Results Delivery: Managing the highs and lows of change

Major change initiatives provoke wild mood swings, which cloud people's judgment and lead to bad decisions. Companies that have mastered change know how to anticipate those swings and counter the serious risks they create.

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Looking back over the centuries, it's difficult to grasp the emotional turmoil that Columbus and his sailors must have faced on their voyage into the unknown. Yet the pattern of highs and lows would probably seem familiar to anyone living through a corporate transformation, with its bipolar effects on the participants.

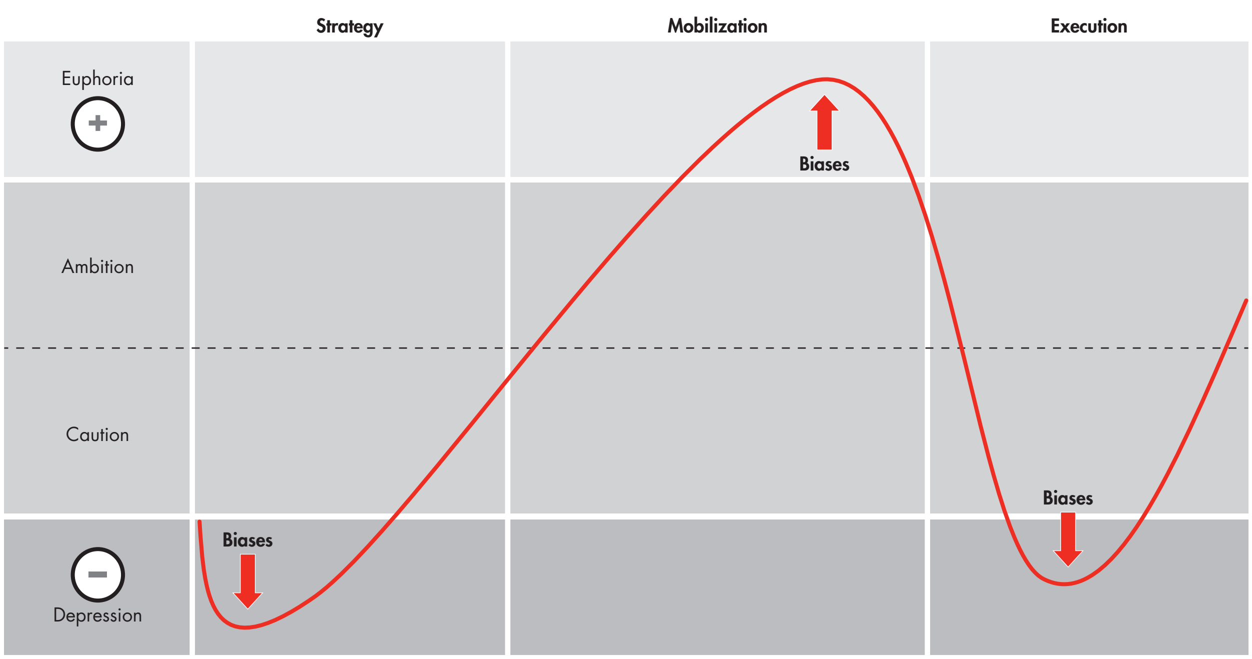
The initial reaction to the proposed journey is invariably skeptical, fearful, resistant. We can't do that. It's too risky, too expensive. We might fall off the face of the earth. Columbus and his confidants may have been excited, but they were just about the only ones. He was turned down by the rulers of Portugal, Venice and Genoa before he found backing for his venture from Spain.

But then the mood begins to shift. Perhaps influential individuals—think Ferdinand and Isabella—sign on. Perhaps the organization's leaders become seduced by the potential gains. Soon the idea picks up momentum, and people start clamoring to be part of it. What once looked impossible now seems both feasible and desirable.

That's two severe mood swings already, even though no one has yet gone near the water. And the emotional fluctuations don't end there. Once the ships have actually set out—once the initiative is under way—the original negativity returns with a vengeance. Obstacles once again loom large. Gloom sets in, and progress sputters. Like Columbus's sailors, people grow dispirited. They want desperately to turn back. They threaten mutiny.

