Economist Intelligence Unit

The Economist

The burning platform
How companies are managing change in a recession

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A report from the Economist Intelligence Unit

Introduction

According to Harvard Business School professor John Kotter, the reason many change initiatives are unsuccessful is that they fail to establish a sense of urgency. The current economic crisis provides the perfect burning platform. Companies everywhere are being forced to examine the fault-lines in their business under the pressure of sharply reduced demand, the failure of suppliers and partners, limited access to finance, and other consequences of the downturn. Many firms find this an inauspicious environment in which to attempt fundamental change in processes, behaviours or structures, for fear of subjecting the organisation to even greater strain. Others, however, see the crisis as a unique opportunity to achieve just that.

In order to assess the degree of change that firms have been experiencing since the onset of the economic crisis, and how they are handling its internal consequences, the Economist Intelligence Unit surveyed over 500 executives in Europe and the US in July-August 2009. This is the second in its annual series of reports on change, sponsored by Celerant Consulting.

About the survey

The Economist Intelligence Unit survey of 561 senior executives covered the US, UK, Germany, France and seven Scandinavian and Benelux countries. Just under half of the survey participants hailed from the automotive, manufacturing, energy and natural resources, telecommunications, and chemicals sectors, with the remainder coming from 14 other sectors. All of the firms represented in the sample have annual revenue in excess of US$500m. Our thanks are due to the survey respondents and interviewees for their time and insight.

Our editorial team executed the survey and conducted the analysis. Clint Witchalls wrote the report. The findings expressed in this summary do not necessarily reflect those of the sponsor.

Key findings

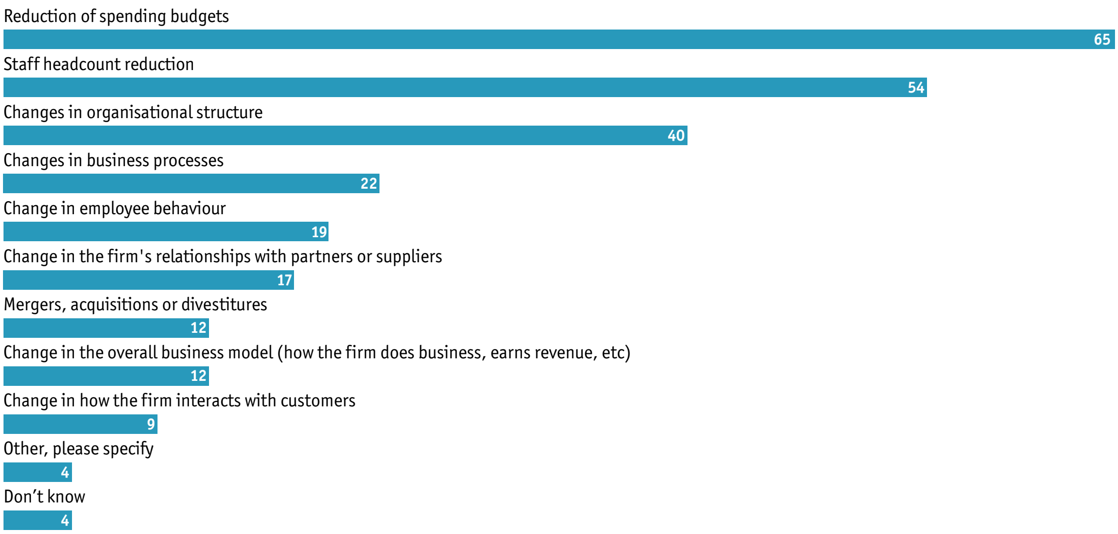
Following are the main findings to emerge from the research.

A unique opportunity to push change

The global economic crisis has left no industry untouched. Although the problem began as a housing bubble in the US, it soon infected financial services firms the world over. Economists expected the worst for countries that rely on service industries for the bulk of their GDP (gross domestic product). However, when the panicked banks stopped lending, businesses and consumers stopped buying. Export-dependent countries also began to falter and soon most of the world's major economies went into recession.

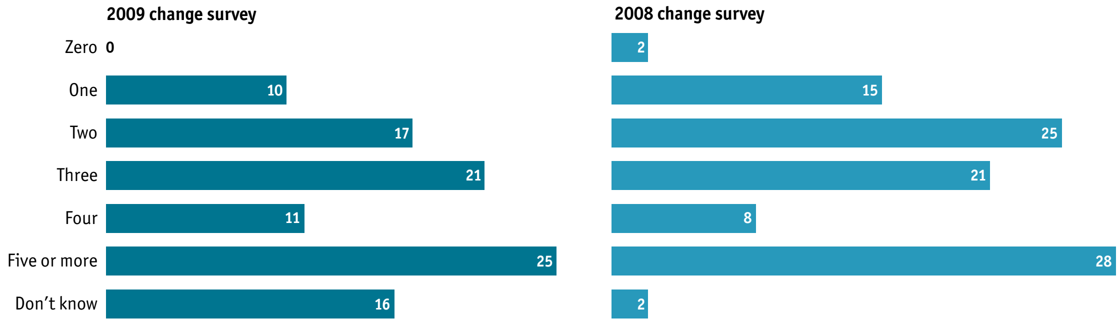
Given the systemic nature of the crisis, it would be understandable if firms blamed their falling profits on external factors. However, our survey reveals that many firms have been looking for causes closer to home. The majority of survey respondents (59%) say that the crisis has revealed

What are the primary forms of change that have been implemented in your organisation since the onset of the crisis?
Select up to three.
(% respondents)



Source: Economist Intelligence Unit survey, 2009.

