



Business Transformation and Change Management Survey

EY Strategy and Consulting Co., Ltd.

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Building a better
working world



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Background and survey design

Businesses in Japan find themselves at a pivotal inflection point. Economic and social changes are motivating companies to accelerate their business transformations. But navigating change is not easy, and leaders seek information about how change is successfully implemented in Japan.

To support this need, EY Strategy and Consulting Co., Ltd. conducted a study to identify key success factors for transformations. Currently, studies that provide change insights are conducted overseas. But the change approach and execution differ by culture and business customs. This is the first in-depth study of change management practices for transformations in Japan.

The study was conducted in consultation with Professor Koide, of Sanno University, PhD in Business Management. More than 250 companies participated in the study, sharing Japan-specific transformation information for changes of differing scope and size (entire group company, subsidiary, function or division). The key factors to successful change in Japan have been identified and analyzed. This report provides an overview of the study findings.

Transformation trends in Japan

This section describes the types of recent business transformations as well as future transformations anticipated.

- ▶ Business transformation trends

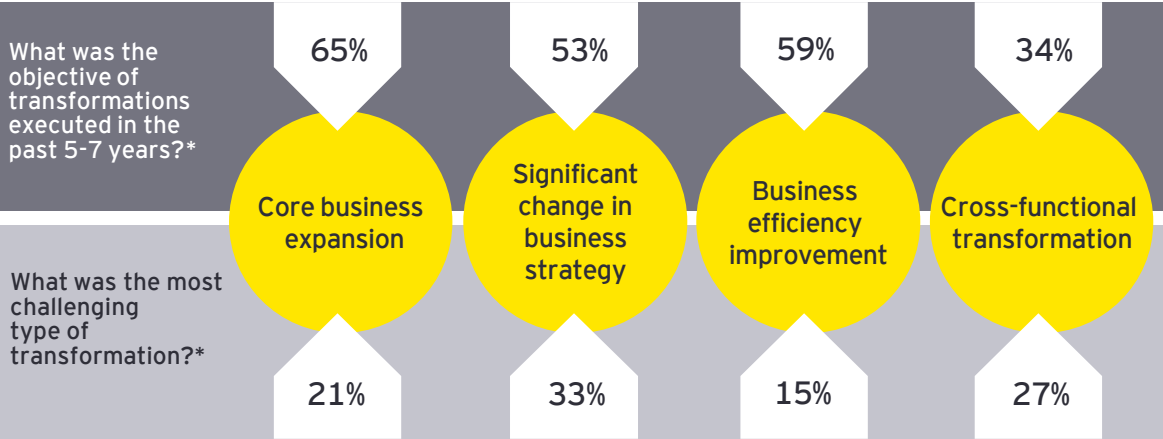


Business transformation trends

Transformation objectives are changing

There are many reasons companies are transforming. The most common objectives of transformations launched in the past 5-7 years, according to the study, were **core business expansion** (65%), followed by **business efficiency** (59%). The most challenging types of transformations were executing a **significant change in business strategy** (33%) and **cross-functional transformation** (27%).

Looking forward, transformation objectives are shifting from **core business expansion** and **business efficiency improvements** to **significant business strategy changes** and **cross-functional transformations**, both of which tend to be larger and more complex.



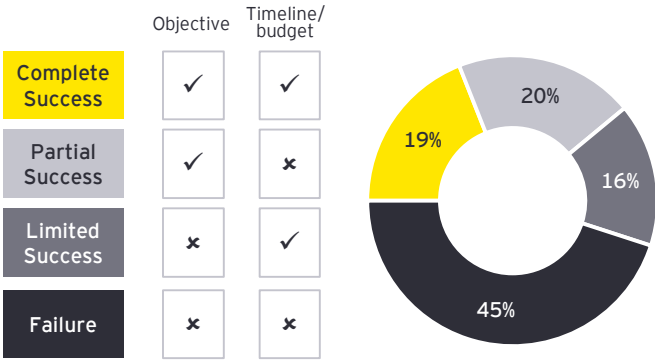
* The figures are the % of companies which chose each transformation type (multiple responses allowed)

Transformation and change success isn't easy

It is commonly understood that change is difficult and this study confirms it. **Only 19% of transformations were completely successful**, defined as achieving the project's objective, timeline and budget. 45% of transformations failed to meet any success.