This down-up-down sequence is remarkably similar, whether the journey focuses on cost reduction, organizational restructuring, post-merger integration or any other major change (*see Figure 1*). In some respects, it's a corporate version of the psychological condition known as bipolar disorder, with its patterns of extreme highs and lows. Certainly the results are the same:

Figure 1: In change programs, cognitive biases intensify the mood swings



Source: Bain & Company

clouded judgment and poor decisions, the emotional pendulum swinging first one way and then the other. In a merger, for example, deal fever can lead executives to overestimate potential synergies and discount organizational obstacles. But once the deal is done and the integration process has begun, reality sets in. Cultural differences and operational challenges now look insurmountable. Some people leave; some customers defect. What once seemed like a great idea now feels misguided.

The way forward is blocked by cognitive biases that interfere with people's openness to change.

Organizational psychologists have studied the reasons for these extreme mood swings and the poor decisions that result. In times of stress, they say, people are the prisoners of cognitive biases. They don't see reality clearly, so their judgment is compromised. Different cognitive biases cut in at each stage of a journey, creating a predictable sequence of moods and mindsets as change unfolds. These states of mind affect how people process information, how much weight they assign to particular experiences, how they receive feedback and a host of other factors that influence judgment and decisions. (See the sidebar "Common biases that affect change.")

It doesn't have to be this way. Some business leaders retain their common sense and wisdom, even in the face of radical change. They recognize that mood swings occur in predictable patterns. They anticipate what's coming, and they help others cope by counteracting the emotional fluctuations and mitigating the accompanying risks. Successfully managing the biases and effectively guiding change in this way create significant value, as we have seen through an approach we call Results Delivery®.

In a Bain study of more than 300 change programs, those that most effectively managed change (the top 20%) delivered 86% or more of the promised results, and one-quarter of that group delivered *more* than what had been promised. By contrast, those that were least effective at managing change delivered only 43% of the promised value *(see Figure 2)*. Over time, the top group delivered eight times the profitability and two and a half times the shareholder returns of the low group.

