



► Change Management Compass 2023

What C-level executives can learn
from outstanding companies

INSIGHTS

//01

66% of CEOs of the largest German companies are facing the challenge to guide their companies through fundamental transformations

//02

Managers assess that 69% of transformations fail due to insufficient change management

//03

Successful CEOs apply a significantly different approach to change management than does the majority

WHERE

the problem lies —
The majority of
executives
fail with their
transformation



German CEOs set high goals for themselves and their teams: two out of three (66 percent) seek to fundamentally transform their company within the next two years. The underlying reasoning: to prevail in a highly competitive global market, no stone remains unturned, and entire business models are up for discussion. The mandate of top executives is to answer to their stakeholders: how can I ensure a competitive edge next year, five years from now, or even in the next decade – all the while ensuring operations continue smoothly without interruptions and meeting quarterly targets?

It is the core mandate that C-level executives are measured by, and the prime factor that makes or breaks careers. It is no wonder that many executives rest uneasy at night. The Porsche Consulting Change Management Compass 2023¹, surveying leading managers at Germany's 100 largest companies every second year, shall serve as an orientation for CEOs and their teams to understand:

- ▶ **The biggest challenges for strategic transformations today**
- ▶ **Key cornerstones of strategic change as practiced by outstanding companies**
- ▶ **How to successfully lead future transformations**

In 2023, megatrends such as digitalization and sustainability will continue to be the most relevant triggers for strategic transformations. The introduction of new IT systems, reorganizations, and automation, mostly overlapping with each other, complicate matters further. A highly volatile business environment with an accumulation of political, social, health, and climatic grievances and crises adds to the challenge. The comparison to the top trends from 2020 shows their direct impact on companies' strategies and operations.

TOP TRANSFORMATION TOPICS

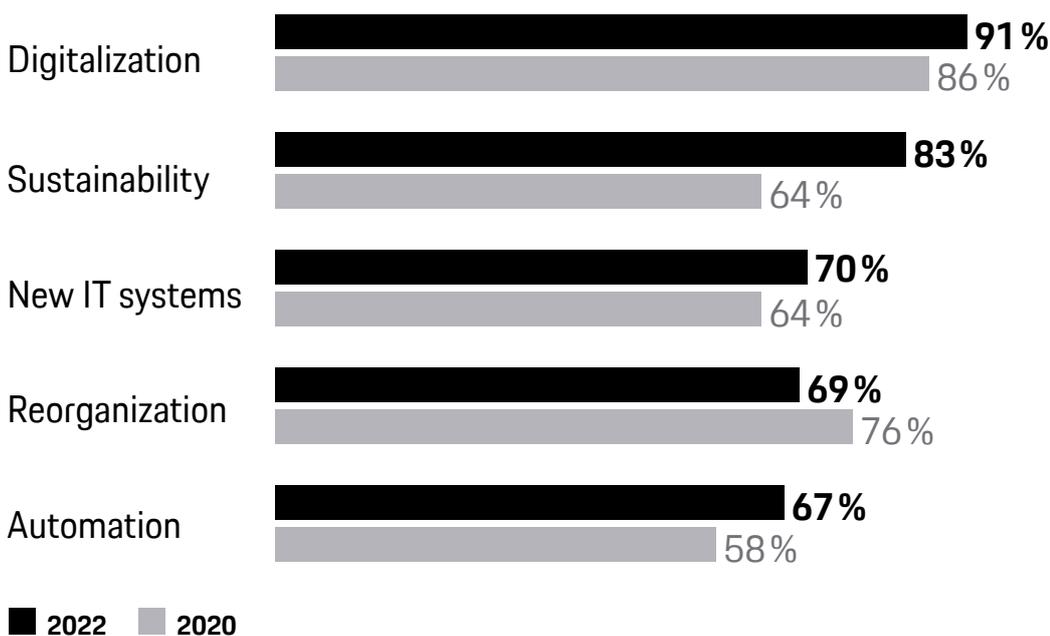
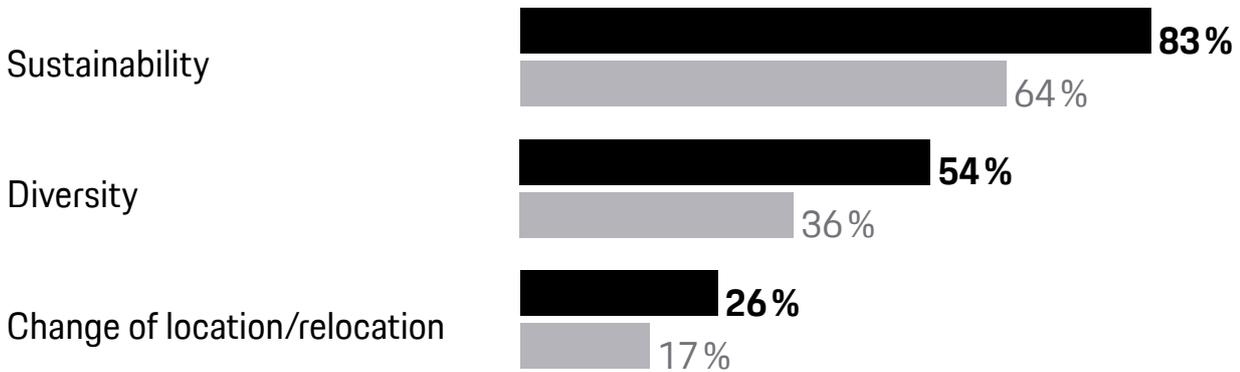


Fig. 1. The predominant drivers of change from 2020 have gained even more importance

