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Driving Change Through Corporate Programs

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[STRATEGY]

Driving Change Through Corporate Programs

CEOs of large companies increasingly introduce corporate programs as a way to foster strategic renewal. Whether the goal is boosting profitability, improving business models or establishing new directions for growth, it's important to match the design of the program with the desired outcomes.

BY MICHAEL BOPPEL, SVEN KUNISCH, THOMAS KEIL AND CHRISTOPH LECHNER

In September 2012, Daimler CEO Dieter Zetsche announced a program called "Fit for Leadership." Through this program, one of the world's largest makers of luxury cars would attempt to cut annual costs by $1.3 billion.

Earlier in 2012, Christoph Franz, the CEO of Lufthansa, announced a program called "SCORE" — a program with the overall objective of further integrating Lufthansa's businesses and realizing productivity gains of €1.5 billion ($1.99 billion) by the end of 2014.

And in 2011, Stephen Elop, the then-CEO of Nokia, announced a corporate program called "Transformation" — a program designed to reposition Nokia in the changing global mobile-devices market.

CEOs use such corporate programs as tools to communicate internally with their employees and to communicate externally with analysts or shareholders. They also employ them to introduce significant changes in their organizations and to foster changes in key dimensions of their businesses. As such, corporate programs act as key vehicles for strategic renewal. Furthermore, corporate programs play a major role in resource-allocation processes, as they require major investments in terms of management time and funding.

But what happens after a corporate program is announced? How do CEOs deliver on their promises? Are there multiple, equally effective paths to success with a corporate program? These questions served as the starting point for our study of 125 corporate programs at large European organizations, including Allianz, Daimler, Nokia, SAB Miller, Telefónica and UBS. In a two-stage research project, we first conducted interview research with about 40 executives in charge of corporate programs at 17 large European companies. Using annual reports, press releases and investor presentations, we then conducted a quantitative study of 111 corporate programs in 75 European financial services firms over a 10-year period, in order to corroborate on a larger scale the insights gained from the interviews.

Our research indicates that CEOs use three very different designs for corporate programs, which we call *goal splitting*, *task force* and *overlay*.

Design Option 1: Goal Splitting

In goal splitting, which is the most straightforward approach, the CEO breaks down the program's overall objectives into specific goals that are assigned to business-unit managers. Although they remain in their previous roles, these managers devote part of their time to contributing to the program and trying to realize its objectives.

SwissLife's "Milestone" program is one example of this approach. The objective was to

The Swiss insurance company Helvetia, whose head office group building is pictured here, implemented a strategy program.

COURTESY OF HELVETIA

introduce processes that would ensure the continuous improvement of profitability and competitiveness. Specifically, the program consisted of five key initiatives involving more than 600 work streams. Each initiative was headed by a key manager, who reported to a steering committee of senior executives.

The goal-splitting approach works best when the program is geared toward optimizing activities within the existing strategy framework and business model. It typically focuses on such aims as significant efficiency improvements, quality enhancements or cost reductions — all challenges that can be mastered within the dominant strategy frame of the organization.

The major benefits of the goal-splitting approach originate from its tight integration with the know-how and involvement of line managers. Such programs also entail low overhead costs. However, the tight integration with the line organization can become a liability, as managers must balance time allocated to the program with a continued focus on day-to-day business. Through close monitoring and clear accountability, the CEO can ensure that the program's initiatives maintain their initial momentum and are not steered off course.

Design Option 2: Task Force

In the task-force option, the CEO creates a task force (often called a "program office") of highly skilled specialists. This team serves as the "extended arm" of the CEO and is responsible for realizing the program's objectives across the organization. On the one hand, the task force provides the line organization with specialized skills that would not be available without corporate support. On the other hand, it serves as the CEO's eyes by monitoring progress on the spot and alerting the CEO about potential performance deviations.

The Swiss insurance company Helvetia offers a good example of such a program. The company established a program office to implement its "Strategy 2015+" in all of its regional units, which were accustomed to operating independently. This team was tasked with implementing a multichannel approach in all country markets, introducing a new approach for developing life-insurance products on a step-by-step basis and streamlining business processes across units.

The task-force option works best when CEOs drive a small number of topics that are distinct from — but adjacent to — the existing strategy framework. It allows for the infusion of specialized skills that are not available in the line organization. It also enables focused funding of the selected topics and is beneficial when individual businesses are unable or reluctant to bear certain risks on their own. However, CEOs need buy-in from the line organization to tightly integrate the program with ongoing operations.

