

The Change Trifecta

Measuring ROI to maximize
change effectiveness

PwC Advisory Services



Introduction

You are a leader guiding your organization through large-scale transformation. No doubt you will want the most direct path to measure your return on investment (ROI) as you progress through the transformation. Even more, you want the most effective means to maximize that ROI. We know that change management is a factor that helps you maximize that ROI. The challenge is to determine how much change management contributes to that transformation ROI.

Every organization faces this challenge as it seeks to understand and rationalize the cost of managing people through the process of adopting and embracing change, and making that change “stick.” Spending on change management is a critical element of the business case and the return on investment. There is a considerable need to identify the right level of spend, especially on change-related consulting services. The challenge becomes even more complicated when you add in variables such as scale and complexity. And because all of this seems challenging and complicated, ROI for change is rarely captured or measured.

Uncovering common approaches to measuring ROI of your change management investment

Recognizing this dilemma, PwC conducted an extensive review of recent business research—published within the last five years—to see if there might be a predicting formula to prove return on investment for change. While the original goal was ambitious, the literature surfaced four distinct approaches to assessing ROI for change. Interestingly, each method tied directly to an organization's approach to change management. These four methods are:

1. Measuring the relative contribution that change management provides to a project's overall ROI.¹

In this approach, change management is one of several enablers that influence positive benefits and value in the course of a project, program or strategic initiative. The managed change framework most often applied in this approach is comprised of a set

of key change factors that have historically tested to be most effective regardless of initiative or industry. This framework is often based on best practice and not unique to the organization or project. However, it is accepted in this approach that managed change supports the realization of program objectives which, in turn, contributes to a project's ROI.

2. Conducting an in-depth retrospective analysis of similar cases with like objectives to identify common investment criteria and parameters.²

Other organizations have made decisions and realized benefits that your organization can leverage when investing in a similar change initiative. The testimony of others will shape your understanding of objectives, variables and ROI. Organizations

that adopt this approach are wise to consider the organization's experience and competence in managing change.

3. Maintaining a portfolio of change programs and measurement systems that is customized to the organization.³

The keys to success for this approach are ongoing measurement and management of each element of a change portfolio. This is a data intensive approach. However, it goes hand in hand with growing and building an internal change capability which ultimately drives greater ROI. This approach empowers employees with a breadth of tools and resources to manage change, and a “dashboard” of measures to monitor its success. It effectively develops an organization of active agents of change by quickly growing internal expertise in change and breaking down resistance to change.

4. Measuring organizational readiness or agility for change.⁴

This approach is adopted by agile organizations that accept the premise that change is an ongoing and never-ending feature of organizational life and deserves significant investment. Agile organizations are competitively advantaged and better at adapting to and embracing change. In the agile organization, change is not something to be managed, nor is it a program or strategic initiative. Instead, the organization becomes change ready, so that every effort and action benefits from the collective change-readiness of its employees.

1 Examples of this approach include: Making Change Work. White Paper. IBM, 2008; Helping Employees Embrace Change, LaClair, J. & Rao, R. (McKinsey Quarterly); 11/2002; Results DeliverySM: Busting three common myths of change management. Litre, P. Bird, A. Carey, G. Meehan, P. (Bain & Company, Bain Brief). 10/29/2010

2 Examples of this approach include: Measuring the Total Economic Impact of Google Apps. Erickson, J. & van Metre, E. (Forrester); 11/2010; Achieving ROI from Enterprise Communications: A Revolutionary Approach. Thunderhead. (Computer Weekly.com); 2011; The BT Scorecard—Essential Metrics for BT Transformation. Symons, C. Kark, K. Cahill, M. (Forrester); 5/24/2011

3 Examples of this approach include: Performance Dashboards: Measuring, Monitoring, and Managing Your Business, Eckerson, W. (Wiley); 2010; Justifying CRM projects in a business-to-business context: The potential of the Benefits Dependency Network. Wilson, H., Clark, M., Smith, B. (Industrial Marketing Management). 2011; The New HR Analytics: Predicting the Economic Value of Your Company's Human Capital Investments. Fitz-enz, J. (AMACOM); 2010; Making WFM Work: Best Practices and ROI Model. DMG Consulting. 2011; (Calabrio); Maximizing your return on people. Bassi, L. and McMurrer, D. (Harvard Business Review); 2007

4 Examples of this approach include: Developing a change-ready organization: Building internal capacity for change. Contemporary trends in organization development and change. 2011; How to build an agile foundation for change. (PwC Connected Thinking); 2008; Organizational health: The ultimate competitive advantage. Keller, S. Price, C. (McKinsey Quarterly). 6/2011; Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage. Keller, S. Price, C. (McKinsey). John Wiley & Sons; 2011.

