Fit Transformation™: Making Your Company Strong, Agile, and Lean

Transformation is a heatedly discussed C-suite topic. A balanced approach that looks beyond cost can convert transformative energy into the light and motion needed to tackle the future.
We all know the story. A company, facing stiff competition from an upstart, begins to furiously cut away at its cost structure. Or a corporation sets off on a frenzied search to identify synergies and decides to integrate several business lines. Or maybe talent in a vital department seems to keep slipping away, triggering a detailed reexamination of the area’s leadership and processes.

Business transformation has been talked about for a number of years now, but never so much as in the past decade. Financial market crises, technology breakthroughs, consolidation of the supply base, or disappointing business performance are just a few of the reasons why companies are tackling this challenge with renewed urgency. In our experience, many start by focusing improvement efforts on one function or another, but such an approach is almost always insufficient. Things start off well, but the techniques applied quickly lose their impact or, through the law of unintended consequences, end up doing more harm than good. A sequential approach, increment by increment—although sometimes necessary because of limited resources—can also lead to unsatisfactory results such as a lack of coherence, unnecessarily delayed results, or a failure to address a problem’s root causes. Other times, well-conceived strategies miss the mark due to the organization’s inability to execute them.

Exhausted by their efforts and frustrated by their failures, many are now desperately seeking a coordinated business transformation approach to keep up with events and edge out competitors.

A New Twist

Companies are complex, living organisms. Just as a disorder in the pea-sized pituitary gland can affect a range of bodily functions and an organ transplant requires the systematic reconnection of numerous blood vessels, interventions in one area of your company can affect surrounding “tissues” or even have major systemic effects. In business transformation as in surgery, interconnections must be carefully considered, and the instruments and techniques chosen must be suited to the task.

To do this, Fit Transformation:

- Translates your company’s strategy into the right combination of organizational strength, agility, and cost, by determining: (i) the strategic objectives that define the overall goals for the business, (ii) the sources of value that help the business meet its objectives, and (iii) the operating model guidelines that will enable the business to deliver that value

- Aligns the different building blocks of your operating model, including:
  - Structure and governance, such as the organizational setup or performance management scheme
  - Processes
  - Technology enablement (for example, to automate processes or to mine and analyze data)
  - Resource configuration, which covers aspects such as the company’s make-versus-buy model, strategic alliances, and geographic footprint
  - Capabilities and culture, including training programs and staff motivation

- Manages the transformation, galvanizing the imagination, enthusiasm, and commitment of the workforce to transfer ownership and ensure a sustainable transition from today’s reality to the desired future (see figure 1 on page 3)
Balanced translation

Many companies start transformations by ruthlessly stripping out costs, and they end up so lean that they become weak and unresponsive. To be sure, cost-cutting is often necessary, among other reasons, to respond to market pressures and to combat the natural tendency for non-value-adding structures and processes to build up and outlast their usefulness. But cost reductions cannot be the main transformation objective in every place and at every time, or the company could damage competitive differentiators—for example, customer service excellence, product quality, or the ability to quickly adapt to market changes—that might place the top line at risk.

That is why we believe in a *fit* organization, which balances leanness with strength and agility (see figure 2). The trade-offs among strength, agility, and leanness must be defined not only at company level, but also among divisions, business units, and functions.

Figure 2

A fit company balances strength, agility, and leanness

**Strong**

- Build deep capabilities
  - What is the right operating model for our market?
  - What capabilities differentiate us?
  - How do we create and maintain high-value-adding partnerships?
  - How do we create high talent retention?

**Agile**

- Respond to market dynamics quickly
  - How do we gain and embed deep customer insight?
  - How quickly can our processes respond to market changes?
  - How do we best make our workforce more flexible?
  - What culture will enable and promote innovation?

**Lean**

- Develop structural cost advantages
  - Are our true operating costs competitive?
  - How do we rightsize without creating operational risk?
  - What are appropriate trade-offs between cost and value given our strategy?
  - How do we enable employees to drive productivity?

Source: A.T. Kearney analysis
To achieve balance, Fit Transformation takes strategy as a trigger and an input, yet examines it in detail. The strategy, of course, must be directionally correct, but Fit Transformation is more concerned with the strategy’s proper execution than with its design.

