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Human Capital: An Underestimated Element of Successful Change

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Financial services companies of all sizes are modifying their business models to stay competitive. But managing organizational change is a major business challenge, as evidenced by the fact that 70 percent of critical change initiatives fail to meet management expectations. One reason for the high failure rate is that leadership often underestimates the effort necessary to properly handle the human capital element—that is, the employee awareness, understanding and commitment required to achieve success.

When a change initiative is a bank consolidation, acquisition, turnaround or the implementation of a new competitive business model, there is little margin for error. Directors typically focus on the financial or operational risks associated with the resulting organization, but they would be wise to expand their oversight to the potential effects on people and culture, which in turn affect how well the organization can serve customers, its perception in the community and its sustainability.

The Role of Human Capital in Change Initiatives

It's understandable that bank directors and management tend to concentrate on the risks that can be expressed in spreadsheets and financial statements, but ultimately, it is the people of the organization that create—or impede—success.

An organization's staff should be well prepared to use the new business processes and systems going forward, for example. Employees also should be prepared for changes to job roles and responsibilities that frequently occur due to business process improvements and new technology integration. Importantly, **staff must understand not just the "how" but also the "why" behind the change if they are going to buy in**.

The extent of the risk associated with a change initiative is generally driven by the extent of the impact on employees, and their readiness and ability to change. This risk increases when changes:

- Affect more employees;
- Affect more aspects of work;
- Affect more locations;
- Represent a large departure from the status quo;
- Or represent a disruptive change, as opposed to an incremental change.

Common changes may include changes in employee roles, culture, staffing, relationships, competencies, authority, information, training, expectations and facilities. **The changes that have a greater potential impact will require more active change management**, while those that are less likely to cause significant waves simply can be monitored.

Once a bank's leaders understand the change risk associated with an initiative, they can devise a plan for managing the change and communicating with employees about it.

Four Critical Transitions

An effective plan for managing business change accounts for several essential staff and culture transitions, each of which comes with its own change risks. Fortunately, each transition can be managed if leaders analyze and address the relevant issues in advance.

1. **Organizational transition:** Leadership must determine the strategies, structures, processes, employee reward systems and people tactics (for example, hiring, development and retention) that will be affected or that must change.

2. **Employee transition:** What changes will be required of individual employees and departments, and are they ready and able to do so? Changes may involve job roles, responsibilities, workflows and expectations. In times of change, employees naturally wonder, "what's in it for me, and what's needed from me?" Leadership must be able to clearly answer these questions.

3. **Cultural transition:** Bank leaders need to determine how the current culture (in the case of consolidations, turnarounds or realignments) or the new culture (in a merger or acquisition) will accelerate or delay achievement of the organization's goals. They also should analyze whether current behaviors in the organization are the optimal behaviors and how the culture will need to change (for example, leadership style, decision making or authority).

4. **Infrastructure transition:** Leadership must understand if desired business changes will require changes to the processes and systems that support employees, such as performance reporting or payroll and benefits systems and, if so, the cost, timing and resource implications.

Bank leaders must act as influencers and role models during the execution of change, but their effect on results, and employees' levels of commitment and performance, will vary depending on a few factors. Do the bank's leaders possess the necessary skills, knowledge and abilities to perform the requisite responsibilities? Do bank leaders have the required level of commitment to perform the necessary roles and responsibilities? And finally, is their management style a cultural fit for their organization?

The ability to accomplish successful change depends on a range of factors, including some that might not traditionally be considered. Bank leaders must identify and manage their people and culture risks to maximize the odds of obtaining the desired results.

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