

strategy&

Formerly Booz & Company

*An overall
approach to change
management*



Contacts

Chicago

Gary Neilson
Senior Partner
+1-312-578-4727
gary.neilson
@strategyand.pwc.com

Andrew Tipping
Partner
+1-312-578-4633
andrew.tipping
@strategyand.pwc.com

Munich

Jörg Krings
Partner
+1-49-89-45425-574
joerg.krings
@strategyand.pwc.com

San Francisco

DeAnne Aguirre
Partner
+1-415-653-3472
deanne.aguirre
@strategyand.pwc.com

This report was originally published by Booz & Company in 2004.

An overall approach to change management

There is nothing more difficult to carry out, nor more doubtful of success or dangerous to handle, than to initiate a new order of things.

— *Niccolo Machiavelli*

There comes a point in any successful change movement when a great truth dawns on those involved: The inevitability and wisdom of the ongoing change is finally understood, and the new reality accepted. And what typically evokes this realization? Not hard data, nor a new process, nor an edict from above.

What best crystallizes and reinforces change is powerful imagery that appeals to the primal emotions within human nature. Consider some of the great changes in history, and the images associated with these events: American colonists dumping tea into Boston Harbor. Rosa Parks refusing to give up her seat on a bus. Neil Armstrong's stroll on the moon. The fall of the Berlin Wall.

None of these scenarios added significant new information to the respective cases for war with England, equal rights under the law, the necessity of exploring space, or the end of the Cold War. But the images spoke to popular emotions with a power that reasoned debate can rarely evoke.

It's accepted in politics, entertainment, government, the media, and industries like advertising that appealing to people's emotions is essential to getting them to change behaviors. But business executives preparing their organizations for fundamental change generally struggle with accurately factoring human nature into the change equation.

Logic + emotion = Successful changes

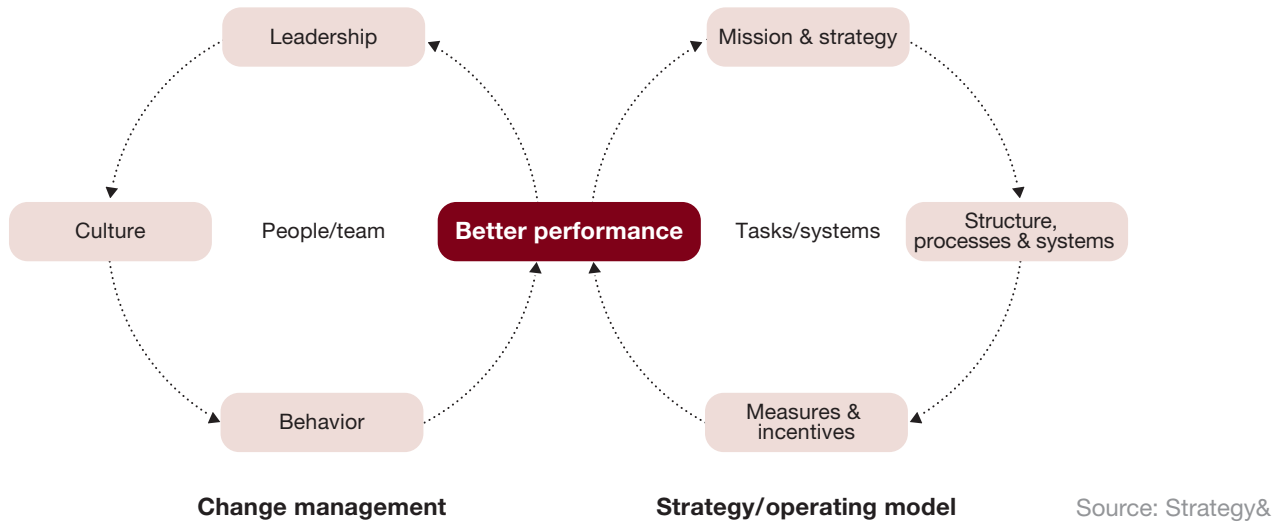
Why do even experienced CEOs tend to underestimate the human behavioral aspects of organizational change? Understandably, CEOs are most concerned with setting the right course for the organization, in selecting the *right* change. And it is, of course, important to choose the right business model, have a good plan to get there, and use solid strategies to execute the plan. For instance, if a major retailer decided today to switch to a 1999 business model — abandon its stores and sell all of its inventory online — very few employees would get behind the change process, due to its inherent folly. No amount of appealing to emotions would alter the fact that this was a poor change.

