

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.

May 2008



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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 company 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. Real competitive 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:

“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

● **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 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 to the change programme, and that it matters whether people continue to take the change seriously.

“People like to win, to know they are making progress. Lay out a detailed map, then measure the milestones and celebrate forward motion.”

Ralph Hargrow, global chief people officer at Molson Coors

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 results, see the Appendix to this report.

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



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Change is not being managed well

As executives respond to the credit crunch and face increasingly diverse, ever-shifting challenges in highly competitive global markets, they understand that an ability to adapt is essential for survival. Respondents in our survey put “improving operational effectiveness and flexibility” at the top of their agenda (57%). Lowering costs—a perennial goal—came second on the list of corporate priorities (47%), but this was followed, in close third place, by “preparing the company for future growth and challenges” (46%). Colin Sempill, head of strategic change at Scottish-Southern Energy (SSE), says that “most organisations are trying to figure out how they can be more innovative. They need to be able to move at a quicker pace.”

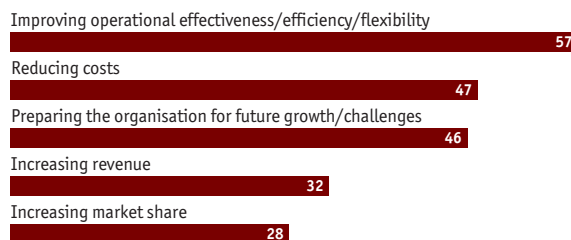
Dealing with continuous change is thus a pervasive challenge throughout the company. Change management has, in effect, come into day-to-day management,” says Craig Forbes, CFO for UK Chubb Security. “It is always there.” Or, as Mr Hargrow at Molson Coors puts it, change is part of our organisation’s DNA.

This context is important for understanding the formal change programmes and their management, which are the focus of this study. They are a

specialised form of an activity that is going on all around the company in various ways. In considering the success or failure of firms in managing change, they are both important in themselves and as bellwethers of all change related activity. A company that attempts to funnel all such activity through specific systems and processes, however, is likely to suffer. Professor John Kotter of Harvard Business School, a leading expert on the process of change for several decades, warns against the delegation of the activity to a specialised department. “The problem with putting a box around anything is that it is all too easy for people to say, ‘It is not my job, it is their job’. Ultimately, you want as many people as possible who understand the process and have found ways that they can contribute to episodic or continuous change.”

Although executives have plenty of experience in facing change, the simple truth is that, whatever the success of individual companies, business as a whole is not doing well on something it knows to be so important. According to our survey, on average only 53% of change programmes at companies in the United States and western Europe were successful. The figure differs somewhat across geographies. For America it is a low 39%, for Scandinavia 61%—better than the record of competitors from across the Atlantic but in absolute terms still alarmingly low.

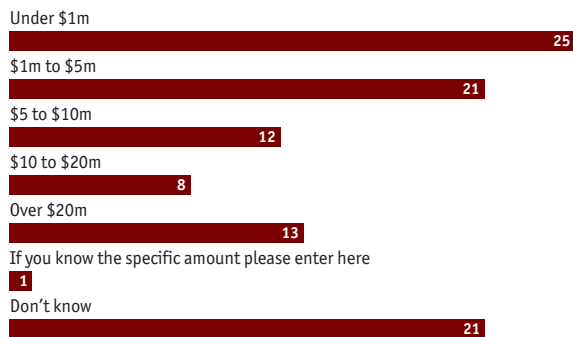
Given the changes to the global business environment what are the top three issues on your agenda? Select up to three.
(% respondents, top 5 answers)



Source: Economist Intelligence Unit survey, March 2008.



Approximately how much did your company spend (US\$) on change management initiatives over the past twelve months?
(% respondents)



Source: Economist Intelligence Unit survey, March 2008.

Money is not the problem

If companies are to raise their game—and plenty of room exists to achieve competitive advantage by doing so—it is important to understand the reasons for success and failure in change management.