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Design Option 3: Overlay

In the overlay approach, CEOs take the firmest stand. They begin by creating a task force or program office. The program office, in this case, is broadly staffed. It can cut across existing organizational structures, and it has a mandate to fully engage the overall organization and override line management on select topics. The program's objectives are pursued on the basis of full contact between the program office and the line organization. The program office has a dedicated budget and a direct reporting line to the CEO, while the heads of initiatives report to the program office head.

Nokia's Transformation program, launched in 2011 in response to the crisis the company was facing, serves as an example. Acknowledging that Nokia had lost its competitive edge to Apple and Google, then-CEO Stephen Elop, a former Microsoft executive, likened the company to a man on "a burning platform" who needed to "take a bold and brave step into an uncertain future." Central to Nokia's new strategic direction was its alliance with Microsoft. This move involved discontinuing Nokia's own operating systems and affected the entire organization. The Transformation program helped the CEO not only to communicate the urgency of the new corporate direction internally and externally but also to drive the changes it entailed throughout an organization that had been highly decentralized. The steering committee, which consisted of the CEO, the program head and the heads of 10 strategic initiatives, had decision-making authority on all major issues. The corporate program was staffed with full-time employees who were primarily recruited from Nokia's corporate-level strategy departments and its major divisions. (Note: In September 2013, Microsoft announced that it will acquire Nokia's devices and services business; Elop is expected to join Microsoft as part of the acquisition.)

The overlay approach appears especially suitable in two circumstances: when the objective is to implement radical change, such as in turnaround situations, or when the objective

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is to foster cross-unit integration in highly divided organizations. While this approach can mobilize and engage the entire organization, CEOs need to move with caution in order to avoid overburdening the organization beyond its capacity to change. They must also ensure that programs do not turn into organizational fiefdoms of their own, in which initiatives become silos competing for scarce resources.

Corporate programs can be powerful catalysts for realizing new strategic directions set by CEOs. However, in order for programs to have a measurable impact, CEOs must seriously consider the program's design and approach. Our research shows that three distinct program approaches exist, and that each entails different benefits and distinct management challenges. These approaches need to be carefully matched with the strategy task at hand. Specifically, we believe the goal-splitting approach works best when the task involves optimizing activities within the existing strategy framework and business model; the task-force approach works best when the task is distinct from — but adjacent to — the existing strategy framework; and the overlay approach works best when the task is to implement radical change or foster cross-unit integration in a highly divided organization.

Every journey begins with the first step. For CEOs, the first and most important step in ensuring that corporate programs deliver promised results is deciding which of the three distinct program approaches is best suited for their organization's distinct challenges.

THREE TYPES OF CORPORATE PROGRAMS

Our research indicates that CEOs use three very different designs for corporate programs, which we call goal splitting, task force and overlay.

Program Type	GOAL SPLITTING	TASK FORCE	OVERLAY
Description	Introduces distinct reporting structures to ensure strategy execution	Establishes a task force to monitor progress in strategy execution and provide support	Establishes an organizational unit charged with strategy execution
Main Purpose	Implements emerging topics (for instance, efficiency improvements) within the existing strategy framework	Drives one or two corporate topics (in addition to the existing strategy framework) throughout organization	Implements radical change, such as a corporate turnaround
Characteristics			
CEO Involvement	CEO delegates objectives to managers of line organization (business units)	CEO uses an "extended arm" to propel the corporate program	CEO is closely involved in strategy execution
Program Office	A small program office for reporting purposes	A small program office to support/advise the line organization (business units)	A large, powerful program office with decision-making authority
Staffing	• Very small corporate staff, if any • Mainly part-time assignments	• Very small corporate staff • Mainly part-time assignments	• A corporate program head and corporate staff • A large percentage of full-time assignments
Key Benefits	• Reduces resistance in the line organization • Brings in deep business knowledge • Facilitates retention in the line organization	• Provides specialized knowledge and skills to units • Provides corporate resources to prevent "starving" from a lack of resources • Draws CEO attention to critical issues	• Mobilizes the entire organization • Fosters cross-business collaboration • Allows tackling of corporate-wide issues beyond the scope of single units
Key Challenges	• Maintaining the change momentum • Avoiding distraction from the daily business • Holding managers accountable	• Enforcing corporate-program activities • Combining business and program knowledge • Ensuring the buy-in of business-unit managers and line managers	• Maintaining flexibility of corporate program • Avoiding burdening the organization • Preventing the initiatives from becoming "silos"

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