HIGHPOINT ASSOCIATES: INSIGHTS

# KEEP THE CHANGE

## Making Business Transformations Work

**ALEX NESBITT AND KRISTINA TOBER**

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# Keep the Change: Making Business Transformations Work

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Implementing change is risky business, and very difficult to do well. Academic research, surveys completed by major consulting firms, and personal observation all reveal that most implementation efforts fail to achieve the desired results.

The reasons why companies fail to successfully implement change are reasonably well documented. Near the top of the list are the challenges of changing mindsets, overcoming cultural resistance, project complexity, resource constraints, and a lack of commitment.[i]

Certainly, change implementations can fail simply because the underlying strategy is flawed. Failures like Sprint's acquisition of Nextel, FedEx's introduction of the electronic delivery service Zapmail, or Carly Fiorina's strategy for transforming HP, are highly visible examples of flawed strategy. More commonly, though, the major issue is not a failure to develop good strategy, but the inability to successfully implement change envisioned by the strategy.

We spoke with Alex Nesbitt, a HighPoint Associates Senior Advisor, to get his insight into these types of implementation issues. "I've seen several failures over the years. One example is an auto company who tried to become more retail oriented, but failed because senior management couldn't stop looking at wholesale results every hour. Other failures include a school district that couldn't make payroll because its ERP hadn't been deployed correctly, or a utility that spent $70 million on a new billing system that ended up being so complicated it didn't work. All companies of size have experienced these kind of implementation challenges in one form or another."

In hindsight, it's easy for management to point fingers at each other (or at their consultants, who often see their seemingly brilliant ideas fail) and to espouse a "better" solution that would have worked. There are plenty of management theories and best practices like quality initiatives, lean methodologies, reengineering, cost value analysis, agile software development, even collaborative consulting, that make sense and work. So, where's the disconnect?

"It's not that difficult to see why one change initiative succeeds versus one that does not," postulates Nesbitt. "Every change initiative has a chance of failing either from internal issues or external changes. However, the most successful change implementers see it as a game of skill, not a game of chance. They know how to manage the odds to improve the likelihood of success. Unfortunately, too many companies lack the skill and experience of managing change. For those without the know-how, implementation becomes a game of chance where the odds are stacked against them."

Nesbitt believes companies that focus on a small number of high leverage actions can go a long way to swing the odds of success in their favor. "There are specific things you can do to make your change initiatives much more successful," asserts Nesbitt. "What I'm proposing isn't rocket science. Rather, these factors are just 'tricks of the trade' that, when used, can make the difference between change that sticks and change that doesn't."

Part best practices and part applied psychology, Nesbitt says, "There are eight points of leverage in the change process, where doing things differently or applying a little bit of extra effort can have a materially positive impact on your implementation success."

## #1 DITCH THE STEERING COMMITTEE AND LEVERAGE A POWERFUL GUIDING COALITION TO DRIVE IMPLEMENTATION

"An increasing number of CEOs I work with hate steering committees, and with good reason," states Nesbitt. "All too often steering committee participants are appointed because they happen to oversee the functions that will be affected by the change. Chances are if these people aren't the ones who originated the 'big idea,' they won't feel a compelling sense of urgency to make it happen. The result is a lack of commitment and a lack of accountability that can derail any change process."

Any successful initiative needs senior leadership who have a strong sense of urgency to secure the necessary resources, remove obstacles and provide guidance. Nesbitt says, "You want a group of leaders who have a visceral understanding of the need for change and can personally lead the change process to drive the implementation." Nesbitt gives credit to John Kotter, a Professor of Leadership at the Harvard Business School for coining the phrase "powerful guiding coalition." [ii]

To illustrate this point, Nesbitt referenced a biopharma company with whom he consulted. To speed up new drug development, the company assigned each new developmental drug its own dedicated, small cross-functional Program Team, believing that having representation from across the organization would open channels of communication and spur innovation. However, these teams were struggling to make progress. The problem? Having the teams report up to a steering committee comprised of all the senior vice presidents, many of whom had no direct role in the development process. The solution was to form a guiding coalition for the development process that brought the right, committed people together to approve major decisions and clear the path for the Program Teams.