Cost does not seem to be a serious problem. Change programmes use surprisingly little money. The average company in our survey spent US\$8.7m over the last twelve months on such initiatives, which translated into just 0.1% of average annual revenues. Bigger companies—those with annual incomes of over US\$10bn—spent a lower proportion (0.09%) and the smallest businesses—those with income of under US\$1bn—noticeably more (0.4%), but still not enough to break the bank.

These sums seem sufficient for the task. The survey shows no direct correlation between success and the level of funding for change programmes. Only 8% of respondents considered insufficient funding the main reason for the failure of change programmes in the last year. However, it is possible to spend too little. Failure due to under-funding was much more common at small firms (14%) than big ones (4%), probably because the higher percentage of income already being used makes the former more likely to restrict further outlays.

Reducing costs is the most frequent reason for embarking on a change programme—it was cited

by 52% of companies as a leading motivation, more than any other. Whatever the initial outlay, these programmes at least are designed to benefit the bottom line. Perhaps the best evidence of corporate satisfaction with current spending levels is that they look unlikely to change much. In fact, overall respondents see a slight rise in the money set aside for change programmes.

The Core Issue: People

Instead, the most widespread problem in change management is winning hearts and minds throughout the organisation (placed among the three biggest impediments by 54% of survey respondents). The second and fifth biggest difficulties—lack of buy-in from local management (31%) and cultural challenges (27%)—are really the same problem with specific sets of hearts and minds. In other words, companies are struggling with very basic people issues, in particular motivating them to abandon old ways of working for something new. As Professor Kotter notes: “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.”

Adds Mr Hargrow: “Change for the most part is personal. You have to speak to people personally, to have them understand and embrace the promise of change, personally. That requires a lot of work.” Although the percentages vary, these problems are central to the poor record on change wherever survey respondents lived.

The problem is not simple intransigence. Change brings risks for the organisation and the individual. Existing strategies, processes, and practices came into being for a reason, and often contributed to previous corporate success. The value of revising or dropping them might not be clear, and the danger might be all

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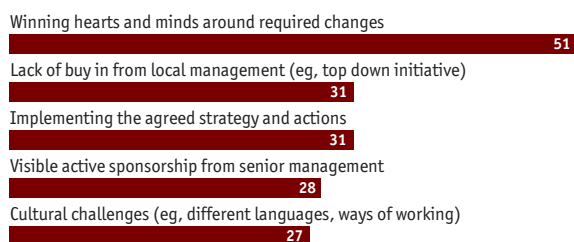
Mr Hargrow at Molson Coors



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Which element of the change management initiative has your organisation had the most difficulty with? Select up to three.
(% respondents, top 5 answers)

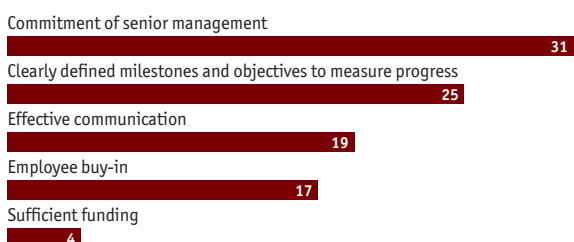


Source: Economist Intelligence Unit survey, March 2008.

too visible. No guarantee exists that any new process or technology, however beneficial to the company as a whole, will leave those affected by the change personally better off too. "A programme to create value is a lot more fun for people in the organisation," says Scottish-Southern Energy's Mr Sempill. "If you are purely cutting costs, it is tougher to get people engaged around it."

