# ENABLING
# ORGANIZATIONAL
# CHANGE

## Through Strategic Initiatives

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# EXECUTIVE SUMMARY

Change initiatives are time consuming and costly, significantly impacting an organization's drive toward success. And nearly half of them fail. Since the reality is that change is unavoidable, organizations need to resolve how to successfully adapt and sustain change. As outlined in *Managing Change in Organizations: A Practice Guide*, PMI views change management as an essential organizational capability that cascades across and throughout portfolio, program and project management. All strategic change in organizations is delivered through programs and projects, and successful organizations lead change by managing their projects and programs effectively.[1]

Projects and programs by their very nature create change. To successfully implement organizational strategy, companies need project and program managers with the skills to drive and navigate change, while ensuring that those changes are strategically aligned to business goals. The success or failure of a change initiative is not just about initiating, planning, monitoring, executing and evaluating the project that will drive the change. It also involves preparing your organization for transformation, ensuring stakeholder buy-in, and engaging executive sponsors to champion and support the change before, during and after its implementation.

This in-depth report provides insights from a 2014 PMI study of experienced project management practitioners from around the globe. The report seeks to help organizations identify where they can create more efficient, effective change management, and develop competencies to successfully implement and sustain change. Change is inevitable and organizations that manage it effectively will pull ahead of their competition.

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# PERSPECTIVE:
## THE STRATEGIC BENEFITS OF CHANGE

*by Terry Cooke-Davies, PhD*

It isn't easy to manage projects and programs that call for a high degree of behavioral change. Of all the different types of projects, they are the ones most likely to encounter delay (especially if they are particularly large and complex)[2] and the ones least likely to deliver on those aspects of scope that relate to the behavioral change.[3]

Yet in today's business environment, with business models in a state of flux just as products and services are, it is virtually impossible for organizations to implement their chosen strategies without undertaking the kinds of strategic initiatives that inevitably require substantial behavioral and cultural changes. It is not surprising that a recent report from the Economist Intelligence Unit identifies "the organization lacks change management skills" as the most frequently cited reason for the failure of strategic initiatives.[4]

It isn't that project and program management practices don't work for strategic initiatives; rather it is that additional skills, capabilities and practices need to be integrated with standard project and program management practices. These practices will win the "hearts and minds" of those who must behave differently if the initiatives are to deliver and sustain their strategic benefits. There is widespread agreement that additional change management capabilities are needed, both among consultants supporting strategic change initiatives (such as BCG, IBM and PwC) and also among academics (such as John Kotter).

Behavior is strongly influenced by context: factors such as culture, rewards, recognition, incentives and established norms all play a significant role. This means that managing the context is crucial where change initiatives are concerned. On the other hand, behavioral change involves people doing things differently, so particular attention also needs to be paid to project work specifically aimed at stakeholder engagement, employee involvement and communication. Specialists in such fields as industrial and organizational psychology and organizational development are best involved right at the outset of the initiative, so that they can develop change management programs integrated into the initiative.

According to **Jeanne Kwong Bickford, Partner and Managing Director at The Boston Consulting Group**, a good practice at the launch of a strategic initiative is to develop a deliberate and structured change management plan to address both the hearts and minds of employees up and down the organizational hierarchy. The "minds" component includes, among other things, addressing the contextual elements that reinforce the desired behaviors (e.g., metrics, incentive compensation, organizational structure and responsibilities, management forums). The "hearts" component includes aligning leaders to speak with one voice, helping stakeholders to understand what the change means for them, and maintaining morale over time in the face of inevitable challenges in actual execution.

This latter set of activities are social processes involving the engagement of all stakeholder groups in establishing the case for change ("Why does this organization need to change?"), in crafting the "story of the change" ("What will this change mean for my team and for me, and how can I best contribute?") and in participating in planning the subsequent stages of the strategic initiative. This may well also include helping the organization to identify leading "soft" indicators that the change is having the desired impact, which will ultimately lead to the business benefits that are expected to result.

Such engagement programs, unlike many other kinds of projects, are not linear but iterative by nature, which presents its own specific challenges to project planners. They also provide two-way feedback, and are particularly valuable when conducted in the very early stages of the initiative, enabling "change champions" to emerge, and providing early indications of additional work that might be necessary to influence the hearts and minds of specific stakeholder groups.

This study provides ample evidence and new insights into the need for these "soft" factors to be integrated with effective project delivery processes to deliver the anticipated strategic benefits of change.

