

Change Management

Trends in Governance Structures

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OVERVIEW

Financial institutions are operating in a very dynamic marketplace today; this requires the ability to choose the right change opportunities while demonstrating the necessary degree of flexibility to meet the fluid requirements of the organization over time. The ability to select change initiatives that are aligned with the organization's strategic direction is fundamental for success. How to create a governance structure that ensures both this alignment and successful execution of the initiative is the challenge.

Organizations that are successful with large-scale change initiatives have several things in common; primary among them is a defined governance structure encompassing the entire change cycle. Successful structures begin with the decision process and continue through final execution of the change initiative.

The Complexities of Large-Scale Change

Large-scale change initiatives include broad-based, complex opportunities such as mergers or

acquisitions, entering new or exiting existing business lines, modifying geographical footprint, operational consolidations, or deploying new technology, among others. A review of successful change organizations reveals incorporation of the following primary tenants of change.

- ✓ **What & Why** – choosing initiatives
 - Strategic Alignment
 - Priorities
- ✓ **Risk** associated with action or inaction
 - Customer
 - Financial
 - Reputation
- ✓ 80% of success is in **HOW**
 - Execution
 - Results vs. Methods
- ✓ **WHO** – differentiating between impact and drivers
 - Customer
 - Stakeholders
 - Enablers
- ✓ **WHEN** – managing multiple initiatives
 - Simultaneous
 - Overlapping
 - Sequential

Successful change organizations understand the inter-relationships between the components identified above and how changing one may impact

another. A process that leads to well aligned decisions and is flexible enough to meet changing market needs still requires the strong methodology and rigor necessary for successful execution.

Managing the Change Cycle From Decision through Execution

The *Change Cycle* begins with the introduction of new ideas. These may be initiated anywhere within the organization, however, it is imperative to have a structure or mechanism that will successfully surface them. The second step is the “vetting” or stringent review of ideas to determine which ideas best support the organization’s business strategy and goals. Most often there are multiple initiatives available to any organization that appear to be consistent or aligned with strategic objectives. Prioritization of these opportunities requires the ability to differentiate among them, identifying the degree to which they best support the business requirements. To be successful at this level of evaluation, consistency in measurement of all ideas becomes a critical component.

Once prioritized, change initiatives can then be entered into the preparation and implementation queues where the organization’s change methodology takes over to ensure successful execution.

The challenge for all organizations in the Change Cycle is how to create a governance structure that

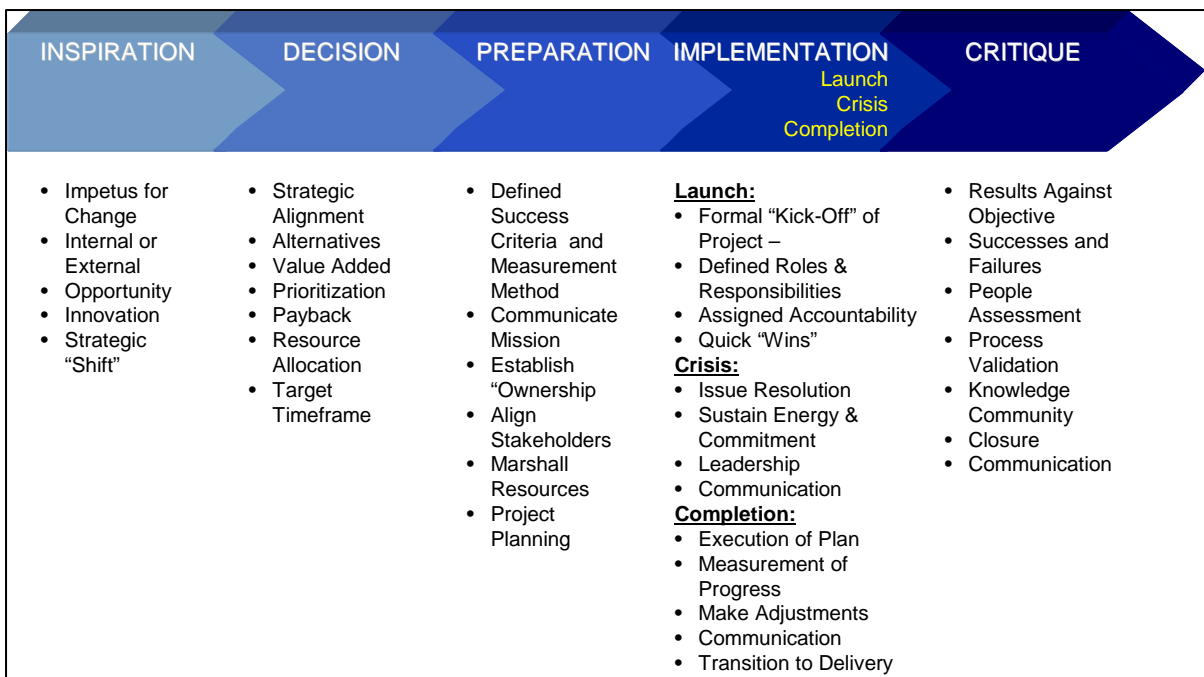
encourages new ideas, effectively and consistently evaluates opportunities and provides sufficient support and direction through implementation.