¹ Online survey, test period: April 4–June 30, 2022; participants: 116 executives of the largest German companies with a representative industry average

TOP 3 ASCENDING TOPICS



TOP 3 DESCENDING TOPICS



■ 2022 ■ 2020

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Fig. 2. Most significant changes compared to 2020

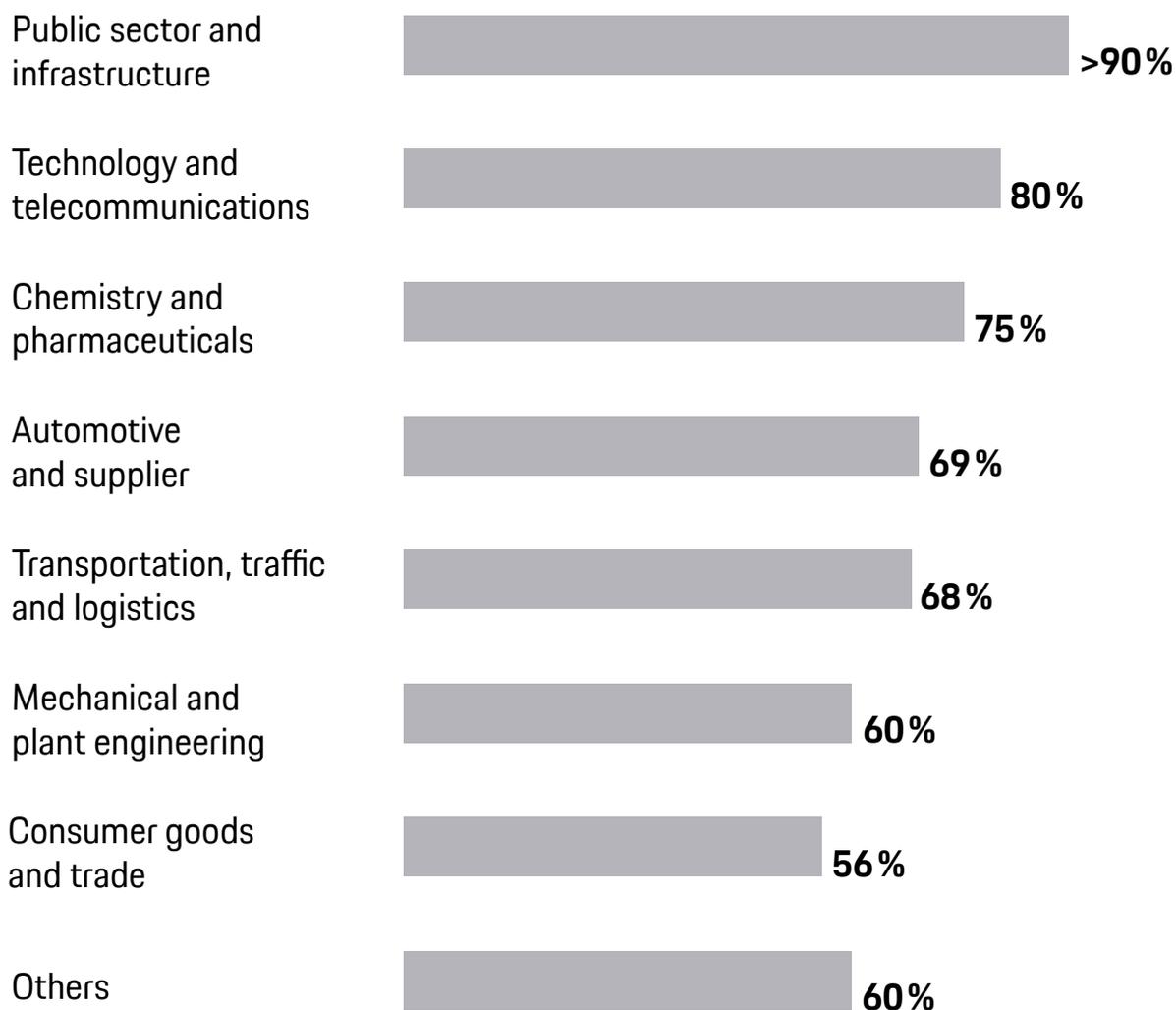
For every CEO, this poses fundamental challenges. While the need for strategic change leaves no industry unaffected, seven out of ten transformations fail. The problem is especially prevalent in the public sector and at infrastructure

companies: more than 90 percent of transformation efforts miss their target. Even transformation-experienced technology and telecommunications firms as well as chemical and pharma companies trail closely behind.