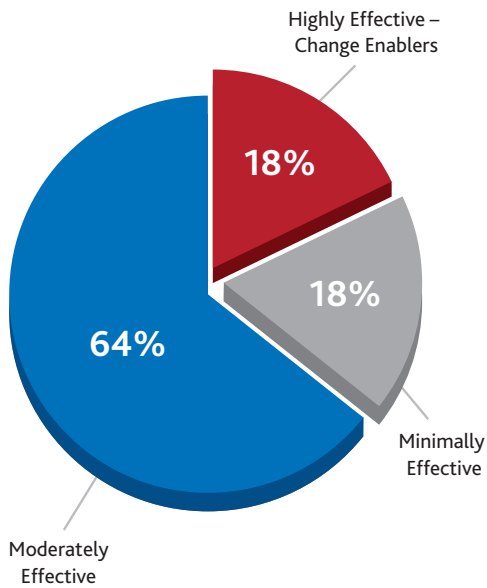**Few organizations effectively manage strategic initiatives**



**Figure 1:** Effectiveness of organizational change management.



## US$149 million

The amount **lost** for every US$1 billion spent on a strategic initiative, due to poor project performance.

**Figure 2:** Organizations lose on average US$149 million for every US$1 billion spent on strategic initiatives, due to poor project performance.

# THE NECESSITY OF STRATEGIC CHANGE

According to *Managing Change in Organizations: A Practice Guide*, change management is a comprehensive, cyclic and structured approach for transitioning individuals, groups and organizations from a current state to a future state **with intended business benefits**. The process of change begins with organizational leaders developing an organizational strategy, then with the creation of an initiative that is aligned with that strategy. These strategic initiatives are formulated as a direct response to a change in the business environment. **Strategic initiatives—projects and programs—by their very nature drive change in an organization**. In *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*, Robert Kaplan and David Norton define strategic initiatives as "collections of finite-duration discretionary projects and programs, outside of the organization's day-to-day operational activities, that are designed to help the organization achieve its targeted performance."[5]

In today's volatile environment, with the rate of change accelerating, organizations that successfully manage strategic initiatives save more money and are poised to gain an advantage over their competitors. "Today we're talking a lot about change management because organizations live in a much more dynamic environment than in the past," says Michel Thiry, PhD, PMI Fellow, founder and managing partner of Valense Ltd. "The economy is changing at the global level. Cultures are shifting. We're moving from a western business approach to a culture of countries in accelerated development."

However, the reality is that very few organizations successfully manage these strategic initiatives to keep up with the volatile global economy. Our research shows that only 18 percent of organizations report being highly effective at organizational change management (those we call Change Enablers, Figure 1).

In our 2014 *Pulse of the Profession: The High Cost of Low Performance* report, we highlight that organizations lose US$109 million for every US$1 billion invested in all projects, due to poor project performance.[6] But when specifically looking at strategic initiatives, organizations report that only 52 percent of these are successful. The failure of strategic initiatives has a significantly greater financial impact: nearly 15 percent of every dollar spent on strategic initiatives is lost—US$149 million of every US$1 billion spent (Figure 2).

The primary reasons why organizations are failing—and losing money—are insufficient communications and lack of leadership (Figure 3).

However, organizations that are highly effective at change management, Change Enablers, incorporate certain practices that they deem important to the success of strategic initiatives:

- Having well-defined milestones and metrics

- Having senior management committed to change

- Establishing and communicating concrete ownership and accountability

- Using standardized project management practices

- Having engaged executive sponsors

It comes as no surprise that these practices are not frequently used within organizations that are not very good at change management (Figure 4).

## Primary causes of organizational change failure

| | |
|---|---|
| Insufficient communications | **59%** |
| Lack of leadership | **56%** |

**Figure 3**

## Significantly more Change Enablers focus on certain practices for managing organizational change

| | Highly Effective | Minimally Effective | Difference |
|---|---|---|---|
| Well-defined milestones and metrics | 86% | 22% | 64% |
| Senior management committed to the change | 86% | 29% | 57% |
| Concrete ownership and accountability | 84% | 24% | 60% |
| Standardized project management practices | 81% | 21% | 60% |
| Engaged executive sponsors | 81% | 25% | 56% |

