



The Challenge Of Change

Change Management Study 2002
ExecutivesOnline

"I cannot say whether things will get better if we change;
what I can say is they must change if they are to get better."
G. C. Lichtenberg

A Changing World

There were 466 management buyouts in the UK in 2001. Add to this the acquisitions, buy-ins, relocations, restructures and mergers plus the myriad of new channels, products, markets and technologies being explored – and it's safe to say there is a huge amount of change taking place in UK companies today.

If change is badly managed, it can inhibit a company from achieving its ambitions, create huge costs, demotivate staff, set back the strategy, and make a business vulnerable to competitors.

Yet managing change is easier said than done. It is often unpredictable and can have major implications for senior management. It may distract them from other aspects of the business, create additional workload, demand skills which they haven't needed before, or require

them to create and co-ordinate new teams.

So, if 'well-managed change' is a major determinant of corporate success, how much change is on the agenda? Who will manage it and how...and what is the secret of successful change?

With interim managers increasingly being called on to support and help deliver major corporate initiatives, Executives Online, a leading supplier of interim managers for change projects, recently launched ChangeManagementOnline. It has commissioned a groundbreaking survey to assess how UK plc is squaring up to the change challenge.

The Survey

The in-depth research was independently conducted in April 2002 by TSS Limited, a leading management research company, in association with the Institute of Management Consultancy. It was carefully

designed to gauge the views of both the corporate and consultancy communities. Interviews were obtained with 100 board directors and senior managers of top UK companies, each with an employee base of 500 or more, representing a cross-section of industry sectors.

15 management consultancies, and 11 interim management and change management supply agencies, representing both large and small practices, were also studied together with 189 interim executives and change managers.

Definition

We define change management as the management of any corporate initiative - such as buy-outs, buy-ins, mergers, relocations, expansions, new product launches, new technologies - which will create/result in significant change within an organisation.

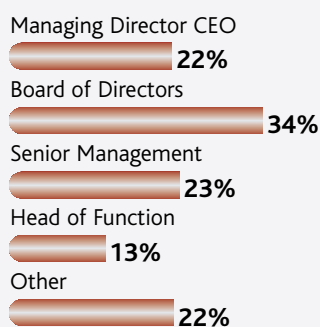
The Cost of Change

Change management, in all its guises, is eating into the bottom line of UK companies by placing major demands on Board and senior management time.

Management Time

Over a half of major change projects are actively managed by the Board.

Who manages major change on a day-to-day basis?



Base: 100 managers & directors of UK companies with 500+ employees

- With companies typically undertaking 2.66 such projects per year, this means that a massive 35% of senior management and director time is spent managing change.
- The cost to UK plc in salaries alone is enormous. Based on average annual management salaries, change costs the UK's companies £52bn per annum.

Time Wasted – Opportunities missed

Furthermore, this huge time investment by the Board and senior directors is perhaps not the best use of their time, as 58% of those questioned report that their senior management team is not good at implementing and managing change – indeed it is their third worst management skill.

Senior management is not good at:



- More worrying still, 81% report that the change workload takes the management's focus away from the rest of the organisation.



The Art of Good Change

The study suggests that directors and senior managers are keen to be heavily involved in the management of change – but that they fail to do this well. According to the study this is because they struggle to gauge how much change is good for an organisation, they find it difficult to lead during times of upheaval and can fail to keep the workforce 'on side' during the process.

Board/Senior Managers could do better at:



Base: 100 managers & directors of UK companies with 500+ employees

- 75% believe that their senior directors/board need to recognise that change management is a specialist management skill in its own right. Dr Patrick Dixon, Europe's leading futurist, and author of Futurewise agrees. "Change management is an art, not a science: it's the art of inspiring, encouraging and motivating teams to get up and go. When people are driven by passion, you can't stop change happening. Connect with the passions that people have and they will follow you to the ends of the earth."

The Successes & Failures

When exploring companies which, according to the interviewees, have got change right or wrong, it becomes clear how influential these management factors are in successful change.