"There's a distinct difference between a steering committee and a guiding coalition," concludes Nesbitt. "Steering committees are often passive by nature, reviewing and reacting to other's work. A guiding coalition signals a marshaling of committed resources focused on a clear set of directions, with defined end points and goals."

## #2 LEVERAGE THE POWER OF DISCOVERED LOGIC TO DRIVE CHANGE

After several years of consulting, it became evident to Nesbitt that when his clients were fully engaged in the process of finding a solution, implementation always went much smoother. In other words, having the people who figure out the solution and implement the change, discover the need for change. "I quickly realized that when it's your idea, you are much more committed to making it happen. and the implementation is much more likely to match up with the intended solution," he explains. "That's the difference between discovered logic versus delivered logic.

"The problem is that there are a lot of intelligent people who think they can come up with a better idea just by looking in. Look at the failure of the command and control management style, which takes away the intrinsic motivation that exists when people are involved in defining necessary change. But time and again, as just one example, you see corporate strategy teams developing a strategic plan without the help and buy-in of the folks who manage the business and who are then charged with implementing the plan."

Discovered logic is a powerful motivator. "Just look at a company like Toyota whose work style has historically been more engaging than traditional American operations," explains Nesbitt. He offered the example of a Toyota parts warehouse where the employees set up video cameras around the facility. Line employees, together with a Kaizen (improvement manager), watch the films at high speed. This method allows them to more easily identify logjams and to work together to come up with solutions.

## #3 LEVERAGE STRONG, DEDICATED PROGRAM LEADERSHIP

It's not enough to just have ownership and organizational buy-in of your change initiative. You need a change leader who has the skill sets to get things done.
Nesbitt cited the example of a client team assigned to fix and enhance their company's order management systems. The team included smart individuals and a broad representation of the stakeholders in the process, and was launched with the full support of executive leadership. The team was making good progress in identifying a solution, but the team leader just didn't have the skill sets necessary to push the solutions through the organization. Nesbitt suggested finding another leader who was more organizationally savvy and who knew how to get senior leadership to pay attention and take action.

"Organizations are run by people, so it takes a certain intuitiveness and skill set to understand who the real decision makers are, to identify what it is they need to see to buy-in and where their comfort levels lie," added Nesbitt. This particular individual doesn't need to be an insider (in the case of the client referenced above, the team leader ended up coming from Marketing), but you do need someone who has the organizational savvy to work the organization and is committed to the success of the change initiative.

## #4 DISARM THE NAYSAYERS BY LISTENING TO THEIR CONCERNS

Nesbitt acknowledges that people who resist change are a threat to successful implementation. However, when you apply some mental judo these same people can often be very helpful.

"The thing about naysayers is that they have a concern or fear," explains Nesbitt. "Most people are not completely irrational so there is usually some real basis for their concerns or fears. The trick is to listen to them and seek out the root cause of their concern or fear, and try to see the change from their perspective. That perspective can give you insights into things you may not see, and if not addressed, can cause real problems downstream."

Whether their issue is major cause for concern or not, you will have gained some valuable insight. This insight should be incorporated into a risk mitigation plan as something to be addressed directly or as something to make sure you address in your communications.

## #5 MANAGE IMPLEMENTATION COMPLEXITY AND RISKS BY BREAKING THE OVERALL EFFORT INTO SMALLER, SHORTER PROJECTS

Nesbitt likens implementing change to eating an elephant; it can only be done one bite at a time. Breaking big projects into smaller parts greatly improves the odds of success. Segmenting the effort into smaller parts also allows you to address any issues along the way and fix them (particularly when you build in the idea that redo's are not just ok, but expected), as well as to prioritize deliverables. Breaking down any large initiative into discrete steps allows for adaptive planning, continuous improvement and promotes rapid and flexible responses to change. With each individual step, the wins pile up and the little failures disappear.

