

by

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Achieving the Full Value of Large Scale Programs

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With the continued uncertainty in global markets, the ability to bring large-scale programs to a successful conclusion has become even more critical for the survival of many Fortune 500 companies—regardless of whether they are under pressure to achieve multibillions of dollars in savings or to realize revenue synergies from an acquisition.

Yet given the complex and dynamic nature of large programs, managing them is a daunting task. They can involve hundreds of separate initiatives, several hundred to several thousand employees and outside partners, and can last from several months to several years. Plans, milestones, and commitments may change over time, for good reasons. Assumptions about such factors as customer demand, competitor responses, and internal capabilities may change as well, potentially jeopardizing the overall program success.

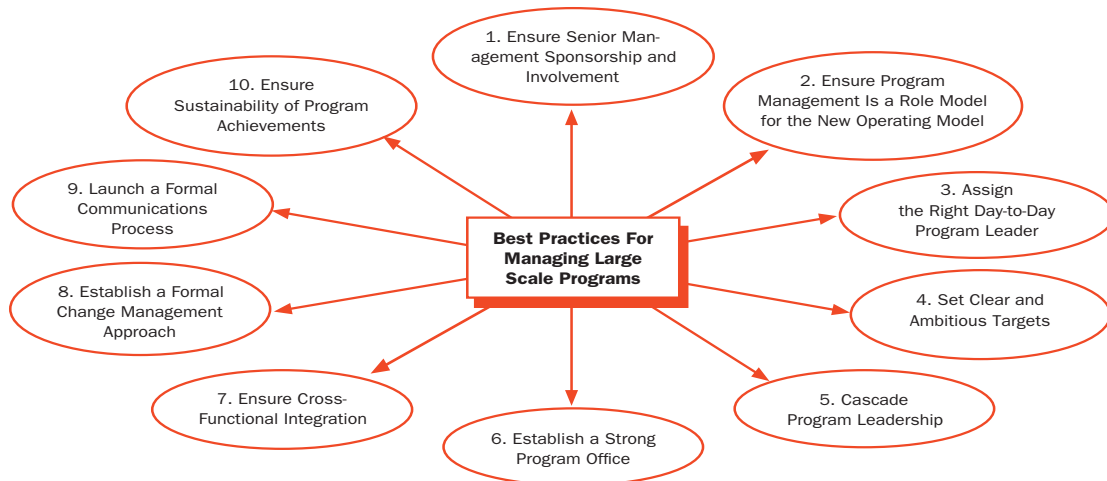
Consider these two examples:

- In 1994, Quaker Oats acquired Snapple in a \$1.7 billion transaction, assuming that significant synergies could be realized by pairing Snapple and Gatorade. It formed the Quaker Beverage division and launched plans to realize the synergies. Trouble soon began. Key Snapple senior management left, and the company was unable to create an effective hybrid distribution system. Quaker Oats continually delayed initiatives in operations, manufacturing, sales, and marketing, leading to a serious decline in revenues and margins, and the worst performance in Snapple's history. Eventually, Snapple was sold to Triarc for \$300 million.
- In 1998 the IRS launched a transformation program to address a number of publicly known problems, including inadequate customer service, outdated processes and infrastructure, a highly bureaucratic and multilayered organization structure, weak accountability, and a failed \$3.2 billion modernization program. The effort touched every part of the organization and involved more than 100,000 people throughout the country. Results were dramatic. After an eight-year decline, customer satisfaction has increased every month since the new structure was adopted. The service's public confidence rating has risen 20% since its historic low in 1998.

What drives the difference between situations like these?

Booz Allen experience in many large-scale transformations has taught us that things can go wrong without a dedicated, structured, and comprehensive program management approach. A program may not be progressing well when these symptoms appear:

- Lack of senior management involvement in, attention to, and debate about program direction and progress
- Infrequent or no updates to and by senior management of program progress
- A lack of key financial and operational metrics to measure progress
- Limited efforts to close any gaps, if planned actions fall short of the targets
- Limited program visibility and organizational awareness of program objectives and progress
- Constantly changing plans and milestones

Exhibit 1**Best Practices For Managing Large Scale Programs**

Source: Booz Allen Hamilton

- An increasing number of sacred cows as the program progresses (i.e., symbols, behaviors, processes that cannot be touched as part of the program)
- An “invisible” program leader, i.e., nobody knows who is actually leading and driving the effort

We have identified the following set of best practices that will allow senior management and day-to-day program leaders to treat the underlying causes of these symptoms and significantly increase the chance of a successful transformation (see Exhibit 1). Most organizations do not place enough emphasis on these practices, or simply overlook their importance.

