THOUGHT LEADERSHIP ARTICLE

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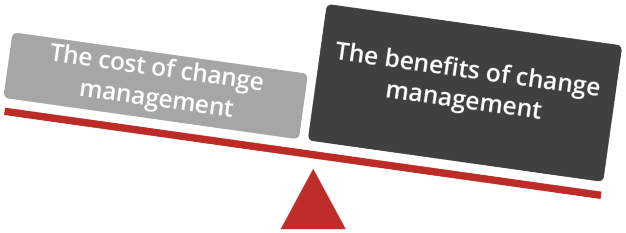
COST-BENEFIT ANALYSIS OF CHANGE MANAGEMENT

The logic is sound: projects and initiatives ultimately require individuals to do their jobs differently. The correlation data is clear (from Prosci and other sources): the likelihood of success increases with effective change management. However, organizations still seem to encounter some reluctance to fully invest and commit to change management. Many practitioners still face the situation where the decision to invest time, resources and budget in change management is not occurring.

Below is a cost-benefit analysis for investing in change management, including five perspectives on the benefits of applying change management on projects in your organization. Given the importance of change in today's environment, these approaches to making the case for change management can ensure that change management is viewed as a "must have" and not a "nice to have" on the projects you support.

COST-BENEFIT ANALYSIS OVERVIEW

The cost-benefit analysis for change management is not unlike other cost-benefit analyses - you are attempting to show the relationship between what it costs to manage the people side of change and the benefits of applying a structured approach to enabling and encouraging employees to adopt a change. You will only receive the buy-in and investment necessary to apply change management if you can "tip the scale" by showing that the real and tangible benefits of change management outweigh the costs.



Research findings on the cost of change management are presented below and are fairly straight forward. The benefits side of the equation is where the discussion can be tricky. To enhance the cost-benefit analysis, five specific benefit perspectives are presented that can be drawn upon to make your case for change management:

- Benefit perspective 1: three people-side ROI factors - faster speed of adoption, higher ultimate utilization and higher proficiency; change management drives project ROI.
- Benefit perspective 2: cost avoidance - poorly managing change is costly to the project and the organization; change management is a cost avoidance tactic.
- Benefit perspective 3: risk mitigation - individuals, the project and the organization are all put at risk when change is poorly managed; change management is a tool to mitigate risks.
- Benefit perspective 4: benefits realization insurance - consider how much of the value of the project ultimately depends on people doing their jobs differently; change management provides benefits realization insurance.
- Benefit perspective 5: probability of meeting objectives - data shows that projects with effective change management in place are more likely to meet objectives, stay on schedule and stay on budget; change management increases the probability of meeting objectives.

THE COSTS OF CHANGE MANAGEMENT

Applying change management on a project is not free. It takes time, energy and resources. According to the 2016 edition of Best Practices in Change Management, the primary cost components of change management include:

- Change management resource costs
- Training costs
- Communications costs
- Travel costs
- Time
- Change management material costs

In addition to these primary cost components which were identified most frequently, there can be several secondary costs:

- Consultant costs
- General expenses
- Event costs (workshops, group meetings, "lunch and learn" events, road shows and town hall meetings)
- Reinforcement and recognition costs

To "tip the scale" toward buy-in and investment in managing the people side of change, the benefits of change management must outweigh these cost components.

THE BENEFITS OF CHANGE MANAGEMENT

Benefit perspective 1 - three people-side ROI factors

Change occurs at the individual level. Prosci's ROI of change management model focuses on three people-side factors, which contribute to, or limit, the value a change delivers to the organization. Here are questions you can ask to assess these factors for your project:

- Speed of adoption - How fast do people adopt the new processes or behaviors?
- Ultimate utilization - How many impacted employees made the change (and how many did not)?
- Proficiency - How effective were employees at following the new processes or behaviors?

These three factors are unique for your particular change, but are universal in terms of impacting project ROI. Unfortunately, many project teams do not consider, or they make implicit assumptions about, the people side of their change. For example, a team supporting a large IT implementation that gives users new interfaces might implicitly and erroneously assume that all users (100% ultimate utilization) will begin expertly using the system (extremely high proficiency) the day that the system goes live (instantaneous speed of adoption).

When the three people-side factors are added to the business case and ROI calculations, you can highlight the importance of change management. The three factors can even be used to conduct sensitivity analysis to generate actual numeric values for the impact the people-side factors have on ROI (for instance, if speed of adoption was over six weeks instead of three, and 15% of users did not adopt the system, then the ROI for the project would actually be X instead of Y).

