jewels” to realize a competitive edge, sustainable over time?

4. Design More than Back of a Napkin:

There is an age-old temptation to create top line structure, which is typically based on function, on the back of a napkin. A better strategic approach defines structure based on the “crown jewels” analyses. Based on targeted distinctiveness, what are the required capabilities and processes to drive these advantages? Begin structure decisions by grouping advantage processes so that they perform effectively together with minimum structural impediments. Organize from advantage processes out, building structure around them to optimize these capabilities. The rest of the organization should be then aligned in support these capabilities. Organization structure should be more than a superficial design on the back of a napkin! Are work processes and capabilities strategically designed and tailored to strategy, and are they effectively integrated?
5. Leverage Your Best and Your Brightest:

Many companies view strategy as the sole domain of the CEO, who may rely significantly on external consultants for analysis and advice on key strategic decisions (some to the tune of $50m – $100m annually on one consulting firm alone!). This pillar suggests that your biggest transformation asset may not be your senior team or droves of external consultants, but rather a cross section of key internal leaders and professionals in partnership with the CEO and senior team. These leaders are uniquely knowledgeable about the business, front line difficulties and key customers issues; and they are keenly aware of the kind of changes needed. They not only are extremely valuable in assisting senior leadership strategize and re-design the organization, they become primary sponsors for implementation and emissaries for change. This experience is the best developmental opportunity they could have to broaden perspective and improve their own leadership capabilities. A CEO has many talented internal resources that can be powerful assets in transformation. Design processes need to be more than unilateral, isolated decisions by a few leaders at the top. Can we trust our best and brightest to do the work of strategy, design and turnaround?

6. Cut the Gordian Knot:

Most organizations have several strategic dilemmas that can create significant gridlock, for example – whether to sunset current products or technology and launch new ones, choose to own or franchise, enter new geographies, design regional versus central structures, invest in or divest a business, insufficient profitability or cash flow or debt/ equity conflicts, etc. These issues can create significant rifts and drain forward momentum. Decisions in these areas precipitate a chain of effects that ripple throughout the organization, causing many teams to pause and not move forward. To resolve these types of issues faster, I have found that a “best and brightest” team, working through a structured process in a neutral “safe harbor” setting, can objectively examine and solve very complex issues effectively. They can evaluate and recommend to the senior leadership team in the context of the new forward strategy, target prize and “crown jewel” decisions. The Gordian knot is slashed as the leadership team resolves these issues against the new requirements and priorities in establishing the agreed competitive advantages. Can our team simplify the complex and quickly resolve strategic, financial and agreed-upon organizational issues that are preventing us from moving forward?

7. Manage Process Tight, Product Strong:

A former client at Mobil, Steve Massey, required that our overall project and every phase of it be “process tight and product strong”. In other words, every day and at every step, we delivered great outcomes in the most efficient manner. Companies can accomplish this by managing change through three phases: a current state assessment, the desired ideal future, and transition and implementation. Each of these phases has time-proven activities, methods and tools so that the best and brightest teams can be effective and efficient. In addition, a tight team process means managing the project efficiently, usually by working with Marketing, Finance and HR and cooperating with sponsors on timing and deliverables. Are routes to change loosely defined, under-resourced, or unclear about outcomes and timetables? Are we following a plan that is disciplined and structured? Does it specify specific goals, processes, milestones, and accountabilities?

8. Determine Direction First, Then Speed:

Speed presents a dilemma – move too fast and you risk incomplete solutions, but move too slowly, and you won’t get sufficient traction, remaining mired in the design process year after year. In my experience with clients, the right speed for major transformations is three to five months in design, depending on company circumstances, with the expectation of beginning full-scale implementation by the end of that time period. This speed requires tight structured processes, dedicated teams – at least 50% of their time - and mid-stream end date report-outs. The deliverables include decisions on strategy, crown jewels, organization design, cost reduction recommendations and plans, change management and target implementation plans, with sequenced process and activities. With direction completed and an agreed-upon implementation plan, try and cut the targeted implementation time frame in half to gain greater speed. Expect to achieve significant early wins within the first six months, and significant visible benefits by year-end. If you don’t move significantly within a year, the variables will change and stalls current efforts for yet another restructuring. Can we finish strategy and design and start implementing plans within four months to realize compelling results within the first year?

9. Account Through Turnaround Measures That Matter:

It’s well known that what gets measured gets done. A common approach is to use a balanced scorecard type of system, measuring investor/financial, customer, organization, and employee results. This foundation can be useful if it provides tight integration of strategy, organization and financial metrics. This system should be able to show 1) lead metrics indicating strategic investments in specific organization capabilities and operating initiatives that 2) leverage your strategic position in products, markets and customers that then 3) drive the right financial metrics creating greater total shareholder returns. If this is not the case, then your company must further clarify the relationship between its strategic and economic models. In a turnaround, these type of measures need to be redefined with the new direction. In addition, this metric framework should also include short-term transition measures such as cost reduction, new designs, right staffing, new processes implemented, new products launched, new markets entered, etc. in order to ensure focus on the critical turnaround...
activities that will allow you to play longer term. Can we integrate measures that track capability investments and customer and product outcomes with financial performance? Do we clearly define measurable targets from the beginning in order to gauge success at specific milestones?

