# When the Front Line Should Lead a Major Transformation

For the toughest changes, don't rely on a program office to make them happen.

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When companies decide to embark on a major transformation, whether to take out cost, jump-start sluggish growth or respond to disruptions in their core markets, they often follow a well-worn path. Headquarters orders staff and outside consultants to identify a set of initiatives that will deliver the goods. A design phase follows to produce a strategic roadmap for the next three years. A senior executive steering committee and a program office direct a group of cross-functional teams, mobilized to execute the initiatives outside of the routine flows of business.

This programmatic approach might work effectively if the interests of frontline managers and employees are aligned with those of senior executives. But that kind of alignment rarely occurs.

Consider the track record of change programs in the corporate world. A Bain & Company survey of 250 large companies executing transformations found that only 12% actually achieved what they set out to accomplish. Some 38% failed by a wide margin, capturing less than half of the value they initially targeted. And 50% settled for a significant dilution of results. The disturbing implication: Over time, too many organizations unwittingly wind up accepting mediocre performance.

Where classic change programs fail to deliver their full potential, the disappointing results often tie back to the fact that the changes were not owned by the front line. That's because the steering committee and program management office sit outside the normal hierarchy of the business. A dual governance structure inevitably creates tension between the program sponsors, who attempt to spur change but lack formal authority over resources, and the line managers, who do control those resources but typically have a vested interest in the status quo. Confusion arises around roles and responsibilities, with change agents constantly circling back to the CEO for permission to take action or escalate a decision. When only a fraction of the workforce gets mobilized for the effort, the bulk of managers and employees feel disengaged, and few want to contribute ideas or participate. Results tend to slip as soon as the program is demobilized, or the organization never achieves the results in the first place.

Highly centralized efforts also do not capture the many ideas for improvement initiatives that frontline employees have, and often fail to consider employee knowledge that's vital to the well-being of the business. For example, as part of a centralized approach, headquarters executives at an oil and gas company looked to wring short-term savings from their pipeline operation. They changed the specifications for equipment in new production processes, which later led to operational shutdowns, requiring costly repairs. In another case, a major retailer trying to cut costs reduced the hours worked by staff in stores, leading to long lines at the checkout and widespread annoyance among customers.

## The power of unleashing the whole organization

An alternative approach puts the line organization at the heart of the transformation. Senior executives reporting to the CEO are accountable for the targeted results and decide how to attain the targeted goals, while line managers run the program, with the authority and the incentives to achieve the targets. This might require boosting the organization's capabilities in certain areas, or even hiring people with new capabilities.

A line-led approach can pay huge dividends. One major engineering firm running a line-led transformation is on track to meet its cost-reduction target of $450 million over 18 months, off a total cost base of $1.2 billion. Investors have rewarded the firm by quadrupling the stock price since the start of the transformation.

By relying on local knowledge and experience, companies can better understand the trade-offs involved in suggestions from the center. At a multinational logistics firm, senior executives proposed many cost-reduction measures that local managers and employees embraced. But in some cases, a local leader responsible for executing initiatives had compelling reasons not to implement them. Eliminating paper copies of an internal newsletter would alienate employees who did not typically read on digital devices. A proposed cap on salaries for certain positions would spur an exodus of top talent. Based on those assessments by the frontline manager, a divisional director stopped the initiatives.

Two ingredients, often absent in "business as usual" operations, are essential to orchestrate a successful line-led transformation: intent and accountability (*see Figure 1*).

Intent consists of three components:

- **a desirable goal** that's articulated simply and understood by all employees;
- **empowerment** of each of the initiative owners, so they feel they can make a difference; and
- **a sense of urgency** instilled through a daily drumbeat reinforcing the key messages of the transformation.