But what about the good ideas that employees fail to rally around? Many excellent change initiatives never get off the ground, stagnating just when they should be flowering. Why, after an enthusiastic start, do so many major change efforts — a new product rollout, international expansion, a new IT system — founder and organizations return to the prechange state? Because companies focus primarily on the structure and processes of the initiative itself, and not on showing employees a “truth” that motivates them, at a very basic human level, to invest themselves in the change.

A logical and well-designed strategy for change, if not centered around people, is doomed to remain just an elusive goal described by a distant management team. A successful change process links the logical — “here’s a great new IT system that will enhance your productivity” — to the emotional: “Your team could spend all night tabulating this stack of paper. Or you can use the new database and be out by 6 p.m.” Abandoned strategies for change typically suffer from a lack of balance between the “analyze-think-act” side of the brain and the “see-feel-act” side of the brain.

Through our experience managing large-scale structural transformations at scores of companies, we at Strategy& have developed a different approach. Our approach recognizes that hard-nosed business decisions can be made more effectively, and executed far more smoothly, if human behavior is considered in equal measure with the strategy and operating model. Our philosophy is illustrated in *Exhibit 1, next page*. Simply put, in order to forge fundamental change in a complex organization, managers must focus on the human side of implementing change — what we call “change management” — as much as the hard analytics behind the change.

Exhibit 1
Strategy& framework — dimensions of successful change



The nature of change

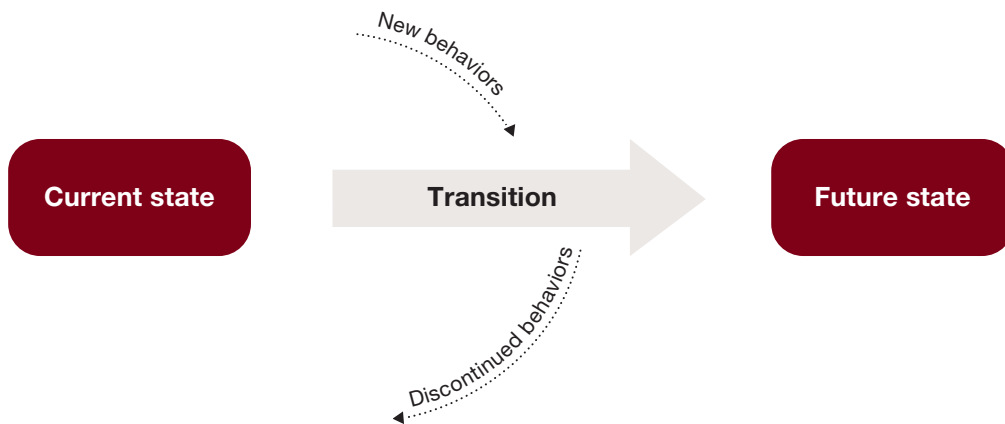
Changing the behavior of even one person, that is, discontinuing unwanted behaviors and/or initiating new behaviors, is a challenge. But large-scale change is something else altogether. Crafting a definition of organizational change is easy enough — moving collective behaviors from one state to another — but it's extremely difficult to achieve. As *Exhibit 2, next page*, shows, a major hurdle is adding new behaviors and dropping old habits concurrently. For many employees, particularly those who have mastered a set of tasks and take pride in this achievement, taking on a new role is a daunting prospect.

The setup

Like a recurring problem with a golf swing, stumbling blocks to change often reside in the setup. In many cases, management's strategic goals and grand visions are not aligned with the reality in the trenches. A human-focused change management approach encourages employee input when the change effort is still in the early planning phase. This is a critical period for gaining credibility within the wider organization, identifying pockets of potential resistance, and preparing employees for what lies ahead.

