Sense and Sustainability
A Modern Adaptation to the Business Transformation Classic
Curt Mueller and Angela Travagline also contributed to this Perspective.
Companies are recognizing that transforming their businesses to compete in globally interconnected and instantaneous markets is not something they can avoid, postpone, or outrun. They need to institutionalize the capacity and the capabilities to change quickly, comprehensively, and continuously.

In our experience assisting clients with transformations across industries, we’ve seen companies adopt one of three approaches, applying one of three sets of capabilities, based on the nature and time frame of the transformation required. Most often, companies default to the first, the reactive transformation, as they have little or no advance warning and must respond to the crisis swiftly and aggressively. Provided they have some lead time, companies will pursue the second, more structured option—the programmatic transformation. This transformation rests on five key pillars: senior direction, organization effectiveness, program governance, change management and communication, and leadership behavior.

Finally, select companies have sought to minimize uncertainty and manage the volatility of their business environment by proactively instituting a set of continuous “sense and adjust” capabilities. As the name implies, this dynamic approach allows companies to deftly modify business planning as economic and market conditions warrant. The aim is to avoid the wrenching effects of a transformation altogether by constantly incorporating new information and translating that into adjusted outcomes and expectations. This approach is appropriate for companies faced with constant and significant change, but it does consume time and resources. For many, programmatic or even reactive transformation capabilities are sufficient.
THE SPECTRUM OF TRANSFORMATION

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’s that change has become an ongoing way of life. Companies of all sizes, in all industries, are operating in a more volatile, less predictable environment. To navigate successfully, these companies must repeatedly transform themselves—indeed, institutionalize the capacity to change themselves again and again—as business conditions require.

But few companies are competent at doing this, and not for lack of trying. A review of businesses faced with “burning platforms”—enterprise-threatening events—would reveal that most have failed to make the transformation the situations demanded. Even when they saw the need, mobilized their forces accordingly, and acted with good intentions, the overall capacity to seize an opportunity or dramatically cut costs was simply not there when it was required.

At the same time, the general capacity in most companies to adapt to market shifts and other unforeseen events has improved during the past few decades. These companies have an opportunity now to build on the strengths they already have and learn to develop the capability of proactive transformation: the type that draws on the commitment and intelligence of people throughout the company. This is a developmental process, in which they build the leadership capacity of the top team, along with the organization’s ability to respond effectively.

There are three possible starting points when approaching a transformation, depending on the experience and innate qualities of your particular company. These starting points, which fall along a spectrum of sustainability, determine the level of transformation—the timing and the magnitude—that your company can support right now (see Exhibit 1). No matter where you start, the name of the game is the same: to take on change more and more proactively so that you move to the right along the spectrum, increasing the effectiveness of your response and improving your results each time.

On the far left of the sustainability spectrum is reactive transformation, the default. This is the approach most companies adopt as they often do not have the foreknowledge to implement the second, more structured option—programmatic transformation.

Exhibit 1
Business Transformation Approach Spectrum of Sustainability

<table>
<thead>
<tr>
<th>TRANSFORMATION APPROACH CHARACTERISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-Term/ Unsustainable</strong></td>
</tr>
<tr>
<td>Reactive</td>
</tr>
<tr>
<td>- Transformation triggered in reaction to changing circumstances</td>
</tr>
<tr>
<td>- Often only incremental change from status quo</td>
</tr>
<tr>
<td>- Limited cross-operating company coordination</td>
</tr>
<tr>
<td>- Limited program monitoring and controls established</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
Finally, select companies have successfully developed sense-and-adjust capabilities that allow them, at best, to avoid the need for transformation altogether and, at worst, to furnish enough warning to enable a more measured programmatic response.

Each point on the spectrum requires a different approach. Reactive transformation on a relatively small and limited scale is 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 is an essential short-term management lever. The problem arises when executives try to apply that approach to situations that call for more sweeping and deep-reaching transformation. Too often, executives rely on the reactive techniques they know so well, even when the situation calls for a more structured, thoughtful approach that will yield more lasting change.

Programmatic transformation, the second approach, is appropriate in situations where major change is required and companies have sufficient lead time to implement a more thoughtful plan. In these situations, companies launch a comprehensive initiative, often led by an executive sponsor, across the relevant lines of business. A cross-functional program office is set up, specific initiatives are identified, milestones are established, a communications program is launched, and progress is tracked. These programs can be highly effective in dealing with a contained event or threat and are clearly more sustainable than the reactive approach, but as the name implies, the transformation is a program and, as such, generally takes longer to achieve results.