Winning people over is much easier when the company is in crisis. "There is tremendous enthusiasm because it is a question of survival," says PK Ghose, CFO of Tata Chemicals. Professor Kotter agrees that it is easier to bring change to a troubled enterprise precisely because people realise the need for it. He adds, however, that in such cases resources for accomplishing change may be restricted and there

For the change management initiatives that worked for your organisation in the past 12 months, what was the single most important factor in determining success, in your view?
(% respondents, top 5 answers)



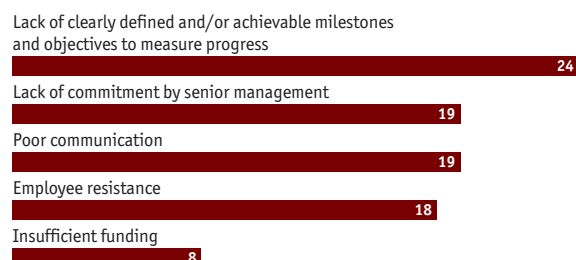
Source: Economist Intelligence Unit survey, March 2008.

is the danger of efforts amounting to nothing but "frenetic activity, running from meeting to meeting, producing PowerPoint presentations because people realise the situation is a mess".

Not all companies have the "advantage" of a crisis to help win over hearts and minds. One obvious question arising from a quick glance at the survey data, though, is how far this matters. When asked the single most important factor in determining success in change programmes in the last year, only 17% pointed to employee buy-in. Similarly, just 18% singled out employee resistance as the leading cause of failure. In both cases, it seems on the surface that worker attitudes are much less important than questions of leadership, planning, and communication.

As will be discussed below, however, the value of these three rests to a large extent on how far they are able to help convince employees to accept change, or even inspire them to embrace it. Employee behaviour figures so low in the survey not because it is unimportant but because, according to those interviewed for this report, people working for companies are generally reasonable, but need to be won over. Mr Hargrow thinks, broadly speaking, that "the easier it is for individuals to understand and embrace the personal benefit of a change for themselves, the easier it is to win their hearts and minds. The more difficult it is to paint a vision of that

For the change management initiatives that did not succeed in the past 12 months, what was the single most important factor in determining their failure, in your view?
(% respondents, top 5 answers)



Source: Economist Intelligence Unit survey, March 2008.



promise, the more difficult it is to effect and embrace such change.” Mr Forbes calls it “the barstool test”. If you cannot explain your project to someone in a few minutes over a drink, you are going to struggle to convince people of the value of the project.

Getting the basics right

What do companies need to do to convince employees of the benefits of change? None of what is required is rocket science, but it is important to get things right. Survey respondents indicated that the three key success factors in change management are leadership, planning, and communication.

Leadership

When asked the single most important factor for successful change management programmes at their organisations in the last year, the clear leader was “commitment of senior managers”, cited by 31% of respondents.

It is revealing that respondents who did not belong to the C-suite ranked it far ahead of all other choices, while those at C-level actually put it second. Companies are looking to executives to take them through change. In the words of Mr Ghose, “Managing change is more a leadership ability than a management ability.”

The way that executives show leadership and commitment is all important. Part of effective leadership is the ability to articulate an inspiring vision. This vision, however, is not a set of marching orders. “If you have a leader who thinks change should largely happen by way of edict, it is more likely to be unsuccessful,” says Mr Hargrow. “People don’t just respond to demands unless they are in the military where a command and control approach is necessary.”

Instead a good leader can accomplish two important things quickly. The first, in Professor Kotter’s words, is creating “a sense of urgency”. Failing a crisis, it is essential to “get people receptive to the fact that they

have a problem”. According to his research, even the best planning and execution often fails because this feeling of urgency has not been fostered.

Once enough people are convinced of the need for change, leaders have to reach out, beginning with, in Mr Hargrow’s words, “recruitment of people who are credible change agents at varying levels in the organisation”. Not only does change leadership need to be dispersed, so does the thinking that goes into the strategy behind the initiative—both for the value that can come from harnessing knowledge within the organisation and for the effect that listening to people has on their support for the initiative. To increase the sense of ownership of ideas coming from front-line staff at SSE, those who come up with them are encouraged to research them and take them forward. This gives people a stake in the initiative and a sense of ownership.

