Making Change Work

Graham Kittle
Managing Partner, Global Business Services
Agenda

1. Future perspectives from CEO’s

2. Current climate driving us to be “smarter”

3. So how do we “Make Change Work”? 
We spoke to 1,130 CEOs and conducted in-depth analysis to determine the characteristics of the Enterprise of the Future.

- **Global 1,130 interviews**
  - 78% private sector
  - 22% public sector

- **A/NZ 69 interviews**
  - 70% private sector
  - 30% public sector

- **40 NATIONS**
- **32 DIFFERENT INDUSTRIES**
- **19% of organisations have more than 50,000 employees**
- **22% of organisations have fewer than 1,000 employees**
Analysis from the CEOs commentary has led us to five core traits of the Enterprise of the Future:

1. Hungry for change
2. Innovative beyond customer imagination
3. Globally integrated
4. Disruptive by nature
5. Genuine, not just generous
Although CEOs are more confident about managing change, the gap between the capability and the challenge ahead is growing.

The Change Gap* Triples

2006

8% CHANGE GAP*

22% 13%

12% 31%

65% 57%

2008

22% CHANGE GAP*

6% 11%

83% 20%

19% 61%

“We have seen more change in the last ten years than in the previous 90.”
Ad J. Scheepbouwer, CEO, KPN Telecom

Change Needed

Past Change Success

Change Needed

Past Change Success

Change Needed

Past Change Success

No/limited Change

Moderate Change

Substantial Change

No/limited Success

Moderate Success

Successful

IBM Insight Forum 09

Make change work for you
CEOs say the gap is widening because of the accelerating pace of change

“The key to successful transformation is changing our mind-set. For large companies, it is easy to be complacent — we have to change this. Our company culture must have a built-in change mechanism.”
Masao Yamazaki, President and CEO, West Japan Railway Company

“The rate of change has increased dramatically. Customers are demanding radical change in product innovation. Our company will need to greatly increase its capabilities to deal with these demands.”
Dennis Jönsson, CEO, Tetra Pak

“Change in our organisation is not happening fast enough… the gap is opening up.”
CEO in Australia

“My organisation has not been quick enough; change is hard. A few years ago we were a national company, now we're a global company.”
CEO in USA
Companies that delivered higher revenue growth managed change more successfully

**Underperformers**

- Change Needed: 29%
- Past Change Success: 4%
- Change GAP*: 25%

**Outperformers**

- Change Needed: 19%
- Past Change Success: 17%
- Change GAP*: 12%

CEOs of organisations with outperforming revenue growth are more confident about their ability to implement change.

* Difference or ‘gap’ between expected level of change needed and past success in managing change.

** Performance based on industry comparisons within survey sample of revenue CAGR 2003 to 2006**
Agenda

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Today we face a different kind of downturn – traditional responses will not suffice

**Long and Difficult**
- Unprecedented constraints on access to credit and capital; unwinding of over-leverage
- Falling demand, increased price sensitivity as consumers and enterprises cut back
- Disruptions in supply chains, partner and customer arrangements

**Transformative**
- Restructuring of industries - firms fail, sold off overnight
- New regulatory regimes
- Stress on global inter-dependencies

*Typical cost management will NOT be enough*

Firms must examine working capital & investment - identifying opportunities to restructure, reduce, and preserve capital as well as streamline operations
Yet some broader forces are at work

Our world has become...

**Smaller & Flatter**
- Pervasive connections and communications
- Emerging markets
- Open trade

**Riskier**
- Systems-level complexity
- Viral spread of information
- Widening gap between information available, and information effectively managed

**Smarter**
- Interconnected
- Instrumented
- Intelligent
In 2005 there were 1.3 billion RFID tags in circulation…

… by 2010 there will be 33 billion.
An estimated 2 billion people will be on the Web by 2011 ... 