Approving Change Decisions

Often the greatest degree of effort is placed in the *Implementation* phase of the change cycle. Increased opportunity for success is seen when the same degree of discipline and methodology is applied to the preparation and decision phases as well. This ensures a higher degree of consistency in terms of expectations and defined results. Responsibility for planning and clearly defining desired outcomes and timelines along with funding rests within the *Preparation* and *Decision*-making phases and should not be given short shrift.

Managing Change Execution

A great deal of emphasis, including disciplined methodologies and rigor has been applied to change management execution within financial services during the recent decade. Ever improving skill sets as well as processes are evolving as evidenced by improved change execution results throughout the industry. The strength and emphasis continues to lie in the *Implementation* phase, however, with timeline and resource constraints often constricting both the *Preparation* and *Critique* phases. Successful governance models place equal emphasis in each of these phases.



Industry Trends – Change Management Cycles

So, what are the trends that BenchMark has seen in the industry regarding change management? Successful change organizations differentiate themselves by deploying discipline in four key areas. These areas are:

- ✓ Strategic Alignment – does the process drive decisions and priorities that are consistent with the organization’s business strategy?
- ✓ Clarity in authorization and ownership – does the process provide a clear understanding of who can authorize what changes?
- ✓ Accountability – does the process define who is accountable for the decision as well as the execution of the change initiative?
- ✓ Execution Methodology – is there a well defined methodology for change execution?



Critical Success Factors

Higher Performers	Average Performer	Lower Performers
Decisions aligned with strategy	Decision driven by multiple factors	Decision driven by multiple factors
Defined Process & Criteria for approval	Defined Process & Criteria for approval	Evaluation criteria fluctuate with initiative
Change Management Office	Project Management Office	Local management responsible for change process
Portfolio Management	Initiatives considered independently	Initiatives considered independently

Decision - High performing change management organizations align their decision making process with their business strategy. Others most often deploy a more variable approach to the decision process. These may be focused on specific business lines rather than the organization as a whole or be driven by short-term needs or events.

An established enterprise-wide Change Management Office facilitates all initiatives across the organization. Many organizations today have Project Management Offices (PMOs) that are responsible for reporting on the multiple projects throughout the organization once the projects are approved for implementation. Successful change organizations utilize a more comprehensive and dynamic approach to the Change Office, beginning during the *Decision* phase by taking existing initiatives into consideration when both approving new initiatives and prioritizing them.



Implementation

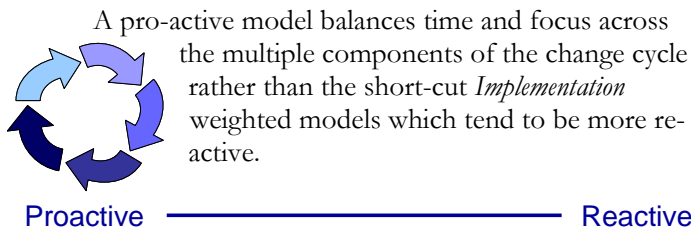
Higher Performers	Average Performer	Lower Performers
Full cycle Initiative Owner or Sponsor	Initiative Owner responsible for approval only	Initiative Owner responsible for approval only
Dedicated Project Manager	Dedicated Project Manager	Local management responsible for change process
Defined Methodology	Defined Methodology	Local management discretion
Program Management Office	Projects managed independently; PMO reports updates	Initiatives considered independently

Once the change initiatives are approved for implementation, many organizations appoint a sponsor to shepherd the initiative through to conclusion. High performing change organizations link the initiative sponsor or owner from the outset of the *Inspiration* or *Decision* phase and maintain accountability through completion. Most organizations today assign dedicated project managers to large initiatives and apply a defined methodology. Initiatives receive direction and oversight through the PMO. Unlike high performing organizations, the ability to effectively manage change initiatives across multiple projects understanding their inter-dependencies eludes the PMO structure.

Pro-active versus Re-active

The financial services industry as a whole is making strong progress in the disciplines of project management. There is still, however, a great deal of

time and energy spent in a re-active rather than pro-active mode. The reactive mode naturally occurs with shortened *Planning* and *Critique* cycles during execution often as the result of regulatory change or a rapidly changing competitive landscape; forcing quick decisions that may not be totally synchronized with the organization's overall strategic initiatives. A reactive result is always suboptimal.