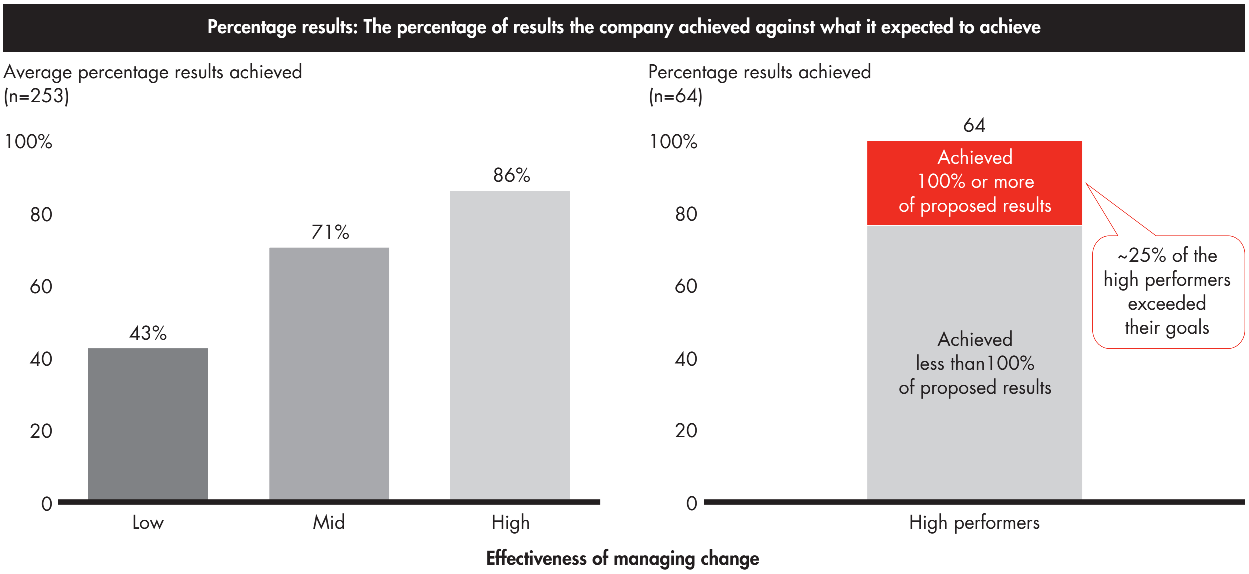
Phase I. Mapping the journey

When a leader proposes a major new direction in an organization, people usually feel skeptical, even threatened. They don't see the need to change. They can't perceive the possibilities.

In effect, the proponents of change are asking team members to move out of their comfort zone. But the way forward is blocked by cognitive biases that interfere with people's openness to change. *Anchoring*, or relying on familiar reference points, locks them into conventional thought patterns. The *ambiguity effect*, which leads people to favor the known over the unknown, raises fears about the future. *Confirmation bias* encourages them to look for evidence that supports their fears and casts doubt on the possibility of change. When these inevitable biases emerge, people on the leadership team feel uneasy. They tend to cling to incremental ideas rather than embrace more dramatic change. A bricks-and-mortar retailer, for instance, might persuade itself that it is moving rapidly into the digital world because it is offering goods online, when in fact it is far behind the more comprehensive and integrated digital strategies of its competitors.

Results Delivery helps loosen these anchors and starts by assembling the facts. Data—about the company's situation, what customers are saying, the "size of the prize" to be realized from the change—helps cut through

Figure 2: Companies that are best at managing change meet or exceed their expected results



Notes: High change effectiveness profile range=top quintile of self-reported risk assessment scores; low=bottom 30%; mid=all other; quintiles represent the top and bottom 20% of companies based on self-reported risk assessment scores across all questions
Source: Bain risk history survey (n=318)

the biases by appealing to people's left-brain, rational side. Another effective tool is co-creating a clear, compelling vision of the future. Change proponents help the leadership team buy into the proposal by activating their right brain and enabling them to *picture* that future new world.

For example, when a healthcare provider launched a major change effort to improve patient satisfaction, it started with the hospital registration process. In a workshop, the company's leaders jointly developed a powerful metaphor for the vision: a hotel check-in. The efficient yet friendly experience of checking into a hotel captured exactly what they wanted for their patients. And every employee could understand the idea—it changed not just the definition of the process but how people behaved and even the architectural design of the registration area. A compelling metaphor like this not only helps people to visualize the change; it also accelerates the change process. Project teams can now make most decisions without input from top leaders because they have a clear understanding of the future state.

At some point in this process, the idea of the change catches on. The balance tips. Fears vanish, and enthusiasm grows. What once seemed impossible now feels within reach.

Phase II. The tide turns

As the emotional tide turns, new cognitive biases reinforce and exaggerate the change in mood. *Confirmation bias* now reinforces people's belief in the possibility of change. So does *pervasive optimism*, or the natural human tendency to believe that we have control of our lives and will be able to achieve what we set out to do. These biases are powerful, and they seem to sweep away doubt or disagreement. Team members choose the most optimistic scenarios about the benefits of the new direction. They think they can achieve those goals in the shortest possible time frame.

Common biases that affect change

A *cognitive bias* is a departure from good or rational judgment resulting from a particular situation or set of circumstances. The biases have been confirmed by replicable research. The following examples, referenced in the article, are representative of the many that may be at play.

- **Anchoring** is an attachment to the earliest information encountered in decision making. "Anchored" to that information, we are unduly influenced by it. We see new information in the context of the anchor.
- **Ambiguity** bias occurs when the information available on two or more options is uneven. We are biased toward the option with more known information even if the other option might be preferable.
- **Confirmation** bias is a tendency to favor information that supports our point of view.
- **Loss aversion** is a preference for avoiding losses over acquiring gains of equal magnitude.
- **Negativity** is a bias that leads us to pay more attention to negative experiences or options than to positive ones.
- **Normalcy** is the tendency to underestimate the risk of disaster or catastrophe if we have not previously experienced it. We expect outcomes that are closer to normal.
- **Pervasive optimism** is a belief that the future will mirror the past. We believe that we have more control than we actually do.

