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## Management Application Note

### The Pre-Conditions for Successful Change in Organisations

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#### Introduction

Many organisations recognise the need to change, and want change to happen. But in practice many or most Change Management programmes or initiatives fail – it is often been assessed that 70% of Change Management programmes fail - so wanting change and achieving change are two very different things. Of course, most organisations can achieve incremental changes, such as changes to process and organisational structure without too much problem. But major change initiatives usually require radical, transformational change, and transformational change initiatives usually fail because they fail to work methodically through the necessary steps. But there is another key factor, which is that the basic pre-conditions do not exist or are not met. This document is intended to help those who are thinking about or who are about to embark on a major Change Management initiative, by determining whether the pre-conditions for change exist.

#### Key Words

Change Management, Incremental change, Transformation, Transformational change, Reengineering, BPR, Change Initiatives, Change Agents, Structural change, leading change, Pre-conditions for change

#### Detail

Large consulting firms estimate that TQM programmes suffer around 2/3 failure rate, and reengineering or Business Process Reengineering (BPR) which imply major, structural change suffer from around 70% failure rate. Peter Senge in his book 'Dance of Change'<sup>1</sup> talks about how the failure to "sustain significant change recurs again and again despite substantial resources committed to the change effort...". So bad news if you're starting out on a major change initiative, because statistically your chances of success are relatively small. But of course it's not a question of statistical, chance or mathematical odds. Success is always possible, so the real question is how do you make it possible for you, and turn a mathematical chance into a certainty?

At Marketing Generics, we like and follow the approach of Kotter<sup>2</sup>, as simply put, it makes sense but also rings true. Where we are advising organisations to implement change, the evidence is clear –, if you follow a certain process (or 'steps' or 'phases in Kotter-speak), and preferably the process and in the sequence identified by Kotter, you greatly increase your chance of succeeding. But if you skip or skimp the key steps, you increase the chance of failing. Of course Kotter's steps are guides, not biblical truth, and you may wish to choose and follow other processes, but in any case, find and follow a trusted and validated process.

But many of the failures which occur happen in the early days, and the project never even makes it to middle age. This means that there is systemic failure in the project from the outset, and from our experience this is because the basic pre-conditions are not right, not

existing, or not enough. So understanding whether the pre-conditions are there is a sort of exhaustive medical check-up – it will tell you at early stage what prospects of life duration you have.

So here are the key questions, presented in a form of self diagnostic, so you can check if there pre-conditions exist, as these are essential for at least launching a major change initiative:

### The pre-condition diagnostic

Look at the questions below. Answer them objectively and honestly, and try and answer them quickly without spending too much time to reflect on what the best answer is to give:

|    |  | Definitely<br>yes<br>(Score 3) | Sometimes<br>(Score 2) | Never<br>(Score 1) |
|----|--|--------------------------------|------------------------|--------------------|
| 1  | Do you understand what the macro strategic challenges facing the business and what the organisation needs to look like in order to succeed?                |                                |                        |                    |
| 2  | Is there a major external catalyst, event or crisis which is driving change in your organisation?  |                                |                        |                    |
| 3  | Is the CEO prepared to personally initiate, drive, lead and manage the change initiative, spending significant time and effort over the next, say 5 years? |                                |                        |                    |
| 4  | Does the CEO have the 'stomach' to fight against vested interests (internal and external) over say a 3-5 year period?                                      |                                |                        |                    |
| 5  | Does the CEO have the charisma, image and credibility as a change agent?   |                                |                        |                    |
| 6  | Does the organisation have a clear view of what's its mission will be, and what business model it will have after having effected the change?              |                                |                        |                    |
| 7  | Is the organisation prepared to kill sacred cows' on the way?  |                                |                        |                    |
| 8  | Are the change agents ready for the long haul? (Sustaining the change over say, the next 3-10 years?   |                                |                        |                    |
| 9  | Is the organisation prepared to invest significant money in the change initiative over several years (excluding straight restructuring costs)?             |                                |                        |                    |
| 10 | Is there hard data to support the difference for the business between life now and life after the change?  |                                |                        |                    |
| 11 | Is there emotional acceptance by the workforce of the need to change?  |                                |                        |                    |
| 12 | Does the need for change have critical mass / momentum amongst a significant number of senior managers?  |                                |                        |                    |
| 13 | Is there a shared / common Vision by senior / middle management across the organisation of what the business will look like after it has changed?          |                                |                        |                    |
| 14 | Is the business prepared to change the very culture of the organisation?   |                                |                        |                    |
| 15 | Does the organisation have a track record of regular, open, honest and close or intimate communication with its workforce?                                 |                                |                        |                    |
|    | <b>Total Score</b>   |                                |                        |                    |

### How to read the scores

If you have 35 to 45, congratulations because you probably have the necessary pre-conditions for a successful major change initiative.

If you have 25 to 34, then the chances for successful change are limited and you need to work on the preconditions before embarking on the change programme.

If you have 15 to 24, then unfortunately your programme stands little or no chance to even get off the ground, let alone achieve sustained flight.

