

A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT



**Harvard
Business
Review**

BUSINESS CHANGE: FROM DISRUPTOR TO DIFFERENTIATOR

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Change Endurance Is the New Competitive Advantage

Change is no longer the exception to the rule. It is the new rule. You can't expect to be a high-impact leader in your organization if you're not prepared to master the relentless, unforgiving, ever-accelerating disruptions in markets, technology, culture, and lifestyle. It's a new world of perpetual change. The track record of change programs is disappointing at best. As those changes represent new strategies and opportunities for organizations, failing them or diminishing their scope has detrimental impact on the future of the business. A failed change program is a failed strategy to be relevant and competitive in the marketplace.

As this study illustrates, current change programs are failing to deliver the desired results within the required time frames.

Today's approach to change bears several flaws. Change is no longer a singular event, and it should not be treated as a program. It is a new daily reality that requires long-term change endurance. Most change programs are designed for the C-suite and not for employees. The tone and narrative of those change programs dictate change to the employees; they do not integrate employees in the process. Lastly, the programs fail to connect the future to the past and, as such, threaten a departure from what employees perceive was a good performance.

In short, we need to change the way we change.

Our work involved over 175 organizational transformations in 21 countries, including mergers and acquisitions, strategic initiatives, new markets penetrations, regulatory investigations, and recalls. Throughout the work, we discovered a simple truth. Change does not happen in the boardroom but rather on the front line. It is employees who determine the strength and scope of the change program success. We recognized that it is only when we engage employees earlier and develop together a credible authentic narrative and roll out for the upcoming change that success will be achieved. Strativity's employee-centric change program creates a holistic transformation that respects the past, clarifies the future, and most important, creates the vision, the purpose, and the hope employees want to be part of.

To compete and succeed in the future, organizations need to treat change as a marathon, not a sprint. New changes and transformations in endurance need to be developed and become an integral part of organizations' daily existence. Change endurance in an always-evolving world will become the new core competence to stay relevant for customers. Products, processes, channels, and technologies do not change by themselves. They are driven by people, your employees.

We invite you to reinvent your organization's change endurance and develop the new competitive advantage: always evolving.

ABOUT STRATIVITY

For over 14 years, Strativity Group, Inc., has led dozens of organizations around the world into a new era of customer-centricity. We take a disciplined, holistic approach to Customer Experience Management and foster deep, profound cultural changes that support both the journey of a customer and the profitability of a business.

We are expert analysts, insightful strategists, and action-oriented consultants, all focused on a single objective: building businesses by creating new value for customers, promoting excellence in customer interactions, and fostering a lasting commitment to exceptional customer experiences.

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BUSINESS CHANGE: FROM DISRUPTOR TO DIFFERENTIATOR

While most business leaders believe continuous change is critical to market success, a recent survey reveals widespread failure in change initiatives. It's crucial for businesses today to close the change capability gap.

INTRODUCTION

In business, as in life, it seems, the only constant is change. And in the digital age, the pace of change is more rapid than ever. Unfortunately, the human ability to assimilate change has not accelerated with the times—it is the same as it ever was. As a *Harvard Business Review* article points out, it is simply human nature to resist change, as it causes a sense of lost control, uncertainty, and disruption.¹

Business leaders increasingly realize, however, that their organizations must develop the capacity to enable if not embrace continuous change, and that means helping employees overcome their native skepticism.

A new survey of 442 business executives from around the world reflects this attitude toward continuous change, with nearly two-thirds of survey respondents (63 percent) agreeing that change is beneficial to the organization. (For more information about the survey demographics, see the Methodology section at the end of the report.)

At the same time, the study also revealed widespread failure in change initiatives—despite the fact that most programs (89 percent) were sponsored at the C-suite level or director level. This finding signals a disconnect between how the C-suite defines and designs change, and how change resonates with the people expected to carry it out.

While respondents seem aware of the capabilities that would ensure continuous change success, they also admitted their performance lags in those areas. Considering the imperatives driving the need for continuous change, it has clearly become crucial for organizations to develop or partner to strengthen their continuous change capability.

