

# Perspectives for Managers

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**Paul Strebel,**  
Sandoz Family Foundation  
Professor of Strategic  
Change Management

## Sequencing Change In the pursuit of better performance

Most successful change paths, especially those involving deep transformation, are made up of a sequence of different change processes.<sup>1</sup> As new conditions emerge in the pursuit of better performance, successful leaders move from one stage on the change path to another by shifting to a new change process. We will see how different change processes can be sequenced into a successful path, using examples presented during the 2006 IMD Orchestrating Winning Performance Program.

The key attributes that distinguish different change processes are:

- Speed (faster or slower) and
- Source of energy for the change (more from the top, or more from the whole organization)

The appropriate speed depends on the time available to respond to or shape the forces of change. There are a number of situations in which speed is critical. In rapidly deteriorating or crisis situations a fast response is essential to save the business. Rapidly closing windows of opportunity, like first mover advantages in new markets, also require a fast reaction if the opportunity is not to be lost. Similarly, fast change may be needed to save market share and deal with moves by competitors. And regardless of the external forces of change, the leader may want to speed up the change process to avoid complacency, or to outpace competition.

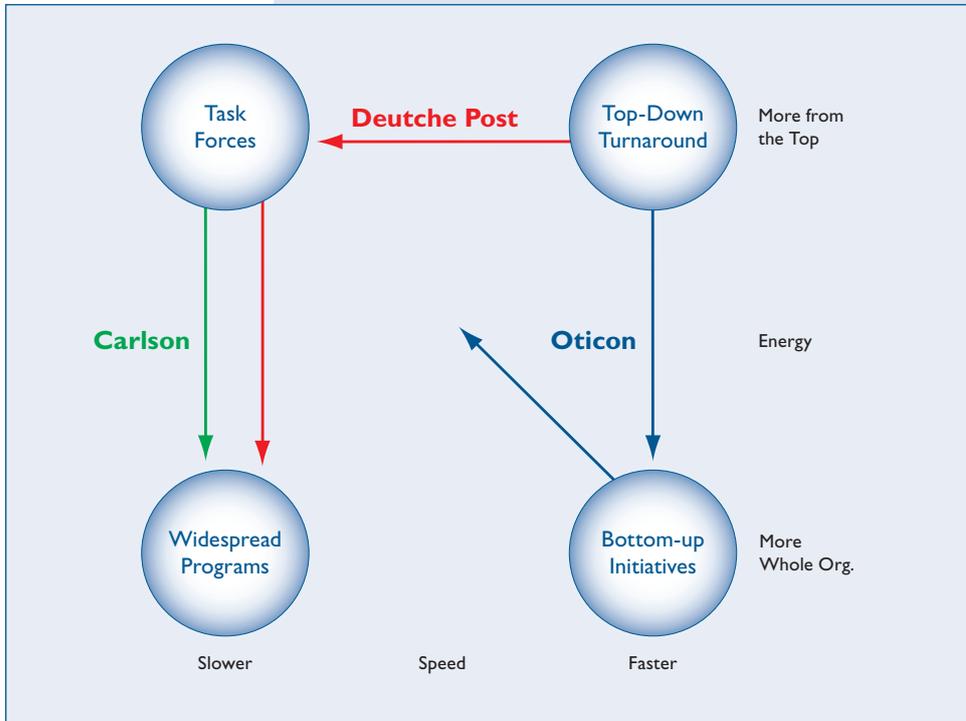
At the other end of the spectrum, slower change may be called for to allow the time needed to build new capabilities or change the organization's culture. Time is also needed to gauge the success

of experimentation and pilot projects. Speeding up the process could jeopardize the whole initiative. However, in an earlier step of the change sequence, you may have to reduce the pressure for fast change, to make the necessary time available for deeper, slower change.

The appropriate source of organizational energy for driving the change depends on whether change needs to be driven from the top down to overcome resistance, or whether the entire organization has to be energized and brought into the change process. If people are not willing/ready, or are going in the wrong direction, more energy is needed from the top to put the change on the right path. Energy mainly at the top is also needed when only a small group is involved in the change, for example, when adding new product lines, or making portfolio acquisitions for growth.