1. Ensure Senior Management Sponsorship and Involvement

Senior management sponsorship and involvement is crucial. First, it sends a signal to the organization that the program is a top priority. Second, senior management plays a critical role in making sure that the program is on the right trajectory by accelerating or making tough decisions, allocating and redirecting resources to ensure a program is properly resourced, and ensuring that the program is not in conflict with other strategic goals. Finally, only by being closely involved with the program will senior management know enough to make the adjustments and tough calls necessary to ensure that the program is moving in the right direction.

Senior management needs to commit enough time to:

- Gain sufficient knowledge about key program elements, such as its objectives, approach, and structure, key initiatives and initiative leaders, and critical milestones and status of the key initiatives

Client Example

The benefits of active senior management involvement were exemplified in a recent restructuring effort at a consumer goods company, where the CEO, COO, and CFO were closely involved throughout. Prior to officially launching the effort, they established a clear top-down target, selected the key individuals from senior management to drive the initial assessment, restructuring planning, and implementation, as well as the person to lead the overall program. During the assessment and planning efforts, they participated in weekly cross-functional executive meetings and received in-depth reviews, established priorities, approved and redirected resources, and helped resolve cross-functional issues. In addition, each of the leaders held one-on-one sessions with each of the functional leaders at least once a week. They also participated regularly in formal communication and change management team meetings. As a consequence, the senior team and rest of the organization were fully aligned and committed to the program success, the program objectives were fully met, and the first milestone, the development of the new business model and restructuring plan, was reached without any setbacks.

- Be a visible and integral part of the program—be present at key meetings, and walk the halls and talk to people at various levels who are involved in the program, as well as those who aren't involved directly but see it unfolding. This will give senior management a reality check by identifying issues and concerns, and by giving them a sense of whether the organization is behind the program

Our experience suggests that, at a minimum, senior management should be involved on a weekly basis, but in more critical situations involvement may have to be daily.

2. Ensure Program Management Is a Role Model for the New Operating Model

Most large-scale transformational programs fundamentally change the face of the business. Changes might include strategic objectives and goals, the business and operating model, organization structure, culture and values, and performance measurement.

Individuals involved in managing the program, therefore, need to think out of the box, applying a clean sheet approach, instead of being constrained by day-to-day business concerns and accepted practices, which will include an abundance of sacred cows. This will allow these managers to fully focus on the program as their top priority from inception to conclusion. It will also demonstrate by example what the new values and principles are and how they should be “lived.” Finally,

Client Example

As a first step during a multibillion working capital reduction effort at a global communications equipment provider, the teams developed a rigorous baseline of the company's inventory and accounts receivables against various dimensions, including geography, order status and physical location status, age, convertibility to cash, and conversion stage (e.g., work in progress versus finished good already shipped to customer site). The company's end-of-quarter balances formed the anchor points against which improvements were measured. The teams then provided weekly updates to senior management on actions taken and changes in balances, which resulted in a high degree of transparency and a clear understanding of progress.

Client Example

During a large recent cost reduction effort a global transportation and logistics provider physically co-located the internal individuals participating in the effort as well as Booz Allen team members. Working together every day ensured that the overall team was focused, operated as a team, felt joint ownership, and progressed rapidly. It also ensured cross-functional teaming and knowledge transfer.

it will allow senior management to measure the incremental impact of the program.

Best practices in this area include:

- Clearly separating the new business from the old
- Clearly defining the program structure, including its objectives, teams, team leaders, and their charters and reporting structures
- Physically separating and co-locating critical participants to foster a joint ownership of the program
- Establishing a clear baseline against which success will be measured
- Establishing and tracking specific financial and non-financial metrics to measure the incremental impact of the program. For instance, a company may target certain absolute cost levels, and launch a program to implement savings. The company may then actually realize the cost levels due to general business factors, such as reduced volumes, rather than from fully implementing the change initiatives. Attributing the success to the program would give a misleading picture of its effectiveness
- Temporarily establishing reporting structures to ensure C-level and senior management involvement; the program leader may directly report to the CEO, COO, or CFO or an executive committee

3. Assign the Right Day-to-Day Program Leader

Employees will gauge the importance of the program as well as its likelihood of success based on the choice of the program leader.

