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# Performance-Improvement Initiatives

## Three Best Practices for Project Success

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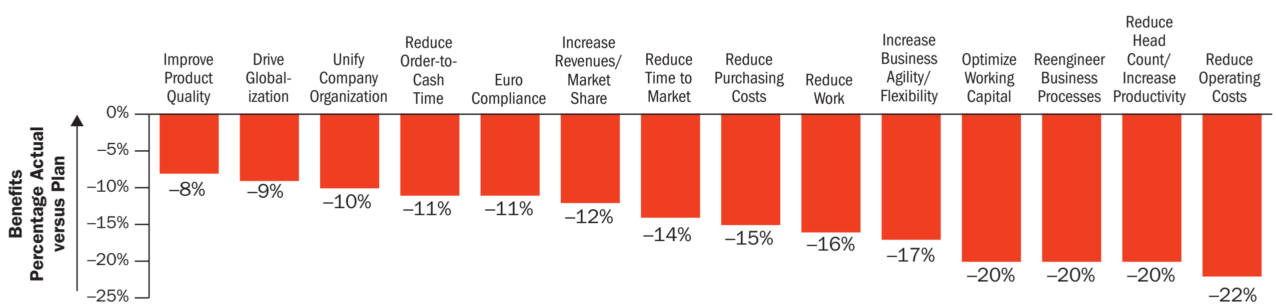
Today's increasingly competitive and fast-paced business environment constantly pushes companies to look for opportunities for performance improvement. As a result, it's not unusual for companies to have multiple projects and initiatives going on at the same time. While their intent is to promote business survival, too many of these initiatives produce disappointing results; close to 40 percent fail to deliver on their promised results or get canceled outright.

It doesn't have to be this way. There are active steps that business leaders can take to ensure the success of their initiatives, each occurring in the implementation phase where most problems crop up. By studying companies whose success rate is well above the average, we have identified three principles, or best practices, for project success. These principles share the common theme of accelerating value capture. We believe that early and ongoing value capture is one of the most powerful tools available for fighting off the implementation demons that cause initiatives to founder.

Large-scale corporate improvement initiatives are critical to companies' survival in today's competitive and fast-moving business environment. Most improvement initiatives are cross-functional and require simultaneous changes to process, technology, and organization. Consequently, these initiatives represent a huge investment in terms of both cost and time, and their complexity makes implementation challenging. Failure may not be an option—to paraphrase the flight controller in the movie *Apollo 13*—but among big corporate initiatives it seems to be a reality. While some types of improvement initiatives fare better than others, a recent survey by Booz Allen Hamilton reveals that almost all underachieved their stated goals to some extent (see Exhibit 1).

**Exhibit 1**
Performance Shortfall by Initiative Type




Note: Sample represents 66 large and medium initiatives
Source: Study by The Conference Board, sponsored by Booz Allen Hamilton

**Initiative Failure and a Road Map for Improvement**
Why do the results of corporate initiatives differ so greatly? Are poor outcomes and abandoned projects as common as they seem? Are there secrets to be learned from the initiatives that are most successful?

While a number of things can go wrong during the course of a major project, most of the problems tend to crop up during the implementation phase. This is no surprise: It's one thing to know what needs to get done, and quite another to actually do it in an organization that has people, processes, and technology spread across multiple locations. The challenges that arise once a project gets going can produce initiative fatigue that saps the energy and enthusiasm of participants.

To quantify the problem: Initiatives can lose nearly a quarter of their expected value en route to completion. These losses are entirely preventable, but too many companies fall prey to inadequate resourcing, lack of internal communication, and unclear execution plans. Problems also stem from organizational silos, failure to measure performance, and poor or uncommitted leadership.

If there are many reasons why some projects fail, there are also many reasons why projects succeed. One factor that almost every success story has in common is that those who were a part of it looked for ways to capture value early and often.