Nesbitt points to one of the most massive implementations ever to illustrate the point. "In 1961, President Kennedy established the goal of landing a man on the Moon and returning him safely to the Earth, all before the end of the decade. At that time, NASA probably had no idea of how they were going to accomplish the mission. But NASA took on the challenge and broke the mission down into discrete manageable steps: first with the Mercury program, then Gemini and finally the Apollo mission that would get the job done by 1969. It was an incredible undertaking and a great example of managing complexity, risk and failure by breaking the overall effort into smaller, shorter projects."

To this day, the premise of breaking things down into manageable steps is a proven technique for improving implementation success. For example, take a look at information technology. According to the Standish Group 2015 Chaos Report, of the 50,000 information technology projects studied worldwide (including everything from tiny enhancements to massive systems re-engineering), smaller projects are more likely to succeed than larger ones.[iii] In fact, the success rate for small projects came in at 62%, versus 6% for large projects and only 2% for grand projects like HealthCare.gov, arguably one of the decade's most visible software failures.

## #6 COMMUNICATE IN A WAY THAT REALLY COMMUNICATES

Effective communication is tremendously important for successful implementation. Unfortunately, lack of effective communication is often the norm.

In one survey, two-thirds of senior managers felt they were disseminating the reasons behind major organizational decisions, yet only 53 percent of middle managers and 40 percent of first-line supervisors said their management did a good job of communicating the "why's" behind a major decision.[iv]

The reality is that companies just aren't doing an adequate job of communicating in a way that gets heard. Nesbitt says, "There is usually a lot of discussion about how important communication is before a change initiative gets launched. The need for experienced communication professionals dedicating time to the effort is acknowledged, but then it just doesn't materialize."

He cited the merger of two large companies for which the integration team's sole communications support were two part-time people whose primary job and experience was investor relations. "Communicating change to employees is very different than communicating with investors or the press," he added. "Needless to say, the implementation was rocky and employees were very frustrated and often scared."

The reason for the mismatch between upfront intentions for communications and what actually happens can be a mystery. Nesbitt's hypothesis is that senior leaders may not have been exposed to a well-run communications program before, and as a result have a poor mental model of what's required.

Another major problem with communications can be the lack of management "walking the talk." Senior managers act in a different way from what the change implementation requires the organization to see or hear.

As an example, Nesbitt points to an auto company that wanted to become more retail driven. "We were engaged in a major change to make the company more responsive to the market, more retail driven. We had one of the most effective communication programs I have ever experienced. The team had a dedicated communications expert who was really good at following up every decision by asking 'And that means what to employees?' He translated those insights and the need to be retail driven into newsletters, videos, blogs, audio, etc. However, every time you had a meeting with a senior manager, you would see him continually hitting a button on his computer to refresh the month-to-date wholesale report. This behavior was completely in conflict with the push to become more retail driven. It took a lot of heated discussions to get people to agree to move the report from a real-time report to a daily report." Nesbitt concedes that once the change effort wound down and senior leadership changed, the real-time report came back.

Nesbitt concludes, "If you really want to communicate effectively, engage knowledgeable, experienced communications professionals who have run successful communications programs for large-scale change initiatives and have them be involved in designing and resourcing the communications effort."

He also suggests taking a close look at what reports people focus on every day and week, along with taking the time to be aware of what senior management's behaviors are communicating. "Make reports, meetings and management behavior work for you, not against you."

## #7 ALIGN REWARD SYSTEMS WITH IMPLEMENTATION GOALS

Goal setting for compensation is usually an annual process and frequently the timing of the change program doesn't fit in with the goal-setting calendar. This can lead to mismatches between the goals of the change initiative and the goals for which people get paid. To the extent that these goals conflict, it can present a significant barrier to change.