### The significance of the questions – why are these the pre-conditions?

By this stage you may be asking what is the significance of these particular questions, and the extent to which these factors will really determine the success of not of your change initiative, so here are the reasons behind the questions:

1. **Do you understand what are the macro strategic challenges facing the business and what the organisation needs to look like in order to succeed?** Many organisations are living out their heritage or legacy. On the positive side, they may have many years of history, culture and a particular business model that has lasted them up until now. In a sense recognising that there's a need for change is the easy bit. In practice, at a pragmatic level many people at all levels in the organisation often recognise the need for change ("..it's about

time things changed around here...”, many people at all levels will say). But knowing what you want to change to is much more difficult. Transformational change is radical, structural change, and requires a strategic understanding of the macro issues and forces at play. Richard Branson has just announced for example that he will undertake a strategic review of Virgin Atlantic, because, following the new alliance between BA, Iberia and American Airways, he knows very well that that strategic horizon has irreversibly changed, and that Virgin Atlantic will have to now make major structural change if it wants to keep a place in the game. So a strategic understanding of macro factors and game changers is a vital pre-condition.

**2. *Is there a major external catalyst, event or crisis which is driving change in your organisation?*** As we said before, many managers may recognise a clear need for change, but implementing change and making it stick is a real challenge. In the end change management is about changing people, or getting people to accept change, and most people don't like change, or certainly not if it happens to them. So there needs to be a major external event which will provoke the change. Whilst there are quite defined lists of what these catalysts are likely to be, the real catalysts are ones which are threatening: being purchased by another business is clearly pretty threatening to most of the employees in the company being purchased; bankruptcy is another (extremely!) threatening event, and so on.

So the death or near-death experience certainly 'concentrates the mind', but more importantly it gives the shock necessary for even the complacent and self-serving to realise that things are going to have to change around here. Whilst we talk here of threatening events, there are many other scenarios, such as disruptive change (new technology, new products, new entrants, and so on) which might provoke an organisation and give it the *raison d'être* to change, but the problem is that some of these types of changes can manifest themselves over a long period of time, (after all, at what precise moment and after how many years did high street retailers get threatened by online retailers?), and so the less brutal the change, the more the difficulty to kick start the initiative.

**3. *Is the CEO prepared to personally initiate, drive, lead and manage the change initiative, spending significant time and effort over the next, say 5 years?*** Managers can lead incremental change initiatives, but for changes with high levels of organisational complexity and high intensity of change there is only one person with the power to make change happen, and that is the CEO. Transformational change is simply not possible without the personal involvement and commitment of the CEO. So he has to be the visible persona of change in the organisation, of course working through, and with the support of his senior team who we hope will be equally committed. But in the end it's down to the CEO personally to lead. Think Gerstner at IBM, or Welch at GE. And just to be clear, we are not talking about just launching the change initiative, making a few nice speeches and then walking away – this is something that the CEO has to live and breathe and own, and that's why we say "spending significant time and effort over a reasonably long period of time" is a necessary pre-condition.

**4. *Does the CEO have the 'stomach' to fight against vested interests (internal and external) over say a 3-5 year period?*** In practice, it's by no means certain that the CEO will have the support of all his senior team. In fact opposition to the changes may be strongest from his closest and most senior staff. This is nothing more than human nature, because these guys have climbed so far up the slippery pole of life that they have the most to lose, so vested interests become critical. This means that at some stage the CEO may have to confront even his closest colleagues, and not back down. So the question is whether the CEO has the stomach for a fight?

**5. *Does the CEO have the charisma, image and credibility as a change agent?*** Well by now you can probably see a theme emerging, but whilst charisma is not a mandatory requirement for leading change, it doesn't half make a critical difference, and so how the CEO will be seen and perceived in leading the change is vital

**6. *Does the organisation have a clear view of what's its mission will be after having effected the change?*** This is quite similar to Question 1, but treats a different angle. Because whereas Question 1 is about understanding the macro external factors, this question is about the heart and soul, the vision and mission of the organisation, and this implies a thorough understanding of what makes the organisation 'tick' and its fundamental role in life. But we are talking here about what its mission will be in the future, after the change, so the change initiators need to be able to project forwards and determine the organisation's future mission. The shift of manufacturing from the west to the east for example, may fundamentally change the mission of what has historically been a manufacturing company. Shifts in the value chain are forcing many companies to move up the value chain and change their mission from manufacturing products to solutions, like IBM did in the late 80s, and so on. Being able to shape a vision as to the company's new mission is a critical pre-condition

7. ***Is the organisation prepared to kill 'sacred cows' on the way?*** This is fundamentally linked to Question 7 above, because if the company is not prepared to sacrifice its sacred cows it may not be ready or able to take the hard, adaptive decisions necessary to make transformational change.