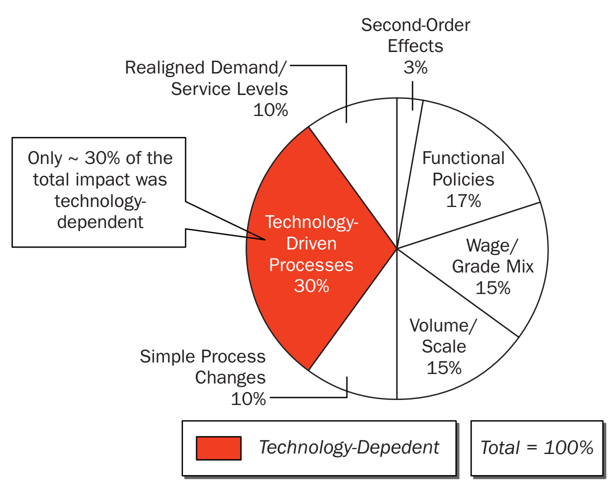
There are many reasons why an initiative would want to demonstrate early value capture. For one thing, early evidence of success drives home the importance of the undertaking and gets workers excited about it. Two, no organization has unlimited financial and human resources. It's the initiative that demonstrates the fastest return that has the best chance of surviving. And three, focusing on early value-delivery forces the company to implement parts of the solution in carefully sequenced steps when they are ready. This allows for early real-life testing and immediate course correction when necessary.

Based upon cross-industry experience, we have identified several elements common to companies that succeed in accelerating value capture. These elements can be distilled into three best practices:

- Decoupling value levers to determine the best implementation sequence
- Focusing on end-user behaviors to speed up adoption
- Managing the implementation with rigor and focus to deliver value.

***Best Practice #1: Decouple the value levers to determine the best implementation sequence.***
Companies interested in early value capture focus upon decoupling value levers. They break large initiatives down into their discrete components using the business case value levers as a guide. They do this to create an implementation sequence that favors implementing solutions that quickly create value. As solutions are developed, constraints and obstacles surrounding each lever are identified. Examples of constraints include dependencies between the elements of the solution, infrastructure capabilities, corporate policies, and staff availability. The process of decoupling the value levers feeds a cost-benefit analysis that pushes the issue of value to the forefront. Implementation can then be sequenced to drive value quickly.