Increasingly, leading-edge companies are investing in building sense-and-adjust capabilities to anticipate rather than merely respond to business transformation triggers. Senior managers at these companies recognize that change is constant in their markets and that they need to embed in their organizations the ability to continually and incrementally adjust. Their aim is to avoid the dislocating aftereffects of the more abrupt reactive and programmatic approaches to business transformation, much as a series of minor earthquakes can relieve the buildup of pressure that might otherwise result in a catastrophic quake.

Sense-and-adjust is the most long-term and sustainable approach to business transformation, but building and maintaining the capabilities to support it can be expensive, time-consuming, and ongoing. It’s appropriate for companies that are constantly dodging threats and fielding opportunities; hence they need to have in-house the resources, skills, tools, processes, and talent to anticipate and address this barrage of change. For companies operating in less volatile circumstances, however, periodic transformations—whether reactive or programmatic—will generally suffice.

What all companies need to recognize—and many already do—is that the pace and magnitude of change is far faster and greater in a global, technology-enabled market 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 aptitude will reap significant and sustainable rewards.

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**Reactive transformation on a relatively small and limited scale is second nature to most seasoned executives.**
REACTIVE TRANSFORMATION: ADDRESSING THE UNEXPECTED

Most CEOs would readily agree that uncertainty is the greatest impediment to building a sustainable business. The planning horizon for companies across industries went dark when market fundamentals became obscured along with the economy. Companies that had not institutionalized the ability to sense imminent market changes were among those hit hardest. In a recent Booz & Company survey of 155 senior executives at Fortune 500 companies, an overwhelming 92 percent indicated that they were unable to plan or achieve their goals because of constantly shifting objectives. The recession’s stranglehold on the economy certainly contributed to the lack of visibility across industries, but many companies were blindsided because of their inability to successfully anticipate changing conditions and to initiate and execute needed business transformations in response to them. In a vicious circle, it is hard to distinguish cause from effect.

The example of a manufacturer in the automotive industry highlights the importance of choosing the right transformation approach. As the North American auto market cratered in the wake of the credit crunch, this supplier’s stock price fell more than 40 percent in six months. Faced with a sharp drop in sales and a predominantly fixed cost structure, the company was hemorrhaging cash.

To its credit, the manufacturer recognized that it needed to right-size its fixed cost structure immediately to match its smaller sales volumes or else risk going out of business, and it quickly implemented a reactive transformation. Senior management took a “parking lot” approach to cost reduc-
tion, assuming that they were rebuilding the business from square one with an empty building. They figuratively removed all expenses, including head count, and put them in the “parking lot”; these costs had to earn their way back into the building based on their necessity and value to the business. Only “must have” resources were retained; “nice to have/good to have” resources were left in the lot. Through this severe approach, coupled with various operational improvements and short-term cash flow savings, the company achieved US$40 million in savings in the first six months. Further, it offshored 1,500 non-core back-office and IT jobs and renegotiated $1 billion in third-party contracts. Overall the auto manufacturer realized $300 million in cost savings over 18 months and managed to sustain those gains for 36 months.

There was a time when such a swift and effective reaction to a crisis would have been celebrated as an unmitigated success. But this cost reduction exercise proved to be nothing more than a tourniquet. The organization did not change. Corporate headquarters did not redesign roles and responsibilities or restructure the business to be more competitive. Counterproductive behaviors persisted. Predictably, the discretionary expenses left in the parking lot—travel, salary increases, advertising, and capital expenditures—sneaked back into the building, and when the latest blows to the auto industry rained down, this manufacturer was caught unawares.

The reactive transformation helped the company stop the bleeding for three years, but it failed to address root causes of the hemorrhage, including misalignment of core job head count with the business size and inappropriately decentralized spending decision rights. As a result, it did not transform the business to successfully compete on a fundamentally reconfigured global playing field.

Our recent survey of companies’ responses to the recession confirms that most companies were in “reactive” mode. The vast majority responded with short-term cost reduction initiatives—across-the-board layoffs and other indiscriminate cuts. Only 8 percent reported that they continued or increased investments in growth. This reactive approach is simply too timid and tactical to ensure growth as the economy rebounds. So although there are times when reactive transformation makes sense, a deep recession is not one of those times.
To prosper and capitalize on prospective opportunities, companies need a more planned and programmatic approach for transforming their business, one that engages and involves all parts of the affected organization and also changes behaviors.

