

# Less is more: The hidden costs of change in organizations

Dirk Verburg

A number of change initiatives in organizations do not add, but rather destroy value. In this article the reasons for this are explained and recommendations are given on how to prevent the launch of such initiatives. Concrete examples are provided to illustrate the issues.

## Change has become a necessary and constant factor

In the last 20 years, organizations are implementing more changes in terms of the way they are structured, executing their processes and shaping their culture (in terms of desired behaviors), than ever before. In addition to this, the speed at which these changes are executed is increasing rapidly. Change has become a vital characteristic of successful organizations. It is like what Bob Dylan already sang in 1965: 'He who is not being born is busy dying'<sup>1</sup>. Organizations that do not adapt themselves in the right way and at the right time to changes in their environment often cease to exist, with all the associated broader economic and social consequences (unemployment).

Fortunately, most organizations are equipped with leaders who realize this and are able to initiate and implement changes in their organizations in an effective manner, or, if they are under the impression that they are not capable of handling this effectively themselves, can elect help out of the armies of external consultants on the market who are more than capable and eager to assist.

## Change for the sake of change

So if changes are necessary and most organizations are able to handle them effectively, what is the problem? The problem is that in the current economic climate, more and more non-functional

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<sup>1</sup> The line is taken from the song: 'It's Alright, Ma [I'm Only Bleeding]' from the album 'Bringing it all back home'.

change programs are introduced; programs that are initiated for the wrong reasons, have a negative effect on the motivation of employees and destroy shareholder value. What are some of the typical situations in which these non-functional change initiatives (change for the sake of change) take place?

- **Change of leadership** – In some countries and companies there is a 'built-in' expectation in the culture that newly appointed leaders will, almost immediately, replace a number of their direct reports and/or make other radical changes to the organization, *regardless of the fact whether there is a real need or reason to do so or not*. This expectation can live inside the organization, externally or both. Failing to live up to this expectation often has a negative effect on the leader concerned: instead of praising his prudence and thoroughness, his decisiveness is called into question.

*Examples range from isolated change initiatives (often with words like 'One' or 'New' in the name) announced by newly appointed functional leaders in areas like IT, Finance or HR, to newly appointed CEO's, announcing the reduction of thousands of jobs, expanding into China and transferring production to low costs (read: low wage) countries.*

- **An external crisis, which cannot be influenced or used as an opportunity** – Organizations can go through crises or

difficulties that cannot directly be influenced or mitigated by the organization itself. Examples include technological, legal or macro-economic changes, which lead to cautious behavior and (temporary) decrease in demand on the side of customers or stakeholders. Although the best thing might be to weather out the storm, managers often feel they need to do 'something', even if this has nothing to do with the crisis itself.

*The regional operating company of an international producer of high tech equipment does not have the right products in its portfolio to serve the market in an optimal way. Hence the results are not as good as they could be. The reason is that the holding company does not want to make certain products available for the region in question for 'strategic reasons'. Since the leaders of the operating company feel that they are not in a position to address this topic (again) to the holding company and there is no room for additional efficiency measures (including headcount reductions) in order to reduce costs, they decide to overhaul their IT landscape in order to 'do something'.*

- **Fashion** – Just like there is market for consumer products susceptible to trends and fashion (e.g. clothes), there are also trends and waves on the corporate initiative market. Examples include Information Planning, Kaizen, Just in Time manufacturing, ERP systems ("SAP"), Sensitivity Training, Balanced Score Cards, Activity Based Costing, Time Management, Diversity & Inclusiveness, Total Quality Management, Core Competences, CRM, Six Sigma, Shared Service Centers, etc.<sup>2</sup>.

<sup>2</sup> An interesting book about the topic of fashion in the world of management is written by Micklethwait, J. and Wooldridge, A.: 'The Witch Doctors – What the

In the same way that consumers quite often have the impression that buying certain products will vastly improve their life (Blue Ray DVD player, a new kind of toothpaste, a boat, etc.), managers also have the idea that adopting certain trends will vastly improve the performance of their organization. The psychological mechanism through which these trends are sold (often labeled as 'solutions') by internal stakeholders and external consultants, is often similar to the way consumer products are sold, i.e. by sellers who make unreasonable claims in terms of the effect(s) the product will have and buyers who happily make one or more leaps of faith to believe this.

*The executive team of a multi-national company who decides to adopt a company wide Diversity Program based on the assumption that this will increase their stagnant turnover, might be making the same leap of faith as a couple deciding to buy a boat together in the expectation this will save their marriage. There might be a causal relationship in both situations between the means (Diversity, Boat) and the ends (Increase in Turnover, Saved marriage), but then again there might be none. In both situations a successful outcome is far from certain.*

This does not mean all these trends or solutions are wrong, but it does mean that decision makers in organizations seriously need to consider if they really need to embrace certain trends or solutions at specific moments in time, and if so, into which degree, depending on the specifics of their organization and the context in which it operates.

