Internal Audit’s role in Organizational Change

February 14, 2020
AGENDA

1. RGP and Speaker Intros
2. Organizational Change Risks
3. Return on Change™ Framework
4. Proposed Approach – Internal Audit
5. Leading Practices – Management Deliverables
6. Key Takeaways
RGP is a full-service global consulting firm

**Global**

- 70 offices, with travel coverage almost anywhere
- 86 Fortune 100 Clients
- 4,000+ professionals
- 10-20 years of experience
- W2 Employees
- NASDAQ: RECN

**USA & CANADA**
- 30+ Offices

**MEXICO**
- Mexico City

**EUROPE**
- France
- Germany
- Ireland
- Italy
- Norway
- Switzerland
- United Kingdom

**ASIA**
- China
- India
- Japan
- Korea
- Philippines
- Singapore
- Taiwan

**AUSTRALIA**

Banking & Financial Services
- 90% Fortune 500 Commercial Banks
- 225+ Financial Clients in 2019
- 1,800+ sector-specific professionals

W2 Employees

NASDAQ: RECN
Ian Burnett
Vice President, Internal Audit and Compliance

Role and Experience

Ian is an experienced executive in the delivery of governance, risk and compliance services. Ian has more than 25 years of hands-on, practical experience - he is responsible for developing RGP’s capabilities to assist clients in properly identifying and managing their enterprise risks through delivery of robust internal audit capabilities for both regulatory compliance and operational efficiency and effectiveness. Ian has been involved with Sarbanes-Oxley Internal Control over Financial Reporting advisory services since inception of the Act in 2002.

Prior to RGP, Ian served as a director in RSM’s risk consulting practice. Ian also previously worked for Deloitte and KPMG’s risk advisory practice areas and has held leadership roles in corporate audit departments in industry. Ian has broad industry experience with primary focus on financial services and consumer and industrial products.

Ian serves on The Institute of Internal Auditors Atlanta chapter Board of Governors and serves as an ISACA Atlanta chapter Board member.

Expertise

• Internal controls / SOX 404
• Business process and IT audit
• Risk assessment and ERM
• Quality Assessment Reviews

• Team leadership and project management
• Data mining and analytics
• Regulatory compliance, BSA/AML
• Third-party risk / contract compliance
Ed Caldwell
Vice President – Change Management Solution Leader

Role and Experience

Ed has an extensive background and expertise in Organizational Change Management, Business Transformation and Digital Enablement. He has more than 27 years of consulting and industry experience partnering with business, Finance, Supply Chain, IT and HR leaders to shape, design and deliver organization and people initiatives globally. Ed has led change efforts for Fortune 500 companies and smaller organizations including ERP, CRM and other system implementations, mergers & acquisitions, digital transformations, new operating models, new product launches, strategic assessments and future state support organizations.

Prior to RGP, Ed led strategic change efforts at major consulting firms including Deloitte Consulting, Accenture and Infosys. He has also held leadership roles in Sales, Operations, HR and IT focusing on helping organizations prepare for and achieve desired business results. Ed’s goal is to design tailored change strategies and implement relevant people, process and technology solutions that continually improve organizational productivity and long-term sustainability.

Ed joined RGP from Deloitte Consulting, where he shaped and led dozens of ERP implementations and other transformational efforts within the Digital and Cloud Enablement practice. He has extensive international experience, having lived and worked in Latin America, Europe and Asia.

Expertise

- Change Management Strategies
- Business Transformation and Optimization
- Transition Services and Support
- HR Technologies and Operations
- Human Capital Management
- Organization Design and Development
- Digital Enablement
- Executive and Leadership Alignment

Education

- BA - Sociology, University of North Carolina at Charlotte
- Prosci® Certified
- SAFe® 4 Certified

Industry Experience

- Financial Services
- Technology
- Manufacturing
- Life Sciences
- Telecommunications
- Industrial Products
- Consumer Goods
- Retail
Misalignment on the perception of the organization’s capability to manage a risk is a serious concern.

Acceptable misalignment on risk is a risk itself that’s shortsighted and simply unacceptable.

When one part of the company believes a risk is under control, but that same risk resurfaces in another part of the business and causes a mess — that’s a failure of enterprise risk management.