When quality, maturity, and agility work together

There is no single approach or framework to measure the ROI for change. However, there are commonalities inherent in these four approaches. In the first two scenarios, investment in change is viewed as a cost to be justified. In the second two, change is viewed as a potential benefit to be realized. Either way, the research is clear; change is a multiplier for realizing financial benefits, value or return. But the investment in change also produces unanticipated benefits that extend beyond the immediate initiative and prepare the organization for future success.

This research combined with our extensive experience in delivering value through change management programs suggests that successful transformation takes place in an organization that is characterized by:

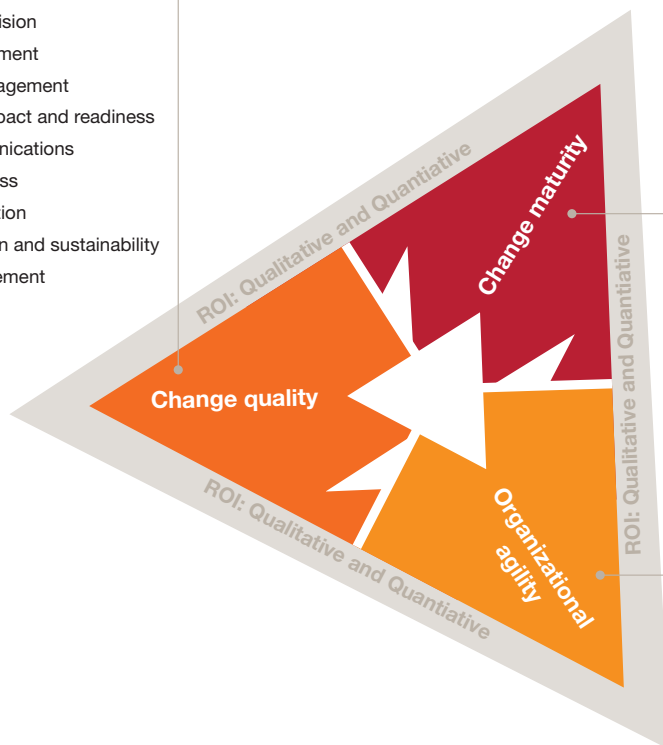
- High-quality change management practices
- A mature program management framework
- An agile organization

These three characteristics are often viewed independent of each other, as evidenced in the four scenarios previously described. Each characteristic contributes its own value. But we suggest that change management produces the greatest ROI when all three coexist and are at work concurrently. Collectively, they create strategic advantage—not only for the current change initiative—but also for future efforts.

Figure 1: The Change Trifecta

The right techniques

- Transformation vision
- Leadership alignment
- Stakeholder engagement
- Clear change impact and readiness
- Effective communications
- Cultural awareness
- Workforce transition
- Training, adoption and sustainability
- Program management



The right experience

- Program scope
- Internal change experts
- Relevant, broad change experience
- Engaged sponsorship

The right environment

- Agile leadership
- Engaged workforce
- Commitment to continuous improvement

Figure 2: Building blocks of high quality change

We call this synergy the Change Trifecta. When properly executed, your investment in change transforms from a mere cost to an enduring benefit. (See Figure 1)

Quality, maturity, and agility contribute to robust ROI while building enduring change capability for future initiatives. Here's a closer look at each characteristic:

Quality

The quality of change management is determined by the breadth and depth to which an organization addresses any large scale transformation. Despite near universal recognition that change is inevitable and often indispensable, some 75% of change initiatives fail, often because the people aspect is overlooked or mismanaged.⁵ The fact that change management quality drives successful change is raised repeatedly throughout recent research literature.⁶ McKinsey's 2002 study of 40 large-scale industrial change projects found that the ROI of such projects was 143% when paired with an "excellent" change management program while only 35% when there was either no program at all or a "poor" change program.⁷ Well managed change, in the context of effective program management, supports realization of program objectives, which in turn, indirectly maximizes ROI.