Planning

Thorough planning is essential to success, yet, according to our survey, it is often overlooked. “Lack of clearly defined and/or achievable milestones and objectives to measure progress” was the most common factor in the failure of change initiatives at respondent companies in the last year (cited by 24%).

When developing a road map for change, companies need to be honest about where they are starting from. While it may take courage to own up to current failings, if the starting point is incorrect, the plan is more likely to fail.

Elements of the roadmap of change are crucial to gaining and maintaining support. Mr Sempill says that the linking of change programmes at SSE directly to the company’s ten-year goals—rather than less concrete notions of “let’s do this better”—helps to increase acceptance. Moreover, along the route from A to B, planners need to plot appropriate milestones. This is important not only for monitoring success, but

“Managing change is more a leadership ability than a management ability.”

PK Ghose, CFO of Tata Chemicals



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CASE STUDY

Molson Coors and the change challenges of a merger

The restructuring necessary after mergers, acquisitions and divestments is a leading reason for change programmes at over a quarter of companies. Although these initiatives have much in common with others considered in this study, they also face certain specific challenges.

In 2005, Adolph Coors Co. of Golden, Colorado—America’s third-largest brewer—and Molsons Inc. of Montreal—Canada’s biggest—merged. Today, Molson Coors Brewing Company is one of the ten largest brewers worldwide.

Ralph Hargrow, global chief people officer of the company, recalls that initially the big change challenges for human resources involved leadership and culture issues.

Several very senior executives left at the time of the merger, making the need to rebuild the leadership team “a huge element of change”. The company also had to meld together the remaining senior management from “two distinct standalone businesses, involving a major change in the roles of the leaderships that once were operating independently”.

Both issues, the latter especially, are common in mergers. They are also particularly complex because, usually, in addition to being initiators and planners, after a merger corporate leaders are also the objects of change.

Mr Hargrow points out that in a merger the senior executives undergo a large upheaval. They tend to be in charge of a smaller part of a bigger company than before. At the very top, “they have to learn how to cooperate with a partner that they didn’t have before and a superior they may not have had for some time. Change for them is very, very personal: how people define themselves is often what they do at work, where they spend most of their life.”

Like anyone else, executives respond to changes based

on whether they seem to be positive or threatening. Mr Hargrow says that it is critical to acknowledge and address this personally in order for senior leaders to be effective sponsors and champions of the change. Without this leadership support, of course, the whole merger can run into serious trouble.

Culture also holds various challenges. Mr Hargrow points out that, in the specific case of Molson Coors, the two merging firms had distinct geographies. This created “a natural tendency to celebrate those things unique to their region much more deeply than to rush to embrace what binds companies”. Getting everyone to focus on the latter is “an interesting, un-ignorable part of the challenge”.

A bigger cultural issue—and one that Molson Coors had in common with any merging companies—was the need to find alignment around a set of values that the entire enterprise could embrace. While it is hard to reduce to simple numbers and metrics, it would be a mistake to write this process off. Corporate culture has a profound effect on business performance at almost every level.

Overall, Mr Hargrow recalls that managing change was easiest where it was possible for human resources to use its known tools, such as when recruiting new members of the leadership team. Cultural change, which pushed his department beyond its usual experience, was harder. “It takes a long time, requires constant re-enforcement, deep alignment, and consistent leadership,” he says. In particular, it is important to invest the large amount of work and resources required to address issues at the individual level, because of how deeply personal change is, including for senior executives. Mr Hargrow admits that the company initially made the mistake of locating cultural initiatives entirely inside human resources. The company quickly made a course correction, giving the whole leadership team accountability for change. This resulted in much more rapid progress. “Culture takes a while,” says Mr Hargrow. “There are a lot of levers that you’ve got to pull. The sooner you can achieve shared accountability for culture change amongst the leaders of the organization, the more likely sustainable, desired progress can be realised.”



for maintaining employee support.

