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Ten guiding principles of change management



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Ten guiding principles of change management

Success at large-scale transformation demands more than the best strategic and tactical plans, the traditional focus of senior executives and their advisers. It requires an intimate understanding of the human side, as well — the company’s culture, values, people, and behaviors that must be changed to deliver the desired results. Plans themselves do not capture value. Value is realized only through the sustained, collective actions of thousands or tens of thousands of employees who are responsible for designing, executing, and living the change.

Long-term structural transformation is characterized by scale — it affects all or most of the organization; by magnitude — it involves significant alterations from the status quo; by duration — the change program lasts for months if not years; and by its strategic importance. Yet companies will reap the rewards only when change occurs at the level of the individual employee.

Many senior executives recognize this, and it worries them. When asked what keeps them up at night, CEOs often wonder about “how the workforce will react,” “getting my team to work together and pull this off,” “leading my people through this,” “retaining our unique values and sense of identity,” or “creating a culture of commitment and performance.” Leadership teams that fail to plan for the human side of change often find themselves wondering why their best-laid plans go awry. Strategy& has partnered with dozens of companies to plan and execute sweeping change. Through the course of these engagements, we have developed a unique perspective on managing the human side of change. No single methodology fits every company, but a set of practices, tools, and techniques can be adapted to a variety of situations. With these as a systematic, holistic framework, we can help executives understand what to expect, how to manage their own personal change and how to engage the entire organization in the process. What follows is our Top Ten list of guiding principles for transformational change.

Client example:

The senior team of a large consumer services company rolled out an initiative to improve the efficiency and performance of its corporate and field staff before addressing change issues at the officer level. The initiative realized initial cost savings but stalled as employees began to question the leadership team's vision and commitment to the change program.

Middle managers didn't embrace the program, not wanting to take risks until they the direction and permanence of the initiative were clear. Only after the leadership team went through the process of aligning and committing to the change initiative was the workforce able to deliver downstream results.

1) Address the human side of change systematically: Any transformation of significance will create people issues. New leaders will be asked to step up, jobs will be changed, new skills and capabilities must be developed, and people will be uncertain and will resist. Dealing with these issues on a reactive, case-by-case basis puts speed, morale, and results at risk. A disciplined approach to change management must be one of the four pillars of any transformation approach (*see Exhibit 1, next page*). This fact-based approach demands as much data collection and analysis, planning, and implementation discipline as a redesign of strategy, systems, or processes. It should be fully integrated into program design and decision-making, both informing and enabling strategic direction. It should be based on a realistic assessment of the organization's history, readiness, and capacity to change. And it should link multiple change initiatives together. A formal approach for managing change — beginning with the leadership team and then engaging key stakeholders and leaders — should be developed early but adapted often as change moves through the organization.

2) Change starts at the top and begins on day one: Change is inherently unsettling for people at all levels of an organization, and when it is on the horizon all eyes will turn to the CEO and the leadership team for strength, support, and direction. The leadership must change first to challenge and motivate the rest of the institution, speaking with one voice and “walking the talk” to model desired behavior. At the same time, individual executive team members are going through their own personal changes and need to be supported so that they can be in agreement with their executive team members. Executive teams that work well together, that are aligned and committed to the direction of change, that understand the culture and behaviors it intends to introduce, and that can model those changes themselves are best positioned for success.

