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Unutilized balances of appropriations:

**Programme for Change and Organizational Renewal
(change management initiative) and technical
cooperation activities**

Programme and Budget Committee

Twenty-sixth session

Vienna, 7-8 September 2010

Item 5 of the provision agenda

Unutilized balances of appropriations:

**Programme for Change and Organizational
Renewal (change management initiative) and
technical cooperation activities**

Unutilized balances of appropriations: Programme for Change and Organizational Renewal (change management initiative)

Report by the Director-General

In compliance with decision GC.13/Dec.15, the present document provides information on the Programme for Change and Organizational Renewal (change management initiative).

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I. Introduction

1. The Programme for Change and Organizational Renewal (PCOR) embodies a unique opportunity for UNIDO to significantly improve its way to do business, including a restructuring of its internal processes supported by a well-integrated system and a change in its working culture. This investment will enable the Organization to not only meet future demands by donors and Member States but also its ambitious objectives as outlined in the new mission statement, bringing both qualitative and quantitative benefits to all stakeholders.

2. Recognizing both the urgency of the investment in a comprehensive change management (CM) initiative required to meet the challenges faced by the Organization, and the anticipated persistence of budgetary constraints, the Director-General submitted a number of proposals to Member States for their consideration during 2009. These proposals are contained in documents IDB.36/12 of 15 April 2009, IDB.36/12/Add.1 of 3 June 2009 and GC.13/8/Add.1 of 23 October 2009. Since December 2009, when the General Conference approved financing of the CM initiative, a conference room paper (IDB.37/CRP.5 dated 7 May 2010) provided additional information to the Industrial Development Board on the progress of the implementation of the General Conference decision.

3. Since its launch in January 2010, significant progress to take forward PCOR has been made. Some of the achievements are: agreement on the scope of PCOR; establishment of a governance structure; preparation of implementation and workplans with clear deadlines and indicators; examination of possible business concepts; actions to take forward the business process reengineering (BPR) and selection of an Enterprise Resource Planning (ERP) system and implementation partner. A number of “quick wins” have been realized and many others were expected to be implemented by September 2010. A great deal of work has also been carried out to build the change management momentum and continuously increase the commitment by staff to the process. Staff and Member States have been kept fully informed of all PCOR developments.

4. After the bidding process for the selection of an ERP system and the implementation partner, which is scheduled to be concluded by the end of September 2010, the Secretariat will be in a position to provide detailed information on the various cost elements of the ERP system and the other associated costs of PCOR. One major challenge will be to secure all the funds needed in a timely manner for the implementation of a single ERP system by 2013.

II. Context

5. **Objective of the change management initiative/PCOR:** As indicated in the various documents (IDB.36/12; IDB.36/12/Add.1; GC.13/8/Add.1 and IDB.37/CRP.5), the objectives of the CM initiative/PCOR can be summarized as follows: to implement a fast-growing portfolio of programmes/projects within the prevailing constraints of regular budgets; to increase country coverage and improve the quality of programme/project implementation; to better comply with strict donor requirements, such as the GEF fiduciary standards and the “four pillars” required by the European Union; to better monitor programme/project results; to institutionalize

results-based management (RBM), knowledge management and risk management; to improve the linkages and connectivity between Headquarters and field offices to allow optimum utilization of field resources and real-time transmission of and access to relevant information; to create a proactive working culture; to contribute effectively to the ongoing process of harmonization of business practices as part of the United Nations system-wide coherence agenda, and thus to enable the Organization to achieve Growth with Quality and Deliver as One UNIDO.

6. **Approval of the financing of the change management initiative/PCOR (decision GC.13/Dec.15):** After taking note of the feasibility study on a comprehensive CM initiative which, inter alia, highlighted the unique challenges faced by the Organization in terms of potential implications on future funding for technical cooperation activities, i.e. the need to institutionalize RBM; to effectively utilize field resources; to contribute to United Nations system-wide coherence; and the serious risk of breakdowns of outdated systems, the General Conference approved €9,113,949 for financing the CM initiative from the unutilized balances of appropriations. The Conference requested the Director-General to implement this decision, in consultation with Member States, by selecting the most suitable and sustainable technical solution that is feasible considering the above financial resources, augmented by certain budgetary savings during the implementation period of the CM initiative. The Conference also strongly encouraged Member States to contribute voluntarily to the special account for the CM initiative.

