



PLOT: A framework for  
implementing change

# Leading change management requires sticking to the PLOT

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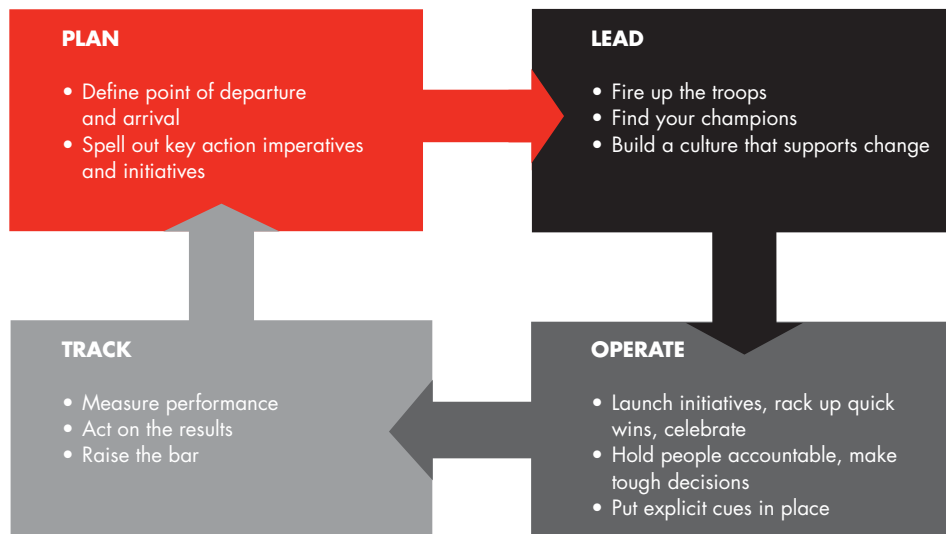
When Idris Jala was hired as CEO to turn-around Malaysia Airlines (MAS) in December 2005, the troubled carrier had about three months' worth of cash left in its coffers. In the 26 months since he joined MAS, the carrier has reported four consecutive profitable quarters and earned almost \$265 billion in 2007—five times what it originally projected.

In leading the dramatic turnaround of Malaysia's national airline, Jala implemented a change management program with all of the elements we've identified as critical for quickly delivering sustainable change. It is the same methodology that Sol Trujillo is deploying in a far more complex endeavor, the transformation of Telstra, Australia's huge telecommunications company. We have found that when executives master change, they can do it again and again, and they can do it in almost any company or industry.

Trouble is, not enough do. People have been writing about change management for decades and still the statistics haven't improved. With each survey, 70 percent of change initiatives still fail—and the world is getting more complicated. By analyzing in great detail more than a dozen major change programs across industries and geographies, we've identified the common principles and core elements that leaders use to mobilize successful change programs, keep them on track, and ultimately deliver fully against their financial and strategic goals.

There's no single, perfect answer for leaders pursuing such results from change initiatives. Instead, success requires taking some very commonsensical steps. But leaders typically trip up by not applying a systematic, rigorous, self-reinforcing approach to taking those obvious steps. We've codified the required steps within the four basic elements of an approach we call PLOT: Plan, Lead, Operate, and Track. (See figure 1.)

Figure 1: Some of the best managers PLOT their own story for successful change



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In a nutshell, the PLOT framework calls for leaders to identify the sources of value and then focus on a few areas for improvement: get the right people in place quickly and rally the troops around milestones; make sure the tough calls are made; and rigorously track progress. This might sound obvious, but it's not easy—the change program statistics reinforce how hard it is. While failing to address any of the individual components within the four elements of the PLOT system can be problematic, there are a few especially damaging mistakes that management teams are prone to make in addressing complex change. Getting off track has particularly negative consequences, because not only does it create a tangible problem (impairing program results) but also a signaling problem (impairing program credibility). In many cases, the combination of the two problems creates a negative cycle that builds upon itself and ultimately derails even the most carefully designed change program.

**Plan: Zeroing in on the drivers of change**

In the PLOT approach, planning is the first stage. It involves cutting through the complexity to identify only the most important drivers of change. It involves determining the company's point of departure, defining its point of arrival—what constitutes success, in other words—and mapping the journey from one to the other. The airline Jala inherited was plagued with high fuel and labor costs and mounting regional competition. It had lost RM 1.3 billion (US\$35 million) in the last nine months of 2005. As part of the *Plan* phase, Jala diagnosed the starting point. He found—among other ills—that the airline was losing money by discounting prices, not charging for excess baggage, and holding onto unprofitable routes. In fact, less than

half the airline's routes to Europe and Latin America were profitable. The point of arrival: financial survival in 2006, profit generation in 2007, and profitable growth in 2008.