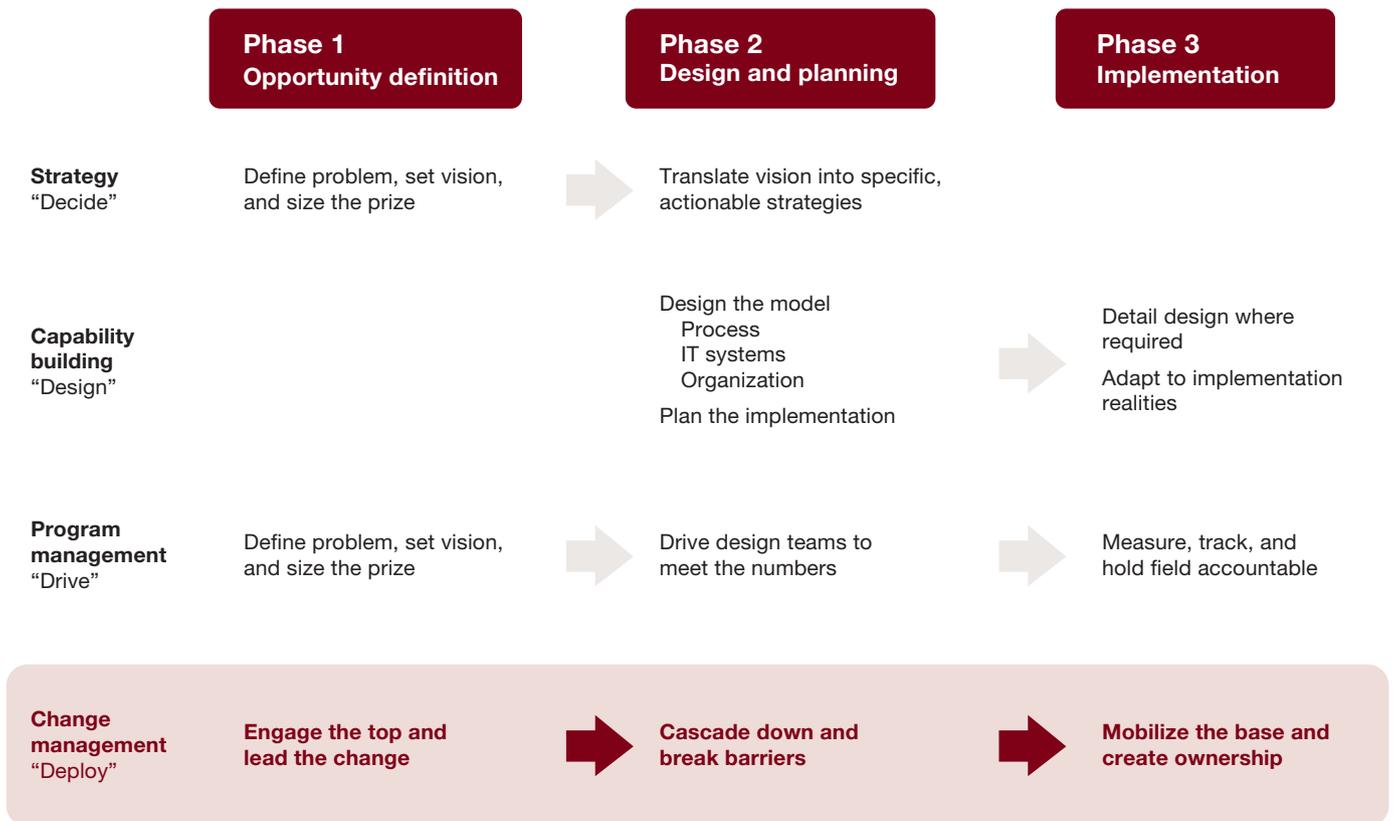
Client example:

A major multi-line insurer with consistently flat earnings determined that it needed to change performance and behavior to prepare for going public. It followed the cascading approach to change, training and supporting teams at each stage: 10 officers setting the strategy, vision,

and targets; 60-80 senior executives and managers designing the core of the change initiative; 500 leaders from the field getting the details right and driving implementation. This structure remained in place throughout the change program, which doubled earnings far ahead of schedule.