A total of
7/10
transformations fail

INDUSTRY COMPARISON

Failure to achieve all transformation goals

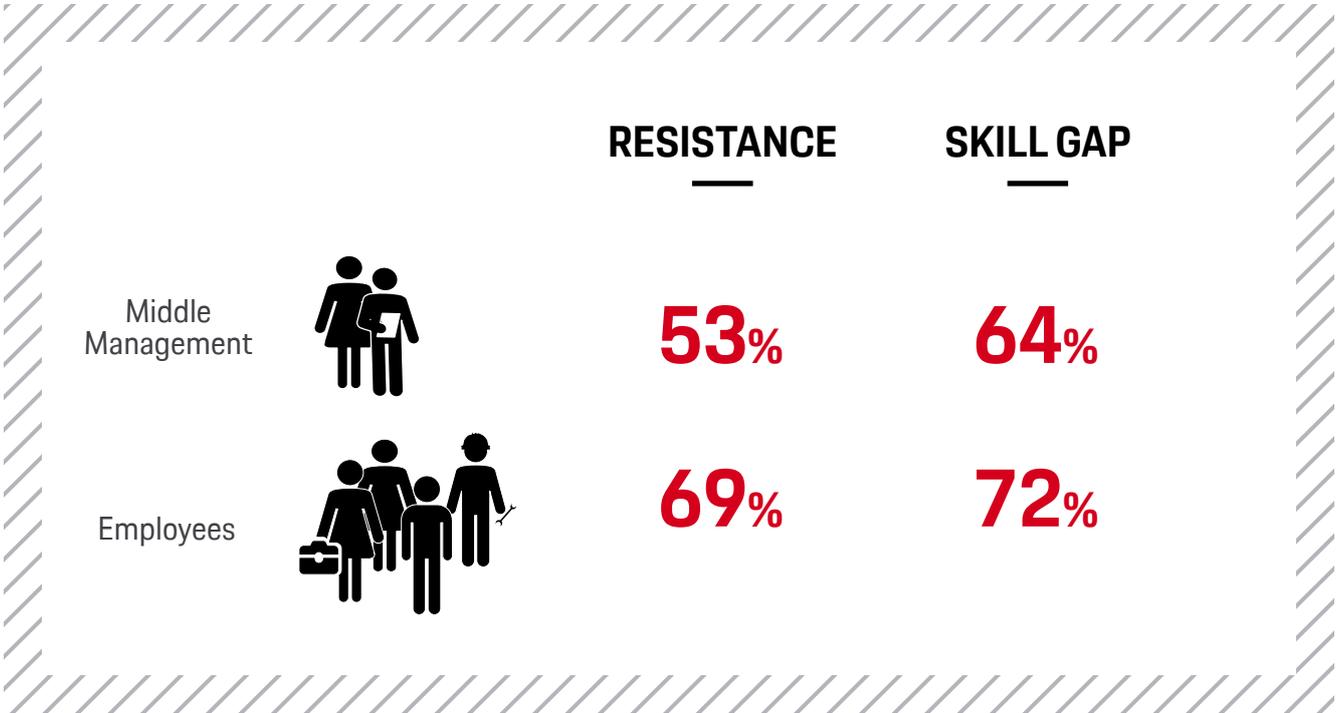


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Fig. 3. Transformation failure rate per industry

Interestingly, the problem rarely lies in the analysis of the company's initial situation or the definition of an adapted strategy. Instead, failure looms in the inability of many executive teams to activate their workforces for the upcoming changes. While willingness to change at the management level has increased significantly over the last two years (from 27 percent to 47 percent), over half of German middle managers still lack the necessary drive to truly im-

plement the necessary changes, and about two-thirds lack the necessary skills to do so. The situation is even more critical further down the hierarchy. A staggering 69 percent of employees are not willing to change; even more fail to bring the necessary skill set to the table.



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Fig. 4. Transformation readiness according to hierarchical level

In other words, the gross majority below the executive level isn't willing to follow through with a transformation—and even if they wanted to, they lack the necessary skills. No matter how clear the business case, at many companies it simply doesn't translate into reality. Behavior, decision-making, and old habits preserve the status quo and allow it to triumph over direly needed change.

And yet, some CEOs succeed in their transformations. What is it that these three out of ten leaders do differently than the rest? The next chapter focuses exactly on these differences and distills the essence of what makes or breaks strategic transformations.

HOW

to succeed—
Managing
transformations
holistically



To activate people for behavioral change in all areas of an organization, much more than the occasional newsletter and training sessions are needed, for they merely scratch the surface of the skill and will of their target audiences. Motivated managers in charge of transformation efforts very often do in fact come up with creative ideas, which are then labelled with catchy terms such as “walk the talk” or “compelling purpose.”

All too often, though, such essentially good ideas are put together in a non-structured way, resembling a potpourri of activist initiatives with short-term effects like bushfires. Sustaining behavioral change rarely follows, apparently reaffirming cynics among the managerial ranks who had opposed the transformation right from the start. Initiatives die, transformations fail, and cynics feel reassured in their complacency.

Those are the stories stemming from the seven out of ten transformations that fail. Unstructured approaches and focus on all too obvious formats fall short of the complexity organization-wide change requires. Porsche Consulting gathered evidence from those companies who underwent

Activating employees on all levels of consciousness

Findings from the field of behavioral economics offer a clear picture on how to succeed in organizational change at a large scale. Both instinctive (fast) and rational (slow) thinking need to be addressed to truly activate people for change. If instinct-driven behavior is not considered, statistical analyses show a significant increase of the transformation failure rate. Read more on the scientific background of behavioral economics in the Porsche Consulting white paper “[Strategic Change Management](#).”

transformations successfully and reconstructed the approach of those three out of ten companies who triumph in their strategic endeavors. In those companies, five forces of change represent the most relevant levers for organization-wide change:



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Fig. 5. The five forces of change of strategic change management

Leadership

CEOs must passionately animate people to change. Only if the impulse comes from the very top will the transformation be backed by the necessary authority and carried by undeterrable determination. Trickle down to direct reports and further on to middle management, executives at all levels must actively animate people to passionately drive the transformation.

Communication

Considering the paramount role of leadership, communication in a transformation must come from the top. Clear messages must be repeatedly placed, especially by the CEO. Executives of all levels need to be an integral part of the communication measures to enthuse all employees in all departments for where the company is headed.

Guidelines and policies

Executives need to adjust the regulatory context so that it encourages favorable new behavior patterns. People will always strive for their own benefit, and if incentives aren't aligned with the transformation's goal, they will undermine necessary changes.