Exhibit 2

Adding new behaviors, discarding the old



Source: Strategy&

Gathering information early in the process can be time-consuming, but is well worth the effort. For example, at a Strategy& consumer services client, shrinking customer demand and subsequent declining profit margins created a need for significant cost reductions. Focusing on identifying and eliminating lower value-added activities, the client forged a team of more than 100 staff members to spend 20 weeks conducting interviews on back office processes, and their impact on the customer's experience. They identified over US\$200 million in savings. The lesson? Dig down into the organization as early as possible to address the needs of those employees manning the front lines of the organization. This approach will result in a better product and reap huge dividends in employee goodwill.

The change team

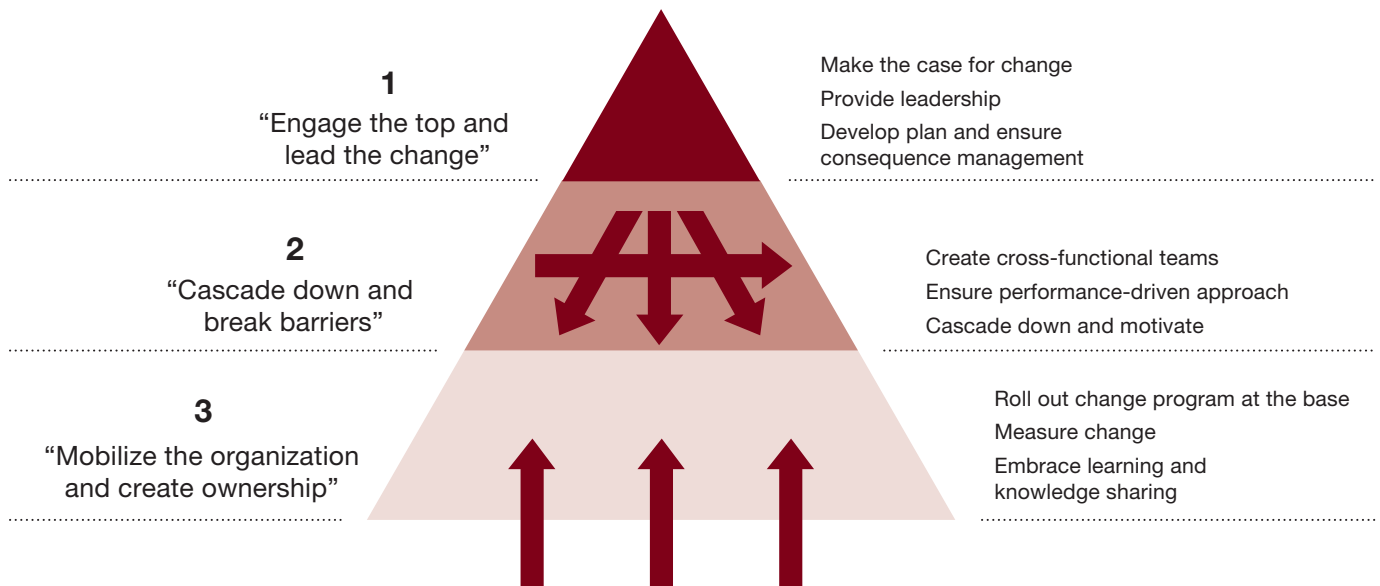
Any large-scale change within an organization must be led by a team that has the following characteristics:

- Credibility and authority to lead the effort
- The connections to find “change zealots” who can be trusted to spread the news of the benefits of change throughout the organization
- Ability to achieve “early wins” to keep the momentum building until it reaches a crescendo

The higher in the organization the leader of the change process, the better chance the effort has of succeeding. If the owners of the change process are buried in the middle management, this signals that the change itself is not highly valued, reducing the chances of it succeeding. Some organizations are even tempted to “cut and paste” a team that performed well together on a past project into a situation where change is called for. While it might have been a good team for the prior project, a different kind of team is most likely needed for a major change effort: one that can manage a large project but that collectively possesses both business and people skills.

