Why Some Change Programs Work And Others Fizzle

by Philip H. Dutter

Veterans in the insurance and banking industries may remember when they were viewed as being in the most stable and stodgy of businesses. Today that image is becoming a distant memory.

The level of competition among financial institutions to provide individuals and businesses with greater financial security and wealth accumulation opportunities has intensified enormously. Traditional boundaries between types of financial institutions have eroded as insurance companies, banks, securities brokers, and mutual fund organizations vie to meet the growing needs of America's baby boomers for greater retirement savings.

Spurred by competitive pressures to reduce costs, improve service, and advance both marketing and administrative productivity, executives of financial institutions have developed a growing appetite for programs that hold out the promise of quantum leaps in expense reduction, service performance, and sales productivity. Many have become convinced that incremental improvement is inadequate and that dramatic change is required to shake off the shackles of the past. Bold, ambitious terms such as "cultural transformation" and "reinventing ourselves" have become part of management vocabulary. One chief executive even went so far as to require all employees to resign and to re-apply for employment, possibly to symbolize the notion of making a clean break with the past.

Popular Programs

During the 1980's and early 1990's, the most popular type of program aimed at achieving major change was called "Total Quality Management" (TQM). Then, with the 1993 publication of *Reengineering the Corporation* by Michael Hammer and James Champy, a new buzzword, "reengineering," moved to the forefront. Since then, at least 400 companies, including a substantial number in financial services, have embarked on reengineering programs.

Along with all this fervor for major change, disturbing reports of disappointment have surfaced from the impact of many TQM and reengineering initiatives. In early 1992, the *Wall Street Journal* carried articles headlined, "When Quality Control Gets in the Way of Quality" and "Quality Programs Show Shoddy Results." A few months later, *The Economist* reported that "...of quality programs in place in Western firms more than two years, two-thirds simply grind to a halt because of failure to produce hoped-for results." Perhaps stimulated by such reports, three quality consultants wrote a book

entitled *Why TQM Fails and What to do About It* in 1993. The book aimed at combating possible perceptions that "TQM is just another management fad in decline."

Reengineering appears to be going through a similar phase of disappointments mixed with successes. In 1995, just two years after co-authoring *Reengineering the Corporation*, James Champy begins a follow-up book, *Reengineering Management*, with the sentence, "Reengineering is in trouble." His

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former co-author, Michael Hammer, in the introduction to his follow-up book *The Reengineering Revolution*, published the same year, writes, "It is reengineering failures that have led us to write this book."

A Puzzle

There appears to be a pattern of disquieting reports of disappointments and failures alongside impressive success stories. Does this mean that management should avoid being lured down the primrose path of launching ambitious programs requiring major changes in work patterns and attitudes?

In view of competitive pressures and the fact that major change programs, such as TQM and Reengineering, have produced important performance improvements for some companies, it would be foolish to dismiss them lightly. However, their failure rate also suggests that they should not be undertaken without a good deal of soul searching. Obviously, embarking on a program with a fashionable label does not guarantee success. The key question is: What are the critical requirements for making such major change programs successful?

James Champy's answer to this question is daunting. His prescription for achieving better results with change programs is to reengineer or reinvent management - to break away from stifling "command and control" habits, eliminate organizational hierarchies, and let freedom reign.

His former co-author, Michael Hammer, takes a more pragmatic approach. Hammer identifies ten elements that he believes are most critical to the success or failure of reengineering programs:

1. Know what reengineering really is before you start.
2. Identify the cross-functional processes to be reengineered.
3. Focus on objectives without getting bogged down analyzing processes in great detail.
4. Provide proper leadership.
5. Push for breakthrough ideas.
6. Test process changes before full implementation.
7. Show tangible results within a year.
8. Avoid limiting the scope of reengineering.
9. Implement quickly, improvising as necessary.
10. Address the personal needs of the individuals affected.
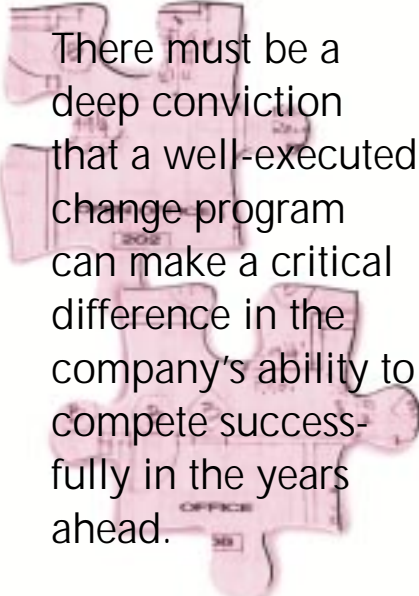
An Experienced-based Perspective

Based on my personal experience and shared observations from leading industry consultants, I consider this to be a valuable list. Yet these ten elements do not put a sufficiently sharp focus on the most critical ingredient for a successful change program.

During my consulting career, I have assisted clients in designing and carrying out 18 major change programs. This experience includes evaluating the outlook for rescuing a large, diversified company's floundering major change program and performing "10,000-mile check-ups" on many programs which we designed and implemented.

Most of these programs were undertaken in insurance companies. Six programs focused on field sales organizations; the others concentrated primarily on home office operations. None of them were called "reengineering" or "total quality management," but there were many points of similarity. All involved changing the behavior patterns of hundreds of people; all were aimed at achieving substantial improvements in productivity and some combination of faster growth, lower expense ratios, and better service.