New ways of working

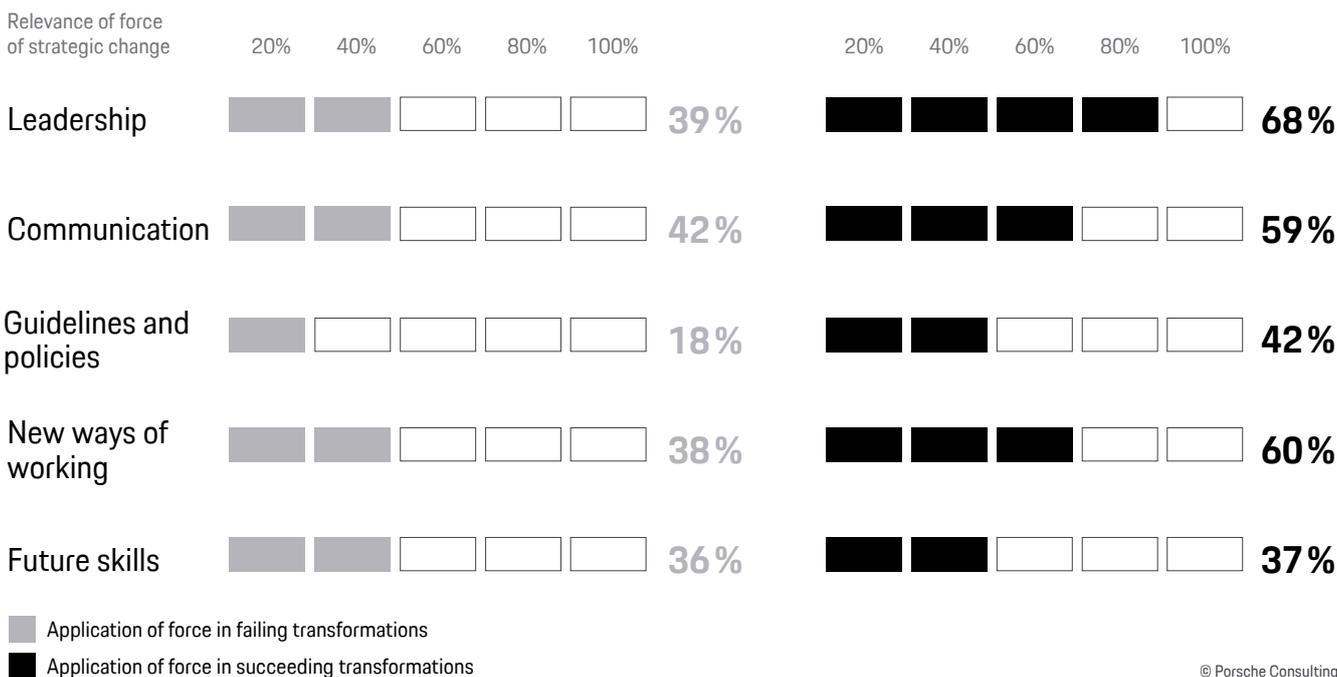
Current modes of collaboration must give way to agile work modes. Executives should design the facilitating physical and digital workspaces accordingly, as the dynamically changing environment of a transformation continues to require swift and effective responses to fulfill market and stakeholder demands.

Future skills

Will and skill are the foundation upon which every transformation needs to build on. Thus, executives must up- and re-skill their workforce to attain relevant competencies for the future. The most compelling purpose and clearest mission statement, the most innovative collaboration model and work environments are worthless if staff members don't know how to put them into practice.

According to the managers surveyed, the application of these five forces are crucial determinants whether a transformation reaches its goal or if it will merely add to the seven out of ten that fail:

5 FORCES – EFFECT ON TRANSFORMATION SUCCESS



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Fig. 6. Effect of five forces of change on transformation success

Within the five forces of change, the Porsche Consulting Change Management Compass 2023 has unearthed further, more detailed patterns that clearly set apart companies who transform successfully and those who fail. The following findings shall thus serve as a detailing guideline as decision makers set out to compose their very own Strategic Change Management design.

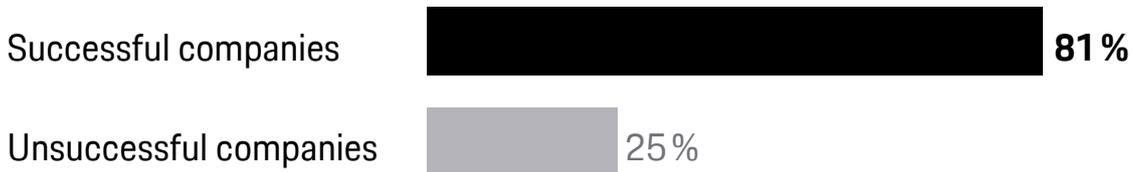


2.1 Leadership

For several reasons, leadership must be considered the primary of the five forces. First of all, change management must be a personal priority for any CEO whose company is undergoing a strategic transformation. Among the successfully transforming companies, 81 percent of their CEOs take interest and an active part in their strategic transformation. On the contrary, only 25 percent of CEOs in failing companies

show the same level of involvement—a clear indication of the power of example that trickles down from the C-level to direct reports, management teams, and eventually the broader workforce. Statistics support this hypothesis. If CEOs make change management a personal priority, transformations display a high degree of target achievement.

CEO INVOLVEMENT IN CHANGE MANAGEMENT



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Fig. 7. Effect of CEOs' personal involvement on transformation success

Additionally, middle management plays a crucial role in scaling the CEO's ambitions throughout the organization. In that capacity, they serve as catalysts for the remaining four: Communication must always come from the top and cascade down the ranks to convey authority and legitimacy. At the same time, guidelines and policies can only be leveraged if leadership leads, rewards, and sanctions by them. Direct supervisors are also crucial in setting up and role-modeling new ways of working and, not least, play an active role in the multiplication of future skills on their teams. To support this observation, the data reveal a striking statistical link: if managers lack the necessary skill set, we can observe a high probability of transformation failure.