■ Highly Effective
■ Minimally Effective
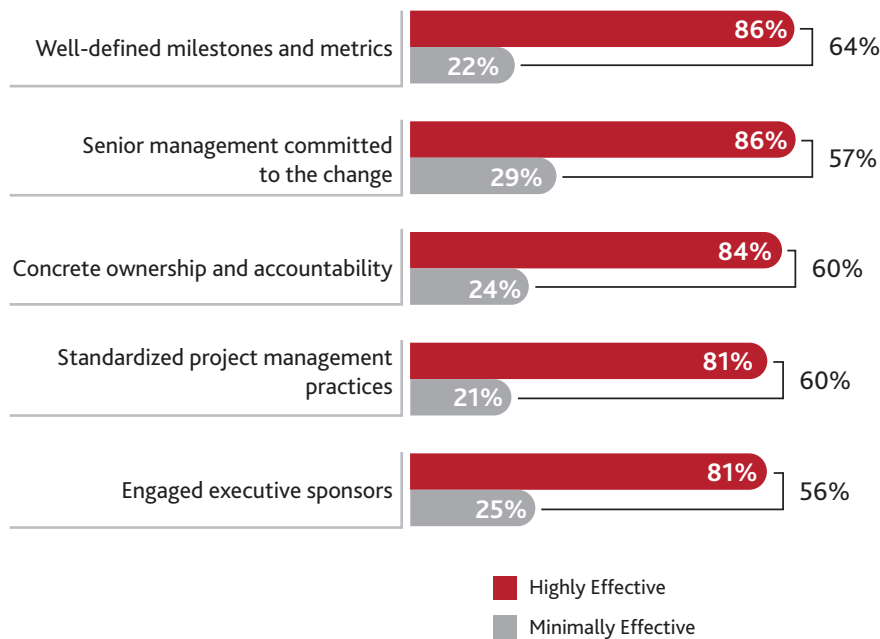
**Figure 4:** Frequent practices of Change Enablers.

Research by the Economist Intelligence Unit supports these findings: the top reasons why change initiatives did not succeed were a lack of clearly defined milestones, a lack of commitment by senior management and poor communication.[7] The practices used frequently by Change Enablers overcome these failures.

Having each of these practices, though important and used frequently by Change Enablers, is not enough. It is also critical to effectively communicate the outcomes of these practices throughout the organization. For example, while defining milestones and metrics is a key first step, organization-wide communication of their impact to the initiative is essential. The data shows that creating an effective communication plan, properly executing that plan and identifying, measuring and communicating the intended benefits of change are key factors that make an organization good at change management (Figure 5).

### Communication is critical to effective organizational change management

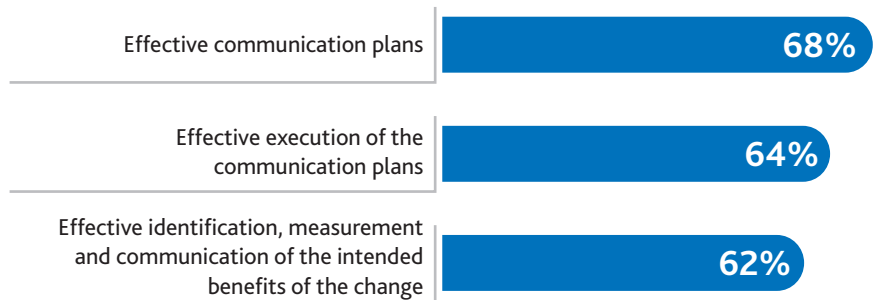| | |
|---|---|
| Effective communication plans | **68%** |
| Effective execution of the communication plans | **64%** |
| Effective identification, measurement and communication of the intended benefits of the change | **62%** |

**Figure 5:** Factors for effective organizational change management.

The benefit of effective communication is noted in PMI's *Pulse of the Profession In-Depth Report: The Essential Role of Communications*, which found that many organizations fail to effectively communicate the business benefits of strategic initiatives to stakeholders at all levels of a project. PMI's research on the role of communications found that one half of unsuccessful projects are related to ineffective communications.[8] Therefore, the importance of communicating a strategic initiative's alignment to organizational strategy should not be overlooked.

# ENABLING SUSTAINABLE CHANGE

Our survey data reveals that among Change Enablers, twice as many strategic initiatives meet original goals, are completed on time and on budget compared to organizations that are not as good at organizational change management (Figure 6).