¹ Rosabeth Moss Kanter, "Ten Reasons People Resist Change," *Harvard Business Review*, Sept. 25, 2012

86 percent of study respondents reported undergoing multiple departmental or enterprise-wide change initiatives in the past year.

THE ONGOING STRUGGLE WITH CHANGE

Change is rampant within organizations today, with 86 percent of study respondents undergoing multiple departmental or enterprise-wide change initiatives in the past year. Initiatives emanate from all business functions, from operations and IT to marketing and finance, and are triggered by a variety of internal and external factors. “Sometimes change results from very positive reasons— from growth, for example. Sometimes it results from something threatening like new competitors,” says Joshua Klayman, professor emeritus of behavioral science, University of Chicago Booth School of Business, and partner at consultancy Humanly Possible. New technology can also point the way to new opportunities. “Change comes from every avenue,” he says.

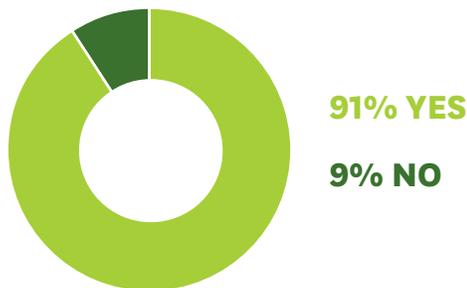
The most successful enterprises, in fact, constantly adjust their culture, products, processes, systems, and behaviors to align with quickly changing business conditions, including globalization and rapid technological shifts. In her study of high-technology companies, Jennifer Chatman, professor of management at the Haas School of Business, University of California, Berkeley,

found the most adaptable among these organizations performed better financially. Switching strategies, reducing scope, and other major shifts are no longer considered signs of disaster but a show of strength.

FIGURE 1

REALITY CHECK

Percentage indicating if change initiatives have failed in their organization in the past.



Source: Harvard Business Review Analytic Services Survey, May 2016

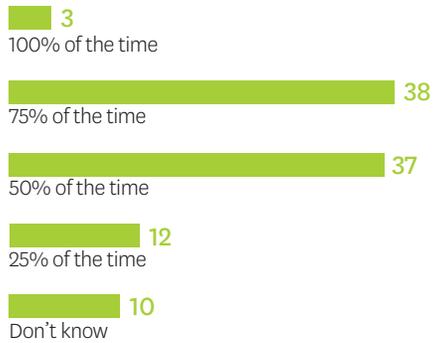
While most Harvard Business Review Analytic Services survey respondents welcome change and understand its connection to business success, nearly half (46 percent) said it was difficult to manage, and one-third (33 percent) said they struggled to keep up with the pace of change. Remarkably, virtually all respondents admitted they had experienced the failure of one or more change initiatives in their organization. [figure 1](#) Even when the initiative was not deemed a failure, expectations were met less than half the time. [figure 2](#)

In some cases, respondents said, timing pressures resulted in a narrowing of the initiative’s original scope. [figure 3](#) In fact, only one-third of change initiatives are completed within the expected time frames most of the time, and at least half the time, change initiatives must be scaled back to meet project milestones. The implications are far-ranging: not only do organizations realize diminished value from their strategic change initiatives, but their desired outcomes are also negatively affected, and the losses permeate all areas of the organization impacted by the change.

FIGURE 2

MISSING THE MARK

Percentage indicating how often their organization's change initiatives meet intended goals.

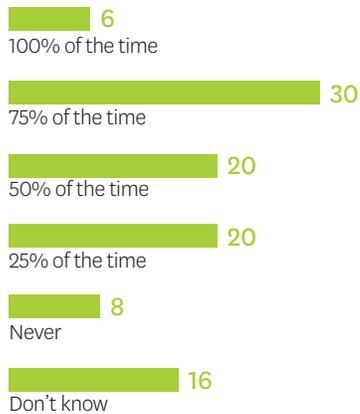


Source: Harvard Business Review Analytic Services Survey, May 2016

FIGURE 3

SHRINKING SCOPE

Percentage indicating how often the scope of their organization's change initiatives need to shrink in order to meet intended timelines.



