

Prosci's ROI of Change Management Model

A discussion of how change management
delivers project ROI

Prosci and the Change Management Learning Center
www.change-management.com

Increasingly, our membership community asks about the **Return on Investment** of managing change. There are numerous studies that show a correlation between effectively managing the human side of change and meeting project objectives (McKinsey and Prosci). Additionally, there are many qualitative impacts of poorly managing change that you can observe and 'feel' as you walk through an organization experiencing change. In late 2005, Prosci developed a model to represent how the human side of change impacts the value a project delivers to an organization. **Prosci's ROI of Change Management Model** is presented in the tutorial below. Contact one of Prosci's change management analysts at 970-203-9332 or changemanagement@prosci.com for more information.

Contention 1: The ROI delivered rarely equals the ROI that is expected

This statement does not mean that realized ROI is always lower than expected ROI. On the contrary, some projects vastly exceed the value that they were expecting to deliver. However, the ROI that is actually realized by a project is **rarely exactly** what was expected. Consider how unlikely it is that your new process redesign delivers exactly the 18.5% ROI over the year that is predicted in the business case. It is much more likely that ROI will be 18.3% or 16% or 2% or 18.8% or 19.3% or 27%. The same holds true for the NPV (Net Present Value) of a project - isn't it more likely that a project with a \$350,000 NPV delivers an NPV of \$345,000 or \$355,000 or \$675,000 or -\$155,000. **Overall, ROI and NPV rarely equal exactly what you expect.**

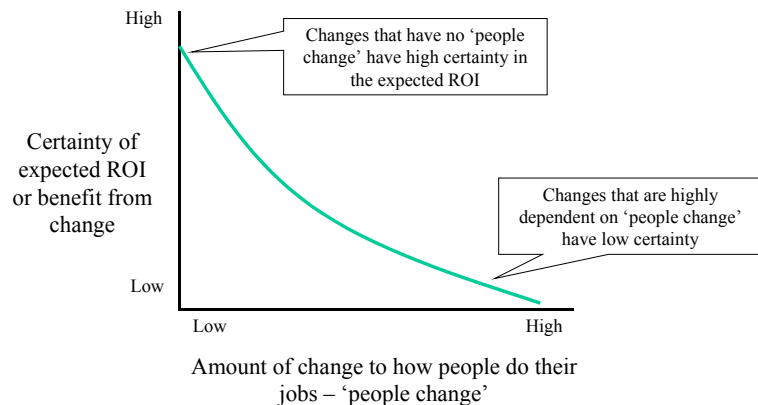
Think about several projects that you were **recently** involved within the framework of the table below:

Project name:	ROI realized vs. ROI expected (check the appropriate box)				
	Far below	Below	Exactly	Above	Far above
1.					
2.					
3.					
4.					
5.					

Contention 2: The more that people are affected by a change, the less certain is the ROI

If the ROI of a change does not always equal what was expected, are there certain projects that are **more predictable** and others that are **less predictable**? The graphic below shows a general relationship between how certain one can be of the ROI of a project and the amount of **'people change'** created by a project. A quick way to understand the model is to think about changes that fall on the far extremes of the model - those with no change to how people do their jobs and those with extraordinary change to how people do their jobs.

- If the lease on the corporate headquarters is renegotiated to lower cost by \$50,000, then the value of the project is very certain (\$50,000 savings). This project is on the left-hand side of the graph.
- However, suppose that the project is to realign a sales force around vertical industries instead of particular product lines. This change is very people dependant; therefore there is tremendous variability and thus lower certainty, of the impact of this change because it introduces so much change to how people do their jobs - a high level of people change.



Think about some of the projects going on in your organization and complete the table below. On the left, note several projects that have 'low' amounts of people change, and on the right indicate projects that have 'high' amounts of people change.

Projects with 'low' amounts of people change	Projects with 'high' amounts of people change

Generally, projects that fall on the right-hand side of the graph are less predictable, but tend to be the types of changes that deliver the most value to the organization. Strategic initiatives and the types of changes that really make a difference to how the organization operates impact **how people do their jobs** - so changes on the right side of the graphic are **less predictable** but **more valuable** to the organization.

Contention 3: There are three 'human factors' that create variation in ROI

What accounts for the variation in project return that high 'people change' projects encounter? Said another way, what are the **human factors that limit or constrain** a project's ROI?

Prosci's ROI of Change Management Model presents three key human factors that impact the value a project creates and the ROI it achieves. The three factors come from the analysis above, as well as an examination of the consequences of poorly managing change. For example, several of the consequences of poorly managing change include productivity loss, active resistance, passive resistance, loss of valued employees and work-arounds. Each of these symptoms surely reduces how much impact an initiative has, but is there a model that can capture the human factors of ROI? The three human factors (those that create variation in the ROI on the projects that involve significant 'people change') in Prosci's *ROI of Change Management Model* are:

- Speed of adoption
- Ultimate utilization
- Proficiency

Speed of adoption

Speed of adoption is how **quickly** employees begin using the new process, system, technology or tools your change introduces. It is how quickly employees adopt their new roles and demonstrate the new skills and behaviors required by a change.

- **Expected speed of adoption** - The 'expected' speed of adoption comes from assumptions made about the implementation phase in the project plan. Some of these assumptions may be explicit - "the new system will be deployed to region X in the first month, then regions Y and Z in the second month". Other assumptions about how quickly people will adopt the solution may be implicit.
- **Actual speed of adoption** - The 'actual' speed of adoption is directly tied to how well the change is managed. If people are aware of the need for change and have made the decision to participate in a change before it is implemented, speed of adoption will be closer to what is expected. If employees still have unanswered questions and reservations when a change is implemented, they are likely to **resist** the change and the rate of adoption will be **slower** than expected.