Nesbitt points to a merger of two academic medical centers where the goal of the merger was to improve their bargaining power with insurers and to make the combined enterprise more cost effective by reducing duplicated resources. However, the medical staffs each had their own separate compensation systems that encouraged keeping patients local and not sharing with the other medical center. This tension between the goals of the medical centers and the medical staffs ultimately became one of the main reasons for undoing the merger.

"The ultimate lesson is that compensation systems are very powerful," he asserts. "Make them work for you by changing goals to make them congruent with the behaviors you want to encourage."

But Nesbitt also warns of the importance of incenting only those behaviors you want to see and the gravity of leadership by example. He cites the example of Wells Fargo as a company that had good intentions, but let corrosive leadership incentivize employees in the wrong way. While the bank had the systems and processes in place to reward employees for opening new accounts, leadership turned a blind eye to (and profited from) the unethical actions of thousands of employees who worked the system to their own and the company's benefit. [v]

## #8 ANCHOR THE CHANGE IN THE CULTURE

Nesbitt stresses that if you don't anchor the change in the culture, it most likely will not stick. "It's human nature for people to resist change and fall back to the familiar," he explains. "Whether it's the fear of uncertainty or loss of control, or the threat of losing face or adding more work, people aren't comfortable with change. Getting it to stick takes comprehensive, effective reinforcement."

Nesbitt encourages companies that want change to stick to make a comprehensive review of how things work in the company and bring them into congruence with the desired change. "Look at the organization chart, management meeting agendas, decision-making processes, information reports, operating business processes, and all of the HR processes like job titles, compensation, reviews, goal setting, and training to make sure that they are supportive of the new way of running the business. If you anchor the change well enough, you will get it to stick."

## MINDFUL CHANGE IMPLEMENTATION

Too many companies are unable to meet their initial change objectives, let alone sustain these gains over the long-term. [vi] Sadly, it's not because their strategies failed, but because they couldn't implement the change envisioned by the strategy. What Nesbitt has proposed here can make the difference between change that sticks and change that doesn't.

"None of these eight 'tricks of the trade' are revolutionary in concept or practice, but they work," he concludes. "They all pull from well-established business best practices and applied psychology. By focusing on these specific areas and being mindful of their importance, leadership can truly drive lasting change in their organizations. Use the eight levers and you will see results."

## EIGHT LEVERAGE POINTS FOR EFFECTIVE IMPLEMENTATION

1. Ditch the steering committee and leverage a powerful guiding coalition to drive implementation
2. Leverage the power of discovered logic to drive change
3. Leverage strong, dedicated program leadership
4. Manage implementation complexity and risks by breaking the overall effort into smaller, shorter projects
5. Disarm the naysayers by listening to their concerns
6. Communicate in a way that really communicates
7. Align reward systems with implementation goals
8. Anchor the change in the culture

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i IBM, Making Change Work, 2008 and 2012 http://www-935.ibm.com/services/us/gbs/bus/html/gbs-making-change-work.html

ii John Kotter, "Accelerate!" *Harvard Business Review,* November 2012 https://hbr.org/2012/11/accelerate

iii Shane Hastle, Stephane Wojewoda, Standish Group 2015 Chaos Report, October 4, 2015. https://www.infoq.com/articles/standish-chaos-2015

iv 2013 Towers Watson Change and Communication ROI Survey. August 29, 2013 https://www.towerswatson.com/en/Press/2013/08/Only-One-Quarter-of-Employers-Are-Sustaining-Gains-From-Change-Management. www. towerswatson.com

v Chris Cancialosi, "Wells Fargo and the True Cost of Culture Gone Wrong," *Forbes,* September 15, 2016. https://www.towerswatson.com/en/Press/2013/08/Only-One-Quarter-of-Employers-Are-Sustaining-Gains-From-Change-Management

vi IBM, Making Change Work, 2008 and 2012 http://www-935.ibm.com/services/us/gbs/bus/html/gbs-making-change-work.html

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