Getting It Right

1st	BP Amoco
2nd	British Airways
3rd	General Electric
4th	BM
5th	Virgin
6th	Asda
7th	BMW
8th	Hewlett Packard
9th	Marks & Spencer
10th	Microsoft
11th	Tesco
12th	Vodafone

- BP Amoco was praised for its handling of four different change scenarios - the merger between BP and Amoco, structural re-organisation, management of environmental issues, and outsourcing of the HR function. The last point is an interesting one – for it suggests that the organisation, burdened with a heavy change agenda, used outsourcing as a way to relieve the pressure on management.

Getting It Wrong

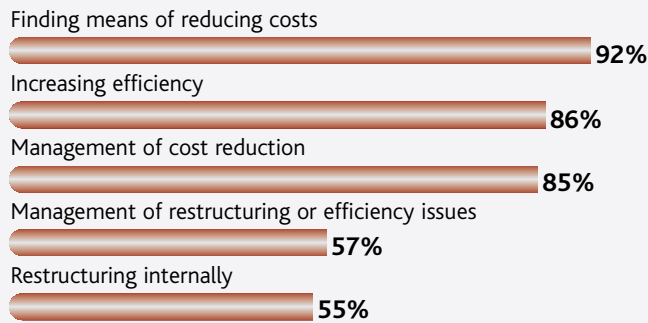
1st	Railtrack/British Rail
2nd	Royal Mail/Consignia
3rd	British Airways
4th	Marconi
5th	Marks & Spencer
6th	Enron
7th	ITV Digital

- Railtrack/British Rail was criticised for the way it managed the move from public to private sector. It was deemed to be trying to do too much too quickly, with poor performance targets in place and not enough buy-in from all those involved.
- Despite being recognised for its successes, British Airways was more frequently cited as an unsuccessful example of managing change. It was criticised, together with Royal Mail/Consignia, for the way it had managed its re-branding. Interviewees didn't like the way British Airways had reversed its decision to ditch the Union Flag tailfins. Those interviewed felt that there had been a lack of leadership and management commitment to the change process – typified by the about- turn on the rebranding decisions.

The Drivers

Given the uncertainties surrounding the US and other world economies, and a UK 'slowdown' in a number of sectors, it is not surprising that finding and implementing cost reductions are currently the major drivers of change in UK plc.

Board Frequently Discussing



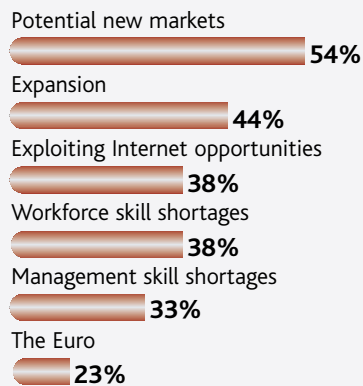
Base: 100 managers & directors of UK companies with 500+ employees

However, Rohit Talwar, the change management guru and CEO of Fast Future Ventures warns that a cost cutting agenda can limit an organisation's change capability. "In the process of downsizing and re-engineering in the early 90's, organisations forgot or lost much of the people change capability they'd built up. Many of the recent initiatives have floundered or died because of a failure to address this human side of change."

Caution and cost cutting are the not the only items on Board agendas. There are many other major activities – which will demand change management skills – being discussed and planned for the year ahead.

New markets are absorbing half of those studied. Expansion is being discussed frequently by 44% of Boards and a similar proportion (38%) is debating how best to exploit Internet opportunities.

Board Frequently Discussing



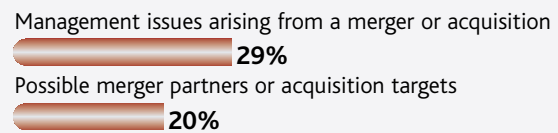
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Mergers, Acquisitions, Alliances

Interestingly, whilst almost one in three Boards are grappling with the aftermath of current M&A activity, one in five are lining up their next merger partners or acquisition targets.

