

HBR's 10 Must Reads on Change Management 2-Volume Collection

Contents

HBR's 10 Must Reads on Change Management

HBR's 10 Must Reads on Change Management, Vol. 2

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READS

FEATURING
“Leading Change”

By John P. Kotter

On Change Management

If you read nothing else on change management, read these definitive articles from **Harvard Business Review**.

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On Change Management

Leading Change

Why Transformation Efforts Fail. *by John P. Kotter*

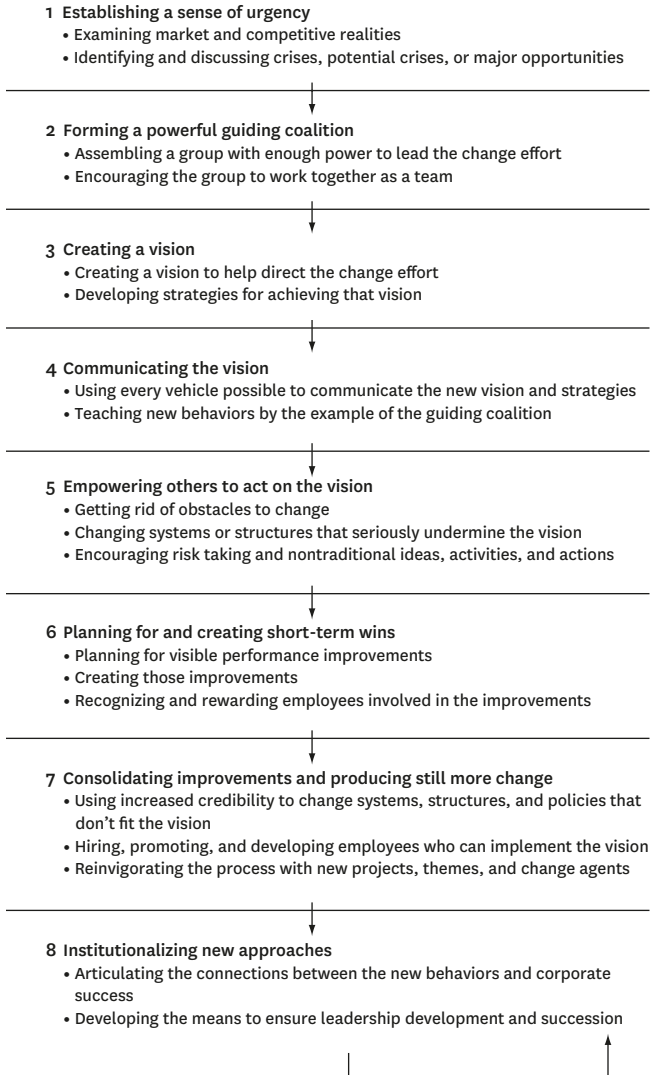


OVER THE PAST DECADE, I have watched more than 100 companies try to remake themselves into significantly better competitors. They have included large organizations (Ford) and small ones (Landmark Communications), companies based in the United States (General Motors) and elsewhere (British Airways), corporations that were on their knees (Eastern Airlines), and companies that were earning good money (Bristol-Myers Squibb). These efforts have gone under many banners: total quality management, reengineering, rightsizing, restructuring, cultural change, and turnaround. But, in almost every case, the basic goal has been the same: to make fundamental changes in how business is conducted in order to help cope with a new, more challenging market environment.

A few of these corporate change efforts have been very successful. A few have been utter failures. Most fall somewhere in between, with a distinct tilt toward the lower end of the scale. The lessons that can be drawn are interesting and will probably be relevant to even more organizations in the increasingly competitive business environment of the coming decade.

The most general lesson to be learned from the more successful cases is that the change process goes through a series of phases that, in total, usually require a considerable length of time. Skipping steps creates only the illusion of speed and never produces a satisfying result. A second very general lesson is that critical mistakes in any of the phases can have a devastating impact, slowing momentum and

Eight steps to transforming your organization



Idea in Brief

Most major change initiatives—whether intended to boost quality, improve culture, or reverse a corporate death spiral—generate only lukewarm results. Many fail miserably.

Why? Kotter maintains that too many managers don't realize transformation is a *process*, not an event. It advances through stages that build on each other. And it takes years. Pressured to accelerate the process, managers skip stages. But shortcuts never work.

Equally troubling, even highly capable managers make critical mistakes—such as declaring victory too soon. Result? Loss of momentum, reversal of hard-won gains, and devastation of the entire transformation effort.

By understanding the stages of change—and the pitfalls unique to each stage—you boost your chances of a successful transformation. The payoff? Your organization flexes with tectonic shifts in competitors, markets, and technologies—leaving rivals far behind.

negating hard-won gains. Perhaps because we have relatively little experience in renewing organizations, even very capable people often make at least one big error.

Error 1: Not Establishing a Great Enough Sense of Urgency

Most successful change efforts begin when some individuals or some groups start to look hard at a company's competitive situation, market position, technological trends, and financial performance. They focus on the potential revenue drop when an important patent expires, the five-year trend in declining margins in a core business, or an emerging market that everyone seems to be ignoring. They then find ways to communicate this information broadly and dramatically, especially with respect to crises, potential crises, or great opportunities that are very timely. This first step is essential because just getting a transformation program started requires the aggressive cooperation of many individuals. Without motivation, people won't help, and the effort goes nowhere.

Compared with other steps in the change process, phase one can sound easy. It is not. Well over 50% of the companies I have watched

Idea in Practice

To give your transformation effort the best chance of succeeding, take the right actions at each stage—and avoid common pitfalls

Stage	Actions needed	Pitfalls
Establish a sense of urgency	<ul style="list-style-type: none"> Examine market and competitive realities for potential crises and untapped opportunities. Convince at least 75% of your managers that the status quo is more dangerous than the unknown. 	<ul style="list-style-type: none"> Underestimating the difficulty of driving people from their comfort zones Becoming paralyzed by risks
Form a powerful guiding coalition	<ul style="list-style-type: none"> Assemble a group with shared commitment and enough power to lead the change effort. Encourage them to work as a team outside the normal hierarchy. 	<ul style="list-style-type: none"> No prior experience in teamwork at the top Relegating team leadership to an HR, quality, or strategic-planning executive rather than a senior line manager
Create a vision	<ul style="list-style-type: none"> Create a vision to direct the change effort. Develop strategies for realizing that vision. 	<ul style="list-style-type: none"> Presenting a vision that's too complicated or vague to be communicated in five minutes
Communicate the vision	<ul style="list-style-type: none"> Use every vehicle possible to communicate the new vision and strategies for achieving it. Teach new behaviors by the example of the guiding coalition. 	<ul style="list-style-type: none"> Undercommunicating the vision Behaving in ways antithetical to the vision

fail in this first phase. What are the reasons for that failure? Sometimes executives underestimate how hard it can be to drive people out of their comfort zones. Sometimes they grossly overestimate how successful they have already been in increasing urgency. Sometimes they lack patience: “Enough with the preliminaries; let’s get on with it.” In many cases, executives become paralyzed by the downside

Stage	Actions needed	Pitfalls
Empower others to act on the vision	<ul style="list-style-type: none"> Remove or alter systems or structures undermining the vision. Encourage risk taking and nontraditional ideas, activities, and actions. 	<ul style="list-style-type: none"> Failing to remove powerful individuals who resist the change effort
Plan for and create short-term wins	<ul style="list-style-type: none"> Define and engineer visible performance improvements. Recognize and reward employees contributing to those improvements. 	<ul style="list-style-type: none"> Leaving short-term successes up to chance Failing to score successes early enough (12–24 months into the change effort)
Consolidate improvements and produce more change	<ul style="list-style-type: none"> Use increased credibility from early wins to change systems, structures, and policies undermining the vision. Hire, promote, and develop employees who can implement the vision. Reinvigorate the change process with new projects and change agents. 	<ul style="list-style-type: none"> Declaring victory too soon—with the first performance improvement Allowing resisters to convince “troops” that the war has been won
Institutionalize new approaches	<ul style="list-style-type: none"> Articulate connections between new behaviors and corporate success. Create leadership development and succession plans consistent with the new approach. 	<ul style="list-style-type: none"> Not creating new social norms and shared values consistent with changes Promoting people into leadership positions who don’t personify the new approach

possibilities. They worry that employees with seniority will become defensive, that morale will drop, that events will spin out of control, that short-term business results will be jeopardized, that the stock will sink, and that they will be blamed for creating a crisis.

A paralyzed senior management often comes from having too many managers and not enough leaders. Management's mandate is to minimize risk and to keep the current system operating. Change, by definition, requires creating a new system, which in turn always demands leadership. Phase one in a renewal process typically goes nowhere until enough real leaders are promoted or hired into senior-level jobs.

Transformations often begin, and begin well, when an organization has a new head who is a good leader and who sees the need for a major change. If the renewal target is the entire company, the CEO is key. If change is needed in a division, the division general manager is key. When these individuals are not new leaders, great leaders, or change champions, phase one can be a huge challenge.

Bad business results are both a blessing and a curse in the first phase. On the positive side, losing money does catch people's attention. But it also gives less maneuvering room. With good business results, the opposite is true: Convincing people of the need for change is much harder, but you have more resources to help make changes.

But whether the starting point is good performance or bad, in the more successful cases I have witnessed, an individual or a group always facilitates a frank discussion of potentially unpleasant facts about new competition, shrinking margins, decreasing market share, flat earnings, a lack of revenue growth, or other relevant indices of a declining competitive position. Because there seems to be an almost universal human tendency to shoot the bearer of bad news, especially if the head of the organization is not a change champion, executives in these companies often rely on outsiders to bring unwanted information. Wall Street analysts, customers, and consultants can all be helpful in this regard. The purpose of all this activity, in the words of one former CEO of a large European company, is "to make the status quo seem more dangerous than launching into the unknown."

In a few of the most successful cases, a group has manufactured a crisis. One CEO deliberately engineered the largest accounting loss in the company's history, creating huge pressures from Wall Street in the process. One division president commissioned first-ever customer satisfaction surveys, knowing full well that the results

would be terrible. He then made these findings public. On the surface, such moves can look unduly risky. But there is also risk in playing it too safe: When the urgency rate is not pumped up enough, the transformation process cannot succeed, and the long-term future of the organization is put in jeopardy.

When is the urgency rate high enough? From what I have seen, the answer is when about 75% of a company's management is honestly convinced that business as usual is totally unacceptable. Anything less can produce very serious problems later on in the process.