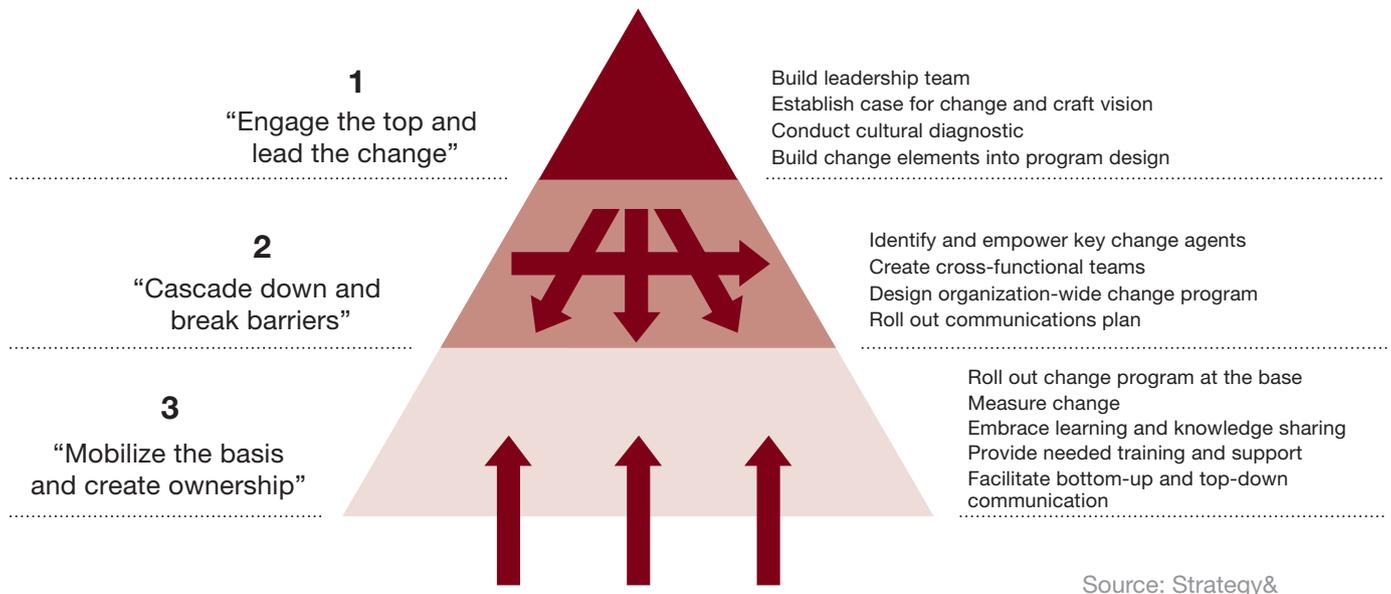
Exhibit 1

Comprehensive strategy-based transformation approach



Source: Strategy&

Exhibit 2
Cascading ownership



3) Real change happens at the bottom: As transformation programs progress through strategy/target setting, design, and implementation, they affect different levels of the organization. Change efforts must include plans for identifying leaders and pushing responsibility for design and implementation down through the organization (*see Exhibit 2*). Strategy and target setting is usually the responsibility of the leadership team and its direct reports. Design teams drawn from the next layer of executives and senior managers must be prepared to work across silos and lead the change. Implementation relies on line managers and individual contributors. Each of these layers must have identified, trained leaders who are aligned to the company’s vision, equipped to execute their specific mission, and motivated to make change happen. These change leaders must be released from their current assignments and dedicated to the work of change.

4) Confront reality, demonstrate faith, and craft a vision: Individuals are inherently rational and will question to what extent change is needed, whether the company is headed in the right direction, and whether they want to personally commit to making change happen. They will look to the leadership for answers. Articulating a formal case for change and creating a written vision statement are invaluable opportunities to create (or force) leadership team alignment. Leaders

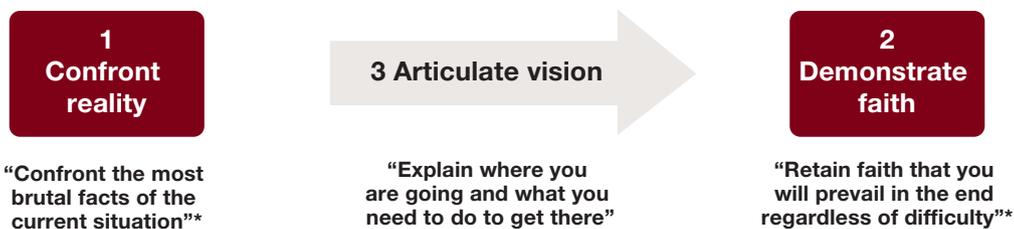
Client example:

A consumer packaged-goods company experiencing years of steadily declining earnings determined that it needed to significantly restructure its operations to remain competitive, shedding upwards of 30% of the workforce in the process. The leadership team's challenge was to shift the focus from the massive downsizing and engage the survivors in embracing the new business strategy. Through a series of offsite meetings, the executive team

built a brutally honest business case that downsizing was the only way to keep the business viable and drew on the company's proud heritage to craft a compelling vision to lead the company forward. By confronting reality and helping employees understand the necessity for change, the leadership was able to motivate the organization to follow the new direction in the midst of the largest downsizing in the company's history.

Exhibit 3

Change leaders' message to the institution



*J. Collins, *Good to Great*, Harper Collins, 2001

Source: Strategy&

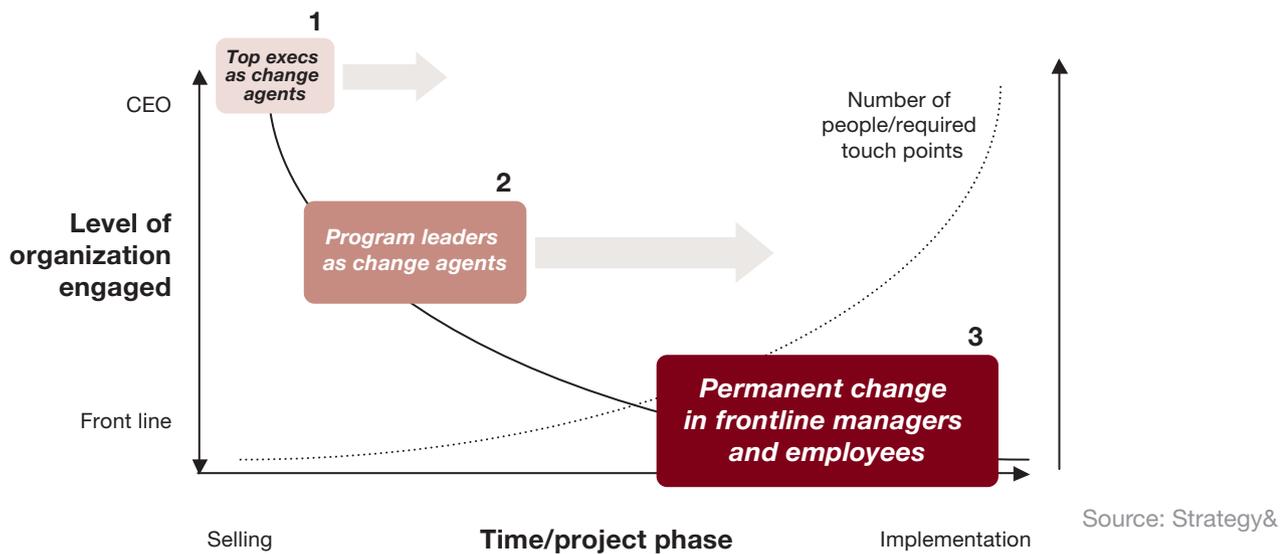
must then customize this message for various internal audiences, describing the pending change in terms that matter to the individual (see Exhibit 3):

- Confronting reality and articulating a compelling need for change
- Demonstrating faith that the company has a viable future and the leadership to get there
- Providing a roadmap to guide behavior and decision-making

5) Create ownership, not just buy-in: Large change programs require a distributed leadership that has broad influence over decisions both visible and invisible to the senior team (see Exhibit 4, next page). Change leaders must over-perform during the transformation and be the zealots that create critical mass for change in the workforce. This requires more than mere buy-in or passive agreement that the direction of change is acceptable. It demands ownership by leaders willing to accept

Exhibit 4

Organizational reach of change program



responsibility for making change happen in all of the areas they influence or control. Ownership is often best created by involving people in identifying issues and crafting solutions. It is reinforced by a combination of tangible (financial compensation) and psychological (camaraderie, sense of shared destiny) incentives and rewards. Many companies create “design and build” teams led by key change agents to develop the core strategies they will need to implement. Middle and line managers are likewise engaged in Phase III of the change program to flesh out the detailed implementation plans that they will follow.