These results are especially worrying because managers unfold a multiplier effect on the broader workforce, as they provide orientation and serve as role models. Hence, especially in a transformation, leadership skills are indispensable to activate employees for the upcoming changes. After all, if supervisors are neither willed nor skilled to master necessary behavioral shifts, their team members cannot be expected to surpass their bosses in that matter. Thus, considering the

"Leadership personnel have to explain the solid logic behind the change in precise detail (... and...) organize the work such that employees can do what they're good at. Then you'll also get good results."

Nikolaus Valerius
Member of the Executive Board | RWE Power AG

paramount importance of leadership, CEOs need to systematically build change management capabilities among hundreds or thousands of managers in their organization to rise to the challenge of a strategic transformation.

Taking into account all executive levels, CEOs and middle managers alike must provide true leadership and convey a clear sense of direction in the form of vision and mission statements that convey a compelling purpose for the entire organization. Over eight out of ten successful CEOs understand the importance of it, compared to just over half of the less successful ones.

LEADERSHIP

Success factors



■ Successful ■ Unsuccessful

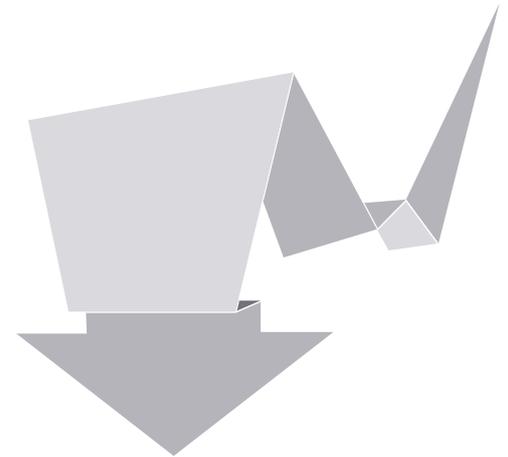
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Fig. 8. Change Management Excellence "Leadership"

Furthermore, it is important that CEOs don't buckle under headwind and that they encourage an open exchange in which contradictory positions are discussed openly, allowing critics to vent and engage with leadership rather than instigating upheaval behind the scenes. Three-quarters of successful top managers stand up for what they believe to be right, compared to less than half of failing managers. As one of the most powerful measures, this guideline is closely related to transformation success.

The establishment of new social standards increases the likelihood for a transformation to reach its goal significantly. To underline the importance of this fact, two and a half times as many successful management teams as unsuccessful ones prioritize this topic.

In contrast to traditional change management in which a sense of urgency—and thus an atmosphere of fear—is created, it is more promising to create psychological safety. In other words: successful CEOs inspire their people to aspire the future instead of letting them run from danger. Over one-third (36 percent) of the successful top executives lead by this principle, compared to less than one-quarter (24 percent) of their failing colleagues.



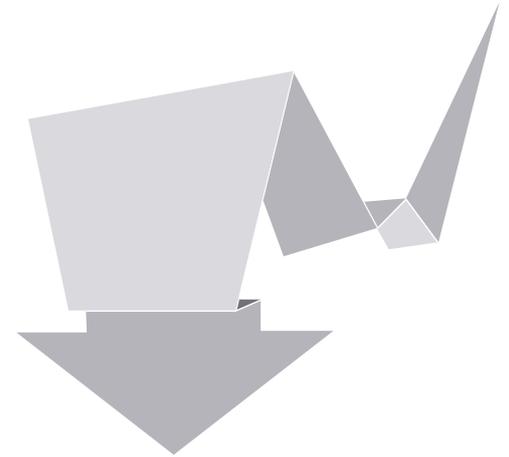
Strategic change management must be a personal priority for the CEO – 81% of successful CEOs actively lead transformations.

2.2 Communication

Successful CEOs understand not to put all their eggs in one basket when it comes to communication. Instead, diverse channels need to be utilized, ensuring that key messages create a coherent picture across the entire communication landscape and reach every stakeholder, no matter their personal format preferences.

83 percent of successful CEOs communicate by this principle, compared to only 53 percent of unsuccessful ones.

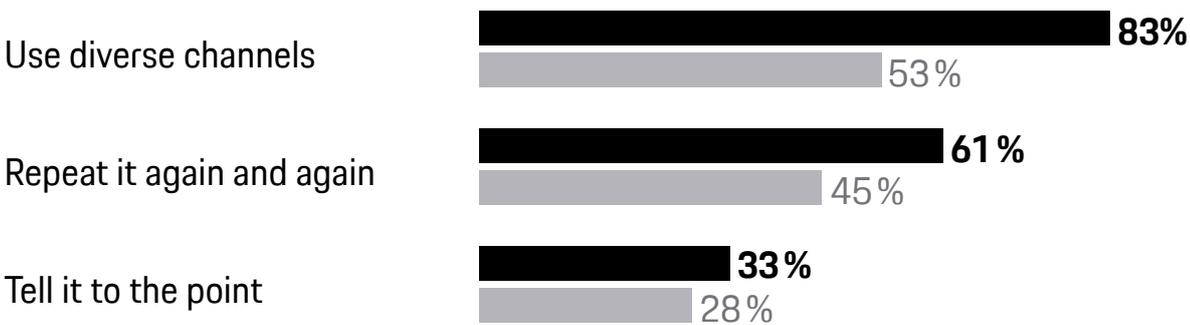
Across those multiple channels, the transformation narrative and key messages need to be repeated over and over. Behavioral research shows that individuals need to hear a message at least ten times before it sinks in. Reality proves theory in this case, with significantly more successful CEOs than unsuccessful ones heeding that advice.



