CHANGE MANAGEMENT 2020

LEARN FROM THE BEST IN ORGANIZATIONAL TRANSFORMATION

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AMONG THE MANY DECISIONS that the global health pandemic has complicated for corporate executives is what to do about their transformation programs. Many big companies were in some phase of a transformation when the coronavirus hit: planning a transformation, partway through a transformation, maybe wrapping one up and starting a new one. Whatever the purpose of their efforts, these companies have all had to make decisions about whether and how much to pull back.

As the pandemic goes through its inevitable phases, companies that have hit the pause button will want to resume—even accelerate—their transformation initiatives. But if they are enduring COVID-related slowdowns and being forced to focus on more immediate challenges, they may have to continue with constrained resources. With less margin for error, companies will be looking for new ways to ensure the success of their transformation programs.

And there's certainly room for improvement. Multiple studies have shown that unsuccessful organizational transformations far outnumber successful ones. Indeed, failure to transform goes a long way toward explaining why roughly half of the companies that were on the Fortune 500 list in 2000 have fallen off it. Most of the corporate declines of the last 20 years come down to mistakes made during transformation initiatives or to not seeing the urgency to adapt in the first place.

To do better, executives can look at how other companies pursue their organizational change efforts. Much of that comes through in Boston Consulting Group's latest transformation research study, which sheds light on what needs to happen in the four phases and three journeys that every successful transformation goes through. (See Exhibit 1.)

Change Management's Contribution to Transformation Success

We inaugurated the survey last year to fill in a gap in the external benchmarks of

Exhibit 1 | Transformations Have Four Phases and Three Journeys

Source: BCG case work.

what makes transformations flourish—or fail. Our 2019 study gave us a baseline understanding of these factors—in particular, of the importance of actually being ready to transform.

A few numbers stand out in this year's survey, which included almost 1,000 global participants. One is the higher proportion of transformations that have a digital goal (43% this year versus 37% last year). Another is a decline in success rates—down from 37% in 2019 to 27% this year. (The survey was conducted in January and February, before COVID-19 lockdowns disrupted businesses, so the decline in perceived success isn't related to the global health crisis.)

One final statistic worth noting is the substantial jump in the proportion of change programs being managed by chief transformation officers (51% this year versus 37% in 2019). CTOs with four key traits can have a big impact on transformation success, so the increased prevalence of this position is a promising sign for the future. Our data shows a transformation success rate of 66% when CTOs are involved.

Looking at the entire sample of our global benchmark—across all industries, geographies, organizational sizes, and transformational goals—three levers emerge as particularly important.

- **Holistic Management of All Change Journeys.** This is where CTOs come in. They're at the heart of many successful transformations, overseeing the three change journeys (leader, people, program) and contributing to the realization of value during all phases of the change effort.

- **Consistent Leadership Alignment.** Executives should agree on the purpose and scope of the transformation. And if there are differences, they should be sorted out early, not after the process is far along.

- **Employee-centric Change Management.** Structuring the transformation in a way that puts people at the center of change will increase employee motivation and buy-in and significantly improve the odds that the transformation will succeed.

On average, transformations that use all three levers realize 30% more of their financial goals than those that don't. There is also a cost advantage in applying the levers. While cost overruns are endemic in transformations (with 15% overruns being the average), they can be reduced by an average of 10% if the three levers are used together.

A Jewelry Company's Makeover. The presence of these three factors explains the early progress that the jewelry company Pandora is making with a recent transformation.

When Pandora launched its transformation program in 2018, it had three things going for it. The first was the indisputable fact that the organization was was struggling. This was evident for the management team, and it also meant employees didn't question the need to operate differently. To this external impetus, Pandora added two enablers of successful transformations: management commitment and effective communication.

The company's management team spent a great deal of time discussing the transformation and agreeing on the shape it would take. Before rolling it out to the organization, the communications part of the program was simplified down to three pillars and one core KPI: like-for-like sales. In simplifying, Pandora made sure that the overarching goal of the transformation would be easily understood and remembered by all employees. Once the transformation got going, it was the subject of internal town hall meetings, weekly emails, and investor presentations.

These good practices have added momentum to Program Now, as Pandora's transformation is called. Pandora is making progress in all of the improvement areas it has targeted, most of which have to do with topline growth.

