Human Change Management: Herding Cats

Everyone knows the drill: Change is the only constant. Align the trinity of people, processes and technology to strategy. But everyone also knows human behavior is complex. Organizations don't adapt to change; their people do. But this idiosyncratic human element is overlooked again and again in change projects.

Organizations are feeling the heat of public criticism. Fuelled by a growing cynicism, many long-standing institutions have become targets for scrutiny and change. Regulators are cracking down on questionable industry-wide business practices in troubled sectors. Many companies are restructuring their operations to cope with the new, lean economy. The imperative to change the way organizations do business has never been greater.

The imperative may be great, but the success rate of change programs is not so great. About 75% of all organizational change programs fail, largely because employees feel left out of the process and end up lacking the motivation, skills and knowledge to adopt new systems and procedures. Yet the recipe for successful change management is well known and deceptively simple: align the trinity of people, processes and technology with leadership and organizational strategy. The devil, as always, is in the detail: how to implement a change program successfully when dealing with the vagaries of human behavior.

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Unsteady State

The traditional approach to change management relies on a conceptual model that is now obsolete: unfreeze-change-refreeze. An organization 'unfreezes' in order to adapt to change, makes the change, and then 'refreezes' again to resume its business course in steady-state mode. In this model, change is treated as an aberration, a discrete event that temporarily disturbs an organization in a generally stable business environment. But it is evident in today's competitive and volatile economic context that change is the norm, while steady-state is fleeting and illusory. The implication of the 'change is the only constant' mantra is that the most successful organizations, in the long run, are those that learn to continuously adapt to change. Says Richard Foster, author of *Creative Destruction*: "We [found] that new companies coming into existing industries … could outperform their industries. But it never lasts. If you're trying to copy a company, don't. By the time you get there to copy it, you may be copying what accounts for its demise rather than its success."

Organizations don't adapt to change; their people do. Implementing the right technology infrastructure and streamlining the business processes that flow through it are essential ingredients for effective organizational change. These components are well studied, mechanized and reasonably standardized. Methodologies, measurements and best-practice guidelines are available to optimize their implementation. But the human element that needs to make use of these systems in order to supply the leadership, judgment, flexibility and innovation needed to achieve business success is the most critical ingredient – and least understood. Organizational thinking and action have been influenced by metaphors that frame business operations in mechanistic terms. While the machine metaphor has brought numerous benefits to organizations over the years, its utility in complex and dynamic human systems is limited.

The problems with Enterprise Resource Planning (ERP) system implementations illustrate the consequences of underestimating the human element. Many companies implemented ERPs during the nineties, attracted by the promise of seamless integration of critical information flows – financial and accounting, human resource, operations, supply chain and customer information. A successful ERP can be the backbone of business intelligence for an organization, giving management the unified view needed to develop the best strategies in a volatile business environment. But without proper training, incentives and leadership, a flexible, integrated system will not magically eradicate organizational silos to produce a flexible, integrated workforce. If employees don't understand how an ERP system affects workflow, they may unwittingly sabotage change efforts. For example, salespeople using a new sales-force automation process might be expected to fill out a 'lead source field' for each new client. This step doesn't help them with their customer-tracking process, and they've never had to do it before, so they skip it without realizing that the marketing department bases its productivity rates on that information. As a result, the budget for marketing people is cut because their efforts appear to be ineffective. In turn, fewer leads are fed by marketing to the sales department, which decreases revenue, which increases pressure to get sales, and so on. The vicious circle continues, reducing rather than enhancing the organization's effectiveness. Many ERP implementations are described as failures, when the reality is that they are incomplete. Managers need to understand and address the behavioral changes needed to reap the benefits of new systems and business models.

Understanding behavioral risk is particularly important in the current economic context – the costs of ignoring it can be significant. Poorly managed change eats away productivity on many fronts. It increases costs: Job stress is estimated to cost U.S. industry more than $300-billion a year in absenteeism and medical costs. It increases potentially destructive office politics: In a survey by Roffey Park Management Institute, 49% of respondents reported an increase in political behavior in the past three years, attributed to the pace of change and competition for limited opportunities. It creates feelings of resentment: In a survey by CareerBuilder, about half of layoff survivors say their responsibilities increased. If more pay or recognition doesn't accompany a new workload, employees may resort to absenteeism, negligence or even theft to 'keep things fair.' Recent shifts in corporate strategy have left many employees confused about the link between their jobs and company objectives, making recovery efforts more difficult for companies. According to a 2002 Watson Wyatt study, only 49% of respondents say they understand the steps their companies are taking to reach new business goals – a 25% drop since 2000.