- **Peer pressure** – This factor is related to the one above. Keeping up with the Joneses exists in the corporate world as

management gurus are saying, why it matters and how to make sense of it' – Mandarin 1997.

well.

*The author once overheard a conversation between two senior executives, where one of the executives asked the other if his organization had already implemented SAP yet. The tone and 'matter of factness' of the conversation strongly reminded him of the way middle-aged women are sometimes depicted in soap operas: 'Have you already undergone a Botox treatment?'*

### **What are the possible consequences of these non-functional change programs?**

A number of organizations and decision makers fail to realize that, in addition to the visible costs (e.g. for external consultants), there are often hidden costs associated with these non-essential changes:

- **Loss of productivity** – In the shorter term, productivity may suffer as a result of the fact that employees will need to spend time and energy on dealing with the change program instead of focusing on their core activities. They may need to attend 'town halls' (formerly called 'All staff meetings') workshops and other meetings. They may even have to worry about the content or, in the worst case, the future of their jobs. To put it crudely, if a company employing 1.000 employees whose total costs of employment are \$1.000/day, wants all his employees to spend one day on a particular change related activity, the costs for the company are \$1.000.000 on an annualized basis (ex. facilitation costs). This means the return on investment should be more than \$1.000.000 to justify this, or otherwise shareholder value is destroyed.
- **Loss of customer focus** – The vast majority of change initiatives does not benefit external customers directly, but only indirectly (e.g. Diversity) or with a time delay (e.g. head count reduction

programs do not immediately result in lower costs and even customer service programs hardly ever show instant results). This means in the vast majority of cases that 'real-time' time and energy is usurped by internal activities rather than spent on serving clients and their issues.

*The HR organization of a service organization goes through three major reorganizations in less than three years. New reorganizations undo some of the changes that were initiated by earlier ones and internal customers have not experienced any improvements yet. On the contrary, they experience that their HR colleagues are more and more distracted by insecurity about their own roles and responsibilities. Meanwhile, top management of the company is told and believes that the pot of gold, which the reorganizations are supposed to bring in terms of cost savings and customer satisfaction, is just behind the horizon.*

- **Loss of motivation** – Almost all changes involving headcount reduction lead to loss of motivation of employees before, during and after the implementation of these changes. The reason why the motivation of employees who are affected by the change suffers is clear. However, it is interesting to see that also the motivation of those employees that are not affected suffers to a large extent: a number of them will often leave the organization not too long afterwards as a direct result of a reorganization, which has not even affected themselves. They feel however that their psychological contract with the company is broken<sup>3</sup>.

Change initiatives which do not directly lead to headcount reductions or changes in the job content, can also lead to loss of

<sup>3</sup> See for instance Nohria, N., Groysberg, B. and Lee, L-E: Employee Motivation: A Powerful New Model, in Harvard Business Review, July–August 2008.

motivation. The reasons for this are varied but include:

- ***Cynicism towards management*** – Cynicism should be expected if employees cannot be convinced of the necessity or usefulness of the changes, and/or if they see a discrepancy between the way in which leaders talk and the way they act. This cynicism usually goes hand in hand with a loss of credibility of the leaders and can undermine the long-term trust relationship between the employees and their leaders. It is hard for the employees to understand why their leaders cannot see or admit that the emperor does not wear clothes.

*In a leading professional services organization, the dominant management style can be described in terms of a combination of 'management by fear' and 'micro-management'. Employees who make mistakes are punished with a lower bonus or even dismissed. The main reason most employees stay is the above average financial compensation they receive. At a certain moment top management insists that all middle managers should attend a workshop with their direct reports in order to learn to think and act more 'entrepreneurially'. The workshops are to be led by the middle managers themselves, who experience daily that they are not empowered or even trusted, but are continuously controlled by their (top) managers. This is also visible to their direct reports. The half-day workshops turn into politically correct, but embarrassing rituals. The only people happy to attend are the external facilitators who are paid a fixed fee for every workshop they support.*

- ***Tiredness*** – Every effective change requires emotional and sometimes intellectual effort on the side of the employees to internalize and embrace the change. If this effort is experienced

as useless due to the superficial, 'flavor of the day' nature of the change, employees may not just become cynical, but may also become emotionally tired. This means that the organization needs to put more and more effort in order to mobilize the work force for new ideas and initiatives. This phenomenon is not unlike drug addicts whose bodies need ever-higher concentrations of the drug in ever-higher frequencies in order to experience any effect.