The three people-side ROI factors can help you:

1. More clearly define the individual changes required by a project at its initiation
2. Calculate the impact of slower speed of adoption, lower ultimate utilization and lower proficiency - and position change management as a tool for delivering business results in concrete terms
3. Elevate the discussion and document assumptions early on in the process related to the people side of change

Benefit perspective 2 - cost avoidance

We incur significant and quantifiable costs when changes are poorly managed, at both the project and the organizational levels. In addition to the extra costs of fixing the people-side issues that creep up if we ignore

change management up front, the organization also fails to derive the value it needed from the project in the first place. Change management is an effective cost avoidance technique we can apply on our projects.

Costs to the ORGANIZATION if change is poorly managed:

- Productivity plunges (deep and sustained)
- Impact on customers
- Impact on suppliers
- Loss of valued employees
- Morale declines
- Decline in quality of work
- Resistance (both active and passive)
- History of failed change
- Stress, confusion, fatigue
- Change saturation

Costs to the PROJECT if change is poorly managed:

- Project delays
- Missed milestones
- Project put on hold
- Resources not made available to project team
- Budget overruns
- Obstacles appear unexpectedly
- Rework required on project design
- Project fails to deliver on objectives
- Project is fully abandoned
- Loss of work by project team

Costs if the change is NOT IMPLEMENTED:

- Expenses not reduced
- Efficiencies not gained
- Revenue not increased
- Market share not gained

- Waste not eliminated
- Regulations not met, resulting in fines/penalties, etc.

Additionally, the organization loses the investment made in the project when the project does not deliver results.

When change management is applied effectively, these costs can be avoided or minimized. Some of the costs are difficult to quantify - such as morale declines - but some of the costs are very concrete and easily quantified.

Benefit perspective 3 - risk mitigation

Another perspective, similar to the cost avoidance perspective, is to outline the potential risks to the project and the organization associated with the people side of change. Risk management on projects is a well-developed discipline.

If your organization already conducts extensive risk assessments on projects, work to position "people-side risk" as one of the risks that is considered along with other risks like financial risks, technology risks, schedule risks and dependency risks. If a project is being planned and has a high "people-side risk" component, then applying a structured approach to change management is the right risk mitigation technique.

Benefit perspective 4 - benefits realization insurance

For the most important and most strategic changes in the organization, much of the value that is expected is tied to how people do their jobs. Applying a structured change management approach is like taking out an insurance policy against the goals and objectives of the project, superficially the portion that depends on employee adoption and usage.

Here, the context for showing the value of change management is tied to the overall value the project is working to achieve. The objectives of the project - as outlined in the project charter, business case or project plan - are a good starting point. For each objective, ask yourself, "is meeting this objective dependent on people doing their job differently?" For some of the questions the answer might be "no" - such as lower maintenance contract costs for a new piece of technology. But, many of the objectives will be tied directly to the people side of change.

For these objectives, you can ask the follow up question of, "what percentage of these benefits result from people doing their jobs differently?" This is the amount of benefit you can "insure" by applying a solid change management approach - and the amount of the benefit you are leaving uninsured by not investing in change management.

Benefit perspective 5 - probability of meeting objectives

The final benefit perspective is probability of meeting objectives. This is tied to the growing body of data which shows that more effective change management results in a higher likelihood of delivering intended results. Projects with effective change management are five to six times more successful than projects that did not address the people side of change effectively.

Below is the graph showing change management effectiveness correlated to meeting or exceeding objectives. Data from over 2,700 change practitioners showed that projects with "excellent" change management in place were six times more likely to meet objectives than those with "poor" change management - and even those using "good" change management were five times more likely to meet objectives.

SUMMARY

When discussing the value and importance of change management, a cost-benefit analysis can be a powerful framework. These benefits are not necessarily sequenced in the order that you would use them. Rather, know your audience and select the benefit perspectives that will be the most effective. Focus on the concerns of your audience and connect change management to their success by picking the right mix from the benefit perspectives presented above.

Based on your audience, your organization and your culture, you can select the most compelling benefit perspectives and work to make them as specific to your change as possible. The right benefits in your cost-benefit analysis can "tip the scale" towards investing in change management.

BUILD YOUR ORGANIZATIONAL CHANGE CAPABILITY WITH PROSCI

Over 80% of Fortune 100 companies have worked with Prosci to build their change capability. Our research-based, results-driven methodology is easy to apply. We can equip your organization with the tools to out-change others, remain agile and thrive during bigger, faster and more complex change.

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Your no-cost consultation will:

- Define your organization's goals
- Assess your current state of change management maturity
- Review your change capability development strategy
- Provide actionable insights to drive your organization forward

SCHEDULE MY CONSULTATION

The People Side of Change

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