It's just as important to contain the over-optimism at this stage as it was to counteract the initial pessimism. Overconfidence and unconstrained optimism can cloud return-on-investment calculations. They lead to even deeper pessimism later, when the next mood swing occurs.

How can leadership teams mitigate these risks? One effective tool is to look backward. Using a standardized risk model, teams can analyze what went wrong and what went right in previous change efforts. What were the typical failure modes? What does our organization do well, and what does it do poorly? Benchmarking can be valuable in this context: For example, a database of nearly 350 companies helps Bain identify the biggest obstacles to change. People naturally expect today's change initiative to play out much like yesterday's, with all the same problems. But if you can learn from the past, you can surprise them by doing it better.

It's equally essential to look forward—to immerse the team in the future they have begun to co-create. Asked to think in specific detail about future events, people create a richer, more accurate reality. Leaders can then ask themselves exactly what changes are required and who will be most affected. This kind of analysis highlights the impact of change on specific groups and has the effect of bringing everyone down to earth.

To anticipate the future, it helps to use a predictive risk model and then to develop an explicit risk-mitigation plan. Fifteen specific risks, such as poor sponsorship and change overload, threaten to disrupt change efforts. (See the sidebar "The 15 questions you should ask about your change initiative.") These risks tend to occur in predictable patterns over the life cycle of a change, but only a handful of risks determine success or failure at each stage. A risk assessment enables a company to understand the unique risk profile of an initiative and identify the four or five risks that pose the biggest threats, the sequence in which they will arise and the tools that will be most effective for containing and managing each one.

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For instance, when Merck KGaA, the German chemicals and pharmaceuticals concern, acquired US biotech equipment supplier Millipore, managers drew up a two-by-two chart representing every group in the organization on two dimensions: their importance in achieving the integration goals and the degree of disruption they would experience from the upcoming change. That allowed the leadership team to focus on supporting the people who were most important to the success of the merger and faced the greatest risk of serious dislocation. Leaders clarified roles, set priorities and provided focused change management support to help the integration succeed.

But then, inevitably, the voyage begins. And once more the mood changes...

Phase III. Skirting the rocks

The initiative has launched. Everyone is supposed to climb on board. But now, somehow, things don't play out as expected. Obstacles appear. Costs mount. The venture is harder than people thought. Some argue that it is time to call a halt and cut losses. Even those who initially perceived the change positively may have their doubts, as uninformed optimism inevitably gives way to informed pessimism. The supporters realize that everything will not be perfect.

A different set of cognitive biases takes over when people confront real obstacles. Facing reality, most human beings are *loss averse*—they prefer avoiding losses to acquiring an equal amount of gains. When the going gets rough, they naturally look back at the familiar harbor they left behind. *Negativity bias*, the tendency for negative events to loom larger than positive ones in people's minds, reinforces that reaction. So does *normalcy bias* (also known as the "ostrich effect"), which refers to the difficulties people have in seeing problems when they are in new situations outside of their normal experience.

This is a critical and time-consuming phase of an initiative. What's at stake, typically, is winning the hearts and minds of employees and helping them change well-worn patterns of behavior. A variety of tools can help to counteract the natural negativity at this stage, but four in particular stand out:

Creating an enrollment cascade. Instead of relying on broadcast communication from the top, change leaders create a companywide dialogue about what is happening. The dialogue rolls out through the ranks: Every individual in the organization hears the plan from his or her direct supervisor and is invited to ask questions and provide feedback on the spot. The story is thus told in the best possible way, by the most credible person, the one

