

THE BUILDING BLOCKS OF ORGANIZATIONAL CHANGE:

A Guide For The Modern
Finance Leader

Overhauling your processes, rewiring your product focus, creating a new culture: large-scale, transformative organizational development and change is messy, difficult—and usually fails.

This digibook contains a step-by-step guide to leading process management and overcoming the cultural and procedural challenges, with case studies and examples of how smart CFOs are leading the transformation of their enterprises.

Every organizational change is different, but we've focused on six areas that are pretty consistent challenges to CFOs trying to turn a business round:

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| <p>I. Leading Disruptive Organizational Change
138 reasons why you need to get on with it</p> | <p>IV. Winning Hearts and Minds
Culture trumps strategy—every time</p> |
| <p>II. The Three Skills To Create a Mandate for Change Management
Can anyone else in the C-Suite do cost-benefit analysis?</p> | <p>V. Seizing the M&A Moment
Take advantage of the view from the other side</p> |
| <p>III. Business Process Management In Two Words: Simplify, Standardize
“We really ought to get round to doing something about that”</p> | <p>VI. Change with Confidence
The three ways to reduce risk in organizational development</p> |
| | <p>VII. Building your action plan
Build your comprehensive list of next steps</p> |

Further reading

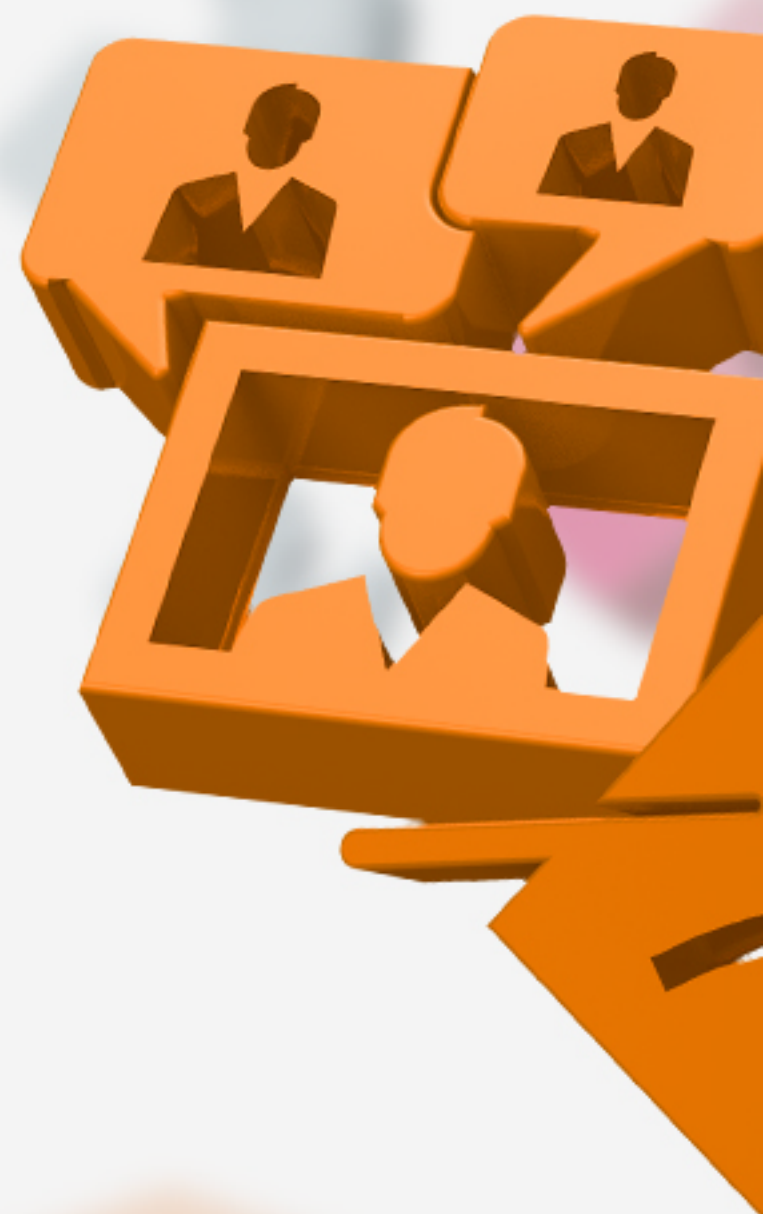
If we seem to be missing three big ticket items, it's because they're covered elsewhere in this series. Check out our three digibooks on [Thriving in the Digital Age](#), [Annual Reporting](#) and [Forecasting](#).