The programmatic approach to business transformation rests on five pillars—senior direction, organization effectiveness, program governance, change management and communication, and leadership behavior—grounded in the culture of the institution (see Exhibit 2). While a reactive approach may touch on some of these pillars, a programmatic approach covers all in a concerted and coordinated fashion.

Senior direction is, just as the name implies, direction from the top—in many cases, particularly if the initiative is enterprise-wide, from the CEO. The executive sponsor of the transformation program sets the tone and makes the business case for change, not only through communications but also through actions by modeling the desired behaviors. Senior executives assume accountability for the outcome of any major initiative and designate promising, high-profile managers to sponsor its various strategic components. Even if the program is focused on cutting costs, the executive sponsor and other executives leading the effort seize the opportunity to engage the organization and build sustainable tools and processes.

Organization effectiveness is the key to sustaining any transformation. A new operating model will necessarily result, and senior management needs to align the four building blocks of the organization—decision rights, information flows, motivators, and structure—a shift in efficiency philosophy toward a mindset of continuous improvement. Processes are redesigned to address sustainability requirements. Governance processes and mechanisms are developed. A plan to continue momentum into the future is created.

Cultural and behavioral shifts needed are identified. The behaviors required to lead in the future are defined. A gap analysis indicates where shifts are required. Plans to close skill and competency gaps are developed. Leaders set the right example.

Exhibit 2
The Programmatic Approach Rests on Five Pillars

<table>
<thead>
<tr>
<th>Senior Direction</th>
<th>Organization Effectiveness</th>
<th>Program Governance</th>
<th>Change Management and Communication</th>
<th>Leadership Behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Executive sponsor makes the case for change and models the right behavior</td>
<td>- New operating model, including a performance management framework</td>
<td>- Processes redesigned to address sustainability requirements</td>
<td>- The case for change is communicated and compelling</td>
<td>- The behaviors required to lead in future are defined</td>
</tr>
<tr>
<td>- Senior executives accept accountability for the success of the program</td>
<td>- Four “building blocks” of the organization are addressed: decision rights, information flows, motivators, and structure</td>
<td>- Strong program management to track progress</td>
<td>- Leaders are aligned around the vision and act as change agents</td>
<td>- A gap analysis indicates where shifts are required</td>
</tr>
<tr>
<td>- Sponsors are actively engaged with teams</td>
<td>- A shift in efficiency philosophy toward mind-set of continuous improvement</td>
<td>- Governance processes and mechanisms developed</td>
<td>- Resistance is identified and addressed</td>
<td>- Plans to close skill and competency gaps</td>
</tr>
<tr>
<td>- Focus on augmenting capabilities along with cutting costs</td>
<td></td>
<td>- Plan to continue momentum into future</td>
<td>- Cultural and behavioral shifts needed are identified</td>
<td>- Leaders set the right example</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
structure—with the new needs. Senior management should embed a strong performance management system in the new organization to sustain the gains, and cost reduction mandates should give way to discussions about continuous improvement.

Program governance is central to any successful and sustainable transformation. The vast majority of transformations that fail do so because of poor implementation. Program governance encompasses the blocking and tackling behind a successful change campaign from program management to process redesign to the establishment of strong controls and governance mechanisms.

Change management and communication is the fourth pillar of the programmatic approach to transformation. Effective change management rests on clear communication cascading from the top of the organization down. Everyone should understand both the case for change and the future state toward which the organization is moving. Management should identify pockets of resistance and address their concerns early on.

Leadership behavior is the fifth and final pillar. Organizations need to identify future leadership requirements and take inventory of the current bench. Where there are gaps, fill them. Leadership on the front line is at least as important as executive leadership. Direct supervisors can make personal connections that are individually meaningful to employees.