Error 2: Not Creating a Powerful Enough Guiding Coalition

Major renewal programs often start with just one or two people. In cases of successful transformation efforts, the leadership coalition grows and grows over time. But whenever some minimum mass is not achieved early in the effort, nothing much worthwhile happens.

It is often said that major change is impossible unless the head of the organization is an active supporter. What I am talking about goes far beyond that. In successful transformations, the chairman or president or division general manager, plus another five or 15 or 50 people, come together and develop a shared commitment to excellent performance through renewal. In my experience, this group never includes all of the company's most senior executives because some people just won't buy in, at least not at first. But in the most successful cases, the coalition is always pretty powerful—in terms of titles, information and expertise, reputations, and relationships.

In both small and large organizations, a successful guiding team may consist of only three to five people during the first year of a renewal effort. But in big companies, the coalition needs to grow to the 20 to 50 range before much progress can be made in phase three and beyond. Senior managers always form the core of the group. But sometimes you find board members, a representative from a key customer, or even a powerful union leader.

Because the guiding coalition includes members who are not part of senior management, it tends to operate outside of the normal

hierarchy by definition. This can be awkward, but it is clearly necessary. If the existing hierarchy were working well, there would be no need for a major transformation. But since the current system is not working, reform generally demands activity outside of formal boundaries, expectations, and protocol.

A high sense of urgency within the managerial ranks helps enormously in putting a guiding coalition together. But more is usually required. Someone needs to get these people together, help them develop a shared assessment of their company's problems and opportunities, and create a minimum level of trust and communication. Off-site retreats, for two or three days, are one popular vehicle for accomplishing this task. I have seen many groups of five to 35 executives attend a series of these retreats over a period of months.

Companies that fail in phase two usually underestimate the difficulties of producing change and thus the importance of a powerful guiding coalition. Sometimes they have no history of teamwork at the top and therefore undervalue the importance of this type of coalition. Sometimes they expect the team to be led by a staff executive from human resources, quality, or strategic planning instead of a key line manager. No matter how capable or dedicated the staff head, groups without strong line leadership never achieve the power that is required.

Efforts that don't have a powerful enough guiding coalition can make apparent progress for a while. But, sooner or later, the opposition gathers itself together and stops the change.

Error 3: Lacking a Vision

In every successful transformation effort that I have seen, the guiding coalition develops a picture of the future that is relatively easy to communicate and appeals to customers, stockholders, and employees. A vision always goes beyond the numbers that are typically found in five-year plans. A vision says something that helps clarify the direction in which an organization needs to move. Sometimes the first draft comes mostly from a single individual. It is usually a bit blurry, at least initially. But after the coalition works at it for three

or five or even 12 months, something much better emerges through their tough analytical thinking and a little dreaming. Eventually, a strategy for achieving that vision is also developed.

In one midsize European company, the first pass at a vision contained two-thirds of the basic ideas that were in the final product. The concept of global reach was in the initial version from the beginning. So was the idea of becoming preeminent in certain businesses. But one central idea in the final version—getting out of low value-added activities—came only after a series of discussions over a period of several months.

Without a sensible vision, a transformation effort can easily dissolve into a list of confusing and incompatible projects that can take the organization in the wrong direction or nowhere at all. Without a sound vision, the reengineering project in the accounting department, the new 360-degree performance appraisal from the human resources department, the plant's quality program, the cultural change project in the sales force will not add up in a meaningful way.

In failed transformations, you often find plenty of plans, directives, and programs but no vision. In one case, a company gave out four-inch-thick notebooks describing its change effort. In mind-numbing detail, the books spelled out procedures, goals, methods, and deadlines. But nowhere was there a clear and compelling statement of where all this was leading. Not surprisingly, most of the employees with whom I talked were either confused or alienated. The big, thick books did not rally them together or inspire change. In fact, they probably had just the opposite effect.

In a few of the less successful cases that I have seen, management had a sense of direction, but it was too complicated or blurry to be useful. Recently, I asked an executive in a midsize company to describe his vision and received in return a barely comprehensible 30-minute lecture. Buried in his answer were the basic elements of a sound vision. But they were buried—deeply.

A useful rule of thumb: If you can't communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not yet done with this phase of the transformation process.

Error 4: Undercommunicating the Vision by a Factor of Ten

I've seen three patterns with respect to communication, all very common. In the first, a group actually does develop a pretty good transformation vision and then proceeds to communicate it by holding a single meeting or sending out a single communication. Having used about 0.0001% of the yearly intracompany communication, the group is startled when few people seem to understand the new approach. In the second pattern, the head of the organization spends a considerable amount of time making speeches to employee groups, but most people still don't get it (not surprising, since vision captures only 0.0005% of the total yearly communication). In the third pattern, much more effort goes into newsletters and speeches, but some very visible senior executives still behave in ways that are antithetical to the vision. The net result is that cynicism among the troops goes up, while belief in the communication goes down.

Transformation is impossible unless hundreds or thousands of people are willing to help, often to the point of making short-term sacrifices. Employees will not make sacrifices, even if they are unhappy with the status quo, unless they believe that useful change is possible. Without credible communication, and a lot of it, the hearts and minds of the troops are never captured.

This fourth phase is particularly challenging if the short-term sacrifices include job losses. Gaining understanding and support is tough when downsizing is a part of the vision. For this reason, successful visions usually include new growth possibilities and the commitment to treat fairly anyone who is laid off.

Executives who communicate well incorporate messages into their hour-by-hour activities. In a routine discussion about a business problem, they talk about how proposed solutions fit (or don't fit) into the bigger picture. In a regular performance appraisal, they talk about how the employee's behavior helps or undermines the vision. In a review of a division's quarterly performance, they talk not only about the numbers but also about how the division's executives are contributing to the transformation. In a routine Q&A with

employees at a company facility, they tie their answers back to renewal goals.

In more successful transformation efforts, executives use all existing communication channels to broadcast the vision. They turn boring, unread company newsletters into lively articles about the vision. They take ritualistic, tedious quarterly management meetings and turn them into exciting discussions of the transformation. They throw out much of the company's generic management education and replace it with courses that focus on business problems and the new vision. The guiding principle is simple: Use every possible channel, especially those that are being wasted on nonessential information.

Perhaps even more important, most of the executives I have known in successful cases of major change learn to "walk the talk." They consciously attempt to become a living symbol of the new corporate culture. This is often not easy. A 60-year-old plant manager who has spent precious little time over 40 years thinking about customers will not suddenly behave in a customer-oriented way. But I have witnessed just such a person change, and change a great deal. In that case, a high level of urgency helped. The fact that the man was a part of the guiding coalition and the vision-creation team also helped. So did all the communication, which kept reminding him of the desired behavior, and all the feedback from his peers and subordinates, which helped him see when he was not engaging in that behavior.

Communication comes in both words and deeds, and the latter are often the most powerful form. Nothing undermines change more than behavior by important individuals that is inconsistent with their words.

Error 5: Not Removing Obstacles to the New Vision

Successful transformations begin to involve large numbers of people as the process progresses. Employees are emboldened to try new approaches, to develop new ideas, and to provide leadership. The only constraint is that the actions fit within the broad parameters of the overall vision. The more people involved, the better the outcome.

To some degree, a guiding coalition empowers others to take action simply by successfully communicating the new direction. But communication is never sufficient by itself. Renewal also requires the removal of obstacles. Too often, an employee understands the new vision and wants to help make it happen, but an elephant appears to be blocking the path. In some cases, the elephant is in the person's head, and the challenge is to convince the individual that no external obstacle exists. But in most cases, the blockers are very real.

Sometimes the obstacle is the organizational structure: Narrow job categories can seriously undermine efforts to increase productivity or make it very difficult even to think about customers. Sometimes compensation or performance-appraisal systems make people choose between the new vision and their own self-interest. Perhaps worst of all are bosses who refuse to change and who make demands that are inconsistent with the overall effort.

One company began its transformation process with much publicity and actually made good progress through the fourth phase. Then the change effort ground to a halt because the officer in charge of the company's largest division was allowed to undermine most of the new initiatives. He paid lip service to the process but did not change his behavior or encourage his managers to change. He did not reward the unconventional ideas called for in the vision. He allowed human resource systems to remain intact even when they were clearly inconsistent with the new ideals. I think the officer's motives were complex. To some degree, he did not believe the company needed major change. To some degree, he felt personally threatened by all the change. To some degree, he was afraid that he could not produce both change and the expected operating profit. But despite the fact that they backed the renewal effort, the other officers did virtually nothing to stop the one blocker. Again, the reasons were complex. The company had no history of confronting problems like this. Some people were afraid of the officer. The CEO was concerned that he might lose a talented executive. The net result was disastrous. Lower-level managers concluded that senior management had lied to them about their commitment to renewal, cynicism grew, and the whole effort collapsed.

In the first half of a transformation, no organization has the momentum, power, or time to get rid of all obstacles. But the big ones must be confronted and removed. If the blocker is a person, it is important that he or she be treated fairly and in a way that is consistent with the new vision. Action is essential, both to empower others and to maintain the credibility of the change effort as a whole.

Error 6: Not Systematically Planning for, and Creating, Short-Term Wins

Real transformation takes time, and a renewal effort risks losing momentum if there are no short-term goals to meet and celebrate. Most people won't go on the long march unless they see compelling evidence in 12 to 24 months that the journey is producing expected results. Without short-term wins, too many people give up or actively join the ranks of those people who have been resisting change.

One to two years into a successful transformation effort, you find quality beginning to go up on certain indices or the decline in net income stopping. You find some successful new product introductions or an upward shift in market share. You find an impressive productivity improvement or a statistically higher customer satisfaction rating. But whatever the case, the win is unambiguous. The result is not just a judgment call that can be discounted by those opposing change.

Creating short-term wins is different from hoping for short-term wins. The latter is passive, the former active. In a successful transformation, managers actively look for ways to obtain clear performance improvements, establish goals in the yearly planning system, achieve the objectives, and reward the people involved with recognition, promotions, and even money. For example, the guiding coalition at a U.S. manufacturing company produced a highly visible and successful new product introduction about 20 months after the start of its renewal effort. The new product was selected about six months into the effort because it met multiple criteria: It could be designed and launched in a relatively short period, it could be handled by a small team of people who were devoted to the new vision,

it had upside potential, and the new product-development team could operate outside the established departmental structure without practical problems. Little was left to chance, and the win boosted the credibility of the renewal process.

Managers often complain about being forced to produce short-term wins, but I've found that pressure can be a useful element in a change effort. When it becomes clear to people that major change will take a long time, urgency levels can drop. Commitments to produce short-term wins help keep the urgency level up and force detailed analytical thinking that can clarify or revise visions.