10. Commit the Eight, Convert the Eighty Through Explicit Change Management:

This pillar refers to an underlying change management philosophy and plan. This important element of success is often done poorly or becomes a mere postscript at the end of the process. From the very beginning of the project, it is important to define an overall change management and communication strategy. It starts with the senior team, which is the first to be committed to key strategy and design elements — hence, commit the eight. The eighty refers to the next level of line leadership and key professionals who will be active sponsors of change. These leaders need to be converted, through significant involvement in the process, to the overall business and the change management plans. Senior leaders need to cascade the process and communication across the top two levels of leadership in sync with the overall project rollout. Then expect the HR process leaders and middle managers to continue educating and managing the change plan during implementation to engage the broader employee base. Trying to communicate change, and involve the entire organization up front is like trying to boil the ocean and ultimately proves ineffective. Is the senior leadership team unified and committed? Are key second-level leaders and professionals involved and committed to adoption and implementation? Are leaders communicating about change in synchronization with the design process and implementation milestones?

Uniqueness of This Approach

There are many theoretical books on organizational change and leadership, many turnaround methodologies focused on balance sheets and Wall Street metrics, and many great external strategies derived from the latest external consultant model. My experience has taught me that the theory is interesting but generally lacks a practical road map, the finance approach usually becomes a budget exercise, and the external strategy studies sit on shelves in neat binders.

What many companies need is a broad but integrated approach combining 1) sound strategy, 2) practical organization design and methodology, 3) a safe process to assess and decide complex strategic dilemmas, 4) help with integrating essential financial measures and performance outcomes, and 5) a comprehensive implementation program that achieves targeted results quickly. A combination of senior leadership and strategy and organization redesign teams can collaborate to bring clarity and alignment on strategy, tailor an organization design custom fit for strategy, craft an attractive financial model, and take action and execute the plan. These practices aren’t based on any popular approach of the moment, but on time-proven principles and methodologies that are just as relevant today as they were the last decade.

Who Will Benefit From This Approach?

This approach, first and foremost, is for senior leadership teams who are undertaking significant transformation and need help with not only what to do, but an effective process for how to do it. Typical client has been companies or divisions in the $1 to $20 billion dollar range, that hit a wall with global and acquisition expansion, competing business and functional models, and declining financial results. All have been passionate about the desire to quickly address the issues, fix the problems, and turnaround and grow. These principles can provide insight, define a road map, and unify your team on a common approach, language and methodology in your quest for dramatic change. When a committed leadership team applies these principles, team members can create a successful strategic position and align and implement their plan to sustain and improve business performance over time.

In addition, functional leaders can benefit from these principles in developing a project approach and managing a significant restructuring of their own functional organizations as well. Internal and external consultants may find these principles complementary and useful additions helpful in integrating and enhancing the many tools and approaches that they already successfully apply. Turnaround experts, usually so proficient at financial and legal restructuring, will find useful applications here in developing the broader organization architecture needed to sustain new directions and performance over time.

Summary Results

Companies I have worked with who were successful at change share common elements of their comprehensive redesign and turnaround process:

- They each faced a downturn and a critical turning point
- They bet on internal leaders willing to tackle the turnaround challenges and redesign process.
- They followed a disciplined and structured process
- They were willing to take dramatic short-term actions to right the company – major cost reductions, significant changes in strategy and capital deployment, business realignments, new structures, and new senior and mid-level leadership assignments
- Speed was a major driver. They accomplished the design and proposal work within a few months
- In short, they adhered to and demonstrated the key pillars and principles of transformation

Likewise, they achieved similar kinds of results:

- They aligned on new growth strategies, critical processes and customer value propositions
- They implemented new structures and teams within first four to six months
- They reduced significant costs in the first year, with additional initiatives in succeeding years
- Revenue and profitability growth turned around within one – two years
- Their share price performance generally followed rapidly, as investors recognized that future prospects had changed
- Industry recognition followed as the companies demonstrated leading capabilities relative to their strategy

These Ten Pillars of a Successful Business Transformation are a unique and complementary addition to the body of knowledge regarding business
transformations. They demonstrate the need for and benefit of a powerful change framework that comprehensively integrates strategy, design, finance and execution. They further uniquely advocate the benefit of leveraging internal teams, in a very defined, structured process, for developing strategy and creating design as a basis for more effective and faster adoption and implementation.

About the Author
Joe Hanson is an experienced consultant recognized for leading businesses through complex turnarounds and successful organization transformations and redesigns. He has held board, executive and financial management positions and has taught in graduate school programs at University of Utah and BYU MBA programs. He is the author of several articles and an upcoming book Turnaround and Grow: Pillars and Principles of a Successful Business Transformation.

Footnote:
1The Gordian Knot is a legend of Phrygian Gordium associated with Alexander the Great. It is often used as a metaphor for an intractable problem solved by a bold stroke (“cutting the Gordian knot”) (Wikipedia, part 1)

Works Cited:


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