The more complex the transformation, the lower probability of success. In particular, only 34% of workstyle and mindset change transformations achieved the original objective, whereas 43% of sales and CRM transformations met the objective.

Transformation and change success/failure rate



► 61% of transformations do not succeed

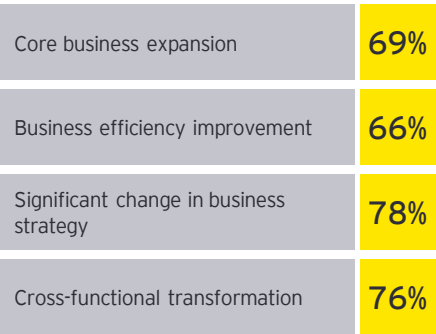
Type of future transformations are changing

Looking forward, companies anticipate developing new businesses and launching **cross-functional transformations** in the next few years. These types of transformations tend to be larger and more complex.

Considering the success rate of transformations in the past was very low, it is assumed that future transformations will also struggle to achieve success, particularly if they are more complex. Therefore, companies must identify, and plan how to improve the probability of success before launching more difficult transformations.

Learning from other companies, such as the insights identified in this survey, can be vital information for success.

Type of transformations companies anticipate in the next 5-7 years



Key factors for a successful transformation

This section addresses project team structure and success factors for business transformations.

- ▶ Project team structure and transformation success
- ▶ Corporate elements contributing to transformation success
- ▶ Change management factors that accelerate change adaption



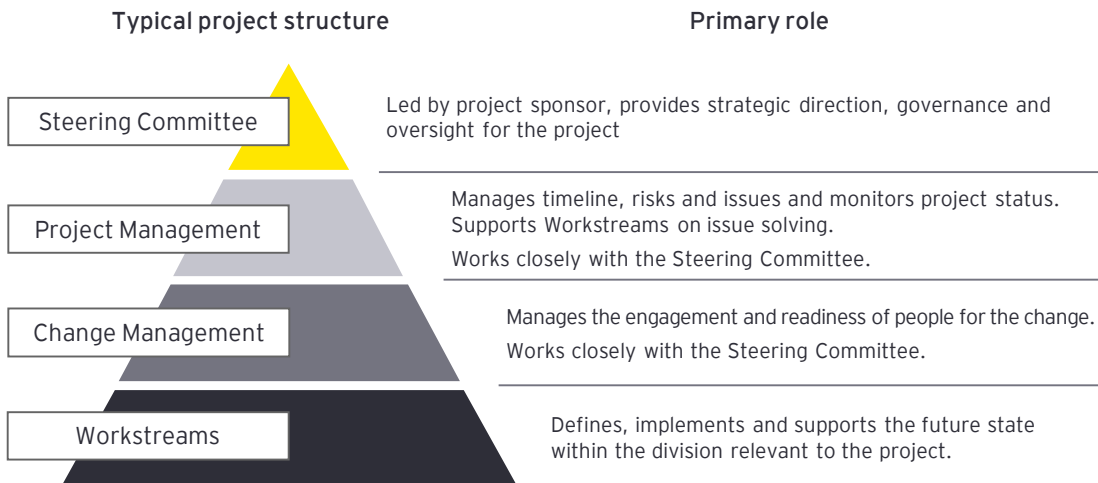
Project team structure and transformation success

Typical transformation project structure

- Our insight

A transformation project typically has several distinct groups - steering committee, project management, change management and individual workstreams. Each group has distinct responsibilities.