This success comes from Change Enablers demonstrating certain practices that allow them to successfully implement and sustain change:

- Standardized project and program management practices;
- Engaged sponsors who actively rally senior management to commit to change; and
- Managing people through change.

## Standardized Project and Program Management Practices

Change Enablers instill a project and program management culture and mindset that enable the success of strategic initiatives.

Our research shows that 86 percent of them either always or usually use standardized project and program management practices to implement organizational change, compared to just 12 percent of their less adept counterparts (Figure 7). So Change Enablers are seven times more likely to frequently use standardized project management for strategic initiatives, and it shows in their results.

**The strategic initiatives of Change Enablers perform better**



**Figure 6:** Change Enablers complete more strategic initiatives that meet original goals, are on time and are on budget.

**Change Enablers are seven times more likely to frequently use standardized project management practices for strategic initiatives**



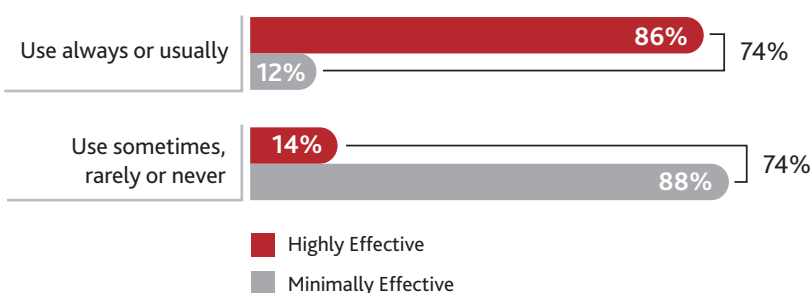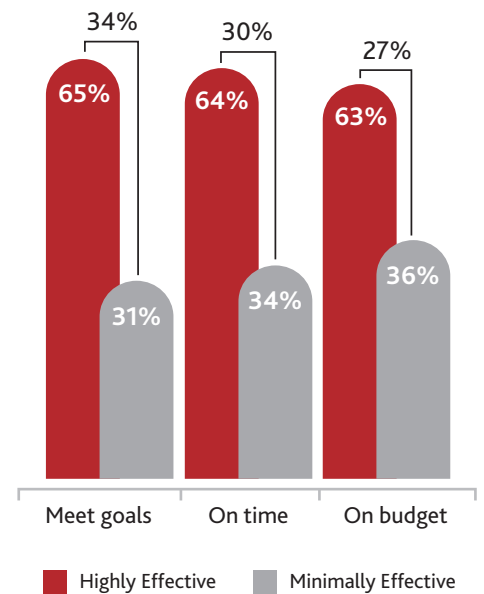**Figure 7:** Frequency of using standardized project management practices to implement organizational change.

**Communicate and lead, and clarify directions and targets, are the leading responsibilities of the executive sponsor**

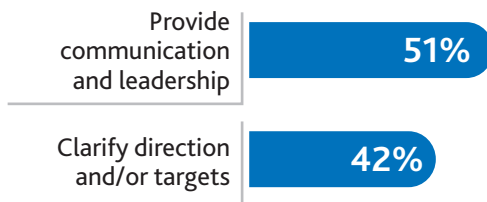| | |
|---|---|
| Provide communication and leadership | **51%** |
| Clarify direction and/or targets | **42%** |

**Figure 8:** Critical responsibilities of executive sponsors.

Furthermore, 85 percent of Change Enablers understand and are able to harness the value of project management compared to their counterparts, only 22 percent of whom report that they value the contributions of project management in driving change.

Consequently, Change Enablers are financially stronger: 83 percent of them indicate a strong financial condition compared to just 52 percent of their less effective counterparts.

## Engaged Sponsors

Organizations are more effective when they demand active project sponsorship as a core competency. According to Harold Sirkin, Perry Keenan and Alan Jackson, "Sometimes, senior executives are reluctant to back initiatives. That's understandable; they're often bringing about changes that may negatively affect employees' jobs and lives. However, if senior executives do not communicate the need for change, and what it means for employees, they endanger their projects' success."[9]

A PMI-commissioned white paper on the role of sponsors in organizational change states clearly that "[s]ponsors play a critical role in effectively integrating project management and a disciplined approach to change management that dramatically improves the odds of a successful project implementation. The sponsor plays a key role by promoting and sustaining the focus on the project's critical nature and its urgency as well as by coaching employees and executives and, finally, by communicating a shared sense of the need for change."[10]

Findings from an IBM survey support this: over 90 percent of respondents cited "top management sponsorship" as the factor that makes change successful.[11]

PMI's *Pulse of the Profession* research shows that it is critical to have engaged sponsors who actively rally senior management to commit to change. To ensure successful organizational change, the leading responsibilities of the executive sponsor are to communicate and lead, followed by clarifying direction and/or targets (Figure 8).