The transformation team is also following other best practices. One is the use of short-term initiatives whose results can be quickly measured. This has the dual benefit of demonstrating value to employees and allowing Pandora to change course if necessary. Pandora's "value tests" are a way of preserving its flexibility.

Another important element of Program Now is customer centricity: changes are made only if customers see a difference. Customer centricity also leads to much stronger brand awareness—more media, platforms with broader reach, and a significantly stronger communications program based on consumer insights. Along with the leadership alignment and communication to employees, customer centricity has been a big part of Program Now's success.

A Data-Centric Approach to Tracking Transformations

In change management, data is an incredibly powerful tool. The same benchmarks used to understand, after the fact, why a transformation has succeeded or failed can be used midcourse to identify and respond proactively to problems. They can also illuminate milestones and activities that will increase the chance of success.

Low morale among portions of the staff? Try reiterating the case for change through an improved and rethought communications program. Better results at headquarters than in satellite locations? Maybe there's too much change management staff in the "hub" and not enough in the "spokes." Employees struggling with new tasks? It's time to reimagine the enablement and reskilling program.

In particular, benchmarks are useful in understanding the key drivers of success in four different transformation phases—each of which comes with its own imperatives. (Readers can take BCG's transformation diagnostic to learn about their own change readiness.)

Goals and Commitment. In the beginning of a transformation—the goals and commitment phase—it's vital to articulate a clear purpose, have the leadership team aligned, and establish a holistic communications approach.

Clear articulation of purpose helps people understand the "why" of the changes they're being asked to execute—whether it's to reduce costs, expand into a new service area, or set the company up to quadruple its percentage of internet sales. Our benchmarks show that the rate of transformation success rises by more than 80% if a clear purpose is defined.

Leadership alignment on the need for the transformation and its scope is another key driver of success in the first phase. But what activities pave the way for leadership alignment? For organizations with transformation success scores in the top quartile, the key enablers are regular in-person meetings, leadership coaching programs, and dedicated tools for alignment (which could include software applications or sophisticated real-time tracking methods). Transformations seen as having aligned leadership teams have a 70% higher success rate than transformations where the leadership teams are pulling in different directions.

A holistic communications approach starts with a clear roadmap of the information flow. This ensures that employees know what is expected of them at every phase and never feel confused or overloaded with ill-timed communiques. Such an approach guarantees that the people with different roles in the transformation are getting progress reports to keep them on track and connected. When there is this quality of communication throughout the organization, there is a cascade effect that increases transformation success rates up to 60%.

Baseline and Target State. In this phase of a transformation—where the organization articulates where it is now and where it is heading—there are three main activities that boost success.

The first is leadership alignment, in which leaders start using key target behaviors to help them execute the transformation as envisioned. These include, among others, action plans, workshops, and team exercises, along with ongoing leadership coaching. Leadership alignment is associated with a 30% increase in transformation success.

Once the target state has been outlined, a second crucial step in this phase is the establishment of a strong program management office (PMO) or transformation management office (TMO), preferably headed by a CTO. Having a CTO significantly increases the chances that the transformation will succeed. CTOs bring higher visibility to their companies' PMO/TMO, especially when they report directly to C-level executives. (This direct reporting relationship exists for only about 20% of CTOs and is something that more companies should look at.) And if a CTO is in place, people are likelier to view the PMO's or TMO's roles as well defined. The presence of a CTO also makes it much more likely that transformation activities will be clearly distinct from everyday operational activities—a best practice that brings more urgency, better talent, and greater focus to the change program and allows for superior decision making.

Synchronizing the project team and driving alignment of team members is the third success factor in this phase. Effectively defining roles and responsibilities can result in a 70% increase in transformation success. Having an aligned leadership and project team is much more important than appointing a cadre of "change agents"—a tactic that, in our experience, often doesn't work.

Certainly, change teams should not take a one-size-fits-all approach. A structure with steering committees, project leadership, and the TMO on top and functional modules below may be exactly right for a transformation focused on costs and dependent on reductions in headcount, procurement, and operations. When the goal is not cost focused—for example, increased innovation, a move to next-generation sales, new ways of doing product management, or new ways of working—the program structure needs to reflect the hoped-for outcome. Aspirations such as diversity, speed, agility toward the customer, or a redefined company culture must be visible in the project team itself both as a proof of concept and to demonstrate commitment to the change being sought.

