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Commonwealth of Puerto Rico Tax Reform Assessment Project

Readiness for Change
May 30, 2014

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1 Introduction

1.A Purpose of the Readiness for Change Assessment

The Readiness for Change document provides the Commonwealth of Puerto Rico (Commonwealth) Department of Treasury (Treasury) with the assessment results to help the Treasury plan, prepare and manage potential changes in the organization regarding the current operating model in anticipation of the Tax Reform Program. This report provides Treasury with tools to anticipate and overcome potential barriers to success that may occur prior, during and post implementation of the suggested Tax Reform changes.

A high level approach was used to further understand the organizational ability to successfully handle change including leadership, commitment and capacity development.

The greater the complexity and impact, the more important it is to understand the organization's readiness for change. This will enable the organization to prioritize its actions to increase its capabilities to handle change and mitigate the associated risks.

The Readiness for Change assessment addressed the following questions:

- How the Internal Revenue Unit currently operates and the implications of change on these operations
- What has happened in the past when structural changes have been attempted and what are the lessons learned
- What is the current structure of the organization in terms of hierarchical layers and the implications of this for effective business support services
- What are the lessons learned from previous transformation initiatives on the people
- Are the right conditions and resources in place to support the change process
- Has a clear vision and objectives for the intended change been established and communicated
- What motivation and attitudes are required to successfully deal with the change

1.B Scope

In order to deliver the Readiness for Change Report, we identified key Treasury staff. These positions were chosen on the basis of their impact on the tax reform project. The following key Treasury staff was interviewed:

- Manuel Nuño, Administration Assistant Secretary
- Vivian Donato, Human Resources & Labor Affairs
- Deoscoidy Sánchez, Information Technology Assistant Secretary;
- Fernando Rosario, Internal Revenue Sub Assistant Secretary;
- Ana Matos, Taxpayer Assistance and Consulting Bureau Director;
- Joel Colón, Payroll Process Bureau Director;
- Maria Claudio López, Taxpayer Services Bureau Director;
- Consuelo Vera, Tax Collection Director;
- Zulma Rodríguez, Fiscal Audit Bureau Director; and
- Sara Vázquez, Consumer Tax Bureau Director.

KPMG assessed the Treasury's readiness for change in the following key elements:

- Compelling Case for Change – Overview of the level of understanding of the project scope
- Organizational Change History – Experience of the organization in previous processes of change
- Accountability, Leadership and Empowerment – Level of sponsorship from key personnel
- Communications and Stakeholder Management – Overview of the current institutional communication channels
- People and Organization Overview – Personnel related topics within the Department

1.C Approach

KPMG's assessment was based on a questionnaire designed to determine the Treasury's level of preparation for the tax project.

The following activities were included in the assessment approach:

- Documented change readiness guides
- Performed change readiness assessments with key Treasury Bureaus
- Conducted interviews with the key personnel regarding staff experience and perceptions of the organizational culture
- Understood how transformational changes were managed in the past
- Documented the lessons learned by the Department from previous transformation projects or processes
- Documented and summarized assessment observations, results and leading practices

1.D Structure of this document

This document is organized in four sections:

- Key Elements Required for a Successful Change Management Transformation
- A summary of the organization's current readiness for change, consisting of two columns; (a) the area of change management analysis and (b) findings in each area
- An overview of our recommendations consolidated for each finding and the potential benefits of implementing them
- A detailed analysis of four critical elements: (a) leading practices, (b) positive observations (c) potential barriers to change and (d) key implications for the Tax Reform Project
- Appendix – Change readiness interview guide