Project structure and roles



In transformation projects, common gaps from the ideal project structure include:

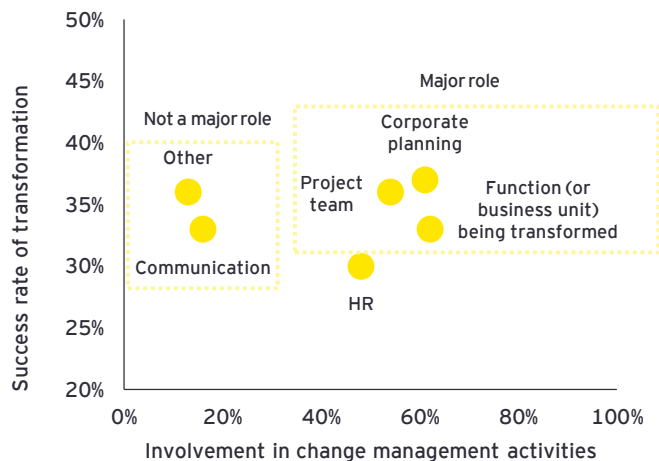
- A dedicated change management team is not assigned
- The support provided by the project management office to the Workstreams is not adequate

Groups and functions responsible for change management activities

There is no consistency in the group or function responsible for change management activities in transformations. Corporate planning, the project team and the impacted function are often responsible for change management work. However, the success rate of the transformation does not differ significantly by group or function responsible. Regardless of the group responsible, creating a structure with clear roles and responsibilities, and ensuring there is a dedicated focus on change management, increases the rate of success.

(see section 4 for further analysis of change management roles and responsibilities.)

Correlation of group or function responsible for change management activities and transformation success rate



Corporate elements contributing to transformation success

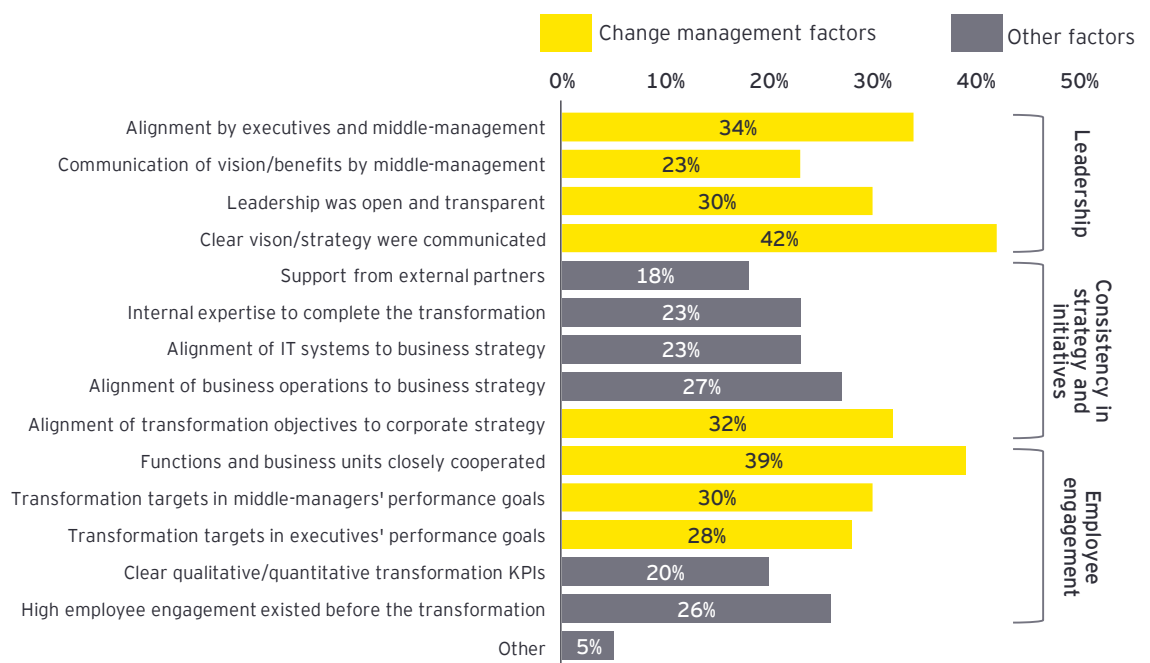
Change management factors

The strength of the corporate capability or culture, before a transformation begins, influences the ability of a business to adapt to the change. Survey participants were asked to choose any of the below organizational elements they felt contributed to the transformation's success. The most frequently selected answers were the factors related to leadership, which were found to be important especially during the beginning phase of the transformation. Having a clearly articulated corporate vision and strategy provides a north star to which the change can be linked. Top management and functional leaders need to be aligned with the vision for the change so employees can trust and believe in the goals. A strong culture of collaboration and cooperation across functions also needs to exist.