... and a trillion connected objects – cars, appliances, cameras, roadways, pipelines – comprising the "Internet of Things."
Organisations must consider four critical questions:

- **“Data is exploding and it’s in silos”**
  - I Need Insight
  - How can we take advantage of the wealth of information available in real time from a multitude of sources to make more intelligent choices?
  - New Intelligence

- **“New business & process demands”**
  - I Need to Work Smart
  - How can we work smarter supported by flexible and dynamic processes modeled for the new way people buy, live & work?
  - Smart Work

- **“My infrastructure is inflexible and costly”**
  - I need to respond quickly
  - How do we create an infrastructure that drives down cost, is intelligent and secure, and is just as dynamic as today’s business climate?
  - Dynamic Infrastructure

- **“Our resources are limited”**
  - I Need Efficiency
  - How do we drive greater efficiencies, compete more effectively, and respond more quickly by taking action now on energy, the environment, and sustainability?
  - Green & Beyond
Enterprise data is projected to explode at 60% growth annually through 2010.

Managers spend 2 hours a day searching for information – 50% of what they find does not meet their needs.

- **Information management**
- **Predictive capability**
- **Engaging the value chain**
- **Business optimisation**
70% of CEOs plan major business model changes

Gap between CEOs who expect change and those who have the ability to handle change has widened sharply – nearly 3 times

- Agile business model
- Connected customers
- Dynamic business processes

Smart Work
While 83% of CEOs expect substantial change within their enterprises, only 61% feel confident in their ability to manage it.

This “change gap” challenges CIOs to transform highly distributed, fragmented, labor-intensive infrastructures and assets.

- Reduce costs
- Improve service
- Manage risk

Dynamic Infrastructure
80% of CEOs view sustainability as impacting brand value

Information technology energy use will double in the next 2 to 4 years

- **Finding the value in green**
- **Smart systems**
- **Societal shifts and corporate and social responsibility**
An analysis of early winners points to strategies for success

Top performers during 2008…

Average Stock Price Change
2008

-40% -30% -20% -10% 0 10% 20% 30%
52 Week % Change

Overall S&P 500

Top Performers
(n=61)

24%

+64%

Criteria for Top Performers:
- Market Cap >$1.4B
- 52 week stock price change >5.0%

..exhibited three strategies

1. Focus on Value
2. Exploit Opportunities
3. Act with Speed
Organisations need to do three things

<table>
<thead>
<tr>
<th>Focus on Value</th>
<th>Exploit Opportunities</th>
<th>Act with Speed</th>
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<tbody>
<tr>
<td>Do more with less</td>
<td>Capture share</td>
<td>Manage change</td>
</tr>
<tr>
<td>- Cash/capital focus</td>
<td>- Disrupt weak competitors</td>
<td>- Clearly communicate simple goals</td>
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<tr>
<td>- Flexibility</td>
<td>- Acquisitions</td>
<td>- Seek and leverage experience</td>
</tr>
<tr>
<td>Focus on the core</td>
<td>Build future capabilities</td>
<td>Leadership</td>
</tr>
<tr>
<td>- Businesses</td>
<td>- Protect &amp; acquire talent</td>
<td>- Get the information to act</td>
</tr>
<tr>
<td>- Initiatives</td>
<td>- Develop required assets</td>
<td>- Set the agenda</td>
</tr>
<tr>
<td>Re-align relationships</td>
<td>Change your industry</td>
<td>Risk &amp; Transparency</td>
</tr>
<tr>
<td>- Financial solidity of suppliers, partners and customers</td>
<td>- Bold moves</td>
<td>- Business performance management &amp; analytics</td>
</tr>
<tr>
<td>- Revisit/renegotiate</td>
<td>- Position globally</td>
<td>- Risk management</td>
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IBM Insight Forum 09
Make change work for you
# Agenda

1. Future perspectives from CEOs
2. Current climate driving us to be “smarter”
3. So how do we “Make Change Work”?
Making Change Work
Closing the Change Gap
Sample and demographics - A/NZ participation

The Making Change Work study investigated real-life experiences of practitioners worldwide from organizations of all sizes, across industries.