Change communication must be conducted across a multitude of channels – as practiced by 83% of successful CEOs.

COMMUNICATION

Success factors



■ Successful ■ Unsuccessful

© Porsche Consulting

Fig. 9. Change Management Excellence "Communication"

Moreover, successful CEOs get straight to the point instead of using hollow buzzwords, as people prefer clear and concise information when it comes to transformations that affect

them. While not too many executives in general have yet arrived at that conclusion, we can observe a gap between successful and failing leaders.

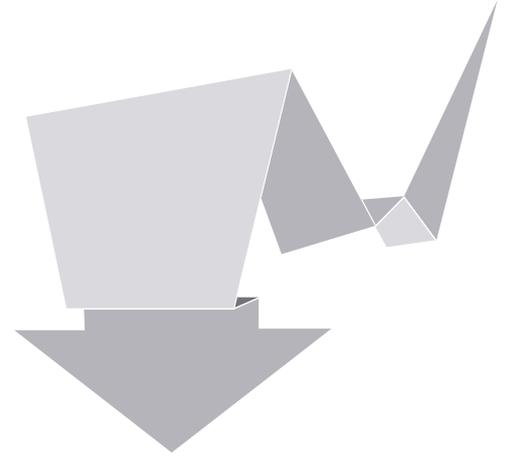
2.3 Guidelines and policies

Successful executives adjust the regulatory context so that it encourages favorable new behavior patterns. In particular, the increase of authorities enables teams and individuals to make their own informed, decentralized decisions that serve the overarching transformation goal. More than twice as many CEOs whose transformations reach their goals than those whose endeavors fail empower their teams in this way; the employees can then in turn take on more responsibilities to spur the necessary changes.

To ensure that the organizational response will motivate employees to support the transformation process within those enlarged authorities, goals and incentives need to be adjusted accordingly. Left untouched, existing financial and social benefits do not necessarily support the goals set for the transformation. 42 percent of successful top executives have understood that mechanism, compared to only 18 percent of unsuccessful ones.

To ensure the right amount of guidance nonetheless, rigid rules and the resulting constricting bureaucracy and micromanagement should be replaced by easily relatable behavioral guidelines. Thereby, people are freer to react to unforeseen circumstances and yet pass decisions in line

with the transformation goals, for which enlarged authorities mentioned earlier are the prerequisite. Again, more than twice as many successful CEOs compared to unsuccessful ones have replaced rules with principles.



Employee authorities need to be increased – more than twice as many successful CEOs (47%) than failing ones (20%) empower their teams in this way.

GUIDELINES AND POLICIES

Success factors

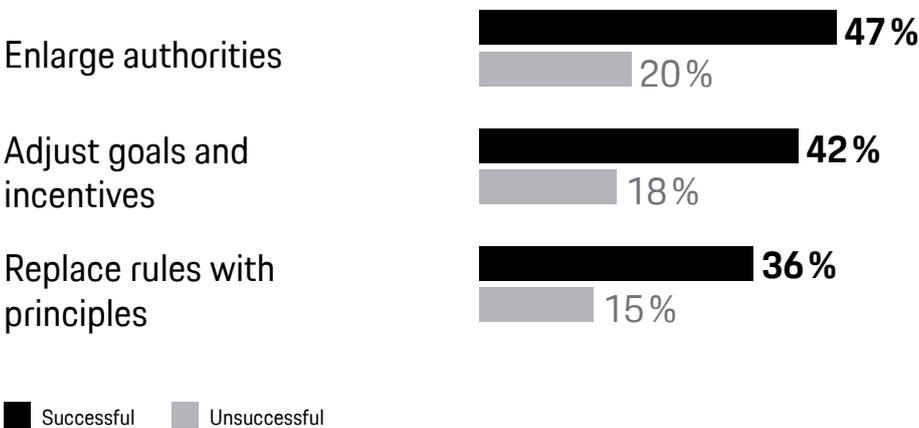


Fig. 10. Change Management Excellence "Guidelines and Policies"

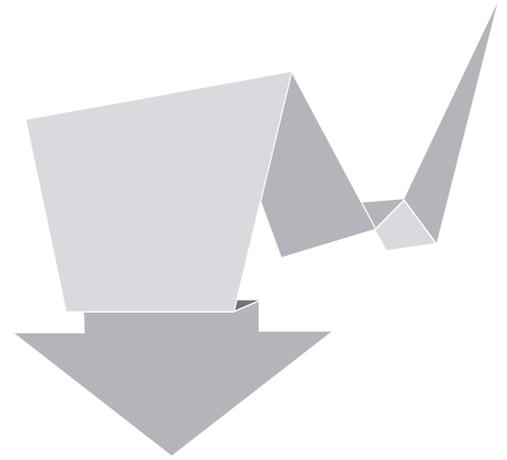
2.4 New ways of working

CEOs should evolve current modes of collaboration into more agile work methods to allow for an optimal allocation of resources in the ever-changing environment of a transforming organization and furthermore enable swift and effective responses to fulfill market and stakeholder demands to grow resilience in the long term. Half of the successful top managers allocate their employees flexibly, while only just over one-fifth of the unsuccessful ones prove as flexible.

As employees move across the organization more freely, temporarily staffed cross-functional teams shall address immediate business priorities, whose diverse perspectives strengthen innovation capabilities and decision quality in the critical times of a transformation. Again, successful executives have a clear edge on their failing colleagues.