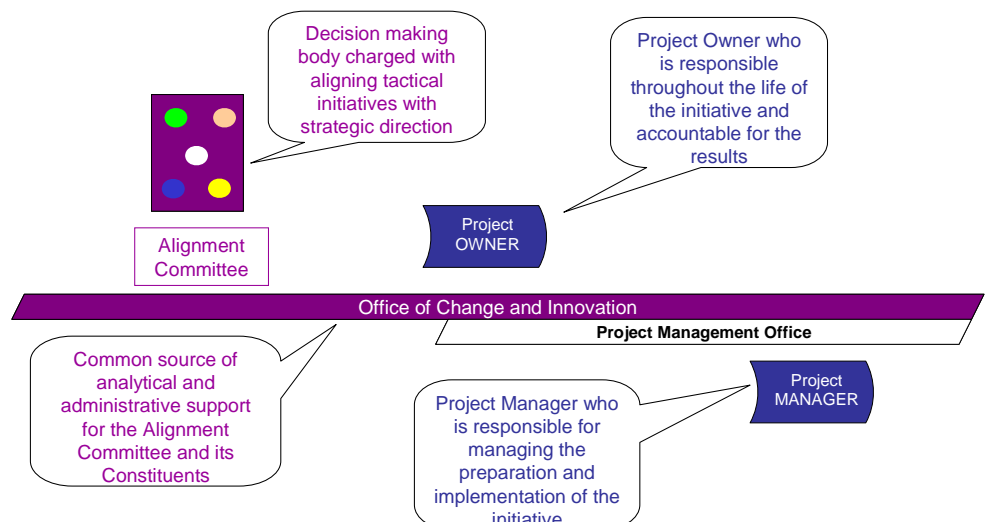


Governance Models

A Change Management Governance Model incorporates all of the critical elements for successful change throughout the change lifecycle, from the initiation of an idea through the final implementation and subsequent critique for continuous improvement.

Key Roles in Governance Models

Constituents – may come from any area within the organization; they submit ideas for change and may fill a variety of roles including Subject Matter Expert (SME) or project team member depending on the initiative. Constituents represent all areas within the organization including executive management, customer experience, business lines, support services (e.g., Human Resources, Marketing, Finance, Audit/Compliance, Legal, Procurement), and delivery (e.g., Information Technology, Bank Operations).



Alignment Committee – represents each of the constituent groups (executive management, customer experience, business lines, support services, delivery) at the highest level determining alignment of proposed initiatives with strategic goals. The Alignment Committee is typically a small group in order to be effective. Its members introduce proposed change initiatives from their constituents, communicate proposed and approved initiatives to their constituents, make decisions in the best interest of the overall organization, and monitor status during implementation. Strong communication structures are indicative of effective models.

Office of Change & Innovation – provides the infrastructure to support and drive change initiatives throughout the lifecycle. Specifically, they provide resources to facilitate the alignment committee, providing consistent impact analyses for proposed initiatives, preparing meeting agendas, and meeting minutes. They also provide skilled project management resources and defined methodologies for implementation.

Owner (sponsor) – provides oversight and guidance to the project manager, is responsible to the Alignment Committee for the outcome, and ensures participation and commitment from the appropriate constituents.

Project Manager – works in collaboration with the Owner to ensure a positive outcome; manages assigned resources to provide detailed analyses as required, project planning and management, and contingency planning.

Obstacles & Failure Points

A well defined governance structure for change initiatives, by itself, will not guarantee success. There are a number of obstacles even in high performing organizations that provide constant challenges.

The governance process must not only be clearly defined, but it must also be practical and reflective of the organization's culture. It must be communicated in a way that is easy for all constituents to understand its intent and required processes. The goals must be clearly linked to the organization's business strategy otherwise, successful change becomes an even larger challenge.

Participants in the process will all impact its outcome, either positively or negatively. Associates who do not provide active support or assume responsibility as necessary may delay or derail initiatives in such a way as to avoid immediate detection. Monitoring for active, positive participation and support helps organizations avoid this last obstacle.

Summary

Change will continue to be a common element on the landscape for the financial services industry. The benefits of managing change well, coupled with the risks associated with failed change initiatives have caused management teams across the industry to begin addressing more comprehensive governance structures for change management.

While there is no single governance structure that works best for all organizations, there are common elements which every organization should consider when designing their structure.

- ✓ Strategic Alignment – does the process drive decisions and priorities that are consistent with the organization's business strategy?
- ✓ Clarity in authorization and ownership – does the process provide a clear understanding of who can authorize what changes?
- ✓ Accountability – does the process define who is accountable for the decision as well as the execution of the change initiative?
- ✓ Execution Methodology – is there a well defined methodology for change execution?
- ✓ Review and Adjustment – does the process require interim and post-completion reviews? Is the process adjusted to take advantage of the learnings from these reviews?

Cheryl Yaeger is President of BenchMark Consulting International. She has extensive experience in the financial services industry with the delivery of large integrated change initiatives such as bank mergers and consolidations, technology integration activities and strategic alignment evaluation and adjustment.

BenchMark Consulting International has specialized in improving the financial services industry since 1988. The company is a management consulting firm that improves the profitability of its financial services customers through the delivery of management decision-making information and change management services to realize the benefits of business process changes. BenchMark Consulting International's expertise is in the measuring, designing, and managing of operational processes.

The firm has worked with 37 of the top 50 (in asset size) commercial banks, all 14 automobile captive finance corporations, several of the largest consumer finance corporations and many regional and community banks throughout the United States. Internationally, BenchMark Consulting International has worked with the five largest Canadian commercial banks, more than 40 European organizations in 11 different countries, in addition to financial institutions in Latin America, Australia and Asia.

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