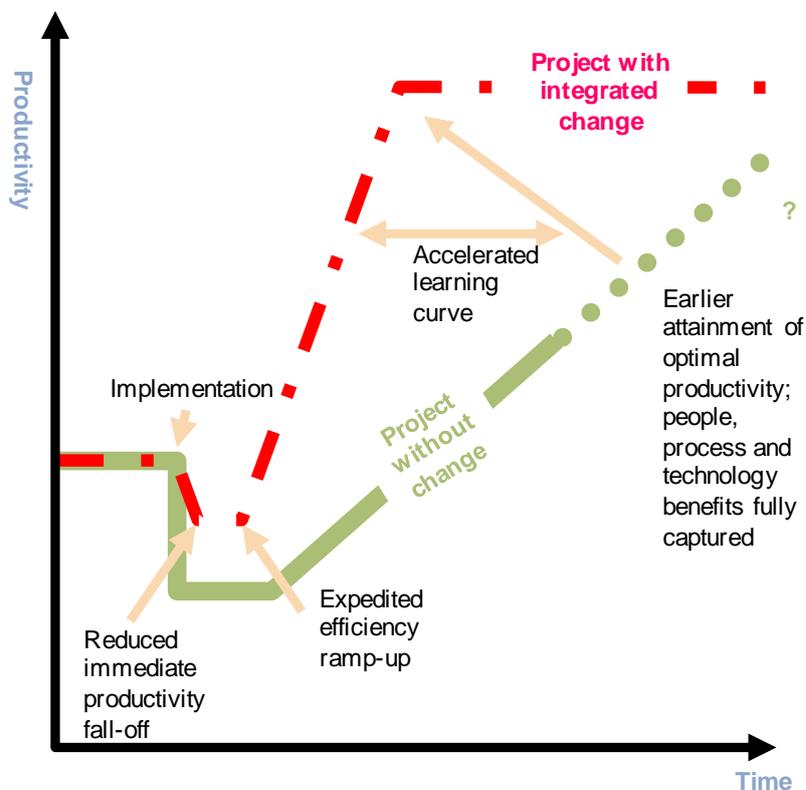
2 Key Elements Required for a Successful Change Management Transformation

Large organizational changes bring an element of resistance. Client testimony and academic research agree that paying attention to potential barriers with staff morale, skill sets and resistance to change improves program and implementation success.

The KPMG approach is focused on pragmatically and proactively managing potential barriers to drive desired operational outcomes and benefits.

Change Management is about getting people ready, willing and able to deliver sustainable business benefits. Change Management is a critical success factor in every business transformation and should support the entire lifecycle of a transformation program or project. Effective Change Management utilizes a pragmatic and measurable approach to achieve sustainable benefits.

The following graphic illustrates the change curve with and without change management. It shows the relationship between time (x axis) and productivity (y axis). The green line indicates a project implementation without change management and red line indicates a project with an integrated change management. Considering these two scenarios, the graphic shows that an accelerated learning curve and optimal productivity is achieved earlier when integrated change management is implemented.





Managing change is a factor in the difference between success and failure. The following conditions are necessary for an organization to be “Prepared for Change:”

- Top management support and sponsorship
- Knowledge about the background and reasons for change
- Identification of stakeholders and their level of commitment or resistance to change
- Identification of the organization’s human and resource capabilities
- Measurable goals and objectives to track the gap between the actual and desired status
- Open communication along the process of change

Failure to manage the transformation processes is one of the major reasons desired business outcomes and goals are not achieved. The following are common examples of management failures:

- Underestimating the intensity of effort and resources required
- Declaring victory too soon and diverting the effort to other priorities
- Conflicting interdependent change initiatives
- Mixed messages, lack of clarity or conflicting approaches to change
- Lack of individual or organizational motivation to change
- Reluctance or unwillingness to deal with the consequences of change

3 Change Readiness: Summary Status

The Readiness for Change assessment focused on five main areas that will enable an effective and efficient transformation. These five areas need to be evaluated in order to obtain a balanced and complete understanding of the Treasury’s ability to successfully address resistance to change. The chart below describes the areas of Change Management.