Over three-quarters of successful managers complement enlarged authorities and the new ways of working mentioned above with a greater liberty for their employees to choose time, location, and focus of their work more freely, which leads to greater job satisfaction and productivity. Less successful executives trail behind by a significant margin in this respect.

While greater liberties and empowerment are determinants for successful transformations, it must never deteriorate into an undirected laissez-faire work mode. Milestones and goals must be continuously tracked to verify and possibly adjust focus and efforts.



Human resources must be deployed flexibly – two and a half times as many successful CEOs (50%) than unsuccessful ones (21%) heed this advice.

NEW WAYS OF WORKING

Success factors



■ Successful ■ Unsuccessful

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Fig. 11. Change Management Excellence "New Ways of Working"

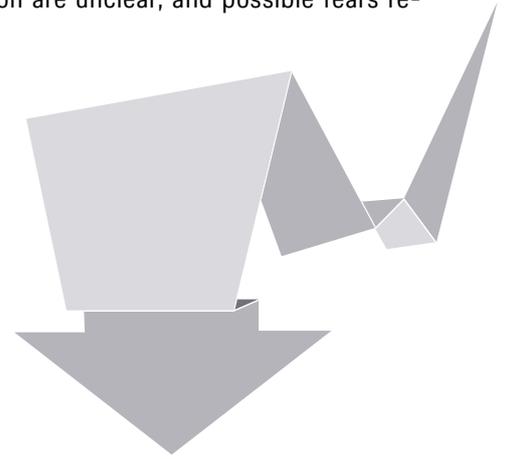
2.5 Future skills

Will and skill are the foundation upon which every transformation needs to build on. The data showcases clearly that obtaining relevant skills is an even greater determinant than a general openness to change. Thus, CEOs must see to it that necessary competences are amassed across large parts of the workforce, including and especially among their management teams.

A powerful lever to ensure employees have the necessary skill set is to provide the opportunity to self-directed upskilling. In contrast, more rigid, directed learning curricula increase the probability of a transformation to fail. That being said, learning content and available qualification programs must of course be aligned with the specific requirements of the company.

However, reality shows that up- and reskilling large parts of the workforce have low effect, possibly a negative one, if the other four forces are neglected. Generally, large-scale reskilling programs are rare among all surveyed companies. Within that number, almost twice as many unsuccessful CEOs than successful ones reskill large numbers of their employees. However, when reading those numbers, it must be kept in mind that failing executives utilize leadership, communication, guidelines and policies, and new ways of working much less than successful ones.

It can thus be concluded that the benefit of training cannot fulfill its effect, or may even have a negative effect, if the other four forces are not comprehensively leveraged alongside. Employees would train in a "vacuum," in which purpose and direction are unclear, and possible fears remain unaddressed.



Self-directed learning must replace more rigid, directed learning curricula – otherwise, the likelihood for transformation failure increases significantly.

FUTURE SKILLS

Success factors



■ Successful ■ Unsuccessful

© Porsche Consulting

Fig. 12. Change Management Excellence "Future Skills"

Strategic change management and transformations in times of COVID-19

Since the first Porsche Consulting Change Management Compass was published, the global COVID-19 pandemic has altered the way of collaboration and how workdays are organized. Naturally, change management needs to reflect these new realities, with significant repercussions especially for the change forces leadership and new ways of working. The four most striking findings from the 2023 Porsche Consulting Change Management Compass can be summarized as follows:

- ▶ **Almost eight out of ten (78 percent) managers surveyed agree that new change strategies and tools are required to master hybrid work environments.**
- ▶ **Over six out of ten (61 percent) struggle to understand concerns and fears of their employees when collaborating remotely.**
- ▶ **The absence of informal exchange at an on-site workplace is seen as an obstacle to transformations by six out of ten (60 percent) respondents.**
- ▶ **Additionally, the knowledge exchange through learning from other colleagues is limited, as stated by over half of the surveyed managers (59 percent).**

Consequently, strategic change initiatives must address the above issues. The four-point plan for hybrid change management outlined below shall serve as a guideline for CEOs and their management teams to master an already tricky challenge in even more challenging times:

- 01** Implement modern IT tools for remote collaboration to ensure seamless integration of both on-site and remote team members. Don't stop short at video calls—collaboration must be absolutely fluid, for instance through real-time teamwork on digital whiteboards.

- 02** Practice remote leadership and listen closely to your people. Remote work might make it harder to pick up hints, which is why executives should reserve slots in their calendar for regular informal check-ins with their team members.

- 03** Facilitate remote team events and exchange. Since 2020, the possibilities for such events have been countless—remote wine tastings with breakout rooms for more private conversations among team members are just one of many examples.

- 04** Set up informal learning sessions—preferably on Fridays when the workload tends to be lower—inviting colleagues to share knowledge in a compact meeting format over lunch.

WHAT

to internalize—
Leading future
transformations



As challenging as transformations are, the results of the Porsche Consulting Change Management Compass 2023 are promising for those who are open to approach them differently than traditional change management suggests. Specifically, five forces of change have the power to effectively activate people for the upcoming changes and thus support CEOs in mastering their strategic agenda. While challenges and circumstances differ, the entirety of

surveyed companies revealed a pattern that clearly distinguishes between those who triumph in their quest for strategic change and those who fail. The application of these five forces and the central success factors herein are shared across all types of transformations and industries. Carefully orchestrated to meet the specific challenge under the respective circumstances, success is likely.