Solution and Capability Development. In the third transformation phase, the focus shifts to pinpointing the changes that must be made across the business and identifying the new capabilities that the company will need.

One of the most important success factors in any transformation is the people change part—specifically, preparing for any reduction in headcount. The human resources department is key in these situations. The right HR processes can reduce the inevitable friction surrounding layoffs and lessen morale problems. With effective staff reduction processes, the rate of transformation success is 40% higher, according to our benchmark.

Two-way communication inside the organization (in which there are forums for employees to voice their concerns, versus just being on the listening end) can create transparency about how employees are feeling and for leadership to address these issues directly. At the same time, diagnostics should be run to make sure that there is nothing in the company's public communications (press releases, external website) that is at odds with what's actually taking place in the transformation. A proactive approach (including fast corrective action) to resolving both internal and public-facing miscommunication increases transformation success rates by 30%.

A permanent change management function can be particularly helpful in this phase, contributing to a 60% increase in transformation success. This is the phase where the rubber meets the road, and an experienced change management function—one that has been through multiple transformations—will be in a better position to understand what's needed.

Implementation and Sustained Improvement. The ongoing execution of the plan's initiatives and solutions—and a sustained move to new behaviors—are the goals of the fourth and final transformation phase. The question here is really: What are the behaviors we want to see next month, next year, three years from now?

One way to ensure sustained change is through nudges and organizational levers involving leadership, processes and systems, and performance management. Organization-wide, these levers can increase change adoption rates by 80%. A diagnostic should be run to identify misaligned ways of working and backsliding to old behaviors, and an implementation plan must be put in place to embed the new behaviors.

This is also the phase in which smart change leaders ask employees to play a more central role in their change efforts. Among other things, this means changing or adapting transformation tactics based on a quantitative view of how the transformation is impacting employees and how well they're absorbing the changes. When employees are in the center of a transformation effort, there is a 70% higher transformation success rate than when they're not.

In this year's study, companies certainly seemed to understand the importance of employee centricity in transformations. Even among those whose initiatives did not succeed, 60% said they made a dedicated effort (in some cases, through technology tools) to understand how the change program was affecting employees. So the problem—and part of the solution to companies' people challenges during transformations—may involve better leveraging of the data that companies are already gathering.

Another, sometimes overlooked, way of demonstrating employee centricity and maximizing goodwill is to support those employees who don't end up being part of the new company. This can be done by helping departing staff find new jobs or careers, offering them vocational training, or helping them plan their retirement, should they happen to be ready for that.

Embedding changes in business-as-usual (BAU) processes is another crucial success factor in this final phase. Such processes are usually not designed to support large-scale change and can thus hinder sustainable implementation. Companies that analyze their transformation's impact on BAU processes—and use that analysis to reconcile potential conflicts—have a 50% higher transformation success rate than those that don't.

The Rise of Digital Transformations

Although companies embark on change programs for many reasons, our survey shows that digital transformations are getting a large share of change teams' attention these days. (See Exhibit 2.) Forty-three percent of companies in our survey say that digital change is a priority. Roughly the same percentage say they've made sizable digital transformation investments in the past. Since COVID-19 was declared a pandemic, even more companies have been looking to accelerate their digital transformations.

As in many areas of transformation, however, there is a disconnect between aspiration and outcome. Like other organizational changes, digital transformations fail much more often than they succeed. A big reason is companies' starting points. Only about one in five companies globally are "extremely well prepared" for a digital transformation. (See Exhibit 3.) The number is even lower—about one in seven—for large companies (those with 20,000 or more employees).

