

Insight and analysis from IBM Global Business Services

VIEWPOINT

SPARE CHANGE?

Today's business leaders have to work in a constantly shifting landscape. The challenge is to turn change management into an opportunity, not a cost centre, writes Oliver Cann

In *Enterprise of the Future*, the 2008 IBM Global CEO Study based on a survey of over 1,000 CEOs – 83 per cent of respondents said they were expecting substantial change over the next three years.

This figure was one-third higher than the last time the survey was conducted in 2006 but the most significant fact was that only 61 per cent of the same group of CEOs said that their organisation had coped well with change in the past.

This "change gap" of 22 per cent represents a threefold increase in the number of organisations that felt they were not coping adequately with change since the last time the survey was conducted in 2006.

Why do business leaders feel they are struggling to keep up with the pace of change? One obvious reason is that there are more priorities today than there have ever been in the past. Businesses are more global – and therefore more complicated – than they

have ever been, either in terms of the number of markets in which they operate or where they source their supplies. There are simply more areas of the organisation to improve, not to mention more ways to improve them.

"International markets frequently present new challenges to our business and we needed to identify ways to ensure we can overcome them and succeed in order to grow sales and market share," says Hugh Brown, global logistics manager of The Edrington Group, the Scottish firm behind "The Famous Grouse" Scotch whisky brand.

"When we are expanding into new markets or growing in existing ones, we need to be sure that all our staff are fully aware of all the issues relevant

to trading conditions and therefore to our company's future success."


Businesses – and their shareholders – used to know the market, the competition and, practically, how much they would be able to charge come the next annual price hike. Even recently, CEOs could get away with focusing on market factors such as changing consumption trends and competitor actions, rather than wider macroeconomic issues. This isn't the case today.

As the CEO Study points out, "In 2008, CEOs are no longer focused on a narrow priority list. People skills are now just as much in focus as market factors, and environmental issues demand twice as much attention as they did in the past. Suddenly everything is important. Change can come from anywhere."

If sales growth, international expansion or cost-cutting are

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the three main drivers of change, what are the enablers of change?

First, deregulation opened up new markets and enabled capital and labour to flow around the world. Second, technology enables customers to compare products, share information and demand more from organisations at the same time as it helps organisation to gain faster, more reliable consumer intelligence.

The latest change agent is growing environmental awareness. There are now advocacy groups and NGOs monitoring and informing on corporate environmental performance, to say nothing of the attention being paid by customers in this area. According to *Climate change: Everyone's business*, a report from the CBI Climate Change Task Force published in 2007, "Consumer demand will stimulate competition to produce greener alternatives to current products and services, and reward those businesses that take a lead. In the low carbon future, companies will have to be green to grow."

Smart business leaders know that a good sustainability record can help in negotiations for expensive raw materials while allowing them to charge a premium for their products, manage stakeholder relations and attract talent.

While the pace of change is causing concern to many CEOs, the flip side is that those that are good at it stand to benefit considerably. But



what makes a leader a good change manager? Open mindedness is one sought after quality, whether in embracing

consumer activism or experimenting with new disruptive business models, while an ability to focus on the core business is another, as companies that partner or outsource non-core functions are better placed to focus on growing the business.

Most change management is led from the top, but buy in is required from all levels. Good change managers need new challenges, so constant investment in greenfield opportunities and a robust programme of mergers and acquisitions are also important in any company with a change agenda.

Every organisation with an eye to the future must place change at the heart of its corporate culture. Change must be seen as a constant state, as an opportunity rather than a threat, and innovation must be rewarded.

IBM has experience helping customers of all sizes design and execute business strategies supported by technology. If you want to talk to IBM about how your business can become an Enterprise of the Future, visit: www.ibm.com/gbs/uk/midmarket



ANALYSIS: TAKING A NEW APPROACH

The world economy is moving at a pace and businesses are fighting to keep up. How can you make change work for your business ?