Companies face major challenges in applying proper data governance, maximizing the value they get from data, and complying with the fragmented data regulation landscape.

In addition to data and analytics, other risk themes are IT vulnerabilities, risks stemming from cost and growth pressures, and the vastly shortened planning horizon that executives face.

Over the past decade, the speed at which risks emerge and evolve has accelerated dramatically, compelling organizations to adopt new strategies and reorder priorities to survive and thrive in an increasingly complex risk environment.

What we know to be true about risk....
Five key themes for Chief Audit Executives

Organizations are placing higher emphasis on five critical assurance themes for IA teams

- Providing assurance over company readiness for changing accounting standards, tech, processes
- Evaluating governance and controls over the deployment of RPA, Machine Learning, AI & Blockchain
- Providing data quality compliance risk assurance over speed, quality & size of data change
- Reviewing cyber readiness and effectiveness of business resilience programs
- Maximizing value of IA solutions through better use of process automation and big data tech

Source: RGP Research Analysis, 2020
Internal Audit is moving quickly to become more agile

“How are you attracting the next generation of talent or sourcing intellectual capital on demand to evolve your team capabilities and value add?”

“Are you realizing and providing direct value to the business from near real time use of predictive risk analytics and integrated continuous controls monitoring?”

“Does your organization have the tools to deal with enterprise risks arising from emerging threats and technologies such as Cyber, RPA, ML, AI, Blockchain?”

“Would you say your professional practices are innovative and leverage process and data automation to drive business insights and protect the business?”
Internal Audit

Top Risks

- Cloud Computing
- EU General Data Protection Regulation
- Treasury management
- Change Adoption
- Cyber Security
- Merger, Acquisitions & Divestitures
- Business Continuity & Crisis response
- Trade Environment & Customs
- Effectiveness of Operational processes
- Tax Compliance
- IT Governance
- Enterprise-wide initiatives
- Digitalization
- Effective Talent Management
Internal Audit

Top Risks

- Audit
- Internal
- Digitalization
- Treasury management
- Trade environment & customs
- Cyber Security
- Mergers, Acquisitions & Divestitures
- Business continuity & Crisis response
- Effective Talent Management
- EU General Data Protection Regulation
- Alignment of operations to Organization’s strategy/objectives
- Change Adoption
- Enterprise-wide initiatives
- Tax compliance
- IT Governance
- Effectiveness of Operational processes
- Cloud Commuting
Enterprise Growth Trends Have Organizational Impacts

- Mergers and acquisitions
- Data transformations
- Cloud migrations
- Digitalization initiatives
- ERP implementation

- Target operating models
- Culture
- Change agility as business as usual
- Training and development

“To be successful in this environment of rapid, concurrent and never-ending change, organizations must grow their change agility not just to thrive, but to survive. In fact, senior leaders are starting to acknowledge how important agility is to their success” – Prosci, Inc.
Organizational Change – Examples of failures

J.C. Penny
Strategic misalignment. Plan to convert 10% of the square footage of each store into a “new JCP” boutique to draw in enough customers to save the ship did not work. Revolving door of CEOs

- Source: www.HBR.com

HP – Knightsbridge
Insufficient Change Management strategy and planning. HP’s acquisition of Knightsbridge did not effectively manage the cultural and people aspects of the integration, resulting in significant employee attrition and loss of ‘value’

- Source: Former Knightsbridge Employees

Large Oil & Gas
Lack of IT and Business partnership. Client’s initial implementation of Oracle Cloud failed. Insufficient integration and collaboration around requirements, design and system testing resulted in missed business expectations and having to restart the project

- Source: RGP engagement
“30 years ago the largest companies typically had only one or two simultaneous enterprise-wide change initiatives; today, that number is 20 to 25 changes.”

Source: Managing Organizational Change, SHRM. 2018

Businesses require a consistent and repeatable approach to managing organizational change and risks associated with transformation and remediation:

- Implement changes effectively, meeting controls and regulatory requirements
- Manage stakeholders effectively
- Conduct targeted training
- Measure new processes for compliance/adoption
- Reinforce the new way of working
- Sustain changes through transitional plans
- Operationalize change so it becomes BAU
Why a focus on Organizational Change?

