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Change Management Graduates to The Boardroom

*From Afterthought
To Prerequisite*

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CHANGE MANAGEMENT GRADUATES TO THE BOARDROOM

*From Afterthought
To Prerequisite*

Change management has come of age, according to a new survey of more than 350 senior executives who have led major transformation initiatives at large organizations, both private and public, all over the world (see “The Change Management Survey,” page 4). Executives now understand the need for clear, credible, and carefully integrated people initiatives in business transformation programs and prioritize these people initiatives more highly than they have in the past. Change management now ranks as a boardroom agenda item.

That said, those tasked with leading change programs at large global organizations see room for further improvement. There is broad consensus among these senior executives that, in hindsight, they could have executed change better, specifically by pulling all of the key people levers earlier and more fully.

No Matter the Change, Change Management Matters

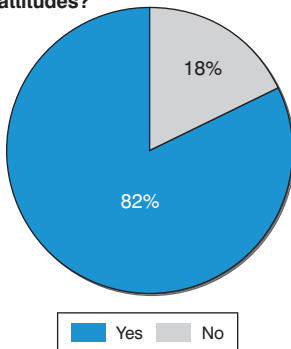
Change management, as we define it, is the process of engaging people at all levels in the design and implementation of an organization’s transition to a desired future. Its goal is to ensure that people are both willing and able to adopt necessary new behaviors and skills and let go of those that are no longer appropriate. While they may have previously overlooked or dismissed the people side of business change as quirky or soft, senior executives now truly understand the importance of change management. They recognize that no transformation gains traction without the buy-in and commitment of employees at all levels, particularly line managers.

- Four of five (82 percent) transformation programs now have dedicated “people” workstreams designed to engender changes to employees’ skills, behaviors, and attitudes (see Exhibit 1, page 2).
- Fifty-nine percent of supervising executives agree with the statement: “A successful transformation is due more to the

Exhibit 1

Change Management Is Well-Established

Survey question: Did the program have a dedicated “people” workstream that conducted activities to engender changes to employees’ skills, behaviors, and attitudes?



Note: Survey response size for this question was 345.
Source: Booz & Company Change Management Survey 2008

‘people’ initiatives than to other elements of the program.”

There is no question that transformation programs today are more successful than they have been in the past, and that improvement is directly attributable to the increased focus on the people side of change. It was not so very long ago that the research on major change initiatives was devoted to uncovering the root causes of their almost inevitable failure. For years, studies showed that the vast majority of business transformations either underperformed or never came to fruition—generally because of lack of commitment and ownership on the part of the organization’s people.

However, our survey reveals dramatic progress in the overall efficacy of change program initiatives, largely owing to the positive impact of people-oriented change management activities (see Exhibit 2). Of the respondents, more than four in five (83 percent) felt that their program objectives were met and a similar number (82 percent)

“The people dynamic/culture shift is always recognized but severely underestimated and under-resourced in every change project in which I’ve been involved.”

— Program leadership team member and survey respondent

felt that their change program had a strong impact on business performance. Moreover, more than two-thirds (69 percent) of respondents reported that these projects came in on time and on budget.

The Chinks in Change Management’s Armor

Despite the tremendous strides change management has made both in its legitimacy and efficacy, there is still room for improvement, at least in the view of those leading the change. As Exhibit 3 demonstrates, these executives feel, in retrospect, that they could have implemented