The survey classified success factors into two categories. Factors that are influenced through change management activities, categorized as **"Change management factors"**, and factors that are not influenced by change management activities, categorized as **"Other factors"**. The results show that both types of factors are important to a transformation's success.

Corporate elements and their contribution to success*

Responses to the question "What key factors led to the transformation's outcome? (multiple responses allowed)"



(*) Success factors are those that were chosen by success cases as being success factors that they executed, and by failure cases as those they should have had executed

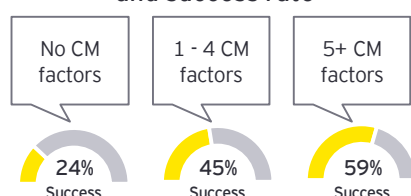
Foreign Company Results

Approximately 10% of survey participants were foreign capital companies in Japan. When comparing results to Japanese capital companies, the following results were noteworthy:

- ✓ Foreign companies were 10 percentage points more likely to meet the transformation's objective
- ✓ 96% of foreign companies conducted change management activities
- ✓ Employee engagement of foreign companies was 15 percentage points lower than Japanese companies at the beginning of the transformation but was 18 percentage points higher at the completion of the project

The number of change management factors executed and success

Change management activities and success rate



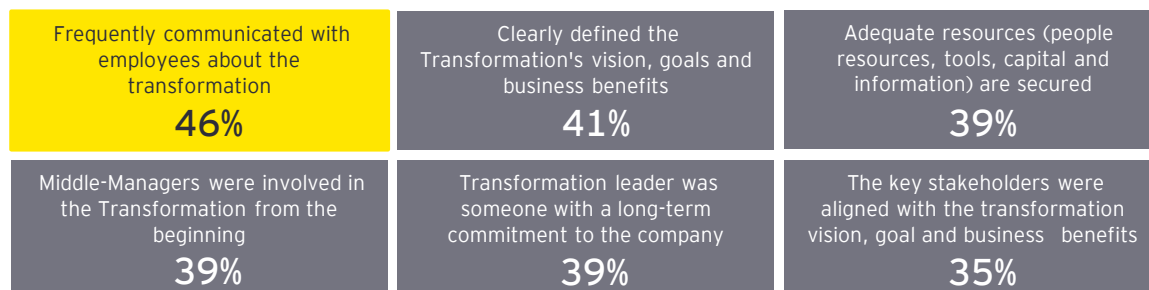
The survey results show that change management is a key success factor for transformations. Our study categorized two types of success factors as explained above - Change management factors and others.

The greater the number of change management factors, the higher the success rate.

Change management factors that accelerate change adoption

In addition to the success factors on the previous page, there are specific change adaption activities that contribute to accelerating change adoption that can be executed with any transformation. Below were the top 6 factors considered as key acceleration factors to change.

Top 6 change management factors that accelerate change adoption



Responses to the question "What elements helped accelerate the adoption of the transformation?" (multiple responses allowed)

(Top 6 factors out of 14)

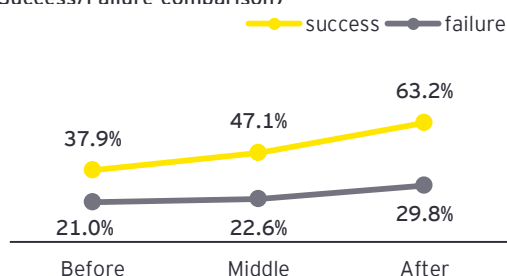
Putting people at the center of change leads to greater success

The survey results were clear that transformations with supportive employees leads to success. We asked respondents whether the employees were supportive of the project before, during, and after the transformation. Companies reporting that employees were supportive of the transformation had a higher rate of success. **63% of the success cases responded that employees were supportive of transformation.** On the other hand, only **30% of the failure cases** had supportive employees.