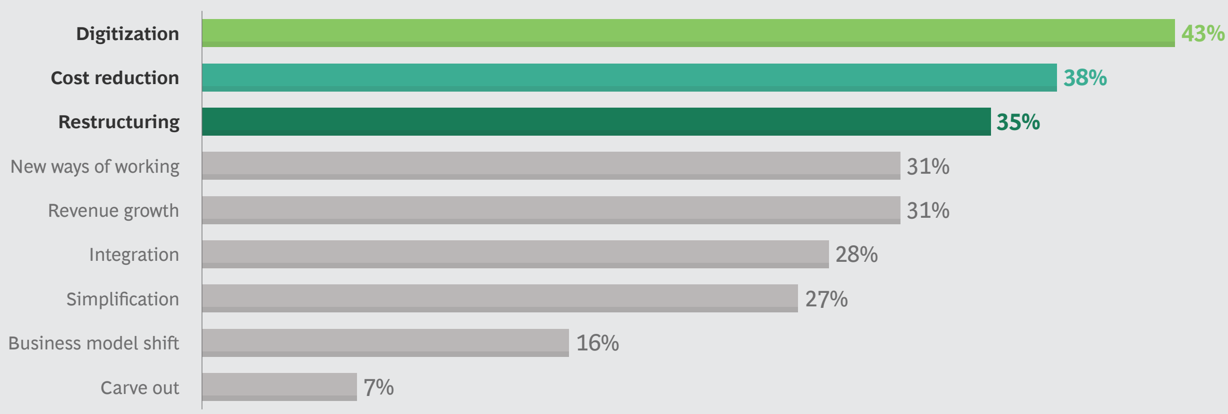
There is obviously an improvement opportunity. The question: Where to start?

Three necessary conditions for success emerge from the cohort of companies that have had success with their digital transformations. One is building the right skill set, which could include training in data analytics, machine and deep learning, and artificial intelligence. Another is focusing on behavior change, which could mean building a digital culture. And a third is integrating the digital transformation efforts with the rest of the company, so that the changes flow through and benefit the entire organization.

One Manufacturer's Transformation Journey. After being spun off a few years ago amid falling market share, a North American maker of automotive components was ready to make big changes. Its new owners and its management team believed they could bring $400 million to the bottom line through six actions: optimizing the company's footprint; developing an integrated supply and demand planning capability; making procurement more efficient; increasing manufacturing productivity; strengthening the organization and leadership; and revamping the commercial strategy.

A big part of this transformation's success was rooted in the discipline of the program

EXHIBIT 2 | Why Companies Transform



Source: BCG Transformation benchmarking survey, 2020.
Notes: Multiple answers were allowed. Percentages are based on the answers from 969 respondents.

EXHIBIT 3 | More Interest Than Readiness for Digital Transformations

60% say they have a high level of investment in digital transformation

60% of companies say digital transformations will have a high or the highest priority for them in the future

50% believe they have the right skills to manage a digital transformation

20% of companies see themselves as "extremely well prepared" for the challenge of digital transformation

Source: BCG Transformation benchmarking survey, 2020.

itself. The change management team put set an ambitious target and then employed a strategy of capturing quick wins to build trust and confidence in the journey. Instead of trying to cast too wide a net, the organization focused on the 15% of initiatives that were perceived as having the most potential. (Those initiatives ended up driving 80% of the transformation's value.) Regular meetings ensured that the company stayed focused on these priorities and provided an ongoing view of the realized savings. The communications and alignment put the company in a better position to identify risks to its change modules and develop mitigation plans.

The strength and effectiveness of the change plan was reinforced by some smart moves in the leader journey. Of particular note was the company's decision, during the change process, to have separate teams running the business and the transformation. While the senior leadership team in North America was still running the business and retained all decision-making rights, a separate and fully empowered leadership team was running the transformation effort, identifying and managing opportunities, and including the operational team in decisions as needed.

Enablement was a guiding principle of the whole transformation program. Leaders were empowered, high-potential managers identified, and different stakeholder roles defined. Finally, the transformation program was also treated as an opportunity to identify some longer-term actions needed for competitive advantage, chief among those being greater digitization in various functions.

A Future of Greater Transformation Success

The high rates of transformation failure shouldn't really be a surprise. Anyone who has been part of a major transformation—with its ups and downs, its beginnings and endings, its delays, its never-ending list of things to accomplish—doesn't need a lot of data to tell them that this part of organizational life is fraught with risk.

Companies that lead successful transformations generally focus on long-term value creation. They make sure the process is transparent. And they make sure it is dynamic—that is, adaptable to the phase the transformation is in and to whatever new circumstances arise. Indeed, there is always a bit of an X factor in organizational transformations—cultural realities, the personalities of the CEO and other leaders, special qualities of the employee base, or, in this year, a pandemic. Along with the type of transformation planned, these X factors must be considered if change management is to produce its crucial gains.

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