WHITE PAPER

Solving the 3 core problems of strategic change in 4 steps and securing your license to operate in the process

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When Philips, a global manufacturer well known for its lighting products and consumer electronics, decided in 2011 that it needed to change course dramatically, its executive board knew that the biggest challenge would be to rally everyone behind their new vision. Philips' new focus on products and markets was bound to lead to massive changes for everyone in the company. Many other companies had failed to push through strategic change because they ignored the 'people factor'. Getting people to embrace a new, winning mindset was going to be key.

But Philips' leadership team also understood something else. Changing the company's focus would mean rethinking most of their end-to-end processes and optimizing many others to free up resources. Philips needed a new, simplified and innovative way of working to help focus on the success of new business models. The board understood that they needed to define the operating vision in sufficient detail to ensure that managers would be empowered to drive the changes successfully in the years to come.

The lesson that Philips' leadership had taken to heart and applied in their transformation program is that change is not just about people. It is also about how people, teams, functions, business units and business partners collaborate to make great things happen. A way of working optimized for, say, speed to market does not magically emerge by having the best people on board. Their actions have to be coordinated and their targets aligned.

Today, few organizations would make the mistake of ignoring the people factor. Too many leadership teams, however, still fail to put as much effort into rethinking the way of working, believing that alignment and collaboration will emerge naturally if left to the management hierarchy. As a result, their vision is not successfully translated into a workable strategy, and results fall short of the board's ambitions.

Rethinking how to run your business

To be successful, a business vision must always be augmented by an operating vision. The business vision articulates how you want to win in the market, while the operating vision expresses how you want to run your business. The operating vision must be translated into an operating model and a way of working. The operating model expresses roles and responsibilities, and the way of working describes how different parts of the organization collaborate to produce the required outcomes. It consists of policies, processes and procedures.

Rethinking the organization's way of working is far from trivial. To successfully do so, there are three core problems that must be addressed:

1. Alignment between executive and management level
2. Alignment across functions and stakeholders
3. Adoption

Problem 1: Alignment between executive and management level

A European IT systems provider decided that it wanted to grow business by responding faster to increasingly complex customer needs and to reduce time to delivery. The board concluded that internal collaboration had to be improved to make this happen. They initiated an extensive campaign to change the mindset of the workforce towards a more collaborative "One Team" mindset. This mindset was quickly adopted, since the company was already a very flat organization with an informal culture and a strong sense of camaraderie. People were used to working across functions and cross-country borders to "get the job done". Still, the vision of improving customer satisfaction and thereby business did not pan out.

The reason was that the board did not address a major obstacle to improved customer responsiveness. The company was very much organized in silos. Cross-functional or crossborder collaboration almost always required lengthy internal escalations to find resources, agree on responsibilities and secure budget. No processes were in place to streamline collaboration and Key Performance Indicators (KPIs) in the different functions were, more often than not, conflicting and not aligned to the strategic "One Team" vision. The mindset was never the problem. Rather, it was the lack of a corresponding operating model and way of working that was the biggest obstacle.

Problem 2: Alignment across functions and stakeholders

It might not be immediately obvious that cross-functional alignment is needed at all. Indeed, many optimizations can be achieved by looking at individual processes within the control of a single function. Even standardization of processes across business units or geographies can yield substantial benefits without taking the interaction across processes into consideration. Many optimization initiatives start with addressing this 'low-hanging fruit' first.

Many problems, however, span multiple processes. As ownership is more diffuse, these problems are a lot harder to solve.

A Dutch manufacturer experienced low customer satisfaction in one of its product lines. Customers reported unreliable delivery and longer-than-expected delivery times of goods ordered online. Strangely, reports showed that the number of orders delivered as planned and in full were acceptable. The root cause of the problem was the fact that the webshop allowed customers to request a preferred delivery date. Many factors can influence the actual time to delivery, so a freely chosen preferred delivery date could be very unrealistic. The company created false expectations of delivery times, leading to disappointment. The webshop and the delivery process were under the responsibility of separate units, with separate performance metrics which were all in the green. Both units not only had to work together to solve the problem (which meant changes to the webshop and using planning data to guide customers to a realistic range of delivery options), but also needed to permanently align their performance metrics to measure performance based on the requested date, rather than the planned date.