"According to IBM's Global CEO Study, there's a need for organisations of all sizes to demonstrate agility and to create an infrastructure that can respond promptly to a business environment that is shifting in some cases week to week. And yet, many CEOs admit they are not geared up to cope with the pace of change," says Mark Buckingham of IBM Global Business Services. "A new study we've conducted will help. Over the past 12 months, IBM has surveyed over 1,500 individuals from around the globe asking them how they 'make change work'. According to the study, organisations that have successfully implemented change management programmes highlight these areas of focus:

- 1. Structure and rigour must underpin any change programme** – "You can't expect to be successful if you are anything other than methodical and disciplined in your approach," says Buckingham.
 - 2. Change programmes require the focus of top individuals** – "According to our study, 96 per cent of respondents in the UK claimed that 'Top Management Sponsorship' was important for successful change."
 - 3. Leaders must understand and articulate a clear direction for change** – "Only with a clear understanding of the desired outcome and journey to be undertaken can you expect change leaders and the business to take meaningful action,"
 - 4. By investing a small amount in these specific areas, businesses can increase the likelihood of success of a change programme** – "It's not about spending more; companies that are successful at making change work invest carefully in these areas."
- Watch out for the *Making Change Work* study from IBM, which is due out in October.**



CBI: IT'S ABOUT MANAGING CHANGE

"IBM's Global CEO Study reveals that CEO confidence in their ability to manage change is not high," explains Katia Hall, director of employee policy with the CBI. "Where does the management part of the equation come into play? For the CBI, it begins from the ground up. It begins with employee involvement and enthusiasm. It begins with good employee relations. For change to be successful, the people that make up the business have to be on board.

"The problem is that change can create uncertainty and employees today have more options than ever. They are less likely to sit around and wait while the company decides on a new direction. On the other hand, employees who feel confident and motivated in their jobs are typically better able to deal with change. Greater empowerment of staff, with knowledge of the organisation's long-term goals and wider operations, is crucial.

"If employee relations are solid, communication is open and the right leadership and training steps are in place, then managing that change becomes easier and the results should be better. Managed well, change can create tremendous opportunities for employees.

"Successful change management works throughout an organisation, at all levels. It means line managers taking responsibility for staff performance and giving them the tools they need to improve. Employees need to buy into the idea of change and then be able to make it happen."

IBM: WHAT DOES THE ENTERPRISE OF THE FUTURE LOOK LIKE?

Enterprise of the Future, the third edition of IBM's biennial Global CEO Study series, has just been published. It is based on surveys of 1,130 CEOs, general managers, and senior public sector and business leaders. What does the Enterprise of the Future look like? It is:

- **HUNGRY FOR CHANGE:** Capable of changing quickly and successfully. Market and industry shifts are a chance to move ahead of competition.
- **INNOVATIVE BEYOND CUSTOMER IMAGINATION:** Surpasses the expectations of increasingly demanding customers.
- **GLOBALLY INTEGRATED:** Takes advantage of the global economy. Business is strategically designed to access the best capabilities, knowledge and assets from wherever they reside in the world and apply them wherever required in the world.
- **DISRUPTIVE BY NATURE:** Challenges its business model, disrupting the basis of competition and reinventing itself when needed.
- **GENUINE, NOT JUST GENEROUS:** Goes beyond philanthropy and compliance, reflecting genuine concern for society.

For a copy of *The Enterprise of the Future*, visit: www.ibm.com/services/us/gbs/bus/html/ceostudy2008

INSTITUTE OF EXPORT AND INTERNATIONAL TRADE: THINK LOCALLY

Lesley Batchelor, chair of the Institute of Export & International Trade, emphasises the need to balance risk across markets, and focus on strong supplier relationships and logistics frameworks: "This is particularly important if you're trading in several markets with very different pressures, such as local cultures or exchange rate fluctuations," she says. "Dynamic businesses are able to switch supplier, distributor or even the country of

production quickly, giving them a clear competitive advantage."