Many CEOs and change leaders give short shrift to the *Plan* stage, perhaps because it can be difficult. To truly assess their starting point, they must peer into the depths of the organization to identify bottlenecks and other sources of underperformance. They must quantify in detail the value that they think they can realize through specific initiatives—so much from improvements in the sales process, so much from production efficiencies, so much from IT platform consolidation, and on and on. Then they must step back and assess the company's position in the marketplace, so that they can map out a strategy for taking on competitors. Planning at this level essentially involves taking hard stock of where you are financially and competitively and “following the money:” mapping the value chain from start to finish and assessing points where revenue or profits are leaking to the competition.

It's not magic to predict that a plan based on faulty underlying assumptions will likely fail. Yet too many leaders, aware that they are underperforming in some way, don't adequately understand why. They struggle to set direction for change because their true point of departure is unclear. In our recent assessment of over 100 strategy and performance improvement projects at companies spanning a variety of industries, more than 80 percent on average had failed to adequately understand what was hindering their performance. Even among industry market share leaders, more than three quarters lacked critical data around the gaps in their strategic and operational capabilities.

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The most frequently cited knowledge gaps related to leaders misunderstanding their companies' true cost position, underestimating the cycle times required for competitive product development, and lacking customer insight. To make good strategic decisions, leaders need a clear diagnosis of their "point of departure"—a detailed, executable fact base related to each of these areas.

Another common root cause of failure at this stage occurs when leaders resist providing adequate resources for the most critical change

initiatives. The reasons for this oversight: leaders often underestimate the true magnitude of people involvement and financial investment required to get traction in a major change initiative, and, as funding typically comes out of current budgets and earning targets, they try to get by with limited spending or partial staff allocations. By not "over-investing" in what has been identified as a critical priority, management signals to all that change may not be that important after all. The under-allocation of resources then causes the tangible problem—initiatives

### **When change occurs, so does the need to escalate decisions**

The effort to reorganize a large European insurance group involved a radical organizational redesign that tightened management, combined operations and product offers, and put in place new accountabilities designed to make the most of the company's scale and knowledge. But like many organizations in transition, the company faced a lingering challenge. Because one cannot predict every possible conflict among managers attempting to clarify redefined roles in a new regime, the company found it also needed a system for escalating decisions as conflicts emerged. A single example of an unexpected conflict: managers competed over who held responsibility for policyholders' change of address. It sounds insignificant, but the building insurance side of the business needed it for underwriting risks, whereas the customer service center saw potential to reduce costs by taking over the function.

When organizations attempt dramatic change, tensions are high, and the decisions being made often run counter to the fabric of the existing institution. The company realized that

failure to tackle such issues could derail the best-laid change management plans. To avoid such a fate, the company established a detailed procedure for quickly escalating decisions to a higher authority. Instead of allowing accountability conflicts over such things as change-of-address authority to slowly filter up to senior management, the project team opted to send them first to the steering committee for the reorganization, and then, if they could not be resolved, they would quickly be sent to the executive board for a swift and final call. That meant committing critical board-member time. At the same time, the executive team established tight timeframes for decisions, aiming to finalize decisions within a week to keep the momentum for change high.

For the most part, decisions that were escalated to the board during the change process were decisions where it was unclear who had the authority—the result of implementing a new way of working. As the transition progressed, such decisions became fewer in number. Once decision-making authority was clearly established for those lower down in the organization, fewer conflicts needed to be elevated to the top.

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make less progress than desired. Visible lack of progress in turn signals to all that the program is, in fact, failing, and the negative cycle builds upon itself.

A major industrial conglomerate's change effort involved pursuing synergies in purchasing across its business units. In the hopes of transforming purchasing, the company created a centralized sourcing function. But management failed to adequately supply people and capabilities. Rather than going outside for talent, the company borrowed people from various business units on a part-time basis, and it failed to invest in the scale required for an effective centralized sourcing team. It also didn't fully transfer sourcing decision power over to the centralized team. This not only impeded the change effort but signaled that the initiative was not serious enough to merit a competitive outside search and a scale team with full decision-making authority. It was not until the CEO opted to fully resource the center and give it ultimate decision power that the central group was able to communicate its importance and deliver the benefits at an acceptable pace and magnitude.