Our change framework—ten interdependent building blocks that touch every part of an organization—is designed to enable an organization and its people to effect the right behavioral changes and to achieve the targeted business benefits. (See Figure 2).



“Leaders must sponsor and champion the change effort and publicly demonstrate their commitment to it. They should communicate a clear and compelling vision and business case through a strong communications plan.”

“People want the chance to have a stake in what’s good for the organization and they want the chance to play an active role in helping to achieve that goal: Who are we? What are we about? Why are we doing this?”

“That leads to engagement—why we’re doing what we’re doing and how they’re part of the journey. This clear case for change forms the platform for making change stick.”

— Toni Cusumano, PwC change management leader on successful change management; www.pwc.com/us/peopleandchange

⁵ Source: PwC's Human Change Management: *Herding Cats*

⁶ A Q-sort study of benefits realisation in IT projects. International Journal of Business Information Systems. Karlsen, J.T. 2008; Change management practices: Impact on perceived change results. Raineri, A. (Journal of Business Research); 2011; Keeping Change on Track, Bevan, R. (Journal for Quality & Participation) Apr 2011 The Impact of Change Process and Context on Change Reactions and Turnover During a Merger (Journal of Management) September 2010 36: 1309-1338, first published on July 28, 2009

⁷ *Helping Employees Embrace Change*. LaClair, J. & Rao, R. (McKinsey Quarterly); 11/2002

Cascading change management benefits

In combination with our robust project and program management methodology, this change framework maximizes the ROI of the investment.

A high-quality change program touches on each element of this framework. It starts when leaders articulate a vision for what will result from the change. This vision is reinforced when leaders align and, together with key stakeholders, commit to communicating about the potential effects of the change, emphasizing its value. Change readiness is assessed and gaps—such as behavioral gaps—are identified and addressed. A strategy is developed to bridge these gaps and move the organization's culture forward. To ensure that employees embrace the change, the organization provides timely training and support as they transition into revised roles or adjust to new systems and processes. Sustainability—the ability to create long term success through change—is achieved by addressing issues such as progress tracking, accountability, feedback and project management competency.

An organization's change management capability evolves over time. Most organizations start by adopting concrete components—like training and communications—to engage and align staff. But some of the so-called “soft components,” like leadership alignment, stakeholder engagement, and cultural change, rely on the motivations and actions of people and are, therefore, more difficult to measure. Published studies confirm that the “soft components” of change are frequently identified as key drivers for successful change.

Leaders who become seasoned change experts also have the opportunity to create a visual storyline of how the benefits will be realized across multiple initiatives. These “benefits maps” or “performance dashboards” display the expected impact of change and provide a rich flow of data to measure and track progress for realizing ROI gains.

Access to quality data can help to build internal change capability and provide the opportunity to all stakeholders to scale the learning curve quickly. This enables the change program to be more effective and empowers employees to become active, savvy agents of change.

Organizations can build sustained change competence by developing measurement systems that model and track intended benefits throughout the program's lifecycle. This allows for mapping the intended drivers, mediators, and outputs for a planned change effort on multiple program dashboards.

Internal expertise is built around the broad range of measures to be identified, tracked, quantified, and managed over time. The organization should communicate the importance of measurement as a means of realizing benefits.

Organizations should record the anticipated benefits from a change program and map the expected relationships between various drivers and mediators of success. The model's metrics can then be used to assess program success and to manage program relationships. The end result can have an exponential impact. The organization's own experience enables it to define the terms of a mutual, collective benefit.

Maturity

Change can be delivered with greater impact by experienced teams in organizations that have built and evolved change capability through past efforts. The knowledge gained through experiencing organization transformation will not, itself, prepare an organization for every form of future change. But research indicates that organizations that have experienced managed change and instituted the lessons learned from those efforts, have a better chance to realize richer ROI.

Change maturity is achieved through a combination of these four factors:

- **Internal change experts:** Guidance from skilled, experienced resources builds change maturity, largely because capable resources are better prepared to anticipate and overcome obstacles as a program unfolds. Those with rich knowledge of tactics for breaking down change resistance can influence long-term success. A dedicated, functional internal change capability is a hallmark of maturity. Organizations can rely upon internal or external specialists, or some combination of both.