How many change management initiatives do you estimate your organisation has launched in the last 12 months?
(% respondents)



Source: Economist Intelligence Unit survey, 2009.

shortcomings in their organisation that they are attempting to redress. The opportunity is not being wasted: two-thirds of participants say that their organisation is using the crisis as an opportunity to drive through change that would have been difficult to achieve in better times.

Most of the change appears to be of the "one off" variety—that is, not project based—which suggests that urgent corrective actions are being taken. Even if taken in urgency, however, many such changes may nonetheless prove valuable. Previous recessions have shown that firms that fail to follow the prescription of "cut once, cut deep" find themselves at a serious disadvantage as the recession progresses.

Conserving cash is important in any recession, but particularly so in the current one given the severity of the credit crunch. Perhaps unsurprisingly, the top two changes that firms have implemented since the onset of the crisis are both aimed at improving cashflow: spending cuts and reduction of headcount. These sorts of change can be implemented quickly and have an almost immediate impact on liquidity. Further down the list are the changes that require upfront investment and long-term commitment: changes in business processes, in employee behaviour and in business models.

Some change initiatives are just too important to put off

Only 6% of firms in the survey have suspended change programmes as a result of the financial crisis, and a further 28% are running programmes that were launched prior to the crisis but now on reduced budgets. The majority (60%) of firms, however, are continuing with existing change programmes and even launching new ones, and many existing programmes are being accelerated. Overall, the number of change programmes firms have launched in the past twelve months is more or less the same as in the previous year.

Change programmes that were launched in response to external factors tend to continue despite the economic downturn (see box, "BASF: Preparing for the people crunch", below). In some cases, as suggested by the survey respondents, the recession has even highlighted the need to expedite existing change programmes.

New change programmes tend to focus on the short term

There appears to be a focus on short-term change programmes rather than on long-term ones; the majority (58%) of respondents confirm that this is the case at their organisation. This is particularly true of the automotive industry where 27% of executives agree that short-term change programmes are taking precedence. (Telecommunications industry executives report greater interest than their peers in other sectors in long-term programmes.)

Given this short-termism, it is perhaps unsurprising that, since the onset of the crisis, the element of change that the automotive industry has had most difficulty with is "sustaining results". Over the past five years, the automotive industry has also had less success with change initiatives than other heavily represented industries in the survey, with only 32% of executives saying that half or more of the change initiatives at their organisation have been a success in the past five years, compared with 69% in the energy and natural resources industries and 57% in the overall sample. A staggering 40% of auto industry executives acknowledge that no more than a few projects have been successful.

According to Jonathan Trevor, lecturer in Human Resources and Organisations, Judge Business School, University of Cambridge, it is management's focus on the short term that contributed to the current economic downturn. "There are some short-term actions that need to be put in place simply in order to survive," he says, "but having survived, I think firms must focus in the medium to long term to avoid a repeat of the current situation."

No function has escaped scrutiny

Marketing and advertising budgets are usually the first to be cut in a downturn. Budget cuts are often followed by job cuts and then departmental reshuffles. In this recession, however, according to our survey panel, most functions have experienced similar levels of upheaval. About half of all

BASF prepares for a people crunch

Some change projects are too important to be derailed by a recession. BASF, a German chemical company, is forging ahead with its change programme, Generations@Work, despite the tough economic conditions.

The ageing population is a big concern in Europe. By 2020, one in three workers in the European Union will be 50 years or older. The problem is particularly acute in Germany, where the low birth rate has led to a year-on-year population decline since 2002. The recession may have offered a temporary respite, flooding the market with employable people, but, according to Hartmut Lang, head of HR strategy at BASF, this will have little impact on long-term trends. According to the firm's demographic projections, the war for talent will begin in earnest between 2015 and 2020.

The Generations@Work programme was launched in 2006 after a strategic review highlighted demographic change as one of the most serious issues facing the company. What began as a local initiative soon went global. Many of BASF's 97,000 employees are based in countries with ageing and dwindling workforces, namely Germany, Japan and the US.

Mr Lang says that the goal of the programme is to minimise the risks associated with demographic change—both external risks associated with shrinking and ageing populations, and also internal risks related to the ageing of BASF's employees. This is to be achieved mainly by improving the employability of older workers.

Previously, due to early retirement programmes, career development of people over the age of 50 was not seen as important—neither by the company nor the employee. Now that the retirement age in Germany—and many other countries—is being increased to 67 years, re-training a 50-year-old makes good business sense. "We need to make sure that a new job, a job rotation or even a step higher or additional training courses are just as normal for someone aged 58 as it is for someone aged 38," says Mr Lang.

