Issue 5, December 7, 2017

TRANSFORMATIONAL CHANGE MUST EMBRACE THE HARD STUFF

GE's share price has underperformed for years, and CEO John Flannery, who took over from Jeff Immelt in August, has acted fast and made a number of hard choices, in part no doubt because activist investor Trian has a seat on its board.

After slashing GE's profit and cashflow expectations for 2017, and describing its performance as "completely unacceptable", Flannery cut the quarterly dividend payout by 50 percent (a sacred cow for GE investors) and said the company would divest at least $20 billion of businesses to focus on aviation, power and healthcare.

"There's a traditional way of looking at change, where you say 'let the whole organization get comfortable with stage one and then we'll build on it'," says Joe Berardino, Managing Director of Alvarez & Marsal's corporate transformation practice. "That's fine in certain organizations at certain times, but inevitably it's not transformative. You end up having change fatigue after having change upon change."

> **"IF IT'S TOO COMFORTABLE, IT IS LIKELY INCREMENTAL VS. TRANSFORMATIONAL CHANGE."**
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> **Alvarez & Marsal**, enterprise transformation lessons learned no.3

Why would companies delay the really transformative? "Because it is hard," says Berardino. However, incremental improvement will not help many companies to deal with the challenges of today's business environment.

Western economies are not growing rapidly, and technology is disrupting business models either as an enabler or as a challenger. With our heritage in restructuring, Alvarez & Marsal has a wealth of experience in working with clients who need to make difficult choices fast – and we believe that executives must make the uncomfortable decisions as soon as they identify them in order to produce meaningful, lasting change.

"If you have reached the determination that you need to radically transform your organization, then the key to that success is to take on the hard stuff early," says Berardino.

John Flannery is trying to get ahead of GE's problems in this way, just as Brian Cornell did when he took over as CEO of Target – only months after joining the company, he took the decision to entirely close its lossmaking Canadian business.

However the "hard stuff" is certainly not limited to disposals and layoffs – companies may need to rethink their entire supply chain, address digital disruption by adopting cloud computing, or otherwise dismantle "the way things have always been done."

The retail sector, for example, is being forced to view its business through an entirely new, consumer-driven lens: J.C. Penney this month eliminated the once-powerful chief merchandising officer role.

We not only help companies establish the actions they must take to truly transform their operations, we work with them to implement the changes so that executives can stay focused on doing the best job for customers. A recent interim CEO also asked us to come back some months after the transformation had been implemented "to make sure there hasn't been any backsliding."

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We consider this to be one of the most important lessons we have learned from the transformations we have supported: **you cannot cherry pick the easy stuff and ignore the hard stuff.**

GOT A QUESTION? CONTACT AN INFLUENCER

ANSWERS ARE ONE CLICK AWAY

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