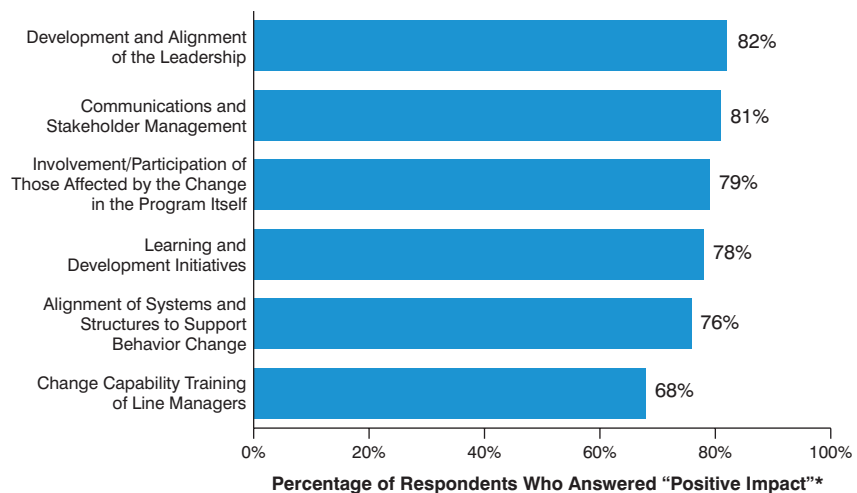
each and every one of the six people levers more fully—and earlier. Organizations have come a long way in addressing the people side of change, but apparently not far enough.

Moreover, internal resistance is still an issue. Not surprisingly, our survey respondents feel this resistance is concentrated among front-line staff members, who are generally the most impacted—often negatively—by transformation initiatives: Respondents feel that front-line staff members are far more likely than senior management to resist change (see Exhibit 4).

Exhibit 2

People Activities Have a Powerful and Positive Impact on Program Objectives

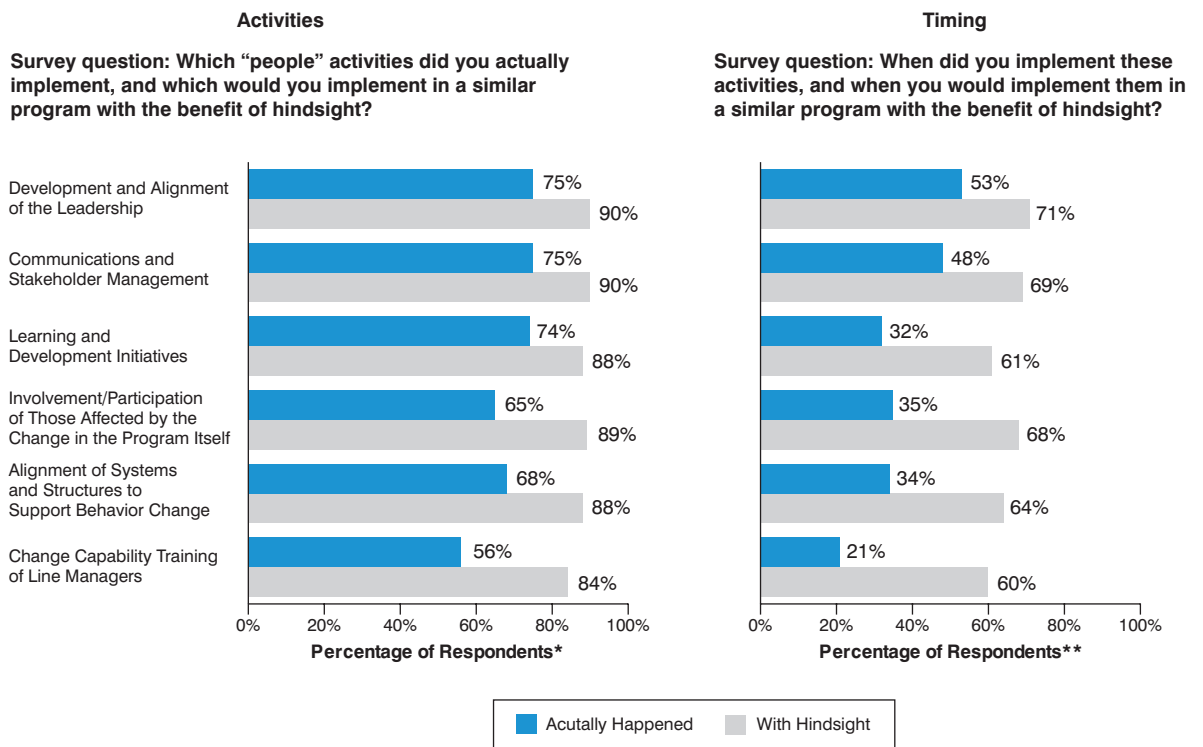
Survey question: To what extent did the following “people” activities contribute to the attainment of program objectives?



