

strategy&

Formerly Booz & Company

Making change happen, and making it stick

&

**Delivering
sustainable
organizational
change**



Contacts

Beirut

Bahjat El-Darwiche
Partner
+961-1-985-655
bahjat.eldarwiche
@strategyand.pwc.com

DC

Kristy Hull
Principal
+1-703-682-5764
kristy.hull
@strategyand.pwc.com

London

Richard Rawlinson
Partner
+44-20-7393-3415
richard.rawlinson
@strategyand.pwc.com

New York

Jon Katzenbach
Senior Executive Advisor
+1-212-551-6115
jon.katzenbach
@strategyand.pwc.com

Rutger von Post

Partner
+1-212-551-6090
rutger.vonpost
@strategyand.pwc.com

Reid Carpenter

Principal
+1-212-551-6389
reid.carpenter
@strategyand.pwc.com

San Francisco

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

Stockholm

Per-Ola Karlsson
Senior Partner
+46-8-506-190-49
per-ola.karlsson
@strategyand.pwc.com

About the authors

Ashley Harshak was formerly a partner with Booz & Company.

DeAnne Aguirre is a senior partner with Strategy& based in San Francisco. She is an expert in organizational and talent effectiveness and change leadership and has led transformations in both U.S. and global corporations.

Anna Brown was formerly a senior associate with Booz & Company.

This report was originally published by Booz & Company in 2010.

Soon M. Rabb also contributed to this report.

Executive summary



Few organizations have escaped the need for major change in the past decade as new technologies and global crises have reshaped entire industries. If anything, the pace of organizational change has accelerated and its magnitude has amplified. Restructuring, cost cutting, post-merger integration, geographic expansion, new product rollouts, IT transformation — all require people to fundamentally change the way they work.

However, the fact that change has become more frequent does not mean that it is easier. To deliver the business objectives of a major change program, people need to adopt and sustain new ways of working — and this is as challenging as ever.

The good news is that it can be done, and it has been done at numerous organizations. Despite the inherent challenges, most people will change if they believe that doing so will make a real and positive difference in their lives and those of their customers. So, how do leaders tap into that underlying drive and achieve sustainable change in their organizations?

At Strategy&, we have seen organizations develop approaches to change management — the people side of business transformation — that address change comprehensively. What these approaches have in common is that they balance formal and informal levers in a change program, addressing both the “boxes and lines” of the organizational structure and the “unwritten rules” of how decisions are made and what creates pride in the organization.

Highlights

Success factors in designing and implementing any change management program include:

- Understanding and spelling out the impact of the change on people;
 - Building the emotional and rational case for change;
 - “Role modeling” the change as a leadership team;
 - Mobilizing your people to own and accelerate the change; and
 - Embedding the change in the fabric of the organization.
-

People drive change

Change is, at its core, a people process. The most brilliantly designed business transformation efforts can, and often do, fail because they do not capture the hearts and minds of the people who need to operate differently to deliver the change. In fact, studies have demonstrated that roughly two-thirds of transformation programs fall short of their objectives.¹

These efforts rarely fail because of the strategy or technical solution; senior executives understand intellectually what needs to change to improve performance, and clever consultants design a future operating model that looks foolproof on paper. Where change fails is in the execution, in the attitudes and everyday actions of the hundreds or thousands of individuals tasked with delivering the future state and making it an enduring reality.

People are creatures of habit; they resist adopting new mind-sets, practices, and behaviors. Even in cases where a transformation program is pushed through and initially hailed as a success, many employees revert back to the old way of doing things within a matter of months. To achieve and sustain transformational change, companies must embed the change at every level, and that is very hard to do — but it has never been more important.

Two-thirds of transformation programs fall short of their objectives, because they do not capture hearts and minds.

What is change management?

Change management, as we define it, is the capability and set of interventions that deliver the “people” side of a change effort. Successful change management not only targets leaders but also engages people across the organization, while adjusting key enabling processes such as performance management.

The “change” can be on a large scale, such as a significant culture shift or the introduction of a new operating model, or more contained, such as merging two departments. Whatever the magnitude, all change involves people adopting new mind-sets, policies, practices, and behaviors. Change management helps people not only make the transition but also sustain its benefits.

Change management is not a communications plan — communication is a vital component of an effective change management program, but it is no substitute. Nor is change management a human resources initiative, though HR plays a critical role in implementing change.

