

More Than a Flight of Fancy:
Building an Organizational Change Capability in
Aerospace and Defense

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Executive overview

Aerospace and Defense (A&D) companies are under continual pressure to provide services cheaper, faster and better to win and support government and commercial contracts. In order to win and support the contracts, A&D companies have to learn to manage two types of change: the incremental change that comes with improving current processes and technologies and the leap ahead change required to stay relevant in the industry.

The A&D industry, being highly dominated by engineers, has recognized the need for incremental and leap ahead changes in how they execute the technology and process side of projects. Lean manufacturing and six-sigma are no longer the methodology du jour in A&D companies, but have now become the standard way of operating. From our experience with A&D companies, what is still missing is the same rigor around managing the people side of the change.

We believe that in order for A&D companies to manage the people side of incremental and leap ahead changes, A&D organizations need to build an organizational change management capability. We define organizational **capability** as having the organizational **capacity** to support a change management methodology and the **ability** of employees to deliver the methodology successfully.

The key to developing the right organizational change capability is to understand that each company is unique and although the business drivers to establish a capability may be the same, how an organization creates the capability will differ based on industry and organizational structure and culture. The A&D industry provides for an interesting case study in building an organizational change capability because of the dichotomy between incremental and leaps ahead change that firms in this space must manage. Without incremental improvements, contracts are at risk for a lower than expected margin and contracts are at risk of renewal due to

improved bids by competitors. The leap ahead aspect is important in the industry as A&D companies need to innovate to compete for their share of a shrinking defense budget.

We believe one way to manage through the risks of losing market share and having a portfolio of obsolete products is to create a culture where A&D companies actively manage the people side of their business changes. We believe this effort will result in a more nimble and adaptable organization where people impacted by change, be it small or large, fast or slow, are moved through the change curve deliberately and effectively to maximize the returns of a project.

What is an Organizational Change Capability?

- **Capacity** – The infrastructure to effectively transition employees through a business change. The structure includes a common vision for change, a standard methodology and toolset; and the supporting organizational design to deliver and manage change on projects.
- **Ability** – The development and maintenance of organizational change management skills and expertise within the organization

We spend the first half of this paper walking through the A&D industry and the characteristics and challenges that define and shape their organizational change management needs. The particular challenges we focus on are:

1. The Public Nature of Failures in A&D – Understanding the Impact on Motivation to Change
2. Incremental vs. Leap Ahead Change – Understanding the Types of Change
3. The Drama of Change Trauma – Understanding the Tolerance for Change

The second half of this paper outlines key considerations when putting an organizational change capability into practice. We look at three key activities that must take place to allow for the systematic application of capability across the enterprise. These activities are designed to develop the foundation of an organizational change capability. The key activities are:

1. Defining a vision for an organizational change capability
2. Creating a capability matrix and tying together with a common methodology and education
3. Determining the right mix of organizational change management skills and expertise on projects and initiatives

Part 1: Understanding Change in the Face of A&D Challenges

1. The Public Nature of Failures in A&D - Understanding the Impact on Motivation to Change

A business change is most successful when the impacted stakeholder group is motivated to change. When lack of motivation leads to lack of adoption in the A&D industry, failure is often played out in headlines across a multitude of media venues. Where some companies can address shortfalls or poor implementations behind the closed doors of their factories or take temporary hits in market share, the public and government scrutiny on A&D efforts can result in failures that the press will make public immediately. An organization's capability to manage change effectively is critical in this environment, where the consequences of failure are high and the tolerance for ineffectiveness is low, especially when the revenue for many of these companies is driven by government allocation of tax payer dollars.

Once failures are made public, the motivation to embrace change and work toward new solutions can be difficult. For example, programs, which are poorly managed, have resulted in large publically reported overruns. These overruns have resulted in lack of confidence in A&D companies, resulting in frustration with internal stakeholders. If employees are marshaled correctly and an organizational change management methodology deliberately applied to the business problem, employee motivation and engagement can increase and reverse the course of failure.

Change failures in the public eye happen not just on externally focused projects, but internally based projects as well. The effectiveness of downstream projects are often marred by the history of poor implementations. History becomes reality and employees enter into new change initiatives doubtful that the company can implement the new project with a different outcome from the old. Employees then become disgruntled by lack of company or personal success and look for reasons the company is failing. These internal failures then can play out in the media as disgruntled employees leak secret documents or share failures with government watch dog organizations.

We call the cumulative effects of the repeated poor return on projects linked to low adoption of the change, the "Change Failure Snowball Effect". This effect becomes more prevalent as traditional command and control structures in A&D are no longer effective at directing employees to change.

The "stick mentality," that punishment will induce behavior, in command and control cultures is challenged by several things. First, more and more A&D companies require the cooperation and buy-in of their employees to successfully deploy initiatives. People are less tolerant of top down cultures and gaining their cooperation requires a capability to understand and manage change effectively.