Source: Harvard Business Review Analytic Services Survey, May 2016

COMMUNICATION: A KEY TO SUCCESS

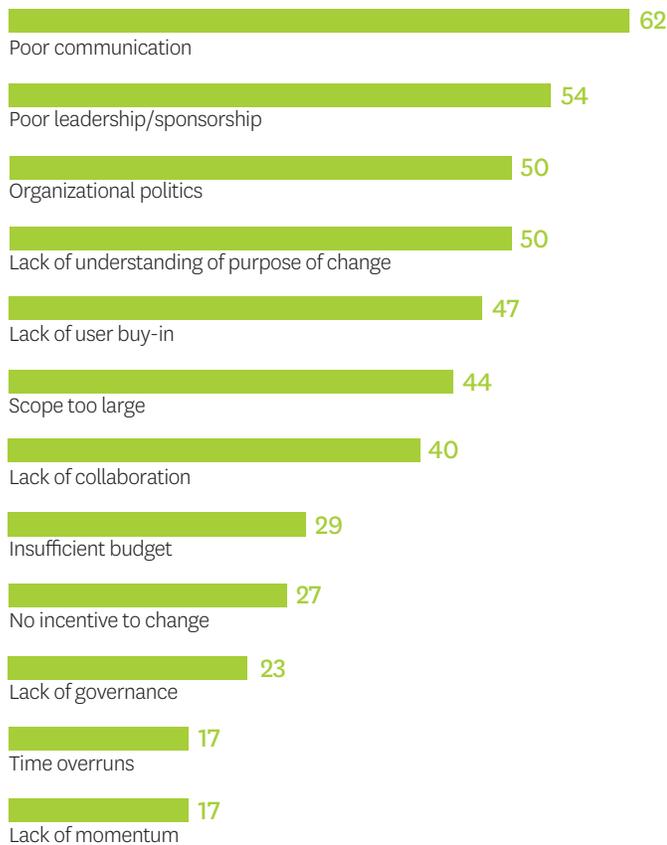
Respondents cited multiple reasons for these poor outcomes, but lack of communication was by far the most frequently cited factor. [figure 4](#) Communication requirements range far beyond an announcement and description of the change initiative. Organizations also need to convey the importance of the change, the reason behind it, and its impact on the business and the employees themselves. Individuals need to feel personally involved in the process, emotionally connected to the outcome, and motivated to ensure its success.

When Mercedes-Benz U.S.A. launched its initiative several years ago to transform the customer experience, the company knew it needed to capture the hearts and minds of employees and convey that this was not just a “program du jour,” according to Hendrik Hynekamp, general manager of customer experience. The initiative was aimed at improving the in-dealership car-buying and service experiences, which were not fully living up to the company’s tagline “The best or nothing.”

FIGURE 4

CRITICAL POINTS OF FAILURE

Percentage indicating which of the following are the biggest barriers to successful change.



Source: Harvard Business Review Analytic Services Survey, May 2016

The hallmark of any true transformation initiative is that it lives and breathes—the work and job are never done.

“Our tagline rightfully says we are the best. It doesn’t talk about satisfaction. That’s not enough. Our customer experience, therefore, needs to be the best. It’s about delighting, wowing, impressing,” Hynekamp says. The then-CEO, Stephen Cannon, focused on a major undertaking to bring the company’s 370 dealerships into the 21st century in terms of customer experience, matching expectations set by titans such as Amazon and Nordstrom.

“It was very clear our experience had to be the best, for buying, servicing, and owning. That’s when we began this transformation,” says Hynekamp. The initiative kicked off with the biggest training effort in Mercedes-Benz U.S.A. history. Over 15,000 employees across the dealerships and headquarters corporate teams were trained in more than 25 cities over 18 months.

The danger was that employees would see this effort as just another program, Hynekamp says. When initiatives are launched proclaiming “Year of the Customer,” for example, what happens when that year is up, he asks. “You’re talking about a transformation initiative,” he says. “The CEO made the promise that each customer touchpoint will live up to being the best or nothing.”

Far beyond an empty slogan, that meant changing the organization’s DNA, changing the culture, and changing the business, says Hynekamp. “That leaves a lasting imprint. When you have your executive team as chief evangelists, when you can rally everyone around it, that absolutely makes all the difference. You have to have relentless alignment around what it is you are trying to do. Specifically, we were all focused on creating an impact that would forever leave a legacy.”