From our experience, the day-to-day program leader should possess the following qualities:

- *Thought Leadership*—recognized as a thought leader with the ability to think longer term and out of the box
 - *Balanced Mix of Content and Process Expertise*—the content expertise will allow this person to step in as appropriate, to challenge team assumptions and conclusions, and to facilitate a sound and pragmatic approach. The process expertise will ensure a sense of urgency, attention to milestones and deliverables, and a structured approach to get to results
 - *Cross-Functional Leadership*—proven experience building and leading cross-functional teams. Since most larger programs involve cross-functional challenges and solutions, this leader will need to be able to bring together a team of individuals from often different functions, with different objectives and goals, and different management styles, and shape them into a team that thinks as one and demonstrates joint ownership. This includes the ability to sense and challenge silo mentality and to act as a facilitator in resolving cross-functional conflict
 - *Program Ownership*—understands the critical nature of the program and buys in (at a personal level) to the overall goal of the program
 - *Passionate and Unintimidated*—able to push the program through at all levels in the organization and able to elevate key issues up the hierarchy to have them addressed in a timely fashion. Willing to bet his/her career on the success of the program
- Targets should be top-down where possible; where not, they need to be quickly pulled together and tested for aggressiveness team-by-team
 - Targets and stretch targets should be set at the program level
 - Targets and stretch targets should be limited to one or two
 - Targets should be broken down into subtargets for each of the teams involved—subteams could be structured by function, geography, or initiative. This process can involve several levels
 - Program targets should be publicly announced to instill a sense of urgency and pressure on the organization to deliver

Client Example

During a recent restructuring effort at a consumer goods company, senior management first established a \$1 billion cost-reduction target. This target was then broken out into individual targets for each of the functional teams, including sales, marketing, R&D, manufacturing, and G&A. The functional teams then established further targets by initiative; for example, the overall sales target was broken out into targets for retail, wholesale, and retail displays. This ensured that the efforts of all the teams involved were linked back to the overarching goal, but it also allowed each of the teams to have individual goals to meet and exceed.

4. Set Clear and Ambitious Targets

Clear and ambitious targets serve several purposes. They need to be clear enough that every individual within the organization can relate to them. For instance, instead of announcing that “we will significantly reduce our costs,” a clearer target would be to “deliver \$1 billion in annual cost savings by the year 2006.” Second, they need to be ambitious enough to indicate that radical change will be required to succeed. Finally, targets should be ambitious enough to factor in the risk of slippage—the tendency that in large-scale programs identified savings rarely translate 100 percent into realized savings.

Best practices would suggest:

- Targets and stretch targets should be set or approved by the executive committee

5. Cascade Program Leadership

The complexity and sheer size of a typical transformation program requires the distributed shouldering of planning and implementation responsibilities to remain manageable. Embedding ownership throughout all levels of the organization will ensure that the program can gain momentum and lead to broad change.

Best practices in this area include:

- Use a top-down process to define program leadership at the various organizational levels
- Assign single leadership for an area of responsibility to ensure clear accountability
- Clearly document roles and responsibilities through team charters

Client Example

During a recent transformation program at a technology hardware manufacturer to establish a services-led go-to-market approach, program leadership was assumed at various levels. At the top level an executive committee comprised of CEO, COO, and business unit heads ensured alignment with the overall strategic objectives, and approved funding and resources. At the next level a cross-functional steering committee provided guidance on program direction and priorities, monitored progress, redirected resources, and helped resolve issues. Each member of the steering committee led several teams focused on individual initiatives. Each team developed a team charter documenting targets, leaders and support roles, work plans, and milestones. These charters were subsequently updated regularly and used as part of the reporting process. This approach ensured transparency and single-point accountability.

6. Establish a Strong Program Office

To be able to manage the complexity and constantly changing nature of large-scale programs, as well as their associated risks, senior management needs to establish a structured and coordinated approach, give visibility to all aspects of the program—in particular, its progress, conflicts, and delays—and be able to detect and fix problems as they arise. Typically a program office assumes these responsibilities. Program offices require minimal investments to be effective but they are critical in keeping a pulse on the program.