Area of Change Management analysis	Description
Compelling Case for Change	<ul style="list-style-type: none"> • Level of understanding of scope of the project and the ability to articulate objectives • Consensus around business case and vision for The Department in the future and overall objectives related to the Tax Reform Project
Change History	<ul style="list-style-type: none"> • Assessment of track record of the Department at managing change through prior key initiatives
Accountability, Empowerment and Leadership	<ul style="list-style-type: none"> • Evaluation of leadership alignment and level of active sponsorship around a common vision throughout the Department
Communications and Stakeholder Management	<ul style="list-style-type: none"> • Level of communication throughout the Department • Degree of stakeholder knowledge and management
People and Organization Overview	<ul style="list-style-type: none"> • Assessment of the personnel related topics, within the Department

3.A KPMG’s Assessment Observations

The table below highlights some key themes that emerged from the analysis:

Area of Change Management Analysis	KPMG Observations
Compelling Case for Change	<ul style="list-style-type: none"> • Fragmented functional structure with low levels of trust; no defined service culture, cross boundary collaboration difficult. • Management may not consistently communicate the future change to all personnel levels and to designated stakeholder representatives.
Change History	<ul style="list-style-type: none"> • The Department has experience in important change processes since they have implemented changes within their structure, systems and regulations in the past 10 years. • Some changes are announced and introduced without implementation guidance or a roll out schedule, however, employees try to manage and deliver successfully. • In the past there was certain resistance to deliver organizational and process changes.

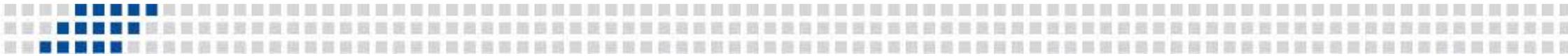
<p>Accountability, Empowerment and Leadership</p>	<ul style="list-style-type: none"> • Need to increase leadership, levels of accountability and empowerment within the Department. • Sponsorship from high level. • No key performance indicators (KPI) to improve skills and reward for higher employee performance.
<p>Communications and Stakeholder Management</p>	<ul style="list-style-type: none"> • Need to build greater levels of dialogue and trust through communication and engagement. • New changes are not timely communicated to stakeholders. • Current communication is on a 'broadcast' approach which does not result in engagement with those affected by the transition. • Existing communication channels are not effective.
<p>People and Organization</p>	<ul style="list-style-type: none"> • Concerns on the impact on headcount and structure due to the Tax Reform. • The current structure does not detail the operating or low level positions. • Diffuse and dispersed accountability. • Perceived 'capability gap' but there is a need to better understand the scope and impact of the tax reform in order to better understand the gap. • Motivational levels appear to be low.

4 Consolidated Recommendations and Benefits

Area	Current State Assessment	Recommended Action	Benefits for Change
<p>Critical Success Factors (CSF) and Key Performance Indicators (KPI)</p>	<ul style="list-style-type: none"> Most of the Bureaus do not have CSF's and KPIs and therefore cannot empirically measure performance and monitor progress to achieve sustainable benefits. 	<ul style="list-style-type: none"> Identify the set of key people metrics that provide a basis for understanding the composition and performance dynamic within the organization. 	<ul style="list-style-type: none"> Defining KPIs and measuring the impact of the change initiatives through people-related metrics helps to focus the change strategy and understand change progress and challenges which enables targeted change management.