One of the most challenging aspects of the programme is changing people's perceptions of older workers and of ageing in the workplace. Mr Lang says it is not something they are trying to do all at once. It is also not something that BASF is trying to do on its own. Mr Lang stresses the importance of involving external stakeholders, including schools, universities and trade unions. "We need the co-operation of all forces in society in order to make the change happen."

In your view, approximately what proportion of change initiatives has been successful at your organisation over the past 5 years?
(% respondents)

	Total	Automotive	Chemicals	Energy and natural resources	Manufacturing	Telecoms
None	1 %	3 %	0 %	0 %	2 %	0 %
Few	16 %	37 %	16 %	7 %	17 %	19 %
About one-quarter	14 %	12 %	18 %	15 %	18 %	15 %
About half	26 %	10 %	28 %	39 %	33 %	23 %
About three-quarters	22 %	17 %	12 %	15 %	25 %	23 %
Most or all	9 %	5 %	8 %	15 %	2 %	4 %
Don’t know	11 %	17 %	18 %	9 %	3 %	15 %

Source: Economist Intelligence Unit

respondents, across all departments, agree with the statement: “My function has experienced a great degree of change as a result of the financial and economic crisis”. The function that has been buffeted most by the crisis, to judge by the survey results, is finance, where 63% of respondents agree or strongly agree with the above statement. The supply-chain, procurement, IT, general management, and marketing and sales functions have also felt the impact of change heavily.

Why change programmes fail

Successfully implementing change appears to be getting tougher. In our 2008 survey, 70% of respondents said that, over the past five years, one-half or more of the change initiatives at their company had been successful. This figure has fallen to 61% in the current survey, indicating that last year’s results blotted the copybook.

The main reason change programmes do not succeed appear to be a lack of clearly defined or achievable milestones and objectives (reported by 29% of respondents). The second most commonly cited reason for failure is a lack of commitment from senior managers (19%). The previous survey also cited these as the top two reasons for failure.

Employee resistance is another factor in the failure of change programmes: 14% of survey respondents say that change initiatives failed in the last year mainly owing to management’s inability to win over employees’ hearts and minds. The problem is particularly acute in the automotive industry where one-quarter of respondents cite employee resistance as the main reason why change initiatives have failed over the past 12 months.

The easiest parts of any change programme are the technical aspects such as mobilising a project team or writing a new value statement. The hardest part, according to our survey panel, as suggested above, is “winning hearts and minds”. Both this year and last, the survey respondents single this out as the most difficult element of any change programme. It is one thing to get people to state their commitment to a change initiative, but if they have not truly bought into the change, the programme will ultimately fail.

Behavioural change for carbon reduction at Verizon

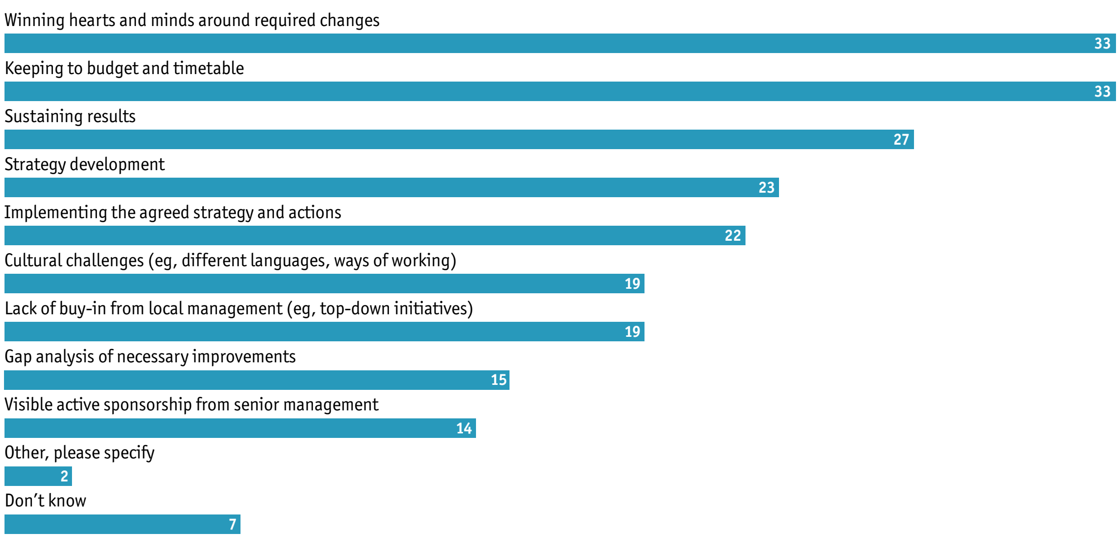
Verizon, a US telecommunications firm, launched a change initiative called the "idling reduction programme" in 2008. The goal was to get field engineers to switch off their vans or cars when these vehicles were not in use. In winter, the engineers leave their vans idling so that they can return to a warm vehicle, and in summer they leave the van idling with air-conditioning running for the opposite reason. By switching the vans off, Verizon could reduce fuel costs as well as the company's carbon footprint.