In *Exhibit 3*, the imperative of engaging top management is clear. We have found that some senior management teams believe that the responsibility for change resides with a chief risk officer or another second-tier executive, such as the chief information officer. The reality is that any successful change effort must be initiated at the highest ranks of the organization, and any team assembled from there will have less trouble making the case for change and laying out the vision.

Exhibit 3
Strategy&’s change approach



Source: Strategy&

For example, one of our major government clients had reached the implementation phase of a large-scale transformation designed to increase effectiveness and efficiency. This meant both a head count reduction and the redesign of work processes. By the start of implementation, the workforce had become complacent; while there was lots of talk about removing people, everyone assumed that people would be shuffled to new jobs, as opposed to actually being removed. This all changed when a major government official gave his annual budget speech: He committed to reducing the number of people in our client's agency by 35 percent. This public commitment of a senior official eliminated any outs for our client and focused their attention on implementing the transformation.

To build an early group of believers — the change zealots — bold decisions must be made to get potential zealots to buy into the new system. At a major Strategy& consumer products client undergoing a significant transformation, the change team brought members of the marketing department into early briefings, as these professionals represented the cultural center of the organization. Empowered to use their traditionally exterior-focused skills on the internal change initiative, the marketing team identified important behavioral changes necessary to achieving the overall change program. It goes without saying that the marketing professionals at this company, who had acted as classic change zealots, were highly invested in the success of the change.

Identifying new leaders who can bring changes to all corners of the organization is the central goal of creating change zealots. The newly minted change zealot has, of course, become a convert, and this person — in a desire to succeed — is going deliver the message as quickly and aggressively as possible. By getting previously uncommitted people throughout the organization to buy into the project early, momentum builds that can result in everyone in the organization jumping on board the change wagon.

To recap, the change zealots:

- Cascade changes down
- Conduct the flow of change
- Support the vision
- Isolate pockets of blockers and cynics
- Spread the word of “early wins”

Communicating the change throughout the organization

Not everyone can be as invested in the project as the change zealots. For others in the organization, having a consistent message is crucial to final acceptance of the change. But consistent messaging does not mean *conventional* messaging.

Telling a good story, any good comedian or novelist will say, is about “showing,” not “telling.” To tell is simply to talk at someone. Some people will accept what they are told and act on it; others won’t. Even those who internalize directives most likely won’t identify with it on a gut level. For example, large numbers often need to be converted into a different scale to be meaningful. At a recent HIV/AIDS symposium sponsored by Strategy&, a speaker described deaths from HIV/AIDS rising to three million a year. He compared this to waking up every morning of the year and reading that 20 jumbo jets had crashed overnight and killed all the people on board. Three million deaths per year is such a large number that we can’t really understand what that means. Translating that number into a commonly understood scale allows people to feel the reality of the statistic.

The idea behind “show, don’t tell” applies to large-scale change efforts as well. Describing a new goal in corporatespeak — the epitome of telling — is not likely to motivate employees. E-mails, phone messages, or a corporate newsletter article announcing a new initiative are different forms of telling. While these forms of communication likely don’t hurt, they don’t help much either. Showing the benefits of change, rather than telling employees about the benefits of change, can make the difference between success and an aborted attempt at change. Illustrating the new path in a way that resonates with employees viscerally (“see-feel-act”) is likely to drive home the message.

But it takes creativity, confidence, and keen knowledge of the organization for a change leader to deliver a winning change message using unconventional techniques.