8. ***Are the change agents ready for the long haul? (Sustaining the change over say, the next 3-10 years?)*** Change is naturally a difficult and slow process, and the change initiatives and agents have to be fully understanding of the timescales. Improvements can of course be achieved in relatively short timescales, but transformational change takes a long time. One could say that, logically it's impossible to measure how long a change project takes, because it's ongoing and continuous and there's no single finish point, but 3 years is probably just enough to get a serious change project underway. Five years might be the period before you see real cultural and significant business performance change; and 5-10 years might be the duration of a major change initiative, just before you have to start all over again! But the point here is, this is not for the faint hearted, or those with ADD (Attention Deficit Disorder), or low stamina

9. ***Is the organisation prepared to invest significant money in the change initiative over several years (excluding straight restructuring costs)?*** Major change is very expensive. Firstly it is going to require a lot of time and effort not just of management, but of the whole business. Secondly, you need to buy things or pay for certain things in order to make the change happen. At a very simple level, we may have to get new, different people into the business if we are going to drive changed culture, and that could be expensive; you need to set up reward and enforcement mechanisms, and this will cost. Restructuring costs are clearly going to exist, but these are often the subject of various tax breaks, so the better question is are you really prepared to put real money on the table to achieve the change you seek?

10. ***Is there hard data to support the difference for the business between life now and life after the change?*** One of the biggest challenges is to make the business case for launching the change initiative and showing the hard data of the business results now and in the future is one of the easiest ways to get support from managers around the business as well as external stakeholders.

11. ***Is there emotional acceptance by the workforce of the need to change?*** Although we have just talked about the need for data, at the end of the day, it's the people who have to change or be changed, and many change programmes fail because the people just don't feel the emotional need to change, or they don't sympathise with the need for change. Without this emotional link by a significant majority of the workforce, the project is doomed.

12. ***Does the need for change have critical mass / momentum amongst a significant number of senior managers?*** Kotter talks about building the powerful guiding coalition for change, but there is also the need to get a critical mass of senior managers really committed to, and prepared to invest their personal time and reputation. How many is enough? Well it depends upon the type of change and size of company, but if you take a large company of 50,000 employees it may have some 5000 managers of various levels, and you probably need a hard core of at least 50 -100 middle /senior managers who will really commit 100% to drive the change across the business. This implies, of course, that they have bought into the need for change and agree the vision for what life will look like after the change.

13. ***Is there a shared / common Vision by senior / middle management across the organisation of what the business will look like after it has changed?*** Clearly if you want to get the managers to drive the change through all the different levels, you need them to understand and agree the vision. This is closely to the question of communication, which is treated below.

14. ***Is the business prepared to change the very culture of the organisation?*** Culture is what defines the organisation and makes it what it is. It is about where the organisation has come from, what is, and what its approach and how it does things. Culture is close to values – dear to the heart. But in reality culture can be positive – the glue or organising thought for a business – but it can also be its Achilles heel, leading to blind spots, and entrenched ways of doing things in a world which requires new, different behaviours. So very often changing the culture becomes not just something necessary to do on the way to achieving change, but it might be the very core target of what most needs changing. When organisations get complacent, get lazy, start to deliver poor service, miss dates, lose their innovation or competitive spirit, or lose their hunger, then you have to attack the very core values of the organisation and its employees, because the existing culture is what is now

holding the organisation back. But be prepared for what could be a mighty, stormy battle. Do you and the leadership have the stomach for this?

15. ***Does the organisation have a track record of regular, open, honest and close or intimate communication with its workforce?*** How are your communication skills, because if you answered 'yes' to all the other questions, but there is poor communication, the project will either not get off the ground, or be sustainable. So the first question is whether your organisation and its leadership really have the communication skills and habit to be able to communicate the change effectively - and track record is the best predictor here.

Some organisations have a good track record of keeping people informed, but the acid test is not whether the organisation thinks it's good at communication, but how the communication effort is perceived by the employees – so a look at the recent track record will tell you how the employees perceive management's ability to communicate. After all, if the management are unable to communicate simple things like financial results or current strategy, it's unlikely that they will be able to communicate a major, complex change initiative.

The next dimension, assuming that the organisation is able to communicate well, is the sheer effort required. Kotter makes the points that most organisations grossly underestimate the amount, intensity and duration of the communication effort necessary, and typically underestimate by a factor of 10. So a quick check would be to look at whatever effort your company makes to communicate with its workforce, and reflect on whether it would actually be able to sustain 10 times the current level!

## Conclusions

Making major change is not for the feint-hearted. It's difficult, painful, and energy sapping. Given that the majority of change initiatives fail, it's important for organisations to understand why that is the case, and in the majority, they fail because the pre-conditions don't exist in the first place. This document has laid out the necessary pre-conditions. If you or your organisation are thinking about embarking on a major change initiative, work through the check list in the table above, and if the pre-conditions don't exist, then work through that list and address them before starting out on the actual change initiative.

## Footnotes / sources:

1. Peter Senge: 'Dance of Change - Dance of Change: The Challenge to Sustain Momentum in Learning Organizations'
2. John Kotter: 'Leading Change: Why Transformation Efforts Fail'

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Contact Marketing Generics at [ianthomas@marketing-generics.com](mailto:ianthomas@marketing-generics.com)  
or visit our website at <http://www.marketing-generics.com>