The company begins by understanding the strategic objectives that define its overall goals. The next step is to identify the sources of value that can help the business achieve those goals. Once those value sources are determined, the implications for the company’s operating model are drawn out. This sequence of steps is conducted systematically and is crucial for proper scoping of the transformation.

Shortcuts in translation can lead to a scope that is too narrow to be effective or, worse yet, so broad that it overwhelms the organization. If something is not working properly, it needs to be fixed, but as the popular saying goes, “If it ain’t broke, don’t fix it.” One large government agency asked us to help them launch more than a score of initiatives to improve their service to the public. After a thorough examination, we convinced them that such an ambitious program would be self-defeating, as the internal disruption would trump any possible benefits to the public. In the end, they trimmed the list by more than 40 percent to ensure focus and results.

Change management, when done properly, endows the entire organization with self-replicating, enduring change capabilities.

Sometimes, companies discover that if they focus on building deep capabilities and market responsiveness, the cost advantages fall naturally into place. That’s what happened at a North American big-box retailer, which found that it lacked capabilities to better understand its customers. For years, the company had been spending nearly $20 million annually for third parties to conduct focus groups on its behalf, with less than satisfactory results. Once it realized that gaining customer insights was a crucial competence, it decided to build a strong capability in-house. The company set up a 15-person unit, and it designed a widget for its point-of-sale terminals so that sales associates could collect quick, on-the-spot feedback from customers. With the unit now fully operational, the company receives 150,000 pieces of valuable customer input per week—and all for only $3 million a year.

**All-encompassing alignment**

Alignment is achieved across two dimensions:

- First, the different **building blocks** of the operating model are aligned with one another (see figure 3 on page 5). For instance, resource configuration decisions (such as geographic footprint, shared services models, and outsourcing) consider not only costs but also, for example, the impact on customers’ experience in order to preserve coherence with the company’s customer service strategy. When processes are redefined, particularly those that cross functional boundaries, governance issues—such as decision authority and performance objectives—are also examined to make certain that accountability remains intact. And if the IT
governance model is decentralized to meet business units’ needs, coordination mechanisms such as committees are designed to ensure interoperability and keep support costs in check.

Our work to transform the supply chain of a global petrochemicals manufacturer illustrated just how important the interdependencies can be between the different parts of the operating model. The company’s strategy to meet its growth challenges in a tightening market required it to build a state-of-the-art supply chain, with strong integration between supply chain planning, sales and operations planning, logistics capacity planning, and procurement. Redesigning structure and governance to bake in end-to-end accountability was just the start. Processes, too, had to be reengineered from a customer-centric perspective, so that customer demand (rather than production output) would drive them. The supply chain network’s resource configuration also had to be adapted to decrease lead times and improve delivery reliability. And none of this would work without a high-performing technology-enabled solution, with easy single sign-on functionality and full failover capability.

- Second, alignment is ensured across functions, taking care to break down silos. During the transformation program itself, techniques such as cross-functional workshops and targets help to achieve that alignment. Later, mechanisms such as team-weighted (as opposed to individual) goals, governance systems (such as a cross-functional B2B board in a functionally oriented organization), and job rotation programs are used to make alignment stick. Steve Jobs understood this well. After he returned to Apple in 1997, he reorganized his product
development organization around the actual products, with designers, engineers, manufacturers, and marketers all reporting to one manager. He also made sure that key candidates were interviewed not just by their own department’s manager, but also by those of related departments.

The CEO of one global consumer packaged goods company discovered the importance of alignment and coherence the hard way when he decided to organize around brands rather than countries. As it turned out, changing the organization chart—despite the political headaches—was the easy part. He came to us for help a year later, when he learned that brand managers were still getting information six months after the country teams. When we met with his people, our conversations revealed that decision rights in many areas had not been modified to reflect the new brand emphasis, nor had the supply chain and IT systems been adapted accordingly.

**Comprehensive, grounded transformation management**

The mere mention of the term “change management” is enough to make people groan. To many, it conjures up images of vaguely New-Agey exercises and orchestrated workshops to reach predetermined conclusions. To others, it’s an afterthought that leaders simply talk about while they try to sell the most recent wave of corporate initiatives to their employees.

But change management to support Fit Transformation is neither one nor the other. Rather, it is a systematic, focused approach that starts, from the very beginning, to engage people from the top down and from the bottom up—and to take change viral—by identifying and activating the change engines, both formal and informal (see sidebar: Inoculating the Change Virus).

