

Seventy percent of change programs fail,¹ and this is depressing news at a time when more and more companies are facing upheaval. By Stan Pace, Paul Rogers and Chris Harrop.

Making change stick

Failure can often be chalked up to leaders who shy away from making changes broadly enough, deeply enough and, above all, swiftly enough to revive the company. Instead, they administer a series of half-cures, which often only prolong the agony.

Indeed, about half of the 223 executives who responded to a recent Bain & Company survey on organisational issues said their companies fell short of having the essential capabilities necessary for a turnaround: the capacity to make decisions quickly and well, the perseverance to follow through on decisions that do get made, and the consistency that comes with having a clearly defined set of roles.²

Even so, some companies beat the average and brought about sustained improvement. We studied 21 of the most impressive transformations of recent years and found four principles underlying successful turnarounds, which are easy to articulate, but not to achieve:

1. Set high standards and lead by example. Use external resource to support your managers.
2. Put the right managers in place and give them real power.
3. Focus on results, not on the change process, your experts can worry about that.
4. Change quickly – tackle issues in parallel, not in sequence.

The principles held true regardless of the size, industry or geographic focus of the various companies studied. Some of the successful transformers were already in crisis and looking for a rescue programme; others needed to move fast in anticipation of changing consumer tastes or new competitors. In fact, their only common link was seen in the results: Share prices rose on average 250% a year during and after the turnaround, and some companies' jumped more than 1,000% a year. As we can see in the following examples, change is never easy, and doing it well requires sticking to the right principles.



Lead by example

First, advocates of transformation programs must be real leaders. They need to roll up their sleeves, clearly understand the job and get on with it. If leaders are asking the entire company to share their vision, they must begin by guiding from the front. A focused set of performance and ethical standards helps establish the right tone, and CEOs should communicate these as simple, powerful messages to all employees.

When Crispin Davis joined Reed Elsevier as CEO in September 1999, the firm had been without a chief executive for nearly a year. Formed in 1993 by the merger of the UK's Reed International and Elsevier of the Netherlands, the company remained divided. Feuding between two different boards in London and Amsterdam had distracted senior managers from problems in its business units. Three separate profit warnings had plunged Reed International's share price on the London Stock Exchange to a low of 340 pence (€4.81).

By February 2000, Davis was ready to unveil his transformation plan. He started by replacing 11 of the company's 12 top executives, and the new senior team tackled the problems in Reed Elsevier's business units. They rapidly transformed operations in Reed's legal division and in its US trade publications business, Cahner's. Meanwhile, the publisher moved its science unit, Elsevier, onto the Internet,

which reduced costs and allowed the company to eliminate annual price increases for Elsevier's periodicals. This, in turn, reduced the level of library cancellations.

Davis made substantial investments in the core businesses where he identified value. He earmarked £150 – £200 million (€216 – €288 million) a year for new product development, a sizeable chunk of which was directed towards the Internet strategy. At the same time, he shed units such as OAG

Worldwide and Springhouse that did not fit into his strategy. On top of this, he identified cost savings of £170 million (€245 million), including a reduction of 1,500 employees.

By February 2001, just 20 months after Davis announced his transformation plan, Reed



International's share had nearly doubled to 634 pence (€9.15).

Put the right managers in place

Davis was an effective leader. But no matter how good a CEO is, he or she cannot single-handedly transform a company. Unfortunately, the existing senior management team often lacks the talent to steer the company through the difficult change process. Even capable managers may be closely aligned with the old company and viewed by employees as incompetent or untrustworthy. Our research shows that replacing senior management correlates closely with successful change. Almost every one of the 21 textbook turnarounds included a substantial replacement of the senior team.

Crispin Davis brought in executives from the outside. "It was clear", he said, "that management had to be wrong if a company like this was performing that poorly." But putting the right managers in place doesn't just mean hiring from outside. It can also mean mining for internal talent, putting the right insiders in the right jobs, and giving them the accountability and authority to be effective.