Even the best schemes, however, can fail. Mr Sempill notes that “you can have a great plan on paper, but it is only when you road-test it that you see some things worked a lot better than you anticipated, and others won’t be suitable for roll-out”. He has found that small pilot projects are extremely useful in putting together a successful plan, and avoiding potentially costly mistakes.

Communication

The third important factor our survey identified in change management is communication. Fully 19% of respondents listed effective communication as the single most important reason for successful programmes in the last year, and the same number pointed to its absence as the cause of failure.

The key message in motivating people to endorse change is often not how the company is doing on a chosen set of metrics, but that the change programme still matters. This points back to leadership. Getting across the ongoing commitment to change by the top executives is essential.

The problem of culture

As noted above, 27% of companies listed cultural challenges as a leading difficulty for their change initiatives. Interviews for this study, however, indicate that recognition of cultural issues—both differences in culture within companies and in the national cultures in which various parts of a business sit—is even more important than these numbers suggest. Winning over hearts and minds in part involves understanding not just individuals but the cultures within which they operate. Moreover, the effectiveness of diverse styles of leadership, planning, and communication certainly vary across cultures.

For a multinational company, any universal change initiative could inadvertently spark contrasting reactions across cultural divides.

The problems can start even before any national borders get crossed. Mr Ghose explains that simply the age of a department can create huge differences in mind set. For example, at Tata Chemicals, the chemicals unit was set up in 1939, and it takes much more time to initiate change there compared to the fertiliser unit which was set up 10 years ago.

It is hard for people to learn new perspectives and skills, and change takes practice, but in the meantime companies need to work with what they have. Mr Ghose says that where an organisation is hierarchical “in change management, you have to go through the hierarchy”.

Mr Forbes notes that such challenges can reach into the mechanics of change itself. In his experience, some cultures want to be told what to do, others want to shape change themselves, others want to wrestle and debate the point. In a multinational company, the change leaders might come from any one of these cultures, but have to work with the others. “Good managers understand that they have to mould their styles to each particular culture,” explains Mr Forbes. “There has to be flexibility and cultural sensitivity on both sides of the equation to get results. There is no perfect way.”

On the other hand, culture can be turned into an asset. Professor Kotter believes that if many people in management “have learned something about the fundamentals of how to produce real change, the business will do better, period. Those new perspectives and skills tend, over time, to seep into their culture.” Similarly, Mr Sempill says that one of the keys to success in change management is “running it as a longer-term programme rather than a discrete project”.



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Conclusion

Amid the constantly shifting challenges of the modern business environment, an ability to manage change effectively gives great competitive advantage. Ironically, external crises help drive change in organisations and the current economic slowdown is providing a “burning platform” for change. More companies are planning more change and are planning to spend more doing it. Unfortunately, too many of these change initiatives will fail. Companies are devoting sufficient money to the problem, but too often find it hard to win over their people. Employees are willing to be convinced,

not dragged kicking and screaming. Leadership, planning, and communication must make the case for change successfully, harness the abilities of the whole company, and keep employees motivated over the course of the change initiative and, if necessary, beyond. Business is a human endeavour and companies are populated by people with interests and emotions, as well as both personal and cultural baggage. Change management is about leading people to change. Processes and procedures can help, and certain tools are indispensable, but ultimately this is art, not science.

About the sponsor

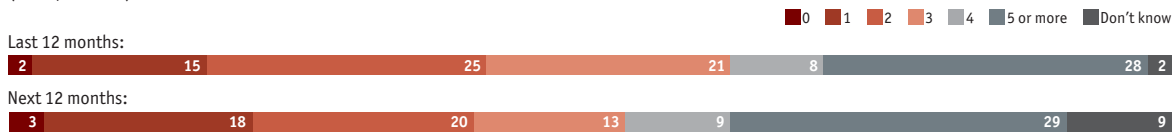
Celerant is an international consulting firm that specialises in operational transformation. The essence of Celerant's approach is that its consultants work side-by-side with people in the front lines of business from the boardroom to the shop floor to ensure the delivery of sustainable and measurable benefits. Celerant embeds long-term behavioural change into the culture of its clients' organisations using a unique approach called Closework®. Over the last 20 years Celerant has become the largest independent firm of business operations consultants, with annual revenues of over €110/\$170m in 2007.