Board Frequently Discussing

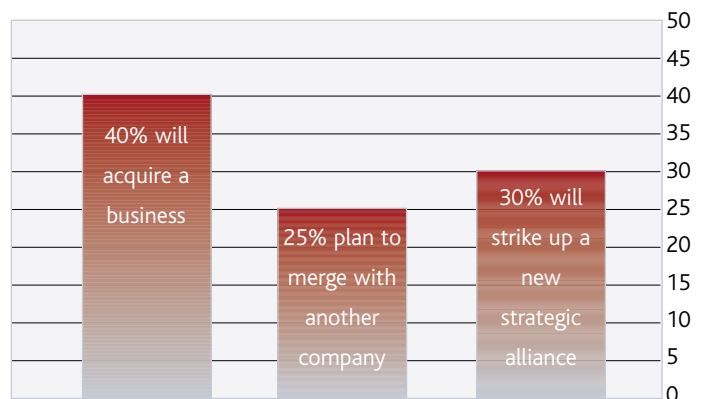


This is because, for almost all of businesses studied, the strategic response to the threats faced in the past year has been to merge, acquire or form a new alliance.

The recent plans of half of businesses have involved opening new markets, an equal number have focused on developing new products. Both strategies are most quickly achieved through mergers, acquisitions and alliances – again fuelling these change initiatives.

Mergers & Acquisitions - The Year Ahead

Such M&A activity is set to accelerate.



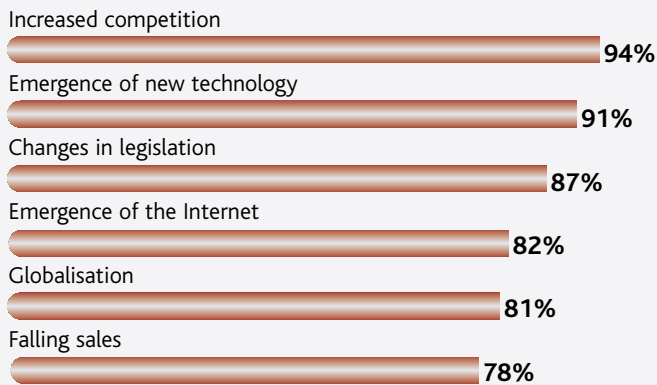
Businesses which can quickly make their new 'marriages' work will have a real commercial advantage over their rivals during 2002/3.

Technology

Technology is hugely influential, both as a driver of, and response to, change. It supersedes issues such as falling sales and globalisation.

For instance the vast majority (91%) see new technology as necessitating change. Over four-fifths have seen major corporate upheaval emerge from the internet, and 23% have launched an e-commerce operation specifically as a strategic response to the business threats they face.

Change being driven by



Base: 100 managers & directors of UK companies with 500+ employees

Technology - The Year Ahead

A third of Directors are still spending large amounts of time discussing how to harness the potential of the internet and 32% plan to spend the year ahead rethinking/ implementing their e-commerce strategy.

Yet only one in four believe their Board is good at doing this.

With technology set to dominate many change agendas in 2003, it is time for companies to re-think how they assess the impact of technologies and adopt them.



Cost Cutting

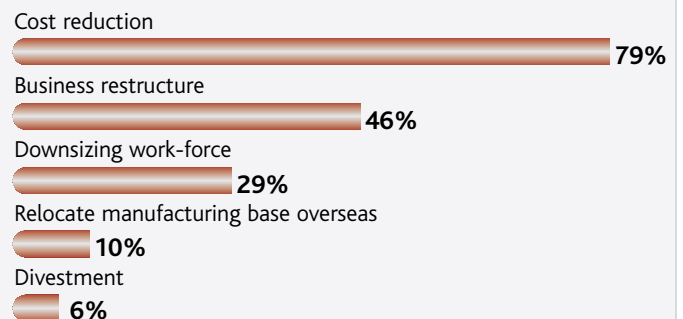
During 2001, 92% of management mind share has been devoted to cost cutting and almost four-fifths of companies plan to cost cut in the year ahead.