Other examples of showing, not telling include:

- The dramatic: The procurement manager who dumps out more than 400 different types of work gloves (at different prices from varied vendors) on a table to illustrate purchasing inefficiency
- The counterintuitive: The aircraft plant manager who one day simply stops production completely, challenging assembly crews to come up with a better way of building an airplane

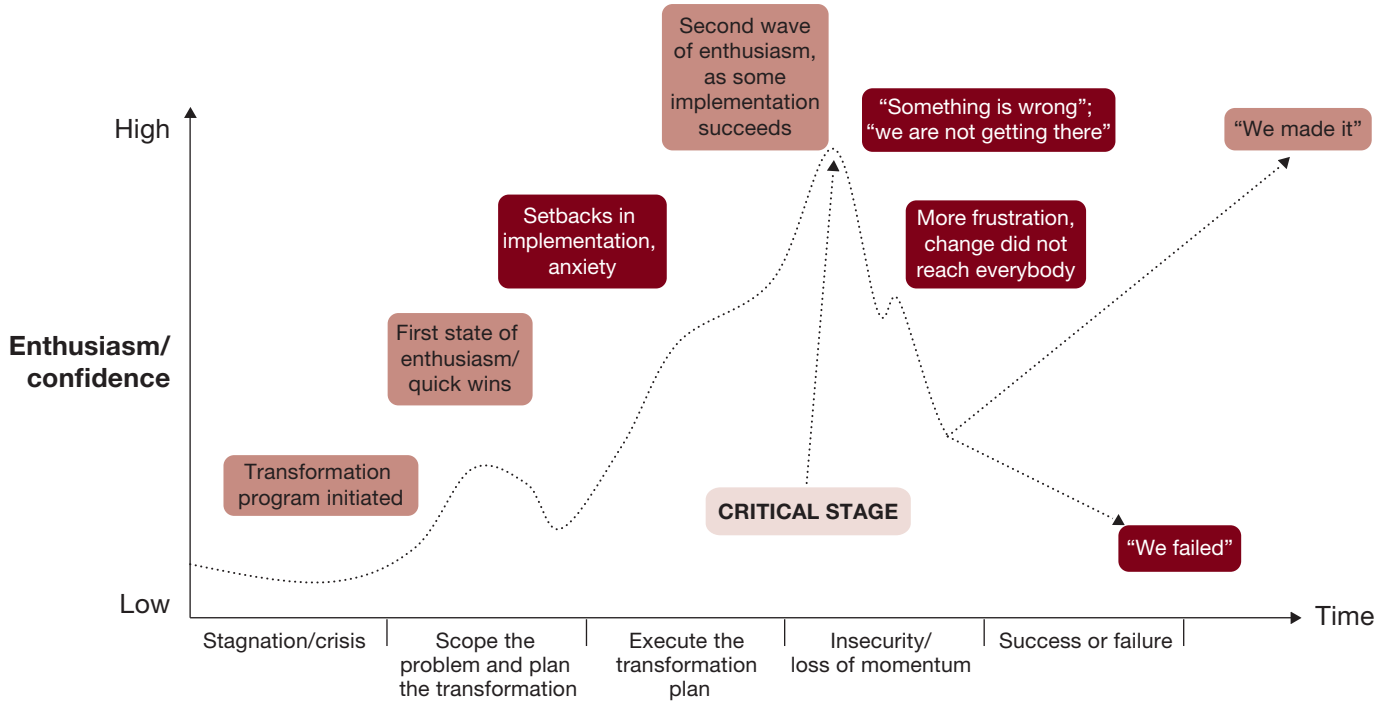
- The bold statement: A company demolishes the swanky executive floor (but keeps the executives!) in a time of cost-cutting, in order to build faith in senior management
- Putting the shoe on the other foot: A resister to change is loaned to a customer, where he learns how dramatically his company needs to change to serve this — and other — customers.

Creating a sense of urgency and avoiding stagnation

With no urgency, a change effort cannot overcome institutionalized roadblocks. Employees can connect to the logic behind a merger or a new expense-recording system, but to really sustain urgency and enthusiasm and avoid the dreaded stagnation that can kill a change initiative, it's crucial to keep compiling small wins. The wins can be anything: getting a crucial department on board with the change, seeing a positive article in the media about the new organization, acquiring a new key client. *Exhibit 4, next page*, sheds light on the unpredictable nature of change. It also shows how there is often a reaction against change about two-thirds of the way to success.