Nikolaus Valerius, member of the RWE Power AG Executive Board

The case of RWE Nuclear

In 2018, the nuclear power business of the RWE Group was consolidated into RWE Nuclear GmbH to manage the decommissioning of its nuclear power plants. Almost overnight, highly specialized engineers, once priding themselves to be reliable nuclear energy providers, had to become experts in dismantling their own plants, the recycling of the resulting materials, and the correct packaging of radioactive waste. For those affected, the change could not have been greater. Therefore, strategic change management took center stage from the beginning and was orchestrated across the five forces of change to unfold maximum transformational impact.

The executives created trust in their goals and animated their teams to pursue them. Emotional messages were repeatedly communicated to fascinate employees for the journey ahead. First milestones were publicly celebrated as visible lighthouses, further raising confidence levels. Rooted in the resulting

positive attitude, reskilling programs could unfold their full potential, while new development opportunities ensured sustainable behavioral change.

Nikolaus Valerius, member of the RWE Power AG Executive Board, puts it this way:

"Together with the employees we've laid a robust foundation (...) It has run smoothly thus far because we've communicated a coherent idea clearly and made strategic leadership a core part of our corporate culture."

Thus, by tailoring the optimal approach along the five forces of change, the RWE board members succeeded in activating their workforce for change and continue to celebrate milestone after milestone in the energy provider's most fundamental transformation in decades.

The case of Audi BKK

The carmaker's internal health insurance branch was confronted with increasing customer expectations towards their services. At the same time, bureaucratic processes and a low degree of digitalization had a negative impact on the customer experience. A big leap towards a customer-centric, agile performance organization, redefining its range of services, and enabled by the latest digital tools, was needed to remain competitive.

Over the last two years, the new strategy and the new target organization had already been adopted, but these strategic decisions have not yet been widely anchored among Audi BKK's managers and employees, who experienced the last organizational transformation over one decade ago—in some cases longer than many of the employees had been with the company. Therefore, strategic change management is needed to create maximum acceptance and speed up the implementation towards the aspired agile performance organization.

The leadership empowers its employees by entrusting them with the realignment of the organization in workshop teams consisting of both management and non-management staff. Employees at all levels are engaged through target group-based, continuous communication across a multitude of channels, timing those repeated messages at key moments to un-

fold maximum impact. A very fundamental measure is taken to ensure the relevant future skills, as crucial management positions are advertised anew. Even internal managers have to reapply, doing away with a traditional and automatic promotion track. Thereby, the change team ensures that managers with the right skills and competencies are placed in the right positions to reap the full potential of the new organization.

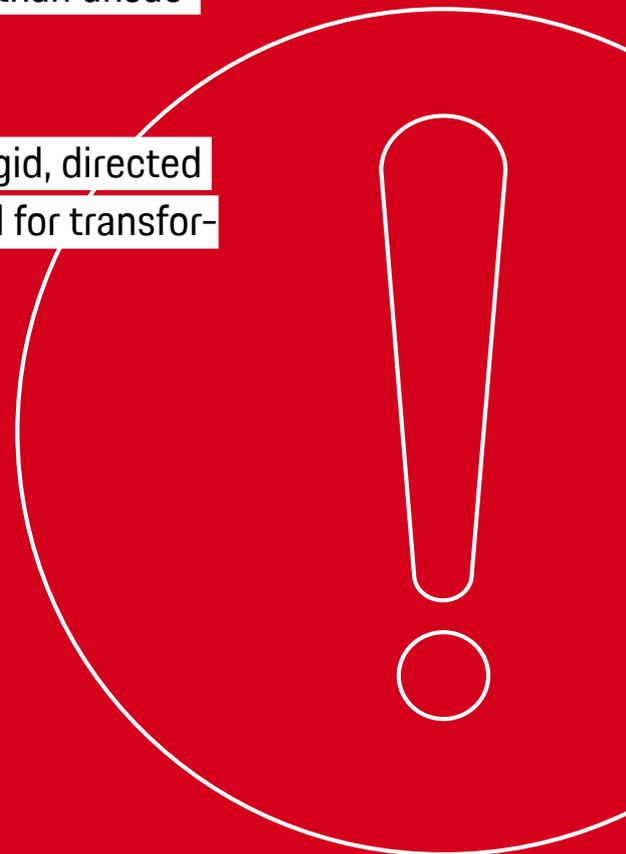


By heeding the emerging transformational success factors and by taking a structured approach as outlined above, CEOs and their teams can overcome stalling change and create a successful future for their company and their employees. Nobody is doomed to make the same mistakes

(or the mistakes of others) over and over. Every successful strategic transformation starts with a bold, inspirational CEO and is further carried by a skilled and motivated leadership team. Let's get the ball rolling from the top!

In Brief

- 01** Strategic change management must be a personal priority for the CEO—81% of successful CEOs actively lead transformations
- 02** Change communication must be conducted across a multitude of channels—as practiced by 83% of successful CEOs
- 03** Employee authorities need to be increased—more than twice as many successful CEOs (47%) than failing ones (20%) empower their teams in this way
- 04** Human resources must be deployed flexibly—two and a half times as many successful CEOs (50%) than unsuccessful ones (21%) heed this advice
- 05** Self-directed learning must replace more rigid, directed learning curricula—otherwise, the likelihood for transformation failure increases significantly



Methodology

Every two years, the Porsche Consulting Change Management Compass surveys relevant trends of change in the largest German companies. The focus is on the success rate of strategic transformations as well as influential framework conditions and facilitating success factors.

116 executives from the 100 largest German companies with a representative industry average took part in the comprehensive written survey between April 4th and June 30th, 2022. The derived results of the Porsche Consulting Change Management Compass have been validated using Bayesian statistics.

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