Helping employees **embrace change**

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Managing change is the responsibility of everyone in the corporation—from senior managers on down.

When it comes to making big changes in an organization—implementing a Six Sigma program, optimizing business processes, adopting a new sales strategy—executives know that the wild card in the pack is their employees' capacity to adapt to a new order. Although the hoped-for benefits of a major initiative can shrink dramatically if employees misunderstand or resist it, success or failure depends as much on how the change is made as on the project itself. Fortunately, when companies attempt to change, a little improvement goes a long way.

To determine the role of people and process issues, we studied change programs at 40 organizations, including banks, hospitals, manufacturers, and utilities.[1] Each of these projects was initiated by senior management,

EXHIBIT **1**

Factors for successful change

Senior managers	
Commitment	Put initiative at top of agenda
Communication	Relate single, clear, compelling story—no mixed messages
Financial incentives	Reward senior managers if initiative is successful
Nonfinancial incentives	Provide recognition for strong performance
Leadership	Identify owner/champion
Stretch targets	Uphold goals with mantralike consistency; team 'lives or dies' by the numbers
Middle managers	
Decision authority	Exercise consistent control over defined set of tasks
Skills in managing people	Provide feedback to employees on status of initiative
Skills in managing projects	Achieve measurable milestones in timely manner
Frontline staff	
Skills	Consider training key aspect of initiative
Tools	Make technology and techniques available to employees
Motivation	Clearly reward excellent performance to improve morale

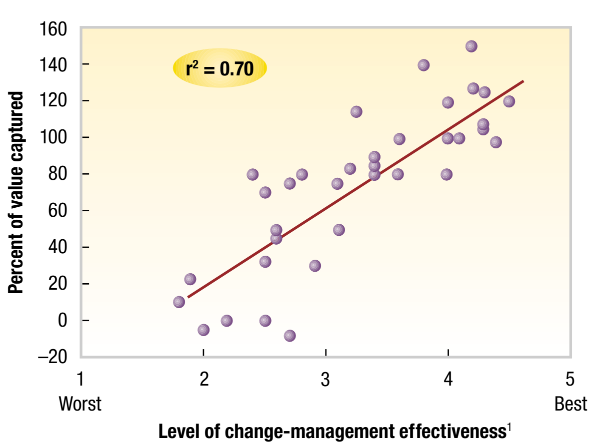
[1]The programs included mergers, major cost-reduction initiatives, and new pricing strategies.

could potentially have had a large economic impact on the organization, and required major company-wide changes in behavior, tasks, and processes.

Two dimensions interested us. First, we gauged the difference between the expected value of a project (essentially calculated in the business case for it) and the value the company claimed to have achieved when it was completed. Second, we rated each company's strength in 12 widely recognized factors for managing change effectively, including the roles of senior and middle managers in the initiative as well as the company's project-management skills, training, and incentives for promoting change (Exhibit 1). These two dimensions made it possible for us to compare patterns in change-management strengths and weaknesses with realized returns in all 40 initiatives.

EXHIBIT 2

Effective change management pays



r^2 = the proportion or percentage of variance explained by a regression
[1]Company's average score (on scale from 1 to 5, worst to best) across all 12 change-management factors; n = 37 (does not include 3 outliers at high end of value-capture range).

In all, 58 percent of the companies failed to meet their targets; 20 percent captured only a third or less of the value expected. The remaining 42 percent of these companies gained the expected returns or exceeded them—in some instances by as much as 200 to 300 percent.

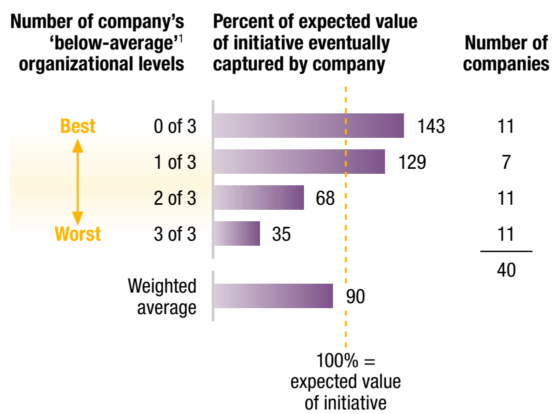
Not surprisingly, perhaps, companies with the lowest returns also had poor change-management capabilities, and companies that gained big returns had strong ones (Exhibit 2).[2] But we also found that strength on any one level of the organization—senior executives, middle managers, or frontline troops—gave companies a better chance of success. No single level was more critical in that respect than any other.

[2]The correlation between a company's average score (on a scale from 1 to 5, worst to best) across all factors, on the one hand, and the percentage of expected value captured from an initiative, on the other, was extremely high across all types of initiatives and industry sectors. This convergence clearly suggests that companies with deficient change-management capabilities failed to capture the potential impact of the initiatives.

Companies that had problems on one or two levels of the organization nonetheless captured all or much of the expected returns of change initiatives (Exhibit 3). Seven companies were strong in two levels but had poor abilities in the other—for instance, a midsize regional bank was weak in frontline skills; an international computer hardware manufacturer, in middle-management authority.

EXHIBIT 3

Perfection isn't necessary to capture value



[1]Defined as senior management, middle management, or frontline staff with average scores of 3 or less (on scale from 1 to 5, worst to best) across all 12 change-management factors.

Yet these seven companies captured, on average, 129 percent of the expected value. In fact, nearly 70 percent of it was captured even by companies that had inadequate change-management capabilities on any two levels of the organization.

For the 11 most successful companies in our study, effective change management clicked at every level: senior and middle managers and frontline employees were all involved, responsibilities were clear, and the reasons for the change were understood throughout the organization. These 11 companies gained an average of 143 percent of the returns they expected. By contrast, in companies that fell short of expectations, we found a lack of commitment from or follow-through by senior executives, defective project-management skills among middle managers, and a lack of training for and confusion among frontline employees. Meanwhile, the 11 companies that had problems at all three levels captured, on average, only 35 percent of the value they expected.

Consider the experiences of two hospitals in our study. Each aimed to reduce its costs by creating an independent purchasing group. At one hospital, the CEO and the chief purchasing officer communicated their bold expectations for the initiative, and stakeholders (that is, physicians) at every level were involved throughout it. At the other hospital, the CEO didn't mandate the change and was described as "invisible" during implementation; other senior leaders were also largely silent; middle managers didn't know who made the calls; and frontline staff had no clear understanding of the new policies or of the reasons for complying with them.

The first hospital exceeded its expectations for the initiative (125 percent of the business case) in less than a year, while the second gained barely half of the expected savings. Other factors contributed to the difference in realized expectations—everything from relations with suppliers to industry conditions. Yet if any single level of the organization of the second hospital had been better primed to implement the changes, it could have realized a better return on its change initiative.

Developing new strategies or operational initiatives is the most important way companies renew themselves, by helping to preserve their competitive advantage and stimulating platforms for long-term success. Preparing the company for a change by making any level of the organization better able to deal with it may be as important as the details of the project.

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