Commonwealth of Puerto Rico
Tax Reform Assessment Project

Change Management Strategy

December 23, 2014

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1 Overview

Change Management is an important aspect of the Commonwealth of Puerto Rico Tax Reform project. The Commonwealth has identified the goals of the Tax Reform project as: producing adequate tax revenue, distributing the tax burden fairly, promoting economic growth, increasing economic competitiveness, minimizing the interference with private decision making and streamlining tax compliance and administration. Achieving these goals requires significant changes to current legislation, government policy, the tax structure, and the tax collections/administration process. The changes must be formally managed to help ensure that they are communicated to all internal/external stakeholders in a manner that promotes acceptance, rather than rejection. The process for submitting and approving changes must also be communicated to all stakeholders in order to properly set expectations. The Tax Reform project's risk of failure increases substantially if Treasury Department (Department) changes are implemented in an unorganized fashion.

The Change Management Strategy highlights key aspects of how the Treasury Department may manage the transition to its future Target State. Change Management can be defined as the processes used during Tax Reform to establish a standard method to document, analyze, approve and communicate changes. The Change Management Strategy's intent is to serve as a tool for Hacienda leadership as they garner the internal and external support needed to make the Tax Reform project an overall success.

Segments of this document contain excerpts of deliverables previously submitted to the Commonwealth of Puerto Rico. The Department should look to the Human Resources Plan, Readiness for Change, the Target Operating Model and Transformation Communication Strategy deliverables in their entirety for additional information regarding effectively managing stakeholder involvement, organizational redesign and overall change management within the Department's bureaus and personnel.

2 Initial Change Management Planning

Business Case – The first phase of an effective Change Management Strategy includes developing the business case for each of the Tax Reform options that the Department decides to implement. Whether it is the adoption of the GST or tax administration process improvements at Hacienda, the Department must formally rationalize and justify changes and the investments required to realize the benefits of transformation. The likelihood of the Change Management Strategy and Tax Reform's success improves by establishing and communicating a strong business case with defined results.

Leadership and Governance – The Change Management Strategy will be developed by the Treasury Department and reviewed with appropriate Commonwealth leadership. Comments and feedback provided in the review should be incorporated before establishing a formal Change Management Strategy project team. The Change Management Strategy requires investment of Department resources and close collaboration across multiple stakeholders to achieve desired goals and objectives. The Department will measure success using three criteria:

- Earned Trust – The Department must earn the trust of its stakeholders with continuous and transparent communication
- Employee/Taxpayer Value – Business transformation must bring value to the organization balanced with enhanced benefits to employees and taxpayers

- Measurable Financial Results – Each transformation initiative will define and deliver measurable savings that will enhance the Commonwealth's fiscal sustainability

The Department should develop a formal governance structure for managing the Change Management Strategy that defines clear roles and responsibilities. The governance structure increases accountability, provides a structured process for issue resolution, and contributes to successful and timely transformation. The formal governance structure should include:

- Structured methodical framework for transformation
- Organization and stakeholders for input and decision making
- Formal working groups with defined roles and responsibilities
- Issue resolution processes
- Performance measures and reporting

Message – In communicating major organizational transformation activities, as with any other communications initiative, it is important to develop a key message set, the contents of which can be woven into multiple communication methods. The key message set will serve as a tool to guide the development of communication materials outlined by the communication plan. Development and use of key messages helps to ensure message consistency to critical audiences throughout transformation project lifecycles.

The key message sets in the Communication Planning section below should be based on the following activities and resources:

- Kick-off presentation
- Board of directors or management presentation(s)
- Case for change
- Press conferences
- Newsletters
- Press releases
- Government briefings

3 Communication Planning

There are three core phases to developing and managing a communication strategy:

1. Analysis Phase – series of preliminary data gathering steps to understand the audiences, methods for communication, and stakeholder impacts
2. Strategy Phase – aligns the elements of the analysis phase to help ensure the communication strategy fits into the organization through goals, and performance metrics, and outlines the communication messaging approval process
3. Execution Phase – contains both the communication plan (documents the logistics, planning needs and requirements to execute the strategy, marketing plans if applicable) and the execution/measurement document (stakeholder buy-in analysis, process for strategy and plan revisions if applicable)