7. **Actual funds received:** As a result of the above General Conference decision, a total amount of €5,281,960 became available for the CM initiative. On 18 February 2010, further information was shared with Member States outlining the amount of unutilized balances that would be available for the change management initiative/PCOR (Information note No. 3 dated 18 February 2010 refers).

III. Major developments and activities during 2010

8. The following summarizes the actions taken during the period January to May 2010 to implement the above General Conference decision:

9. **Launch of PCOR:** To ensure that all elements of the CM initiative are addressed holistically and systematically, two professors from Harvard and Stanford Business School, who specialize in organizational change, held workshops with senior management at the Board of Directors Retreat in January 2010, in which about 80 senior staff members as well as members of the Staff Council participated. The workshop included presentations on the congruence model called “Leading Change and Organizational Renewal (LCOR)” and recommended that critical elements relating to changing the organizational culture should also be considered during the implementation of the CM initiative at UNIDO. These elements were thus included in the plans and the CM initiative was renamed the “Programme for Change and Organizational Renewal” (PCOR). To establish a critical knowledge level on the LCOR model and to be able to apply at a bigger scale the knowledge acquired, seven senior staff members attended a training course at Harvard Business School in March 2010.

10. **Issuance of a mission statement:** Following the involvement of a large number of staff members, a new UNIDO mission statement was developed and

issued. The new mission statement was shared with Member States in March 2010 and has been published on the website. This statement expresses the Organization's aspiration to continuously improve, grow with quality and deliver as one UNIDO through offering flexible and effective solutions and services, empowering its people, serving its stakeholders, managing efficiently, leading by example, and, above all, to be a key partner for prosperity in the world.

11. **Establishment of a governance structure:** In order to take forward PCOR in a systematic and holistic manner, the Director-General established a governance structure in February 2010, consisting of: the Committee for Change and Organizational Renewal (CCOR) to steer PCOR and provide direction and oversight; the Task Force on Management and Working Culture (TF-MWC), the Task Force on Operational Efficiency and Effectiveness (TF-OEE), and the Office for Change and Organizational Renewal (COR). This structure, which comprises staff members from all over the Organization, aims at ensuring internal ownership and teamwork through a highly participatory approach, increasing staff motivation to contribute to the programme and keeping costs as low as possible.

12. **Preparation of an implementation plan and detailed workplans:** In March 2010, a high-level implementation plan was finalized by Deloitte Consulting. Detailed workplans showing tasks and timelines to take forward issues relating to "Operational Improvements", "ERP Implementation" and "People and Culture" were prepared and approved by the CCOR. The strand "Operational Improvements" includes the realization of "quick wins", the examination of potential business concepts for UNIDO, defining software requirements, and the re-engineering of the Organization's business processes. The strand "ERP Implementation" includes the selection of an implementation partner and an ERP system and following a modular implementation approach. The strand "People and Culture" includes topics such as values, norms and behaviours, information sharing, performance management for results and teamwork, and communication. Issues relating to RBM, knowledge management and risk management are an integral part of the PCOR implementation and workplan. These include, for instance, measures to ensure that the new ERP system will allow reporting based on RBM principles, cross-organizational knowledge sharing and retention, and institutionalized risk management.

A. Operational improvements

13. **Realization of "quick wins":** Based on the feasibility study and other internal assessments, a number of quick wins (i.e. improvements on processes and procedures that can be achieved with little or no investment) have been identified. A significant number of these have already been realized while several others are currently being implemented.

14. **Elaboration of business concept:** The goal of this activity is to examine potential business models and the envisioned business architecture, thus enabling informed decisions on the re-engineering of business processes and the selection of an ERP system. To achieve this, the current business architecture of UNIDO was thoroughly analysed and mapped, taking into account the new mission statement and PCOR objectives. Considering the different interests and demands by stakeholders, current processes for technical cooperation (TC) project management

were analysed and then grouped according to differentiated demand structures. A model showing the different levels of detail needed for the BPR exercise and the ERP implementation was developed. This process model was extensively discussed with relevant managers and staff members. Different business architectures within the United Nations system were also analysed and discussed in terms of their suitability for UNIDO. Further visits to other United Nations organizations are planned to contribute to the harmonization of processes and to achieve synergies.