**Exhibit 2**
Example of Sources of Value



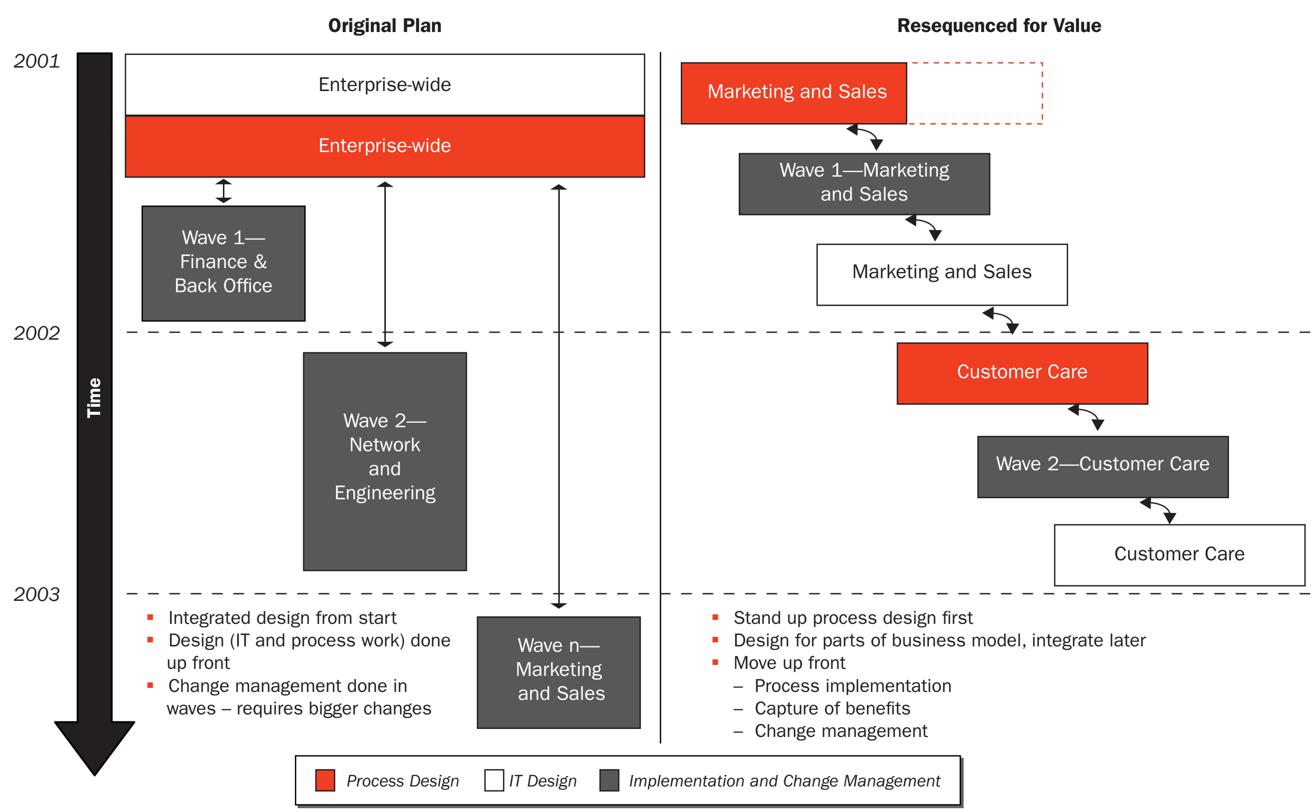

Source: Booz Allen Hamilton

For example, our experience shows that the various value-creation levers typically cover a range of opportunities, with IT representing only a part of the total savings (see Exhibit 2). This offers a unique opportunity to sequence the implementation and the elements of the solution that are not IT dependent. When initiatives get implemented in steps, management gains not only predetermined milestones but midstream opportunities to commend employees for their achievements. Such public recognition builds momentum and reinforces behaviors integral for continued success.

To provide a clear sense of how value capture can be used to drive sequence, we'll use an example from the U.S. telecom industry, known for its rapid "clock speed," meaning its preference for fast technical innovations. In this case, a leading U.S.-based telecom company was transforming its order-to-cash process. The continued introduction of a new technology enhancement for customer billing had rendered the draft design unstable, leading to multiple rounds of rework. The original approach had focused upon developing a solution that combined technology and process, with an integrated implementation schedule. But with the rework, the schedule had gone off track, and the project was 300 percent over budget and was undergoing many design iterations just a few months before going live. A reevaluation of the implementation sequence focused on the value levers. The problem was segmented into specific subprocesses and associated IT enablers, which allowed for a staggered implementation in which parts of the solution were tested and executed independently (see Exhibit 3).

As a result of the resequencing, the initiative was brought back on track and produced some benefits quickly while other parts were still being implemented. The advantage of demonstrating value sooner rather than later can be significant in building and sustaining

**Exhibit 3**
Capturing Value More Quickly




Source: Booz Allen Hamilton

broad support from the organization and ensuring that the effort does not fall off the priority list—or get canceled outright.

***Best Practice #2: Focus on end-user behaviors to speed up adoption.*** Value creation is set in motion by the actions of individuals. Accelerating value capture means focusing on frontline behaviors and asking people to do things differently such that greater value is created by their daily activities. Thus, the goal of all change management is to align employee behaviors with the newly identified value-creating actions, to force a permanent shift in behaviors (and possibly culture) so that new behaviors become the de facto way of doing business. The goal is to get results that endure.