Sol Trujillo avoided such a temporary derailment when he took over Telstra. Australia's leading telecommunications company couldn't seem to deal effectively with its legacy land-line business, let alone take on nimble new competitors. A 30-year veteran of the industry, Trujillo had been CEO of US West (now part of Qwest Communications) and the big French telecommunications company Orange, and had led massive change efforts at both. In Australia, he launched a program that has put Telstra on a path to dramatically improve market performance and financial results within three years. As in his previous turnarounds, Trujillo laid out his vision and despite tremendous financial performance

pressure and a high degree of public visibility, he made the right level of resources available to meet such aggressive milestones as the rollout of national 3G+ service—a move that took competitors by surprise.

**Lead: Putting the right people in charge**

The *Lead* stage of the PLOT approach brings people into the equation: putting the right people in the right roles with the right accountabilities, creating a structure that will make change happen, communicating the roadmap clearly and simply, and then rallying the troops around milestones. Too often, companies put the wrong people in critical change management leadership roles. As companies are typically reluctant to pluck strong general managers from their day jobs, they will often delegate change program leadership to an HR or Finance functional expert. CEOs justify the choice because they mistakenly view the role solely as one of “communication” or of “scorekeeping and administration” rather than recognizing the true general management challenge of mobilizing and leading a transformation. Again, these decisions have compounding negative effects: negative signaling because the nominated leader is not viewed as sufficiently senior, much less a peer, by the line managers running the business; and then insufficient progress because the leader is, in fact, ineffective in driving the complex change through the organization. The lack of progress—again obvious to all—once again compounds the negative cycle.

We saw this oversight at a leading Asia-Pacific consumer goods manufacturer. The firm's CEO chose as its change program leader an end-of-career senior finance executive who was not viewed by the business unit heads as a general manager peer. Not only was he not respected as a peer, but the individual lacked

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the people skills to navigate conflicts between business unit heads trying to run their day-to-day business and business unit initiative leads trying to make changes. In this case, the change plan was right, the initiatives were right, the program design was right—but the individual leading the charge was wrong. As a result, the program ground to a halt until the CEO realized he made a people error and brought in a replacement—a GM from one of the growth businesses in the portfolio.

For his part, Trujillo began the *Lead* phase of his transformation of Telstra by appointing as Chief Operations Officer Greg Winn, a trusted right-hand man from previous turn-arounds who would head the transformation. Winn had the clout and resources to ensure the right moves were made. Trujillo also established a Program Office to guide the change effort and to keep it on track, just as he had done at the two other companies he had resuscitated. A program office, he says, is “a key discipline and tool for me and the senior leadership team,” a way of ensuring that senior management remains focused on the big picture. He installed Stuart Lee, a high-impact senior executive into the Program Office leadership role. Lee reports to Greg Winn. Trujillo also created change teams to lead individual initiatives, staffing them with up-and-coming leaders ready for new challenges. He brought in new executives from outside Telstra, moving only two executives out of the prior senior team. He also pulled managers up from two or three levels below in the organization and moved people within his management team to positions better matched to their capabilities.

With the right people in the right places, the other major challenge in the *Lead* phase of a change initiative is rallying the organization around milestones. Note the way the elements reinforce each other. The *Plan* phase

establishes detailed milestones on the way to the point of arrival. The *Lead* phase focuses on communicating these milestones to the troops and motivating them to achieve each one.

To create milestones and mobilize the troops around them, Jala held so-called “laboratories”—intense, prolonged think sessions involving key managers and (when necessary) outsiders. Here the objective was to come up with plans to achieve critical interim goals. For example, one of the company’s chief objectives was to improve its cash position. The laboratory team broke down the projected improvement by activity—sales of specific assets, better borrowing terms, so much more revenue per passenger, and so on—and assigned responsibility for each one.

Trujillo was just as aggressive about communicating Telstra’s milestones and rallying his teams. In fact, “Telstra’s Transformation,” as the company dubbed the three- to five-year process, was an elaborate series of milestones, both big and small. Telstra would roll out national 3G+ service. It would expand broadband coverage and broaden products, applications, and service available. It would create a new wireline network offering better value and better service. All these big-picture initiatives were tied to precise timetables. Internally, the company mapped out plans for simplifying the IT systems, reducing its operational platforms by 75 percent in three years and 80 percent in five years. It would sell off a specific portion of Telstra’s property portfolio. It would increase ADSL capacity, expand its mobile coverage, and establish a “learning academy” to train people in next-generation technologies. These milestones gave people a context for understanding the pace of change. When things began to happen, they knew where each new development fit in the bigger picture.