- **Relevant, broad change experience:** The larger the base of experience—within a formal network of change agents or a network of managers who have successfully led change—the more likely it is that an organization will succeed in its change efforts. Ideally, those who act as change agents understand the critical steps in a change process, the importance of acting as change champions, and the need to involve stakeholders and to keep them engaged.
- **Program scope:** Programs that include the full range of change management capabilities—the building blocks—have higher success rates than those with limited capabilities. In addition to being present, cultivated, and managed, the building blocks must be tightly interwoven. No one component should stand out—singularly fueling success or mitigating failure.
- **Engaged sponsors:** Organizations with sponsors that are actively engaged with the program team, stakeholders and business leaders experience lasting results from change management processes. Organizations can more effectively cut through change barriers with sponsors, ultimately realizing greater ROI.

Agility

A strong foundation in change management helps cultivate an agile organization. An agile organization, in turn, generates value above and beyond any single project or program. At the start, an agile organization invests in change, viewing the investment merely as a cost. But over time, the investment is transformed—through deep attention to building change capability—into an organizational competency that delivers significant return over time.

A 2010 global survey found that 50 percent of 674 executives surveyed “do not believe their culture is adaptive enough to respond positively to change⁸.” An agile organization is better able to adapt to threats to its health as well as better able to take advantage of opportunities that present themselves. In other words, an agile organization is predisposed to a successful future.

Agility is less a matter of changing one’s direction, but being open to different ways of achieving the direction.⁹ Agility fosters willingness to adapt quickly to achieve transformation objectives. Adaptability requires flexibility, a bias for taking action to correct a course of action, and openness to self-assessment.

From a change management perspective, an agile organization is characterized by:

- **Agile leadership:** Organizational agility starts at the top. Leaders direct and manage a culture that’s willing to adapt. Leaders are critical change agents; they influence employee behaviors. Those that lead agile organizations tend to be committed to the change at hand and open to the path to get there.
- **Engaged workers:** Workforce commitment is essential. Employees should have a clear understanding of the objectives for change and the required behaviors that will make change happen. Clarity of purpose and commitment to achieving goals are inherent within an agile organization.
- **Continuous improvement:** Learning lessons and listening to feedback are critical to course correction. Organizations that foster a culture of continuous improvement are likely to be more adaptable and to quickly embrace change.

This kind of agility promotes enduring economic value. Change management can be a lever for strategic business transformation; one that generates untapped value. An agile organization that effectively applies change principles can become a force in an economy that increasingly relies on the power of its people to achieve success.

⁸ *The Change capable Organization*, Gossage, G., Silverstone, Y. and Leach, A. (Accenture; Outlook). 10/2010

⁹ “Strategic Speed—Mobilize People, Accelerate Execution,” Davis J.R., Frechette Jr. H.M., Boswell, E.H., Harvard Business Press, 2010



Serving up change: The Change Trifecta in action

Now that we've discussed the key components of the Change Trifecta, let's look in on a real-life change success story:

The challenge

A leading global foodservice retailer intended to replace its outdated US financial systems with a new business finance platform.¹⁰ The outdated and highly-customized financial systems were becoming difficult to maintain. The new platform was, first, to be implemented in the United States, and later, rolled out globally. The retailer needed to understand the magnitude of the relative change impact and to develop a visible, strategic approach to its change management program.

Guided by sponsors, the retailer prepared a business case to obtain funding. Financial ROI was not a significant component of the business case. Instead, it focused on intermediating variables known to drive ROI, such as user adoption rates and impact of the adoption on overall productivity. Approximately 800 core (transaction account) users and 4,000 extended (reporting and expense system) users would be engaged during the course of the project.

The organization turned to PwC for guidance and expertise in project, functional, technical, and change management who could collaborate through all phases of the new platform implementation (strategy, design, build, implement, and operate). We were engaged to assist in the design, build, and implement updated financial modules for the US market, helping the retailer to integrate and standardize its financial systems and better manage and control data. The total spend for external change management services was approximately 10% to 15% of the overall project spend—which varied depending on the project stage.