The recession had a positive impact on the programme as a global fall in demand for oil caused a lowering of retail petrol prices. "Gas in April 2008 was about US$3.28 a gallon, and now we're looking at it being a dollar less," says Joan Simpson, vice president of green and sustainability strategies at Verizon. The company used the windfall to fund the software that monitors the vehicles' idling times. In the first five months of the programme, according to Ms Simpson, Verizon saved 600,000 gallons of fuel.

"I think the default comfort zone for managers and leaders are the technical aspects of change management as opposed to the softer aspects," says Mr Trevor. "It is the latter that matter the most, but they are also the hardest to achieve."

When Verizon, a US telecommunications operator, introduced a programme to encourage its field engineers to reduce fuel consumption in their service vehicles (see box), executives spent a lot of time communicating the importance of this effort to front-line employees. They had to convince the technicians that the in-vehicle software was not being used to monitor and control the drivers, but to monitor and control the vehicles. Ms Simpson says that it took two to three months of intense discussion to get everyone on-board, but it was time well spent. To get the drivers on-board, the programme leaders started a competition between garages to see who could save the most fuel by cutting idling time. "Each garage was trying to show how much they could save and the competitive spirit took over," says Ms Simpson.

Since the onset of the crisis, which element of change initiatives has your organisation experienced the most difficulty with?
(% respondents)



Source: Economist Intelligence Unit survey, 2009.

Nearly as tough a challenge for change programmes as winning hearts and minds, according to respondents, is keeping to budget and timetable. As a result of the worsening economic conditions since the previous survey, this concern has escalated in importance, from ninth place in the 2008 survey to second in 2009. A possible reason for this is that the headcount reduction and budget cuts, mentioned earlier, will equally apply to change project teams. Project managers will be expected to do "more with less". In this environment, there is scant margin for error, and projects that fail to meet their deadlines or stick to budget may find themselves cancelled.

What the future holds

Despite the surveyed firms' mixed record of implementing change initiatives, some 71% of respondents say that their companies are dealing with the changes resulting from the financial and economic crisis, "reasonably well", while a further 8% believe that their firms are dealing with the impact of the crisis "extremely well". Among the major industries in the survey, the most up-beat are telecoms and energy and natural resources, in each of which 80% of respondents believe that change is being dealt with reasonably or extremely well. This optimistic view may be due to the fact that most of the changes implemented since the onset of the recession have been of the "quick fix" variety—cutting budgets and laying off staff. However, our data suggests that, when it comes to long-term change programmes—which require more stamina, commitment and finesse—there has been little improvement.

As attractive as the opportunity may now be to try and drive through difficult behavioural and organisational change, it is clear that downturn has focused executive minds on cost containment. Over next 12 months, most change initiatives will indeed be motivated by the need to reduce costs, judging by the survey results. Cost reduction was also the most frequently cited objective of change programmes in last year's survey (52% of respondents), but significantly more executives this year (66%) expect cost to be the main factor.

Both automotive and telecoms industry executives see "increasing revenue" as the second most important driver for change in the coming months, ahead of "preparing the organisations for future challenges". While the automotive industry has been bolstered by government "scrappage schemes" in many countries—helping Germany and France return to economic growth in the second quarter of 2009—the industry will have to stand on its own two feet when funds for these schemes run out later this year. Although the telecoms industry has fared better than other, many of the big firms reported falling second quarter profits in 2009 (Verizon, BT, Telefonica, France Telecom). Landline revenues continue to dwindle and many new challengers are on the horizon, including software firms such as Google and Microsoft. Finding a more profitable business model is going to be critical for the telecoms operators in the coming year, hence the heavy focus on revenue growth.

Conclusion

In the recession of 2000, Johan Stael von Holstein, then CEO of Letsbuyit.com, told *The Sunday Times*, "This is a bad time for people who don't like change." Mr Holstein could have been speaking today. The recession has left no industry untouched and, as our survey shows, no function untouched. There is an unprecedented level of organisational change. Mr Trevor of Judge Business School describes the degree of change as "quite humbling and, at the same time, also quite exciting".

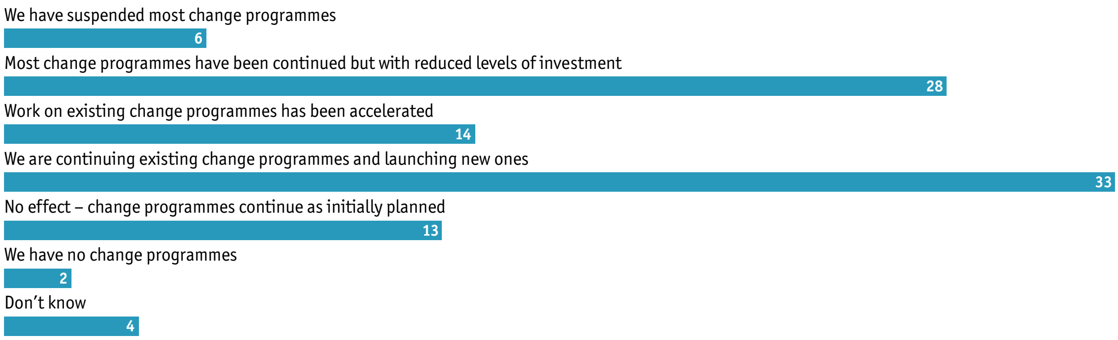
Many businesses are certainly using the crisis to their advantage, questioning old assumptions and using the "burning platform" to drive through change. And the news so far seems to be encouraging. Despite the previous five years showing a dismal record of change implementation, most executives in our survey believe that change at their organisation is being handled well. There is a danger, however, that firms are using the crisis to launch change initiatives too rapidly, with too heavy a focus on short-term objectives.