**Making Change Work Study 2008**

**Demographics**

**Job roles**
- Subject Matter Expert/Reviewer: 7%
- Project Team Member: 7%
- Change Manager: 17%
- Initiator/Project Sponsor: 25%
- Project Manager: 38%
- Others: 6%

**Organizational size**
- Up to 100: 7%
- 10,000-100,000: 32%
- 100,000+: 15%
- 1,000-10,000: 32%

**Geographic regions**
- Americas: 29%
- Asia Pacific: 37%
- Europe: 34%
- Public: 21%
- Others: 7%
- Communications: 17%
- Distribution: 13%
- Financial Services: 16%
- Professional Services: 8%
- Industrial: 18%

**A/NZ participation**
- 12% (n=183)

**Methodology**

- **Key attributes of the sample**
  - 1,532 experienced project practitioners
  - 15 countries worldwide
  - 21 different industries
  - Companies of all sizes

- **Methods**
  - Face-to-face interviews
  - Survey

Source: IBM Global Making Change Work Study, 2008, (n = 1,532)
On average, only 41% of projects were considered successful. But the top 20%—the Change Masters—reported an 80% success rate.

### Average Project Success Rates

- **PROJECTS THAT FULLY MET THEIR OBJECTIVES**
  - 41%成功率
  - **A/NZ Average = 35%**

- **PROJECTS THAT EITHER MISSED ALL GOALS OR WERE STOPPED**
  - 15%失败
  - **A/NZ 17%**

- **PROJECTS THAT DID NOT MEET EITHER TIME, BUDGET OR QUALITY GOALS**
  - 44%失败
  - **A/NZ 48%**

- 44% of all projects failed to meet either time, budget or quality goals, while 15% either stopped or failed to meet all objectives.

### Change Masters vs. Change Novices

- **ONLY 11% Change Masters in A/NZ**
- **80%**成功
- **95% SUCCESS RATE INCREASE**

- The top 20% of organizations reported an average project success rate of 80%, reflecting a 95% increase above the average share of successful projects.

Source: IBM Global Making Change Work Study, 2008, (n = 1,532)

‘Success rate increase’ is the relative difference

*‘Top’ and ‘bottom’ organizations of sample as defined by project success rates*
The critical barriers to change involve people - what is generally considered the “soft stuff” is hard.

**Major Change Challenges**

- Key barriers are *changing mindsets & attitudes, corporate culture, and underestimated complexity*.
- These “soft factors” are rated more important than *resource constraints*, illustrating they are inherently hard to manage and measure even with sufficient resources.

> “Leaders are unrealistic about how change is going to happen. They move ahead anyway and get into problems.”
> — Change Manager, Energy and Utilities company

Source: IBM Global Making Change Work Study, 2008, (n = 1,532)
Top management sponsorship, employee engagement and honest and timely communication are critical for successful change.

### Factors for Successful Change

<table>
<thead>
<tr>
<th>Soft Factors</th>
<th>Hard Factors</th>
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<tr>
<td><strong>Top management sponsorship</strong></td>
<td><img src="chart" alt="92%" /></td>
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<tr>
<td><strong>Employee involvement</strong></td>
<td><img src="chart" alt="72%" /></td>
</tr>
<tr>
<td><strong>Honest and timely communication</strong></td>
<td><img src="chart" alt="70%" /></td>
</tr>
<tr>
<td><strong>Corporate culture that motivates and promotes change</strong></td>
<td><img src="chart" alt="65%" /></td>
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<tr>
<td><strong>Change agents (pioneers of change)</strong></td>
<td><img src="chart" alt="55%" /></td>
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<tr>
<td><strong>Change supported by culture</strong></td>
<td><img src="chart" alt="48%" /></td>
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<tr>
<td><strong>Efficient training programs</strong></td>
<td><img src="chart" alt="38%" /></td>
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<tr>
<td><strong>Adjustment of performance measures</strong></td>
<td><img src="chart" alt="36%" /></td>
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<tr>
<td><strong>Efficient organization structure</strong></td>
<td><img src="chart" alt="33%" /></td>
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<tr>
<td><strong>Monetary and non-monetary incentives</strong></td>
<td><img src="chart" alt="19%" /></td>
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- Change Masters have realized that behavioral and cultural change are crucial to project success and are considerably tougher to address than the so-called “hard” factors, such as structure, performance measures and incentives.