* On a scale of 1 to 7 where 1=no impact and 7=significant positive impact, 5, 6, and 7 were considered a positive answer; n=320
Source: Booz & Company Change Management Survey 2008

Exhibit 3

In Hindsight, Change Leaders Would Have Done More and Done It Earlier



* Percentage of respondents ranking "5", "6", or "7" on a scale from 1 to 7 where 1=not implemented and 7=fully implemented; n=342
 ** Percentage of respondents ranking "1", "2", or "3" on a scale from 1 to 7 where 1=very early on in the program and 7=very late in the program; n=320
 Source: Booz & Company Change Management Survey 2008

In terms of management, their level of resistance varies by region. When we broke down the results geographically, we found that senior managers in North America are perceived to demonstrate less resistance than those in Asia and Europe. Middle managers in Europe, on the other hand, come across as more resistant than those in Asia and North America.

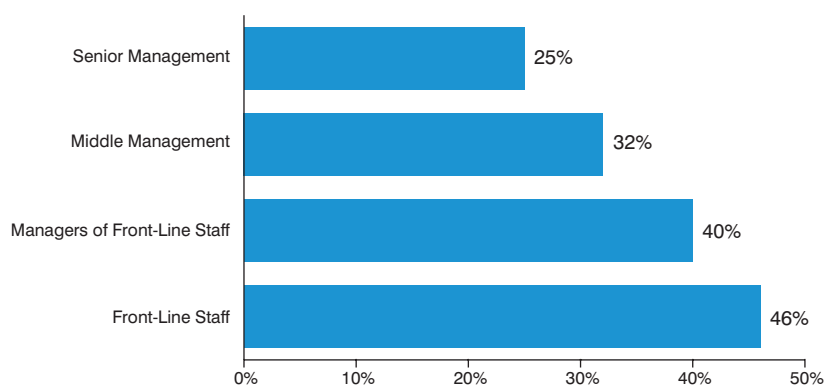
The Evolution of Change Management

Exhibit 5, page 4, charts the evolution of change management—the “people” side of change—over the years. At its inception, a change management program was little more than a *communications plan*—a package of letters sent to

Exhibit 4

Perceived Resistance Appears Concentrated on the Front Lines

Survey question: To what extent did the program experience resistance to change amongst employees at each level in the organization?



* Percent of respondents who answered "1", "2", or "3" on a scale of 1 to 7 with 1=a great deal of resistance and 7=no resistance; n=325
 Source: Booz & Company Change Management Survey 2008

The Booz & Company Change Management Survey

In January–February 2008, Booz & Company conducted a global Web-based survey of change management leaders at organizations of more than 5,000 employees. These individuals were accountable for broad transformation programs that encompassed changes to systems, structures, and capabilities and had a significant impact on people, affecting 500 or more people. The 353 individuals who participated in the online survey served in one or more of the following roles:

- Member of a program management team (n=161)
- Member of a program leadership team (n=123)
- Member of an organization’s leadership team (n=133)
- Workstream lead (n=84)

All qualifying respondents were individuals whose transformation programs were sufficiently complete to allow them to evaluate the key components that influenced their programs.

Overall, 78 percent of respondents were from the private sector and 22 percent were from the public sector.

Regions affected by transformation programs (multiple selections allowed):

North America	n=246
Europe	n=130
Asia	n=83
Latin America	n=55
Middle East/Africa	n=40

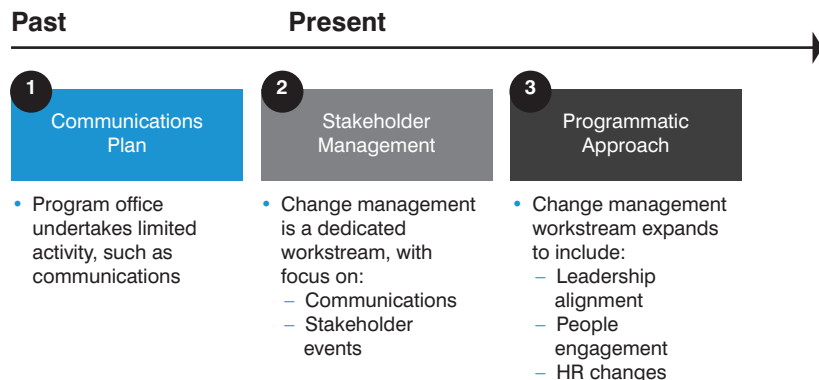
The top three objectives of the transformation program (multiple selections allowed):

