What Can Leaders of Change Learn from World-Class Performers?

A Formicio Insight Article by
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It's often quoted that some 70% of major change initiatives fail to deliver their intended objectives. If this is true, and the risk of failure so high, what can be done to increase the chances of success? In this article David Trafford and Peter Boggis suggest that much can be learned from world-class performers – particularly from ballet where the dancers continually work at the very threshold of failure. But first they examine the evidence for the poor rate of change success.

Nearly 10 years ago – in May 2007 – The Concours Group, of which we were both then a part, held a Summit for senior executives on the challenges they faced when trying to bring about change. The Summit was called *The Chances Are You'll Fail* and was held at The Royal Opera House in central London. We gave it this title because at the time the generally-held belief was that some 70% of major change initiatives failed to achieve their objectives – even when 'best practice' was followed. The Summit comprised a series of sessions with thought-leaders who explored why the success rate had remained so low for so long, and what could be done about it. It also included a unique and privileged opportunity to enter a Royal Ballet studio and observe world-class star performers in very close proximity working at the very threshold of failure. Not only did Summit participants have the opportunity to observe such an intensive Masterclass, they also had the opportunity to ask questions of the dancers and their teachers. Why did the Concours Group do this? Simply to draw the parallel between what world-class performers need to do in order to reduce the risk of failure and what organisations need to do in order to reduce the risk of their change initiatives failing.

We'll come to what these two very different groups of professionals have in common later in the article. Firstly, we'll look at whether the success rate for change initiatives has improved over the past 10 years. We researched this for our forthcoming book *Beyond Default* as we wanted to get as objective an assessment as possible on how good organisations are at developing and executing strategy – of which implementing change is the final step. We did this by looking at the evidence from a number of perspectives; which included the churn of companies in the Fortune 500 and FTSE 100 listed companies, the success rate of mergers and acquisitions, the success rate of major transformation initiatives and the length of tenure of CEOs. A summary of what we found follows.

Churn of the Fortune 500 and FTSE 100 listed companies

It's a reasonable assumption that organisations want to be successful, both in the shorter and longer term. And being successful involves change, whether in response to changing markets, customers, economies or technology. It also seems reasonable to assume that organisations that sustain their success must be good at change. But how can this be measured? One way is to track the perceived worth of a company, in terms of its stock market value, over time. Another is to track, over time, the churn of companies in lists like the Fortune 500 and FTSE 100.

When Mark J Perry of the American Enterprise Institute[1] looked at this in 2014 he found that 88% of the Fortune 500 companies in 1955 (which was when the list was first compiled) no longer existed in 2014. Furthermore, there were only 61 companies that appeared on both lists, meaning that only 12% of the

Fortune 500 companies in 1955 were still on the list 59 years later in 2014. To put this another way, almost 88% of the companies making the Fortune 500 list in 1955 have gone bankrupt, been acquired, merged, or still exist but have fallen from the Fortune 500.

Another analysis by the Ewing Marion Kauffman Foundation[2] showed that the annual churn of companies leaving the list has risen over time, from an average of 25 in the 1950s to nearly 40 now. The analysis also showed that the number of companies staying in the list after a period of time reduced more quickly depending upon the decade in which they entered the list. For example, the list of companies that entered in 1955 declined far more slowly than those that entered the list in 1975.

Furthermore, it took 20 years to replace one third of the Fortune 500 companies listed in 1960, against four years for those listed in 1998. And the life expectancy of a firm in the Fortune 500 was around 75 years some 50 years ago; today it's less than 15 years and declining all the time.

When looking at the UK, the FTSE 100 was created in 1984, superseding the FTSE 30 that had been around since 1935. Where the FTSE 30 comprised companies from only the industrial and commercial sectors, the FTSE 100 covers all sectors. An analysis in 2014 by Greg Mohan[3] of investment firm Rathbones showed that of the original FTSE 100 listed companies, only 30 were still present in the index and only 19 had been ever-present over the 30 years, including BP and Marks & Spencer. More starkly, he found that only four of the FTSE 30's original constituents were in the FTSE 100 in 2014, these being GKN, Tate & Lyle, Imperial Tobacco and Rolls-Royce. The early years of the FTSE 100 saw many new names as privatisation brought many new companies to market, including British Telecom in 1984, British Gas in 1986, British Airways in 1987, the water companies in 1989 and the electricity companies in 1990-91.