<p>Accountability, Empowerment and Leadership</p>	<ul style="list-style-type: none">• The Department executive level is fairly new, however they have extensive professional experience.• Performance management is not performed on a regular basis.• Due to the lack of knowledge regarding the Tax Reform Project, most of the personnel are not aware of the possible roles & responsibilities for the implementation.	<ul style="list-style-type: none">• Consider the execution of a salary and benefits survey with similar participating companies/ institutions and functions from the Department.• Introduce a more rigorous application of performance management with an established process for individuals, coupled with increased team/peer review.• Elaborate a preliminary organizational chart and roles/ responsibilities description of the project team to identify the main individuals involved during the change process.• Maintain consistent senior sponsorship throughout the transformation projects.	<ul style="list-style-type: none">• Competition in salary will attract motive and retain the key positions within the Department.• Promotes individual excellence to the benefit of the Department and an environment for individuals to be creative• Project governance is established and all activities and responsibilities are assigned to the project team.• Clear definition of change roles and responsibilities will promote a smooth transition to the desired "To-Be" state.• The role of leaders is vital, as people would not change their behavior unless they have visible role models, demonstrating the behaviors and offering encouragement and support.
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Communication	<ul style="list-style-type: none">• There is no formal communication to some stakeholders.• Lack of interest in understanding the implications of change or impact to their team.• Announcements are not communicated timely, creating resistance to change from employees.	<ul style="list-style-type: none">• Implement communication mechanisms or channels to encourage the employees to participate in the process of change, such as functional mailboxes, internal contest to assign a name to the transformation process, focus groups, among others. Save time by helping clarify information, avoid conflicts and misunderstandings.	<ul style="list-style-type: none">• Implementing alternative communication methods or channels can help to build a stronger, deeper connection between the bureaus.• An effective communication plan enables consistent messaging across the organization, engaging stakeholders, optimizing awareness and ownership and help to mitigate change resistance.• Drives behavioral change by managing expectations of segmented audiences.
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<p>Training and Developing Skills</p>	<ul style="list-style-type: none">• Most of the management interviewed indicated that a formal training process should be created.	<ul style="list-style-type: none">• Assess the capabilities of the Department’s personnel in order to detect the skills and knowledge gaps regarding the new model implementation.• Create effective and standardized training plans. This includes training guidance from new processes, information technology (software) and significant changes that will impact directly on the daily duties.	<ul style="list-style-type: none">• Clarity about the performance issues and training and development approaches can have a positive impact on capability development.• Possible options for a program of learning, incorporating existing and new approaches into a cohesive approach to meet the needs of users, to help ensure the success of the change process.• A robust process to assess the level of investment required to address capability issues and to articulate the expected outcomes, against which success can be evaluated.
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5 Change Readiness Assessment - Detailed Analysis

Section 5 of this report is the detailed analysis for the Readiness for Change assessment.

- Leading Practices – key industry benchmarks that can be applied to the Department’s Tax Reform Project
- Positive Observations – observations that were identified through the interviews and readiness questionnaires
- Potential Barriers to Change – potential obstacles identified throughout the readiness for change assessment that may impede the Department’s success for the Tax Reform Project
- Key Implications for the Tax Reform Project – the potential risk if the Department does not take the potential barriers into consideration during the implementation process

✓ Compelling Case for Change	
Leading Practice: A clear understanding exists for the vision, scope and objectives of the change or transitional process.	
<p><u>Positive Observations</u></p> <ul style="list-style-type: none"> • There is a clear understanding of the current situation regarding taxpayer evasion. • There is a willingness to change administrative areas such as updating procedures manuals and improve governance. • Employees are accomplishing projects on time with limited resources available. • Management is involved and supportive during the change process. 	<p><u>Potential Barriers to Change</u></p> <ul style="list-style-type: none"> • There is a perception that a Tax Reform is not the right path to amend the fiscal situation; instead, they suggested improving technological tools and adjusting the current collection methods. • There is a belief that the Tax Reform Project would result in downsizing. • Failure to consider the views of low level employees. • Uncertainty over exactly the scope of the project.
<p><u>Key implications for the Tax Reform Project</u></p> <ul style="list-style-type: none"> • Failure to address the facts and information such as scope, impacts and benefits to those that are involved in the process of change will lead to misunderstanding and concerns. Employees will not see the link between the project and the expected outcomes. 	

✓ **Change History**

Leading Practice: Leverage from previous risks and mitigate them timely.

Positive Observations

- Interviewees experienced change implementations before, although these were most often limited to their own team or a sub-section of the organization.

Potential Barriers to Change

- Uncertainty as to enactment of tax reform.
- Employees have resisted change in the past.
- Instability caused by constant legislation changes.
- Perceived downsizing as a result of the tax reform.

Key implications for the Tax Reform Project

- Large scale transformation programs are inherently high risk, and the probability of failure increases if individual and organizational resistance to change is not proactively handled.

✓ **Accountability, Empowerment and Leadership**

Leading Practice: Leaders' values and behaviors are aligned with the strategic vision; leaders possess skills to drive the change process to completion and accept accountability; stakeholder commitment and involvement in place.