Performance improvement	79 percent
Cost cutting	62 percent
Improved customer service	51 percent
Product or service innovation	35 percent
Merger/divestment	26 percent

employees, customers, suppliers, and other stakeholders, as appropriate, announcing the merger or restructuring or new product line. It was an add-on, attended to after the business change had been designed and executed.

Over time, it became apparent that these after-the-fact communications with constituents were insufficient. Organizations needed to be in touch with their key stakeholders earlier and more often—and not just through one-way communications but through interactive events and other vehicles designed to give a voice to those affected by the change.

Exhibit 5
Evolution of Change Management in Transformation Programs



Source: Booz & Company

“There has to be earlier ‘people’ involvement, especially at the grassroots level.”

— Program and organization leadership team member and survey respondent

As command-and-control cultures gave way to more inclusive and participative modes of working, employees came to expect the opportunity to weigh in on decisions and initiatives that have an impact on their work environment. Accordingly, change management evolved from a communications plan into its own separate stream of stakeholder management activity, monitored by HR professionals or enthusiastic amateurs who focused primarily on getting senior and middle management on board.

Today’s Change Management: Programmatic Approach

Most companies today are at Stage 3 in the evolution detailed in Exhibit 5. They have adopted a *programmatic* approach that includes most, if not all, of the elements listed in Exhibit 2, page 2. Interestingly, our research indicates that all of these levers are very important to the success of the business change initiative,

but no single lever is significantly more important than the others, statistically speaking. Organizations need to integrate all of these elements equally into the diagnostic, design, and implementation phases of the transformation program.

Based on our experience helping organizations manage change, we have found an integrated, dynamic rollout works best in getting people ready, willing, and engaged in change. The Booz & Company approach encompasses eight primary steps:

1. Defining the change
2. Creating a shared need
3. Developing a shared vision
4. Leading the change
5. Engaging and mobilizing stakeholders
6. Creating accountability
7. Aligning systems and structures
8. Sustaining the change

As Exhibit 6, page 6, illustrates, the change process is not linear. Managing change is not a

team-building exercise, a series of workshops, or a substitute for project management, nor can it be reduced to a generic formula. Because it is predicated on motivating human behavior, it is inherently iterative and ever-changing as it adapts to individual, team, and organizational feedback.

To tailor an organization’s people design to its future business requirements, we recommend that organizations carefully assess the proposed change initiative’s strengths and weaknesses in carrying out each of the eight steps outlined in Exhibit 6, page 6. This preemptive assessment can be conducted with one or more groups to pinpoint areas where there are differences between groups and serious threats to success—or, as we prefer to call them, improvement opportunities.