At first glance the UK's Boards and senior managers are well placed to manage this. Among all of the many management disciplines, sound financial control is seen as a real boardroom strength (rated good in 73% of companies).

Cost Cutting - The Year Ahead

However, taking costs out of the business can involve other major changes – which are less than easy to manage – and many of these are planned for the year ahead.

Planned for the year ahead



Base: 100 managers & directors of UK companies with 500+ employees

External Experts

With so much change planned, so many opportunities to get it wrong, plus the huge impact of change on management time, consultants and interim management suppliers are increasingly being called on to support the change management process. It is easy to see why. They provide short-term, results-focused, supplementary management muscle. They are removed from the company politics, which can inhibit major change, and they can be handpicked to match a specific set of needs or situation.

Outsourcing – the facts & figures

£246,250 per project

10,852 change management projects per annum

31% outsourced

£828m spent on change management assignments in 2001

Why go outside?

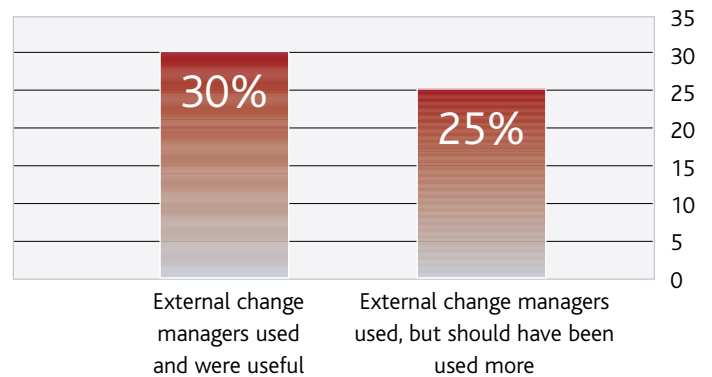
Over half say that their Board and senior management teams are not good at managing change and many acknowledge that external consultants can help bridge this capability-gap. Outsiders are particularly valued for their fresh approach (80%) and specialist experience (78%) at managing change.



- With four fifths of Directors concerned that change diverts the Board away from running the business – another key benefit of outside input is that business momentum can be maintained.
- The cost cutting agenda of many companies during the year ahead, will make external suppliers' ability to handle unpleasant tasks even more attractive.
- Specialist knowledge is obviously a major benefit to organisations managing highly unpredictable complex changes such as mergers/acquisitions or trying to use technology to leapfrog the competition.

Companies' Experience

Whilst many companies still resist bringing in outside help – external suppliers are used for just under a third of change projects – those who do are strong advocates of going the external route.



- Half of those interviewed can recall an occasion when a change management process would have been achieved more effectively by involving externally sourced specialist skills. Similarly over three quarters report that bringing in a fresh pair of eyes could make a big difference.

How Are External Experts Used?

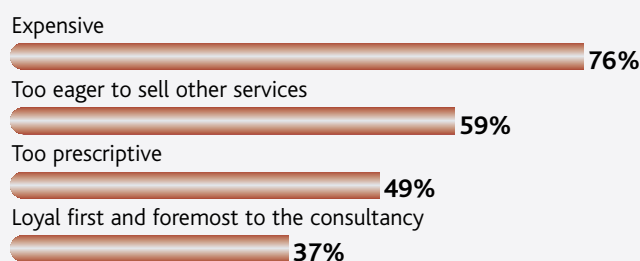


- On a cost basis alone, over a third think that external help could help to drive down the costs of change.

The Doubters

Those reluctant to involve third parties in corporate change are mainly critical of management consultancy firms.