Who will find this digibook useful?

This has been written with CFOs and finance VPs at international companies of all sizes in mind, but our research and case studies also include smaller businesses and public sector bodies, as well as larger multinationals, so any senior finance person will find it useful. It also has insights into the life of the CFO that other C-suite team members may find useful in understanding the challenges that face the finance department during major organizational change initiatives.



LEADING DISRUPTIVE ORGANIZATIONAL CHANGE



'Same old, same old' is a dangerous place to be for a 21st century business.

There are 138 'Unicorn' startups valued at over \$1billion, and those valuations exist because each startup is expected to disrupt, overhaul and destroy its traditional competitors.

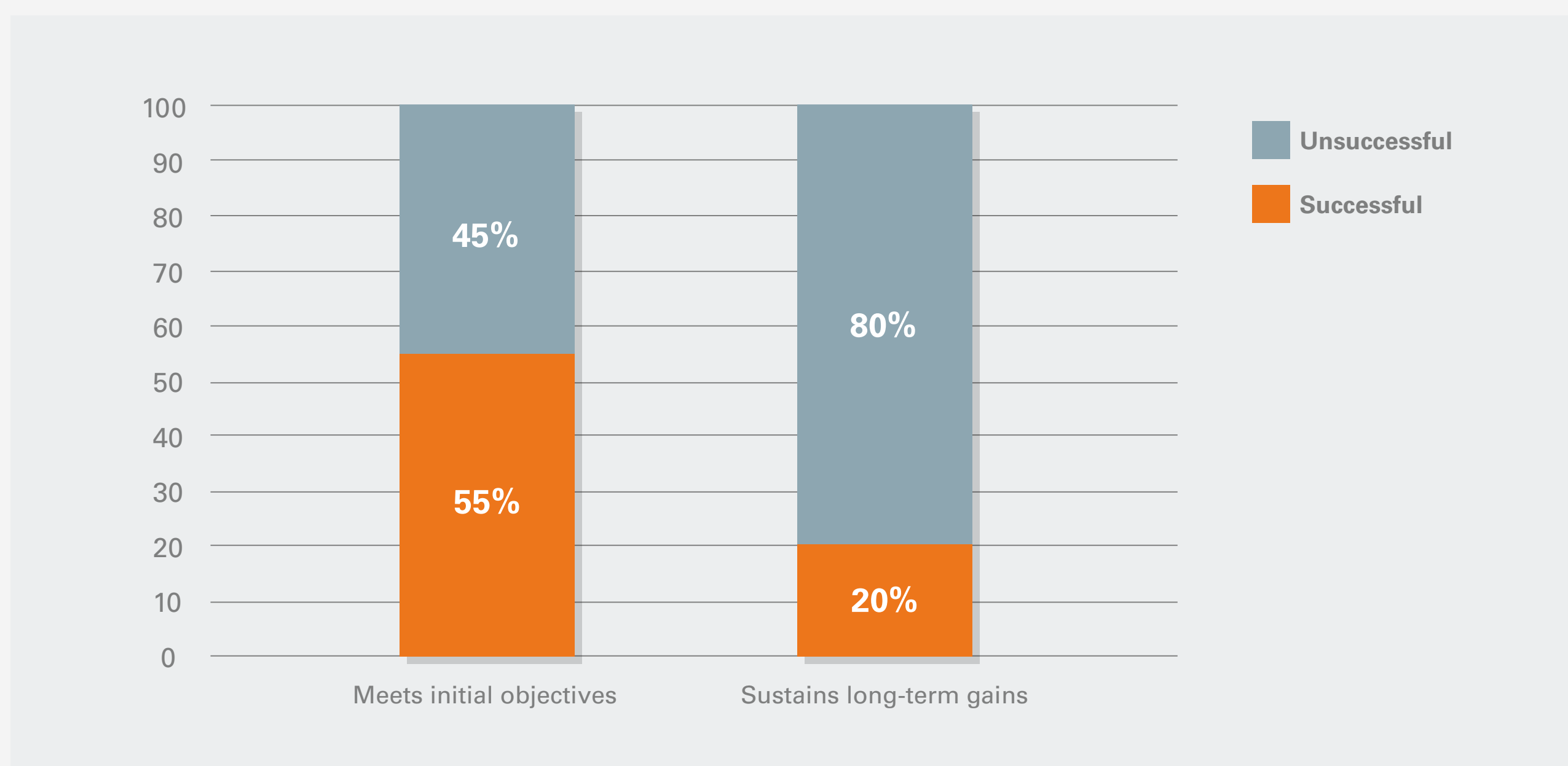
Cloud computing, outsourced supply chains and social marketing have driven the costs of launching a new global business down to the hundreds of thousands of dollars—so if there's no unicorn coming after you today, there may well be tomorrow.