6) Practice targeted over-communication: The best-laid plans are only as good as the institution’s ability to understand, adopt, and act on them. Too often, change leaders make the mistake of believing that others understand the issues, feel the need to change, and see the new direction as clearly as they do. The best change programs reinforce core messages through regular, timely advice that is both inspirational and actionable. Communication is both outbound and inbound. It should be targeted so as to provide employees the right information at the right time, to solicit their input and feedback and to check in on their emotional response to what they’ve heard. Change programs often require over-communication through multiple, redundant channels. However, communication must be timed, coordinated, consistent and personal. The best change leaders speak from the heart and convey a deep sense of personal commitment. They tell a consistent story and view telling the story as a key responsibility in the change process.

Client example:

In the late 1990s, the Commissioner of the Internal Revenue Service had a vision of treating taxpayers as customers and turning a feared bureaucracy into a world-class service organization. Getting more than 100,000 employees to think and act differently required more than just system redesign and process change. IRS leadership designed and executed an ambitious communications program

including daily voicemails from the Commissioner and his top staff, training sessions, videotapes and newsletters, and town hall meetings that continued through the transformation. Timely, constant, practical communication was at the heart of the program, which brought the IRS's customer ratings from lowest in the country to its current ranking above the likes of McDonald's and most airlines.

7) Explicitly address culture and attack the cultural center: Company culture is an amalgam of shared history, explicit values and beliefs, and common attitudes and behaviors. Change programs often require amending, creating (in new companies or companies built through multiple acquisitions), retaining (in storied consumer goods or manufacturing concerns), or merging (in mergers or acquisitions of large companies) culture to be successful. Culture should be addressed as thoroughly as any other area. This requires developing a baseline through a cultural/organizational diagnostic, defining an explicit end-state or desired culture, and devising detailed plans to make the transition. After completing the vision and thinking about the desired culture, leaders can assess the current culture to understand the gaps that need to be bridged and to identify strategies to accelerate the development of a new culture. Leaders should be explicit about the type of culture and underlying behaviors that will best support the new way of doing business, and find opportunities to socialize, model, and reward those behaviors. Attacking the cultural center of a company — the locus of thought, activity, influence, or personal identification — is often an effective way to jump-start culture change (*see Exhibit 5, next page*).