Contrary to conventional wisdom, people resist change only when it makes them feel out of control – when change is foisted on them without their consent. The belief that it is human nature to resist change is the wrong starting point, because it creates an adversarial climate. Organizational change becomes a practice that must be forced on staff. Decisions are made by management behind closed doors without input from the very staff who are expected to change their behavior. In today's economic climate, most people understand that their job security depends on flexibility and adaptability. People are willing to change if they understand and accept the reasons, and have a say in the way their jobs are restructured.

Behavioral change is most likely to occur when organizations connect with human nature rather than oppose it. A growing body of evidence suggests that much of the mechanistic organizational model antagonizes human nature. At best, people comply reluctantly and, at worst, actively resist management initiatives, covertly and overtly. Either outcome amounts to wasted time and resources, because a management that is misaligned with human nature requires expensive controls to police its employees' behavior.

Global Crackdown

The financial services industry offers some illustrative examples of wide-scale change initiatives where a culture change is crucial. The industry is under intense pressure to change the way it does business globally. In the United States, the stream of regulation to re-establish public trust and counter terrorism continues. In the European Union, regulation now requires all EU-listed companies to adopt International Accounting Standards (IAS) by 2005. In Britain, a succession of pension and investment mis-selling scandals has resulted in strict consumer protection regulation by the Financial Services Authority (FSA). These requirements are forcing financial services firms to restructure their international operations on multiple fronts, concurrently: corporate governance, separation of investment banking from research, sales practices, anti-money laundering, whistle-blowing and document retention.

Regulatory watchdogs in most Western nations are adopting a tough new stance to ensure compliance with new regulation, promising to "rattle teeth fillings," as one regulator put it. According to management experts, most compliance program failures can be attributed to behavioral risk: failure by staff in the trenches to actually implement the policies and procedures mandated by management. Regulators are growing more knowledgeable than organizations themselves in defining the types of management mechanisms that need to be in place to change their employees' behavior. In statements of requirements, regulators now detail what training programs and staff competency levels are needed to ensure people are actually doing the right things on the job, in addition to the usual policies, procedures and systems that need to be in place. In the past, regulators were satisfied if policy manuals contained the appropriate information. Today, regulators ask probing questions and demand hard evidence that proves employees are really following the new rules.

For example, in Britain, the financial services industry has been reprimanded for misinforming investors about the true risks of savings products sold in the past to cover mortgages, appearing to guarantee returns that cannot now be delivered. The FSA is threatening to take salespeople off the road if they don't comply with new consumer protection rules. To ensure compliance, regulators are asking company management detailed, nuts-and-bolts questions: How do you make sure your new sales recruits understand why they must follow the new rules? How do you monitor their attendance at training sessions? How do you monitor their conduct to make sure they're actually following the rules during sales calls? The industry is also under pressure to re-examine its incentive system. Consumer watchdog groups say the 'commission bias' encourages salespeople to target customers with products that pay the highest commissions, whether or not they are most suitable. A salesman at a leading insurance company explained the motivations: "You would never reach your monthly commission target if you only sold cheap [savings products]. I would have to sell 140 stakeholder pensions to meet [my] target. Alternatively, I could sell just 14 endowment policies. We have families to feed and we need our jobs. You are forced to serve your own interests, not your customers."

Loss of credibility is a problem for the industry in many regions. Many firms are rolling out new corporate governance policies and procedures internationally to improve their risk management practices. But the traditional roll-out approach is time-consuming and inefficient. Typically, a technical writer produces a 200-page manual documenting all the policies and procedures staff need to adopt. Then management develops a communications

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program to mandate the use of the manual by staff in their daily routines. Some staff will use it, some won't. Reminders are issued and punishments for non-compliance are communicated, and the information is eventually absorbed by staff in a hit-or-miss fashion after a period of time. This process is difficult to monitor: Management needs to know if people are in compliance before, not after, a problem arises. And this approach is misguided because it starts from the wrong place. The right starting point is for management to ask some fundamental questions about the root causes of the problem: Why aren't our people doing what they're meant to be doing to manage risk properly? What incentives are needed to motivate them? What knowledge do they lack and how can we provide job-specific, meaningful information? Since good risk management requires judgment, what skills do our people need to develop to make the best decisions? Once the answers to these questions are obtained, a focused training program with the right rewards and punishments can be deployed to change on-the-job behavior with greater speed and accuracy. In the financial services sector and other highly regulated or troubled industries, companies don't have the luxury of time to tinker with the high-profile changes needed to transform their businesses.