Management consultancies are:



Base: 100 managers & directors of UK companies with 500+ employees

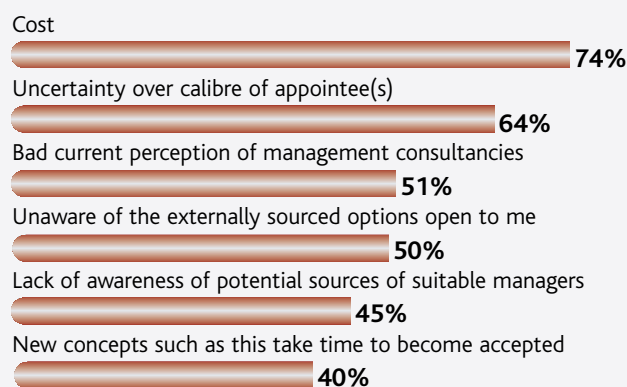
"Clearly, one of the challenges facing management consultancy firms is to communicate to all of the business community the crucial difference consultants can make during times of change" reports Ian Barratt, Chief Executive of the Institute of Management Consultancy.

Interim Managers

These criticisms suggest that interim management – a lower cost route, where there are no loyalty conflicts or cross selling, there are no prescriptive solutions and where individuals with specific sector experience or specialist skills can be called on – could play a much greater role in change management.

However, if this is the case there are still some barriers and misconceptions to be overcome:

Barriers to using interim managers



Base: 100 managers & directors of UK companies with 500+ employees

- There clearly needs to be greater awareness building among UK companies of the way interim managers work and their distinctiveness from management consultants.

Executive Summary

- The pressure on companies to revisit how they manage change is high. Change cost £52bn in management salaries in 2001, and businesses typically undertake almost 3 major change projects per annum. A third of Board time/senior management time is devoted to managing change.
- 81% report that this hands-on approach to change distracts the Board from the core business. Furthermore half believe their Boards are not good at managing change.
- Huge change is being faced by UK plc. Much will be cost-reduction focused – responding to economic and competitor pressure – but major new expansion-focused initiatives are also planned – mergers, acquisitions, alliances.
- Technology is still a major driver of and response to change. Yet only one in four Boards are perceived as good at harnessing the power of new technologies.
- The scope to mismanage change is enormous. Many acknowledge that external consultants can help bridge this capability gap. £828m was spent last year buying in change management expertise from outside the organisation.
- 25% who have used external personnel say they should have been deployed even more widely. Over three quarters report that bringing in a fresh pair of eyes - someone with specialist knowledge or huge experience of managing change projects – could make a big difference.
- With cost cutting high on companies' agendas, external managers' ability to take tough unpopular decisions could prove critical. On a cost basis alone, over a third think that external help could help to drive down the costs of change.
- However, management consultancy firms – who are seen as too prescriptive, eager to sell other services and loyal first and foremost to the consultancy rather than the client company – may not be the chosen route.
- Instead interim management suppliers – where there are no loyalty conflicts or cross selling, and where individuals with specific sector experience or specialist skills can be called on – could play a much greater role in change management within UK plc.
- If so, then there needs to be greater awareness building among UK companies of the way interim managers work and their distinctiveness from management consultants.

Executives Online

ExecutivesOnline is one of the UK's leading recruitment companies specialising in the supply of interim management executives. Its experienced, temporary board-level directors and senior managers, drawn from its register of 2000 professionals, are employed in some of the most challenging management roles in the UK today.

By combining expert candidate vetting with state-of-the-art, rapid selection, ExecutivesOnline can quickly provide individuals and full teams for even the most complex management tasks. This speed combines with its ability to support all discipline areas - sales and marketing, finance, operations, purchasing, supply chain and HR through to general management, production, logistics, change and turnaround management.

All ExecutivesOnline managers and directors provide effective, results-focused supplementary management muscle. They are removed from the company politics, which can inhibit reform, and they can be handpicked to match a specific set of needs or situation.

A climate of accelerating change

Companies are increasingly looking to outsource support for a growing number of change management tasks. In response, ExecutivesOnline has introduced a site dedicated to the supply of change managers and change management teams. Called Change Management Online, it is full of valuable information to assist anyone looking to implement business transformation. This Challenge of Change 2002 change management study is an example.

We hope you find it useful.

Published in association with the Institute of Management Consultancy (www.imc.co.uk)

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