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OPPORTUNITIES
for ACTION

OPERATIONS



■ *Major corporate transformation is perceived as a high-risk venture, but it doesn't have to be.*

■ *A disciplined reporting system focusing on the three critical dimensions that drive success—time to results, financial impact, and behavior—gives program leaders the information they need to track progress and identify risks early on.*

■ *Companies that embed this discipline into their organizations develop an ongoing ability to change and a sustainable source of competitive advantage.*

A Road Map for Change

It was midway through an ambitious, bet-the-company initiative—the kind that keeps executives up at night. The CEO listened to yet another project update with a vague sense of unease, knowing in his gut that the project would come in behind schedule and over budget, and that it would deliver far less than originally promised. He also knew that much finger-pointing would ensue. But that's how major change initiatives are, he told himself. It's impossible to control everything, so you do what you can. You communicate the vision, align the management team, involve the best people, use the right tools, and then you take a leap of faith. Some degree of uncertainty comes with the territory. It's just the nature of the beast. Or is it?

Blown budgets, uncertain returns, slippery accountability. With so much riding on the outcome of major change programs, why do so many companies leave so much to chance? Why aren't such initiatives subject to a greater degree of rigor and accountability? Major change is hard, no doubt about it. But the ability to change—to rethink strategy in midcourse and respond quickly to new threats or opportunities—is a key differentiator in today's fiercely competitive global economy. Capital markets are unforgiving of missteps and so, too, are corporate boards; the top reason that board members give for forcing out CEOs is mismanaging change and failing to deliver the numbers as a result. In fact, studies consistently show that two out of three major change efforts fail. It's no wonder, then, that corporate transformation is perceived as a high-risk venture. But it doesn't have to be.

Our study of hundreds of major change programs around the world revealed a number of systematic and reproducible ways to reduce the risks of transformation efforts so that companies can be surer of a positive outcome if they take the right steps. Our research also shows that change programs tend to trip up on the same kinds of issues: shortcomings in leadership, ineffective project-team performance, inadequate stakeholder engagement, diffuse accountability, lack of clarity on critical milestones, and no line of sight to the original business case. Indeed, for each of the three key phases of any change-management program—building the vision, developing the solutions, and delivering the results—we have codi-

fied the main risk factors to watch out for and manage. Moreover, we have found that information—the right information—is critical to success. Too often, program leaders get caught up in the details and lose track of what truly matters.

What Leaders Need to Know

Major change programs require a disciplined reporting system designed to complement—but not replace—traditional project-management tools. Instead of overloading program leaders with information or bureaucracy, such a system should provide the minimum amount of detail necessary, focusing on the three critical dimensions that drive success:

- *Time to results* and the critical milestones that keep the program on track
- *Financial impact* (tied to the business case) and the leading indicators that show progress toward the desired results
- *Behavior* that supports the project's goals or that puts the project at risk

By focusing on these three areas, companies gain the visibility, accountability, and transparency needed to track progress and identify risks early on—and their leaders are able to lead more effectively.

The CEO mentioned earlier finally established this type of disciplined reporting system—and he's sleeping better as a result. He now insists that his people develop goals regarding milestones, financial impact, and behavior and commit themselves to meeting those goals before he'll allow an initiative to go forward. That discipline ensures that the conditions are in place for successful implementation and that he and his leadership team can track the program's progress—and intervene as necessary.

Staying on Track

Large change programs involve many individual projects of varying degrees of importance, interdependency, and difficulty. Leaders must manage this complex

portfolio of projects with insight and action, or they will squander time, resources, and opportunity. Although essential to day-to-day management, project plans typically offer senior managers too much detail from multiple sources, and they don't provide the transparency needed to coordinate programs that cross business units, functions, and locations. By tracking the three dimensions of time to results, financial impact, and behavior, leaders can focus their attention on the factors that truly drive success.

Time to Results. A disciplined reporting system helps keep projects on schedule by forcing managers to define and set clear milestones, with deadlines attached. The best milestones are major actions or achievements that represent the culmination of many smaller tasks. Milestones must show where the major pressure points or risks are and define metrics to control them wherever possible. A significant project may comprise thousands of activities but have only 15 or 20 milestones. A manufacturer that was trying to integrate two R&D centers had milestones that included a comparison of the two product-development portfolios, the elimination of overlapping projects, the prioritization of development efforts, and a reduction of development staff. (Milestones can also mark critical management events, such as the initiation of market testing or the engagement of key stakeholders.)

Target completion dates must be set for each milestone so that managers can spot performance gaps and potential risks and take corrective action quickly. In the case of the R&D integration program, a potential problem that could easily have been overlooked was the threatened departure of two staff members with unique, much-needed skills. Thanks to the rigor of the milestone definitions, the reporting system helped flag the problem, and the project manager was able to step in with incentives designed to retain the employees. Frequent milestone reviews—every two weeks, at least—ensure that progress continues to be monitored and managed.

Financial Impact. Another critical task is to describe the bottom-line impact of the change program by linking milestones to financial targets and operating measures that support the goals of the original business case, such as lower operating expenses or increased revenues. This exercise helps leaders plan and prioritize initiatives. But it also clarifies the results—and offers updates, if projections change—allowing managers to see whether operating improvements are being made and to change course quickly if they're not. This focus

on delivering real operating and financial results keeps management's attention where it should be.

The Right Behavior. The third key dimension that a reporting system must track is behavior—specifically, behavior that our research shows is critical to success and truly affects program outcomes. This includes frequent and effective project reviews, capable team leadership, strong skills, high levels of motivation, visible commitment from senior management, and overall enthusiasm for the change effort. Taken together, these behavioral signposts—which we call duration, integrity, commitment, and effort, or DICE—can make or break a project.¹ By tracking relative strengths or weaknesses in these areas, project leaders can flag and fix problem behavior quickly.

Nowhere to Run, Nowhere to Hide, No One to Blame

As noted, a good reporting system forces leaders to focus on what really matters. It should generate management reports that clearly show individual accountabilities and timelines, progress against milestones, places where deadlines are slipping and where outcomes are likely to fall short of goals, and other factors that put the program at risk. When all the reports are tallied, the total amount invested and the delivered results should add up—across projects and across the enterprise. Instead of trying to keep track of multiple initiatives in a range of buckets, business leaders have an overall view of what's going on, the progress toward bottom-line impact, and the status of key issues—both in their own business units and across the enterprise. They can see the big picture instead of just hoping for the best.

A well-designed reporting system enforces the rigor and discipline needed to follow through with ambitious

1. See Harold L. Sirkin, Perry Keenan, and Alan Jackson, "The Hard Side of Change Management," *Harvard Business Review*, October 2005. Also see BCG's DICE Web site at www.bcg.com/dice.

transformation efforts. It helps instill a common language and a consistent way of approaching and evaluating projects. And, perhaps most important of all, business leaders can be confident that once an initiative gets captured by the reporting process, it really gets done. By following this process—and the discipline it enforces—leaders can avoid the experience of a large high-tech company that, eight months in, thought its transformation program was on track. Instead, it turned out that 80 percent of the projects had no milestones, no accountability, and no clarity on related costs or financial impact.

Companies that embed this discipline into their organizations develop an ongoing ability to change—and a sustainable source of competitive advantage. Their people change, too. Project champions quickly learn that vague assurances or promising business cases are no longer enough to get project approval. They know that before they can embark on a major change initiative, they must develop and capture key project information in the reporting system to ensure a successful outcome. The system becomes the insurance policy.

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