The Changing Fortune 500

Companies that were in the Fortune 500 in 1955, but not in 2014, included American Motors, Brown Shoe, Studebaker, Collins Radio, Detroit Steel, Zenith Electronics, and National Sugar Refining.

Companies that were in the Fortune 500 in both 1955 and 2014 included Boeing, Campbell Soup, General Motors, Kellogg, Procter and Gamble, Deere, IBM and Whirlpool.

Companies that were in the Fortune 500 in 2014, but not in 1955, included Facebook, eBay, Home Depot, Microsoft, Office Depot and Target.

Analysis of the Fortune 500 and FTSE 100 is not without its caveats; for example, service companies were not included in the Fortune 500 until 1984; the surge of UK Government privatisation in the 1980s; the fact that there are repeat entries and exits of many companies; the concentration of churn is towards the bottom of the list. It does nevertheless provide evidence that a sizeable proportion of large companies are not able to maintain their perceived value.

There are many reasons why a company might fall out of the Fortune 500 or FTSE 100, but our assumption is that they did not do this out of choice. Even those that were acquired would probably have preferred to have stayed independent. Our point is that if your measure of success is to become and remain a Fortune 500 or FTSE 100 company, the chances are that over time you are more likely to fail than succeed.

Success rate of mergers and acquisitions

Another form of change is that resulting from a merger or acquisition. However, there's a generally-held belief that most mergers and acquisitions are not successful as they actually destroy, rather than create, value. This view is supported by Clayton M Christensen, Richard Alton, Curtis Rising and Andrew Waldeck in their HBR article *The New M&A Playbook*[4], where they claim that somewhere between 70% and 90% of M&A deals actually destroy value. A survey of almost 90 M&A professionals conducted by McKinsey & Company in 2009[5], showed that even with the new approaches to M&A integration that have emerged over the past 10-20 years, the failure rate is still 66% to 75%.

Some of the most cited examples of M&As that destroyed value include the $164 billion deal in 2000 between AOL and Time Warner. In less than two years, the deal started to unravel when the merged group reported a loss of $99 billion and a $45 billion write-down. The total value of the stock subsequently went from $226 billion to about $20 billion. Another example is Hewlett Packard's (HP) acquisition of 87.3% of the shares of UK-based software company Autonomy in October 2011 for $10.3bn. Within a year, HP had written off $8.8bn of Autonomy's value.

An industry that has seen a spate of poorly-judged acquisitions in recent years in that of mining[6]. In 2007, Rio Tinto acquired Alcan – a Canadian aluminium processing and products company – for $38 billion, only to write off some $8bn of value soon after. Rio Tinto also acquired Riversdale Mining in 2010 for $3.6 billion and subsequently wrote $3 billion off the value of Riversdale's crown jewel, a coal project in Mozambique. And Rio Tinto is not alone; in 2008 Anglo American spent $4.7 billion for rights to the Minas Rio iron ore deposit deep in the Brazilian jungle, overestimated its potential and under-estimated its costs to develop. In 2013, the company said it would take a further $8 billion to develop.

According to Professor Michael Porter[7], one of the best ways of measuring M&A success is to look at the percentage of organisations that subsequently divorce in a period of five or more years after the deal was done. In the sample, the percentage of organisations that subsequently divorced was above 50%; the conclusion being that an organisation would only resell a company it had acquired if it failed to realise the expected benefits. This was certainly the case with Daimler eight years after it acquired Chrysler for $36 billion in 1989. While the stock price rose immediately after the merger was announced, some two years later the stock value had declined by 50%. In 2007, the two organisations divorced. But not all divorces are as a result of failure to deliver the synergy benefits. In 2002 eBay acquired PayPal for $1.2 billion, which it then spun off as a separate company in 2015 for $49 billion. However, in 2005 it did acquire Skype for $2.6 billion and sold it four years later for just $1.9 billion.

In some cases organisations get so large and complex as a result of multiple acquisitions that their only option is to 'pull themselves apart' again. The most obvious example being Hewlett Packard, which grew rapidly both organically and through acquisitions. Since 1958 it had made well over 100 major acquisitions, the most notable being Compaq in 2002, Snapfish photo sharing in 2005, Electronic Data Systems (EDS) in 2009, Palm hand-held organisers in 2010, and Autonomy in 2011. However in 2015 it decided that its future would be better if it split into two separate companies, HP Inc. focusing on printers and computers, and HP Enterprise focusing on information-technology services.