A financial services organization that underwent a programmatic transformation offers a useful case study in how these five pillars come together and reinforce one another in a business transformation. In light of weakening industry cost metrics and their likely implications, senior management at this organization set in motion a transformation program intended not only to reduce costs but to increase the organization’s competitive advantage coming out of the global financial crisis. The program leveraged all five pillars:

- **Senior direction:** A steering committee of 10 executives, including the CEO, led the transformation, which was organized around three overriding objectives: (1) redefine the operating model, (2) strengthen planning and performance management, and (3) introduce more disciplined governance and transparency across investments. The steering committee emphasized that the scope of the transformation extended beyond cost savings to the creation of new capabilities and ways of working to help the changes stick and position the enterprise for growth.

\[\text{The vast majority of transformations that fail do so because of poor implementation.}\]
• Organization effectiveness: The transformation targeted two major areas for restructuring: the company’s planning and performance management processes and the provision of functional services to the business units. The role of the corporate center was evaluated, and it was determined that it should play a more active role in managing the enterprise as a whole. The corporate center would provide early and meaningful guidance in the planning process, which was fundamentally redesigned around three key cycles, and would ensure that the business units and functions collaborated to optimize support services.

• Program governance: A transformation team composed of full-time executives, business support personnel, and dedicated project managers managed the program from the beginning, conducting the initial analysis and benchmarking to identify a cost savings target of 15 percent. The team managed changes in organization, process, and cost to help achieve target cost ratios. The program structure proved so successful that it was kept in place past the initial three phases of the program to sustain the momentum.

• Change management and communication: The transformation team created tailored communications and change management plans to support implementation at the initiative and enterprise levels. Each working team partnered with communications experts to develop and organize change-related activities, such as orientation sessions, training, stakeholder briefings, and “strategy in a box” meetings. Senior leadership, including the CEO, appeared on videos and led town hall meetings. Focus groups, advisory councils, and pulse surveys continuously provided feedback.

• Leadership behavior: The organization developed a set of leadership competencies to align with the new operating model and to guide the expectations and performance of senior managers. These competencies are being used in the selection and redeployment of personnel and figure largely in the new performance measurement system. Moreover, the organization’s HR function has overhauled the way leadership positions are filled, broadening the talent pool to include qualified individuals from across the enterprise.

Following the program’s implementation phase, the organization realized all of the projected annualized savings. Adjustments to the organizational structure were introduced and business processes redefined to align with newly designed decision rights. Moreover, management agrees that the decision to adopt a corporate-led programmatic approach has expanded the scope, reach, and sustainability of the effort.

At a financial services organization that underwent a corporate-led programmatic transformation, management agrees this approach has expanded the scope, reach, and sustainability of the effort.
SENSE-AND-ADJUST SUSTAINS THE CHANGE

While a programmatic approach helps companies avoid the missteps of a shortsighted reactive transformation and sustain the gains, it still solves an immediate or imminent problem rather than building an enduring capability that is exercised and honed in good times and bad. Select companies, eager to smooth the volatility in areas of their business subject to swift and dramatic change (workforce planning, technology infrastructure), have taken the additional proactive step of institutionalizing a continuous sense-and-adjust capability.

Sensing is the ongoing process of gathering and analyzing data to understand current and future business conditions and, more important, translating these inputs into likely outcomes. Good sensing leverages existing baseline planning information—what’s currently captured in strategic and operating plans—and synthesizes this insight with key performance data to form a single “dashboard” of actionable information for both subject matter experts and business leads throughout the company. High-quality sensing enables an early organizational understanding of future business conditions. The resulting dashboard flags data that signal a change in business conditions, engaging subject matter experts and business leads in the adjustment part of the process.

Adjusting is the tandem process of altering the business based on sensed outcomes. Subject matter experts and business leads assess resource and capability trade-offs and the impact of and on people, processes, and technology and develop a consensus on what strategy is appropriate to build or maintain competitive position. As the 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 flexible strategic responses. Sensing does little good in the absence of adjusting, and vice versa. The two parts of the cycle complete each other and must be deployed in concert to be effective.

Such a capability positions companies to swiftly and deftly modify business planning as economic and market conditions change. By building this dynamic capability into the organization, companies are able to avoid the expense and distraction of wrenching reactive or programmatic transformation programs. These companies can expedite execution in stable times and moderate painful cost reduction measures in lean times, as they have more time to prepare (see Exhibit 3, page 10).

This approach to continuous change is not the traditional strategic planning process in which business units are summoned every six or 12 months to present their take on the market and their carefully crafted performance expectations. The sense-and-adjust process is continuous. It is always incorporating new information and translating that into
adjusted outcomes and expectations. While inherently less wrenching than reactive cost cutting and less taxing than a large-scale program, it is not for the faint of heart or, frankly, for companies that are still in the reactive mode of change. Companies that have effectively mastered a programmatic approach and have an organization that could be described as reasonably resilient are the best candidates.