While the winning of "hearts and minds" is consistently cited as the most difficult aspect of change, many firms must be achieving just this, judging by the finding that over 50% of executives say half or more of their change initiatives have succeeded in the past five years. Employee resistance remains a constant challenge, but change projects mainly seem to fail because managers do not set clear objectives and achievable milestones. Perhaps because this is not deemed to be the most taxing part of a change initiative, it can be overlooked or rushed. If the success rate of change programmes is to improve, more time should be spent in the planning of projects, in order to ensure that the objectives are understood by all stakeholders and the milestones are attainable. The crisis may have produced a sense of urgency, but a steady hand on the tiller is as critical as ever.

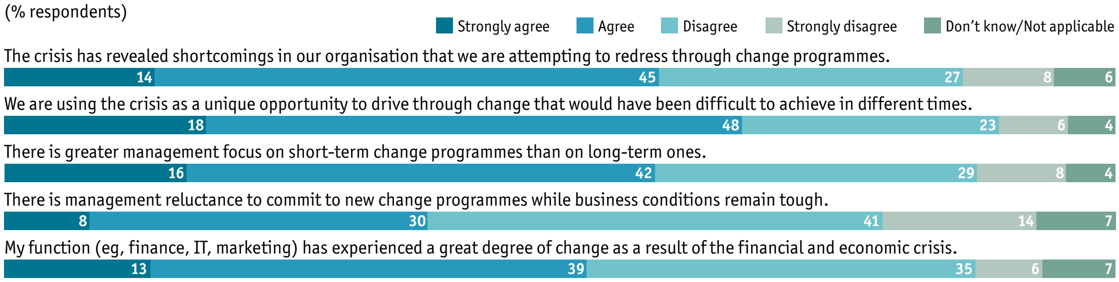
Appendix

The Economist Intelligence Unit surveyed 561 senior executives across a range of industries in North America and Europe between July and August 2009 on the topic of change management. Please note that not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers to some questions.

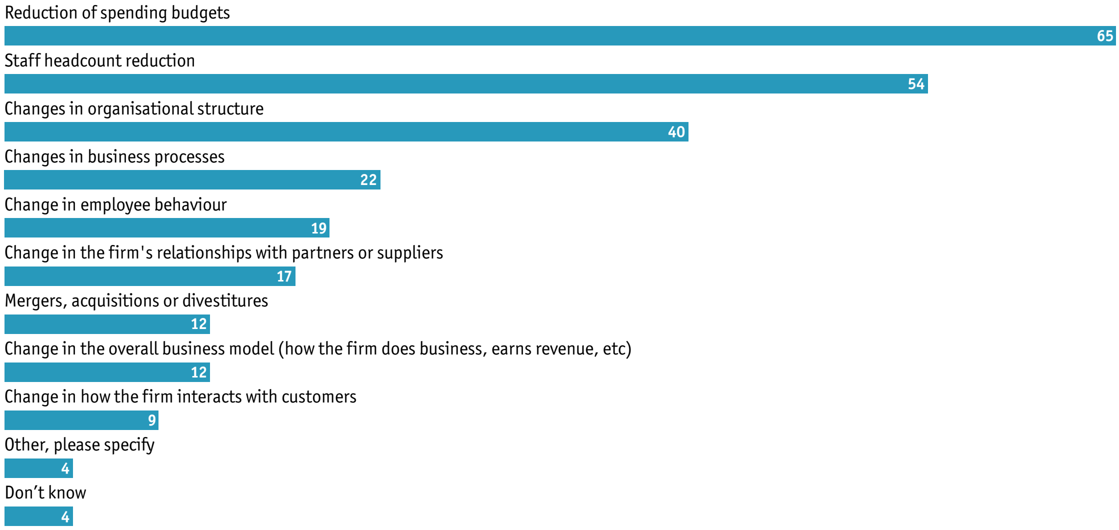
How has the financial and economic crisis changed your organisation's internal priorities towards change programmes over the past 12 months?
(% respondents)