Success rate of major transformation initiatives

As with mergers and acquisitions, the generally-held belief is that organisations are not good at delivering major transformational change. As previously mentioned, a failure rate of 70% is often quoted. But we found the picture to be more complex as the success (or failure) rate is dependent upon a number of factors, including whether the change is incremental or transformational; the industry sector in which it is undertaken; whether the change is within a commercial enterprise, not-for-profit organisation or government agency; and the extent to which the change is dependent upon IT. While it's not always possible to identify these distinctions in available research, the evidence overall indicates that the success rate is poor and by all accounts has not noticeably improved since John P Kotter wrote his seminal HBR article *Leading Change: Why Transformation Efforts Fail*[8] in 1995.

In 2014 the Association for Project Management (APM) surveyed 862 project professionals across a range of industries[9]. While the aim of the study was to identify the factors that determine project success, they also captured participants' views on the success of their projects. The study found that across a number of criteria 22% to 31% of the projects were considered wholly successful, 29% to 50% very successful, and 6% to 17% unsuccessful. This suggests a better success rate than the 30% often quoted. Whether the figures were influenced by them being provided by project professionals, as opposed to key stakeholders of the projects, is open to question.

The IBM Global *Making Change Work Study*[10] in 2008 concluded that most projects fall short of their objectives. The study involved some 1,500 project leaders from 15 nations, across 21 industries, who expressed the view that project success was hard to come by. While the results showed that 41% of their projects were considered successful in meeting project objectives within planned time, budget and quality constraints, nearly 60% failed to fully meet their objectives and 44% missed at least one – time, budget or quality – goal. Furthermore, a full 15% either missed all goals or were stopped by management.

When it comes to change today, it's inevitable that IT is involved in some way. Whether it's reconfiguring systems following a reorganisation, re-platforming the IT landscape to replace legacy technology, or creating a mobile user experience using the latest digital technology, IT has an increasingly critical role to play. But IT projects are notoriously difficult to bring in on time and to budget, as was illustrated in a 2012 joint research project[11] between McKinsey & Company and the BT Centre for Major Programme Management at the University of Oxford. The research looked at 5,400 large IT projects with budgets exceeding $15 million and found that 45% went over budget and 7% over time, while delivering 56% less value than predicted. In fact, they found that after comparing budgets, schedules, and predicted performance benefits with the actual costs and results, the projects had a combined cost overrun of $66 billion – more than the GDP of Luxembourg.

These findings are supported by The Standish Group[12], which since 1994 has published an annual survey on the state of the software development industry. The 2015 report covered some 50,000 projects from around the world, ranging from tiny enhancements to massive new system implementations. It's interesting to note that from 2011 to 2015 the percentage of projects deemed successful remained steady at 29%, the number rated as 'challenged' slightly increased from 49% to 52% and those that failed dropped slightly from 22% to 19%. Or to put it another way, based upon this research the likelihood is that 1 in 5 of your software development projects will fail.

State of the UK Government's Project Portfolio

The UK National Audit Office briefing[15] in January 2016 to the Select Committee for Public Accounts reported that as at June 2015 the whole-life cost of the 149 major projects in the UK Government project portfolio was £511 billion. Of these 34% were considered by the Major Projects Authority to be in doubt of successful delivery or unachievable unless action was taken.

Furthermore, the number of projects in the portfolio rated as red or amber-red had increased since 2012. Of 56 projects that remained on the Portfolio from 2012 to 2015, 17 had red or amber-red ratings in June 2015 compared with 12 in 2012, although the number of projects considered highly likely to deliver on time and on budget (rated green or amber-green) also increased from 16 in 2012 to 25 in 2015.

Of particular concern was the fact that 35% of projects due to deliver in the next five years are rated as red or amber.

Changing tenure of CEOs

If the Board and Shareholders were happy with their CEO's continued performance – and by definition their ability to deliver change in all its forms – it seems reasonable to assume that they would do everything they could to keep him, or her. Equally, if they were not happy then their only option is to find a new leader who would give them that confidence.

An analysis by The Conference Board of departing CEOs[13] from the S&P 500 listed companies showed that CEO tenure had declined from 9.9 years in 2000 to 8.1 years in 2012. In 2013 the tenure was longer at 9.7 years, but this was considered to be an outlier due to retirements being delayed for economic reasons during the global market turmoil. The other outliers were 2004 when it was 9.3 years and 2009 at 7.2 years. While this data may not be conclusive, it does suggest a downward trend, probably driven by the increasing pressure on CEOs to navigate their organisations through the increasingly competitive global market place.