Problem 3: Adoption

A government entity in the Middle East is responsible for a public service allowing businesses to obtain a license to sell particular products. The government levies very little tax, so services must be funded predominantly through service fees. The entity's policy, therefore, is that the service is provided only after payment is received. However, because of the complexity of some products, communication between the customer and the entity sometimes necessarily precedes the actual license process. Also, the government has a customer happiness policy, so service employees have a tendency to put the customer interest first. An analysis of the license process showed that, despite ample communication around it, the payment policy was ignored in a significant number of cases. This led to missed revenue and consequently higher-than-needed services fees.

In some industries, sub-standard adoption of a way of working can mean non-compliance and can have serious consequences. In recent years, several banks have been found to have failed to identify and prevent customers involved in money laundering schemes. These banks all had oversight processes but were demonstrably not in control over the way of working: oversight had failed, leading to expensive court proceedings and settlements. An American manufacturer was fined 250 million dollars not only because of irregularities in its products but mainly because its quality management system had failed: processes were not being followed.

Fixing the strategy execution

What we have shown above is that successful strategy execution requires alignment across three dimensions:

1. Vertical alignment: alignment through the management hierarchy.
2. Horizontal alignment: alignment across functions and stakeholders.
3. Adoption: ensuring the way of working is followed.

What approach can organisations take to ensure strategy execution is effective?

Another insight that Philips had, when they started their transformation in 2011, is that every change, strategic or otherwise, may have an impact on the way of working. The mechanisms Philips put in place to rethink and optimize the way of working, throughout the numerous programs they initiated, extends to any other change effectuated in the company, then and in the future. In addition, they provide a solid foundation for the company to be demonstrably in control over the way of working.

To ensure successful strategy execution, organizations like the ones in this article have adopted a four-step approach:

From operating vision to a new way of working.

From strategy to implementation.

From implementation to adoption.

From adoption to execution.

Step 1: From operating vision to a new way of working

An operating vision is unlikely to become a reality unless it is accompanied by a plan describing who needs to do what and when to bring about a new way of working. To create this plan, the board's operating vision has to be translated into an operating model and a way of working. This must be done with sufficient detail to define and align targets and KPIs for all managers involved in the relevant end-to-end processes.

Translating the operating vision into an operating model and a way of working requires analysis and rethinking of the interplay of processes, roles and responsibilities, factoring in requirements derived from the business strategy. This starts with the end-to-end processes and is typically done in a series of workshops, with the active participation of the executive managers responsible for the end-to-end processes.

The role that executive managers play at the level of end-to-end processes is usually played by process owners at more granular levels of the way of working. Process owners are seasoned leaders in their respective fields that are tasked to align processes across functions, geographies and business units. They also ensure that processes are optimized from all relevant perspectives, balancing business requirements, customer experience requirements, compliance requirements, etc. To this end, they assemble teams of subject matter experts to help analyze and rethink the way of working to meet strategic objectives.

Step 2: From strategy to implementation

Armed with an understanding of the changes that need to be implemented, targets and KPIs can now be defined for managers responsible for part or all of the processes affected. Under the leadership of process owners, a new way of working is designed in more detail, appropriate adjustments to information systems or operational systems are defined, planned and realized, and change management activities are planned. Changes usually go through a formalized process of review and approval, especially if they affect processes, policies or procedures subject to regulatory requirements such as safety and health provisions, quality standards or data protection standards.