Most business leaders have come to understand the importance of the people component in implementing and embedding change. According to a survey Strategy& conducted of 350 global executives charged with leading major transformation programs, senior leaders now recognize that people initiatives spell the difference between success and failure (*see Exhibit 1, next page*). Change management tools and techniques have become far more prevalent and sophisticated, and the cadre of seasoned professionals skilled in wielding them has also grown.

Still, as one respondent put it, “the people dynamic is always recognized but severely underestimated and under-resourced in every change project in which I’ve been involved.”

Change management is all too often undertaken too late and too lightly to be effective. In fact, there was broad consensus among the change experts we surveyed that they could have executed change better, specifically by pulling all of the key people levers earlier and more fully.

Change management cannot be relegated to an isolated work stream, nor can it be tacked on as an afterthought when execution falters and a “fix” is required. Not only is such an approach doomed to failure, but it breeds enduring cynicism in your workforce. Helping people deliver on the business objectives of the change — in terms of moving to new responsibilities, capabilities, and behaviors — should not take a backseat to the more straightforward rollout of process and technology changes. To succeed, people issues need to be identified and incorporated in project management plans from the start and then revisited again and again throughout the implementation process to ensure the desired strategic outcome.

Exhibit 1

People make change happen

Executives value change management

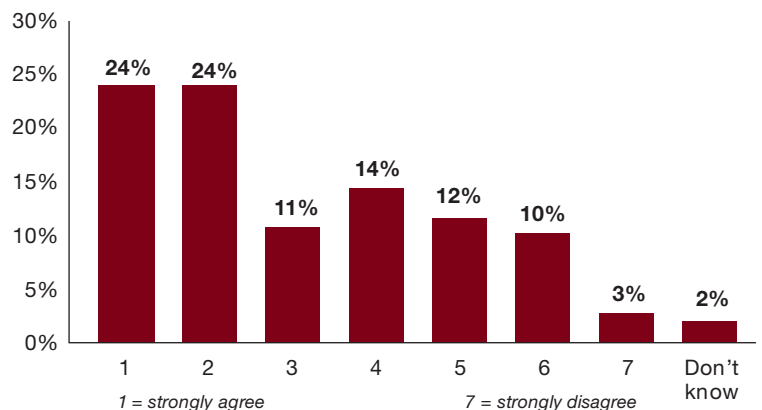
Our global change management survey of 350 senior executives showed:

Nearly 60% of supervising executives agree that “a successful transformation program is due more to the people initiatives than other elements”

85% believe that senior sponsorship contributes to successful transformation & is more important than any other element

75% of respondents credit people initiatives with having a positive impact on the success of transformations

“A successful transformation program is due more to the people initiatives than other elements”



Source: Strategy& Change Management Survey, April 2008

The five success factors

In our experience, there are five key success factors in designing and implementing any change management program: understanding and spelling out the impact of the change on people; building the emotional and rational case for change; “role modeling” the change as a leadership team; mobilizing your people to own and accelerate the change; and embedding the change in the fabric of the organization.

1. Understanding and spelling out the impact of the change on people

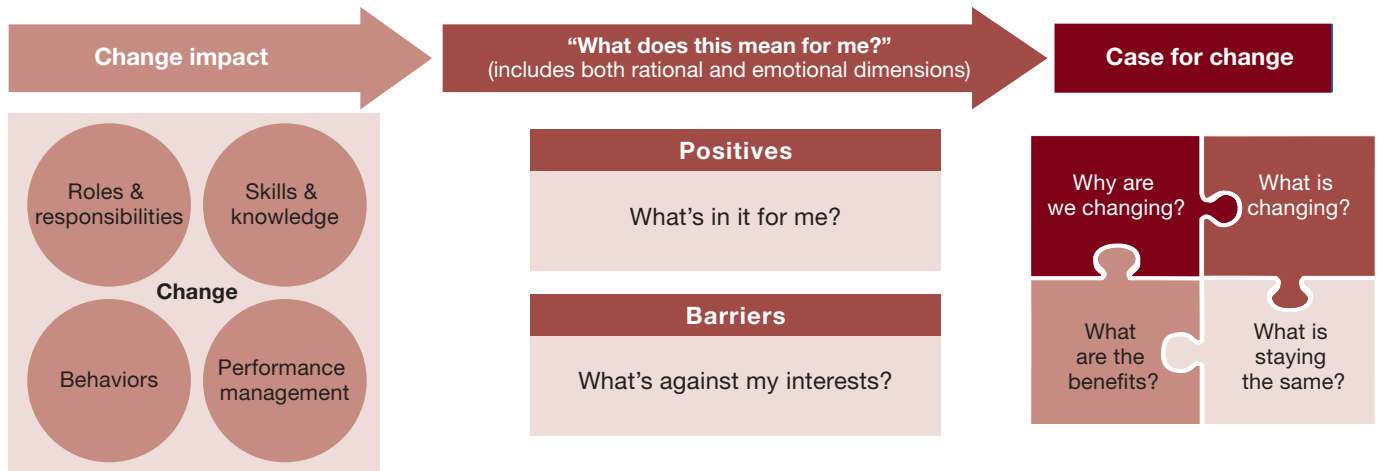
A prerequisite to any viable change program is a clear-eyed assessment of the impact it will have on various populations in the organization. This analysis identifies the type and scale of changes affecting each segment of employees (as defined by role or business, for example). This assessment also provides a basis for communicating with the team members about what the change means for them personally — the predominant concern of every employee in a business transformation (see *Exhibit 2, next page*).