The roller coaster in *Exhibit 4* illustrates the dangers of stagnation. Early on, the enthusiasm for a new initiative helps create the critical mass for something new and some early successes are often the result. But every change process faces its moment of truth, when the management team learns whether they have equally balanced the aggressive push for the “new” with the human behavioral elements of the change. At this critical stage, shown as the apex of the chart, stagnation sets in and the company goes back to its old ways, or the organization emerges a new, better incarnation of its old self.

Exhibit 4
Many transformation programs ride the roller coaster



Failure is often due to inadequately addressing the "human issues"

Source: Strategy&

Breaking down barriers

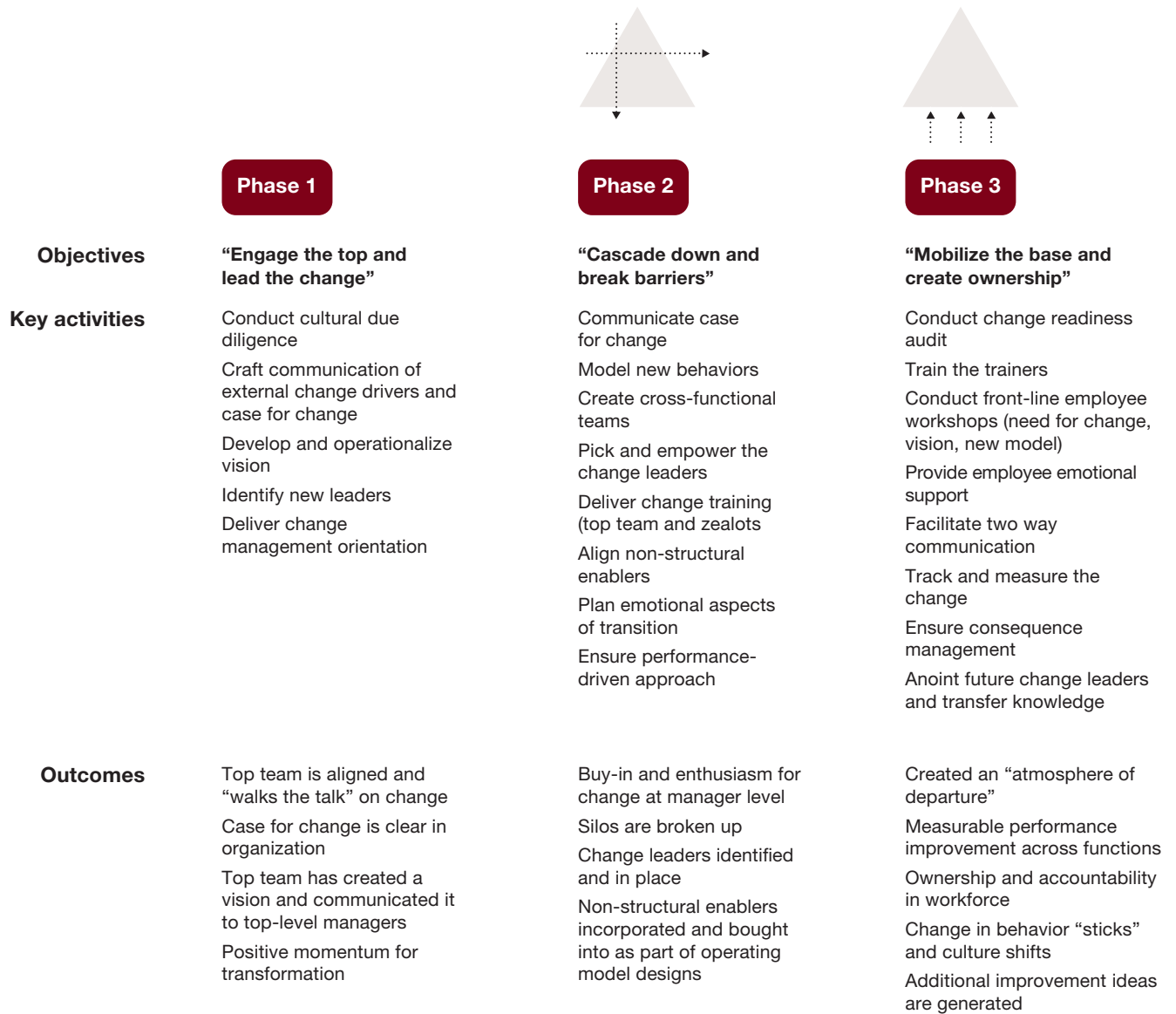
Note that in *Exhibit 5, next page*, barriers must be broken down both vertically and across the organization. This is necessary because resistance to change rarely lies on only one level of an organization. High-level managers may have a lot to lose during a change process, so they consciously or unconsciously erect vertical barriers to the process. Barriers must be eliminated horizontally as well, because the large numbers of workers at the front lines of the organization must be engaged.