On the other hand, when people are ready, the whole organization can be mobilized. This is critical for changes in culture and behavior, the development of new capabilities (for example, to implement a new strategy) or for large scale programmatic changes (for example, process excellence with Six Sigma). More energy from the whole organization is especially important for fast moving bottom-up initiatives to respond rapidly to customer needs, or to bring innovative products to market and grow the top line. But, earlier in the change sequence, you first may have to work on reducing the resistance, before the whole organization is ready to be mobilized.

Figure 1 depicts four classic change processes in terms of their relative speed and source of energy, as well as the change



Change processes and paths of three companies

paths (sequence of processes) followed by Deutsche Post, Carlson Company, and Oticon. Whereas all four processes are usually initiated at the top, they can differ significantly in terms of speed and source of change energy.

### **Top-Down Turnaround (Faster, Energy from the Top).**

Precise objective, detailed plan, early action against resistors, fast execution with frequent follow-up, transparent, walk-the-talk, long-term vision to prevent poor morale. Typical leadership: commander with directive style, often uses shock treatment to create a sense of urgency. Danger: if direction wrong, possible catastrophe. If buy-in weak, slow change on the frontline.

### **Task Forces (Slower, Energy from the Top)**

Steering committee, sell need for change to rest of organization, clear mandates for task forces, resource with good people and real time, manage the portfolio of task forces. Typical leadership: chairman with orchestrating style, often uses quick task force wins to build support. Danger: task force pollution, no closure, no roll-out.

### **Widespread Programs (Slower, Energy from Whole Organization)**

Top management workshop to set clear targets, cascade down organization with disciplined process, widespread involvement in program processes, seminars, conferences, events. Typical leadership: coach with facilitating style, often uses brutal facts and scenario building to get urgency. Danger: slow, warm feelings, no results.

### **Bottom-Up Initiatives (Faster, Energy from Whole Organization)**

Aspirational goal, multiple accesses to ideas, talent and resources, incentives and protection from failure, working framework and guidelines, concrete milestones, manage the portfolio. Typical leadership: catalyst with inspirational style, often uses exposure to customers, competitors, analysts, other outsiders to create urgency. Danger: confusion, chaos.

### **Deutsche Post Transformation<sup>2</sup>**

When Klaus Zumwinkel took over as CEO of the Deutsche Post in 1990, he inherited a government agency with € 9.5 billion in revenues, controlled by

the Postal Ministry. The group was making huge losses. Timeliness and service quality were quasi non-existent, as were market and customer focus. And to make matters worse, the Post faced the daunting challenge of integrating the East German Post that had few financial controls. Zumwinkel's priorities were to improve the service quality of the integrated company through increased customer focus and become profitable within five years.

The first stage, which took six years from 1990 to 1996, was a **top down restructuring** into divisions focused on mail, parcel express, logistics and finance (retail customers' transactions). Expensive properties in the cities were sold to provide the financing for new sorting centers on cheaper property outside the cities: on the mail side, 328 sorting centers were reduced to 83 modern automated facilities and on the parcel side, 140 centers were reduced to 33 new ones. The number of employees declined from 380,000 to below 300,000. For Zumwinkel, the key managerial success factors were a clear strategic focus on top quality, customers and "costs, costs, costs". This was supported by a simple divisional structure, centralized service functions, and led by a new management team that had the "will to change" and ability to attract top flight new talent.

Once costs were lower and cash flow freed up, Zumwinkel had the time and resources to reposition the company for the future. Zumwinkel wanted a global postal network that could provide high quality, one-stop shopping for customers. During the second stage of the change path, from 1997 to 2000, **task forces** drove more than 100 acquisitions, to provide a comprehensive product range and value added services for the new strategic focus on globalization. The operational goal was the fastest possible integration of the acquired companies. A highly disciplined pre-acquisition process was installed for structured acquisition screening and due diligence. Special integration teams used transparent structures and the "Integration Handbook" to ensure harmonization of products and

the the fastest possible absorption of the acquired transportation networks, while the attrition of customers was kept to a minimum with careful customer relationship management. Even with the acquisitions, cost reductions continued and the total number of employees declined to 238,000 in 2000.