A well-known global energy firm discovered the utility of such an exercise firsthand recently when it tried to overhaul a key support function to provide enhanced, more efficient service to its internal customers. It did everything right in designing and staffing the change management effort, but at a critical juncture, the leadership team realized that it did not have a clear understanding of how each of the proposed change initiatives would affect key staff segments and how much they overlapped (or potentially conflicted) in terms of change impact.

Using both qualitative and quantitative measures, a change impact analysis produced a “heat map” illustrating the intensity of change for each group of employees, as well as a detailed description of the changes each role would need to deliver. As a result, the leadership team was able to focus and redirect the transformation program to address the challenges facing the roles most affected. Project teams

Exhibit 2

A change impact analysis can highlight hurdles early on and help to build the case for change



Source: Strategy&

identified areas of potential overlap and conflict in the people impact of various initiatives and made important modifications. Finally, the detailed output of the change impact analysis informed the plans and sequencing of the overall transformation program and became the basis for communications with managers, who in turn cascaded the messages to their teams.

2. Building the emotional and rational case for change

Many leaders excel in building the rational case for change, but they are less adept in appealing to people's emotional core, and that is where the momentum for real transformation ultimately lies. Change management communications need to be segmented, targeted, subjective, and, most important, two-way.

If you are asking people to adapt to a new reality, they need to understand the emotional case for the change. It can't be presented as yet another program of the month they need to survive. We have found that bringing the detail of what will change — and what won't — into

Many leaders excel in building the rational case for change, but they are less adept in appealing to people's emotional core.

the case for change allows leaders to paint a vivid picture of what the change means for employees personally, not only why it benefits the business.

A major IT services company, seeking to build a more globally integrated but locally responsive presence and brand, transformed its organization, dismantling what had become separate line-of-business fiefdoms and creating in their place regional business units supported by a core set of global support functions. The restructuring made obvious rational sense: It allowed the company to leverage its global scale and local expertise to build a more integrated service offering for clients. But it was a hard sell internally, particularly for those highly placed in the old organization. Recognizing this impediment, the company identified its top 2,000 managers and built an emotional as well as rational case for change targeted at this critical group.

In communicating to these managers, the company stayed focused on four simple but fundamental questions:

- Why are we changing?
- What is changing?
- What are the benefits?
- What is staying the same?

The global chief executive of the company personally led the campaign, supported by his direct reports and a dedicated communications program office. The messages, developed in conjunction with regional management and communications professionals, were consistent, transparent, and repeated again and again through memos, presentations, conference calls, and road shows.

And it worked. When surveyed well into the program, 97 percent of senior managers felt personally committed to the transformation, and 96 percent felt they had a core role in making the changes work.

3. “Role modeling” the change as a leadership team

Companies start their transformations from the top. Leading the change means that senior executives must be not only “on top” of the change program, but also “in front,” modeling the new behaviors they are asking of their people and holding one another accountable for their successful adoption. So, for instance, when executives talk about creating a performance culture, they must demonstrate through their

example what that means. A senior director in charge of a contact center at one of our clients found that it was only after he introduced ongoing performance discussions with his direct reports that his team started to hold similar sessions with their own direct reports.

That bit of counsel — to lead by example — is hardly a new insight. An aligned and committed leadership team is the foundation for any major corporate undertaking. But it's easier said than done. We have found, however, that in cases where leaders work together to demonstrate the promise of the future state through their example, the impact can be positively profound.