"Successful firms adopt a market-by-market approach, empowering managers to be creative locally without making dramatic changes in every market," she adds. "This allows them to balance risk, as there is no reliance on one supplier or customer, but gives them scope to shift production between markets where excess capacity or increased costs justify the move.

"To make the most of change, success is dependent upon having staff that can recognise the local challenges each market poses, and then address them within the wider context of your operation. Businesses at the leading edge invest in staff development to ensure they have in-depth knowledge of local regulation, culture and operational needs. The more informed you are about the detail of individual markets, the quicker change will permeate your business."

INTERVIEW: CLOSING THE GAP

Chris Mason, group innovation director of logistics firm Wincanton, and Hitesh Amin, mid-market sector leader of IBM Global Business Services, review some essential **change management issues**.

Q ACCORDING TO IBM'S 2008 GLOBAL CEO STUDY "CEOS FORESEE SIGNIFICANT CHANGE AHEAD. BUT THEIR CONFIDENCE IN THEIR ABILITY TO MANAGE THAT CHANGE IS NOT NEARLY AS HIGH." HOW WOULD YOU EXPLAIN THIS "CHANGE GAP"?

AMIN: This is the result of the increasing pace of change in business. There was a time when companies could better anticipate change, because it was usually narrow in scope – market factors, moves by competitors and so forth. That's not the case today. Dissatisfied customers or consumer advocates can affect a company's bottom line directly and in very little time, through a variety of channels. CEOs are faced with constantly shifting sands and need to adjust accordingly, but it's proving to be a very steep learning curve.

MASON: Partly it's that people feel that the volume, speed and unpredictability of external pressures are just inexorably increasing by the day: for example the oil price shock and the current financial market instability. But also I think there are times when people see that activity which was intended to improve their business has in fact, through implementation difficulties, distracted their organisation from its core purpose.

Q WHAT MAKES A GOOD CHANGE MANAGER?

AMIN: Someone who understands that change is the only true constant in business and is able to thrive in that environment. This quality shouldn't be limited to change managers; employees should be comfortable with working in an unpredictable environment as well.

The fact is that effective change managers are few and far between. In IBM's 2008 study of change management practices (Making Change Work), 75 per cent of companies surveyed said their approach to change management was

"usually informal, ad hoc or improvised". This needs to improve – change management needs to be a core competence.

MASON: For me it is a combination of professional practice and processes in the change management disciplines, which you might call the hard skills, coupled with the soft skills such as empathy for those impacted by change.

Also you can't underestimate the importance of having a real in-depth understanding of the business that you are changing and the likely implications of the change. In Wincanton we manage substantial business change for our customers – and we recognize its importance by having a Change Management director and practice to lead the development of this key competitive aspect of our business.

Q IN UNCERTAIN ECONOMIC TIMES, WHY SHOULD ANY BUSINESS WANT TO ENCOURAGE CHANGE?

AMIN: Quite simply, it's the only game in town. If a business wants to survive, it has to turn change into an opportunity. According to the CEO Study, this is the case for businesses around the world – and CEOs seem prepared to embrace the idea. And as the Study's results demonstrate, outperformers are more successful at managing change.

MASON: This is actually a time of great opportunity to seize competitive advantage. Not only are we all competing in every aspect of our response to these challenges, but if we approach these external stimuli in a more positive way, I think we can actually be stimulated to be more radical than we might otherwise be if we maintain our comfort zone. After all, there is a lot of truth in the old saying that necessity is the mother of invention.



Q HOW DO YOU THINK CHANGE IS BEST HANDLED BY BUSINESS?

AMIN: First, define, manage and track the changes faced, while keeping the business' long-term goals in focus. This is essential if a company is to survive and thrive. New ideas will need to be protected and ushered through any storm of change – despite the temptation to batten down and maintain the status quo. Employees must be kept informed and trained to handle change, since they will take the brunt of the situation. The key is to face the change willingly and enthusiastically. Fear of uncertainty can lead to corporate paralysis and that can shut down a business fast.