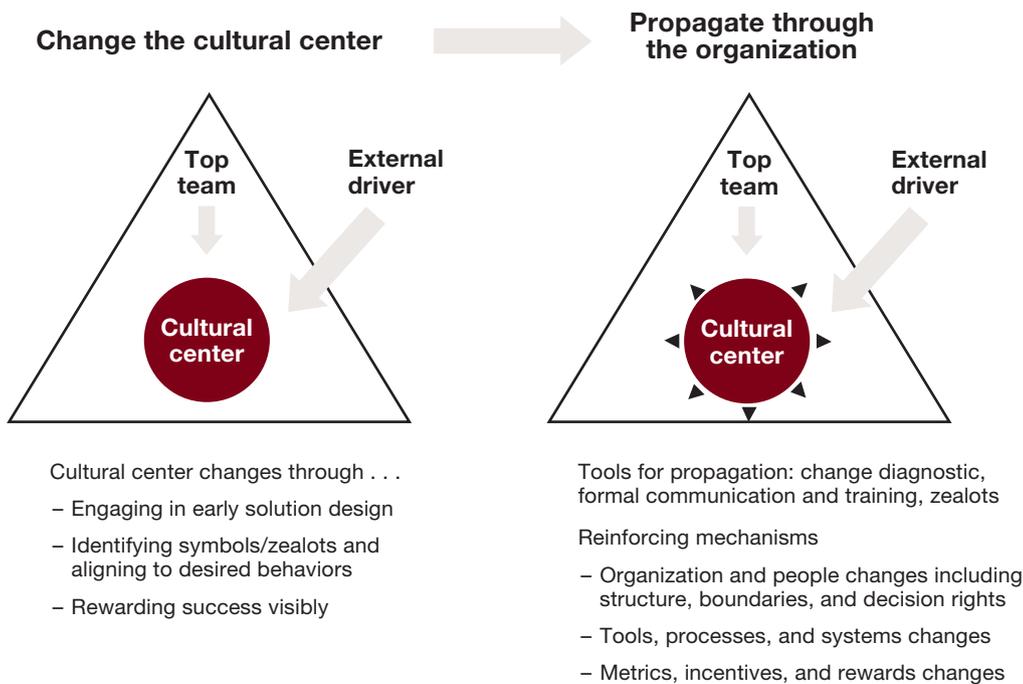
8) Assess the cultural landscape early: Successful change programs pick up speed and intensity as they cascade down, making it critically important to understand and account for culture and behaviors at each level of the organization. Companies often make the mistake of assessing culture either too late or not at all. Thorough cultural diagnostics can assess organizational readiness to change, bring major issues to the surface, identify cultural factors that will support or inhibit change, and target sources of leadership and resistance. They identify the core values, beliefs, behaviors, and perceptions that must be taken into account for successful change to occur. They serve as the common fact baseline for designing key change elements, such as the new corporate vision, and building the infrastructure and programs needed to drive change.

Client example:

A consumer goods company with a suite of premium brands determined that business realities demanded a greater focus on profitability and bottom-line accountability. In addition to redesigning metrics and incentives, it developed a plan to systematically change the company's culture, beginning with

marketing, the company's historical center. It brought the marketing staff into the process early to create zealots for this new philosophy, adapting marketing campaigns, spend plans, and incentive programs to be more accountable. The rest of the company quickly fell in line, and the modified culture took off.

Exhibit 5
Attacking the cultural center



Source: Strategy&

Client example:

A leading U.S. healthcare company was facing competitive and financial pressures due to its inability to react to changes in the marketplace. An organizational diagnostic revealed shortcomings in its organizational structure and governance, and the company decided to implement a new operating model. The leadership team stood behind the new model they had selected and were excited about their shared aspiration, but in the midst of its detailed design a CEO shift occurred, and

a new leadership team took over. The new team was initially skeptical — the task at hand was to overcome the “not invented by us” syndrome. It took a retrenching and a solid case for change, grounded in facts and supported by the organization at large, to ultimately convince the new leadership team to continue down that path. The fundamentals of the new operating model remained unchanged but adjustments were made to the speed and sequence of implementation activities.

9) Prepare for the unexpected: No change program has gone completely according to script. People will react in unexpected ways, areas of anticipated resistance will fall away, and the external environment will shift. Effectively managing change requires constantly reassessing the impact of change efforts and the organization’s willingness and ability to adopt the next wave of transformation. Fed by real data from the field and supported by information and decision-making processes that elevate and resolve issues, change leaders can then make the adjustments necessary to maintain momentum and drive results.

10) Speak to the individual as well as to the institution: Change is a personal journey as well as an institutional one. It truly does happen one person and one team at a time. Individuals (or teams of individuals) need to know how their work will change, what is expected of them during and after the change program, how they will be measured, and what success or failure will mean for them. Be honest and as explicit as possible. People will react to what they see and hear around them. Involve people in the change process. Provide highly visible rewards (promotion, recognition, bonuses) as dramatic reinforcement for embracing change. Sanctioning or removing people standing in the way of change reinforces the institution’s commitment.

Conclusion

Most leaders contemplating change know that people matter. It is all too tempting, however, to dwell on the plans and processes, which don’t talk back and don’t respond emotionally, than to face up to the more difficult, and more critical, human issues. These guidelines should help dispel some of the mystery of successfully mastering the “soft” side of change.

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