

THE HIDDEN COSTS OF CHANGE

One of the biggest reasons that big initiatives fail is because people have failed to assess the hidden costs of change. The benefits of pursuing a given course – launching a new product, or expanding into new territory – may be outweighed by hidden costs that motivate certain people to cling to the status quo. Unmasking hidden costs is the only way to move the initiative forward.

For example, when working with a large city to implement its strategic plan, we unexpectedly encountered resistance from the chief of police. His actions were inexplicable, until we learned later that his department was covering up major budget overruns. Had the strategic plan moved forward, the cover-up would have been exposed. To the chief, the strategic plan had hidden costs.

The following list shows some of the hidden costs that companies typically wrestle with:

- Functional silos create self-justifying priorities, with the result that the organization doesn't respond to change quickly and external opportunities are not capitalized on with enough speed.
- Internal performance measures are in conflict – resulting in people working at cross purposes.
- Resources are dissipated across many products and services, rather than focused on a single point of excellence.
- Internal gatekeepers are acting as chokeholds on innovation. No one can say “yes,” everyone can say “no” to a new idea.
- A particular business process is not working well – customers are unhappy, value is being lost in wasted time, returns, loss of goodwill. But no one “owns” the process end to end, so change is difficult.
- Information systems are not delivering the value needed. Legacy systems are continually bandaged, rather than scrapped altogether.
- The board of directors is unclear about its role and micro-manages senior staff, causing discontent and turnover in the senior ranks of the organization.
- An organization's structure has not evolved at the same pace as the organization itself. Management roles aren't aligned with the processes that create value.
- The company's top performers are being “rewarded” with more work and responsibilities, while unproductive employees are not being held accountable.

Leaders should pay close attention to this list. It's often difficult to see these issues at first. Many of them will be obfuscated by well-meaning people who have only a partial view of the problem. Up until its dying days, Arthur Andersen's managers vastly understated the impacts of the Enron fiasco. It's simply human nature to put a rosy face on an ugly duck.

This is why leaders need to look beyond symptoms to the underlying causes. If someone says something is true, don't take it at face value. Question it, get the observable data. Uncover the hidden costs of change.