Appendix: Survey results

In March 2008, the Economist Intelligence Unit conducted a survey of 607 senior executives from the US and western Europe. Our sincere thanks go to all who took part in the survey. Please note that not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers to some questions.

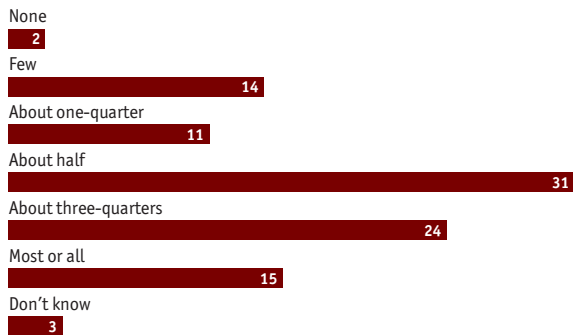
How many change management initiatives do you estimate your organisation has launched in the last twelve months? And how many do you believe it will launch over the next twelve months?

(% respondents)



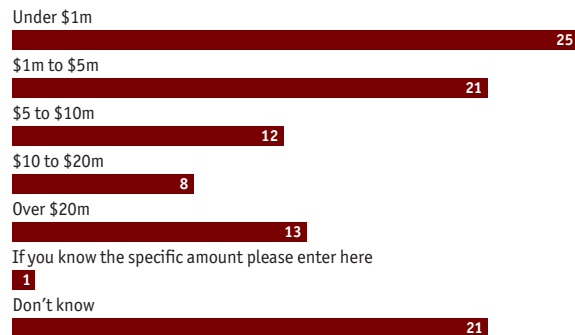
In your view, approximately what proportion has been successful at your organisation over the past five years?

(% respondents)



Approximately how much did your company spend (US\$) on change management initiatives over the past twelve months?

(% respondents)



Appendix: Survey results

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What were the main motivations for your organisation's change management initiatives in the past twelve months?

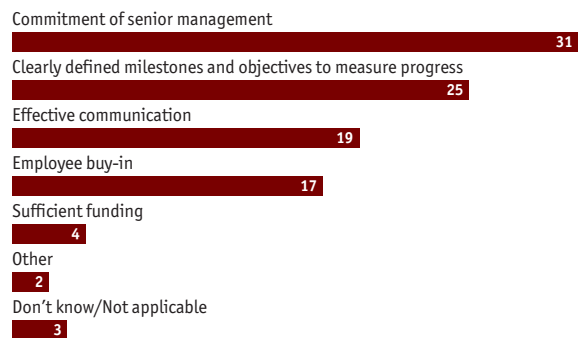
Select up to three.

(% respondents)



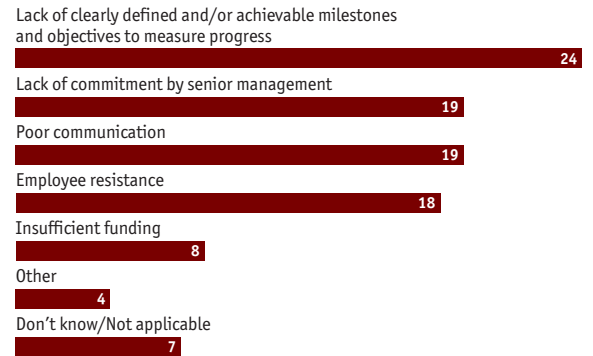
For the change management initiatives that worked for your organisation in the past 12 months, what was the single most important factor in determining success, in your view?

