

PROGRAMME: MASTER OF BUSINESS ADMINISTRATION

MODULE: Strategic and Change Management



10 Principles of Leading Change Management

These time-honoured tools and techniques can help companies transform quickly.

by [DeAnne Aguirre](#) and [Micah Alpern](#)



Since the mid-2000s, organisational change management and transformation have become permanent features of the business landscape. Vast new markets and labour pools have opened up, innovative technologies have put once-powerful business models on the chopping block, and capital flows and investor demand have become less predictable. To meet these challenges, firms have become more sophisticated in the best practices for organisational change management. They are far more sensitive to and more keenly aware of the role that culture plays. They've also had to get much better on their follow-through.

Yet according to a 2013 survey (Katzenbach Centre) of global senior executives on culture and change management, the success rate of major change initiatives is only 54 percent. This is far too low. The costs are high when change efforts go wrong—not only financially but in confusion, lost opportunity, wasted resources, and diminished morale. When employees who have endured real upheaval and put in significant extra hours for an initiative that was announced with great fanfare see it simply fizzle out, cynicism sets in.

Our experience with organisational change management suggests that there are three major hurdles to overcome. The first—no surprise—is “change fatigue,” the exhaustion that sets in

when people feel pressured to make too many transitions at once. A full 65 percent of respondents to the Katzenbach Centre survey reported this as a problem. The change initiatives they suffered through may have been poorly thought through, rolled out too fast, or put in place without sufficient preparation. Fatigue is a familiar problem in organisational change management, especially when splashy “whole new day” initiatives are driven from the top.

Change initiatives also flounder, according to 48 percent of the respondents, because companies lack the skills to ensure that change can be sustained over time. Leaders might set out eagerly to raise product quality, but when production schedules slow and the pipeline starts looking sparse, they lose heart. Lacking an effective way to deal with production line problems, they decide their targets were unrealistic, they blame the production technology, or they accuse their frontline people of not being up to the task. A much better way to solve the problem is to invest in operational improvements, such as process design and training, to instil new practical approaches and give people the knowledge and cultural support they need.

The third major obstacle is that transformation efforts are typically decided upon, planned, and implemented in the C-suite, with little input from those at lower levels. This filters out information that could be helpful in designing the initiative while also limiting opportunities to get frontline ownership of the change. In the Katzenbach Centre survey, 44 percent of participants reported not understanding the changes they were expected to make, and 38 percent said they didn't agree with the changes.

The following list of 10 guiding principles for change can help executives navigate the treacherous shoals of transformation in a systematic way.

1. Lead with the culture. Lou Gerstner, who as chief executive of IBM led one of the most successful business transformations in history, said the most important lesson he learned from the experience was that “culture is everything.” Businesspeople today understand this. In the Katzenbach Centre survey, 84 percent said that the organisation's culture was critical to the success of change management, and 64 percent saw it as more critical than strategy or operating model. Yet change leaders often fail to address culture—in terms of either overcoming cultural resistance or making the most of cultural support. Among respondents whose companies were unable to sustain change over time, a startling 76 percent reported

that executives failed to take account of the existing culture when designing the transformation effort.

Why would this be true, given the widespread recognition of culture's importance? Perhaps it's because change management designers view their company's culture as the legacy of a past from which they want to move on. Or they get so focused on structural details—reporting lines, decision rights, and formal processes—that they forget that human beings with strong emotional connections to the culture will be enacting these changes. Or they assume that culture, because it is “soft” and informal, will be malleable enough to adapt without requiring explicit attention.

Yet skilled change managers, conscious of organisational change management best practices, always make the most of their company's existing culture. Instead of trying to change the culture itself, they draw emotional energy from it. They tap into the way people already think, behave, work, and feel to provide a boost to the change initiative. To use this emotional energy, leaders must look for the elements of the culture that are aligned to the change, bring them to the foreground, and attract the attention of the people who will be affected by the change.