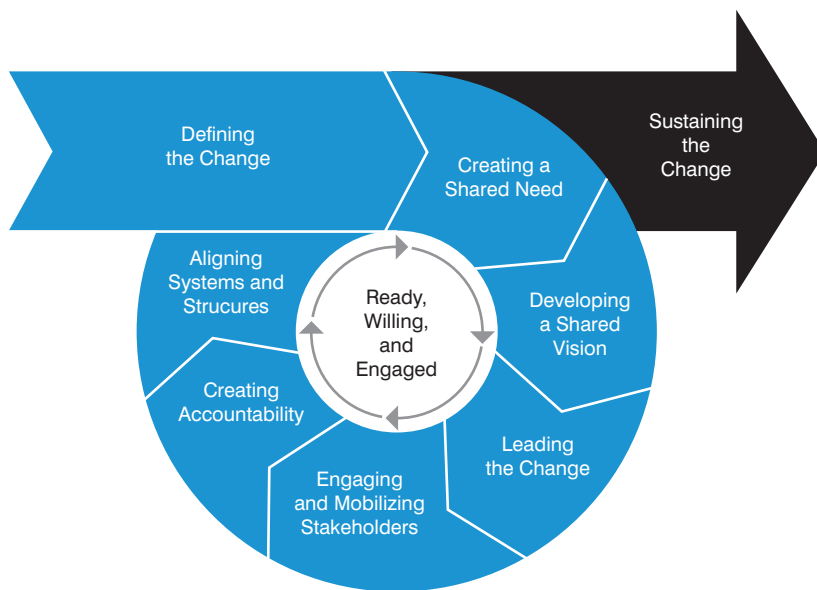
Not every organization will approach a given type of transformation, such as a merger, a cost-cutting program, or a product or service innovation, with the same profile. For example, a large water utility in Europe used a diagnostic assessment to size up the benefits and impacts of a proposed restructuring. Sixteen members of the steering committee were surveyed to determine the organization’s readiness for change in the face of declining water quality and severe regulatory scrutiny. The survey revealed a startling lack of alignment among the senior team members. Only after addressing this lack of alignment at the top could the organization move forward with a program to improve performance and standards, spanning the entire

“In retrospect, subsequent projects that involved front-line staff and manager champions early on made me aware of their absence during previous projects.”

— Program and organization leadership team member and survey respondent

Exhibit 6

Booz & Company's Change Management Model



Source: Booz & Company

organization.

Similarly, our survey shows that as a general rule, learning and development initiatives do not receive a great deal of attention during mergers and acquisitions. Therefore, such a diagnostic insight can play a valuable role in tailoring the people design and activities associated with a transformation. Done correctly, it can ensure that scarce resources and tight budgets can be focused on the key aspects required by that organization to drive home its specific type of change.

The Future of Change Management

Based on our experience and research, the future of change management is already apparent (see Exhibit 7). Leading companies and institutions will focus on building a permanent, in-house change capability, eventually embedding it within the fabric of the organization.

Change management will not be a separate workstream or function that is activated when a new transformation initiative is launched. It will be part and parcel of the organization's culture, the way it goes to work—which, in and of itself, will change. Given the dynamics of modern business, processes and organizational systems need to be less static and sequential and more flexible and responsive. All of these circumstances heighten the need for organizations to be adaptive and change as quickly and seamlessly as possible. Instead of perfecting new processes and systems before launching them, companies will place greater emphasis on pilot programs and action research. Change management, specifically, will accommodate greater experimentation and stakeholder participation in the design phase. For example, if the business transformation involves launching a new customer-

service center, there will be more opportunity for real-time feedback from customers and representatives before finalizing the design and implementing it.