Error 7: Declaring Victory Too Soon

After a few years of hard work, managers may be tempted to declare victory with the first clear performance improvement. While celebrating a win is fine, declaring the war won can be catastrophic. Until changes sink deeply into a company's culture, a process that can take five to ten years, new approaches are fragile and subject to regression.

In the recent past, I have watched a dozen change efforts operate under the reengineering theme. In all but two cases, victory was declared and the expensive consultants were paid and thanked when the first major project was completed after two to three years. Within two more years, the useful changes that had been introduced slowly disappeared. In two of the ten cases, it's hard to find any trace of the reengineering work today.

Over the past 20 years, I've seen the same sort of thing happen to huge quality projects, organizational development efforts, and more. Typically, the problems start early in the process: The urgency level is not intense enough, the guiding coalition is not powerful enough, and the vision is not clear enough. But it is the premature victory celebration that kills momentum. And then the powerful forces associated with tradition take over.

Ironically, it is often a combination of change initiators and change resisters that creates the premature victory celebration. In their enthusiasm over a clear sign of progress, the initiators go

overboard. They are then joined by resistors, who are quick to spot any opportunity to stop change. After the celebration is over, the resistors point to the victory as a sign that the war has been won and the troops should be sent home. Weary troops allow themselves to be convinced that they won. Once home, the foot soldiers are reluctant to climb back on the ships. Soon thereafter, change comes to a halt, and tradition creeps back in.

Instead of declaring victory, leaders of successful efforts use the credibility afforded by short-term wins to tackle even bigger problems. They go after systems and structures that are not consistent with the transformation vision and have not been confronted before. They pay great attention to who is promoted, who is hired, and how people are developed. They include new reengineering projects that are even bigger in scope than the initial ones. They understand that renewal efforts take not months but years. In fact, in one of the most successful transformations that I have ever seen, we quantified the amount of change that occurred each year over a seven-year period. On a scale of one (low) to ten (high), year one received a two, year two a four, year three a three, year four a seven, year five an eight, year six a four, and year seven a two. The peak came in year five, fully 36 months after the first set of visible wins.

Error 8: Not Anchoring Changes in the Corporation's Culture

In the final analysis, change sticks when it becomes “the way we do things around here,” when it seeps into the bloodstream of the corporate body. Until new behaviors are rooted in social norms and shared values, they are subject to degradation as soon as the pressure for change is removed.

Two factors are particularly important in institutionalizing change in corporate culture. The first is a conscious attempt to show people how the new approaches, behaviors, and attitudes have helped improve performance. When people are left on their own to make the connections, they sometimes create very inaccurate links. For example, because results improved while charismatic Harry was

boss, the troops link his mostly idiosyncratic style with those results instead of seeing how their own improved customer service and productivity were instrumental. Helping people see the right connections requires communication. Indeed, one company was relentless, and it paid off enormously. Time was spent at every major management meeting to discuss why performance was increasing. The company newspaper ran article after article showing how changes had boosted earnings.

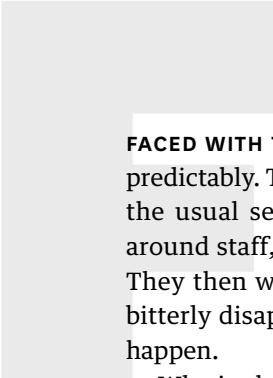
The second factor is taking sufficient time to make sure that the next generation of top management really does personify the new approach. If the requirements for promotion don't change, renewal rarely lasts. One bad succession decision at the top of an organization can undermine a decade of hard work. Poor succession decisions are possible when boards of directors are not an integral part of the renewal effort. In at least three instances I have seen, the champion for change was the retiring executive, and although his successor was not a resistor, he was not a change champion. Because the boards did not understand the transformations in any detail, they could not see that their choices were not good fits. The retiring executive in one case tried unsuccessfully to talk his board into a less seasoned candidate who better personified the transformation. In the other two cases, the CEOs did not resist the boards' choices, because they felt the transformation could not be undone by their successors. They were wrong. Within two years, signs of renewal began to disappear at both companies.

There are still more mistakes that people make, but these eight are the big ones. I realize that in a short article everything is made to sound a bit too simplistic. In reality, even successful change efforts are messy and full of surprises. But just as a relatively simple vision is needed to guide people through a major change, so a vision of the change process can reduce the error rate. And fewer errors can spell the difference between success and failure.

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Change Through Persuasion

by David A. Garvin and Michael A. Roberto



FACED WITH THE NEED for massive change, most managers respond predictably. They revamp the organization's strategy, then round up the usual set of suspects—people, pay, and processes—shifting around staff, realigning incentives, and rooting out inefficiencies. They then wait patiently for performance to improve, only to be bitterly disappointed. For some reason, the right things still don't happen.

Why is change so hard? First of all, most people are reluctant to alter their habits. What worked in the past is good enough; in the absence of a dire threat, employees will keep doing what they've always done. And when an organization has had a succession of leaders, resistance to change is even stronger. A legacy of disappointment and distrust creates an environment in which employees automatically condemn the next turnaround champion to failure, assuming that he or she is "just like all the others." Calls for sacrifice and self-discipline are met with cynicism, skepticism, and knee-jerk resistance.

Our research into organizational transformation has involved settings as diverse as multinational corporations, government agencies, nonprofits, and high-performing teams like mountaineering expeditions and firefighting crews. We've found that for change to stick, leaders must design and run an effective persuasion campaign—one

that begins weeks or months before the actual turnaround plan is set in concrete. Managers must perform significant work up front to ensure that employees will actually listen to tough messages, question old assumptions, and consider new ways of working. This means taking a series of deliberate but subtle steps to recast employees' prevailing views and create a new context for action. Such a shaping process must be actively managed during the first few months of a turnaround, when uncertainty is high and setbacks are inevitable. Otherwise, there is little hope for sustained improvement.

Like a political campaign, a persuasion campaign is largely one of differentiation from the past. To the typical change-averse employee, all restructuring plans look alike. The trick for turnaround leaders is to show employees precisely how their plans differ from their predecessors'. They must convince people that the organization is truly on its deathbed—or, at the very least, that radical changes are required if it is to survive and thrive. (This is a particularly difficult challenge when years of persistent problems have been accompanied by few changes in the status quo.) Turnaround leaders must also gain trust by demonstrating through word and deed that they are the right leaders for the job and must convince employees that theirs is the correct plan for moving forward.

Accomplishing all this calls for a four-part communications strategy. Prior to announcing a policy or issuing a set of instructions, leaders need to set the stage for acceptance. At the time of delivery, they must create the frame through which information and messages are interpreted. As time passes, they must manage the mood so that employees' emotional states support implementation and follow-through. And at critical intervals, they must provide reinforcement to ensure that the desired changes take hold without backsliding.

In this article, we describe this process in more detail, drawing on the example of the turnaround of Beth Israel Deaconess Medical Center (BIDMC) in Boston. Paul Levy, who became CEO in early 2002, managed to bring the failing hospital back from the brink of ruin. We had ringside seats during the first six months of the turnaround. Levy agreed to hold videotaped interviews with us every two to four weeks during that period as we prepared a case study describing his

Idea in Brief

When a company is teetering on the brink of ruin, most turnaround leaders revamp strategy, shift around staff, and root out inefficiencies. Then they wait patiently for the payoff—only to suffer bitter disappointment as the expected improvements fail to materialize.

How to make change stick? Conduct a four-stage persuasion campaign: 1) Prepare your organization's cultural "soil" months before setting your turnaround plan in concrete—by convincing employees that your company can survive only through radical change. 2) Present your plan—explaining in detail its purpose and expected impact. 3) After executing the plan,

manage employees' emotions by acknowledging the pain of change—while keeping people focused on the hard work ahead. 4) As the turnaround starts generating results, reinforce desired behavioral changes to prevent backsliding.

Using this four-part process, the CEO of Beth Israel Deaconess Medical Center (BIDMC) brought the failing hospital back from near-certain death. Hemorrhaging \$58 million in losses in 2001, BIDMC reported a \$37.4 million net gain from operations in 2004. Revenues rose, while costs shrank. Morale soared—as reflected by a drop in nursing turnover from between 15% and 16% in 2002 to just 3% by 2004.

efforts. He also gave us access to his daily calendar, as well as to assorted e-mail correspondence and internal memorandums and reports. From this wealth of data, we were able to track the change process as it unfolded, without the usual biases and distortions that come from 20/20 hindsight. The story of how Levy tilled the soil for change provides lessons for any CEO in a turnaround situation.

Setting the Stage

Paul Levy was an unlikely candidate to run BIDMC. He was not a doctor and had never managed a hospital, though he had previously served as the executive dean for administration at Harvard Medical School. His claim to fame was his role as the architect of the Boston Harbor Cleanup, a multibillion-dollar pollution-control project that

Idea in Practice

Use these steps to persuade your workforce to embrace and execute needed change:

Set the Stage for Acceptance

Develop a bold message that provides compelling reasons to do things differently.

Example: On his first day as Beth Israel Deaconess Medical Center's CEO, Paul Levy publicized the possibility that BIDMC would be sold to a for-profit institution. He delivered an all-hands-on-deck e-mail to the staff citing the hospital's achievements while confirming that the threat of sale was real. The e-mail also signaled actions he would take, including layoffs, and described his open management style (hallway chats, lunches with staff). In addition, Levy

circulated a third-party, warts-and-all report on BIDMC's plight on the hospital's intranet—so staff could no longer claim ignorance.

Frame the Turnaround Plan

Present your turnaround plan in a way that helps people interpret your ideas correctly.

Example: Levy augmented his several-hundred-page plan with an e-mail that evoked BIDMC's mission and uncompromising values and reaffirmed the importance of remaining an academic medical center. He provided further details about the plan, emphasizing needed tough measures based on the third-party report. He also explained past plans' deficiencies, contrasting earlier efforts'

he had led several years earlier. (Based on this experience, Levy identified a common yet insidiously destructive organizational dynamic that causes dedicated teams to operate in counterproductive ways, which he described in "The Nut Island Effect: When Good Teams Go Wrong," March 2001.) Six years after completing the Boston Harbor project, Levy approached the BIDMC board and applied for the job of cleaning up the troubled hospital.

Despite his lack of hospital management experience, Levy was appealing to the board. The Boston Harbor Cleanup was a difficult, highly visible change effort that required deft political and managerial skills. Levy had stood firm in the face of tough negotiations and often-heated public resistance and had instilled accountability in

top-down methods with his plan's collaborative approach. Employees thus felt the plan belonged to them.

Manage the Mood

Strike the right notes of optimism and realism to make employees feel cared for while also keeping them focused on your plan's execution.

