strategy+business

Stand by Your Change Agent

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from **strategy+business** issue 53, Winter 2008

reprint number 08403

booz&co.

Reprint

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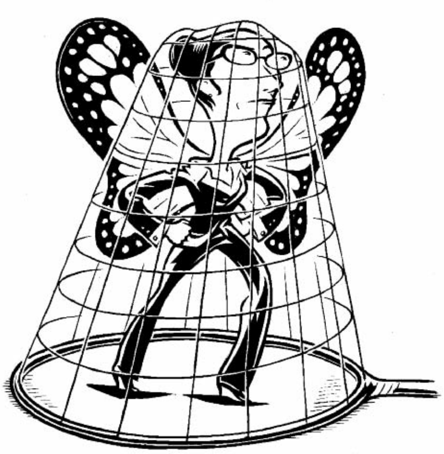
Research shows that most transformation leaders go unpromoted, unrecognized, and unrewarded. And their companies suffer in the long run.

by Stratford Sherman and Marisa Faccio

Illustration by Lars Leetaru



Large-scale transformation initiatives have become a fact of life at major corporations, and their success or failure often means the difference between long-term success and underperformance. It stands to reason, then, that senior executives who lead successful change initiatives should be rewarded with promotions. But that is not what we found when we studied 84 major change initiatives that had taken place at Fortune 500 companies between 1995 and 2005.

The results of our study were sharply counterintuitive. Although 85 percent of the major change initiatives we studied met or exceeded the performance goals set for them at the start, fewer than 30 percent of the initiatives' full-time leaders were promoted — and the same percentage were terminated or left their companies voluntarily at the conclusion of the change effort. The remaining 40 percent either remained in their positions or moved laterally in their organizations. Those are astonishing numbers: Some 70 percent of the executives who led these major transformations went unrewarded, or were sidelined, fired, or spurred to leave. Most companies would be horrified to learn that they were wasting raw materials or financial capital on such a scale, yet the companies we studied wasted human capital in this key discipline at a staggering rate. And the impact on future change initiatives, although not measurable, is equally staggering; how many highly talented managers will step up to a leadership role in such an effort if they sense that it could derail their careers?

Our research was motivated by the many years of experience our partners have devoted to observing and advising senior corporate leaders who are significantly changing their organizations. We have seen the power that comes from unlocking the energy of leaders at companies that are adept at large-scale organizational change, such as General Electric during the Jack Welch era. But far too frequently, we have seen the pain that comes when CEOs or other bosses throw away one of their company's most valuable resources.

Consider the fate of one senior executive in his 50s at a highly decentralized Fortune 50 company. Given responsibility for managing all of the company's major transformation projects, he oversaw a global initiative to consolidate purchasing. Subsequently, he took on the company's SAP implementation — a massive and successful effort. Then, after a change of management, he found himself no longer reporting to the CEO, but to a CFO who was far less committed to the transformation office. He lost influence, and then, following the introduction of well-intentioned but shortsighted talent-management policies aimed at promoting younger people, he was terminated. The personal damage inflicted was considerable, as was the damage to the organization. Already critically short of effective change leaders, the company had to muddle on with one fewer.

Having witnessed many such situations, we sought both to quantify the success rates and human results of change initiatives, and to see what we might find beyond the hard data. Specifically, we wanted to determine how CEOs and other top leaders might approach change so that they not only achieve better results but also avoid losing and misusing talent. So we revisited and analyzed many of the most important corporate change initiatives with which our partners had been directly engaged.

Altogether, we examined 84 transformational events at 36 Fortune 500 companies over a five-year period. These events, each defined as a "top three" company priority, included reorganization, cost cutting, operational improvement, strategic redirection, and other initiatives of the sort that figure prominently in annual reports.

We assessed the companies' capabilities in terms of two variables that, in our experience, are critical for successful change events. The first is the extent to which companies embrace change, discerned through five indicators: high growth expectations, innovation, continuous transformation, clarity of vision and values, and willingness to set stretch goals. The second is a company's attitude regarding leadership development, again with five indicators: valuing people, rigorous evaluation, development and advancement, incentives, and mentoring. We then correlated these findings against the outcomes of change events and the fates of their leaders. We found that the results differed significantly among four primary categories of companies:

- **Paragons.** Of the 36 companies we studied, 11 embraced change enthusiastically and viewed change leadership as an indispensable part of leadership development. At these model companies, 85 percent of change events exceeded expectations and 15 percent met expectations. Of the change leaders,

One change leader took on a successful SAP implementation — then found himself no longer reporting to the CEO.