MASON: The fundamental prerequisite is having a very firm grip on the scope, and expert and disciplined change management. The necessary governance structures are very important and you need the inclusion of the right sorts of people including all the skill bases and functions – how they will be coordinated is often the magic ingredient. All this won't guarantee success, but will help to confront the right issues at the right time.

Q HOW DOES INNOVATION FIT INTO THE CHANGE MANAGEMENT EQUATION?

AMIN: This is at the heart of the equation. Ideally, a company should have processes and structures that promote innovation within the organisation. Businesses that are making the most of global partnerships and taking a more innovative approach to their business model – these are ones that are outperforming their peers and the market. Innovation implies tremendous flexibility and that by default means a company should be better able to manage change. And that can make all the difference.

MASON: Innovation is a combination three things. First you have the insight, the understanding of what the opportunity is. Next comes the idea of how you are going to improve things. Finally, to become an innovation an idea must be successfully implemented by professional change management.



1 NORTH AMERICA: PUTTING MORE DEMANDS ON DISTRIBUTION

Distributors in the US are feeling the heat as the current economic climate means customers are expecting more for less money, while operating costs continue to rise.

According to a Sector Insight published in June 2008 by The Aberdeen Group, a US-based research specialist focusing on the global technology-driven value chain, "a focus on the distribution industry is re-emerging due to the impact that logistics can make on the efficiency of the supply chain, especially during the tough economic conditions in today's marketplace."

At the same time, the report shows that distribution companies are under pressure to redesign their global supply chains due to rising supply chain costs and customer service demands, as well as business growth or acquisition/divestiture activity. Escalating fuel costs and "enhanced interest in being a sustainable/green company" are also factors.

Why is this a problem? Only 11 per cent of distributors studied for the report had end-to-end supply chain data and process visibility, while just 24 per cent have an executive position with responsibility for the supply chain from end-to-end. For companies with North American distributors in the supply chain, this should be a warning sign – are you being well served?



Global integration is the story for businesses today, as fluctuating dollar values and oil and commodities costs prompt trade to flow in unexpected directions. **Are supply chains following suit?**

GLOBAL: TRADE FLOWS

UK: BORN GLOBAL

The IBM CEO Study suggests that the enterprise of the future must be globally integrated "to take advantage of today's global economy". The business will be "strategically designed to access the best capabilities, knowledge and assets from wherever they reside in the world and apply them wherever required in the world".

The value of this approach is backed up by 2007 study by UK Trade & Investment (UKTI), which focused on international trade: "The benefits are largely linked to the higher productivity of exporters, which then contribute to higher overall UK productivity growth". The report highlights "the entry of higher productivity exporters, ie new firm start-ups that immediately or very soon sell to international markets (what have been called 'born global' companies in the literature)."

The challenge in today's market is to find the right balance in the supply chain strategy, to establish the right relationships with the right partners on the world stage – to be "born global", whether a new business or old.

As Jim Guyette, president and CEO of Rolls-Royce North America, points out in *Enterprise of the Future*, "A few years ago, we were a national company; now we're a global company. Our integrated supply chain must adapt to meet demand in 50 countries."

GLOBALLY, what are the main challenges when implementing change?

58%: Changing mindsets and attitudes

49%: Corporate culture

35%: Complexity is underestimated

[Source: IBM's Making Change Work Study 2008]



3 ASIA-PACIFIC: KEEPING UP WITH THE MIDDLE KINGDOM

"Developing countries grow gradually at first, then suddenly emerge as large markets," says Yasuo Inubushi, president of Kobe Steel in Japan, in IBM's CEO Study. "We must be prepared to respond quickly. This will require us to make fundamental changes to our business now, rather than implement event driven reactions."