The change snowball effect means that organizations that do not focus on the

successful employee transitions are open for greater risk. The risk is more of a challenge for A&D companies because the failure results in unfavorable public attention and government scrutiny. If A&D companies foster a culture where an employee's transition is measured, monitored and managed, the commitment to the company becomes greater than the need to air grievances publically. The management of these transitions begins with a consistently applied organizational change management methodology.

2. Incremental vs. Leap Ahead Change - Understand the Types of Change

The Aerospace and Defense (A&D) industry, due to its size and longevity, has undergone every type of change imaginable from large mergers and acquisitions (Lockheed Martin) to the implementation of advanced technology to combat a quickly changing battlefield (cyber warfare). As we now move more than a decade into the 21st century, the industry is engaging in two types of change: incremental and leap ahead.

Incremental change is evident whenever you ride in a 30 year old MD80 or see the Navy deploy its battleships to the next global hotspot. The look and feel of these platforms hasn't changed in many years, because the capital investment in these large platforms makes designing a new airplane or war fighting ship an expensive proposition. As a result, A&D companies have to focus on incremental changes by developing and improving the avionics or technologies that run and guide these large platforms. The incremental change has added value to these already expensive platforms. The technology improvements extend the life and allow end users to repurpose the platforms and advance the usefulness.

On the flipside, the threat of cyber warfare, the increase in urban fighting and the global threat of terrorism all require bringing to bear the latest technologies to solve the quickly evolving problems of A&D's clients. A&D

companies must stay on top, or leap ahead, of advancing technologies and understand how to turn these into products that decrease the fog of war and keep us one step ahead of our enemies. The speed at which the technologies change requires innovative and flexible organizations, which are a direct contrast to the large organizations that dominate the industry today.

Not many industries outside of A&D have to balance the dichotomy between the decade-long incremental changes of large scale system developments and the immediate and urgent leap ahead changes as part of high speed emerging threats. What works for decade long sustainment does not work for radical short term changes. The risk of not managing these changes well can result in loss of revenue. A&D companies with a strong organizational change capability can identify the difference between these two changes and understand how change management tools and methodologies are applied differently across these scenarios. The companies can also, and maybe more importantly use the organizational change capability to toggle between these approaches seamlessly.

3. The Drama of Change Trauma - Understand the Tolerance for Change

In addition to developing a flexible organizational change capability, A&D companies also have a particular need to manage change on business initiatives and projects across the enterprise, in order to adequately manage their organization's tolerance for multiple business changes. When we talk about *tolerance for change*, we mean how much change the organization can absorb within a specific time period. Being able to identify periods of change fatigue or change trauma is critical in defining how to best support and enable change efforts.

For example, we met with a defense organization that described how each of their initiatives had a well thought out organizational change management approach.

Stakeholders were identified and a communication plan was developed for each project. Despite this preparation, end users struggled with the sheer number of communications they were required to read and change agent meetings they were required to attend. The department became overwhelmed and did not know which project held the highest priority and which projects could be ignored. Individuals began picking and choosing based on their own criteria or interest and as a result no one single project was effectively implemented or adopted. As deadlines loomed near, the project teams fell into a reactionary, fire-fighting mode, given the erratic support for extended team members and users.

The struggle this organization encountered was not on the individual projects, but rather on the collective activities across their entire portfolio of business changes. This organization may have put all the activities in place to manage the people side of change on a project by project basis, but by failing to understand the organizational change impact across the enterprise and rationalize these activities, the organization lost visibility to how these individual activities affected each other and therefore missed the impact of change fatigue.

The enterprise approach to change management drives an additional opportunity to optimize organizational change management activities by combining the efforts across projects. The combination of efforts happens more effectively if the entire organization shares the same methodology and organizational change management practitioners and change agents or trained in the same manner. When the organizational change management capability is then engrained in the culture, the organization can apply the methodology and focus on mitigating the risks of people failing to adopt the change at hand.

Part 2: Considerations for Putting Change Capabilities into Practice

What does a change management capability look like?

Building out a capability to manage change is different and distinct from just knowing how to execute change on a project by project basis. For A&D companies it is not only having the right toolbox but having the capability in the organization to know how to use those tools whether the problem is external or internal; related to an incremental change or a leap ahead change, or relevant to a specific project or an entire portfolio of change efforts. The design of this change capability can have many forms.

Some companies have a Center of Excellence (COE), where expert change practitioners are deployed to tackle the change elements of different projects. Some organizations have change programs that are a part of employee development and as employees progress through the organization they are trained to manage change based on their position. Some organizations outsource the change work to a trusted partner, relying on the partner to get employees through the valley of despair. These change programs can report to Human Resources, Organization Development, Information Technology or the Program Management Office.

Despite the varying differences between each of these models, they all have the ultimate desire to effectively transition employees to a new state of order. A change capability can look differently depending on needs of an organization.

What steps should you take to build capability?

The first step in building a change capability is to define what this means to your organization. A definition or vision gives you

the basic recipe for putting together a capability that will work for your organizational structure. When creating the vision, you should ask yourself:

- How does our organization value people?
- How do our employees get involved in change?
- How will we know adoption of change has been successful?
- Who should lead change in our organization?