Example: Levy acknowledged the pain of layoffs, then urged employees to look forward to “[setting] an example for what a unique academic medical center like ours means for this region.” He also issued progress updates while reminding people that BIDMC still needed to control costs. As financial performance picked up, he lavishly praised the staff.

Prevent Backsliding

Provide opportunities for employees to practice desired behaviors repeatedly. If necessary, publicly criticize disruptive, divisive behaviors.

Example: Levy had established meeting rules requiring staff to state their objections to decisions and to “disagree without being disagreeable.” When one medical chief e-mailed Levy complaining about a decision made during a meeting—and copied the other chiefs and board chairman—Levy took action. He responded with an e-mail to the same audience, publicly reprimanding the chief for his tone, lack of civility, and failure to follow the rule about speaking up during meetings.

city and state agencies. He was also a known quantity to the board, having served on a BIDMC steering committee formed by the board chairman in 2001.

Levy saw the prospective job as one of public service. BIDMC was the product of a difficult 1996 merger between two hospitals—Beth Israel and Deaconess—each of which had distinguished reputations, several best-in-the-world departments and specializations, and deeply devoted staffs. The problems began after the merger. A misguided focus on clinical practice rather than backroom integration, a failure to cut costs, and the repeated inability to execute plans and adapt to changing conditions in the health care marketplace all contributed to BIDMC's dismal performance.

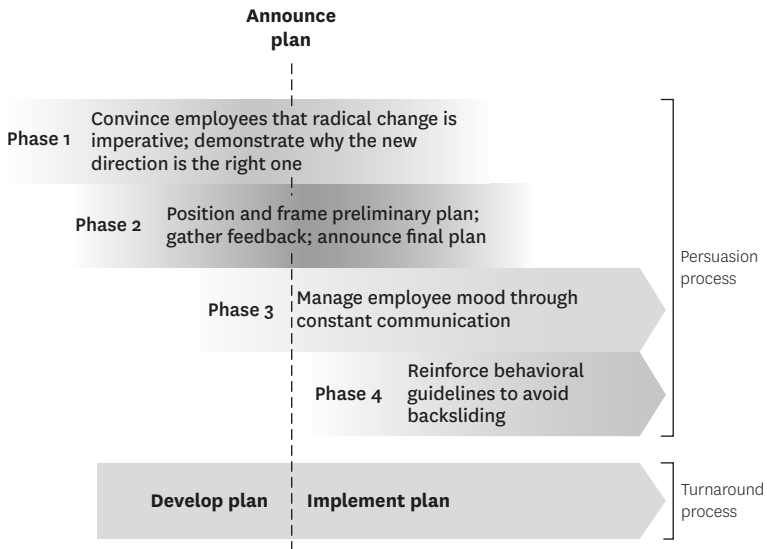
By the time the board settled on Levy, affairs at BIDMC had reached the nadir. The hospital was losing \$50 million a year. Relations between the administration and medical staff were strained, as were those between management and the board of directors. Employees felt demoralized, having witnessed the rapid decline in their institution's once-legendary status and the disappointing failure of its past leaders. A critical study was conducted by the Hunter Group, a leading health-care consulting firm. The report, detailing the dire conditions at the hospital and the changes needed to turn things around, had been completed but not yet released. Meanwhile, the state attorney general, who was responsible for overseeing charitable trusts, had put pressure on the board to sell the failing BIDMC to a for-profit institution.

Like many CEOs recruited to fix a difficult situation, Levy's first task was to gain a mandate for the changes ahead. He also recognized that crucial negotiations were best conducted before he took the job, when his leverage was greatest, rather than after taking the reins. In particular, he moved to secure the cooperation of the hospital board by flatly stating his conditions for employment. He told the directors, for example, that should they hire him, they could no longer interfere in day-to-day management decisions. In his second and third meetings with the board's search committee, Levy laid out his timetable and intentions. He insisted that the board decide on his appointment quickly so that he could be on the job before the release of the Hunter report. He told the committee that he intended to push for a smaller, more effective group of directors. Though the conditions were somewhat unusual, the board was convinced that Levy had the experience to lead a successful turnaround, and they accepted his terms. Levy went to work on January 7, 2002.

The next task was to set the stage with the hospital staff. Levy was convinced that the employees, hungry for a turnaround, would do their best to cooperate with him if he could emulate and embody the core values of the hospital culture, rather than impose his personal values. He chose to act as the managerial equivalent of a

The four phases of a persuasion campaign

A typical turnaround process consists of two stark phases: plan development, followed by an implementation that may or may not be welcomed by the organization. For the turnaround plan to be widely accepted and adopted, however, the CEO must develop a separate persuasion campaign, the goal of which is to create a continuously receptive environment for change. The campaign begins well before the CEO's first day on the job—or, if the CEO is long established, well before formal development work begins—and continues long after the final plan is announced.



good doctor—that is, as one who, in dealing with a very ill patient, delivers both the bad news and the chances of success honestly and imparts a realistic sense of hope, without sugar coating.

Like any leader facing a turnaround, Levy also knew he had to develop a bold message that provided compelling reasons to do things differently and then cast that message in capital letters to signal the arrival of a new order. To give his message teeth, he linked it

to an implicit threat. Taking his cue from his private discussions with the state attorney general, whom he had persuaded to keep the hospital open for the time being, Levy chose to publicize the very real possibility the hospital would be sold. While he realized he risked frightening the staff and the patients with this bad news, he believed that a strong wake-up call was necessary to get employees to face up to the situation.

During his first morning on the job, Levy delivered an all-hands-on-deck e-mail to the staff. The memo contained four broad messages. It opened with the good news, pointing out that the organization had much to be proud of (“This is a wonderful institution, representing the very best in academic medicine: exemplary patient care, extraordinary research, and fine teaching”). Second, Levy noted that the threat of sale was real (“This is our last chance”). Third, he signaled the kinds of actions employees could expect him to take (“There will be a reduction in staff”). And finally, he described the open management style he would adopt. He would manage by walking around—lunching with staff in the cafeteria, having impromptu conversations in the hallways, talking with employees at every opportunity to discover their concerns. He would communicate directly with employees through e-mail rather than through intermediaries. He also noted that the Hunter report would be posted on the hospital intranet, where all employees would have the opportunity to review its recommendations and submit comments for the final turnaround plan. The direct, open tone of the e-mail memo signaled exactly how Levy’s management style would differ from that of his predecessors.

In the afternoon, he disclosed BIDMC’s situation in interviews with the *Boston Globe* and the *Boston Herald*, the city’s two major newspapers. He told reporters the same thing he had told the hospital’s employees: that, in the absence of a turnaround, the hospital would be sold to a for-profit chain and would therefore lose its status as a Harvard teaching hospital. Staving off a sale would require tough measures, including the laying off of anywhere from 500 to 700 employees. Levy insisted that there would be no nursing layoffs, in keeping with the hospital’s core values of high-quality patient

care. The newspaper reports, together with the memo circulated that morning, served to immediately reset employee expectations while dramatically increasing staff cooperation and willingness to accept whatever new initiatives might prove necessary to the hospital's survival.

Two days later, the critical Hunter report came out and was circulated via the hospital's intranet. Because the report had been produced by an objective third party, employees were open to its unvarnished, warts-and-all view of the hospital's current predicament. The facts were stark, and the staff could no longer claim ignorance. Levy received, and personally responded to, more than 300 e-mail suggestions for improvement in response to the report, many of which he later included in the turnaround plan.

Creating the Frame

Once the stage has been set for acceptance, effective leaders need to help employees interpret proposals for change. Complex plans can be interpreted in any number of ways; not all of them ensure acceptance and favorable outcomes. Skilled leaders therefore use "frames" to provide context and shape perspective for new proposals and plans. By framing the issues, leaders help people digest ideas in particular ways. A frame can take many forms: It can be a company-wide presentation that prepares employees before an unexpected change, for example, or a radio interview that provides context following an unsettling layoff.

Levy used one particularly effective framing device to help employees interpret a preliminary draft of the turnaround plan. This device took the form of a detailed e-mail memo accompanying the dense, several-hundred-page plan. The memo explained, in considerable detail, the plan's purpose and expected impact.

The first section of the memo sought to mollify critics and reduce the fears of doctors and nurses. Its tone was positive and uplifting; it discussed BIDMC's mission, strategy, and uncompromising values, emphasizing the hospital's "warm, caring environment." This section of the letter also reaffirmed the importance of remaining an

academic medical center, as well as reminding employees of their shared mission and ideals. The second part of the letter told employees what to expect, providing further details about the turnaround plan. It emphasized that tough measures and goals would be required but noted that the specific recommendations were based, for the most part, on the advice in the Hunter report, which employees had already reviewed. The message to employees was, “You’ve already seen and endorsed the Hunter report. There are no future surprises.”

The third part of the letter anticipated and responded to prospective concerns; this had the effect of circumventing objections. This section explicitly diagnosed past plans and explained their deficiencies, which were largely due to their having been imposed top-down, with little employee ownership, buy-in, or discussion. Levy then offered a direct interpretation of what had gone wrong. Past plans, he said, had underestimated the size of the financial problem, set unrealistic expectations for new revenue growth, and failed to test implementation proposals. This section of the letter also drove home the need for change at a deeper, more visceral level than employees had experienced in the past. It emphasized that this plan was a far more collective effort than past proposals had been, because it incorporated many employee suggestions.

By framing the turnaround proposal this way, Levy accomplished two things. First, he was able to convince employees that the plan belonged to them. Second, the letter served as the basis for an ongoing communication platform. Levy reiterated its points at every opportunity—not only with employees but also in public meetings and in discussions with the press.

Managing the Mood

Turnarounds are depressing events, especially when they involve restructuring and downsizing. Relationships are disrupted, friends move on, and jobs disappear. In such settings, managing the mood of the organization becomes an essential leadership skill. Leaders must pay close attention to employees’ emotions—the ebb and flow

of their feelings and moods—and work hard to preserve a receptive climate for change. Often, this requires a delicate balancing act between presenting good and bad news in just the right proportion. Employees need to feel that their sacrifices have not been in vain and that their accomplishments have been recognized and rewarded. At the same time, they must be reminded that complacency is not an option. The communication challenge is daunting. One must strike the right notes of optimism and realism and carefully calibrate the timing, tone, and positioning of every message.

Paul Levy's challenge was threefold: to give remaining employees time to grieve and recover from layoffs and other difficult measures; to make them feel that he cared for and supported them; and to ensure that the turnaround plan proceeded apace. The process depended on mutual trust and employees' desire to succeed. "I had to calibrate the push and pull of congratulations and pressure, but I also depended on the staff's underlying value system and sense of mission," he said. "They were highly motivated, caring individuals who had stuck with the place through five years of hell. They wanted to do good."