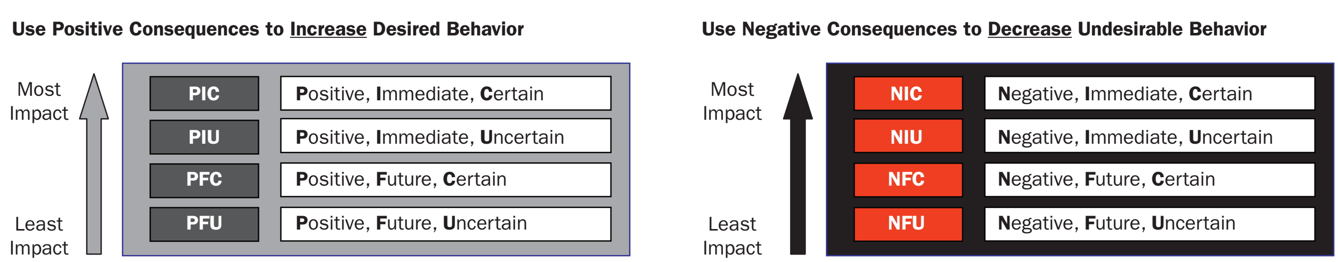
Unfortunately, most change-management efforts fall woefully short of this ideal. Too often, companies fail to appreciate the role and potential impact of a properly executed change-management effort. Two pitfalls are common: companies fail to connect frontline behaviors with their subsequent impact on value creation, and companies mistake mere awareness of desired behavior for behavioral compliance. As a result of these disconnects, the focus of changing behavior in many corporate initiatives centers upon exposure, more than on behavioral compliance. Communications and training are created under an assumption that awareness by itself is sufficient to create value.

Managers who are adept at changing employee behaviors fully leverage the three variables that most affect employee actions: (1) how positive (or negative) the consequences are, (2) how quickly those consequences get meted out, and (3) how certain (or uncertain) it is that a consequence will happen. Actions with the most immediate and certain consequences (whether positive or negative) shape employee behavior more effectively and more quickly than those applied in the future with lower degrees of certainty (see Exhibit 4). By tailoring interactions and communications around these three variables, it is possible to create environments and incentives so that employees will move quickly to adopt new value-creating behaviors.

Successful behavior modification begins with understanding the existing  barriers, incentives, and culture from the frontline perspective. Incentives must be tailored to each employee, in addition to being culturally attuned, if they are going to be effective. For example, peer recognition is a useful positive consequence in environments where competition is present, but in other environments, financial reward might be more culturally valued. Managers who are successful at changing behaviors see many possible incentives and structure their employee communications to fit the environment they're in. These managers use a fact-based approach—employing data that accurately depicts frontline activities and then holding employees responsible for their actions. A well-conceived and executed change-management effort does not use the data for mere behavioral compliance. Rather it realigns performance management so that monitoring and performance reporting become one and the same.

For example, an integrated oil and gas company launched an initiative to dramatically increase production rates at a manufacturing facility. After a new process design was selected, a behavior analysis

**Exhibit 4**
Ways of Influencing Worker Behavior




Source: Booz Allen Hamilton

led the project leaders to identify their environment as one naturally inclined toward competition. That finding was factored into their implementation plan as they identified new value-creating behaviors. Manufacturing teams were created in lieu of the existing individual production scheme, and the teams were allowed to select their own fact-based production measures, contingent on company leadership approval. Those measures were posted in a very visible location, where all manufacturing cells could see daily production figures. The rest was left to the spirit of competition. The teams drove each other to increase production 60 percent in their desire to be recognized by peers as the No. 1 performers.