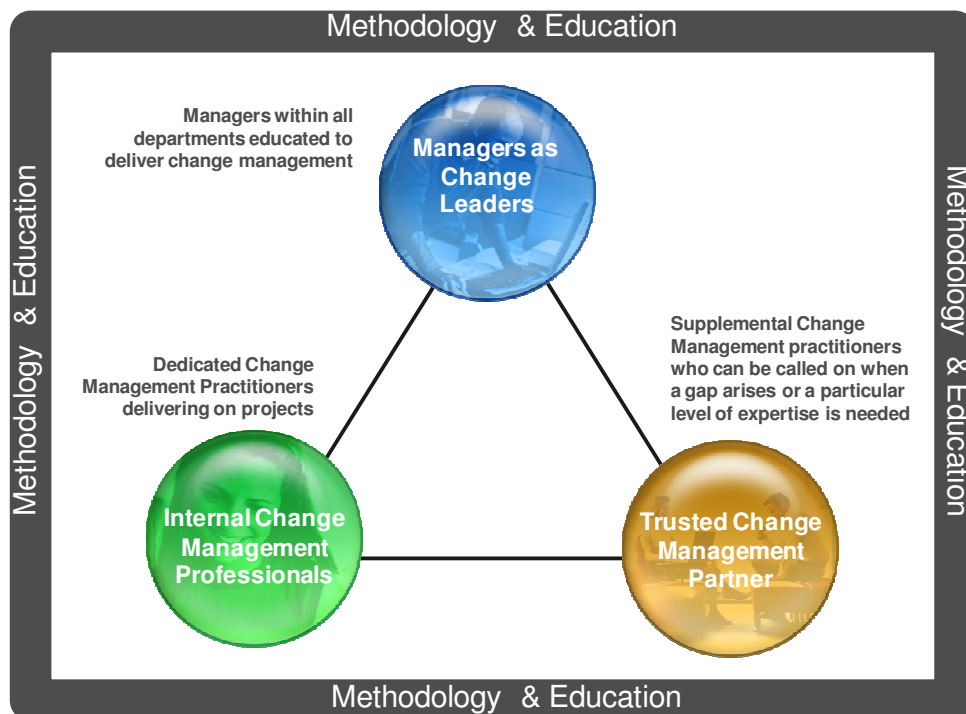
Once the vision is defined, it should guide the other decisions necessary to define what the change management capability in your organization looks like. This statement also serves as a communication message. You should treat the implementation of the organizational structure to deliver your change capability just as you would any other project, i.e., with the proper change management activities and deliverables.

The next step is to define the change capability resource models in your organization and tie it with a common

methodology and education as shown in the diagram below. You should consider three different groups when determining what level of change expertise you would like to have in your organization:

- **Managers as Change Leaders** – Determine, based on the vision, what role your managers will play in influencing and leading change
- **Internal Change Management Professionals** – Determine what type of dedicated change capability professionals to have in your organization
- **Trusted Change Management Partner** – Find a partner who shares your philosophy and approach so that you can scale down or ramp-up your change efforts as needed

For A&D companies, the OCM methodology needs to be able to apply to both incremental and leap ahead change. The application of the selected methodology should flex depending on the project. For example, fewer activities may be needed to engage users in an incremental change project while a more robust application



might be needed in a leap ahead type business change. The key to flexing the selected methodology is providing a series of, guidelines on how to apply the methodology. The last step is to create a path for educating those involved in the process. This education plan should start at the executive level and end with every employee.

The final activity is to put the change capability into practice by determining the right mix of expertise on each project or initiative. As we work with our clients in the A&D space we ask them to consider the following variables when looking at starting a change competency:

- Number of simultaneous initiatives
Number of impacted stakeholders
- Number of functional organizations impacted by change
- Degree of required integration
- Link between performance results and change

These variables should dictate the right practitioner mix. For example a particular A&D company may consider change practitioners for the launch of a new program and a trusted partner for an organizational restructure. No matter what the mix, it is important to create a capability that is culturally appropriate and well implemented.

Closing

The Aerospace and Defense Industry is beginning to feel the constraints many commercial industries already know well. A&D is seeing tougher competition for few programs and closer scrutiny of government spend once programs are won. We have highlighted a few of the most pressing issues facing the A&D industry as well as what happens if people are not successfully transitioned through business initiatives. These are 1) The Public Nature of Failure; 2) Balancing Incremental vs. Leap Ahead Changes and 3) Managing the Tolerance for Change.

Because the A&D industry is starting to see pressure on revenue due to industry changes, it is even more important for the industry to get the most ROI out of the projects. In order to get the most business benefit, user adoption of the intended project outcomes is key. We believe that companies can maximize user adoption by building a tailored organizational change management capability, by 1) Developing the skills and expertise to manage change and 2) Building the infrastructure to support, cultivate, and deliver this skill and expertise appropriately.

To remain competitive, A&D companies will need to effectively manage both incremental and leap ahead change. A thoughtful approach and implementation of an organizational change management capability can help A&D companies be effective in their initiatives by enabling the means to both maintain the status quo, while simultaneously innovating and flexing, leading employees through the continual change process.