Objective / Internal Audit: to educate management and employees about how they can improve business operations and efficiency. Not only is the process important for ensuring information security and regulatory compliance, but it’s also a valuable way to optimize company performance and manage risk. Assisting organizations in defining areas of improvement, while also providing information to accomplish its goals is key to success.

By asking specific questions, IA can identify potential areas of risk or improvement:

• Are we making progress towards our compliance/control goals?
• Is risk being managed effectively?
• Are policies and procedures being applied correctly? Could they be improved?
• Is training planned, developed and delivered during relevant project phases?
• Are we sustaining changes overtime?
• Is the corporate culture identified as a risk?
• Do we have a plan to operationalize the change?

Business units are tasked with improvements and remediation plans to address issues with systems, process, documentation (policy and procedures).

KEY TAKEAWAY: Focus on the people side of change reduces the risk & increases adoption and sustainment of key compliance and controls.
Organizational Change - Impact on workforce productivity

Change initiatives involving new and updated technology, work processes, roles and policies can result in significant differences between how work is performed today versus in the future. If not addressed correctly, this transformed future state can result in a mis-aligned organization with significantly lower workforce productivity, reduced compliance adherence and controls.

Employees all react to change differently. Regardless, every impacted employee has to move through their own emotional change journey in order to commit to a new way of getting work done.

Effective organizational leadership and organizational change techniques achieve a greater commitment to supporting the change, minimizing the extent of the productivity decrease.

Employee Change Journey

- Denial
- Resistance
- Exploration
- Acceptance
- Commitment

Desired Impact on Productivity

Effective Leadership & Organizational Change

Initial Level of Productivity

Severity of Reaction to Change

Valley of Despair

Duration of Disruption Due to Change

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The value of effective Organizational Change

A good or excellent organizational change capability can increase the probability of your transformation meeting or exceeding stated timelines by a factor of 5X!

Percent of Study Participants Who Were On or Ahead of Schedule

- Poor (n=527): 14%
- Fair (n=1626): 31%
- Good (n=2139): 51%
- Excellent (n=387): 69%

Includes benchmarking from over 4000 global companies. Summary of results over the past 10 years.
How user adoption impacts business case attainment

How much of your project’s business case would you achieve if user adoption was 0% at go live? What if user adoption reached 80% four weeks after go live and was close to 100% just a few weeks later?

<table>
<thead>
<tr>
<th>User Adoption %</th>
<th>Business Case Attainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>$0M</td>
</tr>
<tr>
<td>20%</td>
<td>$1M</td>
</tr>
<tr>
<td>40%</td>
<td>$2M</td>
</tr>
<tr>
<td>60%</td>
<td>$3M</td>
</tr>
<tr>
<td>80%</td>
<td>$4M</td>
</tr>
<tr>
<td>100%</td>
<td>$1250 hrs.</td>
</tr>
</tbody>
</table>

Sample 4 month project to streamline and optimize Finance business processes

Consider an average Finance Optimization project with an expected business case of $4,000,000

Adoption % is the % of Finance users who have adopted the new ways of working (processes, workflows, integration handoffs, policies, reporting, approvals, etc.)

Effective organizational change effort is the number of quality hours of combined effort which includes internal and/or external CM consultants, project sponsors, leaders and Finance SMEs

This business case is largely influenced by user adoption; approximately 25% of benefits are tied to other activities (e.g. data clean-up)
A well structured organizational change plan leads to success in transformation and builds the required change muscles to sustain new ways of working.

- Minimize disruption
- Shorten adoption timeframes
- Build sustainable cultures of change

This ROC™ framework has been utilized on more than 1,000 organizational change engagements.
### Illustration of Return on Change™ framework in action

#### ALIGN

**ACCELERATE RoC & EMPOWER LEADERSHIP**
- Define project goals, objectives, success metrics, and budget
- Understand what change challenges we face. Assess:
  - Organizational Impact
  - Organizational readiness
  - Stakeholders
- Get on the same page:
  - Align stakeholders
  - Craft leader sponsor roadmap
  - Build change coalition

- Determine future state and organizational risks around change
  - Establish change strategy and risk mitigation plan

#### ENGAGE

**DESIGN STRATEGY & DEVELOP ORGANIZATION**
- Design the change plan and strategy, including:
  - Sponsorship
  - Engagement
  - Communications
  - New capability training
  - Resistance management
  - Culture