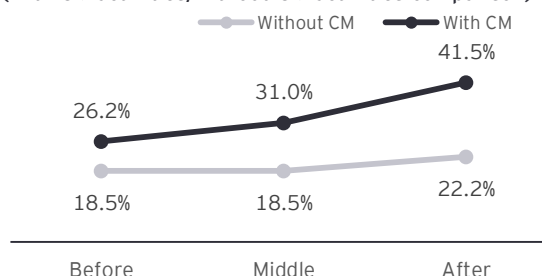
Importantly, companies that were able to increase employee support as the project progressed, had an even higher likelihood of success. In other words, companies that focused on the people and took actions to increase employee support over the duration of the transformation were more successful.

To increase employee readiness and gain employee support, companies should put people, not process at the center of the change and design a more personalized change experience, rather than managing employees with a standardized change process (see EY Change Experience on the bottom of page 10). The impact of change management activities to employee support were evident. The data shows that **companies that focused on change management efforts were 19 percentage points more likely to have employees supportive of the transformation.**

% of companies with supportive employees over the transformation timeline (Success/Failure comparison)



% of companies with supportive employees over the transformation timeline (With CM activities/without CM activities comparison)



Achieving a sustained business transformation

- Our insight

Transformation success is measured by the achievement of the objectives, timeline and budget upon launch. However, this is not indicative of a transformation's long-term sustainability. Our experience is that long-term sustainability can only be achieved if there is strong engagement at all levels of the organization.

Immediate success	The project's objectives, timeline and budget are met	Project was successful
Mid-term success	Top and middle management are fully engaged and leading the transformation	Achieves business results
Sustained success	Employees are also fully engaged and adopting a change in mindset, new ways of working and business changes	Sustained transformation success

Change management responsibilities

This section reports on what function is often responsible for change management.

- ▶ Current and expected ownership of change management
- ▶ Maturity level of HR functions



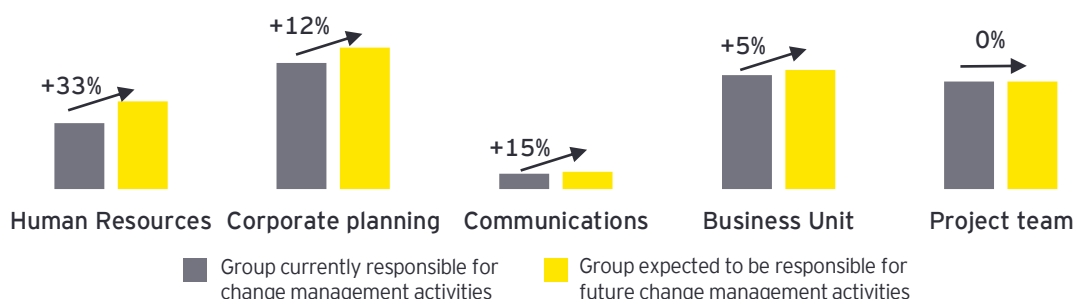
Current and expected ownership of change management activities

In identifying who is responsible for transformation change management activities, respondents were asked what group or division is **currently** responsible for change management activities and what group or division is **expected** to be responsible for future transformations. Among the five choices provided, Corporate Planning (33%) and the Business Unit (30%) were most often selected as currently responsible.

When asked which group or division is expected to be responsible for change management for future transformations, Corporate Planning (37%) and Business Unit (31%) were still selected most often. Human Resources, while still lower, had the greatest increase in expectation (33%).

While no clear correlation was found between transformation success and the group or division responsible for change management activities. What was found to be most important, is to ensure that all elements of change management are included in the project plan. Experienced dedicated resources with clear roles and responsibilities for change management need to be assigned to enhance success.

Functions responsible for change management activities in transformation



Different functions take responsibility for change management. In general, especially in Japanese companies, these functions are not specialized in change management. Thus, regardless of the function responsible, change management support is often needed. As an 'art' and a 'science', change management requires a high level of emotional intelligence and well-structured methodology.

- Our insight

EY Change Experience

As change management is complexed, covers a wide range of activities and requires sensitivity and flexibility to change mindsets and behaviors, it is important to have a structured approach to build and execute a change plan. The acclaimed EY change management methodology, Change Experience, puts people at the center of change and treats change as a journey over the duration of the project. Change experience takes a purposeful approach, emphasizing why the change is necessary, provides an interactive and personalized experience so people understand how the change impacts their daily work, and insights measuring and using data to analyze and track change. Change management enables the organization to prepare, manage and embed the change, so the people and the business are ready, for a smooth and accelerated adoption.