Analysis

Audience Analysis
Segments Stakeholders for Communications

Channel Analysis
Identifies effective channels by communication need/type

Organizational Impact Analysis
Identifies the extent to which each stakeholder group will be affected by the changes

Stakeholder Analysis
Identifies effected stakeholder groups, disposition, and influence

Strategy

Communication Strategy

- Aligns the communication strategy with program goals
- Distills key messages and recommends the key channels to use and audiences to target
- Defines how to measure performance against the strategy process, roles and responsibilities.
- Establish the review and approval process, roles and responsibilities

Execution

Communications Plan

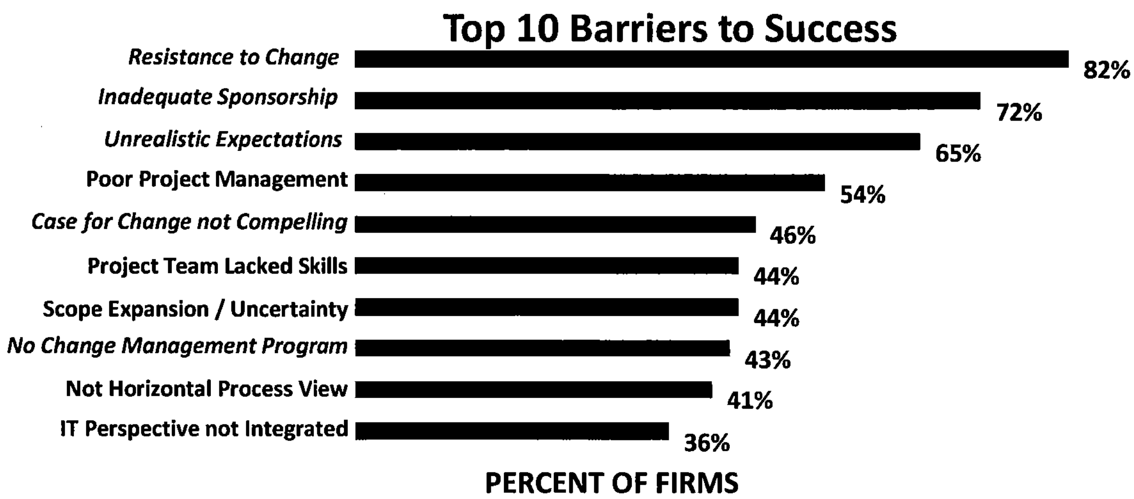
Contains the tactics to execute the strategy, including an inventory of all communications.
This is a living document maintained separately from the strategy

Execution and Measurement

Executing the communication plan and soliciting feedback from audiences to gauge effectiveness

4 Create Change Management Plan

Change management and communication are critical and necessary factors for successful transformational change. The following exhibit illustrates the importance of an effective change management strategy to achieve successful Tax Reform outcomes. Generally, the elements that drive change in every organization, public or private, include: Process, Technology and People. The exhibit below shows that 5 out of the top 10 organization transformation barriers to success are "people" issues.



Source: Survey of CEOs Regarding Business Transformation: Barriers to Success, Conference Board

Process: Internal business processes include policies, procedures, business rules that govern the day-to-day Treasury operations. The Tax Reform project identifies opportunities to redesign and realign Treasury processes for improving taxpayer service, strengthening administration processes, lowering costs of compliance and generating adequate revenue for the Commonwealth. The adoption of these new policies is made possible by implementing new technology upgrades throughout the Treasury Department.

Technology: Enhancements to the Treasury Department's technology infrastructure will lead to better organizational efficiency by providing new tools for streamlined tax collection. The Treasury must plan the introduction and deployment of these critical upgrades in order to achieve buy-in from the intended technology end users.

People: The Department should focus on the critical role that Treasury employees and taxpayers play in the processes and technology used for tax administration. As the Department embarks on its transformation, Department leadership should focus sufficient attention on the role people will play in the organization's change. People are the main cause of change management failure as the graphic illustrates. Thus, the Department cannot consider organizational changes unless the people understand and support the reasons driving the change.

