Change management in a governance and risk management framework

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- In reality, steering an organisation through change is less about management than it is about leadership
- Change must be driven from the executive level of an organisation but it is critical to explain the need and processes for change to all staff and external stakeholders
- People will need to be involved and supported until new processes and policies become firmly embedded

A recent discussion paper from Chartered Secretaries Australia and SAI Global, *Governance and risk management: sustainable organisations*, sets out four essential elements of governance: transparency, corporate accountability, stewardship and integrity.[1]

This provides systems to establish and monitor good governance as well as the means to hold people accountable for their performance within those systems. This assists in the articulation and management of risk and expectations around compliance. All of this can be summed up as an organisation providing clarity on how they want their people to behave and what the consequences will be by not complying with those expectations, including when those expectations change.

> It's not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.
>
> Charles Darwin, English naturalist and author, 1809–1882

Adapting to changing environments is neither easy nor free. Executing strategy requires difficult decisions and organisational leadership, all factors that make successful organisational change programs rare.

Just talking about it is not enough

Underinvestment in change management is commonplace; much is *said* about change management, but in our experience, what is *done* often falls short. Fundamentally, this is because of an underestimation of both the breadth of effort and the duration required. Knowing what to do across the life of a change program and being able to stay the distance are two of the most difficult aspects to manage for those charged with leading their people.

The role that change management plays is to guide people through the process of change. As depicted in Figure 1, it seeks to:

- *engage* people in understanding the prompt for change. Part of the engagement component is to ensure that people are aligned to the new way of doing things. It's not just about understanding, but also agreeing with the need for change. This is a tactical approach
- *enable* people to be able to do things differently, through understanding what new skills or competencies are required and then providing the requisite education and training. This is a technical need; that is, initially, you get people's 'agreement', then you focus on making sure they are able to do things differently
- *empowering* people to take on the new 'way of doing things around here'. This requires a shift in the level of support, as people take on more accountability. Support through coaching and other techniques ensures that the changes are embedded and sustained. This is a combination of the 'tactical' and the 'technical'.

Figure 1: Setting people up for success

So, *what is change and what does that imply for change management?* Don't confuse change with new IT systems or shifts in the regulatory environment. Change is about the people of the organisation now behaving differently. While this may be prompted from a wide range of sources, change occurs when the people in an organisation do things differently.

Importance and strength of change management

Change is a C-level led initiative and it is most powerful when it evolves from a series of discrete events to a complex, multi-faceted approach to how an organisation delivers on commitments to clients, staff and stakeholders. When strong change management competency becomes part of an organisation's DNA, it becomes able to rapidly respond to challenges or opportunities as they emerge. The ability of an organisation to do so can mean success or failure.

But change is often messy or turbulent. The reality is that change is less about management and more about leadership. The role of the executive is to ensure that the organisation and its people are supported by the appropriate structures, tools and processes to be able to respond within the governance, risk and compliance boundaries.

There may seem to be a conflict between change and governance, risk management and compliance regimes; but if the latter are to assist the organisation to grow and survive, the organisation has to learn to leverage them to ensure that the changes are executed well. This is where effective change management guides the organisation's people through that process.

Successful change needs leadership and execution

Execution is the most important aspect of any management activity. It is perhaps a 'first among equals'. It must be led, setting a culture of getting stuff done.

In relation to good governance and risk management, it is more than systems and processes. It is behaviourally based and led from the top. The work of Bossidy and Charan in *Execution: The Discipline of Getting Things Done* identifies seven essential behaviours for successful execution. These are all concrete, easy to describe, but often hard to enact.[2]

- Know your people and your business.
- Insist on realism.
- Set clear goals and priorities.
- Follow through.
- Reward the doers.
- Expand people's capabilities.
- Know yourself.

Most of these elements are underdone by traditional change management

Allied to this are their views that the 'people process is more important than the strategy or operations process'.[3] In our experience, the following are critical to managing people for successful change.

- Provide clarity on goals and expectations.
- Ensure people understand how they are meant to achieve activities — how something is done can be as important as what is done.
- Define good (and poor) performance.
- Indicate what support they will receive from the organisation and management.
- Define rewards and criteria for achieving them.
- Be very clear on the consequences of poor performance or lack of conformance to organisational expectations — and follow up on it.