Two extreme forms of program offices have evolved. In the strong form, a central office assumes responsibility for tracking activities and results. In the weak form, the tracking of activities and results is decentralized, and the central office's role is to provide consistent tracking and reporting frameworks and guidance. And anything in between is possible. The leadership has to choose a model that fits best with the company's particular objectives and culture.

Best practices would suggest that the program office assumes the following responsibilities:

- Structures the overall program—teams, roles and responsibilities; linkages; decision-making and

approval processes—and manages a formal plan-change process

- Designs and implements processes and tools to capture relevant program information—initiatives, work plans, milestones, deliverables, commitments, performance metrics—and serves as the day-to-day point of contact for this information
- Maintains an integrated program plan and ensures activities and milestones throughout the program are coordinated and synchronized
- Tracks, monitors, and reports progress and identifies gaps; the program office should track inputs, not just outputs after the fact. Tracking the inputs, or the most important milestones that lead to the desired outputs, prepares the leadership for making appropriate trade-offs upfront and allows it to act proactively rather than reactively. The office assumes an early warning function, either centralized or decentralized
- Identifies cross-functional issues, bottlenecks, and constraints, and supports resolution
- Ensures sufficient communication within the program and to the broader organization
- Provides objective and independent assessment of the overall program

While these responsibilities can be distributed, a single program office ensures clear accountability. A centralized program office often operates more efficiently and

Client Example

To achieve the planned synergies from integrating two leading healthcare providers, a strong-form program office was established. The office structured the change program, ensured coordination and completion of planning efforts, established weekly reporting cycles, and tracked and monitored progress and results of 14 major transition teams. It developed and provided tools, such as an employee tracking tool that allowed detailed tracking of planned and actual headcount reductions and transfers between departments, divisions, and the merging companies. This was key to achieving the targeted savings.

effectively, especially when targets are very aggressive. Ideally, the program office should report directly to the overall program leader and steering committee.

We typically have a bias toward a strong-form program office, because it allows better control and increases the certainty of success.

7. Ensure Cross-Functional Integration

Many organizations still operate with functional silos. What looks like an optimal solution for one function might hurt performance for another. For instance, marketing might recommend investing in new products, while R&D, facing a budget cut, might plan a reduced level of new product development.

Cross-functional integration and synchronization is therefore a key success factor in coming up with pragmatic and sound plans across the organization, and to ensure every function is aligned with the broader program direction and objectives.

Best practices in this area include:

- Establishing cross-functional steering committee and working teams—any recommendations or conclusions should be discussed by the cross-functional teams to ensure that potential conflicts, trade-offs, and other issues are adequately addressed
- Maintaining a running list of cross-functional issues and plans for resolving them

8. Establish a Formal Change Management Approach

It is critical that the change management process have a structure formal enough to ensure that the organization recognizes and supports the need to change, has a vision of the new organization, and is prepared to make the change happen. Initially, senior management commitment, buy-in, and alignment are crucial. As the program gets closer to implementation, this commitment, buy-in, and alignment will have to be embedded within the whole organization.

Best practices would suggest:

- Obtain the agreement of senior management that the change program must be an essential part of the overall corporate agenda
- Weave change management throughout the organization by formally assigning responsibility for change

Client Example

A major multi-line insurer with consistently flat earnings determined it needed to change performance and behavior to prepare it for going public. It followed the cascading approach to change, training and supporting teams at each stage: 10 officers setting the strategy, vision, and targets, 60 to 80 senior executives and managers designing the core of the change initiative; 500 leaders from the field to get the details right and drive implementation. This structure remained in place throughout the change program, which doubled earnings far ahead of schedule.

management to individuals and teams at various levels and within each of the functions

- Make the change management team engage with different seniority levels, including senior management
- Conduct regular assessments of management concerns, employee buy-in, and readiness to change
- Embed elements of the change program into every initiative, including team discussions, workshops, and training

9. Launch a Formal Communications Process

With any major transformation, formal and structured communications are critical to ensure that legal and financial communications requirements are being met, and that internal (employees, board) and external stakeholders (shareholders, local communities, financial analysts) are thoroughly informed. From our experience, transformations need more communications than senior management expects.