In two healthcare companies undergoing a merger, culture led the post-deal integration. Using a culture-related diagnostic questionnaire, the change management team asked people to describe each company's operating style—and mapped the responses from the two legacy companies to get a sense of their combined strengths and challenges. It quickly became clear that where one company had a culture attuned to bottom-line results, the other tended to focus on process. Optimally, the new company would need to skillfully use processes to deliver clear results. By first taking the time to recognize and acknowledge each company's underlying culture, leaders of the merged firm harnessed deeply ingrained strengths to energize the change and avoided the incoherence that could have resulted from a less intentional and sensitive redesign.

2. Start at the top. Although it's important to engage employees at every level early on, all successful change management initiatives start at the top, with a committed and well-aligned group of executives strongly supported by the CEO. This alignment can't be taken for granted. Rather, work must be done in advance to ensure that everyone agrees about the case for the change and the particulars for implementing it.

A clinical research firm was committed to tripling its size over the next decade to achieve a more competitive position. Because the company was still pretty much operating as a startup after 25 years, this required a far-reaching organisational redesign. Before starting the design phase, finance leaders gathered at an off-site meeting to begin a rigorous exercise in alignment. The exercise included a leadership team effectiveness survey, which revealed that though these leaders called themselves a team, they didn't really see themselves that way. Instead, they mostly operated as lone rangers, in characteristic startup style.

Each of the executives in the group made a thoughtful individual presentation about the case for change. Most of them agreed on the general direction the company needed to take to achieve rapid growth. But their descriptions of how to move in that direction—for example, what the first concrete steps should be—were all over the map. They were then tasked to work together to develop a case for change that every one of them could support.

To hammer out these agreements, these top executives had to listen closely to their colleagues and weigh conflicting points of view. The exercise was demanding, but they began to coalesce around a coherent vision for what the company should look like in 10 years. Most importantly, the experience of working together so intensely led the executives, for once, to act as a collaborative and committed team. By the end of the off-site meeting, they found that they were all using the same language to describe what the company needed to do. As one participant noted, the experience had transformed *him*, which in turn gave him confidence that together they could cascade the plan to other groups at other levels of the hierarchy.

3. Involve every layer. Strategic planners often fail to take into account the extent to which midlevel and frontline people can make or break a change initiative. The path of rolling out change is immeasurably smoother if these people are tapped early for input on issues that will affect their jobs. Frontline people tend to be rich repositories of knowledge about where potential glitches may occur, what technical and logistical issues need to be addressed, and how customers may react to changes. In addition, their full-hearted engagement can smooth the way for complex change initiatives, whereas their resistance will make implementation an ongoing challenge.

Planners who resist early engagement at multiple levels of the hierarchy often do so because they believe that the process will be more efficient if fewer people are involved in planning. But although it may take longer in the beginning, ensuring broad involvement

saves untold headaches later on. Not only does more information surface, but people are more invested when they've had a hand in developing a plan. One common aphorism in change management is "you have to go slow to go fast."

IBM recognised the need for such an approach in 2003, when rolling out a new initiative on culture. The leadership team had met intensively to develop clear definitions of the cultural traits the organisation would require going forward. They then declared a "values jam," a website set up for a 72-hour period, where anyone in the company could post comments, responses, suggestions, and concerns. Leaders then made key changes based on the feedback they received and communicated clearly how the input they'd received was being incorporated.

4. Make the rational and emotional case together. Leaders will often make the case for major change on the sole basis of strategic business objectives such as "we will enter new markets" or "we will grow 20 percent a year for the next three years." Such objectives are fine as far as they go, but they rarely reach people emotionally in a way that ensures genuine commitment to the cause. Human beings respond to calls to action that engage their hearts as well as their minds, making them feel as if they're part of something consequential.

