Appendix L
International Finance Corporation 2013 Change Initiative

1. The International Finance Corporation’s (IFC’s) most recent restructuring—IFC2013—was reviewed to identify lessons IFC has learned from the experience. It is not within the scope of this review to evaluate this reform nor would it be possible given how recently it has been introduced. This review answers the following questions:

   (a) what was the impetus for this change?
   (b) what is the new organizational structure and levers used to enact this change?
   (c) what systems were enacted for communication and monitoring the change initiative?
   (d) what are the commonalities and differences between the IFC and Bank matrixes?
   (e) what lessons can be learned?

2. IFC2013 is part of ongoing reforms at IFC intended to align its organizational structure, processes, and incentives with its strategic priorities1. The previous reorganization, IFC’s Vision 2010, aimed to bring IFC closer to its clients largely through decentralization. IFC2013 seeks to address improvement opportunities identified through a diagnostic review of organizational effectiveness conducted by the IFC Management Team with the assistance of McKinsey & Company in 2009. The organizational changes implemented in FY11 as part of IFC2013 are the focus of this review. This section is largely informed by key documents describing IFC2013 and its implementation as well as interviews with IFC staff. 2

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3. The 2009 diagnostic review—which included a staff survey, interviews, and small-group meetings—identified a growing amount of complexity in the organization and its processes at the same time investment processes were becoming

1A full description of IFC 2013 can be found in IFC Road Map FY11-13- Maximizing Impact, Unlocking Our Potential (IFC 2010).

2 Key documents include IFC Road Map FY11-13- Maximizing Impact, Unlocking Our Potential (IFC 2010); FY11 Business Plan and Budget (IFC 2010); and IFC’s FY12 Business Plan & Budget (IFC 2011).
more decentralized. The five main improvement opportunities identified in the staff survey were as follows: ³

- “Improve efficiency/productivity particularly in the investment process”
- “Clarify accountabilities and simplify the matrix”
- “Further define the global in global/local—develop an IFC knowledge ‘marketplace’”
- “Strengthen talent management and leadership development”
- “Promote stronger line ownership”

4. The challenges identified in the 2009 diagnostic review were the drivers behind the IFC2013 change initiative which aims “to strengthen central functions while achieving sufficient scale in the field so that staff can have better networks and mentors; and sufficient specialization to acquire global knowledge and know-how more quickly and effectively than in the past.”⁴ The specific objectives identified as part of IFC2013 were to “expand IFC’s Development Impact, strengthen IFC’s ability to be financially sustainable, improve Client Satisfaction, strengthen talent management and people development, and better leverage Global Knowledge in a decentralized environment.”⁵ The resulting key elements of IFC2013 were threefold: (a) to adopt specific development goals in order to drive growth in a financially sustainable manner while maximizing development impact in sectors which IFC has a comparative advantage; (b) launch a new performance management approach which is aligned with the strategy and budget cycle and accounts for organizational and staff role changes; and (c) revise the investment departments’ organizational structure to clarify roles and accountabilities through the following changes:

- create global industry groups mandated to develop global and industry leadership in areas of IFC comparative advantage and deliver measurable development results
- create regional client service groups supported by operations centers fostering client responsiveness and efficiency
- increase the functional specialization of front-line staff for efficiency gains and added accountability
- align advisory, risk, and non-client-facing operations staff in the new structure

³ *IFC Road Map FY11-13- Maximizing Impact, Unlocking Our Potential* (IFC 2010).

⁴ *IFC Road Map FY11-13- Maximizing Impact, Unlocking Our Potential* (IFC 2010).

5. IFC’s organizational structure has been changed significantly as part of the IFC2013 change initiative. Figure H.1 depicts investment services’ matrix related organizational structure as of October 2011 with the most significant changes being the implementation of global industry departments headed by one vice president and regional client service groups headed by three vice presidents—each overseeing both regional industry departments and regional departments—and a revision of the budgeting process.