Here's how one leading company got it right. A major multinational set out to transform one of its global functions (3,500 people) and discovered almost immediately that the engagement and behavior of the leadership team — how its members related both to one another and to their teams — was undermining the change effort. According to internal surveys, less than half of respondents believed that their leadership team was living the values and behaviors espoused by the company.

Recognizing the repercussions of this credibility gap on the success of the overall transformation initiative, the global function head decided to address the issue head-on. Through a structured process of one-to-one interviews with each executive and a series of interactive workshops, a small team identified desired behaviors and assessed how well the department leaders were demonstrating them.

Through this process, the leadership team managed to break down barriers, align around newly defined core behaviors, and develop a language that allowed them to share their views and critical tensions more openly. Remarkably, they also told their teams what they were doing behind closed doors. Having engaged with one another and shared their progress with their teams, executives emerged from this process as more capable and respected leaders and a stronger, more productive team, able to successfully lead the transformation throughout the organization.

4. Mobilizing your people to own and accelerate the change

The blunt truth is that most change initiatives are done “to” employees, not “with” them or “by” them. A change strategy is mapped out at the top of the organization and then rolled out through a central program office, which foists the change on the organization. However, while executives are pushing behavior change from the top and expecting it to cascade through the formal structure, an informal culture left to instinct and chance will likely dig in its heels. The naysayers will

continue to promote old assumptions and generate negative rumors. Nostalgia will exert a powerful pull of inertia.

To counteract this undermining force, companies should leverage their informal organization — the network of peer-to-peer interactions — to establish and embed change. People need to be encouraged and motivated to change their behavior by those around them as much as they need to be incentivized from the top.

Strategy& senior partner Jon Katzenbach coined the term “informal organization” and describes the challenges of recognizing and addressing this powerful if amorphous force in his new book *Leading Outside the Lines*:² “A key difficulty for leaders when they mobilize the informal organization is to recognize that they are not dealing with a *complicated problem*, but rather a *complex system*.”

We are not suggesting that companies forgo a centrally driven program with clear deliverables; that’s the “road map” to the desired destination, laying out all the formal elements of the new organization (structures, processes, decision rights, information flows, performance management mechanisms, rewards). Rather, we are suggesting that there is another critical dimension that is often overlooked in executing transformations — the informal organization. Whereas the formal organization aligns, the informal organization motivates.

The informal organization is where pride and commitment and purpose reside, and if you can tap into those powerful emotional motivators, you can accelerate and intensify the impact of the change initiative (see *Exhibit 3, next page*). By the same token, if you don’t leverage the informal organization, it could work against you, undermining the transformation and compromising its sustainability. To tap the full potential of the informal organization, you need to build momentum for change from the ground up and through peer-to-peer networks, by inviting employees to contribute input and take ownership.

The best way to illustrate what we mean is with an example, this time from the public sector. Government departments are no strangers to change, and this particular European agency, serving tens of millions of citizens, was no exception. Having been through years of massive transformation, the agency’s staff was demoralized and beset with change fatigue, only to discover with the arrival of a new shared-services management team that change was afoot again.

The new management identified a number of challenges right from the start. First, it was clear that the shared-services department had not focused sufficiently on its internal customers in the past and therefore was not well regarded. Second, the organization as a whole did not have

If you don’t leverage the informal organization, it could work against you, undermining the transformation.

Exhibit 3

Leverage both formal and informal change tools

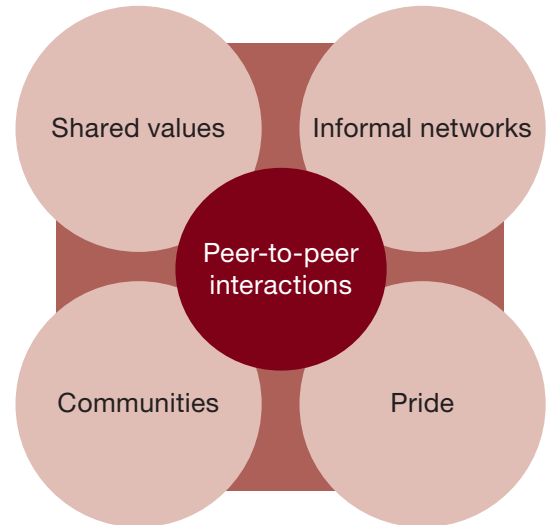
Formal tools



Defined, written & measured

Familiar tools that are often discussed
& used in a business environment

Informal tools



Ambiguous & with unclear boundaries

Rarely codified tools that are almost
never overtly discussed

Source: Strategy&

a successful change management track record. Finally, it did not have a strong middle management layer with effective change leadership skills. So, while the need for transformation of the department was apparent, the ability to effect it using a traditional top-down approach was doubtful. Leaders needed to mobilize the informal organization to motivate employees' engagement at a deeper, more emotional level.

