Managing process risk: planning for the booby traps ahead

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After a lengthy planning process, a $5 billion retailer got ready one day to switch to an entirely new financial system. Just before the move was to be made official, the CEO asked his project manager, "Are we sure we'll be able to process credit card receipts when we go live?" Silence followed. The project manager couldn't be sure. "Find a way to find out," the CEO advised, then braced himself for potential disaster.

Any time a company significantly changes the way it does things, there is "process risk," i.e. the risk that the business will suffer significant financial losses or harm to its reputation as a result of the change. Process risk is rife in every large-scale change program, including e-business initiatives, enterprise resource planning (ERP) or customer relationship management (CRM) implementations, supply chain overhauls, process improvement initiatives, and mergers and acquisitions. Failure to effectively manage process risk explains why most major change initiatives ultimately fail.

What does process risk look like?

Process risk can take several different forms. We commonly observe at least four varieties:

(1) *Performance dips*. Suppose you reengineer your manufacturing process to be more efficient, and production drops 15 percent in the first month. In the first stage of most process and/or technology projects, performance suffers as people struggle to learn new jobs and technologies. "We were just naïve," said an officer when Purina Mills first went live with ERP software. "When you completely change the way people work, it's a big deal."

(2) *Project frights*. You start implementing an ERP system, but when significant hitches occur, top management gets worried and drops the project. "I am a major shareholder in this company," one officer told us, "and this project scares the heck out of me." The project was cancelled two days after its start.

(3) *Process fumbles*. You start implementing a new financial system only to learn you've torn off more than you've bargained for. The project timeline slips and performance problems begin sprouting like weeds. A large retail company, for example, once tried implementing process changes for the purpose of streamlining its invoicing. But it turned out that this new process would demand that more invoices be handled manually. In the end, far from any hope of streamlining, the company had to take on 30 more full-time employees to make the new system work.

(4) *Process failures*. Maybe you've revamped your order entry process only to discover at the project completion that your organization is completely incapable of supporting the new process. Greyhound Lines, for example, failed to anticipate certain problems with a new reservations system until the system went live, costing the company, in one month alone, 12 percent of its customers.

But who can think of everything? No one, of course. Many problems, however, can be avoided. It helps when you understand the range of process risks that thwart strategic projects. These risks can be divided into two primary categories: people and operations. How well you recognize and prepare in advance to manage such process risks will determine your ultimate success or failure.

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The people component

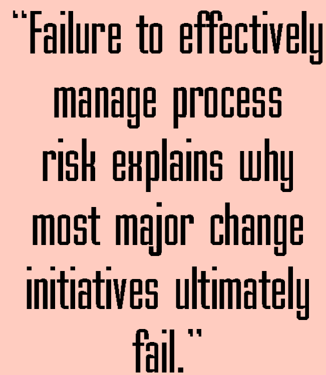
Have you ever been to a Wal-Mart and noticed the slogan on employees' shirts: "Our people make the difference"? The bottom line is that it's always true. Your people, not you, ultimately decide whether your change initiative will succeed or fail. Thus, the first type of process risks involves people.

People risk no. 1 – mismanaging resistance

Most working people desire to do a good job. But few process initiatives allow for the psychological process by which people adapt to change. Resistance is always a part of any change process and, therefore, must not be automatically treated as something gone wrong. In fact, open disagreement is a very healthy sign. It indicates that people have now moved out of the denial stage and are ready to engage the proposed change head on. We see three typical stages of resistance: head, heart, and hands:

- *Head*. People first make logical objections. "It won't work." "It's been tried before." "It will take too much time." These perfectly valid objections must be met head-on with a well thought-out business case and the willingness to proceed to improve a plan where it's called for.
- *Heart*. Next, people become aware of their feelings about the proposed change. In this stage, they may not be able to verbalize what they really mean. One of our clients had a project team that began coming up with all sorts of last-minute problems. The real problem was that their work on the team had been exciting, so they didn't want to finish the project as that would mean returning to their mundane jobs.
- *Hands*. People worry about their ability to carry out proposed changes. Such fears must be allayed with clear "expectation management," i.e. a well thought-out plan for skill assessment and training.