The first step was to acknowledge employees' feelings of depression while helping them look to the future. Immediately after the first round of layoffs, people were feeling listless and dejected; Levy knew that releasing the final version of the turnaround plan too soon after the layoffs could be seen as cold. In an e-mail he sent to all employees a few days later, Levy explicitly empathized with employees' feelings ("This week is a sad one . . . it is hard for those of us remaining . . . offices are emptier than usual"). He then urged employees to look forward and concluded on a strongly optimistic note (" . . . our target is not just survival: It is to thrive and set an example for what a unique academic medical center like ours means for this region"). His upbeat words were reinforced by a piece of good luck that weekend when the underdog New England Patriots won their first Super Bowl championship in dramatic fashion in the last 90 seconds of the game. When Levy returned to work the following Monday, employees were saying, "If the Patriots can do it, we can, too."

Dysfunctional Routines

Six Ways to Stop Change in Its Tracks

Just as people are creatures of habit, organizations thrive on routines. Management teams, for example, routinely cut budgets after performance deviates from plan. Routines—predictable, virtually automatic behaviors—are unstated, self-reinforcing, and remarkably resilient. Because they lead to more efficient cognitive processing, they are, for the most part, functional and highly desirable.

A culture of “no”

In organizations dominated by cynics and critics, there is always a good reason not to do something. Piling on criticism is an easy way to avoid taking risks and claim false superiority. Lou Gerstner gets credit for naming this routine, which he found on his arrival at IBM, but it is common in many organizations. Another CEO described her team’s response to new initiatives by likening it to a skeet shoot: “Someone would yell, ‘Pull!’ there would be a deafening blast, and the idea would be in pieces on the ground.” This routine has two sources: a culture that overvalues criticism and analysis, and complex decision-making processes requiring multiple approvals, in which anybody can say “no” but nobody can say “yes.” It is especially likely in organizations that are divided into large subunits or segments, led by local leaders with great power who are often unwilling to comply with directives from above.

The dog and pony show must go on

Some organizations put so much weight on process that they confuse ends and means, form and content. How you present a proposal becomes more important than what you propose. Managers construct presentations carefully and devote large amounts of time to obtaining sign-offs. The result is death by PowerPoint. Despite the appearance of progress, there’s little real headway.

The grass is always greener

To avoid facing challenges in their core business, some managers look to new products, new services, and new lines of business. At times, such diversification is healthy. But all too often these efforts are merely an avoidance tactic that keeps tough problems at arm’s length.

The next task was to keep employees focused on the continuing hard work ahead. On April 12, two months into the restructuring process, Levy sent out a “Frequently Asked Questions” e-mail giving a generally favorable view of progress to date. At the same time, he spoke plainly about the need to control costs and reminded employees that merit pay increases would remain on hold. This was hardly the rosy picture that most employees were hoping for, of course. But

Dysfunctional routines, by contrast, are barriers to action and change. Some are outdated behaviors that were appropriate once but are now unhelpful. Others manifest themselves in knee-jerk reactions, passivity, unproductive foot-dragging, and, sometimes, active resistance.

Dysfunctional routines are persistent, but they are not unchangeable. Novelty—the perception that current circumstances are truly different from those that previously prevailed—is one of the most potent forces for dislodging routines. To overcome them, leaders must clearly signal that the context has changed. They must work directly with employees to recognize and publicly examine dysfunctional routines and substitute desired behaviors.

After the meeting ends, debate begins

This routine is often hard to spot because so much of it takes place under cover. Cordial, apparently cooperative meetings are followed by resistance. Sometimes, resisters are covert; often, they end-run established forums entirely and take their concerns directly to the top. The result? Politics triumphs over substance, staff meetings become empty rituals, and meddling becomes the norm.

Ready, aim, aim. . .

Here, the problem is the organization's inability to settle on a definitive course of action. Staff members generate a continual stream of proposals and reports; managers repeatedly tinker with each one, fine tuning their choices without ever making a final decision. Often called "analysis paralysis," this pattern is common in perfectionist cultures where mistakes are career threatening and people who rock the boat drown.

This too shall pass

In organizations where prior leaders repeatedly proclaimed a state of crisis but then made few substantive changes, employees tend to be jaded. In such situations, they develop a heads-down, bunker mentality and a reluctance to respond to management directives. Most believe that the wisest course of action is to ignore new initiatives, work around them, or wait things out.

Levy believed sufficient time had passed that employees could accommodate a more realistic and tough tone on his part.

A month later, everything changed. Operational improvements that were put in place during the first phase of the turnaround had begun to take hold. Financial performance was well ahead of budget, with the best results since the merger. In another e-mail, Levy praised employees lavishly. He also convened a series of open

question-and-answer forums, where employees heard more details about the hospital's tangible progress and received kudos for their accomplishments.

Reinforcing Good Habits

Without a doubt, the toughest challenge faced by leaders during a turnaround is to avoid backsliding into dysfunctional routines—habitual patterns of negative behavior by individuals and groups that are triggered automatically and unconsciously by familiar circumstances or stimuli. (For more on how such disruptive patterns work, see the sidebar “Dysfunctional Routines: Six Ways to Stop Change in Its Tracks.”) Employees need help maintaining new behaviors, especially when their old ways of working are deeply ingrained and destructive. Effective change leaders provide opportunities for employees to practice desired behaviors repeatedly, while personally modeling new ways of working and providing coaching and support.

In our studies of successful turnarounds, we've found that effective leaders explicitly reinforce organizational values on a constant basis, using actions to back up their words. Their goal is to change behavior, not just ways of thinking. For example, a leader can talk about values such as openness, tolerance, civility, teamwork, delegation, and direct communication in meetings and e-mails. But the message takes hold only if he or she also signals a dislike of disruptive, divisive behaviors by pointedly—and, if necessary, publicly—criticizing them.

At Beth Israel Deaconess Medical Center, the chiefs of medicine, surgery, orthopedics, and other key functions presented Levy with special behavioral challenges, particularly because he was not a doctor. Each medical chief was in essence a “mini-dean,” the head of a largely self-contained department with its own faculty, staff, and resources. As academic researchers, they were rewarded primarily for individual achievement. They had limited experience solving business or management problems.

In dealing with the chiefs, Levy chose an approach that blended with a strong dose of discipline with real-time, public reinforcement.

He developed guidelines for behavior and insisted that everyone in the hospital measure up to them. In one of his earliest meetings with the chiefs, Levy presented a simple set of “meeting rules,” including such chestnuts as “state your objections” and “disagree without being disagreeable,” and led a discussion about them, demonstrating the desired behaviors through his own leadership of the meeting. The purpose of these rules was to introduce new standards of interpersonal behavior and, in the process, to combat several dysfunctional routines.

One serious test of Levy’s ability to reinforce these norms came a month and a half after he was named CEO. After a staff meeting at which all the department chairs were present, one chief—who had remained silent—sent an e-mail to Levy complaining about a decision made during the meeting. The e-mail copied the other chiefs as well as the chairman of the board. Many CEOs would choose to criticize such behavior privately. But Levy responded in an e-mail to the same audience, publicly denouncing the chief for his tone, his lack of civility, and his failure to speak up earlier in the process, as required by the new meeting rules. It was as close to a public hanging as anyone could get. Several of the chiefs privately expressed their support to Levy; they too had been offended by their peer’s presumptuousness. More broadly, the open criticism served to powerfully reinforce new norms while curbing disruptive behavior.

Even as they must set expectations and reinforce behaviors, effective change leaders also recognize that many employees simply do not know how to make decisions as a group or work cooperatively. By delegating critical decisions and responsibilities, a leader can provide employees with ample opportunities to practice new ways of working; in such cases, employees’ performance should be evaluated as much on their adherence to the new standards and processes as on their substantive choices. In this spirit, Levy chose to think of himself primarily as a kind of appeals court judge. When employees came to him seeking his intervention on an issue or situation, he explained, he would “review the process used by the ‘lower court’ to determine if it followed the rules. If so, the decision stands.” He did not review cases *de novo* and substitute his

judgment for that of the individual department or unit. He insisted that employees work through difficult issues themselves, even when they were not so inclined, rather than rely on him to tell them what to do. At other times, he intervened personally and coached employees when they lacked basic skills. When two members of his staff disagreed on a proposed course of action, Levy triggered an open, emotional debate, then worked with the participants and their bosses behind the scenes to resolve the differences. At the next staff meeting, he praised the participants' willingness to disagree publicly, reemphasizing that vigorous debate was healthy and desirable and that confrontation was not to be avoided. In this way, employees gained experience in working through their problems on their own.

Performance, of course, is the ultimate measure of a successful turnaround. On that score, BIDMC has done exceedingly well since Levy took the helm. The original restructuring plan called for a three-year improvement process, moving from a \$58 million loss in 2001 to breakeven in 2004. At the end of the 2004 fiscal year, performance was far ahead of plan, with the hospital reporting a \$37.4 million net gain from operations. Revenues were up, while costs were sharply reduced. Decision making was now crisper and more responsive, even though there was little change in the hospital's senior staff or medical leadership. Morale, not surprisingly, was up as well. To take just one indicator, annual nursing turnover, which was 15% to 16% when Levy became CEO, had dropped to 3% by mid-2004. Pleased with the hospital's performance, the board signed Levy to a new three-year contract.

Heads, Hearts, and Hands

It's clear that the key to Paul Levy's success at Beth Israel Deaconess Medical Center is that he understood the importance of making sure the cultural soil had been made ready before planting the seeds of change. In a receptive environment, employees not only understand why change is necessary; they're also emotionally committed to making it happen, and they faithfully execute the required steps.

On a cognitive level, employees in receptive environments are better able to let go of competing, unsubstantiated views of the nature and extent of the problems facing their organizations. They hold the same, objective views of the causes of poor performance. They acknowledge the seriousness of current financial, operational, and marketplace difficulties. And they take responsibility for their own contributions to those problems. Such a shared, fact-based diagnosis is crucial for moving forward.

On an emotional level, employees in receptive environments identify with the organization and its values and are committed to its continued existence. They believe that the organization stands for something more than profitability, market share, or stock performance and is therefore worth saving. Equally important, they trust the leader, believing that he or she shares their values and will fight to preserve them. Leaders earn considerable latitude from employees—and their proposals usually get the benefit of the doubt—when their hearts are thought to be in the right place.