And that means you need to excel at organizational change. Your case needs to be iron-clad, your process management needs to be a shining light of efficiency and your staff need to be singing the praises of your end-state. And this all needs to be done at pace: the faster, the better.

The good news is that if you are one of the 18% of CFOs who take the lead on change management, you are much more likely to find yourself in line for the CEO's role.

The bad news is that organizational change is one of the hardest things a business can do. Whether it's a product pivot, a merger or a complete restructuring, studies consistently reveal that the majority of organizational change initiatives **do not succeed** in sustaining long-term gains.

FIGURE 1: HOW SUCCESSFUL HAVE YOUR ORGANIZATIONAL CHANGE INITIATIVES BEEN?¹



Within your own department, you'll already be at the forefront of innovation in your process management, implementing transformation programs to introduce efficiencies and increases in productivity. This experience is now crucial as you become a leader of wider change in your business—a recent survey reveals CFOs expect to spend up to 60% of their time on organizational change.²

So, as a CFO, how do you own organizational development? This guide shows you how to make the case, and create mechanisms to see your plans implemented effectively. At the end, there's an opportunity to build a personal checklist to meet these challenges head-on.

¹ Towers Watson.
<https://www.towerswatson.com/en/Press/2013/08/Only-One-Quarter-of-Employers-Are-Sustaining-Gains-From-Change-Management>

² CEO Insights.
http://www2.deloitte.com/content/dam/Deloitte/na/Documents/finance/na_us-cfo-insights-navigating-change.pdf



THE THREE SKILLS TO CREATE YOUR MANDATE FOR CHANGE MANAGEMENT

Nobody joins the C-suite to be on the C-list. And yet, for every CFO with a front-line role in building business transformation, there are four who only play a supporting part.

Which one are you?

If you're going to lead change, you need a mandate from the top. You need to win the buy-in of the CEO and the Board.

And as a CFO, you have three unique skills that put you in an ideal place to get this buy-in:

Skill 1. Analytics

You're the only person on the board who knows how to use predictive analytics, which means you're the only one who can forecast the outcome of change.

Skill 2. Independence

You sit outside spending departments and are loyal only to the bottom line, which means you're the only member of the C-suite who can be trusted by all departments to make an accurate and neutral cost-benefit analysis.

Skill 3. Value-driven approach

With 80% of corporate value now sitting in intangibles,³ you know how to quantify the returns of organizational change on the share price.