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The creation of milestones was critically important for Telstra because of the company's political and economic visibility, and because the turnaround necessarily entailed taking financial hits—with predictable effects on the stock price—along the way. Trujillo was able to predict the financial impact of each program milestone so that the public, employees, and shareholders could follow the progress. In August 2006, for instance, when the company announced a 26 percent drop in net profit, one news report said that “calls are growing for the company's chief executive officer Sol Trujillo to be sacked.” In response, Trujillo could point to the fact that he had predicted a profit decline and that the investments the company was making in the turnaround were on track, as evidenced by the achievement of specific milestones.

**Operate: Making the tough choices**

The *Operate* step revolves around decision-making. Leaders need to make difficult, often unpopular decisions based on what we call the discipline of data, with objective, verifiable information. And for a change effort to stay on track, people must hold one another rigorously accountable, not so that wrong decisions can be punished but so that everyone can learn from mistakes. But here too, leaders often fail to make the tough people calls. The reason: a basic failure to realize the signaling impact of allowing exceptions and not “backing the play.” For example, they'll hesitate to over-rule or remove a leader who is resistant to change, because he's popular or perhaps because he has 25 years of institutional knowledge in a critical area. But if that maverick impedes progress, the act of keeping him in place signals to people that management is not truly serious about the change. As in the three other elements of implementing change, the signaling implica-

tions are what people most often overlook, and, once again, the signaling problem is reinforced by the tangible problem—a lack of progress in the areas influenced by the non-contributor. Once the leadership has “blinked” on a key conflict, others opposed to the change become more likely to obstruct as well, putting the entire effort at risk.

Consider the case of a large consumer products company trying to implement a major productivity improvement program. The co-heads of new product development and R&D consistently blocked efforts to get project-level productivity metrics in place. As a result, the company fell dramatically short of achieving the benefits identified in the performance improvement diagnostic. When the CEO finally realized the two executives were failing to follow the change program, he moved one of the individuals out of his role and gave the survivor such clear direction on expectations that the productivity efforts finally gained traction.

Making tough choices is at the heart of the *Operate* step. For Telstra, the task is made more challenging because of the intense public scrutiny. Fortunately, the company has been able to make the right decisions backed by strong Program Office leadership, regular communication from Trujillo, and the decision to link incentives to the achievement of specific milestones.

The *Operate* phase of the PLOT methodology requires a systematic approach to keeping people accountable—not so that wrong decisions can be punished but so that everyone can learn from mistakes. At MAS's monthly management meetings, managers must describe what they have done to improve the P&Ls they are responsible for. “You don't have one guy saying, ‘You know, I haven't done anything.’ His colleagues will ask him

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why,” explained Jala. His plan spelled out in detail the anticipated effect of every move on the profit-and-loss statement. But he pushed the logic beyond the ordinary. Every single route has a profit-and-loss statement, and a manager responsible for overseeing that P&L. “Once you start to personalize the P&L,” says Jala, “you transfer accountabilities down the line. You get many, many people who act like CEOs in the company. So it’s not just the fellow at the top who doesn’t sleep at night.”

By monitoring progress, MAS was able to see the tactical moves that were needed to engineer the turnaround. The airline cut its routes, slashed in-flight and maintenance costs, and improved its revenue picture for both passengers and cargo. It began a voluntary severance program aimed at reducing its headcount by approximately 3,000. “We only focus on activities that have big financial impact. If an activity doesn’t improve the P&L, we don’t do it,” he said.

**Track: The need to monitor progress—and adjust**

A change program will wither unless management implements a means of tracking progress and adjusting the plan as necessary. In the track step, organizations measure a small number of key indicators, reward relentlessly, and celebrate success. And if progress hasn’t materialized, the company needs a system for making adjustments at regular intervals. Typically, there needs to be a systematic review of progress every two weeks to two months.