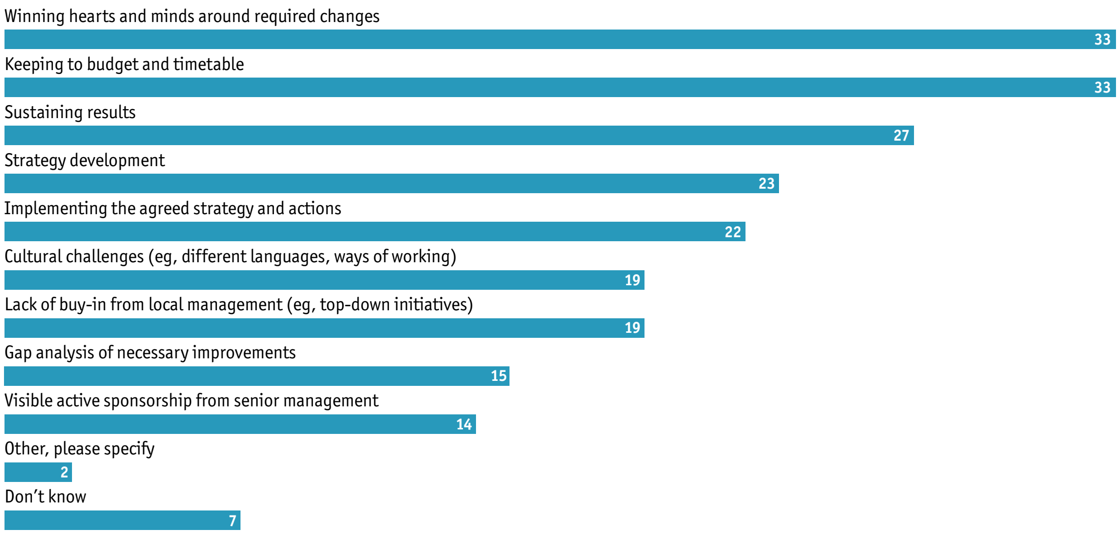
Do you agree or disagree with the following statements about the impact of the financial and economic crisis on change in your organisation?
(% respondents)



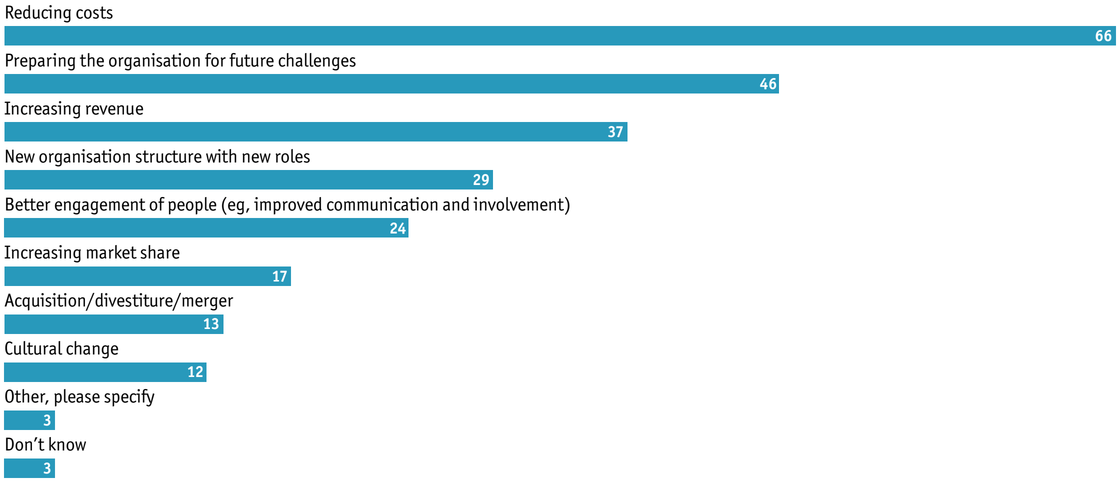
What are the primary forms of change that have been implemented in your organisation since the onset of the crisis ?
Select up to three.
(% respondents)



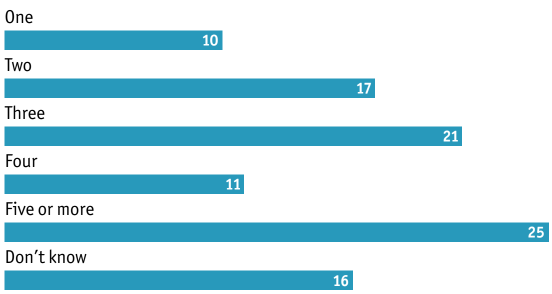
Since the onset of the crisis, which element of change initiatives has your organisation experienced the most difficulty with?
(% respondents)



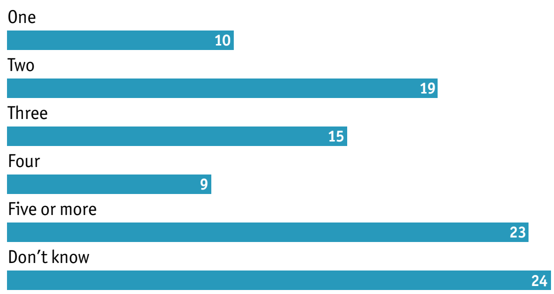
What will be the main motivations for your organisation's change management initiatives over the next 12 months?
Select up to three.
(% respondents)