Hynekamp and the Mercedes-Benz U.S.A. leadership team have succeeded in elevating customer experience in the dealerships to justify the famous tagline, but the transformation continues, he says. The hallmark of any true transformation initiative is that it lives and breathes—the work and job are never done.

OVERCOMING TOP CHANGE OBSTACLES

Additional barriers to change success are related to poor leadership and difficulty obtaining user buy-in, each named by about half of respondents (54 percent and 47 percent, respectively). More than one-quarter of survey respondents—26 percent—said senior leadership is often not engaged enough in leading change. Roughly the same proportion said employees are resistant to change.

That is no surprise, says Klayman. “When there’s a change, people have a lot to worry about. That’s legitimate. They are good at what they do now—that’s why you kept them. They don’t know if they will be good at the new thing. They don’t know whom they will be working with, or whether their job will be important after the change,” he says. “People have a right to be worried about these things.”

The starting point for helping employees better handle change is to let them know their concerns are valid, and to acknowledge every change has both upsides and downsides but there are important reasons to do what must be done.

At most companies, the success of a change initiative hinges not on knowing what to do but on actually developing the ability to do it.

Arik Pinto, CEO of Bank Hapoalim in Israel, is a top manager who has learned the importance of being present for employees and ensuring they understand the need for change. “The greatest focus must be on the employees—on their competence and their willingness to carry out the change,” says Pinto. “This is where the balance will be tipped toward success and away from failure. The employees have got to believe in the change and feel confident enough to implement it.”

Like many financial services organizations, Bank Hapoalim endured challenges as it began to move toward operating as a digital enterprise. “Through a desire to increase customer engagement in the digital sphere, we held several in-depth focus groups with the employees, and we discovered there was pushback on the part of the bankers, which made it difficult for them to come to terms with the change and to promote it,” says Pinto. To alleviate their fears, the bank created an individual mentoring program for each employee to assist them through the change process. The employees take part in change workshops and one-on-one training, and the bank provides additional tools as needed.

This approach makes the difference, says Klayman. “What you want to do is set your people up for success. That means finding out what they need to be successful with the new thing.” These resources could range from training—as in the case of Bank Hapoalim—or mapping out new skills and career paths opened by successful change. What’s important is to give employees back some of the autonomy they fear they are losing, letting them choose how they will engage with the new system or practice to help the organization achieve its goals.

MOVING TOWARD CHANGE SUCCESS

At most companies, the success of a change initiative hinges not on knowing what to do but on actually developing the ability to do it. Survey respondents were clear on top success factors for change, but they also reported low performance in these areas, including communication of the strategy, establishing realistic time frames, management alignment, and, of course, employee buy-in. [figure 5](#)

Organizations can take several steps to improve their capabilities in these and other areas:

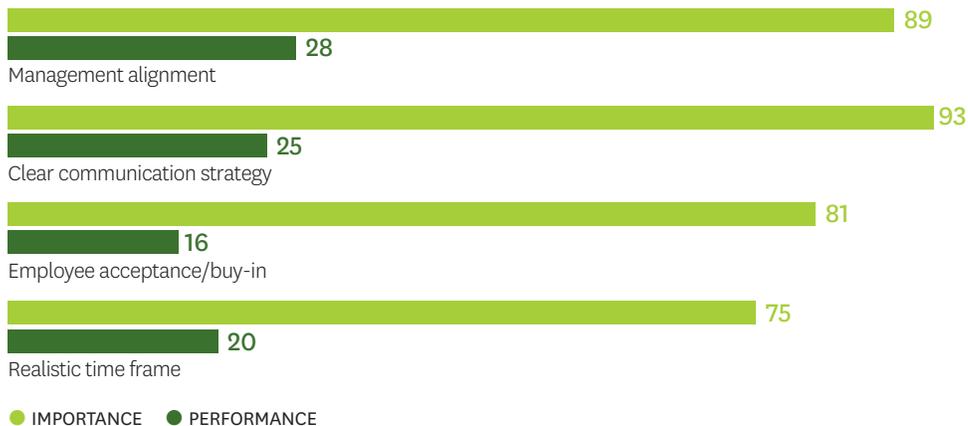
- **When change is imminent, involve employees in the strategy formulation process.** “Managers need to provide employees with a keen understanding of the forces driving the need to change,” says Chatman. “Keeping this external focus front and center through the entire organization enables employees to understand that new initiatives are grounded in realistic threats and opportunities, rather than in whimsy and poorly thought-out plans.”
- **Involve as many of the right stakeholders as possible early in the project planning,** says Jeffrey Sanchez-Burks, professor of Management and Organizations, Ross School of Business, University of Michigan. This, he says, is the best defense against unrealistic scopes of work and timelines. “If you involve people very early on—the ones who will be most affected by the change—you will be able to calibrate the scope much better right from the start,” he says.