For example, selective strengthening of the top management team has been a hallmark of the recent improved performance at Great Universal Stores (GUS). The company performed well in the early 1990s but stumbled badly towards the end of the decade. In 1999, a profit warning in the important Home Shopping division led to a collapse in the share price.

Management changes followed, which were mostly from within. Sir Victor Blank moved from Deputy Chairman to Chairman, and John Peace was appointed Group Chief Executive, from his previous job running one of the more successful GUS Divisions, Experian. Peace moved rapidly to strengthen and reinforce his executive team. He achieved this through promoting or expanding the role of his most capable senior managers, along with making a small number of high-profile external appointments.

Eighteen months on, GUS's market value increased by more than 50% in a falling market. When the new

management team took over, the company was number 85 in the FTSE top 100 index, but by June 2003 it had moved up to number 33. Most important, we can see that by strengthening the team, the company has provided a basis for sustaining and building on positive early results.

Focus on results

The most successful leaders of troubled companies do not get absorbed by the process of change but stay focused on the end result. Successful transformers begin by developing a clear view on where the value lies within the business, and what will be required to get it.



Liechtenstein Global Trust (LGT) turned itself around by reassessing where it could build value. By 1997, the bank had reached an impasse. Its stock price had been stuck at around €470 for four years, and the business was valued at only €540 million. Over the years, the bank's operations had grown complex as global asset management businesses were acquired – but not integrated with LGT's private banking business.

Under the leadership of Liechtenstein's Prince Philipp, senior management made a tough decision:

to leave asset management and focus on LGT's core private banking business. Within two years, it sold its fragmented asset management operations, reduced overhead dramatically and expanded its core private banking business into Asia and other parts of Europe. Prince Philipp also took the company private, buying up the remaining 20% of equity the family did not own. During this period, LGT's stock price rose from €470 to €950, creating billions of euros of value for its owners and many of its executives.

Change quickly

Finally, successful transformations hinge upon speedy execution. For the most part, identifying the key elements of change, implementing the change quickly and tackling the issues in parallel is far more effective than easing change sequentially into the organisation. How quickly? The most successful transformers in the study completed the bulk of their turnarounds in two years or less. None took more than three years, and in all cases, some form of tangible, improved results appeared almost immediately.

Consider Optus Communications, a 1992 Australian start-up, which is today a high-growth unit of Singapore Telecom. After a promising start, the company faced a host of problems by the mid-1990s as the number-two telecommunications operator in Australia. Its woes included the end of Australia's telephone duopoly, a subsidiary haemorrhaging cash, a twice-delayed IPO and a revolving door to the CEO's office. In 1996, these problems culminated in a staggering before-tax loss of \$667 million (€577 million). In 1997, shareholders came close to liquidating the company.



But instead of finding a line gone dead, investors soon discovered a profitable company. First, Optus's board replaced the CEO and CFO and hired an entirely new management team. The new leadership integrated the problematic subsidiary, Optus Vision, and brought its cash outflow under control. Project Breakeven, a cost-saving initiative that targeted a variety of short-term opportunities, yielded \$260 million (€225 million) in pretax earning improvements. Management overhauled Optus's balance sheet, put an employee stock-ownership plan in place, and restructured its senior management team's objectives and incentives. Finally, as a result of these changes, the company was able to launch its long-delayed IPO.

Elapsed time? One year.

Optus subsequently posted four consecutive years of profit growth and grew to one of the 10 largest Australian companies in market capitalisation. In September 2001, SingTel acquired Optus for more than double its IPO price, locking in more than \$9 billion (€880 million) in shareholder value created since the turnaround began. After a challenging transition, Optus has continued to defy the market with strong, double-digit

growth, and is considered the profit jewel in SingTel's crown.

Corporate transformation may be the most difficult and risky professional test an executive will face. There is no simple formula for a successful turnaround; companies and their challenges vary too widely. But the few principles that characterise the most successful transformations apply across industry and company boundaries.

With the help, advice and guidance of your external experts you can guide change, and make it stick.

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