Ultimate utilization

Ultimate utilization is like the **participation** rate - how many employees are engaged and practicing the 'new way of doing things' created by the project or initiative. In most changes, employees can opt-out of the new way of doing things, whether you believe it or not.

- **Expected ultimate utilization** - Many projects implicitly assume 100% utilization, that is the team believes that everyone will make the change. More sophisticated views of projects will conduct scenario analyses when calculating an expected ROI - for example, calculating the value created if utilization is 85%, 90%, 95% or 98%, or looking at best-case, worst-case and most likely scenarios.
- **Actual ultimate utilization** - The actual utilization rate is determined by how many employees **opt-out** of solution. For instance, how many still use the old paper-and-pencil approach when you try to move to an online solution. An individual may not make a change for a variety of reasons - because they do not understand why it is happening, they do not believe in the change, they have not developed the knowledge needed to change or they cannot implement the new skills and behaviors. Sometimes, employees will make a change but without measures to reinforce the new behaviors they will revert back to the old way of doing things. In any case, when an employee does not participate in a change the ultimate utilization goes down.

Proficiency

Proficiency is the factor related to how **effective** employees are when they do implement the change. It is the ongoing improvement to the organization when new processes, systems, tools, organizational structures and job roles are implemented by a project. Examples of proficiency include: the improved close rate of sales associates by using new competitive information databases, the time saved to conduct a particular operation by using a new system, the amount of waste reduced by streamlining a process. Proficiency is often the basis for the ROI calculations made to support a particular change or initiative.

- **Expected proficiency** - When the organization undertakes a project, it expects improvement. The ROI calculations for a given project are based on what type of improvement will occur by making the specified change. Good project plans state what success looks like in measurable terms that reflect people adopting and succeeding at a new way of doing business. Expected proficiency is the improvement factor expected from a particular organizational change.
- **Actual proficiency** - The actual proficiency is tied directly to the **cumulative improvement** of each and every employee who will be doing their jobs differently. An employee's proficiency at a given change is the answer to the question: so how much improvement is the employee seeing? Proficiency is tied to how completely the solution was adopted, internalized and practiced by the employees. When 100% utilization is forced on employees, proficiency is often much less than expected.

Analogy of the boat:

Suppose you have a group of 100 employees standing on a pier. You need them to board a new boat that has just docked and then begin rowing in unison. The three factors of the **Prosci ROI of Change Management Model** are clearly evident:

- Speed of adoption - how quickly can you move the group from the pier into the boat
- Ultimate utilization - how many of the 100 are you able to get into the boat
- Proficiency - once in the boat, how effective are the employees at rowing in unison

All three of the factors will impact how effective you will be at getting the boat to your destination.

Now think about some of your business initiatives:

- a new technology
- a new business process
- a new way to engage customers
- a new web-based tool
- a new reporting structure
- a new performance management system

Each of these changes has the same '**how fast**', '**how many**' and '**how effective**' components described in the ROI of Change Management Model as speed of adoption, ultimate utilization and proficiency.

Think about a project you are working on. Can you identify the speed of adoption, ultimate utilization and proficiency?

Summary

When looking at why a project's ROI was not what you expected, look at any **gaps** between the expected and actual values of speed of adoption, ultimate utilization and proficiency. The **specific project or type of change** that is being implemented defines what speed of adoption, ultimate utilization and proficiency actual mean. There are not universal benchmarks for these three factors because they are dependant on the specific change and how it is rolled out. Think about a specific project you are working on or being impacted by. In your own words, define the factor and indicate how you can measure this:

Factor	Definition for your project:	How can you measure this?
Speed of adoption		
Ultimate utilization		
Proficiency		

Projects that change how people do their jobs have inherent change management risks. When change management is not applied, or applied ineffectively, projects do not achieve their objectives. The three human factors that impact to what degree a project is successful are the speed of adoption, the ultimate utilization and the proficiency of those being impacted by the change. The expected speed of adoption, ultimate utilization and proficiency contribute to the ROI that the project expects to realize. Effective change management enables projects to deliver on, or even exceed, these expectations and thus contributes directly to the ROI of the project. Even if a project has a good solution and good project management, it will not meet its objectives if the people side of the change is not managed.

Key takeaway:

Poor change management results in a slower speed of adoption, lower ultimate utilization and lower proficiency which takes away from ROI. Effectively managing the human side of change can help you accelerate adoption, increase overall participation and improve the benefit each and every employee realizes from a change, increasing the ROI your project delivers.

The next tutorial in this series will present an example and a graphical representation of the three ROI of Change Management factors. If you would like to discuss the ROI of change management, email a Prosci analyst at changemanagement@prosci.com or call 970-203-9332 to speak with one of our analysts.

Want to learn more? Become certified in change management by attending Prosci's 3-day training program in the Colorado Rocky Mountains. In the program you learn about the ROI model, how you can apply it to your changes, and what steps you can take to maximize speed of adoption, ultimate utilization and proficiency by using a structured change management methodology.

<http://www.change-management.com/change-management-training.htm>

If you are looking for a reference guide, Prosci has several products you can use to apply a structured approach to managing change and to meet your project objectives: The hardcopy Change Management Toolkit or the online Change Management Pilot present Prosci's organizational change management methodology - an easy-to-use, research-based and holistic approach to managing change. Each product includes assessments, templates, guidelines and tips for immediate application. <http://www.change-management.com/bookstore.htm>

Email a Prosci analyst at changemanagement@prosci.com or call 970-203-9332 for more information.