(% respondents)



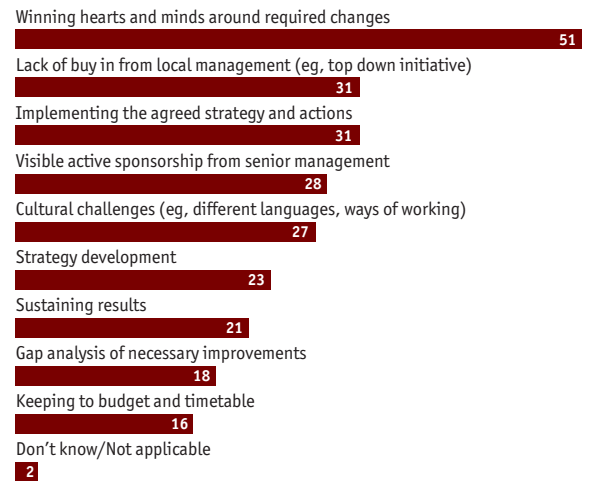
For the change management initiatives that did not succeed in the past 12 months, what was the single most important factor in determining their failure, in your view?

(% respondents)



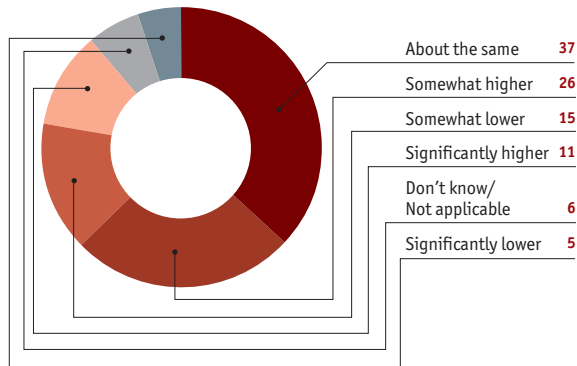
Which element of the change management initiative has your organisation had the most difficulty with? Select up to three.

(% respondents)



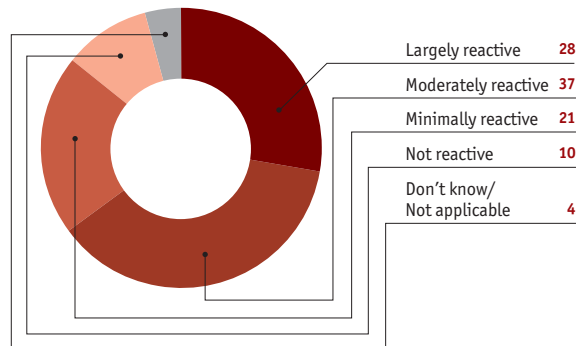
Over the next 12 months, how will your organisation's level of spending on change management initiatives compare to the last 12 months?

(% respondents)



To what degree are your organisation's change management initiatives over the next 12 months a response to changing global economic conditions?

(% respondents)



Given the changes to the global business environment what are the top three issues on your agenda? Select up to three.

(% respondents)



Appendix: Survey results

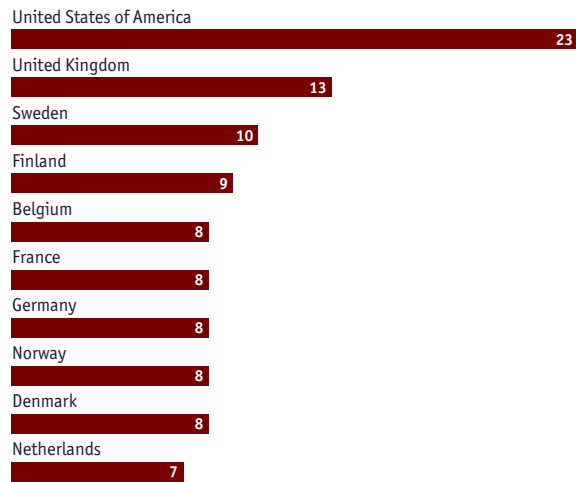
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About the respondents