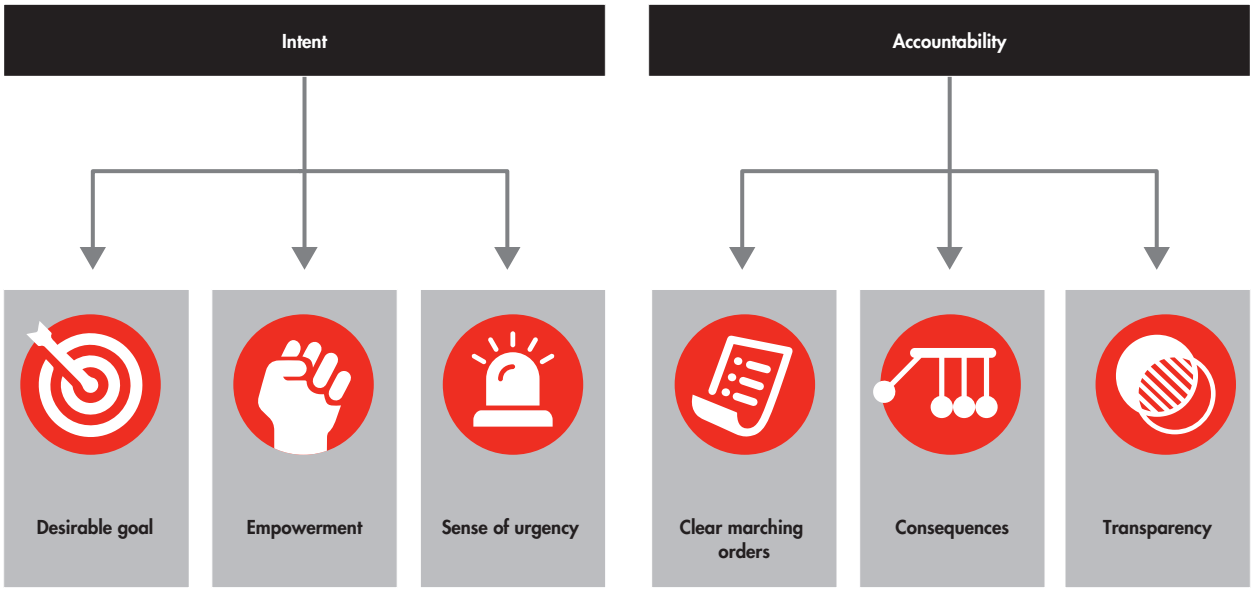
Accountability can be infused throughout the organization by relying on another set of components:

- **clear marching orders** in the form of specific targets for each business unit, and a concrete plan showing how to attain those targets (*see Figure 2*);
- **consequences**, both positive and negative, that kick in when individuals hit or miss their targets; and
- **transparency**, using metrics that indicate progress toward the goals and that everyone follows. Digital tracking and dashboards make this feasible in a far-flung organization, and help prevent costs from creeping back.

## When to use the line-led approach

A line-led approach may not be appropriate for all situations. For example, a legislative mandate would have little room for interpretation in the organizational change required, and so would not merit this approach. But there are several situations that point to a line-led approach. One occurs when the motivations behind the change program do not obviously align with business as usual, resulting in potential agency problems. A classic example concerns cost cutting, which any organization will resist if headquarters dictates the cuts. It's more effective to

*Figure 1:* The key ingredients of a line-led transformation




Source: Bain & Company

*Figure 2:* Effective line-led initiatives have several distinct characteristics

| | What this means | Example likely to succeed | Example likely to fail |
|---|---|---|---|
| Specific | Explicitly defines what is covered and what is not | Reduce paper usage in London office | Reduce overhead costs in London office |
| Practical | Describes actions that will clearly increase value | Shorten orientation to three days | Reduce training |
| Cash impact | Delivers traceable, standalone cash savings | Relocate Melbourne office to a lower-cost suburb | Review moving office |
| Ownership | A sponsor or owner controls and is accountable for execution | Close Houston office | Close underperforming offices |

Source: Bain & Company

convince the business unit staff of the need to reduce costs, agree with headquarters on a target and then have the front line make the associated decisions and trade-offs.