They decided to pursue a pilot informal change initiative at one of their typical shared-services sites in parallel with the overall centrally driven transformation program. The goal was to identify not only winning behaviors, but also those front-line individuals (team leaders or team members) who demonstrated them on a consistent basis. In the opinion of their peers, these exemplars, or "pride builders," positively impacted the performance of the entire site by modeling ideal behaviors. Once

identified, the pride builders were empowered to suggest and drive performance improvements throughout the organization.

After six weeks, 10 pride builders had been identified and mobilized. Together with the shared-services director, they uncovered 13 performance improvement opportunities, of which four were “quick wins” that could be implemented immediately. Moreover, pride builders began sharing with their peers stories about the winning behaviors they had developed to enhance performance and engagement.

Almost immediately, the productivity and effectiveness of team leaders increased, and the engagement of team members was noticeably improved — one employee even called in on his day off to check on his team’s productivity numbers!

5. Embedding the change in the fabric of the organization

Too often, sponsors declare victory too soon, diverting leadership, commitment, and focus from the ongoing effort. To embed the change and ensure that it sticks, you want to consciously acknowledge lessons learned and improved ways of working. Ask yourself these questions: How can we continue to engage and involve employees over the long term? What lessons have we learned, and how can we institutionalize best practices to capture the full benefit of this change and any future changes?

HR plays a critical role in this process. To enable lasting change, all HR systems, structures, processes, and incentives must be aligned and consistent with the goals of the transformation. Will they drive and support the kinds of behaviors needed in the future state? If there is misalignment between the new expected behavior and the old incentive system, for example, you can be sure the behavior will revert to what is rewarded.

To align systems with the desired future state, you need to articulate clearly the various people elements of the future organization — not only its structure, but also employee value propositions and individual and team roles, as well as required competencies, skills, and behaviors. Things like performance management, learning and development, workforce strategy, and retention programs are key enablers of the change program whether you’re introducing a new operating model or reorienting the way your sales team goes to market. And yet, all too many companies give short shrift to key HR enablers.

The challenge is not to rethink only how HR policies, procedures, and processes can help people support the change but also how they can be

HR systems, structures, processes, and incentives must be aligned and consistent with the goals of the transformation.

used to embed and sustain the change for the long term. This requires HR to understand the business and its long-term requirements as both a strategic partner and a change agent.

The new HR director at a large financial services institution did just that when she joined while a transformation initiative was getting under way. To more efficiently meet the needs of its more than 10 million customers, the organization had decided to take the radical step of integrating its front- and back-office operations into a contact center operation that could serve customers in real time.

HR realized this was an opportunity to build a best-in-class operation and embarked on a benchmarking exercise to identify best practices and top priorities for successful contact center businesses. What emerged were four key and mutually reinforcing priorities:

- Develop a revamped recruitment process that effectively tests whether potential employees are well suited to a contact center environment
- Design and implement a flexible staffing model that optimizes employee work/life balance and accommodates longer operating hours
- Train team leaders and operational managers to better manage and motivate front-line teams
- Enhance performance management capabilities so that high performers are rewarded, low performers are managed out, and overall productivity targets are met

The board swiftly approved these four recommendations, and HR was able to kick off an implementation program immediately, working closely with the operations department. Within months, signs of progress were evident. Recruitment results improved, and recruiting time was reduced by two-thirds. Terms and conditions of employment were clarified. A management development program was recognized as a best practice by an industry association. But most important, productivity doubled while customer service dramatically improved. For example, the time required for one key process was cut from four months to 20 minutes.

