strategy+business

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by Vinay Couto, Frank Ribeiro, and Andrew Tipping

from **strategy+business** issue 59, Summer 2010

booz&co.

Reprint

It Makes Sense to Adjust

Business transformation is now a continuous process that most companies haven't mastered. Here's a formula for managing ongoing change.

by Vinay Couto, Frank Ribeiro, and Andrew Tipping

It used to be that a business transformation was a once-in-a-lifetime event, the sort of fundamental reset prompted by a rare, short-lived disruption such as a new technology, a devastating scandal, or a dramatic shift in costs. But if the recent economic upheaval reveals anything, it is that companies of all sizes, in all industries, are operating in a more volatile, less predictable environment, and that change has become a way of life. To navigate such a rocky landscape, companies must be ready to repeatedly transform themselves — indeed, to institutionalize the capacity to alter strategies again and again — as business conditions require.

But few companies are competent at doing this, although not for lack of trying. A review of businesses faced with "burning platforms" (which are enterprise-threatening events) would reveal that most have failed to make the transformation the situations demanded. For example, Circuit City, once a hugely successful electronics big-box store, attempted to remake itself numerous times as it faced competition from newcomers like Best Buy in physical stores and Amazon and others on the Internet. But there was a limit to the company's capacity to respond to new challenges with a broad-based, enduring plan that could involve, for example, simultaneously targeting gamers aggressively, carrying a deeper inventory of product lines, renegotiating leases in out-of-the-way locations, improving customer service, and promoting a robust and attractive website.

The problem is that most companies don't have an adequately proactive road map for transformation. Instead, they attempt change on the fly, reacting to business disruption with equally explosive responses that may not be useful six months down the road or even sooner. A more carefully crafted strategy to manage internal or external change may seem beyond a company when it is actually facing a new obstacle or crisis, but if an organization prepares for transformation (perhaps when it is not occurring), steering through it is far less difficult.

Each company's strategy for approaching transformation falls into one of three categories. These categories in turn determine the level of transformation — the timing and the magnitude — that the company can support.

1. Reactive. This is the default transformation strategy; it is minimal, and has become second nature to most seasoned executives. A change in circumstances provokes a short-term response, generally an abrupt shift that requires little cross-company coordination or follow-up. In fact, this strategy is an essential management tool when only incremental change from the status quo is required. However, it is also the most limited and unsustainable. Problems arise when executives try to apply this approach to situations that call for more sweeping and highly detailed transformation. Too often, executives rely on the reactive techniques they know well, even when the situation begs for a more structured, thoughtful plan that will yield more lasting change.

2. Programmatic. This strategy is more comprehensive and is appropriate when major change is required and a company has sufficient lead time. In such circumstances, the company launches a widespread change initiative across the lines of business that are most affected. A cross-functional program office is set up, tactics are identified, milestones are established, executives are assigned to oversight, a communications program is launched, and progress is tracked.

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These programs can be effective in dealing with a contained event or threat, such as a new competitor or a new product from a rival, and their potential reward is greater than that of the reactive approach because they are more forward-looking. But as the name of this category implies, the transformation is a program — a systematic, planned sequence of activities designed to achieve specific goals within a specific period of time — and, thus, the outcome takes longer than a reactive transformation.

3. Sense-and-adjust. This is the most long-term and sustainable strategy, but only a few companies have successfully implemented it. Unlike the first two approaches, sense-and-adjust is dynamic, constantly and consistently smoothing out volatility in areas of business subject to swift and dramatic change, such as research and development or frontline operations like manufacturing and logistics.

Sensing is an ongoing effort to gather and analyze data on current and future business conditions and, more important, translate it into likely outcomes. The sensing process should leverage baseline planning information — what's captured in strategic and operating plans — and synthesize it with key performance data to form a single "dashboard" of actionable information that can be used by business unit heads or corporate leaders in functions like IT, HR, or marketing.