- Practitioners place a key responsibility for successful change right at top management’s door.

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*“If you don’t have leadership support, you’re doomed”*  
— Project Manager, U.S., Media and Entertainment

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Make change work for you
Making Change Work is covered in four broad categories

- Right Investment
- Right Impact
- Real Insights
- Real Actions
- Better Skills
- Better Change
- Solid Methods
- Solid Benefits
A realistic awareness of the change challenge and project success are strongly correlated.

**Challenge and Complexity Awareness**

- **Percentage of successful projects**
- **YES** 52%
- **TENDING TOWARD YES** 43%
- **TENDING TOWARD NO** 35%
- **NO** 25%

“Within your organization, do you think there is sufficient awareness of the challenges associated with implementing and sustaining change?”

**Lack of early insight** leads to a high risk that complexity will be underestimated or even overlooked.

- **In particular**, the complexity of **behavioral and cultural change** is often underestimated in the early project planning and scoping stages.

- **Project success rates drop** as organizations’ awareness levels decrease.

Source: IBM Global Making Change Work Study, 2008, (n = 1,532)
Formal change management methods improve project success when applied consistently

Having a structured approach to change management alone is insufficient if not applied consistently. When used regularly, the likelihood of project success increases to 52%, compared to less than 40% in other instances.

Consistent application of solid methods vs less consistent or none at all

- **Formal change management approach**
  - There are specific and formal change management procedures which are always followed: 52%
  - Although there are specific and formal change management procedures, they are often not followed: 39%
  - I know someone I can ask: 38%
  - Actions are improvised according to the situation: 36%

Source: IBM Global Making Change Work Study, 2008, (n = 1,532)

"Following a good solid methodology that integrates with the project really helps to make a quicker start on the change journey"

— Change Management, Australia, Government
The Methods Gap: The difference between the perceived level of formal methods required and the actual level being applied

- Despite almost 90% of practitioners recognizing the value in using formal change management methods, in practice the consistent use of a systematic approach is low.

- There is a wide gap between what is thought to be required and what is actually being applied. By employing formal change management methods and using them more consistently, organizations can close this methods gap and increase the chances of project success.
Change Managers improve the rate of project success

- Deploying experienced and skilled change managers on projects helps to increase the chances of project success.

The impact of dedicated change managers

- Share of successful projects

- No Professional Change Managers: 36%
- Professional Change Managers: 43%

19% SUCCESS RATE INCREASE

"Success rate increase" is the relative difference. Source: IBM Global Making Change Work Study, 2008, (n = 1,532)
We found project success rates were higher when moderate investment is made in the change effort

- Top organizations invested only slightly more in change than others, but were rewarded with significantly higher project success.

- Our study found that project success rates were 23% higher when the amount invested in change was greater than 11% of the project budget.

**Investing for Change—A little goes a long way**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Share of successful projects</th>
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<tbody>
<tr>
<td>&lt;=11%</td>
<td>39%</td>
</tr>
<tr>
<td>&gt;11%</td>
<td>46%</td>
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**Success rate increase** is the relative difference
Source: IBM Global Making Change Work Study, 2008, (n = 1,532)

“*The ability to demonstrate the benefits of a change program was key in the shift in thinking*”
— Project Manager, Canada, Life Sciences and Pharmaceuticals
Mastering Change: Greater focus on the four facets of the Change Diamond drives project success

By concentrating and acting on all four facets of the Change Diamond, Change Masters achieve project success rates of nearly twice the average.