Leadership sets the culture: through not only the processes and systems that are introduced, but also by the manner in which the leaders behave. If an organisation professes to have a culture of safety and introduces a range of safety systems and processes, little true cultural change will occur if the leadership is not seen to be 'walking the talk'. If the staff is expected to operate in a particular manner, the organisation's leadership has to operate — and be seen to do so — in a manner that sets an example. The same applies to governance, risk and compliance.

Balancing clarity of organisational expectations and the roles and responsibilities of each is a key first step in establishing organisational culture *(this is the way we do things around here)*. This is balanced by accountability to deliver, but in a manner that is ethical. It is not about winning at all costs, but it is about expecting everyone to operate to the same agenda.

The way in which an organisation formalises this — explains it and controls its execution — is through processes that are set up and the systems used to manage those processes. At this point, it should be noted that when we refer to 'systems' we mean the tools used to ensure the consistent and timely execution of the organisation's processes; this may involve an IT solution, but many system elements do not. For instance, a management review of area performance may involve discussion around metrics which are gathered and documented manually. The system 'tool' is the review meeting, as that is what is used to ensure that the team is complying with the organisation's priorities.

Case study — Australian manufacturer, global exposure

An Australian manufacturing organisation was exposed both locally and globally to small shifts in a range of economic indicators. However, it rode out the global financial crisis, emerging stronger than beforehand and in many respects came out earlier than others. What was different for it?

It was not just that it had strong change management practices; it had strong governance and risk processes that it leveraged with a strong change management capability.

Its management systems and processes warned of a likely collapse in key customer volumes earlier than the customers themselves. It took rapid action to meet the challenges head on. But it wanted to survive the experience.

This was where its existing management practices supported it in a way that brought along its staff and external stakeholders, both locally and globally. Existing forums where the full profit and loss forecasts and results were reviewed and discussed were good in boom times; but the dividend was realised when volumes and sales plummeted as all staff were already familiar with the key metrics and were able to see the appalling turnaround in business. It prepared the group for the many tough decisions that they made.

It also had to radically alter the way it delivered processes as it reduced headcount to manage costs. It asked for staff to take a voluntary and temporary pay cut — with the numbers explained through profit and loss modelling. Those that could, took the cut, with those that could not discussing with the managing director their inability. The majority were able to take a pay cut, more than was needed. The management of discussions with suppliers and customers became critical as the strength of the relationships were used to demonstrate the rationale for the often difficult decisions. It managed well through the GFC, came out stronger and in a good financial position.

And it learned lessons about how it could manage change even more proactively. Part of this involves a clearer view of critical external stakeholders and an approach of engaging with them more regularly. It learnt that having conversations in good times sets the groundwork for conversations in tough times, so that each player is better prepared.

Its behaviour exemplified transparency, corporate accountability, stewardship and integrity.

It used existing processes and systems to identify risk and to engage with staff, customers and suppliers. Its culture of openness about business performance and a strongly aligned executive team facilitated tough conversations.

But fundamentally, it was about leadership.

Governance, risk and compliance, every day

In the ‘business as usual’ (BAU) phase of corporate life, governance, risk and compliance (GRC) guide people as they execute the processes. Change management provides context and purpose for why the organisation expects work to be done in a particular way. It provides the mechanisms to explain and embed desired behaviours.

It does this by preparing people to behave in a preferred manner. Engaging and aligning people to why particular actions must occur are critical.

> Tell me and I’ll forget; show me and I may remember; involve me and I’ll understand.
>
> Chinese proverb

A memo to embed desired behaviours may tick all the technically correct boxes, but will not produce a consistent response from people: some will conform, others will not. Change management confronts the reasons why through a variety of techniques.

- Engage people through a variety of media. Everyone absorbs information in differing ways: some visual, some verbal.
- Opportunity to discuss and explore the issues. This helps to develop true understanding.
- Sometimes people need time to absorb an issue, or a number of opportunities to discuss or digest them. Moving more quickly than your people can will frustrate change.

- Factor in trialling or training before full rollout; test the solution for 'fit for purpose' results.
- Provide a range of tools and techniques to support people doing things differently.

John Kotter talks about an eight-stage process when managing change.[4]

1. Establish a sense of urgency.
2. Form a powerful guiding coalition.
3. Create a vision.
4. Communicate the vision.
5. Empower others to act on the vision.
6. Plan for and create short-term wins.
7. Consolidate the improvements and still produce more change.
8. Institutionalise new approaches.

Change management also deals with engagement through a number of approaches.