With a broad product range, a global presence, and reasonably well integrated employees, the organization was ready for the next stage on the change path. The third stage, from 2001 to 2006 and ongoing, involved the drive to become the No. 1 logistics provider worldwide. This meant moving from transportation to the management of complex supply chains and the in-sourcing of customers' logistics operations. A shift from task forces to **widespread programs** would be needed to develop the capabilities for consulting on logistics to clients, an ability to diagnose and solve a client's problems, and then integrate the Deutsche Post products into a customized logistics solution. Zumwinkel made a number of large acquisitions designed to obtain, strengthen, and then share the new capabilities. By 2006, after the acquisition of Danzas, DHL and Exel, Deutsche Post had 500,000 employees in 220 countries and territories with revenues of € 60 billion and profits of € 3.75 billion. It was No. 1 in contract logistics worldwide, No. 1 in air freight, and No. 1 in sea freight, with a global customer base comprising 50% of the Fortune's 500 companies.

### Carlson Company Transformation<sup>3</sup>

When September 11, 2001 hit, the Carlson Group was a large, family-controlled, holding company active in the hospitality, travel, and marketing services industries. Although successful and profitable, internally it was a fragmented "racehorse environment with business units pitted against one another." After September 11, the larger-scale competitors reacted to the sudden sharp drop in leisure and business travel by cutting prices. The smaller ones were forced into consolidation. Carlson had virtual scale across its portfolio,

but was so fragmented in systems and processes that it couldn't take advantage of its size. Two key decisions were taken: to create real scale by moving from a holding to an integrated operating company, and to compete on customer relationships rather than price.

The first stage of the change path started with an executive task force, called the OLT (Operating Leadership Team) involving the business unit leaders, to create a process roadmap. At the time there were over 170 major corporate initiatives. The OLT replaced these by six **task force**, or "transformation initiatives": centralizing HR, Finance, IT, Procurement and creating a data bank and Customer Relationship Management (CRM) system. Transactional processes, common across the business units, were centralized and either improved with a Six Sigma process, or outsourced. A steering group called the "Results Team" was formed to track and communicate progress and "make the execution very real, every day". They developed the Carlson Balanced Scorecard to get internal alignment and measure progress.

Once the initiatives picked up momentum, the resistance weakened and the change process moved into the second stage of nurturing a new culture around customer loyalty. "It's important for us to get employees at all levels to understand loyalty, relationships, and customer focus. It's on the front lines here that our mission and vision – building relationships and earning respect – are so powerful." **Widespread programmatic** change, which started with Six Sigma and CRM, supported the development of the new culture: "Obviously, it all begins with the relational data bases (the Data Bank) and CRM tools."

### Oticon Organization for Innovation<sup>4</sup>

In the decades after World War II, Oticon became the world's largest hearing aid company. But competition increased in the 1980s, margins fell and new technology shifted hearing aids from behind-the-ear to in-the-ear. Oticon's engineers didn't

believe in the new technology. Oticon's market share and earnings dropped; in eighteen months, it lost 50% of its book equity. A new CEO, Lars Kolind, took over. The first stage of the change path between his arrival in 1988 and 1991 was a **top-down turnaround** process. He cut costs, which stopped the losses but didn't improve the top line. Oticon desperately needed new products. Unfortunately, the product development people were not up to the challenge.

Kolind decided that a radical shake-up was needed. On August 8, 1991, he moved all the product development, marketing and administrative people into a new building, took their titles and positions away and told them to re-invent Oticon's innovation organization, while he went on a long trip to visit the subsidiaries. Thus was born Oticon's famous "spaghetti organization", based on **bottom-up initiatives**. Anyone was free to lead a new product or business development project, subject to approval from a project committee and, more importantly, the ability to convince others in the organization to join the project team. Innovation went up, but so did costs and Oticon slipped back into the red. The board immediately brought in Niels Jacobsen as CFO in 1992, reporting directly to them. He tightened up the project screening process and imposed greater cost control. The dual headed organization worked well: during the second stage of the change path, between 1992 and 1996, the rate of innovation and revenues doubled, and margins went from 2% to 13%.