Workers in such environments also have physical, hands-on experience with the new behaviors expected of them. They have seen the coming changes up close and understand what they are getting into. In such an atmosphere where it's acceptable for employees to wrestle with decisions on their own and practice unfamiliar ways of working, a leader can successfully allay irrational fears and undercut the myths that so often accompany major change efforts.

There is a powerful lesson in all this for leaders. To create a receptive environment, persuasion is the ultimate tool. Persuasion promotes understanding; understanding breeds acceptance; acceptance leads to action. Without persuasion, even the best of turnaround plans will fail to take root.

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Leading Change When Business Is Good

An Interview with *Samuel J. Palmisano*.

by *Paul Hemp and Thomas A. Stewart*

IN JULY 2003, International Business Machines Corporation conducted a 72-hour experiment whose outcome was as uncertain as anything going on in its research labs. Six months into a top-to-bottom review of its management organization, IBM held a three-day discussion via the corporate intranet about the company's values. The forum, dubbed ValuesJam, joined thousands of employees in a debate about the very nature of the computer giant and what it stood for.

Over the three days, an estimated 50,000 of IBM's employees—including CEO Sam Palmisano—checked out the discussion, posting nearly 10,000 comments about the proposed values. The jam had clearly struck a chord.

But it was a disturbingly dissonant one. Some comments were merely cynical. One had the subject line: "The only value in IBM today is the stock price." Another read, "Company values (ya right)." Others, though, addressed fundamental management issues. "I feel we talk a lot about trust and taking risks. But at the same time, we have endless audits, mistakes are punished and not seen as a welcome part of learning, and managers (and others) are consistently checked," wrote one employee. "There appears to be a great reluctance among our junior

executive community to challenge the views of our senior execs,” said another. “Many times I have heard expressions like, ‘Would you tell Sam that his strategy is wrong!!!?’” Twenty-four hours into the exercise, at least one senior executive wanted to pull the plug.

But Palmisano wouldn’t hear of it. And then the mood began to shift. After a day marked by critics letting off steam, the counter critics began to weigh in. While acknowledging the company’s shortcomings, they argued that much of IBM’s culture and values was worth preserving. “Shortly after joining IBM 18 years ago,” wrote one, “I was asked to serve on a jury. When I approached the bench and answered [the lawyers’] questions, I was surprised when the judge said, ‘You guys can pick whoever else you want, but I want this IBMer on that jury.’ I have never felt so much pride. His statement said it all: integrity, excellence, and quality.” Comments like these became more frequent, criticism became more constructive, and the ValuesJam conversation stabilized.

The question of what was worth preserving and what needed to be changed was at the heart of ValuesJam. In 1914—when the company was making tabulating machines, scales for weighing meat, and cheese slicers—president Thomas Watson, Sr., decreed three corporate principles, called the Basic Beliefs: “respect for the individual,” “the best customer service,” and “the pursuit of excellence.” They would inform IBM’s culture, and help drive its success, for more than half a century.

By 2002, when Palmisano took over as CEO, much had happened to Big Blue. In the early 1990s, the company had suffered the worst reversal in its history and then, under Lou Gerstner, had fought its way back, transformed from a mainframe maker into a robust provider of integrated hardware, networking, and software solutions. Palmisano felt that the Basic Beliefs could still serve the company—but now as the foundation for a new set of corporate values that could energize employees even more than its near-death experience had. Looking for a modern-day equivalent, Palmisano first queried 300 of his senior executives, then quickly opened up the discussion, through a survey of over a thousand employees, to get a sense of how people at all levels, functions, and locations would articulate IBM’s values and their

Idea in Brief

It's easy to fire up employees' passion for change when your business is about to go up in flames. Lou Gerstner knew this when he seized IBM's helm in 1993 and saved the faltering giant by transforming it from a mainframe maker into a provider of integrated solutions.

But how do you maintain people's commitment to change when business is good? You know your company must constantly adapt if it wants to maintain its competitive edge. Yet without an obvious threat on the horizon, your employees may grow complacent.

How to build a workforce of relentless change agents? Replace command-and-control with **values-based management**: Instead of galvanizing people through fear of failure, energize them through hope and aspiration. Inspire them to pursue a common purpose based on values *they* help to define. Ask them what's blocking them from living those values—and launch change initiatives to remove obstacles.

As enduring companies like IBM have discovered, values-based management enables your people to respond quickly, flexibly, and creatively to a never-ending stream of strategic challenges.

aspirations for the company. Out of this research grew the propositions that were debated in ValuesJam.

After—and even during—the jam, company analysts pored over the postings, mining the million-word text for key themes. Finally, a small team that included Palmisano came up with a revised set of corporate values. The CEO announced the new values to employees in an intranet broadcast in November 2003: “dedication to every client’s success,” “innovation that matters—for our company and for the world,” “trust and personal responsibility in all relationships.” Earthshaking? No, but imbued with legitimacy and packed with meaning and implications for IBM.

To prove that the new values were more than window dressing, Palmisano immediately made some changes. He called on the director of a major business unit—e-business hosting services for the U.S. industrial sector—and charged her with identifying gaps between the values and company practices. He bluntly told his 15 direct reports that they had better follow suit. Another online jam was held in Octo-

Idea in Practice

To create your values-based management system:

Gather Employees' Input on Values

Assess the strategic challenges facing your company. Propose values you believe will help your firm meet those challenges. Collect employees' feedback on your ideas.

Example: IBM CEO Sam Palmisano knew that the IT industry was reintegrating: Customers wanted packages of computer products and services from single firms. Despite its far-flung, diverse 320,000-strong workforce, the company had to offer customized solutions at a single price. To achieve the required cooperation, IBM needed a shared set of values to guide people's decision making.

Using feedback from top managers and employees, Palmisano's team

developed three working value statements—"Commitment to the customer," "Excellence through innovation," and "Integrity that earns trust." IBM posted these on its intranet and invited employees to debate them. Over three days, 50,000 debated the merits of the value statements.

Analyze Employees' Input

Examine employees' input for themes.

Example: Many IBMers criticized the "integrity that earns trust" statement as vague, outdated, and inwardly focused. They wanted more specific guidance on how to behave with each other and with external stakeholders.

Revise Your Values

Based on the themes in employees' input, create a revised set of values. Gather employees' input again.

ber 2004 (this one informally dubbed a "logjam") in which employees were asked to identify organizational barriers to innovation and revenue growth.

Although Palmisano, by his own account, is building on a strategy laid down by Gerstner, the leadership styles of the two men are very different. Under Gerstner, there was little expansive talk about IBM's heritage. He was an outsider, a former CEO of RJR Nabisco and an ex-McKinsey consultant, who was faced with the daunting task of

Example: Palmisano's team revised the earlier value statements to read: "Dedication to every client's success," "Innovation that matters—for our company and for the world," and "Trust and personal responsibility in all relationships." The team published the revised statements on the intranet and once more invited feedback.

Identify Obstacles to Living the Values

Examine employees' responses to identify what's preventing your company from living its agreed-upon values.

Example: IBMers praised the revised value statements—often in highly emotional language—but wondered whether IBM was willing and able to live those values. They understood the need to

reintegrate the company but lamented obstacles—such as frustrating financial controls—that prevented them from serving customers quickly.

Launch Change Initiatives to Remove Obstacles

Initiate change programs that enable people to live the values.

Example: IBM allocated \$5,000 a year to individual managers to use, no questions asked, in order to generate business, develop client relationships, or respond to fellow IBMers' emergency needs. A pilot program run with 700 client-facing teams showed that they spent the money intelligently. The program was expanded to all 22,000 IBM first-line managers. The initiative demonstrated to employees that IBM lives by its values.

righting a sinking ship. In fact, he famously observed, shortly after taking over, that "the last thing IBM needs right now is a vision." Palmisano, by contrast, is a true-blue IBMer, who started at the company in 1973 as a salesman in Baltimore. Like many of his generation who felt such acute shame when IBM was brought to its knees in the early 1990s, he clearly has a visceral attachment to the firm—and to the hope that it may someday regain its former greatness. At the same time, the erstwhile salesman is, in the words of a colleague, "a

results-driven, make-it-rain, close-the-deal sort of guy”: not the first person you’d expect to hold forth on a subjective topic like “trust.”

In this edited conversation with HBR senior editor Paul Hemp and HBR’s editor, Thomas A. Stewart, Palmisano talks about the strategic importance of values to IBM. He begins by explaining why—and how—hard financial metrics and soft corporate values can coexist.

Corporate values generally are feel-good statements that have almost no effect on a company’s operations. What made—what makes—you think they can be more than this?

Look at the portrait of Tom Watson, Sr., in our lobby. You’ve never seen such a stern man. The eyes in the painting stare right through you. This was *not* a soft individual. He was a capitalist. He wanted IBM to make money, lots of it. But he was perceptive enough to build the company in a way that would ensure its prosperity long after he left the scene. His three Basic Beliefs successfully steered this company through persistent change and repeated reinvention for more than 50 years.

An organic system, which is what a company is, needs to adapt. And we think values—that’s what we call them today at IBM, but you can call them “beliefs” or “principles” or “precepts” or even “DNA”—are what enable you to do that. They let you change everything, from your products to your strategies to your business model, but remain true to your essence, your basic mission and identity.

Unfortunately, over the decades, Watson’s Basic Beliefs became distorted and took on a life of their own. “Respect for the individual” became entitlement: not fair work for all, not a chance to speak out, but a guaranteed job and culture-dictated promotions. “The pursuit of excellence” became arrogance: We stopped listening to our markets, to our customers, to each other. We were so successful for so long that we could never see another point of view. And when the market shifted, we almost went out of business. We had to cut a workforce of more than 400,000 people in half. Over the course of several years, we wiped out the equivalent of a medium-sized northeastern city—say, Providence, Rhode Island.

If you lived through this, as I did, it was easy to see how the company's values had become part of the problem. But I believe values can once again help guide us through major change and meet some of the formidable challenges we face.

For instance, I feel that a strong value system is crucial to bringing together and motivating a workforce as large and diverse as ours has become. We have nearly one-third of a million employees serving clients in 170 countries. Forty percent of those people don't report daily to an IBM site; they work on the client's premises, from home, or they're mobile. And, perhaps most significant, given IBM's tradition of hiring and training young people for a lifetime of work, half of today's employees have been with the company for fewer than five years because of recent acquisitions and our relatively new practice of hiring seasoned professionals. In a modest hiring year, we now add 20,000 to 25,000 people.

In effect, gradually repopulating Providence, Rhode Island!

Exactly. So how do you channel this diverse and constantly changing array of talent and experience into a common purpose? How do you get people to *passionately* pursue that purpose?