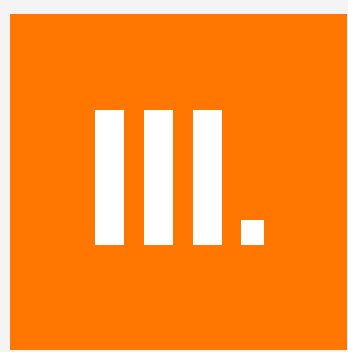
These three skills are your launchpad to building a business case that goes beyond traditional ROI measurement: using predictive analytics to model scenarios; comparing Net Present Value to the probable profitability of investing in a major organizational change; stretching your brain and the brains of your team to prove that the capabilities of the business can be enhanced.

Once you've made your case and got that backing, you're set. But that's only the beginning of the journey...

FIGURE 2: SEVEN KEY INTANGIBLES AFFECTED BY ORGANIZATIONAL CHANGE



³ "Annual Study of Intangible Asset Market Value," Ocean Tomo, 2015
<http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/>



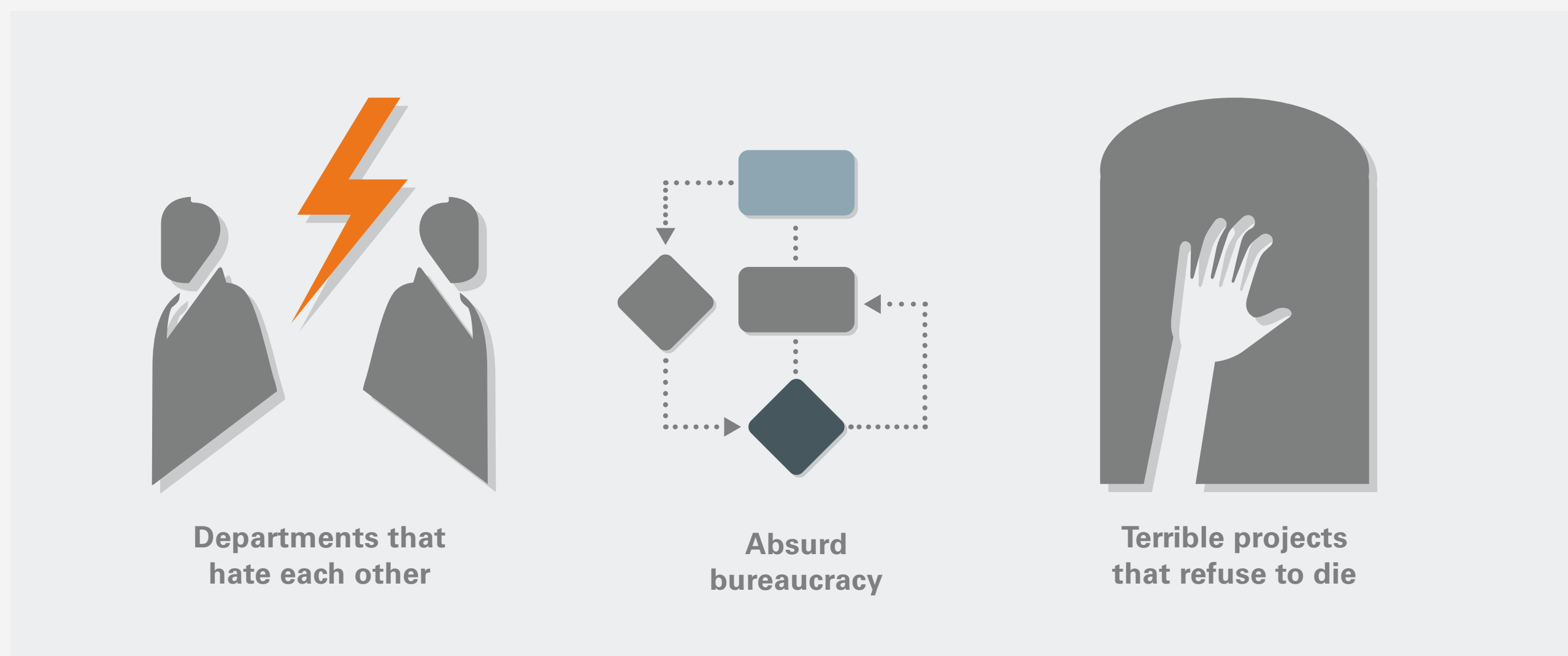
BUSINESS PROCESS MANAGEMENT IN TWO WORDS: SIMPLIFY, STANDARDIZE

Complexity kills innovation. So hold your horses—before anyone starts piling on the radical new change initiatives, it's essential to strip down your legacy processes, systems, organizations and workflow, and find ways to simplify.