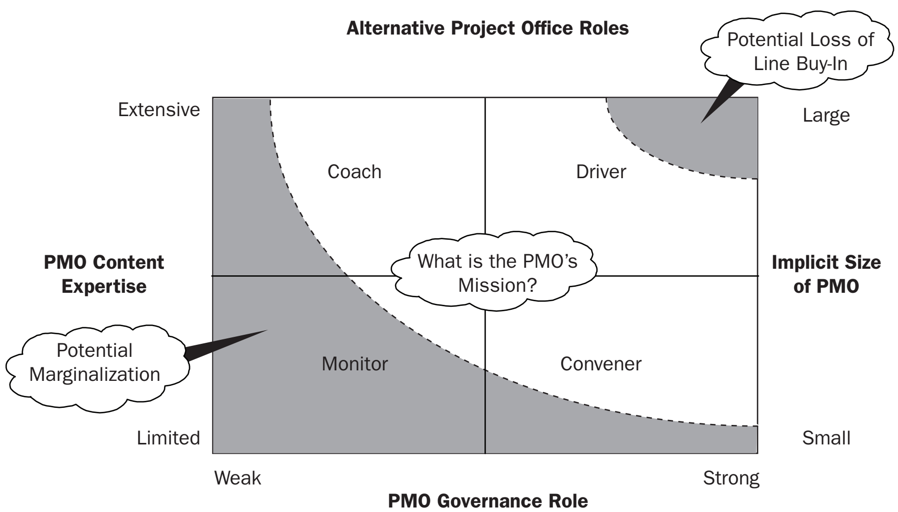
This example underscores the interlocking nature of the elements needed to create an environment where employees adopt new value-creating behaviors. Project leaders tailored communications based on invited employee input and took advantage of exisiting cultural norms. Incentives resonated with employees' values. Some incentives were positive, others negative, but they all shared the goal of driving value-creating behaviors, and data was shared openly as part of building an environment of accountability and performance.

***Best Practice #3: Manage the implementation with rigor and focus to deliver value.*** The size and complexity of today's corporate initiatives make it essential that there be people dedicated specifically to the initiatives and charged with the overall responsibility for delivering promised improvements. After all, management will still have its day job of running the business; it cannot also be expected to set project benchmarks, track progress, keep staff on track, and coordinate tasks. For that, a project management office (PMO) is needed.

The challenge is creating the right kind of PMO, staffed by the right people, and managing the inherent risks that different types of PMOs bring. Some corporate initiatives can get by with project managers who are relatively hands-off, operating as coaches; others need hard-driving taskmasters. The PMO's character will vary along two dimensions: the amount of content expertise and governance oversight that are required (see Exhibit 5).

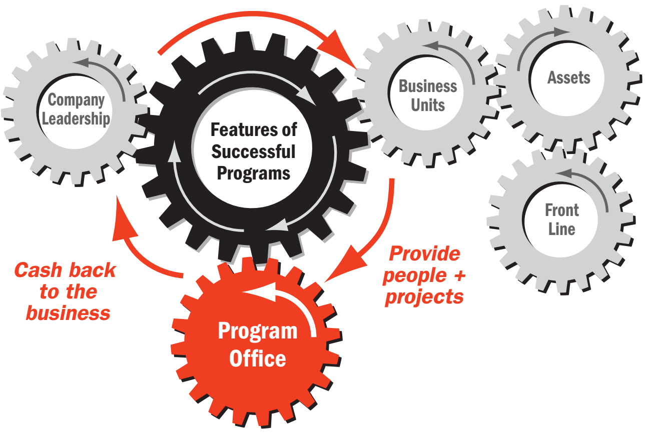
The extremes of each dimension pose risks. Too weak a PMO and the daily activities become overly administrative and inconsequential to impact and value. Too demanding a PMO and the PMO assumes responsibility for all work streams, opening itself to the accusation, "You failed to tell me to do it, so I didn't." The ideal PMO sits somewhere in the middle: content-rich, tracking value as opposed to activity reporting, and ensuring the discipline of the business case.

**Exhibit 5**
Constructing the Right PMO




Source: Booz Allen Hamilton

**Exhibit 6**
Tasking for Specific Results: Faster Time to Revenue, Fewer Defects, and X% Cost Reduction




Source: Booz Allen Hamilton

The PMO is in a unique position as the linchpin in project execution, and it assumes the responsibility of delivering  desired results (see Exhibit 6). As is often the case, this process of turning an implementation plan into reality is delicate, and no plan proceeds without pitfalls or manages to avoid significant obstacles. An effective PMO focuses on those areas that are the most difficult to manage and that have the greatest impact on project timeliness and value: points of work stream integration, points of value creation, and design enhancements. This approach to PMO management is value-focused and forward-looking—and hence is far different than simply overseeing a project plan and tracking activities.