Many managers mistakenly view employee resistance as a "soft" topic, not worth serious attention and resources. However, resistance keeps people from preparing for change, which takes a huge toll in training dollars and causes a performance dip after "going live." Resistance also can take the form of delays and foot dragging, degradation of data integrity, and inferior customer service. How "soft" do these effects sound to you? How worthy of serious attention and resources?



People risk no. 2 – making it look worse than it is

Change leaders often unwittingly allow their change projects to look scarier than they really are, increasing the risk of resistance, dwelling on what will change, all the while trying to put as good a spin on it as possible.

But just as important is what will *not* change because that's what people can still hang their hats on. We ask our clients to have their people compile a "change/no change list." By performing this exercise, employees can find comfort in the "no change" portion. The lengthier this segment is, the more assured people become that they will be capable to continue doing their jobs.

Sometimes the best changes go unmentioned. One group with whom we worked complained that the new data system was not generating the kind of reports they needed. As a result, they kept a closet filled with old reports, since they never could be sure when management might ask them for some particular details. But, in fact, the new system was storing all the correct data . . . it was just that nobody had bothered to inform this frustrated group!

People risk no. 3 – ignoring the learning curve

New processes require new ways of working. Yet few organizations genuinely equip their people with sufficient information and experience needed to adopt new ways of work. The challenge is to train employees in a way that makes proposed job and process changes real to them. But too often, people find themselves trained in the new system or on new equipment, though not specifically in the work they will have to do.

A chemical company, for example, once conducted over 80 separate training courses for its personnel in preparation for the implementation of ERP software. More than 500 classes were delivered to over 1,000 personnel. One month after "Go Live," end-users were asked what they needed most in order to work effectively in the new environment. "Training that was more pertinent to my job" came back as the number one request.

Training everybody at once may seem efficient, but it almost always proves to be wasteful. When people don't immediately start using their new skills, they tend to quickly lose them. So it's good to identify those who will use a new skill the most or who will perform the most critical tasks, making sure they receive such training just before the system goes live. In this way, they go immediately from learning to doing. The other

employees can be trained later, and/or possibly benefit from observing their newly experienced co-workers.

If employees will be training other employees, by the way, their time must be budgeted accordingly, and this task must be included in their performance reviews.

People risk no. 4 – mismanaging communications

Change leaders often knock themselves out to communicate, only to discover weeks or months later that their messages never got through. One team we worked with found that after three months of rigorous communication and the change project itself underway, less than two-thirds of the intended audience had even heard of the project. And half of those refused to believe that such a project was actually taking place!

So when preparing a major change project, you must:

- Plan what you believe to be a thorough communications effort.
- Plan to monitor that effort monthly, surveying the intended audience, keeping the communications two-way, seeking constant feedback from your audience.
- Plan for additional measures if they become necessary. In the example above, to correct the lack of good communication, the team switched from using easily ignored e-mail messages and newsletters, to face-to-face meetings, brown bag lunches, and Q&A forums.

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A very common mistake, by the way, is to just let the company's corporate communications function handle everything. "After all, that's their job; we certainly don't have to tell them how to do it." Corporate communications functions, however, are usually heavily biased toward mass communications such as newsletters, which are usually not taken very seriously. The rule of thumb, therefore, is this: the more complex the change being implemented, the more human, individual, and trustworthy your communications need to be.

The very best communicators in fact are individuals in each group whom the others respect, not impersonal newsletters or e-mails. A network of change agents – respected managers and supervisors – is a virtual prerequisite for project success. We have observed that whenever the effort was made to build such a network, the company was rewarded with superior project return on investment.

Consider the case of an SAP implementation at an energy company. Early on, each department head was asked to choose an Implementation Representative (change agent) to be that department's point person for the project right up until Go Live. These change agents were generally non-supervisory employees with eight to 12 years of experience with the company. Their responsibility was to provide change leaders with detailed information about the organizational structure, existing processes, and needs of their departments, as well as to funnel information about the project back to the employees.

For the first half of the project, the change agents spent 10-15 percent of their time on it. During the second half of the project, the time commitment increased substantially, up to 100 percent for some personnel.

The result? Getting more employees involved in decisions and planning early on leveraged the work of the project team, decreased resistance to process and job changes, caused training to be more effective, and made overall implementation smoother. Having a single point of contact in each unit from the beginning afforded employees a sense of project ownership that is essential to large-scale change.