Figure L.1. IFC Investment Services’ matrix related organizational structure

Source: Adapted from IFC Organizational Structure (IFC 2011)

6. **Global Industries Groups** staff are based in headquarters and responsible for managing global clients, developing sector strategies, ensuring closer advisory and investment services collaboration, managing partnerships, and developing global knowledge networks. As part of its global knowledge mandate, IFC is reviewing the Bank’s experience as a global knowledge provider to inform its own organizational model on global knowledge and a knowledge strategy committee was “set up to oversee the formulation of a clear strategic direction for knowledge, creation of an enabling governance structure and information technology platforms, and introduction of processes and incentives to promote a sustainable knowledge culture.”6 Subsequently, a global head of knowledge was appointed to develop and drive the execution of the knowledge management strategy and heads up a global knowledge office. Global practice groups are also being piloted for areas of IFC’s strategic focus. As transaction-level support is decentralized, global industry groups are responsible for sharing knowledge with global industry directors involved in the

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6 IFC Road Map FY11-13- Maximizing Impact, Unlocking Our Potential (IFC 2010).
investment project review process and responsible for overseeing global industry performance.

7. **Regional client service groups** are composed of *regional departments* and *regional industry departments*. Staff are based in regional operations centers or country offices with *regional departments* responsible for managing country strategies, business development, and client relationship management and *regional industry departments* responsible for portfolio and transaction management, providing functional specialization, improved responsiveness, efficiency, enhanced decision making, and risk management. The regional operations center is central to the model and contains a full complement of operational and support staff (including regional industry, credit, legal, risk, environment, and social staff) that are expected to facilitate the execution of an investment program in an efficient and timely manner. In order to achieve efficiency and scale, investment staff roles were to be further specialized instead of one staff member having responsibility for multiple types of activities such as client-relationship management, deal structuring, and portfolio management.

8. **A revised budgeting process** was rolled out to accompany the structural changes. Beginning with the FY11 process, vice presidents were involved more in the planning phase in setting parameters which determined their budget envelopes and then later in formulating/allocating budgets at the department level within their vice presidencies. Technical staff were also mapped either to global or regional industry units to assist in the allocation of vice presidency and department level budgets via a matrix budgeting system. The matrix budgeting system for investment services has, and continues to be, based on a matrix between industries and Regions. With the reorganization and move to regional client service teams, instead of a matrix with two components (global industry departments and regional departments) the matrix now has three components (global industry departments, regional departments, and now regional industry departments). In order to deliver an investment program, staff from each component of the matrix must be identified and the associated budget negotiated and allocated to each department.

9. **Alignment of IFC’s performance management system, or staff incentives, with strategic goals.** As part of IFC2013, managers’ objectives are being adjusted to focus more on development and financial results, client orientation, people management and development, and contribution to corporate initiatives with the performance management cycle being integrated into the corporate strategy process. IFC intends to continue and ramp up various rewards based on individual and team-based performance for staff performance, project delivery and longer-term project and portfolio outcomes, and knowledge sharing. IFC will also continue existing practices of more rapid promotions enabled by a higher number of grade levels for professionals and staff. In addition, IFC will expand training and development opportunities, adjust its talent management process, and align human resources
with the World Bank. An area in which IFC is likely to be particularly challenged in developing the right incentives is in encouraging the involvement of global industry department staff in fulfilling their roles in addressing the global knowledge mandate as well as providing technical expertise to specific projects given their competing incentives of overseeing global investment lending operations.

**COMMUNICATION AND MONITORING SYSTEMS**

10. To support IFC2013, a communications strategy and a milestone and efficiency monitoring systems were put in place. Given the scale of change, efficiency metrics were identified as part of the cost-benefit analysis and their monitoring is ongoing. A communication strategy was developed to keep staff informed and to create feedback loops between staff and management which included announcements, new flashes to address issues raised by staff, town hall meetings, an IFC2013 web portal housing key information, discussions between supervisors and direct reports to communicate implications to staff, VP conversations series, and Info Sessions housed by VPs and directors.

11. Through these staff feedback mechanisms, staff concerns were identified and the timetable for implementing IFC2013 organizational changes was delayed in order for the concerns to be addressed. Following the eventual roll-out, staff concerns were still being raised prompting the management team to form a Corporate Task Force to identify staff concerns and help guide the IFC2013 change initiative’s implementation. The Task Force findings indicate significant concerns still remain to be addressed (see Table L.1).