There are 5 pillars to change experience:

Change Management Planning, Governance	Planning and tracking change activities in alignment with the project plan for the expected practical and emotional changes
Communications & Engagement	Engaging and align stakeholders, plan communications personalized and differentiated for audience
Change Impact & Business Readiness	Identifying the people impact resulting from process and technology changes and measuring the readiness of the business
Learning	Providing the knowledge, experience and training needed to operate the transformed business
Organizational Design	Designing organization and governance change, including roles and responsibilities as needed



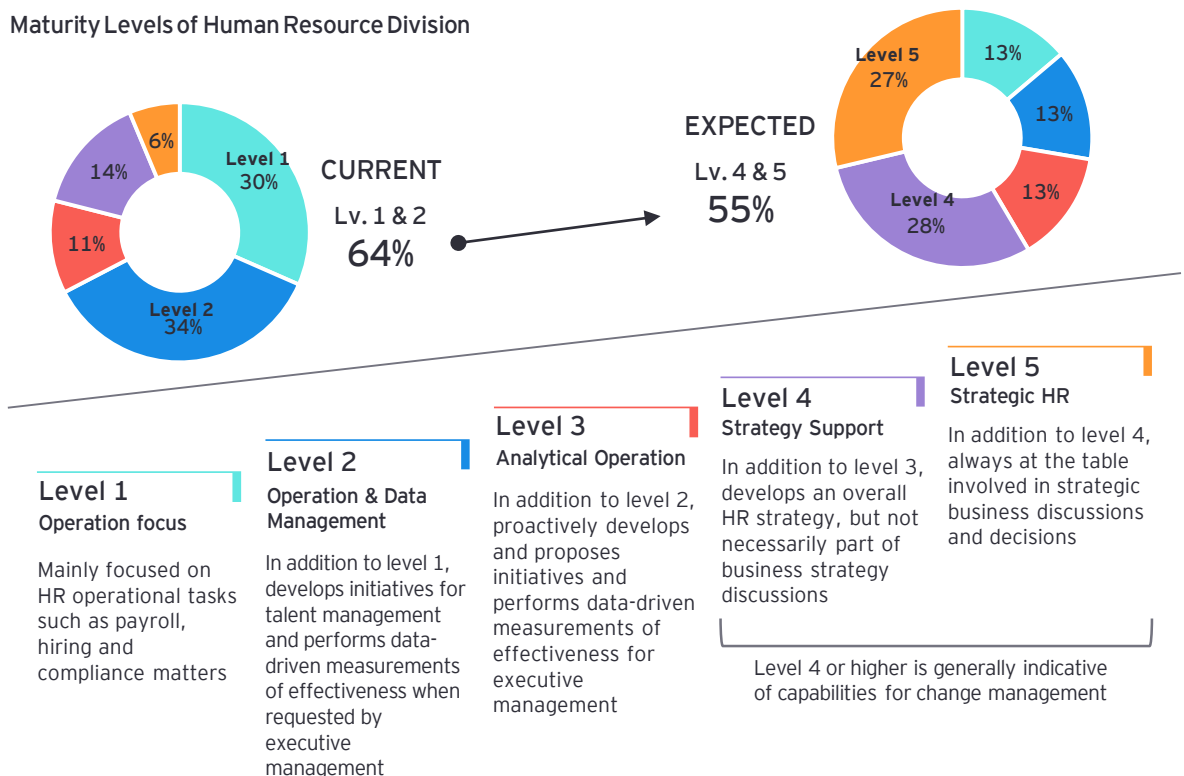
Maturity level of Human Resource Functions

Most Human Resource functions are focused on operations and data management

Survey respondents indicated that the HR division is usually not responsible for change management activities, but there is an expectation that HR will be more involved in the future. The survey also asked respondents to assess the current and expected maturity level of the HR division.

Survey results reflect that the current HR division maturity is level 1 and 2. The HR division largely focuses on operations and data management. However, the maturity level expected of respondents to support transformations is level 4 and 5. The HR division at this level should be involved in strategic business discussions. The HR division faces the dilemma of not currently being at the strategic maturity level, but they are expected to have more involvement in change management activities in the future.