- Be prepared to be wrong — flexibility is critical.
- Openness of discussion — acceptance that a vigorous discussion will align people more readily than a sprouting of a party line.
- Prepare for dealing with grey areas. Sometimes not all of the solution is apparent immediately. Being able to carry your people as you develop the required clarity is critical.
- Impart the urgency of the response. Leadership must communicate the importance of the initiative and the associated with it. This will signal to the organisation where the priorities lie.

Certainly, all the above contradicts the now outmoded re-engineering paradigm of 'shoot the stragglers and carry the wounded' which had a currency in the 1980s and 1990s.[5] The failure of those programs was often identified with an inability to engage the people — they were seen to be, erroneously, irrelevant to the change.

GRC in an environment of large change and the role of change management

When a major crisis is upon an organisation, those best prepared for dealing with the requisite change are those who already are practising change management as the way they do business. They just may have to increase the intensity or focus and perhaps utilise more approaches than they need to in a BAU context.

A major crisis can come about through internal failure or external threat or change. For instance, the recent BP oil spill in the Gulf of Mexico can be viewed as an internal failure of catastrophic proportions. Failure to adhere to internal practices and an inability to respond as well as stakeholders expected show the risk associated with poor change management. And it probably occurred at two levels.

1. Doing the right thing — BP is a good corporate citizen, operating at a global level in a complex and technically difficult arena. But it is imperative that all operations are safe as well as efficient. Failure of internal processes has led to an explosion, killing 11 men, causing enormous damage. Setting those organisational norms or drivers and the manner in which they need to be executed must cascade from the boardroom to the oil rig, where operators should be following procedures which will allow them to work safely to deliver the work assigned. It is unclear at this point, but either the wrong processes were in place, or the correct processes were not followed. Change management's role is to provide clarity on organisational goals as well as expectations of what processes were to be followed and the manner in which they were to be executed.
2. Managing stakeholders' needs — the technical puzzle of sealing the leak was clearly extremely complex, but within their capabilities and experience. However, the CEO has lost his job, many careers will stall from the fallout and BP will suffer enormous loss, financial and reputational. Managing the changes in this environment was always going to be tough, but it was almost as critical as the technical problem. It is not good enough to say 'leave it to us, we're the experts'. This was a major failure in stewardship. Stronger engagement with the plethora of stakeholders was critical.

An external threat can be something changing in the regulatory, political or commercial environment. Shifts in community expectations of corporate behaviour cannot be ignored; equally, the GFC demonstrated the risk that all organisations, the well run and the not so well run, can be exposed to. Change management's role here is to interpret for the organisation those trends or issues that emerge and explain why things must change. If the 'discussion' is part of an ongoing dialogue within the organisation, then the ability to respond to extreme pressure or threat is much greater.

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Frequently we see an organisation confronted with metrics that are fundamentally flawed and therefore driving the wrong management behaviours. The underlying causes can be many, but include insufficient importance attached to the gathering of base data at source, lack of management review of data in a timely manner, and a lack of importance attached to the outcomes associated with the data or poor technology support, which does not reflect the process and how it operates. And sometimes a lot of activity can go to making the metrics 'correct', while the activity to do so contravenes what an organisation is seeking to achieve.

Reward and recognition

In an environment where an organisation depends upon its people to deliver to stakeholder expectations, rewarding and recognising good performers is a key enabler of instilling organisational goals and norms. But, while all reward and recognition approaches tend to allow some discretion in determining who to acknowledge, the core of the decision-making should be driven by metrics which reflect behaviour and performance in alignment with an organisation's values and strategic direction.

The role of metrics and a word of caution

Metrics are key drivers of organisational behaviour. They inform a board and an executive on investment decisions and strategic direction. They guide management in the execution or operationalisation of strategy. They drive the 'doing of work'. However, recall the term RIRO (Rubbish In, Rubbish Out). If metrics are a key governance enabler and assist in the management of risk, *ask how do we know that the metrics are accurate?*

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Bossidy's and Charan's first point is 'know your people and your business'. If you are using metrics to make important decisions, a key step is to seek to verify the accuracy and relevance of the data. Does it match your understanding of current performance? How are people gathering and recording data? Does this make sense? How do they view the data? Is data gathering an administrative activity only or is it a key input to the management of the business? How are our people making decisions and is it being driven by organisational strategies or is it being done to generate good metrics?

