



ABC: Initiating Large-Scale Change at Chrysler

by Dave Meador

When Chrysler adopted activity-based costing (ABC) in 1991, the decision represented more than a simple accounting change. The shift to ABC challenged many of our previous assumptions about cost and profitability, as well as our operating procedures (see "Activity-Based Costing"). For example, an automobile part that might have been calculated to cost \$100 under the old cost system could cost \$3,000 under the new one, and vice versa. To product line managers or other executives whose profits and overall performance are tied to these numbers, ABC presented a huge threat.

In addition, converting to ABC can be quite intrusive. Tracking activity-based costs requires a thorough understanding of the processes that go into making each car. Thus, setting up an ABC method means interviewing and surveying people throughout a plant to find out what work they do and how they do it. Because of the challenges and threats posed by ABC, it has experienced a 70% failure rate in companies across the U.S. At Chrysler, our finance staff knew that in order to make ABC work, we needed to do more than just communicate its nuts-and-bolts; we had to establish a process for handling the changes in assumptions and operations that the conversion required.

Early Warning Signs: Resistance from Within

We vastly underestimated the potential

resistance to ABC throughout the company. The finance people who joined the ABC team thought they were embarking on a leading-edge project, but as the resistance to ABC compounded throughout the company, they began to question their career move. Stress and fear of failure ran high among team members, and some of us considered recommending that management abandon the project.


About that time, we started working with Fred Kofman at the MIT Center for Organizational Learning. Because Fred's background was in accounting, we thought he might be able to help us identify the roots of the resistance. After talking to people throughout the company, Fred concluded that it wasn't the plant managers' resistance that was hindering the ABC effort—it was actually the finance team's way of working with them. We were asking people to think in dramatically different ways about how they ran their business, but how willing were we to consider new ways of doing our work?

We realized, with Fred's help, that large-scale change such as the kind we were proposing had to begin with each of us on the finance team. We needed to model new ways of working together and thinking about change if we were to expect the same of others. By practicing the tools and disciplines of organizational learning, we hoped not only to improve our ability to function as a team, but also to enhance our effectiveness in implementing ABC throughout the company.

The Tools of Organizational Learning

Since many of the ABC team members were finance MBAs who were now spending most of their time serving as teachers and coaches, we knew they needed support and practice in learning new skills. With Fred's help, we designed several workshops on organizational learning to develop our skills in areas such as systems thinking, effective conversations, dialogue, and stress management.

Each two- to three-day workshop focused on specific tools or techniques of organizational learning. We asked people to come to the sessions prepared with actual case studies. For example, if several people had just experienced a difficult conversation or meeting, the group might focus on improving their conversational skills (suspending assumptions, using the "Left-Hand Column" exercise, balancing inquiry and advocacy, etc.). If we felt that people needed a stronger grounding in how to think in terms of interconnections and unintended consequences, we might focus on the tools of systems thinking. In addition to these focused work sessions, we held seminars every few

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Activity-Based Costing

Activity-based costing (ABC) is a relatively new approach to cost accounting that tracks costs according to the processes and activities that go into making a product. Unlike traditional cost-accounting methods, which allocate overhead according to such factors as labor costs, ABC calculates these costs according to the resources each product requires. This method provides a better understanding of the actual production costs and leads to more informed manufacturing and corporate-wide strategic decisions than traditional accounting methods.

Continued from previous page months on stress management, to help people handle the demands being placed on them. This included teaching them reflection tools such as journaling and meditation.

We also worked extensively on the disciplines of personal mastery and dialogue to build our internal team. We held some Outward Bound-type sessions and created practice fields for role-playing tough conversations. For example, if I were anticipating a difficult conversation with a plant manager, and I wanted to practice that dialogue with a colleague, we would run through the scenario with one of us first playing the part of the plant manager. Then we'd switch. Role-playing let us practice what we wanted to say in a non-threatening setting, and helped us appreciate both sides of the issue.

The Implementation Process

After spending some time developing our own skills, we began using the tools of organizational learning to redesign how we implemented ABC in the company. In partnership with our external consultants (who also received organizational learning training), we reevaluated how we were engaging our "clients" in launching our projects.

Traditionally, we would arrive at a plant, sit down with the plant manager, and say, "We know you're really busy—your operations are running seven days a week, twenty-four hours a day—so we don't want to bother you. We'll just go ahead and change your cost and reporting systems for you, and here's how we'll do it."

Six months later, however, we might discover that the plant manager didn't understand the leadership role he or she had to play in supporting the change, didn't feel committed to the project, and didn't understand how to use the new information—all of which led to problems in applying ABC throughout the plant. We knew we

needed to change our approach, but we didn't think the plant managers would commit to the time we needed up front. Our mental model was, "They're too busy, they're not going to be interested, let's not even ask."

So we practiced making requests properly. We learned how to sit down with the plant managers and say, "Listen, if we're going to do this right, we need three full days of your time and your plant management team's time." This type of request was unheard of—plant management teams never went off site for one day, let alone three. But after practicing the conversation, we went out and asked, and much to our surprise, all of the teams agreed to give us the time we needed.