Hewlett-Packard CEO Meg Whitman and her senior executive team appear to be following this principle in their transformation efforts. They have sought to activate a strong personal connection between HP and its employees, by drawing directly on the company's cultural history and traditions. For example, through symbolic gestures such as tearing down the fences that surrounded the executive parking lot and moving top executives into cubicles, the company has reinforced the original "HP Way" ethic in which the intrinsic quality of the work is as important as one's position in the hierarchy. This strategy contrasts with that of Whitman's immediate predecessors, who had declared it was time for the company to abandon its core identity. In any organisation facing a challenging environment, the emotional connection fostered by moves like these is likely to make a major difference.

5. Act your way into new thinking. Many change initiatives seem to assume that people will begin to shift their behaviors once formal elements like directives and incentives have been put in place. People who work together on cross-functional teams will start collaborating because the lines on the chart show they are supposed to do so. Managers will

become clear communicators because they have a mandate to deliver a message about the new strategy.

Yet lines on a chart and bold statements of intent have only so much impact. Far more critical to the success of any change initiative is ensuring that people's daily behaviors reflect the imperative of change. Start by defining a critical few behaviors that will be essential to the success of the initiative. Then conduct everyday business with those behaviors front and center. Senior leaders must visibly model these new behaviors themselves, right from the start, because employees will believe real change is occurring only when they see it happening at the top of the company.

Leaders of a major global manufacturer seeking to escape bankruptcy believed the company had lost touch with customers because of entrenched problems in its culture. Managers operated in an overly layered system without much accountability. They were ponderous, risk averse, insular, and prone to spending time on approvals and office politics. Instead of implementing a dramatic, full-scale turnaround, the change team demanded that leaders adopt three specific behaviors:

- Make major, visible decisions in days instead of weeks or months.
- Spend time with people at the frontline leadership (supervisory) level, asking for their input and engaging them in frank discussions.
- Ensure the middle and lower ranks have direct contact with real-life customers.

Because these behavioural shifts were both limited and clearly spelled out, they were implemented quickly. Leaders were asked to act "as if" the organisation did things this way, rather than trying to think their way out of old ways of being. These behaviours accelerated the company's passage out of bankruptcy, which occurred ahead of schedule.

6. Engage, engage, engage. Leaders often make the mistake of imagining that if they convey a strong message of change at the start of an initiative, people will understand what to do. Nothing could be further from the truth. Powerful and sustained change requires constant communication, not only throughout the rollout but after the major elements of the plan are in place. The more kinds of communication employed, the more effective they are, which is why HP's tearing down that fence was so important: Symbols reinforce the impact of words.

A global publisher undertook a major initiative to become more digital, putting in place far-reaching structural changes. The top leaders decided to engage people throughout the company at a variety of levels. First, they convened a series of town halls where large groups were given the news and invited to ask how the company-wide shift would affect them. Executives followed this with function-wide meetings where people could learn, for example, about the prospective impact on finance or human resources. The company also offered a version of fireside conversations they called “PIE chats” (PIE stood for performance, innovation, and execution). Finally, an internal trade fair was planned to showcase what various teams were doing to make the company more digital. This multifaceted and ongoing communications effort kept the message alive, giving every employee an understanding of the change and a stake in the outcome.

7. Lead outside the lines. Change has the best chance of cascading through an organisation when everyone with authority and influence is involved. In addition to those who hold formal positions of power—the company’s recognized leaders—this group includes people whose power is more informal and is related to their expertise, to the breadth of their network, or to personal qualities that engender trust.

We call these informal leaders “special forces.” They can be found throughout any organisation. They might include a well-respected field supervisor, an innovative project manager, or a receptionist who’s been at the firm for 25 years. Companies that succeed at implementing major change identify these people early and find ways to involve them as participants and guides. There are three distinct kinds of informal leaders:

- **Pride builders** are great at motivating others and inspiring them to take pride in their work. People influenced by them feel good about working for the organisation and have a desire to go above and beyond.
- **Trusted nodes** are go-to people. They are repositories of the organisation’s culture. They are the ones approached by people who want to know what’s really happening in the organisation—for example, when they’re trying to figure out if those leading a change initiative are actually going to follow through.
- **Change or culture ambassadors** know, as if by instinct, how to *live* the change the organisation is making. They serve as both exemplars and communicators, spreading the word about why change is important.