The 15 questions you should ask about your change initiative

1. Is our description of success clear and inspiring enough to generate emotional buy-in with our people?
2. Are the proposed solutions appealing to the organization, and will they work in our culture?
3. Are top leaders demonstrating alignment on this change in their communications and actions?
4. Do we have the right leaders who can work effectively as a team, both today and in the future state?
5. Are line managers at all levels actively and visibly reinforcing the adoption of the change?
6. Have we selected credible team members and involved trusted opinion leaders?
7. Do we know who will be most disrupted, and do we have a plan to address resistance and build commitment?
8. Can we develop or acquire the talent and expertise we need for this change?
9. Have we identified the few behaviors that will drive results and the reinforcements to encourage them?
10. Is the program governance designed to make and execute sound, efficient and timely decisions?
11. Can we deliver the change on time while protecting our business's performance from capacity overload?
12. Do we have goals, metrics and a system to forecast results and course-correct before it's too late?
13. Are we tuning our organization (structure, culture, incentive system, etc.) to sustain the change?
14. Can we enhance our systems and leverage new technology fast enough to deliver the results on time?
15. Are we designing fast feedback loops to learn and enhance our solutions over time?

with the most influence on an individual employee's work life. The resulting dialogue allows individuals to feel they've been heard, and it offers them a greater sense of control. It also sets expectations that are more likely to be realistic. The newly merged Merck Millipore, for example, conducted this kind of structured dialogue throughout the organization—one key to the successful post-merger integration of the two companies.

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Preparing leaders at all levels to be sponsors. When people's lives are disrupted, their reactions follow a predictable resistance curve. It is often said that companies at this stage should "communicate, communicate, communicate." That is wrong. Some communication is necessary at the outset. But now, it's more important to listen. Much of the listening inevitably falls to middle managers and supervisors, who will need training in how best to deal with resistance. They can learn, for instance, that resistance is a natural and normal reaction to disruption, a sign of progress rather than a problem to be solved.

Designing positive consequences for behavior change. Transformations often involve changes in how employees must think and act every day on the job. A company in this situation needs to spell out not only what people should do differently, but also how they will be reinforced for adopting the new behaviors.

One bank, for instance, invested heavily in a program for cross-selling products to customers. It alerted bank tellers about which customers would be suitable prospects, trained tellers how to sell and compensated those who successfully cross-sold. It also designed a set of immediate consequences for changed behavior. After witnessing an encounter between a teller and an impatient customer, for example, a platform manager standing nearby would offer encouragement: "You handled that well. You were not defensive. Remember, it's only one in five customers who will buy." That encouraged the teller to continue applying the script—and as he began to sell the new product to more clients, the rise in performance metrics typically encouraged him further. Positive reinforcement of this sort is four times as powerful in changing behavior as "push" activities (such as training) alone.

Encouraging a "red is good" attitude. "Red" in a change process—the identification of a problem area or a risk—is often seen as a negative sign. That's backward: It should be seen as a signal that people are involved, and they care about the initiative's success. Companies we work with often train change agents in every branch and function to look for the highest risks perceived by frontline employees and others on the receiving end of the change. They discuss those concerns right away with local leaders, resolve whatever issues they can and elevate concerns that need attention to a higher level.

A company that mounts systematic efforts to identify the risks and counter the biases alters the terms of the equation.

Conclusion: Building a change capability

Leaders who try to change an organization are up against some of the deepest attributes of human nature. The mood swings and cognitive biases that accompany change efforts usually blur people's ability to evaluate a situation and make good decisions. Leaders have the job of managing and minimizing these mood swings, not just for themselves but for the whole organization. But even experienced leaders sometimes struggle to see what is really happening. They make promises that they can't keep, damaging their credibility and eroding trust in the change initiative.

The executives who are most successful at leading through change establish mechanisms to ensure that the biases will be acknowledged and the risks mitigated. That often makes the difference between success and failure, in our experience. Results Delivery helps a company mount systematic efforts to identify the risks and counter the biases, which alters the terms of the equation. Now the change effort is no longer an unfair fight. The obstacles have become predictable and thus manageable. Over time, the company strengthens its change muscles, creating Repeatable Models® for change. It becomes more adept at managing not just this transformation but the next one as well. In a world of constant change, that equips a company to outexecute its competitors.

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