Some of the programs I was personally involved in were extremely disappointing; most were as effective as expected; a few were even more success-

ful and long-lasting than I had dared hope. Reflecting on this experience, and particularly on those programs that exceeded expectations and those that fell short, it seems clear that the critical ingredient that determines whether a major change program succeeds or fails is program leadership.

Program Leadership

To explore what constitutes effective program leadership, the following three questions should be considered.

Who should provide the primary leadership? The person best positioned to provide the kind of leadership needed for a major change program is the company CEO, or in a decentralized company, the head of the subsidiary or division undertaking the change program. Often, even though a CEO endorses embarking on a program, he assigns the leadership responsibility to another executive, consulting firm, or some combination of the two. This can be a serious mistake. Unless the executive is in charge of the people and activities involved in the change program, this decision could backfire. Other executives or consultants can play useful roles in providing advice and support; however, they may lack the status and power to provide the strong, sustained leadership needed to bring about major, lasting change.

Both the most successful and least successful change programs I was involved in were led by the number two executive in each company. In the successful program, the lead executive had complete control over the field organization where the changes took place. In the case of the unsuccessful program, the lead executive was viewed more as a staff officer without line authority.

What kind of mind-set is needed? For a CEO or division head to make the kind of leadership commitment required, there must be a deep conviction that a well-executed change program can make a critical difference in the company's ability to compete successfully in the years ahead. A strong desire for change should be in place, coupled with confidence that the type of program contemplated can meet that need. Popular programs, such as TQM and reengineering, involve using time-tested approaches. Because of their well-known labels, however, they are susceptible to being undertaken

too readily without really understanding the risks of failure and the requirements for success. The change program that exceeded my expectations had no name until it had been successfully pilot-tested in four agencies for six months. Then it was named by the program leader and regarded as a proprietary program that was unique to the company implementing it.

What kinds of leadership actions are critical? More than anything else, an effective program leader needs to send the organization continuous clear signals of unwavering commitment to the program. This means:

• expressing the commitment in introductory announcements and meetings;

• persuading any reluctant members of the top management team to be supportive;

• selecting and freeing up top-notch, highly respected people to play key roles in the program's design and implementation.

The quality of people assigned to work full-time on a change program and play leading roles in testing and implementation says more to an organization than any words can possibly say about the strength and depth of top-management's commitment to the program.

Major change programs call for transformations that are fundamental and affect so many people that they should not be expected to be fully effective in less than a year. Most require sustained effort over a period of several years. It is important for the program leader to understand this and to show sustained commitment for whatever period is needed.

Contrasting the most successful and least successful change programs, the most notable difference is in the level of sustained commitment. In one successful case, as the program moved from a stage of increasingly broader pilot-testing to full-scale

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implementation, the number and level of full-time people assigned increased as did its prominence in top management communications. Clearly, the program leader and other members of top management had gained greater confidence and enthusiasm after more than a year of successful pilot-testing and were moving to a "full-court press" mode for wider implementation, training, and follow-up over the next two years. On the other hand, a program can move from a successful pilot-test to broader implementation where top management can seem to lose interest and a sense of urgency, even though the program may never be officially abandoned.

My former colleague, Harvey Golub, CEO of American Express, recently said that one of his top priorities is to train all employees to apply basic principles in their decision-making rather than to simply follow prescribed procedures. He plans to be personally involved in this training program, along with other members of top management, and expects the program to take five years. This is the kind of sustained leadership commitment needed to make a major change program produce lasting benefits.

Program Design Factors

While committed, active leadership from an executive with control over the activities targeted for change is the most critical requirement for success, a number of elements of program design are important.

1. Establish tangible measures of results to determine whether the desired improvement is being achieved. These can be improvements in service turnaround times, error ratios, unit expenses, time to bring a product to market, or sales productivity. They should be measures where improvement is considered important to the company's ability to compete successfully and measures that can reflect the impact of changed processes and behavior within a matter of months rather than years.

2. Structure the program so that tangible improvements in results can be achieved within a year. This can be done by selecting a process, a department, or several agencies for pilot-testing or demonstration projects. Focus on the kinds of changes in organization, work flow, and work patterns that do not require major changes in computer or compensation systems to implement successfully. Where the desired

changes in process and behavior can be enhanced and reinforced by changes that take longer to implement, these can be brought to bear later.

3. Provide amount of training and follow-up needed for the people involved to develop new attitudes, skills and habits. The first major change program I was involved in was evaluated two years down the road by an academician for his doctoral dissertation. After several hundred interviews, observations and analyses of results, it was concluded that, although the program generally produced what was desired in terms of behavioral changes and results, it could have been more effective if substantially more time and effort had been devoted to training and follow-up.

Achieving the long-lasting benefits desired requires a three to five year effort.

A Look Ahead

Despite the frustration and disappointment that many senior executives have experienced with major change programs, it seems likely that such programs will continue to be popular, perhaps under new labels, due to unrelenting competitive pressure and the ongoing struggle for competitive advantage. Brand-name programs have the advantage of offering experience-tested approaches, but suffer the disadvantage of appearing to provide a greater guarantee of success than experience justifies. As executives of financial institutions become more sophisticated about such programs, they will recognize that change programs should not be undertaken lightly, that providing strong sustained leadership at a high level is essential, and that achieving the long-lasting benefits desired requires a three to five year effort. ■

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