Here one common way leaders go off track is by not taking the final steps required to capture the benefits of a major change effort. For example, if you take out cost you have to shrink budgets accordingly, and you have to ratchet up key performance indicator targets. Leaders hesitate in taking this final step for a range of reasons, from “it’s too hard or will take too much effort to measure” to “reducing the budget will cause other groups to

Figure 2: Your point of departure may not be what you think

Companies surveyed that have an inadequate understanding of their key gaps (by percent)				
Market share leaders	78%			
Other companies	86%			
Average	82%			

Most frequently cited gap areas at companies surveyed (by percent)				
	High cost	Slow to market	Limited customer insight	Missing products or features
Market share leaders	53%	45%	45%	47%
Other companies	56%	42%	44%	49%
Average	55%	44%	44%	48%

Source: Bain study of 100 strategy and performance improvement projects

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hide their progress so that they don't risk losing budgets in the future." Ultimately, when leaders fail to insist on measuring and capturing the benefit in a transparent and consistent manner—even when it is difficult—they signal a lack of confidence in the results, and a willingness to compromise the pursuit of lasting change.

Once the Asia-Pacific consumer goods company installed a competent program office leader it was finally able to generate savings through centralized procurement and other cross-business productivity initiatives. But the company found that the business unit heads—traditionally the most powerful “barons” in the system—didn't believe those projected savings would flow through to their profit-and-loss statements. So they refused to reduce their budget submissions accordingly. As a result, there was no overall P&L benefit. Ultimately, corporate finance had to adopt an aggressive stance in support of the program—both by investing the effort required to add additional line-item granularity to relevant budget categories, and then by simply subtracting what they believed were the savings from each business unit, and publishing revised budgets as the new goal.

Tracking performance became an obsession that kept MAS sharply focused on its journey. For example, to stay on top of the goal to improve the airline's cash position, Jala receives a report at 5:30 PM every day that details exactly how much cash the airline has in every bank account around the world. He also gets a daily report of the company's P&L statement, as well as sales and passenger loads on all flights every single day. Like other CEOs leading successful change efforts, Jala closely follows a small number of performance indicators that align with his initiative's overall goals. The approach clearly is

working. In the 22 months since Jala joined MAS, the carrier has reported four consecutive profitable quarters—and has earned nearly five times its original profit projections for the entire year of 2007.

At Telstra, each department or unit tracks progress on its milestones. Trujillo and the senior team watch the company's performance relative to competitors, particularly where new businesses such as 3G+ are concerned. Trujillo also watches the overall cost picture to see if costs as a percentage of revenue were on track relative to plan.

Asked last fall for evidence that his strategy was working, Trujillo said, “Number one, we're taking market share. Number two, we're winning on the businesses where we know we have to win.” Indeed, at its November 2007 investor meeting Telstra listed the many achievements of its turnaround effort, starting with building the world's fastest national 3G+ wireless network in just ten months and becoming Australia's 3G+ market leader, raising 3G+ share from zero percent to 44 percent in two years in a four-player market. Another major accomplishment: bucking the global trend of rapid declines in fixed lines by actually delivering retail-line growth in the financial quarter that ended in September 2007. Also, Telstra outperformed its global peers in the broadband market, increasing its share in DSL, cable, and wireless technologies to 45 percent while also increasing average revenue per user (ARPU).

So the Track phase of a change initiative or turnaround is partly a matter of watching a carefully constructed dashboard and taking swift corrective action as necessary. But there are other critical elements as well. Tracking change requires as much management attention and involvement as the three other phases.

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Beyond establishing metrics, change leaders need to *reward* people for keeping things on track and hitting milestones—for example, by aligning financial incentives with achievement. “We need to create a performance-based culture,” Trujillo told us. “That means if you perform really well you can make a lot more money, and if you don’t perform well you get paid less. We’re putting that in place at both the executive level and the front-line level.” For example, call-center and field-force employees now receive variable compensation based on results such as sales outcomes or jobs done per day. For senior managers, Trujillo has implemented a short-term incentive program in which bonuses are now linked directly not just to personal performance and company financial outcomes but also to specific operational milestones within the transformation program.

A second task is to *raise the bar*. Change is an ongoing process and change leaders have new months, new quarters, and new years in which to maintain the momentum—and results. They must update budgets and targets to ensure that savings don’t leak away. They must focus people on the next milestone even as they celebrate achieving the previous one.

Making change stick means taking the right steps again and again—sticking to the PLOT—by recognizing and acting on the tangible initiative and infrastructure investments as well as the signaling support required to deliver and sustain complex change.

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