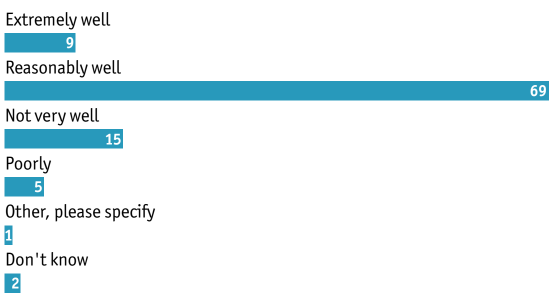
How many change management initiatives do you estimate your organisation has launched in the last 12 months ?
(% respondents)



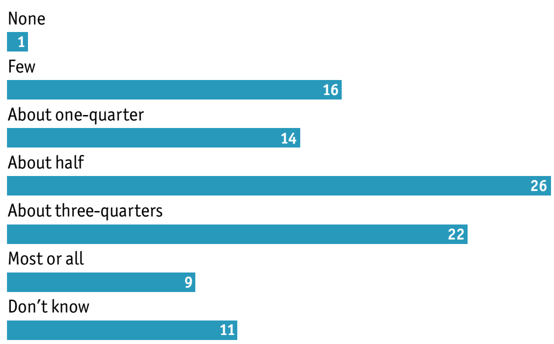
How many change management initiatives do you believe it will launch over the next 12 months?
(% respondents)



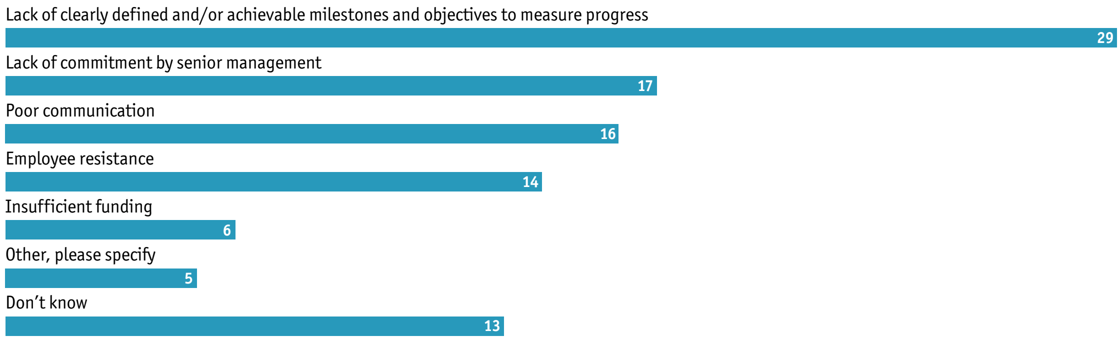
How well would you say your organisation has dealt with the changes resulting from the financial and economic crisis?
(% respondents)



In your view, approximately what proportion of change initiatives has been successful at your organisation over the past 5 years?
(% respondents)

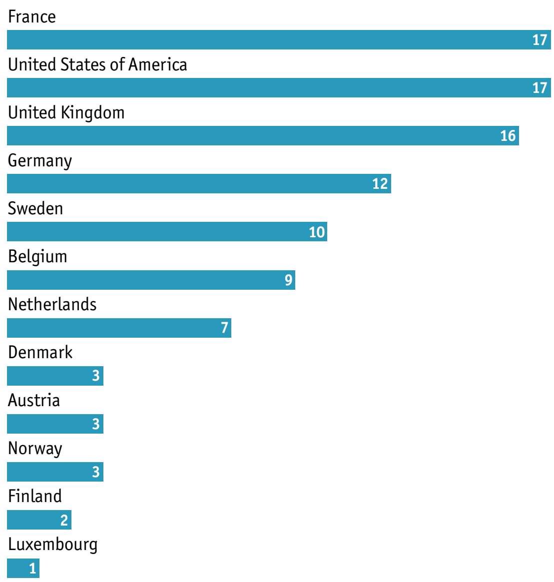


For the change initiatives in your organisation that did not succeed in the past 12 months, what was the single most important factor in determining their failure?
(% respondents)