"Flying" ABC

Once we had tackled the initial engagement process, we turned to improving how we communicated the benefits of ABC. Rather than use a traditional overhead slide presentation to "convince" the managers of the need for an activity-based costing system, we developed a management "flight simulator." With this tool, plant managers could experience for themselves the operational consequences of the old finance system versus the ABC approach.

Much to their surprise, the managers discovered that, because of the way overhead costs are allocated in the different cost systems, the old approach might lead them to continue investing in unprofitable product lines, or to underinvest in profitable ones.

The simulator was also a great way to introduce plant managers to the concept of systems thinking. Moreover, it encouraged a new way of learning, by getting people engaged in an interactive tool for understanding the advantages of ABC. In some cases, we went one step further and created a simulated microworld of a portion of their plant. This involved process mapping and costing a key operation to teach them

about ABC using *their* data, not a textbook case or another Chrysler plant. Providing relevant information worked well in breaking down defensive posturing. So although the creation of individual microworlds was time consuming, the investment paid off.

In order to support the ongoing work of ABC, we created several additional seminars that were scheduled throughout the conversion process. For example, the "midstream" seminar, which was timed to coincide with the release of the first ABC-based reports, addressed the fear and anxiety people might feel when deluged with new information. At this point, we emphasized that the objective was to provide measurement for learning (as part of a Plan-Do-Check-Act process), versus measurement for reporting.

Finally, a transition seminar was held at the end of the project to deal with issues around ongoing commitment. This session was particularly valuable because in many cases of ABC implementation failures, we found that the breakdown occurred not because someone committed to an action and then didn't follow through, but because the "conditions of satisfaction" for the request had not been clearly articulated and agreed upon up front.

In none of these seminars did we focus explicitly on "teaching people about organizational learning." Instead, we simply used the tools of organizational learning as part of our everyday activities. For example, at the start of a workshop or meeting we would have a "check-in," where we would go around the room and ask everyone to say what they are bringing with them to this meeting (see "Check-In, Check-Out: A Tool for 'Real' Conversations," May 1994). Many people had never taken part in a check-in, so it signaled a very different way of acting with people. It is worth noting that we did not use the word "check-in" to describe this process, and in general we learned not to use

organizational learning jargon. In our experience, the use of such terms actually increased resistance, and was unnecessary.

Management Involvement and Commitment

A critical success factor for this project was the active involvement of senior management and their role as a support network. Bob Lutz, the president of Chrysler, was a major spokesperson for the effort. He also created an environment that enabled the ABC team to productively share our concerns and beliefs. For example, at one point there was a very frank conversation about the need to slow down the project in order to allow time for the cultural changes that were necessary.

Jim Donlon, the corporate controller, and Gary Valade, the CFO, were actively involved in both the technical and cultural side of this effort. Their contributions included everything from persistently using the ABC approach in a variety of corporate decisions to learning and practicing many of the tools of organizational learning.

From Failure to Success

As a result of our work in organizational learning and team building, there was a dramatic change in the acceptance of ABC throughout Chrysler. Among the finance team, the difference could almost be felt in the shift in energy and stress levels. Pushing people around and trying to force change on them is an exhausting process, whereas listening to people and working *with* them around change is energizing. After some early successes, in which ABC data was used for cost reductions or investment proposals, plant managers began seeking us out to help them implement the new system.

Over time, people started to notice that the ABC group's failures seemed to be turning into successes, and our work gained wider attention throughout

Chrysler. Members of the ABC team appeared more relaxed than before, and they were no longer trying to tunnel their way out of the department. Outside people even expressed interest in joining the group, and their enthusiasm generated further excitement. As people noticed these changes, they began asking if they could attend our seminars. Based on the acceptance of ABC at Chrysler, we are now redesigning our financial systems to fully embed ABC principles throughout the costing systems.

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Eventually, Chrysler decided that it would sponsor its own internal five-day Core Competency Course (based on the course offered by the MIT Center for Organizational Learning). To date, more than 600 people have attended the program, and many have begun applying the tools to their everyday work. An organizational learning approach is now being used in other large-scale change initiatives at Chrysler, including manufacturing and engineering.

Lessons Learned

In our experience with ABC, we learned that organizational transformation starts with personal transformation. We had to stop focusing solely on why the system is so dysfunctional ("What's wrong? Who goofed up?") and begin looking at how we each contribute to

that dysfunction.

We also learned that change agents require a support network. Before the ABC initiative, we would typically take some bright person from a leading university, put that person in a plant and say, "OK, go ahead and make things different." After about six months, that person would burn out because there would be nobody to help, to offer support, or to share experiences. It was just the individual against the system.

We found that, in addition to providing them with a support network, the change agents themselves can benefit from improving the way they make requests, offers, and promises. This helps create an environment in which people can feel more comfortable asking for help or offering assistance.

The last thing we learned from ABC, a lesson that is hard to swallow, is that the rate of organizational change is limited by the rate of personal change—not by the rate at which we can introduce new technology. Putting new information systems on the floor, incorporating a new technology into a plant, or designing a new product is a fairly straightforward process. It is how fast you can transform people that will govern how fast you can change the system in which they are operating.

The ABC initiative has been a five-year journey for us. One thing that we've all come to realize is that patience is essential when you're facing large-scale change. It took us decades to form the mental models we have today, and we can't expect them to change in one four-hour class. This work is really about deep-seated change, and that sort of effort takes time. ●

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