FIGURE 5

THE CHANGE PERFORMANCE GAP

How important is each of the following to the success of a change management initiative, and how well does your organization perform on each of these same factors when implementing a change initiative?

PERCENTAGE OF RESPONDENTS NAMING “HIGH IMPORTANCE” AND “STRONG PERFORMANCE”



Source: Harvard Business Review Analytic Services Survey, May 2016

- **Provide sufficient training, support, and clarity about expectations** as employees come up to speed on new behaviors and capabilities, says Chatman. Help employees see how they fit into the post-change picture. “Focus on *why* you’re doing what you’re doing, as opposed to *what* you are doing,” adds Klayman.
- **Identify naysayers, and find out why they are reluctant to get on board.** Their reasons can reveal insights into what other employees may be thinking and feeling, which can then be addressed through various communication approaches. Employee resistance may also indicate areas of the change initiative that need to be rethought.
- **Make a concerted effort to hire adaptive people**—those who thrive in dynamic environments and are resilient. “Companies like Amazon hire people who are willing to take a lot of risk, work incredibly hard and turn on a dime. In return for these qualities, people are given the opportunity to assume significantly more responsibility than if they were working in other companies,” says Chatman. That increases a sense of autonomy, which, in turn, helps break down resistance to change.
- **Be human.** One of the most powerful ways managers can help employees accept change is very simple, says Klayman. “It is just to say, ‘We know there will be a learning curve with this. When you learn a new tool, you’re not good at it right off the bat, and that’s OK.’” Employees need to know the organization is committed to helping them succeed. “Where there are uncertainties, admit it,” he adds.

Respect employees' very human need for some space in which to assimilate change, and encourage them to contribute ideas.

TIME TO CHANGE

The human side of change has been neglected since the dawn of the industrial age, says Klayman. “That’s when scientific management techniques and a more mechanical approach to management came in. That’s when this got to be a big problem. That approach is good for things like efficiency, but it lacks the human element.”

Echoes Sanchez-Burks, “If you looked in people’s eyes, you would do the right thing,” but too often, that human connection doesn’t happen, he says. Respect employees’ very human need for some space in which to assimilate change, and encourage them to contribute ideas, and watch resistance begin to decrease. It takes work to create a strong, flexible culture, but it pays off in differentiation.

METHODOLOGY AND PARTICIPANT PROFILE

In May 2016, Harvard Business Review Analytic Services conducted an online Pulse survey of its audience about how organizations manage continuous change. The 422 respondents to the online poll represented a wide swath of HBR readers and web site visitors.

- Fifty-nine percent were based in North America, 19 percent in Europe/Middle East/Africa, 15 percent in Asia/Pacific, and 5 percent in Latin America.
- More than half (53 percent) of respondents worked for large organizations (1,500 or more employees), while 48 percent worked for medium-sized companies (100-1,499). Respondents in organizations with under 100 employees were screened out.
- All industries and sectors were included, led by healthcare/pharma (17 percent of respondents), manufacturing (12 percent), financial services, technology, and education (9 percent each). Other industries were represented by 8 percent or less.
- Twenty-five percent were C-suite level/executive management, 42 percent in senior management, 21 percent middle management, and 12 percent from other levels.
- The most frequently cited functional role area was general or executive management (25 percent), followed by sales/marketing/customer service (12 percent), HR/training (8 percent), and operations and administration (7 percent each).

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