Furthermore, for change initiatives to be successfully implemented, "projects are increasingly becoming the key drivers of organizational success. It is absolutely essential that the executive team develops the capability to be sponsors that truly understand, promote and demonstrate

the organizational change management competencies in project management."[12]

Our study shows that the top two factors that make an organization effective at change management are support by senior management (72 percent) and stakeholder involvement in the initiative (70 percent).

Since lack of leadership is the second biggest cause for organizational change failures (see Figure 3 on page 5), it is critical that senior management is on board to lead and manage people through change. According to *Managing Change in Organizations: A Practice Guide*, it is important to involve employees effectively in organizational decision making and change initiatives. During times of change, communication and stakeholder engagement are more important than usual and can substantially affect the cost and outcome of change efforts. Executives and employees see change differently: (1) senior managers typically see change as an opportunity for both the business and themselves; and (2) employees typically see change as disruptive, intrusive and likely to involve loss. Understanding these different viewpoints and managing the change from both positions ensure a smoother and more successful transition for all stakeholders.

One important way to encourage the success of organizational change is through an active sponsor rallying the senior management through change. By doing this, strategic initiatives are more successful, as evident in our research. Sixty-four percent of strategic initiatives with Change Enablers have active executive sponsors, compared to just 41 percent at other organizations.

## Managing People through Change

While implementing change in organizations requires standardized project and program management practices and engaged sponsors, the success of strategic initiatives is also dependent on managing people through change. In *The Change Trifecta: Measuring ROI to Maximize Change Effectiveness*, PwC Advisory Services emphasizes that their approach to embedding successful change management is based on "managing people through the process of adopting and embracing change," as they believe this is the best way to secure stakeholder engagement and create sustainable change.[13]

What is clear is that along with embracing change, **creating sustainable change** is critical. Change Enablers incorporate a project and program management culture and mindset to address the "hearts and minds"

*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

of employees in an organization, as mentioned in the Perspective on page 3. The McKinsey report *Winning Hearts and Minds: The Secrets of Sustaining Change* emphasizes that the "reshaping of employee attitudes and behaviors is just as critical to the success of a transformation as the implementation of process changes."[14]

Our research supports this, as it shows that important factors that make organizations effective at change are:

- Having a culture that embraces the change (59 percent)
- Effectively managing employees through the change (58 percent)

Compared to their counterparts, the vast majority of Change Enablers sustain organizational change by managing the change with standardized project and program management practices, as mentioned above, or ensuring that the intiatives are run through a project management office (PMO) (Figure 9).

**PMOs and standardized project management practices are critical to sustaining change**

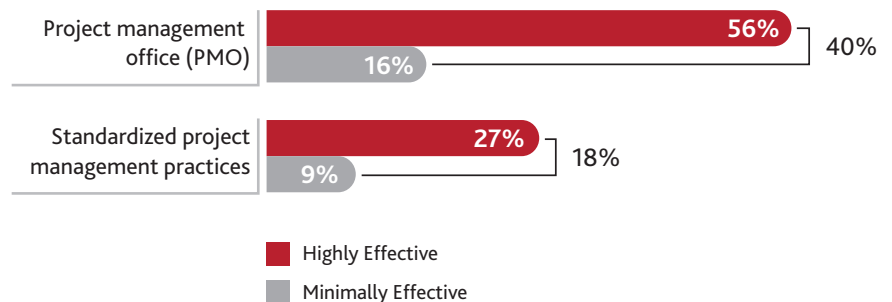| | |
|---|---|
| Project management office (PMO) | 56% / 16% — 40% |
| Standardized project management practices | 27% / 9% — 18% |

- Highly Effective
- Minimally Effective

**Figure 9:** Management of initiatives that result in sustained organizational change.

The questions that inevitably arise are: How do organizations know that they have enabled sustainable change? What are the metrics that organizations use to determine the success of their strategic initiatives? Our data shows that customer satisfaction (63 percent), cost reduction (62 percent) and sales/profits (50 percent) are the three metrics routinely used to evaluate the outcome of organizational change.