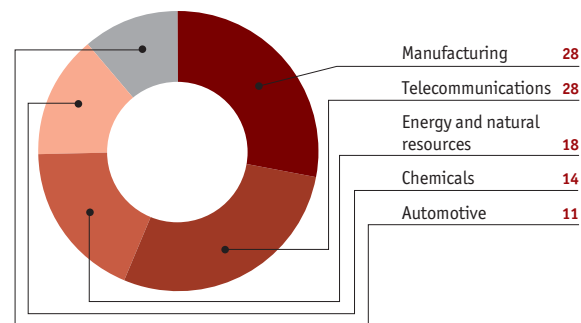
In which country are you personally based?

(% respondents)



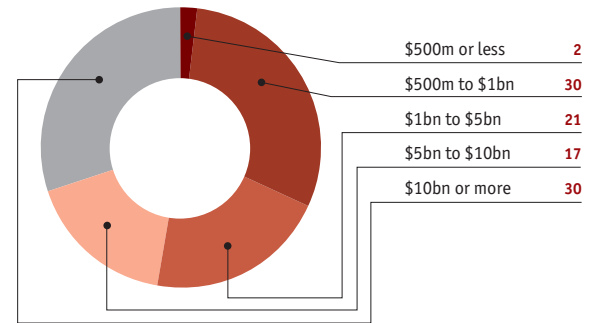
What is your primary industry?

(% respondents)



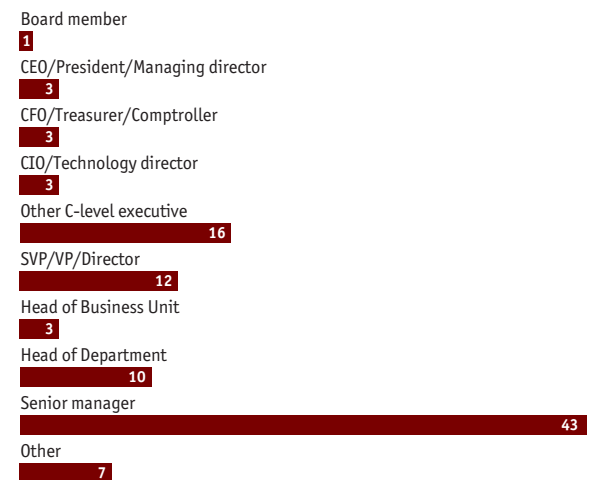
What are your company's annual global revenues in US dollars?

(% respondents)

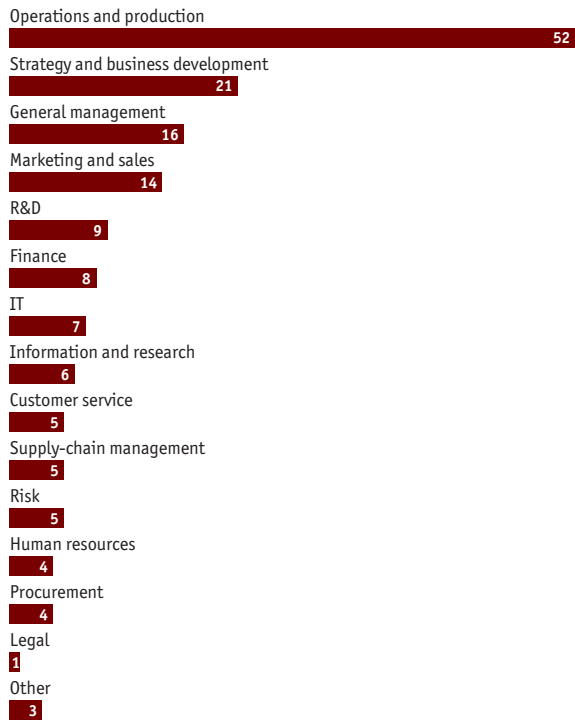


What is your title?

(% respondents)



What are your main functional roles? Select up to three.
(% respondents)



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