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62 percent were promoted, 24 percent moved laterally, and only 14 percent exited (either voluntarily or involuntarily).

• **Masters.** Eleven other companies valued the individual mastery that comes with careful attention to leadership development, but had not developed a sophisticated change capability. At these companies, 28 percent of change events exceeded expectations, 56 percent met expectations, and 16 percent failed to meet expectations. Only 16 percent of the change leaders were promoted; 60 percent moved laterally, and 24 percent exited.

• **Warriors.** Five companies had developed change skills as a necessary condition for doing competitive battle, but undervalued leadership development. At these companies, 43 percent of initiatives exceeded expectations, 28 percent met expectations, and 29 percent failed to meet expectations. Of the change leaders, just 7 percent were promoted; 57 percent moved laterally, and 35 percent exited.

• **Laggards.** Nine of the companies we studied were uncertain how to implement change and did a relatively poor job of leadership development. At these companies, a mere 5 percent of initiatives exceeded expectations; 67 percent met expectations, and 28 percent failed to meet expectations. Of the change leaders, 11 percent were promoted, 50 percent moved laterally, and 39 percent exited.

In short, the companies that scored highest in both leadership development and embracing change were also the most likely to improve their performance and promote their change leaders at the end of the initiative. The data confirmed a virtuous circle that we had noticed long ago at the most capable companies we have served: Change initiatives succeed and the company retains its high-performing executives to lead the next wave of change — and, as these leaders rise in the organization, they apply those hard-won change skills to challenges in general management.

Among the companies with low scores for embracing change, for leadership development, or both, it's a vicious circle: Their ability to exceed the expectations set for their change initiatives lags significantly behind that of top companies, and their change leaders depart at a greater rate, decreasing the likelihood that future change efforts will succeed. And we found that strong players at these companies often avoid change leadership roles.

Companies that scored highest in leadership development and embracing change were most likely to improve performance.

For CEOs or other executives who ultimately oversee an organization's portfolio of change initiatives, the lesson is clear. Seeing a change initiative through to fruition begins with evaluating the readiness of the organization and thinking carefully about the career paths for the leaders involved. Less-sophisticated organizations are more likely to reject even successful change leaders, much as our bodies' white blood cells may attack any cells — including helpful ones — that have unfamiliar attributes. So leaders of such organizations would be wise to ensure that their change leaders receive support, rewards, and recognition commensurate with the extra risk and challenge of their work.

The first step is to accurately assess whether the company is a paragon, a master, a warrior, or a laggard. Once the top leaders have made that assessment, they can manage their talent and their change initiatives in ways that leverage the strengths of their people.

Paragons: Proceed Confidently

Among the companies we studied, those meeting the "paragon" criteria were those most likely to consciously use change events as important learning opportunities for leaders. They often put high-potential executives at the head of major change initiatives, providing them with the kinds of big challenges that will further develop them. Paragons also provide stronger organizational support for their initiatives. They may declare at the outset their intention to promote the change leader if the effort succeeds, which not only energizes the change leader but also improves the chances of exceeding expectations.

A steering committee, acting as a kind of board of directors for the effort, is one device commonly used by paragons to ensure that adequate resources and political support from key stakeholders are devoted to the project. Paragons are also more careful to free their change leaders from other tasks, so that they can devote enough time to succeed in the assignment. And they typically select a top executive to sponsor the change initiative. By becoming invested in the change leader's success and providing guidance, the sponsor increases the likelihood of a positive outcome for the project as well as maximum development for the leader. The change initiatives also provide significant development opportunities for sponsors, members of the steering committee, and members of the initiative team.

With such organizational support in place, paragons don't have to put their most experienced people in charge of change efforts. They can use the opportunity to stretch their high-potential younger leaders, strengthening their talent bench, without fear that the project will founder. Paragons can proceed with greater confidence in general — about the success of the project, the retention of change leaders, and the development of talent.