15. **Business process re-engineering:** Under this activity, business processes are reviewed and analysed for all functional areas involved (TC project management, procurement, financial services, human resource management). Extensive work to prepare for this exercise has been carried out since the launch of PCOR. This included the analysis of different ways of carrying out a BPR exercise including the approaches followed by other United Nations organizations, agreement on the scope of the BPR exercise and timing, preparation of terms of references, selection of a suitable methodology and experts for the exercise, and conducting preparatory workshops with managers/staff concerned to create a common understanding on the approach to the BPR exercise and the work to be carried out during the period of July to early September 2010. Based on best practices and consultations with change agents in other United Nations organizations, UNIDO has decided to implement a high- to medium-level BPR exercise. The results of the BPR shall provide inputs to the selection of an ERP system and implementation partner. Carrying out this exercise prior to the software implementation shall contribute to reducing the overall cost and enable the Organization to follow its ambitious time frame for the ERP system implementation.

B. ERP implementation

16. **Selection of a software/ERP system:** The Secretariat has extensively reviewed the various ERP systems and their implementation approaches within the United Nations family, particularly of the specialized agencies, as well as in some other international organizations, and assessed their relevance to UNIDO. This included a number of site visits, discussions with experts, and exchange of views with the United Nations Information and Communication Technology Task Force (UNICT). With this approach, UNIDO expects, among others, to benefit from the lessons learned by other organizations and take advantage of the experience, customization and knowledge already accumulated in the United Nations system. Such experience is especially relevant in the functional area of human resource management and payroll due to the complex United Nations pay structure and entitlements. This approach should contribute to reducing the cost and time period for selecting and implementing its ERP system and harmonizing business processes as part of the United Nations system-wide coherence agenda. Based on a detailed proposal and justification, the Organization has decided that its ERP system shall be one of the two identified software platforms used by the United Nations family. Detailed cost information on the ERP system will be solicited in the course of the selection of an implementation partner. Taking into account the limited resources, UNIDO intends to follow a modular release approach when implementing the ERP system since this should ensure that the Organization remains within the available resources.

17. **Selection of an implementation partner:** Based on the feedback received from the other United Nations organizations, the inputs of the BPR and taking into account UNIDO requirements, a tendering process for the selection of an implementation partner and the ERP system was scheduled to commence in July 2010.

C. People and culture

18. **Analysis of organizational culture:** A comprehensive cultural diagnosis survey was conducted to better understand the working culture of UNIDO with its strengths and weaknesses, so as to establish a baseline to assess progress of cultural change and promote staff participation in PCOR. The survey was welcomed by staff and yielded a participation rate of over 70 per cent. Its initial results were presented to staff at a town hall style meeting in June 2010 and were subsequently made accessible to all staff on the Intranet. Differences in the perceived organizational culture were detected between Headquarters and field staff, General Service and Professional staff, newly recruited staff and those retiring within the next years, as well as between the different divisions of the Organization. All results, including proposed concrete steps for improving aspects of the Organization's working culture, will be further discussed and analysed in collaboration with specific consultative groups. As a first consequence of the initial results of the cultural diagnosis survey, PCOR will give special attention to the cultural aspects of knowledge management and innovation. The final results of the survey were to be communicated electronically in August 2010 with the findings providing a strategic direction to PCOR activities in management and working culture. A follow-up survey at the end of 2010 will further explore specific areas of attention, as well as the impact of the change process on the working culture within UNIDO.

19. **Values, norms and behaviours:** Recognizing the importance of the human factor in the change process, interviews and consultations are being held with staff members to better understand behavioural obstacles to change-related aspects within the Organization, and an action plan on how to overcome these obstacles and change organizational norms and values is being prepared.

20. **Results-orientation and teamwork:** Measures have been taken to test new incentive systems that would better promote and reward teamwork and create a "passion for results", inter alia, through establishing cross-organizational teams for programme management and piloting a 360 degree staff appraisal system.

21. **Knowledge and information management:** Within the context of an ERP system, a number of best practices to share, use and retain information and organizational knowledge are being assessed and reviewed based on their usefulness and relevance to UNIDO. In addition, a training and learning strategy to facilitate the changes is being elaborated.