In the mid-nineties, digital software-based technology started to penetrate the hearing aid industry. Kolind and Jacobsen disagreed on how it should be applied. Kolind wanted to stick to Oticon's successful up-market strategy, while Jacobsen wanted to exploit the software platform by adding down-market high volume business. The board supported Jacobsen. Kolind left in 1997. To provide the required focus, Jacobsen grouped the spaghetti organization into three task force teams: a "high volume team" to develop low-cost products, an "advanced team" to develop



premium products, and a “technology team” to pursue basic technological innovation. The more focused approach, a **hybrid between classic task forces and bottom-up initiatives**, was very successful. During this third stage of the change path between 1997 and 2002, Oticon’s revenues quadrupled and profit margins went from 13% to 20%.

## Managing the Transitions

The first key to a successful change path is to start with an appropriate change process for the situation at hand. This requires sensitivity to changes in both the internal level of energy and corporate performance, as well as external market pressures and opportunities. In the three examples discussed here, poor performance triggered the first stage of the change path. In the cases of Deutsche Post and Oticon, losses made top-down turnaround based on cost cutting the obvious first stage. In the case of Carlson, the inability to compete with price cutting by competitors made operating efficiency imperative, but since there was no performance crisis, there was time to take the incremental route of task force initiatives.

In the pursuit of better performance, the second key to a successful change path is to adapt the change process to shifts in the forces of change and resistance. In all three cases discussed above, once the benefits of cost reduction started coming through, there were resources and time available for letting ambition and market opportunities determine the second stage on the change path. At Deutsche Post, Zumwinkel’s ambition was to become a major global player, which he executed with acquisition task forces. At Carlson, it was the ambition to be world leader in “relational loyalty”, which led to the widespread programmatic change aimed at creating customer and employee loyalty

and respect. At Oticon, the improvement in financial position, but failure to generate the top line growth during first stage, encouraged a radical shift to bottom-up initiatives to boost innovation in the second stage.

In the third stage, Deutsche Post could take advantage of an organization that had become used to acquisitions and aim to become the world No. 1. The experience with small acquisitions paved the way for the integration of the large acquisitions needed to get there. However, it’s not clear whether there is a full appreciation of the capability challenge associated with logistics solutions. Making large acquisitions is one thing; using these as a source of new capabilities for the existing organization is another. At a minimum, this requires widespread programs to change the culture, which goes well beyond rolling out the recommendations of task forces.

At Carlson, it is not clear whether there’s a full appreciation of the differences between task force and widespread programmatic change. The task force initiatives to integrate functional services were soon followed by a Six Sigma program, a Balanced Scorecard, and Enterprise Resource Planning, on top of the Customer Relationship Management system. It is one thing to run a portfolio of task force initiatives, but not advisable to run overlapping widespread programs.

Oticon, on the other hand, has benefited from the changes in leadership, which have demarcated the different stages on the change path, giving each of them not only a different strategic objective, but also a different leadership style and change process. During the first turnaround stage, Lars Kolind was alone at the top. Very soon after initiating the second stage of bottom-up initiatives for innovation, he was joined at the top by Niels Jacobsen

to balance the initiatives with some controls. In the third stage, Jacobsen was alone at the top and free to put a task force framework around the spaghetti organization for the move into high volume business. In cases when there is no change in management, the leaders have to be aware of the new change processes that might be needed to deal with shifts in the forces of change and resistance, and disciplined enough to adapt their style accordingly, or bring new people on to the leadership team.

- 1 The framework used in this Perspective builds on work first published by the author in *Breakpoints*, HBS Press, 1992; “Choosing the Right Change Path”, *California Management Review*, 1994; *The Change Pact*, FT Prentice Hall, 1998.
- 2 Based on presentation by Klaus Zumwinkel, CEO Deutsche Post, IMD OWP Program, June 2006.
- 3 Based on presentation by Carson Nelson, COO Carlson Company, IMD OWP Program, June 2006.
- 4 Based on presentation by Niels Jacobsen, CEO Oticon, IMD OWP Program, June 2006, and Oticon Case Series, IMD-3-1500,1501,1502,1503, 13.09.2005, by Brian Rogers and Paul Strebel.

IMD  
P. O. Box 915, CH-1001 Lausanne,  
Switzerland  
Tel.: +41 21 618 0111  
Fax: +41 21 618 0707  
info@imd.ch  
<http://www.imd.ch>

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