Positive Observations

- Sponsorship is seen as an important enabler of change.
- Senior leader support.
- There is a perception, among at least some employees that sponsorship will continue regardless of organizational changes, because this project fits with the need to improve tax collection methods.

Potential Barriers to Change

- There seems to be a sense, apparently based on past experience that project might be simply design and not executed.
- Lack of knowledge regarding the project scope and failure to identify key users.

Key implications for the Tax Reform Project

- Undefined responsibilities do not allow employees to understand where they will be held accountable.
- Accountability and empowerment appear to be problematic in some areas. For a new organizational model to work effectively, appropriate decision making structures need to be defined. This will aid both accountability and empowerment. Without clear leadership and sponsorship; the project is less likely to succeed.

✓ **Communications and Stakeholder Management**

Leading Practice: Communications strategy and implementation are used to identify and understand the key guiding principles, themes, audiences, and channels throughout the process of change.

Positive Observations

- Effective communication is seen as a way to help engage the managers and staff that will have to make the new organization work.
- Management team is receptive to feedback and alternative ideas, and encourages open communication.

Potential Barriers to Change

- Taxpayers have not been informed and educated regarding the tax reform project and its implications.
- Employees feel excluded from the decision process.
- Information is not produced timely.

Key implications for the Tax Reform Project

- Ineffective communication may lead to the following:
 - Change resistance will not be mitigated.
 - Opportunities to cultivate sponsorship throughout organization will be missed.
 - Affected stakeholders will not understand “what’s in it for me?”
 - Awareness for change will not permeate organization.
 - Momentum for change will dissipate based on lack of sustainable awareness.

✓ **People & Organization Overview**

Leading Practice: Operating and organizational structure and governance model should align to the strategies in order to drive execution.

Positive Observations

- Huge commitment from the majority of employees.
- Willing to participate and be part of the process of change.
- Top management willing to change and improve their services process.

Potential Barriers to Change

- The knowledge is concentrated in few employees.
- Relatively new employees.
- Individualistic: requires increased team/ peer review.
- Possible risk of loss from the technical expertise during the process of change.
- Performance evaluation is an annual ritual rather than a rigorous discussion aimed at driving up performance.

Key implications for the Tax Reform Project

- Not following up on employees' performance evaluation from a coaching perspective will lead into the absence of recognition and reinforcement of the strengths and weakness respectively of the employees.
- Disable the ability of the Department to capitalize the institutional knowledge.

6 Appendix – Change Readiness Interview Guide

Commonwealth of Puerto Rico – Tax Reform Project

Subject	Change Readiness Questionnaire: <insert AREA here>	Date	April XX, 2014
Location		Time	
KPMG Attendees			
Client Attendees			
Meeting Purpose			
Documented By			

Meeting Objective: Determine how prepared is the organization to manage the change in the macro-economic model that will impact on tax collection; in order to mitigate the inherent risks for change. This assessment is confidential. There is no right or wrong answers. Respond as you think you are – not as you want or would like it to be.

General Overview:

- Interviewee background (Tell us about yourself: position, how long employed at the Treasury Department)

Change Readiness Questionnaire documented below:

Question	Notes and Comments
1. What do you know about the Tax Reform Project?	
2. Why do you think the Government of Puerto Rico is sponsoring this project?	
3. What concerns, if any, do you have regarding the Tax Reform Project?	

Question	Notes and Comments
4. How do you consider this project will impact or change the Department of the Treasury?	
5. Do you think this project will impact your area, or day to day job? If so, how?	
6. Are you familiar with a previous Department-wide process change project? If so, please describe how it was managed.	
7. Has an organizational change been introduced in your division before? If so, was management actively involved and visible throughout the process?	
8. What would be the most effective method of communication, from your perspective, to help this project success?	
9. What do you think are the needs for the institution and/or your Area to be prepare for the process of change?	
10. Can you please describe a big accomplishment (or success) within your division?	
11. At your consideration, which has been the biggest challenge faced by the Department? Your Division?	