You could employ all kinds of traditional, top-down management processes. But they wouldn't work at IBM—or, I would argue, at an increasing number of twenty-first-century companies. You just can't impose command-and-control mechanisms on a large, highly professional workforce. I'm not only talking about our scientists, engineers, and consultants. More than 200,000 of our employees have college degrees. The CEO can't say to them, "Get in line and follow me." Or "*I've* decided what *your* values are." They're too smart for that. And as you know, smarter people tend to be, well, a little more challenging; you might even say cynical.

But even if our people did accept this kind of traditional, hierarchical management system, our clients wouldn't. As we learned at IBM over the years, a top-down system can create a smothering bureaucracy that doesn't allow for the speed, the flexibility, the innovation that clients expect today.

So you're saying that values are about how employees behave when management isn't there, which it can't be—which it shouldn't be—given IBM's size and the need for people to make decisions quickly. You're basically talking about using values to manage.

Yes. A values-based management system. Let me cast the issue in a slightly different light. When you think about it, there's no optimal way to organize IBM. We traditionally were viewed as a large, successful, "well-managed" company. That was a compliment. But in today's fast-changing environment, it's a problem. You can easily end up with a bureaucracy of people overanalyzing problems and slowing down the decision-making process.

Think of our organizational matrix. Remember, we operate in 170 countries. To keep it simple, let's say we have 60 or 70 major product lines. We have more than a dozen customer segments. Well, if you mapped out the entire 3-D matrix, you'd get more than 100,000 cells—cells in which you have to close out P&Ls every day, make decisions, allocate resources, make trade-offs. You'll drive people crazy trying to centrally manage every one of those intersections.

So if there's no way to optimize IBM through organizational structure or by management dictate, you have to empower people while ensuring that they're making the right calls the right way. And by "right," I'm not talking about ethics and legal compliance alone; those are table stakes. I'm talking about decisions that support and give life to IBM's strategy and brand, decisions that shape a culture. That's why values, for us, aren't soft. They're the basis of what we do, our mission as a company. They're a touchstone for decentralized decision making. It used to be a rule of thumb that "people don't do what you expect; they do what you inspect." My point is that it's just not possible to inspect everyone anymore. But you also can't just let go of the reins and let people do what they want without guidance or context. You've got to create a management system that empowers people and provides a basis for decision making that is consistent with who we are at IBM.

How do the new values help further IBM's strategy?

In two main ways. Back some 12 years ago, three-fifths of our business was in computer hardware and roughly two-fifths was in software

and services. Today, those numbers are more than reversed. Well, if three-fifths of your business is manufacturing, management is basically supervisory: “You do this. You do that.” But that no longer works when your business is primarily based on knowledge. And your business model also changes dramatically.

For one thing, people—rather than products—become your brand. Just as our products have had to be consistent with the IBM brand promise, now more than ever, so do our people. One way to ensure that is to inform their behavior with a globally consistent set of values.

Second, the IT industry has continued to shift toward reintegration. We all know the story of how the industry fragmented in the 1980s and 1990s, with separate companies selling the processors, the storage devices, and the software that make up a computer system—almost killing IBM, the original vertically integrated computer company. Now customers are demanding a package of computer products and services from a single company, a company that can offer them an integrated solution to their business problems. This is a big opportunity for IBM. We probably have a wider array of computer products and services and know-how than anyone. But it’s also a challenge. How can we get our people in far-flung business units with different financial targets and incentives working together in teams that can offer at a single price a comprehensive and customized solution—one that doesn’t show the organizational seams?

Companies usually face the issue of workforce integration after a huge merger. We needed to integrate our existing workforce as a strategic response to the reintegration of the industry. It won’t surprise you that I didn’t think the answer lay in a new organizational structure or in more management oversight. What you need to foster this sort of cooperation is a common set of guidelines about how we make decisions, day in and day out. In other words, values.

And what happens when the strategy changes?

Ah, that’s why the right set of values is so important. There’s always going to be another strategy on the horizon as the market changes, as technologies come and go. So we wanted values that would foster an organization able to quickly execute a new strategy. At the same

time, we wanted values that, like Watson's Basic Beliefs, would be enduring, that would guide the company through economic cycles and geopolitical shifts, that would transcend changes in products, technologies, employees, and leaders.

How did IBM distill new values from its past traditions and current employee feedback?

The last time IBM examined its values was nearly a century ago. Watson was an entrepreneur, leading what was, in today's lingo, a start-up. So in 1914, he simply said, "Here are our beliefs. Learn them. Live them." That was appropriate for his day, and there's no question it worked. But 90 years later, we couldn't have someone in headquarters sitting up in bed in the middle of the night and saying, "Here are our new values!" We couldn't be casual about tinkering with the DNA of a company like IBM. We had to come up with a way to get the employees to create the value system, to determine the company's principles. Watson's Basic Beliefs, however distorted they might have become over the years, had to be the starting point.

After getting input from IBM's top 300 executives and conducting focus groups with more than a thousand employees—a statistically representative cross-section—we came up with three perfectly sound values. [For a detailed description of how IBM got from the Basic Beliefs to its new set of values, see the sidebar "Continuity and Change."] But I knew we'd eventually throw out the statements to everyone in the company to debate. That's where ValuesJam came in—this live, companywide conversation on our intranet.

What was your own experience during the jam? Did you have the feeling you'd opened Pandora's box?

I logged in from China. I was pretty jet-lagged and couldn't sleep, so I jumped in with postings on a lot of stuff, particularly around client issues. [For a selection of Palmisano's postings during the ValuesJam, see the sidebar "Sam Joins the Fray."] And yes, the electronic argument was hot and contentious and messy. But you had to get comfortable with that. Understand, we had done three or four big

online jams before this, so we had some idea of how lively they can be. Even so, none of those could have prepared us for the emotions unleashed by this topic.

You had to put your ego aside—not easy for a CEO to do—and realize that this was the best thing that could have happened. You could say, “Oh my God, I’ve unleashed this incredible negative energy.” Or you could say, “Oh my God, I now have this incredible mandate to drive even more change in the company.”

When Lou Gerstner came here in 1993, there was clearly a burning platform. In fact, the whole place was in flames. There was even talk of breaking up the company. And he responded brilliantly. Here’s this outsider who managed to marshal the collective urgency of tens of thousands of people like me to save this company and turn it around: without a doubt one of the greatest saves in business history. But the trick then wasn’t creating a sense of urgency—we had that. Maybe you needed to shake people out of being shell-shocked. But most IBMers were willing to do whatever it took to save the company, not to mention their own jobs. And there was a lot of pride at stake. Lou’s task was mostly to convince people that he was making the right changes.

Once things got better, though, there was another kind of danger: that we would slip back into complacency. As our financial results improved dramatically and we began outperforming our competitors, people—already weary from nearly a decade of change—would say, “Well, why do I have to do things differently now? The leadership may be different, but the strategy is fundamentally sound. Why do I have to change?” This is, by the way, a problem that everyone running a successful company wrestles with.

So the challenge shifted. Instead of galvanizing people through fear of failure, you have to galvanize them through hope and aspiration. You lay out the opportunity to become a great company again—the greatest in the world, which is what IBM used to be. And you hope people feel the same need, the urgency you do, to get there. Well, I think IBMers today do feel that urgency. Maybe the jam’s greatest contribution was to make that fact unambiguously clear to all of us, very visibly, in public.

Continuity and Change

IBM'S NEW VALUES GREW OUT OF A LONG TRADITION. In 1914, Thomas Watson, Sr., the founder of the modern International Business Machines Corporation, laid out three principles known as the *Basic Beliefs*:

- Respect for the individual
- The best customer service
- The pursuit of excellence

Although these beliefs played a significant role in driving IBM's success over most of the twentieth century, they eventually were subsumed—and, in effect, redefined—by a sense of entitlement and arrogance within the organization. That, according to CEO Sam Palmisano, contributed to the company's failure to respond to market changes in the early 1990s and to its near demise.

In February 2003, just under a year after taking over as CEO, at a meeting of IBM's top 300 managers, Palmisano raised the idea of reinventing the company's values as a way to manage and reintegrate the sprawling and diverse enterprise. He put forth *four concepts*, three of them drawn from Watson's Basic Beliefs, as possible bases for the new values:

- Respect
- Customer
- Excellence
- Innovation

These were “test marketed” through surveys and focus groups with more than 1,000 IBM employees. The notion of “respect” was thrown out because of its connotations of the past. It was also decided that statements rather than just words would be more compelling.

Out of this process grew the three *proposed values* discussed during the July 2003 online forum, ValuesJam:

- Commitment to the customer

What were the chief points of debate—or contention?

There was actually remarkable agreement on *what* we all value. The debate, as it turned out, wasn't over the values themselves so much. The debate was about whether IBM today is willing and able to live them.

For instance, people seemed to understand the need to reintegrate the company, but there were complaints—legitimate complaints—

- Excellence through innovation
- Integrity that earns trust

Using a specially tailored “jamalyzer” tool—based on IBM’s e-classifier software, but turbocharged with additional capabilities designed to process constantly changing content—IBM analysts crunched the million-plus words posted during the ValuesJam. Some themes emerged. For example, many people said that a silo mentality pitted the business units against one another, to the detriment of IBM as a whole. Several people characterized this as a trust issue. But the proposed value “integrity that earns trust” was criticized as being too vague. Some thought it was just another way of saying “respect for the individual,” one of the original Basic Beliefs that many now viewed as outdated. And the notion of trust was seen as being too inwardly focused—management trusting its employees—and not prescriptive enough in terms of how employees should behave with each other or with parties outside the company.

Drawing on this analysis, the results of pre- and post-jam surveys, and a full reading of the raw transcripts, a small team, with input from Palmisano, arrived at a revised set of *new corporate values*:

- **Dedication to every client’s success**
- **Innovation that matters—for our company and for the world**
- **Trust and personal responsibility in all relationships**

These were published on the company intranet in November 2003.

about things that are getting in the way. People would describe extremely frustrating situations. They’d say something like: “I’m in Tokyo, prototyping software for a client, and I need a software engineer based in Austin *right now* to help in a blade server configuration. But I can’t just say, ‘Please come to Tokyo and help.’ I need to get a charge code first so I can pay his department for his time!”

There’s a collective impatience that we’ve been tapping into to drive the change needed to make IBM everything that all of us aspire for it to be. I’m convinced that we wouldn’t have gotten to this point if we hadn’t found a way to engage the entire IBM population in a genuine, candid conversation.