This is not merely a step that needs to be taken in a *specific* organizational change: it is also an essential *ongoing* process that will make all change faster and less painful in your organization.

The problem you face is the 'normalization of deviance', and it's something that happens in even the best-run companies. There will be aspects of the business that everyone knows are insane, but which people have lived with for so long that they treat them as normal—it could be two departments that hate each other, a project that will never be ready to launch, or (most commonly) a layer of unproductive, unaccountable bureaucracy.

FIGURE 3: THREE COMMON TYPES OF NORMALIZED DEVIANCE



"We really ought to get round to doing something about that."

This phrase is the biggest source of pointless complexity in the business world. And therefore, the biggest barrier to change.

Don't fall victim to believing that you can automate these problems away. If the business process you are automating is not fit for purpose, your new technology will be compounding a weakness.

One of the main problems organizations face when undertaking business transformation arises from not having made their simplification far-reaching enough. The scope gets reduced and becomes less meaningful.

So if simplification is the first step, the next is to make it the standard. Implement it everywhere through shared services or centers of excellence. Your mandate for change gives you the authority to eliminate the exceptions.

"Standardization means having a leader saying: we are doing this, this is our end-state, we're doing it everywhere."

Loren Mahon—VP, Global Finance Systems, Oracle.

IV. COMMUNICATE AND CONVINC

Culture trumps strategy every time

A CFO can come up with a complete, inspirational case for organizational change, and explain it clearly and persuasively in a board meeting, but without cultural change it will founder.

“You need to convince people that change is good and that they need to embrace it,” says Valdemir Bertolo, CFO of Brazilian financial services business Serasa. “You can use reason to prove that the change is good, but you also need people skills to make the change happen.”⁴

One of the reasons that only 18% of CFOs currently manage business transformation processes is their perceived disconnection from corporate culture. José Manuel Alejo Cantú, CFO of Mexican automotive components group Metalsa, found that one of the biggest barriers to leading change was the perception of Finance as the function that always says ‘no’. This idea is dangerous to making your organizational change a success.⁵

This means that once you have top-down support, you need a way to create bottom-up implementation. For this, you need change agents all down the line.

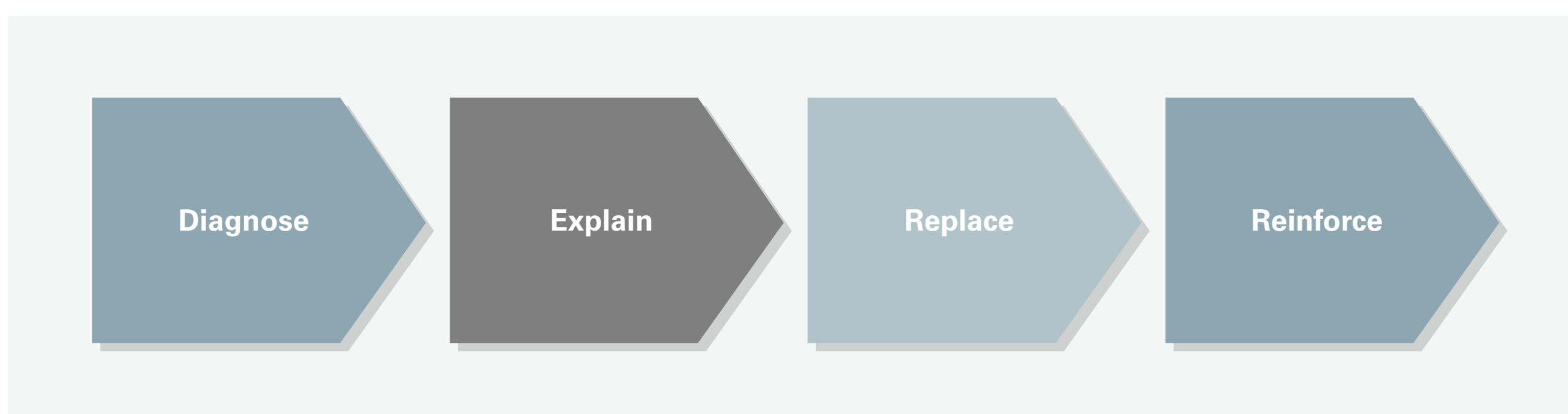
Who are they? What makes someone an effective agent of change?