Another critical role played by successful PMOs is that of "honest broker." Among other things, this means actively negotiating trade-offs between system customization and process modifications, with an eye toward value delivery. To balance competing and conflicting project priorities, the PMO must be impartial toward all elements of the solution. In addition, to successfully assume an "honest broker" role, best-practice PMOs align with neither the project sponsors nor business lines. Instead, they remain focused on value creation and look at productivity before they look at activities.

Whatever the precise mission of the PMO, a key responsibility is measuring project benefits and enforcing the discipline of the business case. The PMO needs to track value capture and to separate savings into buckets of "hard" savings and "soft" savings, which means the office must know where the savings are coming from at every point in the project. It must also be prepared to recommend changes in priorities, in sequencing, and in solution design in order to propel additional value capture. This responsibility presupposes, too, that the PMO understands how long different pieces of the project will take and is comfortable challenging departmental work plans.

For example, a large oil and gas company deployed a content-rich PMO to drive the implementation of a purchase-to-pay solution worldwide. In addition to endorsing best practices Nos. 1 and 2, the PMO tracked the realized savings rigorously, contrasting hard cash with cost avoidance and softer savings, such as freeing up time without implications for head-count reduction. As a result, the project gained tremendous respect within the organization, where the tradition had been to declare victory too soon and lose sight of completing implementations. In the past, that tendency had frustrated executives, who had withdrawn support after failing to see promised bottom-line benefits.

**Best Practices in Action: Utility Case Study**

Companies that follow the best practices for value acceleration can enjoy excellent results and diminish the potential for project derailment or failure. In the following case study, each of the best practices is highlighted to show the impact it had on making the project succeed.

In 2005, a Midwestern utility identified its purchase-to-pay (P2P) process as a candidate for cost reduction after launching a comprehensive review of its business- and corporate-services areas. The utility's purchase-to-pay initiative was designed to optimize the end-to-end procurement process for all items, from office supplies to line trucks. The review confirmed that inconsistent business practices and fragmented legacy systems—a result, in part, of the utility's having grown through acquisition—were wasting tens of millions of dollars each year. Leadership funded an initiative to optimize the P2P process and move toward first-quartile performance.

As the opportunity for improvement was assessed, a comprehensive business case was developed that identified cost-saving areas and the specific value levers that would deliver them. The opportunities broke down as follows:

- Increasing compliance with established contracts (potential cost savings of 47 percent)
- Driving discipline in the spot buy process (15 percent)
- Providing better access to spend data (15 percent)
- Continuing to streamline and automate processes (13 percent)
- Capturing benefits from contract terms (10 percent).

The company approached the implementation of an integrated process/system/organization solution following the three best practices outlines above.

***Best Practice #1: Decouple the value levers.*** The original structure of the business case was built around best practice No. 1, decoupling the value levers. By decoupling the levers, the company prioritized solutions with a bias for immediate action. One example of this involved the discipline of one-time spot buys. The process by which Purchasing competitively bid purchases was not fully dependent upon technology, so it was possible to roll out an updated spot buy process and begin capturing the benefits of that change prior to enabling the full system.

Another example of decoupling the value levers involved the use of the corporate procurement card. By rewriting corporate policies regarding who could possess a card, the company was able to increase the number of cards issued (and therefore the ordering volume) within a buying channel. The obstacle to value was the existing company policy, and a simple policy revision led to a less costly ordering channel. Value was created through cost avoidance.

***Best Practice #2: Focus on value-driving behaviors.*** As the initiative launched and gathered steam, supply chain managers traveled to 30 locations to lay out the rationale for the new P2P process. These site visits and supporting literature went a long way toward building initiative awareness, but the amount they could accomplish was limited, especially at a company where field managers were accustomed to operating autonomously. Supply chain managers therefore also focused on behaviors by providing incentives for compliance with the new procurement processes. For instance, they promised 1 percent cash back to any utility plants that used a procurement card instead of a costlier system of purchase orders.