Ask whether you can tell any anecdotes to back up or elucidate the metrics. Can you describe the situation which the metric is measuring? The ability to match 'anecdote' to measure is a useful means to test the veracity of that data.

To establish a culture where the gathering and use of metrics is critical to the organisation, its leadership needs to drive engagement with their people as to the importance of the data and how it is used. Then establish processes that facilitate the gathering and provide the support to people to ensure that they both understand the importance and have the capability to meet the organisation's expectations.

Case study — how a financial services organisation used a change management approach to improve back office governance and risk management

The group had just merged five different areas into one customer service division. However, while they tended to use similar IT systems (workflow, transactional, banking), each had its own processes, approaches, management practices and cultures. The organisation was keen to improve overall governance and reduce the risk that was apparent from inconsistent practices. The prompt was to take a more customer-centric view of the overall value chain to raise performance and reduce cost.

Before the changes

- Assessed ability and appetite for change
- Top down review of engagement and alignment to inform the change plan
- Strong communication plan, executive-led
- Clarity on roles and responsibilities
- Training and education for those leading the change

During the changes

- Fortnightly updates to management and staff
- Setting accountability for all levels of management to have some role in the updating on progress (own the changes)
- Weekly oversight from steering committee

- Involvement of selected staff (influencers) in analysis and development of solutions
- Comprehensive training and education
- Targeted, one-on-one coaching for managers as they executed the changes
- Recognising and promoting early adopters to influence others

After the changes

- Standardised processes and practices were embedded
- Reward and performance management schemes modified to reflect new practices and targets
- Coaching framework integrated to day-to-day management activities to monitor and support new practices
- Internal 'expert' team established to ensure new practices continued and to look for opportunities to enhance them
- Top performers recognised and provided with career development opportunities
- Celebrate the success

The change management approach provided the structure to guide the program aimed at improving processes and practices. It helped people to understand why the efforts were being made to make improvements, how they would be affected, what the outcomes would be, their roles in designing the changes and, once the changes are in place, ensuring that the group would stay the course until new processes and practices became 'the way we do things around here'.

This organisation knew from experience that no matter how elegant the solution, unless it devoted effort to supporting and guiding people, little true change or improvement would be achieved.

A survey of internal business improvement teams on criteria for success

Many organisations have developed internal business improvement capabilities to support their drive to improved governance and risk management. Here is what they think is important as they work to do this.

1. Any business improvement initiative must have strategic importance.
2. Success requires the appropriate infrastructure: strategy, goals, project and change plans, governance structure, and organisational alignment.
3. Define what success looks like and how it will be measured.
4. Get the right people on the team. Ensure you have a good mix of skills and experience.
5. Focus on the most important priorities and see them through. Don't get distracted.
6. Invest in the engagement and alignment: it will pay dividends. When not done well, it will cause delays, confusion, stress and rework.
7. Every business improvement initiative requires strong change management.
8. Don't hesitate to confront — and resolve — all obstacles.
9. Start thinking about sustainability needs at beginning of the project.
10. Participation should be a career development opportunity for the best and brightest.
11. Resilient leadership is critical for it to succeed.

Sustaining the change

This is where a strong change management approach is a critical factor. Sustainability is about your people continuing to operate in the 'new way of doing things'. In governance terms, this is them behaving in a manner that works to the strategic direction and values of the organisation. People will change their behaviours, but will respond to different prompts and drivers.

Sustainability is about determining what the organisation needs to do to support its people until the new processes and practices become 'the way we do things around here'. The support will be contextual on the changes being implemented.

Conclusions

For many people, governance and risk are not seen to be part of their role at work. The role which change management plays is to deal with the people side of the equation, charting a course for them to understand the drivers for change, how the organisation intends to get there, what roles they may (or may not) play and how the organisation intends to support them through those changes.

When done well, organisations reap the benefit of an engaged workforce who operate within the values and practices that have been established to ensure success. It allows the organisation to pick up the pace of successful change, managing risk in a more proactive manner whilst ensuring ongoing growth. People make the difference.

You can hear a podcast on this topic at www.CSAust.com/podcasts.

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Notes

1 See www.csaust.com/sustainable_organisations
2 Bossidy L and Charan R, 2002, *Execution: The Discipline of Getting Things Done, Crown Business*, New York
3 ibid, p 141
4 Kotter J, 1996, *Leading Change*, Harvard Business School Press
5 See, for example, Hammer M and Champy J, 1993, *Reengineering the Corporation*, Harper Business, New York