

# Changing the Way You Work and Think About Your Business



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book is *X-Engineering the Corporation: Reinventing Your Business in the Digital Age*.

*Your work throughout your career seems to be an expansion of Index Systems' (now CSC Index's) early work in process reengineering. What is your latest thinking in your book on X-Engineering?*

My latest thinking will be in a new book about changing not just your business processes, but your business models. But X-Engineering is about cross-boundary process redesign—not just doing process redesign within the walls of your company, but doing it in collaboration with your customers, your partners and other business alliances. Some people will call the book “Cross Engineering,” but I call it “X-Engineering.”

*In X-Engineering you list quite a few tenets that will change the way business is conducted. You write about how to prepare for, manage, and adapt to change. How do you suggest that companies handle resistance to change?*

You know, most resistance to change comes from how people feel about the change. How they feel is the reality, but some managers ignore that reality and focus on the abstract theory behind the change initiative. They make it too academic and fail to understand why people feel the way they do about the change. If they understood and acknowledged those feelings, they could then determine how to respond to them. That's behavioral work, but it's important work; it's not “soft” work.

Many managers don't realize that change doesn't happen with a single event, even though sometimes a catastrophic event can encourage a company to change or help to establish the need for change. Because change is not a single event, it needs to be managed as a campaign, and that campaign may take longer than the one or two years most

people think it will take. I'm a strong believer now that change happens in companies over a period of years—a minimum of five years for a complete change that includes behaviors—not a period of months.

That doesn't mean that you can't get incremental business-performance improvement during the first year or two. In fact, it's important to see benefits from process or system change in that time to be sure that you are doing the right stuff.

*How has your thinking evolved about the mix of people, process and technology as organizational levers?*

I think those are still the three most significant organizational levers. But I think more strongly than ever that process is where you have to begin. You begin by really understanding the processes in the company and their current state. What are they? What's the quality of the operation? Where do the processes break down? Where's the money—where's the concentration of cost? And then you have to develop a future state—the way the world has to work with your company. What do the processes have to look like at this point? Unless you understand these two states, you're just wallowing around; you won't produce anything very good, in my view.

As you're doing that, you do have to pay attention to the people, because it's the people who will implement the change and make it happen. There are always people issues. You always have to deal with resistance. In fact, one of the first questions that is asked when you begin a campaign or a process change is whether your people have the skills and the appetite to implement the change, particularly the senior management team. I'll tell you, this isn't just about the people in the warehouse or on the line. It's about whether senior management has the appetite for change.

The most serious source of resistance comes from the senior management team when it's not aligned with what has to happen, what has to change and *how* it's going to happen. Although senior management is always ready to step up and say, “Of course we have to improve our productivity in this area by X amount and we need to put in new processes and technologies,” what is often hidden is the debate about how—how to execute on it.

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*Isn't that commonly left to people in middle management to execute?*

Yes, but when senior management doesn't like how something is happening, everything stops. I call it a campaign of silence. The senior managers don't get involved and hope that "this too will pass." For these reasons, I think the most troublesome resistance to deal with is at the top. After all, most of the time, middle management will do what it is asked, but senior management operates at a much more subtle level. Senior managers are often confronted with some of the most difficult choices they will make in their careers during a change initiative, and the leading question is whether they can accomplish the change with the current management team.

My first question to an executive, therefore, is often, "Is your team with you—not just on the abstract idea of what you have to change but on how the change is going to happen?" You often don't know the answer to this question until you get into the details about how the change will be implemented.

*Can you give an example of these sorts of details?*

I'll give you an example of what happens in warehouses and other operations associated with manufacturing. There's a classic argument that occurs about how much customization needs to happen. Is your management team going to support a policy that argues for standardization? If you don't standardize your systems and processes, every time there's a new release of technology, or anytime you want to change something, it's a huge and expensive customization problem.

**Most resistance to change comes from how people feel about the change. Responding to those feelings is important work.**

There are four important principles in the X-Engineering thinking. One is standardization. The second is transparency—openness among you and your suppliers and partners. The third is about harmonization—of jointly designing the processes. And the fourth is trust. None of this happens unless the parties trust each other and unless they believe that there's something in it for everybody.

Let me give an example in the supply chain realm. As a supplier, my mandate might be to work with my customer—the manufacturer—to improve processes so my product costs less while my margins improve. But, oftentimes, the view of the manufacturer is to beat down the price of the supplier, because the manufacturer's focus is

on the end-customer and the competition. Therefore, its agenda is to buy for less. Does the manufacturer care if its suppliers are making less? Well, I believe inspired manufacturers do care. Michael Dell knew that unless he had strong, healthy suppliers, his business model wouldn't work. He developed a build-to-order model entirely dependent on suppliers.

*What are your top three pieces of advice for senior management today, then?*

My latest work is about new business models, beyond reengineering. Effective change of the business model means changing both the promises delivered to the customer and the delivery means—the what and the how.