Informal leaders must be identified before they can be engaged. The best way to do this in a large organisation is to run a network analysis. By mapping out connections and seeing who people talk to, you can complement the formal org chart with one that enables you to lead outside the lines.

8. Leverage formal solutions. Persuading people to change their behaviour won't suffice for transformation unless formal elements—such as structure, reward systems, ways of operating, training, and development—are redesigned to support them. Many companies fall short in this area.

A law firm tried to professionalise its clubby culture, which clients perceived as inwardly focused. The lead partner group recognised that associates needed more formal mentoring and development. The existing system, in which partners who headed the practice groups conducted all the training, had led to uneven results. So the transformation team created a development committee and put out a call for experienced staff members willing to work with new hires. The team was delighted when a strong group of contributors volunteered and put in the time required to design a robust development program and start engaging associates.

After a strong start, however, the effort faltered; people who had been enthusiastic fell away. Debriefing those involved, leadership identified the problem: No formal mechanisms were in place to support or reward this participation. Calculations for bonuses left development work out of the equation, and although senior partners paid lip service to the “wonderful work” the development committee was doing, they seemed to regard its members as internal volunteers. Once they recognized this problem, the firm's leaders enacted substantial policy changes, starting with a mechanism the compensation committee could use to take into account the contributions made by those who trained others.

9. Leverage informal solutions. Even when the formal elements needed for change are present, the established culture can undermine them if people revert to long-held but unconscious ways of behaving. This is why formal and informal solutions must work together.

A top-tier technology company was trying to inculcate a more customer-centric mind-set after a decade focused on relentlessly cutting costs. Survey diagnostics revealed significant customer dissatisfaction with the quality of the company's products, which were too often released into the marketplace with significant flaws. A set of new procedures was put in

place along with metrics to identify gaps in product development, process quality controls, and cross-teaming at the front lines.

But one of the most powerful solutions was purely cultural and informal—changing the informal motto that governed frontline decision making. The slogan of the cost-cutting era, “Ship by any means,” was replaced by a new aphorism: “If it’s not right, don’t ship it.” Pride builders were enlisted to instill the message that everyone needed to prevent flawed products from going out, even if that meant pulling products apart to check them or slowing down production. By asking people at every level to be responsible for quality—and by celebrating and rewarding improvements—change leaders were able to create an ethic of ownership in the product and vanquish the old ethic: “We just do what we’re told.”

10. Assess and adapt. The Katzenbach Centre survey revealed that many organisations involved in transformation efforts fail to measure their success before moving on. Leaders are so eager to claim victory that they don’t take the time to find out what’s working and what’s not, and to adjust their next steps accordingly. This failure to follow through results in inconsistency and deprives the organisation of needed information about how to support the process of change throughout its life cycle.

A global consumer products company had made a far-ranging commitment to lowering costs. Leaders designed a robust change template and implemented it widely; the metrics indicated that they were succeeding. But the company wanted to be sure that people understood the ongoing nature of this commitment. So they rolled out a series of pulse surveys and convened focus groups to describe the case for change and the new behaviours required of everyone.

The first round of surveys found that only 60 percent of respondents understood the message. The company then called on informal leaders to play a bigger role in evangelising for the initiative. They continued to run these surveys and focus groups to measure the result until a more sizable majority of the staff had shown they were prepared.

These 10 guiding principles offer a powerful template for leaders committed to effecting sustained transformational change. The work required can be arduous and exacting. But the need for major change initiatives is only going to become more urgent. It behoves us all to get it right.

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