- **The Change Masters** consistently utilized the success factors markedly better than the average organization and were able to report much higher success rates.

- **The Change Novices** in contrast consistently under-utilized the four facets driving change success and had to report an 8% success rate.

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**Change Masters: Greater focus leads to project success**

<table>
<thead>
<tr>
<th>Bottom 20% Change Novices</th>
<th>Average</th>
<th>Top 20% Change Masters</th>
</tr>
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<tbody>
<tr>
<td>46%</td>
<td>61%</td>
<td>79%</td>
</tr>
<tr>
<td>12%</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>73%</td>
<td>79%</td>
<td>84%</td>
</tr>
<tr>
<td>10%</td>
<td>11%</td>
<td>13%</td>
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**Real Insights** - Percentage of organizations having a clear understanding of the change challenge

**Solid Methods** - Percentage of organizations using formal methods consistently

**Better Skills** - Percentage of organizations using change managers for change projects

**Right Investment** - Percentage of project budget invested in change management

The Change Diamond
- Greater than the sum of its parts

Although action on individual facets brings benefit, only in combination do they result in an outstanding increase in project success.

The individual vs. joint effect of the four facets

- **Real Insights:** Awareness of Change Challenge
- **Solid Methods:** Consistent use of Formal Methods
- **Better Skills:** Professional Change Managers
- **Right Investment:** >11% Change Budget
- **Change Champions:** Combining All Four Facets

When they combined the facets, Change Masters attained an 80% project success rate, a marked increase over the sum of their individual effects.
Lessons from the Change Masters  
– Filling the diamond with life

**Consider money spent on change management as an investment**
Understand which types of focused spending can offer the best return, in terms of greater project success and use these investments to minimize the risk of troubled projects.

**Hook into the history**
Provide change leaders with access to historical data, people surveys, culture assessments and “war stories,” and people involved in previous projects, if possible.

**Get the right skills – everywhere**
Enable rapid development of internal skills to keep pace with changes in the external environment. Consider the establishment of a sustainable change management capability within the organization.

**Drive consistency**
Develop and promote a standard change method that can be applied consistently. Communicate this widely and monitor its adoption.
Is Your Organisation a Change Master or a Change Novice?

### REAL INSIGHTS, REAL ACTIONS

<table>
<thead>
<tr>
<th>Change Novice</th>
<th>Change Master</th>
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<tbody>
<tr>
<td>• No reflection or understanding of the reasons past projects have failed or succeeded</td>
<td>• Good anecdotal understanding of why projects have failed or succeeded in the past</td>
</tr>
<tr>
<td>• No focus or emphasis placed on the people or cultural aspects of change</td>
<td>• Adhoc attention is given to the people &amp; cultural aspects of change with a strong focus on the process and technology</td>
</tr>
<tr>
<td>• Change is viewed as a succession of individual separate projects</td>
<td>• There is some alignment between the objectives of change projects underway</td>
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### SOLID METHODS, SOLID BENEFITS

<table>
<thead>
<tr>
<th>Change Novice</th>
<th>Change Master</th>
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<tbody>
<tr>
<td>• No change method is available or used on projects</td>
<td>• Consistent, tried &amp; accepted change method that is sometimes applied</td>
</tr>
<tr>
<td>• No approved business case or identification of project benefits</td>
<td>• Approved business case and adhoc measurement of benefits</td>
</tr>
<tr>
<td>• No formal change management workstreams are established on significant projects</td>
<td>• Formal change management workstream established on some significant projects</td>
</tr>
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### BETTER SKILLS, BETTER CHANGE