Don’t go for the people with first-class technical knowledge: outside of their specific remit, they are likely to be some of your most conservative employees.

You’re looking for people who share your vision, are excellent communicators, and can troubleshoot well: they need to have the soft skills to be able to persuade and influence others to take part and share in the process.

Your team then needs to follow a simple process to win hearts and minds:

FIGURE 4: THE PROCESS FOR WINNING HEARTS AND MINDS



Diagnose what it is that your employees fear about change. It’s too easy to spend all your time concerned about redundancies—but these are HR and Legal’s problem more than the CFO’s. Your issue is to overcome the concerns of those who stay, and studies show that this generally falls into three categories:

- More work with fewer payoffs
- New roles with less satisfaction
- More oversight with less power

Explain not just the business reasons behind the change, but the benefits for front-line staff. Make sure that the information about the change comes from you as the leader and from change agents in other departments to build confidence.

Replace current mindsets—this is a long-term process, but key to success. Model scenarios and share ‘springboard’ success stories to change mentalities. Draw upon your ‘neutral’ position, outside of spending areas, to build trust.

Reinforce With patience and the relentless enthusiasm of your change agents the organization begins to realize ‘resistance is futile’ (you may also need to throw in an occasional threat—you didn’t get that mandate from the board for nothing). And then the next change effort becomes a little easier.

“At this point they don't even do it out of fear of being fired... they do [it] because they've come to understand that it's the Right Thing.”

Former Amazon employee—Steve Yegge—on how Jeff Bezos changed the engineering culture at Amazon⁶—a process that resulted in the creation of the \$25bn AWS business.



V.

SEIZING THE M&A MOMENT

Sometimes the grass really is greener on the other side—your competitors often have specific talent and knowledge you need, or a strong positioning in a specific market. As a catalyst for change, nothing beats learning from them. And when’s the best moment to do this? When you acquire them.

Everyone knows horror stories of mergers and acquisitions that have gone wrong. After the spectacular failure of the \$350bn AOL-Time Warner merger, Time Warner’s President, Richard D. Parsons blamed not just the business model, but also the lack of preparation that had gone into the cultural changes.⁷

But at its best, a merger or acquisition is a fantastically creative process: the greatest opportunity you have to overcome the normalization of deviance, and build a stronger culture. It’s also a particular opportunity for the CFO, because it’s one of the moments when the finance department has absolute control.

So, how do you make the most of M&A (without taking a spectacular leap into an AOL-Time Warner-sized abyss)?

To learn from the best talent in the merged or acquired organization, it’s vital to start considering it early on—in other words, before the deal has even been closed. Anything else is often too late.

You need to embed change management analysis into acquisition scoping. It needs to be a key element that sits alongside broader strategy, cost-benefit and due diligence. You need to consider the most probable pain points in merging two corporate cultures and identify from the beginning who will lead change in the merged/acquired organization. Nearly 75% of organizations who are successful in retaining talent post-merger target them either in or before the negotiation stage.⁸

Use your mandate to demonstrate the importance of this change management analysis—to the operational, reputational and financial sides of the enterprise.