Another source of insight on CEO tenure is the Strategy& *2015 CEO Success study*[14], which tracked the turnover of CEOs from the world's 2,500 largest companies. The study, covering the years 2000 to 2015, showed that globally across all industry sectors the percentage turnover rose from 12.9% in 2000 to 16.6% in 2015, the lowest being 9.8% in 2003. Interestingly across the US/Canada, Western Europe and other mature regions, the turnover increased to 7.3%, 7.7% and 7.9% respectively. However in the BRIC region it rose from 4.0% to 19.1%, and for other emerging regions from 1.8% to 16.7% – an increase of 15.1% and 14.9% respectively. Across all regions, the sector that saw the biggest increase was Telecoms that rose from 10.0% to 24.7%. Somewhat surprisingly, the turnover in the IT sector dropped 3.4%, from 13.9% to 10.5%. The study also found that in recent years, companies are making a deliberate choice to bring in an outsider to be their new CEO, presumably in an attempt to introduce fresh thinking. In the four-year period from 2012 to 2015 organisations chose outsiders in 22% of planned replacements, up from 14% in the period 2004 to 2007, an increase of nearly 50%. Furthermore, the study found that an outsider CEO was more likely – 30% compared with 22% – if the company was low performing, and for three years running (2012-15) outsider CEOs delivered higher median total shareholder returns than insiders.

What we can't see from this data is the correlation between the movement of CEOs, and their perceived failure to stay in the Fortune 500 or FTSE 100; not achieving the synergy benefits of a merger or acquisition; or not delivering the intended outcomes of a transformation programme. However, it seems reasonable to assume that the greater the failure rate of these objectives, the greater the churn of C-Suite executives.

The parallels between leaders of change and ballet dancers

So, what can leaders of change learn from world-class performers, particularly ballet dancers? Essentially how they reduce the risk of failure. We see there are six strong lessons that can be applied.

Talent – In order to be a world-class ballet dancer you have to have talent. In order to lead complex change initiatives you also have to have talent, albeit of a very different kind. While talent can be developed, the reality is that some people have a natural ability to envision, shape and deliver change, and others don't. Assigning someone who does not have proven talent in leading change to a major change programme only increases the chances of personal and organisational failure.

Vision of success – All world-class performers, whether they are ballet dancers, athletes or F1 racing drivers, spend a lot of time envisioning success. They continually mentally model what they need to do to achieve the outcomes they set themselves. Leaders of change initiatives need to do the same, not only in terms of the target outcomes but the steps that need to be taken to get there.

Practise – The highly-successful golfer Arnold Palmer once famously said "It's a funny thing, the more I practise the luckier I get". World-class performers practise a lot. They discover what works and in the process learn where they need to improve. Leaders of change practise through application, starting with less complex change initiatives and building up to the larger, more complex ones as their experience and confidence build. Unfortunately, all too often, people are asked to lead major change programmes when they have not in the past had the opportunity to practise on less complex initiatives.

Critique – What we noticed during the Ballet Masterclass was the crucial role that the dance teacher played, not only in deciding what their student did but the constructive – and sometimes brutal – feedback they provided. We know that we are blind to many of our faults and we all have a tendency to overemphasise our abilities. Leaders of change are no different and would benefit from constructive critique.

Direction – A world-class performer may have a vision of what they are aiming to achieve, but they do this within the context of an overall performance; a performance that has direction. In change management the 'director' is often called the 'executive sponsor', whose role is to provide overall direction, keep focus on the target outcomes, maintain the overall integrity of the change initiative, and ensure that the conditions for success are in place.

Tenacity – World-class performers never give up. They expect things to get tough and accept that things will not always go according to plan. Over the years they build up both the physical and mental capacity to deal with setbacks. Leaders of change need these same qualities.

Final thought

The evidence we found certainly supports the generally-held view that delivering change has a significant risk of failure. Furthermore, there is no evidence to suggest that the success rate is noticeably improving. Obviously there are some examples of organisations that get it right, and there are individuals who are world-class performers when it comes to managing change – but these are few and far-between. All too often they are undervalued when compared with their peers in more traditional executive roles. This will only improve when individually and collectively the capability of change management is practised, developed and perfected – like all other world-class performers do.

We welcome your thoughts.

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