The Treasury should make a concerted effort to ensure that Process, Technology and People do not become barriers to successful change management. A standard approach to organizational change management recognizes that there are three distinct organizational change stages or phases that require unique change management solutions:

- Phase I: Prepare the Commonwealth for the Change – This phase focuses on the development of a compelling future state shared vision for Puerto Rico and the Department and on leadership/stakeholder alignment with that vision

- Phase II: Manage the Commonwealth through the Change – During this phase the Department will need to develop a comprehensive Change Management Strategy that defines and communicates clear measures of transformational success and how each Tax Reform initiative aligns with and supports the transformation

- Phase III: Align the Treasury Department with the Change – As the Department implements initiatives, it will be essential that optimal organizational structures are put in place to support the future state vision and also that training is provided and that individual performance measures are developed that are aligned with the strategic measures

Prioritize Tasks to Bridge Gaps from Current State to Future State - The Department should utilize the 3-03 Current Operating Model Assessment, 3-04 Current Roles and Job Descriptions Assessment and 3-14 Target Operating Model Business Case deliverables to identify capability gaps between the current Treasury Department and the Target Treasury Department. The Treasury Department should identify operational priorities as it embarks on reforming the Commonwealth's tax system.

Identify Change Management Dependencies and Constraints –The Tax Reform project is subject to both internal and external influences that will directly impact the Commonwealth's ability to realize Tax Reform's stated goals. In developing change management strategies, the Commonwealth must pay careful attention to the pace and sequencing of initiatives, resource constraints, as well as interdependencies with other Tax Reform initiatives, this includes legislation, public policy, and tax administration improvements. The Commonwealth should identify the dependencies and constraints associated with transforming the Department in an effort to effectively address future issues as they arise. Dependencies can be defined as a project task that must be completed before the next project task may begin. Similarly, constraints are factors that limit the time, budget and resources available to Tax Reform. The Treasury should consider creating a log of all Tax Reform project dependencies and constraints and agreeing on how the Treasury will monitor and address project dependencies and constraints through Tax Reform implementation. Doing so will allow the Treasury to proactively anticipate mitigation strategies for the potential changes associated with Tax Reform.

5 Plan Execution

Define Resource Requirements – The Treasury Department Change Management Strategy team should allocate sufficient time, resources and budget to execute the transformation associated with Tax Reform initiatives. The Treasury should leverage the information related to the cost of implementing the new tax system in 3-14 Target Operating Model Business Case when determining the proper level of resources needed in executing the Change Management plan.

Develop Accountability Structure for Change – As mentioned above in Section 2, a Governance structure should be installed to manage the change process. The Change Management Strategy team should consider developing protocol to handle the following non-inclusive list:

- Providing direction within lines of authority and establishing accountability for change management activities
- Managing and monitoring transformation performance across Tax Reform initiatives
- Developing standardized project management tools and resources across initiative projects
- Evaluating and resolving escalated issues
- Reporting program status to Treasury and Commonwealth leadership
- Establishing a formal decision making process

Measuring Tax Reform Effectiveness – The Department should measure the effectiveness both the Change Management Strategy and Tax Reform implementation as a whole. The thoughtful and intentional realization of service outcomes cannot begin until a new Tax Reform-related processes are in place, with strong leadership, broad understanding, and support from all stakeholders to regularly obtain meaningful measurements of the Department's business process outcomes. This includes reviewing Department staffing levels, productivity standards, and key performance indicators.

Defining KPIs and measuring the impact the change initiatives through people-related metrics helps to focus the change strategy and helps in understanding change progress and challenges which, in term, enables targeted change management interaction to drive change.

When processes and outcomes are consistently measured, the opportunity to identify process improvements is greatly increased. Further, when process adjustments are made, their impact can be measured and then modified, as required. As a result, the Department should identify the set of metrics which provide a basis for understanding the performance dynamic within the Department and the effectiveness of changes to the tax structure.

6 Continuous Monitoring

Effectively navigating the Change Management process requires rigor and flexibility. The Treasury Department should continuously monitor its Change Management plan and be prepared to change course, adopt new policies and keep up with emerging market trends. One popular tool for monitoring the Change Management process is Status Reporting. The Treasury should consider providing periodic Status Reports to Treasury and Commonwealth leadership. Report contents may include the progress of the tax administration service realization activities, identifying issues and risks for leadership's attention, and identifying risk mitigation strategies and corrective action plans.