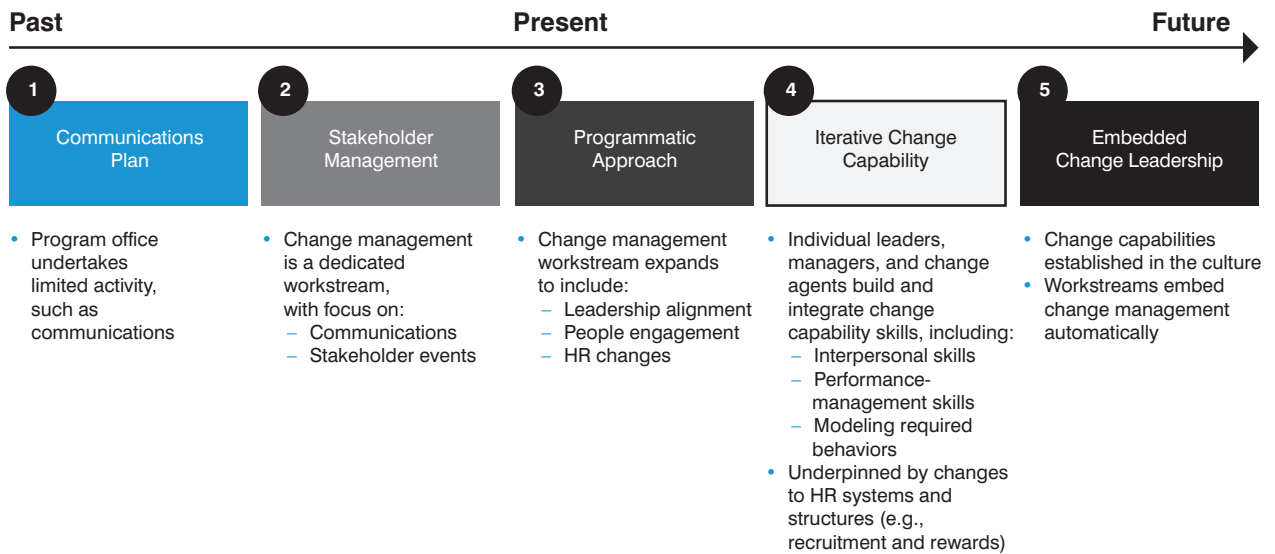
Currently, we are seeing many forward-looking companies building their own iterative change capability (Stage 4). This stage marks an important shift in the locus of change management activities, bringing the responsibility for the change from the organization level to the individual. While building such a capability is a matter of management technique, it still must be supported by the right organizational development frameworks.

In the not-too-distant future, change management will evolve into change leadership as organizations move away from a mechanistic, step-by-step approach and instill this change capability into their very culture. It will become a core task of leaders, embedded at all levels within the organization (Stage 5.)

In order to move toward Stages 4 and 5, three dimensions of change will be particularly critical: leading the change (the change skills and capabilities of executives), engaging the organization (how and with whom these executives engage), and establishing appropriate HR systems and structures (how HR frameworks are used to support and embed these new behaviors and skills).

1) *Leading the change.* While people are assumed to be rational creatures, generally speaking, significant change brings out the emotional side in most of us. Part of navigating change successfully is having leaders at all levels responding sensitively to

Exhibit 7
The Future of Change Management



Source: Booz & Company

“If you wait until all your ducks are in a row, you have only created a shooting gallery.”

— *Program leadership team member and survey respondent*

these emotional reactions. Senior executives play an important role here and need to better understand their critical role in leading the change.

However, our experience indicates that the responsibility of dealing with emotional reactions falls most heavily on the shoulders of line and middle management, and they are, for the most part, ill-prepared to deal with employees’ less-than-rational responses to change. This means resistance grows unchecked and cynicism spreads. In institutionalizing an enduring change capability, organizations need to inculcate new skills, tools, behaviors, and ways of working into their employees, in particular line management

and middle management. These individuals are the role models who will, in turn, inspire the rest of the organization to embrace and execute the transformation. Forward-thinking organizations are starting to put in place development programs for management to build their change capability. We have seen a prime example of this shift in one organization, where they have made change management one of the critical competencies all managers need to possess.

2) *Engaging the organization.* The secret to successful change management is the ability to engage the organization in a manner that involves staff and commits them to be ready, willing, and able to adopt a new way of working.

This capability is not just fundamental to successful change but also to successful leadership and management. To achieve this objective, management needs to really get up close and personal with their teams. They need to find the time to truly engage with and coach their staff, as well as acting as role models for new behaviors and ways of working, and ensure they use techniques that get their people on board and committed to action.

It is no longer enough to expect people to adopt new behaviors; executives need to understand how to engage people in defining those behaviors and motivate them to adopt them and tackle inappropriate ways of working. This is all the more powerful where staff already respect and value management’s capabilities and where executives have the change management toolkit to engage, influence, and motivate their teams. The more organizations value these

“An atmosphere of trust needs to be intrinsic; otherwise the organization will have the front line working counter to the goals and sliding into a downward spiral of poor morale, low productivity, fear, and absenteeism.”

— *Workstream lead and survey respondent*

Case Study: U.K. Public Institution Tackles Transformation

Booz & Company has helped organizations address the management development challenge in several ways. As an example, consider the case of a venerable public-sector institution in the U.K., which engaged in a massive change program to reduce operational inefficiencies and enhance the benefits it offered customers. This organization suffered from fragmented business processes, significant operating differences across locations, bloated support services, and an inability to clearly communicate its services to eligible customers.