People risk no. 5 – ignoring implementation history

People's acceptance or resistance will be strongly affected by the way they've seen the company implement projects before. We once consulted on an ERP implementation in a company where such an effort had already failed three times. The first time, the executives got cold feet and bailed out. The second time, the employees rejected it, because it had been presented to them in a very clumsy and unconvincing manner. The third time, the project team got into conflict with its consultant. As a result, no one expected the fourth attempt to work, and that alone made it very likely to fail. That risk was addressed by implementing many of the recommendations presented here.

The change project team has to face up to past failures, and the company's top management has to let them do so. The team has to address *what* was to blame for past failures, while avoiding the disruptive subject of *who* was to blame. Successful change projects honestly put the past behind, acknowledging that past projects were far from perfect and credibly demonstrating how the current project specifically differs from past failures.

People risk no. 6 – mismanaging performance levers

Not long ago, a major oil and gas utility placed many of its "best and brightest" onto a change initiative team and kept them there for a year. Meanwhile, everyone else was expected to pick up the slack and keep regular operations running smoothly and well. If the utility's CEO really wanted all his employees to make this extra effort, their performance reviews for that year must be amended to include this responsibility. After we explained this to the CEO, the modifications were made, and the company functioned handsomely as the change effort succeeded.

A key performance lever, performance review, is one of those checkpoints that accurately determines what an individual really does, despite what his or her boss says. Other performance levers include corporate culture and compensation policies.

Change leaders have a responsibility to manage performance levers, not just to hand them over to human resources. The project team should take the time to think through which performance levers will matter and what changes will be needed. They must make recommendations, and then let HR implement job descriptions, pay scales, reporting structures, and so on. Performance levers are important at every level for many reasons:

- so that top management has the incentive to send the right messages to middle management;
- so that middle management has the incentive to change the criteria and metrics it is using; and
- so that all employees have sufficient incentive to make the many process changes succeed.

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The operations component

It's not only about people, however, no matter how vital it is to pay attention the people component. There are also plenty of things that can go wrong with the operations side, i.e. the individual processes themselves.

Operations risk no. 1 – processes that cross functions

Probably the most common opportunity for process risk is at the "hand-offs," those points where a process crosses from one functional group to another. People in one function rarely know in any detail how the people in other functions do their work.

A change initiative at one retailer we know required its buyers to respond quickly to manufacturers' promotions. This caused the amount and variety of goods arriving in the company's warehouse to vary widely from week to week. Warehouse management, rarely certain what goods were about to arrive at any given moment, became especially adept at absorbing inventory, that is, moving goods around, overfilling top stock space, and generally cramming inventory into every nook and cranny. The trouble was that this inventory was often lost or damaged, and so, instead of realizing big savings, the company found itself taking substantial hits to its balance sheet, all because its buyers and its warehouse managers rarely communicated.

The solution, simplicity itself in the end, was to bring people out of their "silos" and let them begin talking to each other. The people with the greatest levels of experience were sought the most, rather than those with the highest seniority, and function heads began hosting "What can go wrong with this plan?" brainstorming sessions. Far from encouraging negativism, these sessions got people figuring out what went wrong in the past and what could go wrong in the future. From there, they "bought in" to figuring out ways to make things right.

Operations risk no. 2 – interactions with the outside world

Process changes will affect your suppliers, customers, and service providers. This process-change planning should include discussions with all outside parties who might be affected, or who might have an effect on the firm's ability to carry out the intended change.

A mid-level manager at a manufacturer of agricultural and construction equipment who was planning a major process change in manufacturing processes suddenly realized that this change would speed up the way inventory was pulled from suppliers, but that suppliers would not be able to keep up. Thanks to his perceptiveness, the potential problem was addressed in advance and never became an actual problem. But the potential problem would never even have come to the surface until too late if only high-level executives had been involved.

Operations risk no. 3 – the performance dip

All possible risks can come together in the performance dip that usually follows the implementation of new systems and processes. The atmosphere can be deadly. In Benchmarking Partners' groundbreaking study of problems encountered following ERP implementations, one manager commented, "The first couple of Go-Live months, people are in a trance. People involved in a

recent implementation felt as if they'd had their hearts ripped out. Everything changed."