However, it is important to note that project and program managers report that customer satisfaction (58 percent) and employee morale or retention (45 percent) are by far the top metrics that *they* consider the best for

evaluating the outcome of organizational change. In their experience, sales/profits and cost reduction lag far behind, at 23 percent and 20 percent, respectively.

Ultimately, this confirms that organizations need to listen to their customers and gauge the responses of their employees when enabling sustainable change, as these factors are critical in an organization moving from a current to a future state.

# PERSPECTIVE:
## SUSTAINING CHANGE, REALIZING BENEFITS

*by Terry Cooke-Davies, PhD*

Delivering strategic change is only half of the story. The other half is all about sustaining the change permanently, so as to deliver the strategic benefits on which the business case for the initiative depended, and then sustain them into the future.

Once again, experience suggests that it is people who are key, most notably the executives who lead those parts of the organization that stand to benefit from the initiative. Survey after survey has identified the critical importance of engaged sponsors in delivering benefits,[15] and this survey is no different. The challenge for the project management practitioner, however, is how to maintain the engagement of key executives and to ensure that they have a clear understanding of what sponsorship means—specifically how to deliver the balance between driving accountability and energizing people.

Actual practice is likely to vary depending on the unique culture and circumstances of the particular organization, but two cases of good practice that worked in specific contexts illustrate just what might be involved in sustaining the change.

The first example concerns the senior executive team (equivalent of the C-suite) of a financial institution in the United Kingdom. Faced with too many strategic initiatives failing to sustain the change or deliver the promised benefits, the head of the enterprise PMO and the CEO re-formatted their monthly review of strategic initiatives. Instead of starting with a review of current initiatives, presented by the respective project managers, the meeting started by reviewing the status of initiatives completed during the previous year or two, with the emphasis being on the benefits delivered, and the review was presented by the responsible executive sponsor. Only after reviewing the completed initiatives, was the status of current initiatives reviewed. This created lasting accountability on the part of the responsible executive and ensured that the executive did not declare victory too soon, diverting focus to the next hot topic.

A second example comes from change management practitioners at The Boston Consulting Group who have found that a key to sustaining change is going beyond the executive sponsors of strategic initiatives to enrolling the extended leadership team in the change, often extending to the middle managers who will actually be executing and living with the results of the initiatives on a day-to-day basis. At one international bank, the C-suite started out by defining the desired behaviors of the leadership team itself in line with the new strategy. The process was then further cascaded through to the top 500 managers, with recurring quarterly workshops to focus on their behaviors and corresponding outcomes as well as periodic trainings to reinforce their learnings. To keep the new behaviors top of mind, the bank instituted regular communications and newsletters to the entire organization on the progress of the strategic initiatives, including recognition of those individuals demonstrating the targeted new behaviors.

These two examples are illustrative of the general need to engage leadership in sustaining the change so that strategic benefits flow from the initiative.

# CONCLUSION

Failed projects can result in huge financial losses for an organization, but a failed strategic initiative has an impact far beyond just the financials. When an organization embarks on change, it's likely that systems, processes, vendors and perhaps even the overall organizational mindset (or mission) will be impacted. Failure to successfully enable sustainable change leaves an organization losing its competitive advantage.

All organizations go through change. Some organizations proactively opt to change to take advantage of new growth and opportunities; other organizations are forced to quickly change to survive and remain competitive. Those organizations highly effective at organizational change management, the Change Enablers, demonstrate that the success of strategic initiatives occurs through:

- Standardized project and program management practices;

- Engaged sponsors who actively rally senior management to commit to change; and

- Managing people through organizational change.

Successful organizational change management requires a commitment to transform from what an organization is into what it wants to be.

With a project management culture and mindset, organizations adept at the iterative process of change can enable longer-term sustainable change. Change Enablers understand the necessity of strategic change: there are more dollars lost on strategic initiatives due to poor project performance. And while change may be inevitable in today's business environment, the insights offered in this report can help leaders at organizations pull ahead of their competition—without losing customer confidence and risking employee morale and retention.

# ABOUT THIS REPORT

Research for PMI's *Pulse of the Profession In-Depth Report: Enabling Organizational Change Through Strategic Initiatives* was conducted in January 2014 among 723 project management practitioners with five or more years of project management experience and who are currently doing professional project, program or portfolio management work on a full-time basis.

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