- Deploy change plan into organization using:
  - Change communication
  - Training
  - Visible leader sponsorship
  - Culture change

- Address resistance by:
  - Increasing employee engagement
  - Mobilizing change agent network
  - Showing strong sponsor support in high-visibility situations

#### SUSTAIN

**ENABLE BUSINESS AS USUAL & MAKE IT STICK**
- Reinforce and reward changes. Help people maintain new ways of working using:
  - Workshops/surveys

- Embed new behaviors into culture at individual, program, and organizational levels:
  - With rewards/recognition

- Deliver value from achieving desired business outcomes

- Transfer change ownership and knowledge to company using:
  - Sustainability plan
  - Change stewardship
  - Metrics to evaluate improvement
Return on Change™ (ROC) - benefits

The Return on Change™ framework benefits

- Speeding up business adoption
- Minimizing operational disruption
- Effectively complying to regulatory compliance
- Reducing project spend
- Efficient system conversions or new software
- Culture change to embrace new technologies, AI, etc.
- Adopting new cybersecurity protocol effectively
- Agility around centralization initiatives
- Minimizing risk of not attaining the business case return on investment

KEY TAKEAWAY: The ability to spend more time being strategic vs tactical with revenue protection, risk mitigation and return on change investment
Proposed approach – Internal Audit

Internal Audit can develop a customized organizational change audit strategy and audit playbook for current/future initiatives/programs by leveraging good organizational change framework principles. Consider IA focus on 3 phases; Assessment of management’s current change strategy and organizational change plan; Assessment of the design of organizational change components; and Providing observations and recommendations for the deployment and execution of the organizational change plan.

<table>
<thead>
<tr>
<th>ASSESS CHANGE MANAGEMENT PLAN (CURRENT/FUTURE)</th>
<th>ASSESS DESIGN OF ORGANIZATIONAL CHANGE COMPONENTS</th>
<th>ASSESS DEPLOYMENT OF ORGANIZATIONAL CHANGE PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Assess organizational change strategy and plan</td>
<td>Review Management’s approach to:</td>
<td>Review Management’s progress on:</td>
</tr>
<tr>
<td>2. Collect and assess program related charters, timelines and success criteria</td>
<td>1. Risk mitigation plan around change</td>
<td>1. Execution of the org. change plans</td>
</tr>
<tr>
<td>3. Assess current process and plan for change / gap analysis / remediation of gaps</td>
<td>2. Communications / training</td>
<td>2. Deployment of communications and training plan</td>
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<tr>
<td></td>
<td>3. Identifying critical success factors / measures</td>
<td>3. Deployment and use of change agent network (testers, champions)</td>
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<tr>
<td></td>
<td>4. Change plan execution and reporting</td>
<td>4. Reporting and monitoring change deployment milestones</td>
</tr>
<tr>
<td></td>
<td>5. Create change agent network (testers, champions) and RACI chart</td>
<td>5. Interim / post mortem after-action reviews, lessons learned, ROI realized</td>
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<td>6. Accountability for development of and compliance with new policies and procedures</td>
<td>Review / analyze data and process to identify opportunities for improvement</td>
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</table>
Leading practices – Does management have these deliverables?

Below are some best practices for Change Management deliverables:

**ACCELERATE ROC & EMPOWER LEADERSHIP**
- Impact Assessment
- Stakeholder Analysis
- Leadership Action Plan

**DESIGN STRATEGY & DEVELOP ORGANIZATION**
- Communication Plan
- Change Roadmap
- Training Plan

**ENABLE BUSINESS AS USUAL & MAKE IT STICK**
- Stakeholder Management Tool
- Managing Resistance Tool
- Knowledge Transfer Plan
Three key takeaways

1. Regardless of the organizational change initiative, there must be a strong connection between the change and business priorities. Examples: IT and Business Operations; Corporate Development (M&A) and Business Operations.

2. There needs to be a structured plan for Organizational Change with management deliverables. Otherwise people impacted will be at risk. Plans help to minimize uncertainty.

3. Internal Audit should have a seat at the table. Providing proactive thought leadership for managing the people side of risk associated with organizational change.
Thank You,
Questions?
Useless trivia - What do these 2 things have in common?
Useless Trivia - What do these 2 things have in common?

1976 Explorers