Walk the Talk

Most companies say their most important assets are their people, but few behave as if this were true. Change projects typically devote the lion's share of their budgets to technology and processes, not staff issues. "There is still a whole notion … of focusing on tangible assets and their impact on the bottom line, rather than the intangible assets, which are people," says David Brown, a human resources consultant at Hewitt Associates. "One question we ask organizations is what they are spending on their human assets and what return are they getting, and it is not uncommon to get a blank look in return." But evidence suggests that staff management issues have a tangible effect on the bottom line. According to the 2002 Watson Wyatt study, three-year total returns to shareholders are three times higher at companies where employees understand corporate objectives and the ways in which their jobs contribute to achieving them. In a study of change management strategies by McKinsey & Company, the 11 most successful companies gained an average of 143% of the returns they expected. In these, effective change management clicked at every level: Senior and middle managers and front-line employees were all involved, responsibilities were clear, and the reasons for the change were understood throughout

the organization. Conversely, companies that had problems at all three levels captured, on average, only 35% of the value they expected.

As in any other business endeavor, strong leadership and good communications are essential. Recognizing change as a continuous process means change management is an ongoing feature of the leader's job. But a frequently overlooked component is human resources (HR) management. HR is typically regarded as an administrative area, rather than strategic, and is rarely involved in a change project's leadership. Yet offering the right incentives to link corporate goals to individual career objectives is a critical success factor. Case in point: When Greg Brenneman took over as CEO of Continental Airlines in 1994, the company was on the brink of its third bankruptcy and ranked last on nearly every measure of customer satisfaction. Brenneman and his team introduced a host of measures to track and improve company performance. They set targets for their employees and provided meaningful incentives to meet them. For example, to improve on-time arrivals and departures, employees were offered a bonus of $65 for every month that Continental was in the top five airlines for on-time performance, and $100 a month if the airline came first. Within months, Continental was near the top of all airlines in on-time performance.

What motivates people is an individual matter and needs to be addressed at this level. A recent survey by training specialists Discovery Learning shows that people react differently to change, and can be classified in four broad categories. Originators welcome dramatic change; conservers prefer gradual change; pragmatists are most enthusiastic about change that will address current problems – and resisters dislike all change. "Americans are attracted to innovation, so we think being an originator is best. But it takes all of these personality types to build a successful business," says Dr. Chris Musselwhite, the survey developer. "Conservers at Enron tried to warn of problems, but the leadership culture was apparently skewed so much toward originators charged with 'reinventing business' that conservers were viewed as resisters and were either silenced or ignored."

Similarly, the way people learn new things is also individualistic. Training programs that require speedy results need to be designed to accommodate the human need for context and relevance. The usual approach to rapid training – taking employees off-site for intensive training – is in fact misguided. Such courses tend to work against human nature, since they are typically an attempt to impart all the knowledge needed to all staff in one fell swoop, with little attempt to tailor it to a specific individual's job or learning style. Moreover, most jobs are rarely as technically demanding as the technicians who develop the course content assume. A person may need to learn 10 new things to do the job effectively, but may only encounter five in a normal work day, three over the next year, and two in exceptional circumstances, by which time the training will have been forgotten. On-the-job training coupled with self-paced e-learning and online help to deliver personalized assistance as required is in fact a more effective way of ensuring staff get training that is relevant to their jobs. When integrated with proper HR incentives and performance criteria, effective training can be a powerful driver for change.

Work-force flexibility – developing multifunctional workers who can adapt to a range of job requirements – is the centerpiece of many businesses that are trying to transform themselves to survive in the real economy. Few business leaders are daunted by the idea of changing their organization's technology or processes, but many wring their hands in despair at the prospect of changing their people's behavior. But changing human behavior is in fact more science than art. An increasing body of evidence shows that the process of organizational change has defined parameters that suggest what works and what doesn't.

The overall process may be defined, but the elements needed to motivate a specific person are variable. A one-size-fits-all solution won't work when the fundamental issue to be addressed is that people have individual needs, wants and concerns. Human behavior can be pushed and pulled in the right direction with an effective combination of incentives and disincentives – if the desire for change is created in the individual. Constant upheavals in the business environment mean that leaders must learn to master the process of implementing change, just as their employees must learn to accommodate change.

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