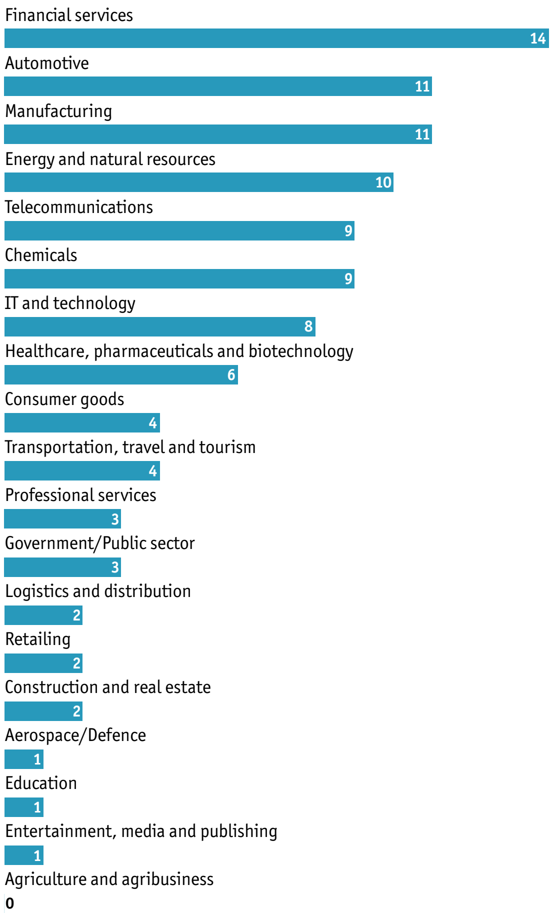


What is the single most important measure in determining whether a change programme has been successful in your organisation?
(% respondents)

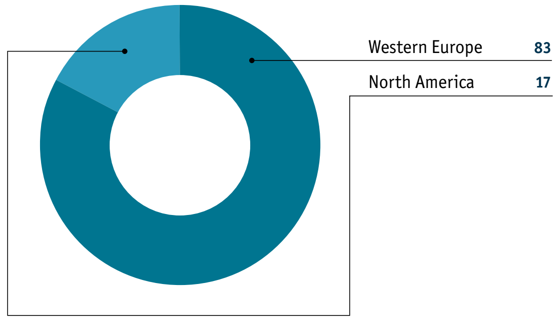
In which country are you personally located?
(% respondents)



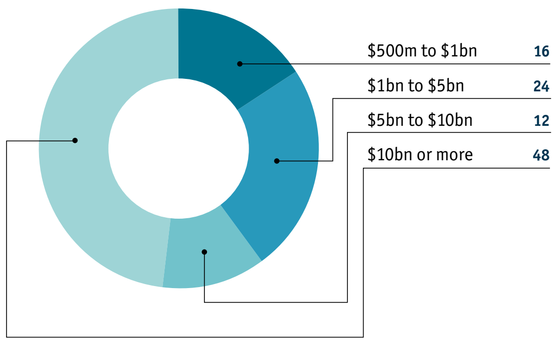
What is your primary industry?
(% respondents)



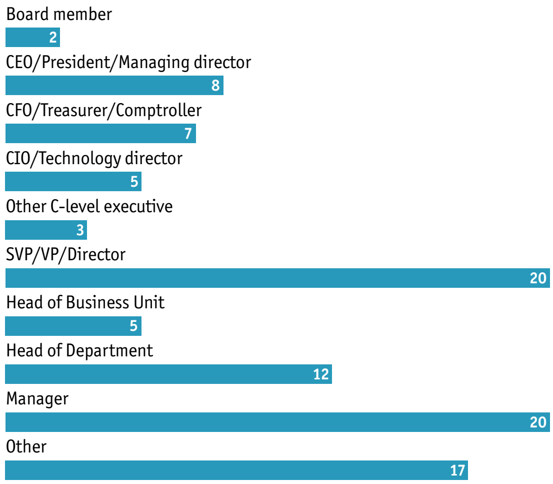
In which region are you personally based?
(% respondents)



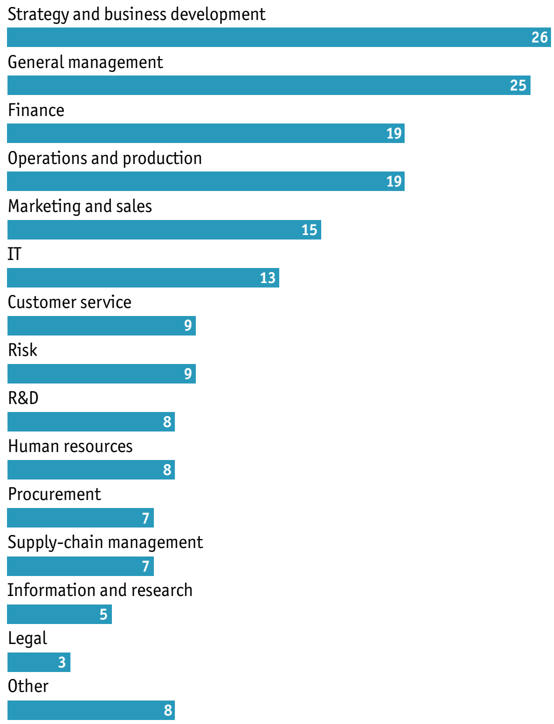
What are your organisation's global annual revenues in US dollars?
(% respondents)



Which of the following best describes your job title?
(% respondents)



What are your main functional roles? Select all that apply.
(% respondents)



About the sponsor

Celerant Consulting is an international consulting firm that specialises in operational transformation. Celerant's consultants work side-by-side with people in the front lines of business from the boardroom to the shop floor to ensure the delivery of sustainable and measurable benefits. Celerant endeavours to embed long-term behavioural change into the culture of its client organisations using a unique approach called Closework®. In its 22 years of existence Celerant has become the largest independent firm of business operations consultants.

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