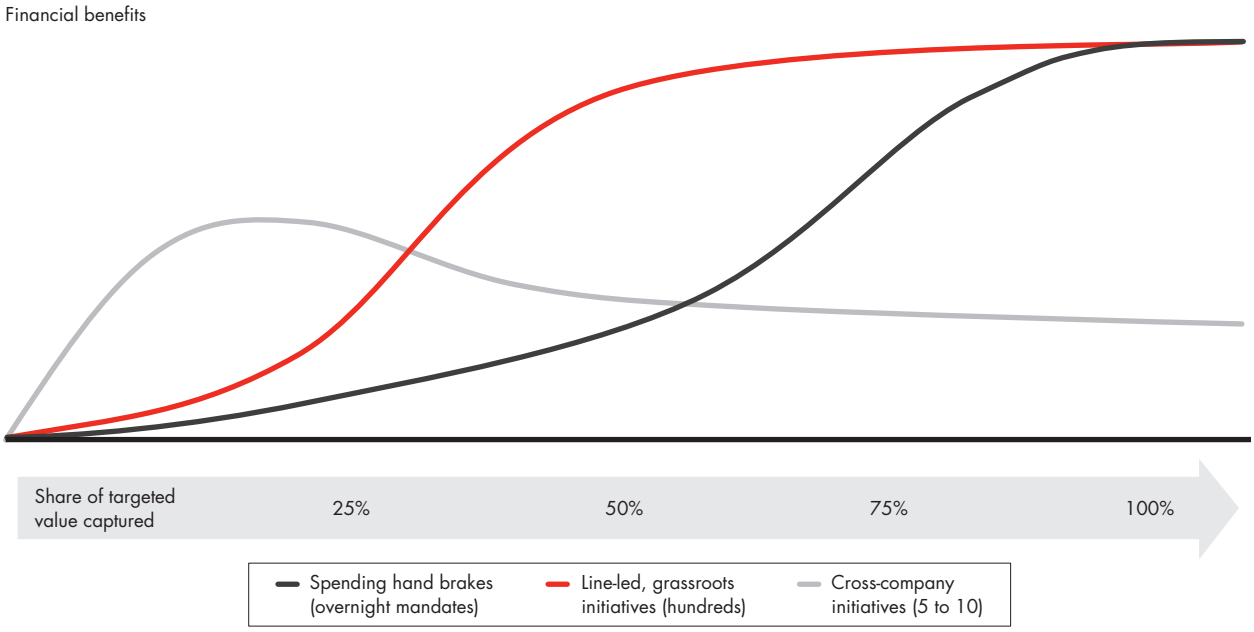
Another opening for the line-led approach occurs after a company already has made the easy or obvious moves, and now needs to capture benefits from a long tail of smaller initiatives. These initiatives often emerge from the front line, not the center, because only a local manager will know of opportunities like obsolete inventory that can be sold to raise cash.

Finally, companies should turn to a line-led program when the execution of the transformation is inherently unpredictable. One can plan, but in the heat of execution, the pace of testing and learning may be so fast that initiative owners have to make decisions with incomplete data. In these circumstances, missteps and mistakes are inevitable, which means that employees will need to make course corrections quickly. That's best done by local leadership. Otherwise, adjustments get delayed by bureaucratic approval processes.

A line-led transformation does not happen overnight, of course. It usually requires initial prodding from the center until the logic and enthusiasm take hold locally—a "tell them, then coach them, then let them run" evolution.

That was the case of the engineering firm mentioned earlier. With much of its business tied to the resources industry, the company had enjoyed healthy revenue growth during periods of high resource prices and did not focus on containing costs. When prices declined, the engineering firm suddenly found its revenues shrinking quickly, yet was saddled with a bloated cost base. As senior executives set about restructuring the business, they used three streams of effort to return to profitability *(see Figure 3)*. First, they pulled the hand brake on all discretionary spending, such as banning nonessential, nonclient-facing travel for six months. At the other end of the spectrum, they launched a number of large, cross-enterprise initiatives; these included consolidating support functions from the local level to a regional or global level, which reduced functional head count by 25% with-

*Figure 3:* Major transformations involve three streams of effort that create value at varying degrees of speed




Source: Bain & Company

out crimping their effectiveness. However, those initiatives would take time to come to fruition.

In the meantime, senior executives called on local teams to propose any cost reductions in overhead that would be significant and sustainable. Frontline managers and employees came through with many initiatives, including the following:

**Proposal management.** In Southeast Asia and in the Middle East, proposals in response to customer requests for bids were taking too long to write and review, and were inconsistent in quality from one project to another. Local teams devised more transparent and rigorous processes. They held proposal managers accountable for any proposal spending that was higher than historical monthly trends, and required managers to request more funds ahead of time for large proposals. They created proposal groups by region and industry, and connected the groups more closely with the commercial teams to tap commercial acumen. More stringent management of proposal costs saved one location $600,000 and another location $240,000 per year.

**Office utilities.** One of the firm's large offices in the Middle East had an ineffective and expensive heating and cooling system. At the urging of the local facilities manager, the landlord agreed to hand responsibility for the system to the firm's engineers. They investigated and found flaws in the installation and control process. After the engineers reprogrammed the system and improved its online monitoring, they saved $57,000 per year while enhancing staff comfort.

After launching more than 400 such initiatives, this engineering firm has taken out roughly one-third of overhead costs over the past 18 months. The mix of initiatives, from strategic to operational, ensured an immediate, consistent stream of savings.

A transformation of that scope would be hard to come by without the engagement of employees who know the nooks and crannies of the local landscape. Making clear both the intent of the effort and the individual accountability to succeed in that effort will ensure that frontline employees advance the cause rather than resist the tough changes that lie ahead.

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