Another example of changing end-user behavior involved data and competition. Given the size of the organization—14,000 people in 250 locations and departments—figuring out who was complying with the new processes, and who wasn't, presented a challenge. To meet this challenge, the IT department extracted data from several different legacy systems.

Once they had the data, the project leaders did three things that embodied best practice No. 2. First, they distributed the data across the enterprise to generate visibility and create healthy competition among business units. Second, they used the data to identify the locations that were performing best or showing the most improvement. Senior leadership recognized the accomplishments of those locations with e-mails, phone calls, and personal visits. Third, project leaders used the data to identify noncompliant locations, analyze who was responsible, and identify what needed to change. This led to mitigation actions, such as increased communications and remedial training.

In this case, the incentives took a variety of forms depending upon location, leadership, and specifics. The company made full use of all of the behavior-change variables (positive and negative consequences, immediate and future, and certain and uncertain), and they did so with the express intention of motivating behaviors that created value, as opposed to destroying it.

***Best Practice #3: Implement with rigor.*** This P2P initiative was aided by a PMO that understood which parts of the project needed to get done when, and by whom—sometimes over the objections of individual departments. From the beginning, the PMO focused on finding the initiative's most proximate sources of value and managed the initiative with rigor, according to best practice No. 3. It enforced the business case with discipline, adding to the project's savings; in some cases, it also served as a gatekeeper for the integrity of systems and process redesigns. For example, post-design changes can be costly and labor intensive, and they can slow value realization. This PMO assessed each system/process enhancement with an eye to long-term organizational impact and value realization. It rejected enhancements that slowed value capture.

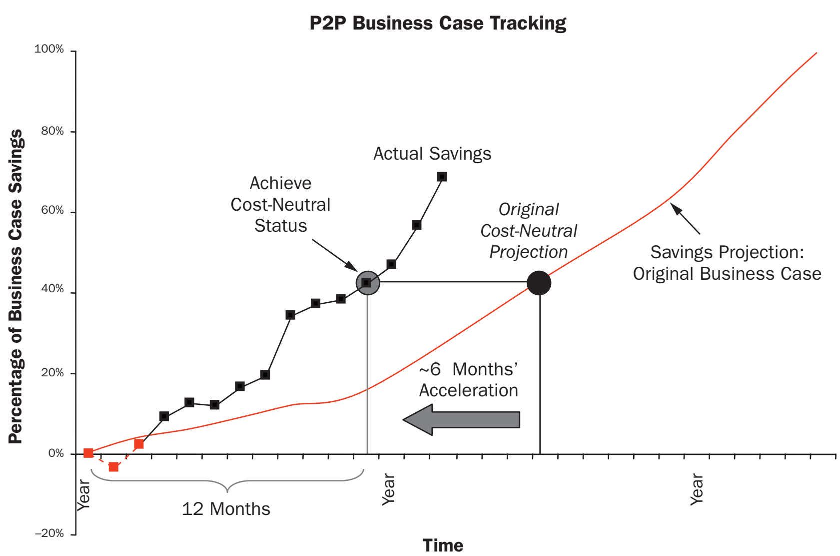
The results have been dramatic. The utility's cost-cutting initiative is a year ahead of schedule and the project has achieved cost-neutral status 12 months after implementation—and prior to the "go-live" of the IT system's enhancements (see Exhibit 7).

**Conclusion**

Big projects are not going away. Nor are they going to get easier; the most important corporate initiatives require simultaneous changes to the organization, processes, and technology. An awful lot can go wrong, and often an awful lot does. Leaders have to be realistic about progress, savvy about motivating workers, and decisive in their course corrections.

To be sure, accelerating value capture is no guarantee of corporate initiative success. But it is a good start and a smart way of operating in a world in which initiatives compete for resources. The three best practices for accelerating value capture highlighted in this article are neither revolutionary nor complex. But by applying them, companies can dramatically increase their chances of success—and avert fiascos lurking around every corner.

**Exhibit 7**
When Results Exceed Expectations




Source: Booz Allen Hamilton

**Also contributing to this piece was Stuart Fleming.**

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