Masters: Overcome Instinct

Despite their devotion to leadership development, masters tend to be enmeshed in a problem that has bedeviled leaders, consultants, and academics since time out of mind: *Deep down, a great many people and organizations fear change.* People do not like to move out of their comfort zones. Powerful institutional forces help maintain the status quo. In such companies, change simply has no constituency.

Perhaps that's why change agents at master companies lack a broad base of support. Indeed, the most effective change leaders are very likely to be the biggest cultural misfits. Often blunt in methods, inattentive to social assimilation, and lacking in respect for the status quo, they can make enemies easily and may find their efforts impeded, undermined, or rejected outright. Change agents may also suffer from the delusion that others see the urgent need for action just as they do, and may be frustrated to discover how little key stakeholders care about the initiatives and outcomes that they hold dear.

In the master companies in our study, only 28 percent of change events exceeded expectations, versus 85 percent for paragons. It's possible that masters fail to exceed expectations simply because they don't fully recognize that possibility. Leadership may be viewed in terms of running the everyday business, while change is seen as the domain of mercenaries and tacticians.

At one such company, a high-potential manager was asked to lead a change effort designed to implement a shared-services model for the finance department. The sponsors encouraged her, noting that it would be great experience and would broaden her exposure to top executives. Initially enthusiastic, she dug into the assignment. But along the way, the sponsors' energies began to be directed elsewhere, and with little support she lost her passion for the role. The task was completed successfully, but the rewards were few. She stayed with the company and subsequently moved up through the ranks, but avoided taking another change leadership role.

Compared to her counterparts at other companies, this individual was fortunate; 84 percent of the change leaders in master companies ended up moving laterally or exiting the company. The loss and misuse of such leaders is especially ironic given the high value placed by master companies on leadership development. By failing to link leadership development with change, they often wind up with some of their highest-potential leaders hiding in plain sight — or fleeing to the competition.

To beat these odds, master companies need to consciously act against their own leaders' instincts. They need to provide organizational support and career rewards to act as countervailing forces against institutional inertia. Instead of appointing high-octane technicians — people with reputations for pushing projects through by bullying — as change leaders, these companies should select people with the temperament to be successful change agents within their company's social structure. And they should support them with thoughtfully selected and genuinely empowered steering committees, plus high-profile, respected sponsors who remain committed to these projects for the duration.

Warriors: Cultivate Talent

Because warriors understand how to drive change, they often win the battle for transformation: As noted, in our study, 43 percent of their initiatives exceeded expectations. But because they lag in leadership development, they often lose the war for talent. Ninety-two percent of their change leaders moved laterally or left the company, roughly on par with laggards.

Warriors, recognizing that they must change to remain competitive, usually devote significant resources to ensuring the success of their initiatives. They may put a strong steering committee and executive sponsor in place, and they may have sophisticated project metrics to keep track of results. But they tend to take less care in choosing the change leader in the first place, and may give almost no thought to that leader's mentoring or development.

Consider the case of an executive who had led the negotiations for his company's sale to a rival. He survived the acquisition and was subsequently tapped by the parent company to lead his former company as a division of the new entity and to oversee the post-sale integration. Working with a team of people he knew well as colleagues and as peers, he was assumed to need little in the way of support and development. Moreover, the parent company — a classic warrior organization — had bought its rival in order to grow market share, not talent. But his former colleagues, now his direct reports, carried memories of experiences with him that were not uniformly positive. In other words, he came with baggage. Fortunately, he recognized the problem and sat down with his team to talk openly, to consider how their new relationship should work and to ask what they wanted to achieve from their jobs. This general manager's ability to engage and re-form his relationships and teams allowed him to continue to lead, despite getting little personal support from the parent organization.

The lesson for warrior companies is to be extremely careful in choosing the change leader. If the institutional lack of awareness regarding leadership development is simply too great to overcome, it might be wise to — as the general manager's parent company did — select an individual who is good at self-development and who needs less mentoring or individual help than many people. But unless such change leaders are given some additional career incentives, they are unlikely to stay with the company afterward, resulting in a significant waste of talent.