If I were to give a senior executive three pieces of advice today, the first would be to make sure your senior management team is with you. The second concerns the nature of the team's ambition. I am a very strong believer that the quality of the ambition very much affects what you get. If the management team says let's improve our throughput here by 10 percent, you can do that by tinkering with the operations. But if they say we want to improve by 100 percent and not build any more warehouses or facilities, it causes the team and the middle management to start to think much more dramatically. And if you don't have an ambition for more radical change, all you're going to get is incremental business improvement.

The third thing may sound very tactical, but I think it's critically important. You have to keep the CXO on the job. For a long time, management consultants argued that what you needed was simply support from a senior executive. But that's not the case. He or she has to stay in a decision-making role. Why? All of the operational and sales people in the field will argue that whatever they do is special or unique: They'll say things like, "The market is different in Omaha than in Philadelphia. We have to customize for our market." And then the implementation teams go into months of debate and discussion about how to do things. But what you get back, at best, is compromises in process and systems design.

Those teams will never make the hard decisions that need to be made. The chief executive has to be on the job observing—if not participating—in the discussion, making the decisions when there's debate and disagreement. When you see these large IT projects run over budget by tens of millions of dollars, most of the time it's because there was not a senior officer present to make the hard decisions, so things got delayed; they got overly complex and customized.

### *How does the CIO figure into this equation?*

The CIO is the most senior technology implementer. But sometimes he or she does not have the authority or clout in the organization to tell a district manager he can't have it the way he wants it. It takes a very powerful voice in these arguments. Sometimes the CIO just isn't senior enough in the enterprise to make decisions against what the line managers want. Even when there are close bonds between CEO and CIO, the bond is often not sufficient. It takes the authority of an operating officer.

### *X-Engineering implies a lot of collaboration. What's driving collaboration today?*

The Internet is a big enabler. I believe it will bring about radical business change. After all, it provides almost free infrastructure to allow companies to operate in fundamentally different ways. And also to change not just how a company does its work but what it does—the nature of the service or product being delivered.

Let's get back to your question of the people-process-technology mix. While I believe companies need to start with process, IT is more strategic than ever when combined with process. This combination can dramatically change the strategy of a company.

The benefit from technology isn't just in the transparency it provides between companies and their suppliers and customers. IT allows them to achieve whole new levels of performance standards. It allows them to think much more dramatically about where work gets performed and who can perform it—enabling the redistribution of work, particularly of intellectual work.

All of this offshoring could not occur without a technology infrastructure.

### *Do you think this level of offshoring as a result of globalization is a good thing, is inevitable?*

Absolutely. In any free economy it's inevitable. And again, the technology and logistics enable it. The alternative is to build a protectionist environment, blocking the movement of work. The result of that has always produced non-competitive companies.

I'm actually a believer that offshoring and globalization are for the greater good. I'll tell you why, from a U.S. perspective. The unemployment numbers in the United States are very low. Of course, there is displacement of work and workers—some people lose their jobs—yet there are plenty of jobs. Perhaps they're not the high-paying manufacturing jobs some people have counted on. But

there still are manufacturing jobs, maybe in different locations and different industries that require higher skills.

But this country is not suffering from offshoring. A lot of companies are making all kinds of profit and building up big cash reserves. So globalization is not the issue here.

### *What do you think the more significant issue is?*

The productivity improvement of the last 10 years has principally benefited shareholders and senior managers. Workers have not benefited from it. They're making less and they're working harder. But that's not the fault of offshoring. It's because companies have failed to reward workers more aggressively than they do. And the reason they don't is because they're under tremendous pressure by very short-sighted shareholders to maximize earnings. Yet this strategy is not sustainable in a capitalist society.

### *Why not?*

What's not sustainable is paying the executives and shareholders and saying to the workers, "No, sorry, wait 10 years and maybe something good will happen to you." The workers become demoralized and wonder, "What am I doing this for? Is there a future for my children?" This demoralization is very harmful to building a good enterprise. If you want to build a good enterprise, you want your workers excited, committed, believing in the mission of the place and believing that they're being treated and paid fairly. A company that is not doing this will not have a committed or quality workforce, and that will eventually hurt it.

### *What is going to stop this trend?*

Good question. My hope, frankly—and I do see some signs of this—is that there will be companies that take a much more inspired view about how to treat their people. I think Pepsi is a company like that. I've always admired it as a company that treats its people very well.

I know this sounds like a socialist point of view, but it is actually a capitalist point of view: In order to do something effective, there has to be something in it for everyone, including your workers. The work should get better. The ability to profit should get better. There should be collaboration within and beyond the walls of the enterprise to create value.

This interview was conducted by *Supply Chain Leader* editor **Victoria Cooper** in June 2007. Cooper is the principal of Cooper Communications in Sausalito, CA.