Barriers fall more easily as more people are converted to the new way of doing things. Like previously indifferent baseball fans jumping on the bandwagon of a team steamrolling toward the World Series, employees will want to be on the winning side as real change becomes more possible. This bandwagon effect will cascade down throughout the organization.

One technology client had developed a new sales approach. Every time our client won out on a sale, the COO stepped into the hallway and struck a large Chinese gong. Everyone in the sales division heard the gong and knew that others were adopting the new approach and were succeeding with it. This eliminated employee excuses for not embracing the approach, and it created a symbol around which to rally.

Another critical weapon in breaking down barriers is proper training. In response to good training, new methods of business will be expedited, more employees will see improvements, and barriers will crumble instead of having to be taken down with a wrecking ball.

Exhibit 5
Details about our change management process



Source: Strategy&

Crunching the “emotional” data

So far, we’ve seen why management needs to concentrate on selling change at an emotional level. We’ve seen why change zealots are so motivated: It’s a new day for their careers, for one. And we’ve seen how, if change is described originally and interestingly, employees can, in a general sense, accept a rationale for the organization moving in another direction. But how to attain the buy-in at a personal level from thousands of people?

In *Exhibit 6, next page*, we see how laudable goals, which any self-respecting CEO would want to achieve, are complicated by the various fears, anxieties, and resentments of thousands of individual employees.

The best way to handle the human face of change is not solely with empathy, although understanding from direct supervisors can’t hurt. It’s with real, tangible career benefits. So long as employees feel they are developing their careers, change managers can overcome concerns about job insecurity, having to learn new skills, or relocating. The point is that emotional and behavioral aspects of change management do not have to be met with “soft” solutions, but rather solutions that engage and reward the employee for buying into the change. The more focused change management processes are on employees’ careers, the more receptive employees will be to the change.

Acquisitions, for example, fail more than half the time. A merger with a rival firm can challenge every assumption employees might have harbored about their company and their careers. Their previously held notions about industry competition and what they should be emotionally attached to is literally altered overnight. In fact, recent research suggests that maintaining employee morale during a merger is critical to its success.

Conclusion: Providing a vision of a better day

Any transformation is brought to life by hundreds, even thousands, of frontline employees who deliver service to customers and perform other crucial jobs every day. A company can’t count on all of these professionals to envision what the organization will look like in the future, after the desired change has occurred. Management must instead *supply* the vision.

That vision should include how individual employees fit into the new organization, and what benefits will result from this evolution of their

careers. Perhaps there will be challenging new duties or a flexible working schedule. Or maybe better training or educational opportunities. Even a chance to run a department.

If management can use powerful imagery to provide a credible vision of a better company, show the benefits that will result, and alleviate the inevitable human fear, anxiety, and discouragement during the transition, then the chances of implementing successful change will be greatly increased.

Exhibit 6
The human face of change



Source: Strategy&

Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you're

charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we'll help you create the value you're looking for with speed, confidence, and impact.

We are a member of the PwC network of firms in 157 countries with more than 184,000 people committed to delivering quality in assurance, tax, and advisory services. Tell us what matters to you and find out more by visiting us at strategyand.pwc.com.

This report was originally published by Booz & Company in 2004.

www.strategyand.pwc.com

© 2004 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. Disclaimer: This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.