Our solution

Quality: Our change management program focused on helping the retailer understand the change impact of the implementation while providing viable solutions based on the solid building blocks of change. We started by conducting a gap analysis of the change management approach for previously implemented modules that were led by the internal change team. Our findings identified change barriers in leadership alignment, communication, training, and workforce impact.

These findings helped guide the installment of the appropriate building blocks of change, including change readiness, leadership alignment, stakeholder management, communications, training, and workforce impact. The assessment also identified implementation risks and implications specific to each business area.

“PwC served as our strategic change partner during a large systems implementation. They helped build and execute a comprehensive change approach that included leadership alignment, stakeholder engagement, communications, and training activities. As a result, we were able to successfully implement a global financial platform within a very aggressive timeline through deep support from our leaders, broad business engagement, and thorough preparation of our system users.”

— Retailer Change Management Lead

Maturity: To bolster the community of change agents, we collaborated with the client to organize a change champion group. We provided definition and clarification of change champion roles. In addition we guided aspects of change management for the champions to approve and help execute. More than 100 finance and accounting employees across the organization, along with more than 100 administrative staff (involved with the expense system implementation) became change champions.

With input from PwC and the project management office, the retailer identified a project sponsor, and formed a steering committee and governance board. The retailer utilized its internal project management function, but leveraged PwC approaches, tools, and methods¹¹ to help guide the project management. This approach helped the retailer bring influential leaders and partners to the table.

Agility: Although the retailer had experienced significant change efforts in the past, the new platform implementation was a particularly large and complicated change project. While the retailer already developed a

core competence in building leadership alignment, PwC helped strengthen the client’s agility with tactics for engaging key stakeholders and a leadership action plan to align leaders.

The benefits

The retailer realized these benefits:

- Successful, rapid adoption of an industry standard, reliable financial platform
- Assurance of compliance (Sarbanes-Oxley)
- Common tools and processes for affected employees
- Improved controls and reporting
- Improved data management, consolidation, and reconciliation
- Increased user adoption through a change management program
- Suite of training and knowledge management tools that provide ongoing learning
- Network of change champions embedded in business areas to support the change and assist coworkers with new processes and system

¹⁰ Oracle Projects, Fixed Assets, Accounts Payable, Accounts Receivable, General Ledger, iExpense, and iReceivables

¹¹ PwC tools included issue log, risk log, status report, project approach document, project repository (Sharepoint), organizational structure, decision escalation process, change request process, among others.

Ready for change?

An investment in change can be seen as a cost to be justified or a benefit to be realized. Your perspective can sweeten—or taint—every decision you make about investing in change. Effective change can be a multiplier, supporting the realization of benefits and producing unanticipated benefits that cascade throughout the organization while positioning the organization for future success.

But what if your organization lacks one or more success factors for change? Is it still worth the investment? How much ground can an organization gain through a high-quality change program if its project management competencies are underdeveloped or its organization is nowhere near nimble?

Change programs that have succeeded in one part of the organization can be tapped for lessons learned; resources assigned to one successful change initiative can be consulted for support on upcoming efforts.

The good news is that most organizations demonstrate at least one area of strength, which can provide the foundation for the change building blocks and effective, lasting change.

Young startups that lack mature change programs are typically led by entrepreneurs who welcome new challenges and enjoy the support of highly engaged workers. Less flexible, more mature organizations often cultivate highly developed project management competencies that have served them well over time and can be employed in the service of change management initiatives. Organizations that lack an internal change capability can turn to external providers for support in their early efforts to establish the building blocks they'll need to proceed and succeed.

Many organizations do not understand how their existing competencies and previous experience can be re-tooled to support an overall change program. Change programs that have succeeded in one part of the organization can be tapped for lessons learned; resources assigned to one successful change initiative can be consulted for support on upcoming efforts. When change is viewed as a capability to be developed—not as a cost to be managed—“change capital” can deliver demonstrable ROI and rewarding, sustainable change that will stick.

***To have a deeper conversation
about change at your
organization, please contact:***

Ed Boswell

Principal
US Advisory Services,
People and Change Leader
+1 (617) 530 7504
ed.boswell@us.pwc.com

Toni Cusumano

Principal
Advisory Services, People and Change
US Change Management Leader
+ 1 (415) 307 7376
antonia.m.cusumano@us.pwc.com

Jeff Dufty

Director
+1 (312) 298 2127
jeff.dufty@us.pwc.com

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