Navigating change successfully

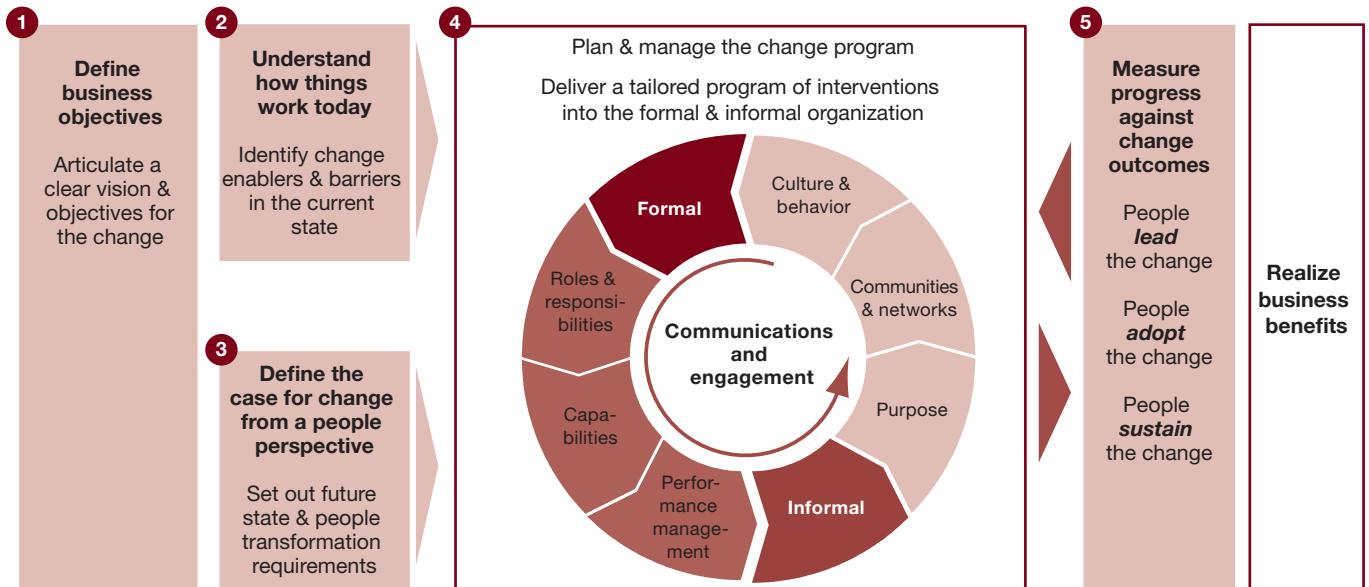
At Strategy&, we have a comprehensive approach to change management — the people side of business transformation — that addresses all of the success factors discussed.

A number of attributes define a successful change management program. First, it is people-focused. As we've argued, you cannot achieve business change objectives without altering the way people work and behave. Second, it is systemic. Each business is a system; you need to understand the enablers and barriers in that unique system to effect change. Third, it uses both formal and informal levers. Opportunities for people to shape the change through informal and peer-to-peer networks add significant value to a balanced and integrated change effort. At the same time, it is necessary to drive change through formal organizational enablers like recruitment, reward, and performance management processes.

Our approach to change management starts by clearly defining the business objectives the change is intended to deliver. The next step is to understand the current organization — its culture, its capabilities, and its experience with change (both successful and unsuccessful). Often concurrently, we conduct the change impact analysis described earlier, and set out the case for change from a people perspective. The main thrust of the change program follows with a series of targeted, tailored interventions that drive change through a balance of formal and informal levers (*see Exhibit 4, next page*).

This is not a fixed or formulaic methodology but rather one that accelerates success by selecting the most effective and efficient tools and techniques for the specific circumstances of the client organization. We use a range of techniques to help clients build the capabilities needed for the future and align performance management and other HR processes to support new ways of working. We strengthen and empower the informal side of the organization by working with leadership teams and identifying change agent networks. We focus on the small number of critical behaviors essential to success in fully

Exhibit 4
Strategy&'s change management approach



Source: Strategy&

embedding the change across the organization. Finally, we have developed tools for measuring progress against change outcomes.

In today's business environment, change is an imperative. The ability to manage change on an ongoing basis needs to be embedded in the fabric of the organization as part and parcel of the organization's culture and a core leadership trait. Companies are constantly being called on to manage and deliver successful transformation programs — to cut costs, develop a performance culture, realize post-merger integration benefits, or address other challenges. Many are integrating permanent change capabilities in their organization and teams. By following a change management approach such as this one, companies can enhance their overall change capability, increase the speed of implementation, and improve the probability of success.

Endnotes

¹ Michael Beer and Nitin Nohria, “Cracking the Code of Change,” *Harvard Business Review*, May/June 2000.

² Jon R. Katzenbach and Zia Khan, *Leading Outside the Lines: How to Mobilize the (In)formal Organization, Energize Your Team, and Get Better Results* (Jossey-Bass, 2010).

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 2010.

www.strategyand.pwc.com

© 2010 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.