*Despite great products, a B2B high tech company is struggling to penetrate the markets outside its home country in a successful manner. The reasons for this are political (local governments protecting local manufacturers). In order to find a solution, management implements a number of change programs in rapid sequence: ISO 9000, Total Quality Management, Policy Deployment, Strategy Forums, Business Process engineering, etc, to improve the organization and its products. Not surprisingly these programs fail to address the root cause of the problem and are therefore not successful. As a result of this it becomes more and more difficult to motivate employees to participate in new programs.*

#### **How to select, time and design the right change initiatives?**

Surveying all the comments above, the question is how to distinguish functional change initiatives from non-functional ones. The answer is that decision makers can apply six easy tools to prevent wasting resources on change initiatives that are doomed to be unsuccessful.

- ***Review the corporate history*** - Analyze earlier change initiatives in the organization: what were the reasons behind their success or failure and which lessons can be derived from them? This analysis should be executed preferably by an Internal Audit organization or by

an external party in order to ensure the right degree of objectivity.

- ***Be careful when considering fixing something that is not broken*** – There is quite a distinction between complacency and overzealousness. A critical look regarding one's own organization, its structure, processes, products, culture, systems, etc. is good. However not recognizing when 'good enough is good enough', is bad.

This is especially true for support functions within organizations. In order to streamline their processes and lower their (functional) costs, a number of support functions quite often shift work to their (internal) clients through the introduction of self-service tools. As a result of this there are a number of companies in which employees book their own travel, create their own purchase orders, register their own visitors, book their own expenses and sometimes even hire their own staff without the help of HR. Apart from the costs support functions usually make to put these tools and processes into place, it is also the question whether these tools make the work environment for the average employee more efficient or not, especially if the frequency in which these tools or channels are used is low or if the tools themselves are not 'user friendly' (which, cynically enough, they quite often are not, ...due to cost reasons).

- ***Identify hidden costs*** - Expose and calculate the 'hidden costs' that were mentioned earlier in this article and incorporate them in the business case for individual change initiatives. Evaluate whether the expected benefits are 'real' and will be experienced as such by the different stakeholders, and what the hidden and non-hidden costs are in terms of money, manpower, focus and motivation.

- ***Apply a holistic view*** - Do not look at change initiatives in isolation, but take the whole landscape into account. It is not uncommon for large organizations to be 'swamped' by an avalanche of change initiatives stemming from different functions in the organization. It is the role of leaders to maintain the oversight and insist on a disciplined approach. If they fail to do so it is highly likely that the different initiatives may overlap (a great source for confusion) or even start to compete with one another (leading to spoiled energy and loss of focus).

*At a certain moment there were so many initiatives going on in a large multinational manufacturing company, that it became a distraction for the day-to-day operations on a specific production location. As a reaction, local management decided to announce an 'initiative holiday' to re-focus the attention of the work force on their core activities.*

- ***Timing*** - Evaluate the timing of the initiative critically. Perhaps the initiative itself has its merits, but the timing might be completely wrong.

*The HR function of an energy company proposed a downsizing program for its own function to the Executive Committee of the company. The Executive Committee praised the initiative, but informed the management of the function that they were planning some major projects whose success greatly relied on the support from HR and therefore did not support the implementation of this initiative now. In other words, they did not want their HR function to be distracted by its 'own' reorganization and set a clear priority for the organization.*

- ***Transparent costs and benefit tracking*** – Institutionalize periodic tracking of the costs (including the ones that used to be

‘hidden’) and benefits of the change initiatives and report on them. This threat of having to report in this way will serve as a ‘healthy discouragement’

for those in the organization who want to undertake change initiatives without thinking them through properly.

### **Conclusion: Less is more**

Change is essential for organizations to survive. However too much non-functional change programs can harm the performance of organizations. Therefore the motto ‘Less is more’<sup>4</sup> should also be applied to the area of corporate renewal: a few focused, well-designed and profoundly implemented change initiatives are usually much more beneficial for an organization than a myriad of different and potentially overlapping and competing initiatives.

**Dirk Verburg** is Dutch, lives in Zurich (Switzerland) and is an expert in the area of Organizational Development (OD). He studied Sociology as well as Business Administration and gained extensive practical experience in this field through his work as a Management Consultant with an international management consultancy firm and through HR leadership roles in several multinational companies in different industries. He welcomes discussions with individuals and companies on these and other OD topics and can be contacted at: [dirk.verburg@bluewin.ch](mailto:dirk.verburg@bluewin.ch).



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<sup>4</sup> The motto ‘Less is More’ was made popular by architect Ludwig Mies van der Rohe around WW2 in the last century, and was used by minimalist designers and architects to describe their design philosophy. This philosophy comprised of the desire to create simple functional designs and structures, using as little parts for this as possible. This was achieved by having certain elements perform more than one function (e.g. glass walls).