**Inoculating the Change Virus**

When we went to help a leading European health insurer regain its competitive position, we knew we were in for a challenge. Complexity and inefficiency had clogged the company’s arteries and complacency had taken hold, while customer satisfaction indexes and financial performance plunged. Something had to be done, and quickly, to shake the organization up.

Strong board commitment, of course, was an essential requirement. But they made their resolve visible not only at the beginning of the transformation, but throughout the program—participating in biweekly meetings, propagating the program’s messages, and even replacing directors and managers who proved uncooperative.

In parallel, we motivated employees by stressing that the focus was on results for the customers, with cost efficiency being just a derivative of customer centricity. Furthermore, we helped employees to understand how their tasks contributed to the customer experience. In fact, we invited customers to provide input as we redesigned processes. By bringing the best people into the process innovation teams— independent of hierarchy—and shielding them from the daily business, we created a safe environment for them to propose breakthrough modifications, while building up their skills and making them into agents for change among their peers.

Finally, we organized informal events to bring together more than 100 people from around the country working on the transformation, offering a positive setting where they could bond around a common sense of purpose that they could share with the rest of their colleagues.

Yes, the cost of inoculating the health insurer with the “change virus” was steep, but so was the reward.
The approach comprises four dimensions to spur and embed change (see figure 4):

**Figure 4**  
*Change management engages people from the top down and the bottom up*

**Four dimensions to broaden change**

- **Spread.** This dimension sets the direction and need for change. Senior executives develop and communicate a clear vision and compelling case for change, organize the effort, assign resources, and oversee the results. Their involvement must be highly visible and hands-on.

- **Shift.** The sense of responsibility for achieving change is shifted to individuals throughout the company by making them feel part of the process. Often this means skipping the “tell, teach” process, instead bringing people in early to get them invested both emotionally and professionally in the transformation.

  Executives at one heavy industry company put this into practice by designing the new operating model, but leaving it only 90 percent complete. They then handed it down to others to finish the remaining 10 percent, while retaining some flexibility to be challenged on their original design.

  At a healthcare industry player, the transformation program involved board members and leaders from all operational management levels across its 10,000+ employee network. Leaders from the main business units were assigned to cross-functional teams on top of their day jobs. Collectively, they ran nearly 40 different self-led projects, which were center-supported rather than center-driven.

- **Deepen.** The deepen dimension seeks to modify people’s attitudes and behaviors, not just the way they perform specific tasks, in order to move toward a true, emotional commitment to the change. To be effective, companies should invest significant time and effort to understand what generates their staff’s commitment and what they need to succeed. Fit Transformation employs a number of interventions—cultural assessments, informal network analysis, and tactics to bring about behavioral shifts, among other techniques—to manage the softer elements that ensure that change is more than just skin-deep. Companies that invest heavily in deepening transformation are rarely disappointed in the return they receive.

Sources: Coburn, C.E., “Rethinking Scale: Moving Beyond Numbers to Deep and Lasting Change,” Educational Researcher 32(6), 3-12; A.T. Kearney
Sustain. Finally, an ecosystem and controls are firmly implanted in the company so that the transformation takes root. Program funding is shifted into the normal budgeting process, continuous improvement methodologies are implemented, and long-term outcomes are monitored.

At the petrochemicals manufacturer mentioned earlier, we provided the transformation teams with training design standards to assist them as they developed their technical instruction materials. On our advice, they designed and implemented a reference documentation library, and they established a learning center within their organization.

Change management, when done properly, endows the entire organization with self-replicating change capabilities that extend far beyond completion of the immediate transformation program.

Ready for the Future

Fit Transformation is a complex undertaking, but when performed by experienced practitioners, it is one that is manageable.

A detailed understanding of your industry’s dynamics and your company’s strategic challenges makes sure that the transformation covers everything that is required—but no more than is necessary or than the organization can assimilate. Armed with an accurate diagnosis and a deep understanding of how the different parts of your company work, a plan is mapped out to reach the desired end state. And by making your team an active participant in diagnosing the problems, discussing the desired outcomes and options, understanding how and why they work, and putting them into practice, successful results are practically assured—not only in the short term but well into the future.
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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.