IV. Communication

22. **Internal:** A comprehensive communication strategy to effectively present PCOR as well as to improve communication within UNIDO is in its final stages of completion. At the moment, all developments of PCOR are regularly communicated

to managers and staff (both at Headquarters and the field) through a variety of communication channels, such as meetings of the Board of Directors, town hall style meetings held by the Director-General as well as personal interaction, updates on the Intranet, a regular newsletter, etc. A dedicated e-mail account (change@unido.org) has been established to receive inputs and staff members are proactively encouraged to share ideas and participate in PCOR.

23. **Member States:** In addition to informal meetings with regional groups, the following events took place during 2010:

(a) 13 January: The two professors from Harvard and Stanford Business School briefed the Member States on the LCOR congruence model and its relevance to UNIDO;

(b) 26 February: The Director-General presented the PCOR governance structure and its high-level implementation plan to the Enlarged Bureau of the Board;

(c) 31 March: Presentations to Permanent Missions on: PCOR objectives; funds made available and possible future funding sources to secure the remaining resources needed; PCOR governance structure; implementation plan; implementation strategy of having a single ERP system with a modular implementation approach; realization of “quick wins”; progress on analysing business concepts and defining software requirements; approaches and challenges to changing organizational culture; and the way forward;

(d) 7 May: The conference room paper (IDB.37/CRP.5) provided updated information on PCOR and was presented to the thirty-seventh session of the Industrial Development Board in May 2010;

(e) End-May: A dedicated PCOR page was established on the UNIDO Permanent Missions Extranet InfoBase. The page includes all official documents on PCOR that have been shared with Member States and serves as a central PCOR reference point. A link to this page is found on the main page of the extranet which can be accessed via: <http://www.unido.org/extranet> (password required).

V. Financial status

24. In addition to the €9,113,949 from the unutilized balances, the General Conference (decision GC.13/Dec.15 refers) also approved the utilization of certain budgetary savings during the implementation period of the CM initiative as well as strongly encouraged Member States to contribute voluntarily to the special account for the CM initiative/PCOR. The budgetary savings, if any, at this initial stage of the biennial budget implementation are difficult to predict. No additional voluntary contribution has so far been received.

Funds approved from the unutilized balances of appropriations	€9,113,949
Funds surrendered by Member States	€5,281,960
Difference between funds approved and so far received	€3,831,989

25. A total amount of €310,000 has been obligated for technical experts to advise on the business concept and ERP implementation, as well as for the BPR exercise to be carried out during the period July to mid-September 2010.

VI. Cost elements

26. Decision GC.13/Dec.15 requested the Director-General to provide information on the various cost elements of the ERP system to the Board at its thirty-eighth session. As indicated above, the Organization was intending to have commenced the process of selecting an implementation partner and the ERP system in July 2010. The potential suppliers were to be required to provide detailed cost breakdowns and it is intended that comprehensive information on the total financial requirements for PCOR, resources currently available, additional resources required, and cash flow requirements will be subsequently shared with the Board. One major challenge will be to secure the remaining funds required for the implementation of a single ERP system.

VII. Major milestones for 2010

27. The following table outlines the major milestones of PCOR during 2010:

Implementation of quick wins	April to September 2010
High-to medium-level BPR exercise	Early June to early September 2010
Elaboration of software requirements	Early July 2010
Selection of an implementation partner and ERP system	End-September 2010
Finalization of total financial requirements, including cost elements of the ERP system, cash flow requirements, etc. for the PCOR	End-September 2010
Expected start of software implementation	Early October 2010
Follow-up cultural diagnosis survey	End of 2010

VIII. Action required of the Committee

28. The Committee may wish to recommend to the Industrial Development Board the adoption of the following decision:

“The Industrial Development Board:

“(a) Takes note of the information provided in document IDB.38/9-PBC.26/9;

“(b) Notes the progress achieved to implement the General Conference decision GC.13/Dec.15;

“(c) Encourages Member States to contribute voluntarily to the special account established for the Programme for Change and Organizational Renewal (change management initiative);

“(d) Requests the Director-General to pursue his efforts and contacts with Member States to secure the funds needed to implement the most suitable and sustainable technical solution to meet the objectives of the Programme for Change and Organizational Renewal.”