To resolve these critical issues, the organization designed and executed an entirely new operating model that overhauled employee processes, moved staff from the back office to customer-facing activities, halved the number of processing centers, and replaced old legacy applications with new IT systems. Training management on how to execute a transformation program of this magnitude was integral to its success.

Identifying critical skills and behaviors: The first step was to define the future state of the organization in terms of the knowledge, skills, and behaviors required. Next and of critical importance was understanding the extent of the gap between the organization’s current capabilities and its future requirements. This intelligence helped the organization not only develop its “people proposition”—the “what’s in it for me” and “what’s expected of me” for each set of employees—but it also allowed the organization to tailor management training to target the widest critical capability gaps.

Specifying the learning requirements to sustain transformation: To bridge those gaps and inculcate new ways of working, the client developed “learning journeys” for line and staff management. These programs extended well beyond training in new processes and tasks; they focused on helping managers “lead through change” and act as role models of desired behaviors. Tools included individual assessments and coaching, interactive workshops, formal training, and ongoing support to improve post-learning application.

Measuring and supporting progress: Having developed and prioritized a list of critical skills and behaviors based on its transformation objectives, this institution linked these skills and behaviors to tangible metrics so they could be easily measured and monitored. Moreover, senior management put in place the infrastructure needed to support change managers on an ongoing basis.

Because this organization invested the time and resources to empower line managers through tailored training, it achieved the objectives of its transformation program. It dramatically expedited turnaround times for customer service items (from six weeks to 18 minutes); improved the accessibility, accuracy, speed, and quality of its service across all locations and channels; reduced direct and indirect running costs by more than 15 percent while increasing staff productivity; and improved customer knowledge of its products and services.

capabilities, the more emphasis they place on developing executives who have these attributes and the more they put in place systems and structures to help embed this different way of leading and managing.

3) *Establishing appropriate HR systems and structures.* To reinforce the institutionalization of a change management capability, an organization needs to have the right systems and structures in place, especially around HR. Our experience suggests that this is one of the key change levers that organizations realize they have not properly exploited. Organizations can support staff skills around change management at the individual level in terms of training and development by aligning their HR levers (e.g., role descriptions, key work objectives, and rewards structure) with the need for a strong change capability. For example, recruitment processes should ensure that future hires show an aptitude for adapting to and absorbing change. Reward and recognition systems must motivate people to engage in developing the desired change management skills and behaviors. Employment contracts, performance appraisals, and sales incentives all need to be tailored

to the priority of bringing in, retaining, and developing managers capable of delivering change.

Modeling the Change

Consider one example of an organization that has already embedded change leadership skills and behaviors: A global relief and development organization is a living illustration that the future is here with us now. A victim of its own astonishing growth, the organization's top management needed to delegate decision-making authority while line managers needed to assume accountability. The organization set up a culture and change leadership (CCL) team that worked with various offices and work teams to drive and manage change programs. The CCL team established and communicated an overall change framework and then provided one-on-one coaching to each team to ensure that they all were able to address the organizational implications as well as the technical requirements of the transformation. The result is a more resilient organization better able to deal constructively with unexpected change in delivering much needed services

to beneficiaries around the world.

Conclusion

Change management—the people side of business transformation—is no longer a quirky concept poorly understood by senior executives and inevitably blamed for implementation failures. It is now recognized as integral and valuable—indeed, a pre-requisite—to success. While change management has come a long way in practice, those experienced in leading these programs acknowledge there is still room for further progress. Today, most organizations have adopted a programmatic approach; they execute change in a disciplined but sequential manner, treating people initiatives as a vital but separate workstream. In the near future, we believe organizations will focus on building a permanent in-house change management capability that can be mobilized quickly and easily. Ultimately, given the prevalence and rate of change in every global market, organizations will embed that change management capability into the very culture of their organization, baked into the way they do business on a day-to-day basis.

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