<table>
<thead>
<tr>
<th>Table L.1. Task Force Recommendations⁷</th>
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<tr>
<td><strong>Operational Recommendations</strong></td>
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<td>• clarify structure</td>
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<td>• foster global-local knowledge</td>
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<td>• enhance HR processes</td>
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<td>• strengthen leadership</td>
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<td>• enhance career propositions</td>
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<td>• build collaborative culture</td>
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<td>• actively manage change/transition</td>
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**KEY SIMILARITIES AND DIFFERENCES BETWEEN IFC AND BANK MATRIXES**

12. Both the IFC and World Bank have ongoing organizational changes currently being implemented. While IFC2013 is in its infancy as a vast restructuring with long-term implications, the World Bank’s current changes are not as extensive.

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⁷ IFC Change Process- update at informal meeting with the Board of Directors on October 20, 2011.
Table L.2 describes the key similarities and differences between the IFC and Bank matrix structures and how they are managing the change process.

Table L.2. Key similarities and differences between IFC and Bank matrixes

<table>
<thead>
<tr>
<th>Common Characteristics</th>
<th>IFC2013 Change Initiative</th>
<th>World Bank Ongoing Changes</th>
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<tr>
<td></td>
<td>a) Technical staff assigned either to global industries or regional industries</td>
<td>a) Technical staff assigned either to network anchors or regions</td>
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<td></td>
<td>b) complex organizational structure noted by staff</td>
<td>b) complex organizational structure noted by staff</td>
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<td>Differences</td>
<td>a) Single matrix structure with three entities (global industries, regional departments, regional industry departments). Advisory Services staff not included as part of the matrix structure b) All country client product delivery budgets managed through VPs but investment services work programs are negotiated between the three matrix entities with budgets allocated directly to each entity c) Strategy for change initiative exists with communication strategy d) Monitoring of metrics for success/stated commitment to make changes as necessary e) Change in staff incentives and mandate from above (compensation program aligned with strategic objectives and achievement of quantifiable development goals) f) 55 percent of staff in country offices (of 3,429 total staff forecasted as of end of FY11)g) 19 operational staff per manager</td>
<td>a) Double matrix of anchor sectors vs. regions and within regions - country vs. sector units b) All country client product delivery budgets negotiated with regional CMUs holding budget authority and SMUs negotiating for funds. Network anchors play no role except responding to cross support requests c) FPD restructuring accompanied by strategy document and communication plan d) Monitoring of organizational effectiveness introduced in FY11 scorecard e) No noted change in staff incentives, only mandate from above (compensation based on qualitative assessments) f) 39 percent of staff in country (of 11,534 total staff forecasted as of end of FY11) g) 37 staff per sector manager</td>
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8 IFC’s FY12 Business Plan & Budget (IFC 2011).

9 Source: IFC human resources department. Note: Includes only staff in operational VPU's (Global Industry and Regional Vice Presidencies) not including front office functions. Managers include those in IFC’s official managerial cadre as end of FY11.
LESSONS LEARNED FROM THE IFC2013 CHANGE INITIATIVE

13. IFC2013 continues to experience and address significant challenges as it progresses through the early stages of the change process highlighting the importance of both a sound strategy from the outset as well as ability to address ongoing challenges as they arise. The IFC2013 team noted the following as important lessons when completing a restructuring: 10

- “Engagement with staff, managers, and directors is critical at every stage”
- “Important to take time to get it right and ensure buy-in from those affected”
- “Critical to be willing to adjust and re-calibrate as necessary”
- “Testing and piloting new concepts is an effective way to ‘work out the kinks’”
- “Unity and clarity in communications from the top down is essential”

14. It is too early to evaluate if IFC2013 has been successful in addressing the problems originally identified and much will depend on how effectively management continually monitors progress and makes the necessary adjustments. In the interim, one can learn much from the significant challenges the IFC2013 change initiative has already faced in its short lifespan and how it has chosen to address them.

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10 IFC 2013 Change Initiative- update at informal meeting with the Board of Directors on September 16, 2010.