And focus all those organizational change efforts on two end-goals:

Goal 1. Integration

Talk to the longest-serving employees about the culture of both organizations. Identify what goes well in the merged organization, and what goes well in yours and use change agents to build these into your organization’s mindset.

⁶ Google.com: Rip Rowan
<https://plus.google.com/+RipRowan/posts/eVeouesvaVX>

⁷ NY Times: Merger Article
<http://www.nytimes.com/2010/01/11/business/media/11merger.html?pagewanted=all&r=2&>

⁸ Talentmanagement.com: How to Retain Top Talent Through an M&A
<http://www.talentmgt.com/articles/how-to-retain-top-talent-through-an-m-a>

Goal 2. Measurement

Set metrics that can measure the adoption of these cultures across both organizations. This could be internal, like employee satisfaction, or external, like Net Promoter Score. You have a very limited window for this kind of cultural change, so be prepared to measure frequently to benchmark progress.

VI. THREE STEPS TO REDUCING RISK

Radical change doesn't need a radical approach. The opposite is best—make it ordinary by making it safe, breaking it down into smaller steps and setting clear milestones.

As a CFO, you will need the soft skills to bring a team towards a larger objective. Here are the three rules you must apply to achieve **successful implementation** of organizational change:

RULE 1

Calibrate the pace: Even if you have a radical end-state, you can always break it down into achievable areas. This is especially important if either you are new to the organization, or the organization is new to change (or both!) Don't let single teams bite off more than they can chew. It's vital that you **build confidence** at all levels, and a great way to do that is to achieve some **quick wins**.

It's worth deliberately designing in some of these in your early planning, so that you can be pretty sure you're going to get off to a good start. That will then enable you to carry colleagues with you as bigger challenges emerge.

Oracle's Loren Mahon notes that "10,000 foot-level change is always occurring, but when you break things down at the project level or organizational area level, things do finish. It's important to have an end—constant change of scope and design will not really create a culture of change management, it just creates fatigue."

RULE 2

Set time-bound milestones: To be able to deliver wins of any sort—quick or not—it's very important to have clear end-points when you can show success. Even if your process of corporate transformation is wide-ranging—and especially if it is, as it may sometimes seem never-ending—it's critical that you have moments when you can **evaluate progress** and show results.

It's inevitable that as circumstances change, there will be changes of scope. Without milestones and a sense of progress being made, it's all too possible that organizational fatigue will set in. As a CFO, you are ideally placed to hold individuals and the organization to account against pre-determined targets, and to show measures of success.

RULE 3

Plan for failure: As CFO, you know better than anyone the things that go wrong in your organization (after all, you're the one who has to explain them to the shareholders).

That means you can predict which bits of your organizational change are most likely to fail—moving too fast or too slow, underestimating scope, underestimating effort, customer response, and so on.

You can therefore build a bit of latency into the process so that one part of the system failing doesn't derail the whole enterprise. You build confidence by anticipating risk, knowing how to measure it and showing how you'll manage it.



BUILDING YOUR ACTION PLAN

Use this checklist to build your action plan

WHICH OF THE FOLLOWING DO YOU NEED TO DO?

1. Achieving buy-in

- Use your neutral position to gain the trust of the entire C-suite and Board
- Use predictive analytics to model and spotlight the benefits of the change
- Use your experience with intangibles to demonstrate the financial and non-financial benefits of a change

2. Persuading staff to take up change initiative

- Choose change agents to spread your vision
- Diagnose what it is that your employees dislike
- Explain the benefits of the change
- Change mindsets through modelling and sharing successes

3. Simplify and standardize

- Simplify your procedures to increase flexibility and speed
- Use your mandate to standardize your procedures across the organization

4. Take advantage of M&A

- Embed change management analysis into the acquisition scoping and planning stages
- Use change agents to integrate merged organizations' cultures
- Standardize metrics and systems to track progress in the same way across both organizations

5. Build confidence

- Calibrate the pace by setting smaller, achievable areas
- Set time-bound milestones to show clear end-points
- Allow for failure in your planning