Laggards: Intervene as Needed

Laggard companies, which have mastered neither change nor leadership development, put themselves doubly at risk for poor execution of change initiatives. Like masters, they often fail to provide the organizational support required to overcome resistance to change. Like warriors, they don't see change events as opportunities for leadership development.

Stories from laggard organizations can be particularly disheartening. An information-services company was frustrated with its HR function. Service was poor, processes were unclear, and employees were constantly being pulled from their real jobs to take care of problems with payroll, benefits, onboarding, and the like. The tyrannical CEO demanded that the problem be fixed — now — and appointed his fixer-in-chief to figure it out. The fixer's first instincts were to read the riot act to the head of HR, throw down the gauntlet, and threaten to hire outside help. The well-meaning head of HR tried her best to right the ship. But between being tarred with responsibility for the current state and suffering under the impatient glare of the CEO, she wilted and was replaced. Her successor was a bright former consultant, who came with a plan and set about implementing it. But the infrastructure on which success depended was not yet in place, and time was not on his side. Despite his heroic efforts, the pace of change was deemed too slow, and he was fired. The job was turned over to yet another head of HR, again an outside hire, who also failed in the face of institutional inertia and resigned.

Because such laggards fall short in both embracing change and developing leaders, they must work harder to make a change initiative succeed. First, they should be very deliberate about the selection of change leaders. Because the risk of poor execution is so high, it may be advisable to select from among the company's most experienced and successful leaders, not merely from bullying "fixers" who may have handled such assignments in the past.

Second, knowing that change leadership is a high-risk, low-reward role, savvy executives may resist taking it on. It is essential to explicitly address this issue; the CEO and project sponsor should engage the prospective change leader in candid conversations about career risk and retention. They should let the leader know that they recognize the difficulty of the task and that the company does not want to lose or sideline a valuable executive. It may be necessary to offer unusual rewards, incentives, and even guaran-

All companies contemplating major transformations should put their compassion for change leaders into action.

tees to induce the right person to take the job.

Third, laggard companies must focus on providing in-depth organizational support for the project and the leader. Expectations for the leader's time should be established clearly, and the company should take care not to underestimate the demands of the new initiative or the leader's other responsibilities. In many cases, change leadership should be defined as a full-time job. The executive sponsor, in addition to acting as a mentor to the change leader, must have enough seniority and clout to be able to remove obstacles, provide resources, and get people to cooperate across organizational silos. The members of the steering committee, who should be representatives of the constituencies affected by the project, should also be senior enough to remove barriers to success. They must be given the power to make binding decisions, provide resources, and insist on organizational alignment — and the responsibility to establish a clear charter for the project, set milestones, monitor progress, and intervene as needed to keep the project on track. Although such practices are important for all companies, laggards — given their track records — should pay particular attention.

Restoring the Human Factor

At the end of the day, warriors and masters do little better than laggards at rewarding and retaining change leaders. Masters move about eight of 10 change leaders laterally or see them leave, and the figure for warriors and laggards is nine out of 10. All three categories misuse and lose talent on a vast scale. At paragon companies, by contrast, six in 10 advance their careers. In some cases, of course, change leaders are lured away by other companies that recognize their value, in effect taking advantage of the previous employer's witting or unwitting investment in leadership development. But much too often, the company loses valuable talent and the talent loses, too.

Ask almost any seasoned CEO for his or her greatest regret about a change initiative, and the answer is likely to be: *We should have moved much more boldly, and sooner.* But at the outset, senior executives naturally worry that too much change, too soon, might break the organization, alienate valued people, or alarm the board. It is also natural for executives to feel discomfort at rewarding change leaders who might be rough-edged, visionary, or wide-ranging in their interests. And some executives worry that change leaders, once they have led a broad-based successful change initiative, won't be satisfied going back to their old roles and positions.

In practice, companies can address all of these concerns by putting the right measures in place up front. And when managed well, change initiatives can energize organizations and unlock the creative potential in people. If there is a guiding principle for all companies contemplating major transformations, it is this: Put your compassion for change leaders into action. Managed well, change is not only a catalyst for success and an engine for generating value, but also an opportunity for talented people. The companies that understand this best are the ones that retain and promote their change leaders. ✚

Reprint No. 08403

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is published by Booz & Company Inc.
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