Best practices would suggest:

- Establish a formal communications team that meets weekly
- Establish an integrated calendar of all critical milestones
- Establish and maintain a list of all critical communications all-hands meetings, analyst calls and meetings, press releases, board meetings, internal memos and notifications

Exhibit 2

Announcement Approaches

Question Addressed	Minimalist ←	→ Comprehensive
<i>Vision & Strategic Rationale</i>	▶ Limited information on strategy	▶ Defined Vision ▶ Clear strategic priorities (e.g. customers, product lines, business model) linked to the vision
<i>Objectives/Expected Results</i>	▶ Generic, nonquantitative objectives, such as maximizing shareholder value, growing earnings, and improving cash flow	▶ Comprehensive set of measurable targets such as EPS, EBITDA, operating earnings, debt-to-equity, cash balance
<i>Short-term Financial Changes</i>	▶ Restructuring charge, cash, and noncash ▶ Timing of the impact (year) ▶ Asset sales ▶ Savings run rate	▶ Restructuring charge, cash, and noncash ▶ Timing of the impact (quarter and year) ▶ Asset sales ▶ Impact on cash flow ▶ Proforma results (P&L, cash, and debt) for the next 12-18 months
<i>Short-term Operational Changes</i>	▶ Headcount impact (% of workforce)	▶ Headcount impact (% of work force and #) ▶ Factories closed ▶ Facilities shut down ▶ Distribution centers closed next 12-18 months
<i>Short-term Organizational Changes</i>	▶ No description of organizational changes, such as appointment of leader, consolidation/breakup of groups	▶ Individual appointed/identified/named to lead the restructuring effort ▶ Restructuring of organization specified (merged groups, reassigned managers, etc.)

Source: Booz Allen Hamilton

- Use a tailored approach for external announcements (see Exhibit 2)
- Communicate early, even if the information available is incomplete
- Involve senior management in communication planning and delivery
- Enable frequent feedback, and quickly address issues and communicate resolution to teams; create an

internal feedback mechanism—ideas, suggestions, concerns, Q&A

10. Ensure Sustainability of Program Achievements

While short-term improvements can often be achieved by deploying a “brute force” approach, an organization must establish the appropriate capabilities, processes, tools, and metrics to ensure that program achievements can be sustained longer term.

Best practices would suggest:

- Continuously assess what capabilities will be required to sustain program achievements
- Define, plan, launch, and implement a set of initiatives to develop or strengthen these capabilities
- Establish short-term, mid-term, and long-term financial and nonfinancial metrics and implement tracking and reporting processes
- Develop and provide training and educational programs to make the changes stick

Client Example

During a far-reaching effort to develop and implement a more efficient and effective operating model to drive improved performance, a leading insurance provider launched a focused and comprehensive two-way communications program to keep employees informed. The project was launched with a video featuring the CEO, while periodic newsletters, presentations, and training sessions, town hall meetings, and even an 800 number information line were employed throughout the entire project.

- Institutionalize focus on “continuous improvement”— e.g., by setting the right targets, establishing the right incentives, and rewarding the right behaviors

Making large-scale change happen requires a structured and focused management approach, and over the

course of a large scale program many challenges have to be overcome. By deploying these 10 best practices, senior management will dramatically increase the likelihood that the large-scale program will succeed.

What Booz Allen Brings

Booz Allen Hamilton has supported many clients across industries and governments in managing large-scale transformational programs, including restructurings, acquisitions and post-merger integrations, business launches and market entries, new operating model implementations, and others.

Most recently, we supported the No. 2 cigarette manufacturer in the United States in revitalizing growth and capturing \$1+ billion in cost savings (or 30% of the addressable cost base), by launching a comprehensive restructuring program involving a brand investment strategy, marketing, and a go-to-market approach focused on profitable growth as well as far-reaching cost-reduction initiatives across operations and business support functions.

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With more than 14,000 employees on six continents, the firm generates annual sales of \$2.5 billion. Booz Allen provides services in strategy, organization, operations, systems, and technology to the world’s leading corporations, government and other public agencies, emerging growth companies, and institutions.

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Mr. Ripsam would like to thank the following individuals who contributed to this article: Jack McGrath (Senior Vice President, Cleveland), Barry Jaruzelski (Vice President, New York), John Jones (Vice President, New York), Steffen Lauster (Vice President, Cleveland), Andrew Tipping (Vice President, Chicago), and Srin Achanta (Associate, Cleveland).

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