This is particularly true when it comes to China, having moved very quickly from "emerging" economic status to become one of the world's largest markets. Prime Minister Gordon Brown understood this in January 2008 when he and Chinese Premier Wen Jiabao agreed a trade target of \$60bn between the UK and China by 2010.

The agreement seems to be gathering pace. According to trade figures released by UK Trade & Investment (UKTI), between January and May 2008, the UK exported more than £2bn of goods and services to China, an increase of 44 per cent on the same period in 2007. Chinese imports for the same period to the UK increased ten per cent to £7.763bn.

At the same time, points out *Supply Chain Digest*, "China actually exports about the same level of goods to developing nations as it does to industrialized ones". It also imports "substantially more from those countries than industrial economies".

What does this mean for businesses operating a supply chain with links to China? It's becoming increasingly important to keep the pace with the country's changing direction. The days of China as the source for inexpensive manufacturing and labour are gone and many businesses are now looking closer to home for more economically viable resources – just as Chinese businesses are doing in today's developing nations.

NOTES FROM THE FRONT LINE

Michael Boyd has been Artistic Director of the Royal Shakespeare Company since 2003 and was responsible for mounting Shakespeare's complete History Cycle in 2008. He explains the thinking behind an ensemble ethos and managing change in such an environment.

"There have been three phases to my history with the RSC [Royal Shakespeare Company] so far. To begin with, I directed nothing. I took time out. There are 700 people who work at the RSC, and I needed to get to know how it all worked. I hired directors that I knew and trusted just to get on with it.

"Out of these directors, I picked a small, core team. They took over responsibility for eg new writing – with my support – and led that stream of work. This was the 'federalist approach' phase.

"Then came the 'megalomania approach' which was the staging of all of Shakespeare's Histories, where I tried to do everything. This provided a very satisfying coherence, but was obviously unsustainable. It was fine as a one-off and has been a galvanising gesture which helps to explain to the world and to

ourselves what we mean by "ensemble".

"In the latest phase, I'm bringing together a new team of very talented directors and we're going to work as an ensemble of directors – sharing each other's preoccupations, with nobody being utterly in command of their own little bit. We are all going to have to work together. We'll visit each other's rehearsal groups, give each other notes. We'll help each other assess our work. It's not going to be easy. There will be some bruised egos, but we'll teach each other and that means constructive criticism.

"Our philosophy that the whole is much greater than the sum of its parts demands an exhaustive process of sharing with everybody and listening to everybody. It has meant us bringing what can be quite alien ideas into a sceptical, pragmatic, individualistic English



culture. So far, it is working. I guess ensemble involves sharing a vision with quite a diverse group of people and inviting their imprint back on that vision. It involves a lot of tension between one unifying aesthetic ambition and the enormous number of people that need to buy into the idea.

"The only way to get their buy-in is to seriously allow them to change/modify it and you have got to not mind that – indeed, you have got to celebrate that and feel good about it. That is the trick."

FORTHCOMING EVENTS: CHANGE MANAGEMENT

> ENTERPRISE OF THE FUTURE

> DATE: DECEMBER 2008

IBM Global Business Services will be hosting a dinner debate in early December to discuss the implications of key findings from the IBM Global CEO Study

published in 2008. According to the Study, for example, the Enterprise of the Future is "hungry for change" but uncertain how to achieve it. What does this mean for CEOs of UK mid-corporates?

IBM is inviting CEOs from leading mid-market organisations in the UK to this dinner debate in central London to find out how they view these findings and how they may affect these businesses in the future.

Are you hungry for change? If so, what are you doing about it?

If you are interested in finding out more about this event, please contact Jonathan Young at IBM Global Business Services (details below).

IN NEXT ISSUE

COLLABORATION IN ALL ITS FORMS, FROM CLOSE-KNIT GLOBAL SUPPLY CHAIN PARTNERSHIPS TO INNOVATION BEYOND THE SILO WALLS.

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