Step 3: From implementation to adoption

New or improved processes, procedures or policies will often require some form of communication or training to drive adoption in the workforce. Some policies and procedures may require formal attestation from the people affected. During the time when the changes are rolled out, it is important to understand if the new way of working is truly adopted. By tracking the data trail from the execution of processes in information systems, it is possible to assess if all activities are duly executed, if they are executed in the right order, by the right people and within the expected timeframes, to name a few dimensions. Especially more complicated processes that span multiple functions and/or systems can fall short of their performance targets in the absence of early indicators of deviation from the set standards.

The same mechanisms also allow process owners and managers across the affected area to assess if the changes are working—i.e., if the new way of working is followed, is it also effective? Are the strategic objectives being met? If not, what part of the new way of working is not functioning as expected, and what could be the root cause of this?

An important aspect of change management that is often overlooked, is the fragmented way in which employees are offered information about the way of working. Some functions share policies and procedures via intranet pages, others use document management systems or shared file servers. More often than not, procedures and policies are described in hefty documents. Such documents are not always read, rarely read in full and almost never read again.

More helpful is it to break down those documents into small, role-based work instructions, digitalize them and share all work instructions from a single system. That way, every employee can easily find any policies, procedures, work instructions and associated information relevant to the roles he or she fulfills.

For example, a travel approval process may include steps for the traveler, her or his manager and perhaps yet another level of management for non-standard trips. Each will have to follow some specific rules to complete their part of the process. If everyone understands their part, the process will run smoothly, and no one needs to know exactly how the others execute their part. In far too many organizations, however, travel approval processes are described end-to-end in one single document. This is rather handy for the person responsible for the travel approval process, but it is inconvenient for the people that need to work through an entire document to find the bits that are relevant for them.

A second drawback of the use of documents is that it is time-consuming to analyze the impact of change, because it requires scanning, changing and reviewing the full document, even if the change affects only one role.

Step 4: From adoption to execution

Tracking mechanisms are also very helpful after the roll-out of changes is complete. Monitoring the way of working in different business units or geographies helps to identify emerging best practices. Continuously tracking the way processes are executed, with respect to the standards set, also helps to catch non-compliance before it causes damage. Tracking execution helps to detect drift away from the standard, allowing management to act early.

In the webshop customer-satisfaction example, the manufacturer continues to monitor the order-to-cash process it had originally analyzed and improved. It has two reasons to do this:

1. Because of the complexity of this differentiating process and the high rate of change (new channels, new products and increasing customer-experience requirements), the process is essentially always under change management.
2. To save information technology costs, it is important that all geographies use the information systems in the same way. That, in turn, requires that the core of the process is executed in the same way in all geographies (except for some clearly defined, justifiable local deviations—e.g., for regulatory reasons).

Managing the cycle

Newly identified improvement potential, execution issues or new requirements may trigger a new change cycle. While some changes require a slow-paced release scheme, others can be developed and implemented rapidly and as the need arises. The four steps described above constitute a continuous process to align different stakeholders around a joint target. This allows stakeholders to collaborate on sometimes complex changes in a structured way. Organizations that have invested in this way of working, and have built it into their operating model, find that they are more in control of changes, more in control of the costs of changes, more reliable in their planning and faster in their execution.

Conclusion

Strategy execution very often fails because of alignment problems. If the strategic vision is not translated into an operating model and a way of working, executive managers have a hard time defining concrete targets for their managers and KPIs to measure their success. To change or improve the way of working across multiple functions, process ownership must be in place, and end-to-end targets and KPIs must be aligned with functional targets and KPIs. To analyze and define new ways of working, teams of subject matter experts need to collaborate, balancing business, compliance, financial, customer and other requirements. Ensuring that people understand and execute on a new way of working requires making it available in an easily consumable and accessible way and tracking if it is being adopted. Continuing to monitor the execution after roll-out is important to catch drift and noncompliance and to identify further improvement potential. Together, these steps are part of a well-managed process that allows organizations to implement change in any size or pace.