A high-quality sensing dashboard offers an early organizational indicator of future business conditions. The dashboard flags data that signals an operational adjustment is needed. For example, a business unit head may use a dashboard to reveal unanticipated decreases in either product unit price or volume that could translate to an overall decline in revenue. Or a logistics firm may place its sensing system on alert for changes in pricing and functionality of handheld computers, wireless communications, mapping software, and the like; the goal would be to determine how and when to start applying these technologies to its own business (and to avoid being blindsided by a competitor).

Adjusting is the process of altering business strategies on the basis of sensed outcomes. In this phase, which is done in tandem with sensing, business unit or department heads assess the data to determine possible resource and capability trade-offs. They explore the impact on people, processes, and technology, and then develop a consensus on the plan that is most appropriate for building or maintaining competitive position. In the case of an unexplained drop in unit prices, the adjustment may be an emphasis on marketing, innovation, or layoffs. And if a company has learned that it could outpace its rivals by implementing a GPS system, a slate of new training programs that teach employees how to use the technology may be just as important as purchasing the equipment itself.

As adjustments are made, the sensing capability picks up and continues the cycle, both scanning the horizon for market shifts and monitoring the execution of these strategic responses. Sensing does little good in the absence of adjusting, and vice versa.

The sense-and-adjust approach to change is not the traditional stutter-step strategic planning process in which business units are summoned every six or 12 months to present their take on the market and their performance expectations. The sense-and-adjust process is continuous, incorporating new information and forecasting outcomes and expectations constantly. Companies that have mastered the skills to handle the programmatic approach and have an organization that is reasonably resilient — flexible and anticipatory — are the best candidates for this sustainable strategy.

Dow Chemical is one of the few companies that have adopted the sense-and-adjust methodology. Dow uses it primarily to plan workforce needs throughout the seven-year boom-and-bust cycles commonplace in the chemical industry. In establishing this process, the company mined three years of historical data pertaining to its base of 40,000 employees to forecast promotion rates, internal transfers, and overall labor availability. Then a custom modeling tool produced a snapshot of the current workforce segmented by five age groups and 10 job levels, and followed that with projections of head count for each business unit well into the future. These outcomes can be adjusted for qualitative variables, such as industry trends, political developments, changes in laws, or various "what if" scenarios (e.g., what if the company instituted a hiring freeze?), which are continuously sensed by Dow's system.

General Electric (GE) has implemented an even more global use of the sense-and-adjust approach. In 2001, soon after Jeffrey Immelt was named CEO to replace Jack Welch, the company transformed its organization from one prioritized around productivity to one focused on organic growth. GE set the ambitious goal of increasing revenue at a pace two to three times faster than world GDP growth and developed a new set of management methods to accomplish that objective. This marked shift was precipitated by a warning from the company's sense-and-adjust system that the onslaught of globalization and increasing energy costs would favor companies that could innovate and generate their own growth.

As Immelt said in a 2006 *Harvard Business Review* article: "If you run a big multi-business company like GE and you're trying to lead transformative change…you've got to have a process.… Investors have to see that it's repeatable."

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For some companies, particularly those without the mature planning processes and deep leadership bench necessary to implement a full-fledged sense-and-adjust strategy, a programmatic transformation can offer a clear path toward that goal. For example, a major financial-services firm recently began a programmatic effort primarily to slash costs, in which new planning guidelines were created that cut across functions to develop strategic, annual, and financial goals. But to make sure that this long-term, ongoing campaign produced continuous results over time, the company eventually morphed this effort into a sense-and-adjust approach by designing performance metrics that monitored the goals emerging from the planning process. Key indicators are tracked to identify root causes of performance issues or point to emerging opportunities.

If nothing else, all companies must recognize that the pace and magnitude of change is far faster and greater now than ever before and that transforming their business is no longer something they can avoid, defer, or out-manage. Even small moves to increase an organization's sense-and-adjust skills will reap significant and sustainable rewards. +

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is published by Booz & Company Inc.
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