

A change for the better

Steps for successful business transformation

A report from the Economist Intelligence Unit



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Preface

A change for the better: Steps for successful business transformation is an Economist Intelligence Unit report, sponsored by Celerant Consulting. The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit's editorial team executed the survey, conducted the interviews and wrote the report. The findings and views expressed here do not necessarily reflect the views of the sponsor. The research drew on a wide-ranging online survey—conducted in March-April 2008—and in-depth interviews with senior executives and independent experts knowledgeable about change management. The author of the report was Dr Paul Kielstra and the editor was Clint Witchalls. Mike Kenny was responsible for design and layout. Our sincere thanks go to the executives who participated in the survey and interviews for sharing their time and insights.

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Executive Summary

Understanding the dynamics of change—especially the elements of success and failure—is essential for companies operating in today’s constantly evolving business environment. In fact, change management is becoming a part of day-to-day management. The credit crunch, rising commodity prices, and global competition are not small challenges—nine out of ten companies’ change initiatives are at least partly reacting to current economic conditions—but once today’s hefty

problems are solved others will rise to take their place. The key strategic advantage comes from the ability to negotiate the process of change—something few firms are able to do—rather than address any one specific problem.

This Economist Intelligence Unit report, sponsored by Celerant Consulting uses the insights of over 600 senior executives

to understand the elements of successful change initiatives.

The report is based on a survey of senior executives in Europe and the US, as well as in-depth interviews with experts in the field of change management. The key findings are:

- **The credit crunch and economic slowdown are affecting the way companies act.** Business leaders are responding to the economic slowdown by launching more change programmes and spending more on them. These initiatives will primarily be driven by the quest for operational efficiency and the need to reduce costs.

- **Successful change management still manages to elude most companies.** Despite the fact that change management has been taught at business schools around the world for several decades, companies still struggle to put theory into practice. Fully 58% of the survey respondents say that, over the past five years, half or fewer of their change initiatives have been successful. The US fares a lot worse with 75% of respondents stating that half or fewer of their change initiatives have been successful.

- **Failure often comes from companies struggling with people issues.** The most frequently cited barrier to success in change management is winning over the hearts and minds of employees at all levels of the organisation (51%). Other people issues, such as gaining local management buy-in (31%) and cultural issues (27%), also feature highly as major barriers to successful execution of change. The difficulty is not intransigence: everyone interviewed for the study agreed that employees are willing to be won over. It is how this is done.

- **The key elements of success are:**

- *Leadership:* The best leaders of change are not ones who dictate their plans, but those who bring vision; inspire people with a sense of urgency; and then help them to bring their own creativity to the project.
- *Planning:* This involves not only the basics of knowing where you are going—lack of clearly defined milestones was a leading cause of failure at 24% of companies—but also the psychological elements of bringing people along. Ralph Hargrow, global chief people officer at Molson Coors, says, “People like to win, to know they are making

“In a typical large change programme, it is not a matter of sending out the new organisation chart or the new budget or the new strategy with a few projects. It is about changing people’s behaviour, often a lot of people, and this is not trivial.”

Professor John P Kotter, Harvard Business School



progress. Lay out a detailed map, then measure the milestones and celebrate forward motion.”

- *Communication:* At nearly one in five companies, good communication was a leading cause of success in change management. The message need not just be how the change programme is progressing—important as that is—but that the company and leadership are still committed, and that it matters whether people continue to take it seriously.

Culture¹ may seem a smaller challenge in its own right, but it complicates many of the others. Our survey panel ranked cultural issues a distant fifth in terms of difficulties in implementing change successfully. However, interviews with experts indicate that cultural matters can significantly complicate the bigger challenges, such as winning people over.

Money is not the problem. On average, companies spend just 0.1% of annual revenues on change programmes and only 8% consider a lack of funding an important reason for their failure in the last year. Moreover, the most frequent reason for change programmes is cost-cutting, which should improve the bottom line whatever the initial outlay.

Who took the survey?

A total of 607 senior executives participated in the Economist Intelligence Unit's Managing change successfully survey, which was conducted in March 2008. The analysis in this report is based on the survey results as well as a series of in-depth interviews with senior executives and other experts on the subject of change management. The survey sample consists of mainly senior executives, with 25% being at the C-level. The balance of the respondents are senior vice presidents, heads of business units and other senior managers. The survey polled the following industries: manufacturing, telecommunications, energy and natural resources, chemicals and automotive. Most of the firms in the survey are large (98% have annual revenues in excess of US\$500m). For more detail on the survey sample and

1. "The attitudes and behavior that are characteristic of a particular social group or organization" source: wordnet.princeton.edu

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LONDON
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
E-mail: london@eiu.com

NEW YORK
111 West 57th Street
New York
NY 10019
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
E-mail: newyork@eiu.com

HONG KONG
6001, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com