<table>
<thead>
<tr>
<th>Change Novice</th>
<th>Change Master</th>
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<tbody>
<tr>
<td>• Don’t believe there’s a need to invest in developing change management skills within the org for use across projects</td>
<td>• Skills are developed on individual projects on an ad hoc basis are are not necessarily used on future projects</td>
</tr>
<tr>
<td>• Passive, hands-off and invisible Top Management leadership of projects</td>
<td>• Some evidence of Top Management leadership of project</td>
</tr>
<tr>
<td>• There is little to no involvement or feedback sought from people affected by the change</td>
<td>• Formal mechanisms (ie processes &amp; technologies) are used on an ad hoc basis to facilitate employee involvement &amp; feedback</td>
</tr>
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### RIGHT INVESTMENT, RIGHT IMPACT

<table>
<thead>
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<th>Change Novice</th>
<th>Change Master</th>
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<tr>
<td>• There is no investment in well trained Change Managers</td>
<td>• Change Management responsibility is usually assigned to a Project role</td>
</tr>
<tr>
<td>• Change management expenditure is seen as a cost and is not separately budgeted for in projects</td>
<td>• Change mgmt budgets are often set as a % of the total project budget, rather than relative to project complexity &amp; risk</td>
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<tbody>
<tr>
<td>• Money spent on Change Management is viewed as an investment</td>
<td>• Well trained Change Managers are utilised on projects</td>
</tr>
<tr>
<td>• Change management budgets are set relative to a project’s complexity &amp; risk</td>
<td>• Change management budgets are set relative to a project’s complexity &amp; risk</td>
</tr>
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</table>
IBM’s Better Change method supports the four facets of the Change Diamond

**Focus on Strategic Program Leadership and Governance**

**Focus on Strategic Execution**

**Focus on People Change**

**Value Realization**

- Program Leadership and Governance
- Organization Design
- Stakeholder Engagement and Communications
- Skills & Knowledge
- Culture Transformation
- Program Strategy and Management

**Achieved by**

- Right Investment
- Right Impact
- Better Skills
- Better Change
- Real Insights
- Real Actions
- Solid Methods
- Solid Benefits
Thank you

Questions?
...However, being merely aware of change complexity is insufficient

Does Awareness Lead to Action?

Within your organization, do you think there is sufficient awareness of the challenges associated with implementing change?

Does this awareness of the challenges of implementing change normally lead to the introduction of specific measures to support the change?

Change Masters take advantage of awareness and insights to better guide actions

Source: IBM Global Making Change Work Study, 2008 (n = 1,532)
However, change management methods are usually informal, ad hoc or improvised.

Use of formal methods in Change Management vs Project Management

- **Change Management**
  - Formal methods used consistently: 24%
  - Informal approach (formal methods not used consistently, ad-hoc or improvised): 76%

- **Project Management**
  - Formal methods used consistently: 51%
  - Informal approach (formal methods not used consistently, ad-hoc or improvised): 49%

Source: IBM Global Making Change Work Study, 2008 (n = 1,532)
Each Better Change enabler supports a facet of the Change Diamond

- **Value Realization** – identifies benefits, tracks benefits and realizes benefits spanning the project lifecycle as costs, requirements, direction and benefits all change to a greater or lesser extent as the project progresses

- **Stakeholder Engagement and Communication** – identifies, classifies, aligns, engages, and effectively communicates to stakeholders

- **Culture Transformation** – aligns an organization’s culture to support the desired end state

- **Program Strategy & Management** – sets the change strategy and manages the implementation

- **Program Leadership & Governance** – builds and sustains support among executive leaders and stakeholders and provides guidance and governance mechanisms to promote program success

- **Skills & Knowledge** - provides a framework to assess and implement required skills and knowledge

- **Organization Design** – aligns the organization with new or existing business models and strategies to maximize effectiveness

- **Better Change** - assembles discrete activities as needed for the particular change and provides overarching enablers and modules that skilled practitioners, creatively using technology, craft to fit the circumstances