Certain companies have successfully developed elements of a full-fledged sense-and-adjust capability system. Dow Chemical’s workforce planning capability is an example. The chemical industry experiences recurrent seven-year cycles of volatility. To account for that volatility with minimal stress on its 40,000-plus employee base, Dow needed a workforce planning process that was more rigorously quantitative and longer term.

The company mined three years of historical data housed in a PeopleSoft database to forecast promotion rates, internal transfers, and overall workforce supply, and then designed a custom modeling tool called the Dow Strategic Staffing Simulator to project workforce needs versus resource availability three years in advance. The tool produces a snapshot of the current workforce segmented by five age groups and 10 job levels and then forecasts what the workforce will look like based on historical trends. Based on each business’s plan and productivity target, Dow can now project the headcount needed for each business unit. The tool can also be adjusted for

Exhibit 3
Sense-and-Adjust Is a Continuous Capability

Source: Booz & Company analysis
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). As a result, HR is better able to plan for various eventualities including changing head count targets, facility closures, or anticipated volatility in the chemical industry’s fortunes.

While Dow senses and adjusts well in this one area, a few companies—General Electric, Microsoft, Procter & Gamble, 3M—have more tightly enmeshed the capacity for continuous self-renewal into their DNA. These companies constantly translate market signals into business and associated organizational adjustments. They have very mature, advanced planning processes and deep leadership bench strength, as management has grown up in a sense-and-adjust environment. This is not to say that these companies are never caught flat-footed, but they generally see mega trends before they hit.

GE, often held up as the epitome of process orientation and management development, transformed its organization from one prioritized around productivity to one focused on organic growth following Jeff Immelt’s succession to CEO in 2001. This marked shift was not precipitated by some crisis or disruptive event, but rather by the company’s ability to perceive the future some 10 to 20 years out. The company sensed that trends in globalization and increasing energy costs would favor companies that could innovate and generate their own growth.

In response, GE set the ambitious goal of growing organically two to three times faster than world GDP and developed a whole new set of management methods to accomplish that virtually unprecedented objective. The company benchmarked 30 leading companies to develop targeted performance metrics, increased R&D spending by more than 60 percent with a billion-dollar infusion, acquired companies to bolster innovation, and upgraded its sales and marketing capabilities. All of these efforts became part of a self-reinforcing organic growth process that has allowed GE to accelerate growth over the last few years. As CEO Immelt puts it, “If you run a big multi-business company like GE and you’re trying to lead transformative change, that objective has to be linked to hitting levers across all of the businesses—and it must keep that up over time. So, you’ve got to have a process. That’s true from an internal standpoint, but it’s also the only way you get paid in the marketplace. Investors have to see that it’s repeatable.”

To support sustainable business transformation, a sense-and-adjust capability cannot reside purely in the strategic planning functions; it must be inculcated throughout the organization. While strategic planning may lead the sensing part of the cycle, it must link directly to organization design and execution capabilities to drive the necessary adjustments.

Any company seeking to build a sense-and-adjust capability will need to consider a number of factors, not the least of which is the organization itself. Is it hierarchical or highly dispersed? Entrepreneurial or centralized? How are decision rights currently allocated, and how does information get to those who need it? What sort of motivators are in place to reward or discourage behavior? The first step in developing a sense-and-adjust process is conducting a baseline diagnostic to honestly assess these questions and identify organizational gaps and hurdles.
CONCLUSION

In the past 25 years, globalizing markets, shifting input costs, and rapid advances in technology have conspired to render reactive approaches to change insufficient in most industries. While companies will always require the ability to respond to unforeseen events, they need to develop more considered and proactive approaches to business transformation, as major change is now the new status quo.

Many companies can stay competitive by adopting a programmatic approach focused on the five pillars of transformation—senior direction, organization effectiveness, program governance, change management and communication, and leadership behavior. But, increasingly, companies will need to develop a more permanent and perpetual sense-and-adjust capability. The appropriate approach depends on a company’s starting point and the fundamentals of the organization—its decision rights, information flows, motivators, and structure—and how they align to influence execution. Both offer the opportunity to set and sustain a competitively advantaged course over the long term.

RESOURCES


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ENDNOTES


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