Planning for a performance dip, therefore, consists of several elements:

- ◆ Communicating to each layer of management (starting at the top) that it won't help to beat up on their direct reports for this performance dip. Communications and support efforts must continue after Go Live, because although people may agree in advance, they will frequently panic once they see their performance numbers drop.
- ◆ Having various kinds of support ready, such as training, Q&A sessions, or advice for managers on handling their people's psychological adaptation.
- ◆ Estimating the duration of the dip, with a plan for having performance where it should be by the end of that timeframe.
- ◆ Planning to control those aspects of the process that can't afford a performance dip, especially those involving the safety and health of employees or customers.

Learning and using what you learn

The secret to managing process risk is really to understand and remember that there are people throughout the company who already know almost everything you want to know. The most effective methodology consists of learning from them and drawing upon tools to make certain that all this knowledge is used and not lost. There are three principal steps to keep in mind.

Look to "the people who know" for leadership

When processes and jobs are changing, nothing will take the place of people who've been there long enough to know the kinds of things that have happened and can happen. Changes have the power to make experienced people feel obsolete, while a well-managed change process will make the same experienced people feel more valuable than ever.

Example: a top inventory manager felt threatened when the new systems her company was about to implement promised that her colleagues would perform at the same level of accuracy that only she, up until now, had been able to deliver. Her boss helped her understand that her expertise would now prove even more vital to the company after the project's completion. "Everyone will be accurate now," he told her, "and they'll start to get cocky, thinking they've got all the right answers even when they haven't asked the right questions. You have the experience and judgment we need to keep them balanced and grounded. They'll now be able to learn more from you than they ever could before." Before long, this inventory manager turned out to be an outstanding mentor.

Ask the fish

When the writer E.B. White was in law school, he encountered a question on an exam about a fishing treaty. Not having studied at all, he began his essay by pointing out that the treaty had already been thoroughly discussed from the points of view of its two signatories, the USA and Canada. He would, therefore, address it from the point of view of the fish.

In process risk analysis, too, it's important to look at a process from multiple points of view. We follow a company's cash flow through the old and proposed new systems, watching how and where it might change, and following important business objects such as invoices through both systems, tracking the alternate paths they could take at various decision points. The chief reason for all this is to identify potential process "fail points" and to run these fail points through careful process design. This allows us to put in place contingency plans for keeping vital business functions running should process fixes turn out not to be foolproof.

Following a problem through the old and new systems contributes greatly toward an understanding of the desirability and implications of process change. Chances are, for instance, you'll find seemingly rational choices along the way that have been delivering unseen and unwanted business consequences.

Develop the right metrics

What gets measured gets managed. What gets rewarded gets done. The final step in managing risk over the long run involves changing the way people are measured, managed, and rewarded. Good metrics help managers assess performance more accurately in order to identify problems before they get out of hand. They also help convince people, both employees and the board of directors, that the proposed benefits are being realized, and – finally – the change project has been completed.

In one manufacturing company recently, growth was the only goal. Managers in the company were measured almost entirely on their ability to "deliver the numbers." In the sales department, this meant beating sales quotas that had been carefully negotiated at the start of each year. For all other personnel, delivering the numbers meant beating budgets that, similarly, had been painstakingly crafted at the end of each year.

The result? Sales reps cut corners and made many deals that were plainly irrational and even injurious. For administrative and operating personnel this spurred skill-building at gamesmanship that soon surpassed that of managers. When the company missed its numbers, all heck broke lose. Sales were re-stated, which injured financial credibility, and the sustained lack of investment driven by budget pressures meant the company missed important market changes, putting it at risk of becoming irrelevant to its customers. Other metrics such as cost-of-sale and investment in new markets would have

warned the company that the time had come to confront its deficiencies, but these warning signals were ignored.

Conclusion: doing it right this time means doing it better the next time

The key to getting it right involves effort and foresight, i.e. the effort to get it right, and the effort to improve it the next time. It is vital to look ahead for problems and to view your proposed changes from many different perspectives through cross-functional discussions. The more your company works at this approach, the more it will acquire good skills, and the better it will be at implementing each change process.

Managers who do it well this time will do it better next time, helping to train others who are attempting it for the first time. Your effective process-change plan will include debriefings, "lessons learned" sessions, write-ups, and, of course, performance reviews with specific reference to change projects. These actions will manage your risks, folding what your people learn about each change effort back into company policies and procedures, and energizing your organization for future improvement measures capable of achieving those missions for which they were intended. S&L