Maturity Levels of Human Resource Division



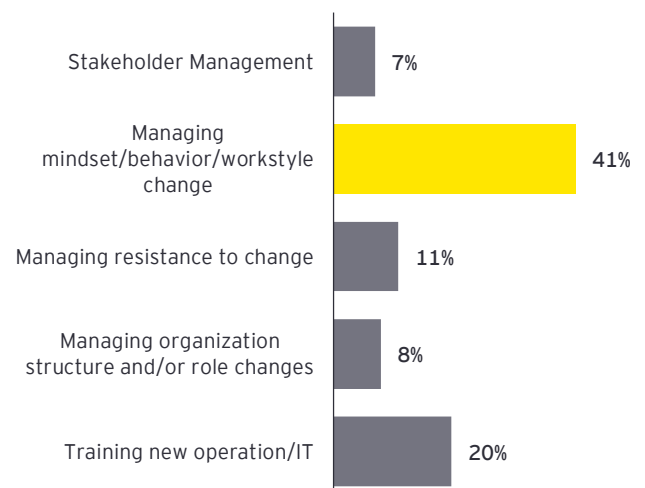
Source of framework*: Koide, T., Kido, Y., Ishiyama, A. and Sudo, T. (2009) and Koide, T. (2017)

While there is an increasing expectation for HR to become more involved in change management in the future, it is reported that the current HR functional maturity is not yet at that right level.

While HR involvement in transformations is low, when HR does participate, it is primarily in mindset and behavior type of changes (41%). These were reported to be some of the more difficult types of transformations as mindset and behavior change takes longer to achieve and the results are difficult to measure.

As mentioned previously, there is no correlation between the group or division responsible for change management and the success of the transformation. But if companies expect HR to become more involved in change management, more investment in HR capabilities is needed.

HR involvement in change management activities



The way forward

This section summarizes the success factors of business transformation.

- ▶ Actions needed for future transformations



Actions needed for future transformations

If future transformations will be larger and more complex, as the results indicate, the employee reaction and impact needs to be anticipated and managed. Instead of addressing change the same way it was addressed in the past, the company should tailor change activities to recognize the personal change experience. For companies that do not have internal experience or capabilities to implement personalized change activities, independent change experts can partner to provide expertise and resources to focus on the right activities to accelerate transformation success.

Summary

- ✓ While many companies have executed transformations in Japan, the majority of the attempts have failed to meet their objective. **Only 19% were reported as completely successful, but the greater the number of change management activities executed, the higher the success rate.**
- ✓ **Having engaged employees is a key success factor, as successful transformations had 63% supportive employees and failure cases had 30% supportive employees.** Further companies that focused on change management efforts were 19 points more likely to have supportive employees.
- ✓ The change management activities that engaged employees and accelerated change adoption included: **frequently communicating** with employees about the transformation; clearly defining the transformation's **vision, goals and benefits**; securing **adequate resources**; and **involving middle-managers** in the transformation from the beginning.
- ✓ The group or function responsible for change management activities varies, but the important correlation was for **change management responsibilities to be clearly defined** and addressed from the planning stage and throughout the entire project.
- ✓ With anticipated transformations like cross-functional transformations (76%) and significant changes in business strategy (78%) being more challenging, **having change management resources and capabilities in Japan is more important than ever before.**

How EY teams can help

EY has proven Change Management experience in Japan and around the world. This experience is enhanced through our acclaimed global change methodology and tools (page 10), adapted for the Japan business and cultural needs. EY teams of professionals can provide support throughout the entire change journey, including:

- ▶ Achieve alignment among executives, middle management and other stakeholders for a clear and consistent vision and goal for the change
- ▶ Accelerate engagement of employees with a personalized engagement strategy that results in active employee support
- ▶ Design and execute bespoke activities to improve the change readiness of employees, using data to measure, track and assess the impact and readiness for the change
- ▶ Plan and help implement change management activities to accelerate adoption for a successful transformation

Advisor

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Specialized in business administration, corporate strategy, organizational theory and capability. Many years of study and consultation on corporate growth and leading practices of human resource development.

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