Sam Joins the Fray

IBM CEO SAM PALMISANO was in China on business during ValuesJam, and he logged on from there. Following are some of his comments (typos included) on a number of topics raised by employees during the online forum:

YES, values matter!!!! (6 reply)

Samuel J. Palmisano 29 Jul 2003 20:00 GMT

Good discussion about the need for values/principles/beliefs, etc. people can be very cynical and sarcastic about this kind of topic, but I appreciate the thoughtful constructive comments I'm seeing. Personally, I believe "values" should embrace a company's broader role in the world —with customers, society, culture, etc. - as well as how its people work together.. I hope this Jam elevates IBM's ambitions about its mission in the 21st century.. WE have a unique opportunity for IBM to set the pace for ALL companies, not just the techs.

doing the right thing for customers . . . (21 reply)

Samuel J. Palmisano 29 Jul 2003 20:07 GMT

Early in my career when I was in the field in Baltimore, one of our systems failed for a healthcare customer. The customer went to manual processes, but said they would start losing patients within hours if the system couldn't be fixed. The branch mgr called one of our competitors and ordered another system. so two teams of IBMERS worked side by side.. one to fix the system, the others to bring up the new one. the mgr never asked Hq what to do.. it was a great lesson in how far this company will go to help a customer in time of need. btw, we fixed the system in time.

By the way, having a global, universally accessible intranet like ours certainly helps, but the technology isn't the point. I think we would've found a way to have this companywide dialogue if the Web didn't exist. [For an explanation of how the jam worked, see the sidebar "Managing ValuesJam."]

What happened after the jam?

Well, we got a mountain of employee comments. The team analyzed all of it, and it was clear that the proposed value statements needed to change to reflect some of the nuances and emotion people expressed. So, drawing on this analysis, along with other employee feedback, a small team settled on IBM's new corporate values.

integrity/trust in ALL our relationships matter!!!! (44 reply)

Samuel J. Palmisano 29 Jul 2003 20:12 GMT

very interesting discussion . . . one thing I'm noticing, and it was in the broadcast feedback too: not too many of you are talking about integrity and trust when it comes to our OTHER relationships that are key to IBMs success—customers, communities where we live, owners of the company etc. any thoughts on why thats so? maybe we're too inwardly focused?

a world without IBM???? (35 reply)

Samuel J. Palmisano 29 Jul 2003 20:20 GMT

No IBM? the industry would stop growing because no one would invent anything that ran for more than THREE MINUTES.. no IBM means no grownups . . . no IBM means no truly global company that brings economic growth, respect progress to societies everywhere . . . no IBM means no place to work for hundreds of thousands of people who want more than a job, they want to ,MAKE A DIFFERENCE in the world.

suggestion for Sam (9 reply)

Samuel J. Palmisano 29 Jul 2003 20:25 GMT

steve, you make good points about how/when we win . . . we can blow up more burecracy if we all behave like mature adutls and take into account ALL OF THE INTERESTS of IBM FIRST.. customers, employees, shareholders, doing whats right for the LONG TERM intersts of the company. mgrs have an important role to play in encouraing this kind of behavior . . . you have my support.

The first value is “dedication to every client’s success.” At one level, that’s pretty straightforward: Bring together all of IBM’s capability—in the laboratory, in the field, in the back office, wherever—to help solve difficult problems clients can’t solve themselves. But this is also a lot more than the familiar claim of unstinting customer service. “Client success” isn’t just “the customer is always right.” It means maintaining a long-term relationship where what happens after the deal is more important than what happens before it’s signed. It means a persistent focus on outcomes. It means having skin in the game of your client’s success, up to and including how your contracts are structured and what triggers your getting paid.

The second is “innovation that matters—for our company and for the world.” When employees talked about IBM making a difference in the world, they included more than our work of inventing and building great products. They talked about how their work touches people and society, how we can help save lives—say, through our cutting-edge work with the Mayo Clinic or by helping governments fight terrorism with our data technology. This kind of innovation is a major reason we are able to attract great scientists. They can do cool stuff and maybe make more money in Silicon Valley—for a while, anyway—but they can do work that actually changes business and society at IBM. And it’s also about what I mentioned before: a continually experimental attitude toward IBM itself. Over most of our 90 years, with the exception of that one period when we became arrogant and complacent, this company never stopped questioning assumptions, trying out different models, testing the limits—whether in technology or business or in progressive workforce policies. Employees reminded us that those things are innovations that matter at least as much as new products.

The third value is “trust and personal responsibility in all relationships.” There’s a lot in that statement, too. Interestingly, the feedback from employees on this value has focused on relationships among people at IBM. But we’re also talking about the company’s relationships with suppliers, with investors, with governments, with communities.

We published the values in their final form—along with some elaboration on them and some direct employee postings from the jam—in November 2003. Over the next ten days, more than 200,000 people downloaded the online document. The responses just flooded in, both in the form of postings on the intranet and in more than a thousand e-mails sent directly to me, telling us in often sharp language just where IBM’s operations fell short of, or clashed with, these ideals. Some of the comments were painful to read. But, again, they exhibited something every leader should welcome: People here aren’t complacent about the company’s future. And the comments were, by and large, extremely thoughtful.

Managing ValuesJam

IBM HAD EXPERIMENTED before with jam sessions—relatively unstructured employee discussions around broad topics—both on the corporate intranet and in face-to-face off-site brainstorming sessions. But the 72-hour ValuesJam, held in July 2003, was the most ambitious, focusing as it did on the very nature and future of IBM.

One thing was clear: You wouldn't be able to orchestrate a forum like this, the verbal equivalent of an improvisational jam session among jazz musicians. In the words of CEO Sam Palmisano, "It just took off." But, much like a musical jam, the dialogue was informed by a number of themes:

Forum 1. Company Values

Do company values exist? If so, what is involved in establishing them? Most companies today have values statements. But what would a company look and act like that truly lived its beliefs? Is it important for IBM to agree on a set of lasting values that drive everything it does?

Forum 2. A First Draft

What values are essential to what IBM needs to become? Consider this list: 1. Commitment to the customer. 2. Excellence through innovation. 3. Integrity that earns trust. How might these values change the way we act or the decisions we make? Is there some important aspect or nuance that is missing?

Forum 3. A Company's Impact

If our company disappeared tonight, how different would the world be tomorrow? Is there something about our company that makes a unique contribution to the world?

Forum 4. The Gold Standard

When is IBM at its best? When have you been proudest to be an IBMer? What happened, and what was uniquely meaningful about it? And what do we need to do—or change—to be the gold standard going forward?

What did you do with this feedback?

We collected and collated it. Then I printed all of it out—the stack of paper was about three feet high—and took it home to read over one weekend. On Monday morning, I walked into our executive committee meeting and threw it on the table. I said, "You guys ought to read

every one of these comments, because if you think we've got this place plumbed correctly, think again."

Don't get me wrong. The passion in these e-mails was positive as well as negative. People would say, literally, "I'm weeping. These values describe the company I joined, the company I believe in. We can truly make this place great again. But we've got all these things in our way. . . ." The raw emotion of some of the e-mails was really something.

Now, if you've unleashed all this frustration and energy, if you've invited people to feel hope about something they really care about, you'd better be prepared to do something in response. So, in the months since we finalized the values, we've announced some initiatives that begin to close the gaps.

One I have dubbed our "\$100 million bet on trust." We kept hearing about situations like our colleague in Tokyo who needed help from the engineer in Austin, cases in which employees were unable to respond quickly to client needs because of financial control processes that required several levels of management approval. The money would usually be approved, but too late. So we allocated managers up to \$5,000 annually they could spend, no questions asked, to respond to extraordinary situations that would help generate business or develop client relationships or to respond to an IBMer's emergency need. We ran a pilot for a few months with our 700 client-facing teams, and they spent the money intelligently. There were lots of examples of teams winning deals and delighting clients with a small amount of "walk around money" to spend at their discretion. So, based on the success of that pilot, we expanded the program to all 22,000 IBM first-line managers.

You can do the math: \$5,000 times 22,000 managers is a big number. I'm sure there were people in the company who said, "We need to get this under control." But they're not the CEO. Yes, you need financial controls. Yes, not every dollar spent from this Managers' Value Fund will yield some tangible return. But I'm confident that allowing line managers to take some reasonable risks, and trusting them with those decisions, will pay off over time. The program also makes a point: that we live by our values.

The value of “trust and personal responsibility in all relationships”—including those with IBM’s shareholders—led to another initiative: a change in the way we grant top executive stock options. After getting a lot of outside experts to study this (and concluding that the complicated algorithms they recommended were wonderful, if you wanted to hire the outsiders as permanent consultants, but terrible if you wanted a simple formula that aligned executive behavior with shareholder interests), we settled on a straightforward idea. Senior executives will benefit from their options only after shareholders have realized at least 10% growth in their investments—that is, the strike price is 10% higher than the market price on the day the options are issued. Look at it this way: IBM’s market value would have to increase by \$17 billion from that date before any of the execs realize a penny of benefit. We think we are the first large company to take such a radical step—and it grew out of our values.

Let me give you one more example. It may not sound like a big deal, but for us, it was radical. We overhauled the way we set prices. We heard time and again from employees about how difficult it was to put together a client-friendly, cross-IBM solution, one involving a variety of products and services at a single, all-inclusive price. We couldn’t do it. Every brand unit had its own P&L, and all the people who determine prices had been organized by brand. Remember those 100,000 cells in our 3-D matrix? Our people were pulling their cross-IBM bids apart, running them through our financial-accounting system as separate bids for individual products and services. This was nuts, because it’s our ability to offer everything—hardware, software, services, and financing—that gives us a real advantage. When we bid on each of the parts separately, we go head-to-head against rivals by product: EMC in storage, say, or Accenture in services. This was tearing out the very heart of our strategy of integration, not to mention our unique kind of business-plus-technology innovation.

Let me give you a humorous (if somewhat discouraging) illustration. Every senior executive has responsibility for at least one major client—we call them “partnership accounts.” Our former CFO John Joyce, who now heads IBM’s services business, put together a deal for his account that involved some hardware, some software, and

some services. He was told he couldn't price it as an integrated solution. And he's the CFO! So we figured out a way to set a single price for each integrated offering.

This sounds like a great business move. But what does it have to do with values? Wouldn't you ultimately have decided you had to do that in any case?

To be honest, we'd been debating the pricing issue at the executive level for a long time. But we hadn't done anything about it. The values initiative forced us to confront the issue, and it gave us the impetus to make the change. You know, there are always ingrained operations and habits of mind in any organization—I don't care whether it's a business or a university or a government. Well, the values and the jam were great inertia-busting vehicles. A small business in this place is \$15 billion, and a big one is \$40 billion. So you have senior vice presidents running Fortune 500-sized companies who aren't necessarily looking for bright ideas from the CEO or some task force every day. But when you hear from so many of our people on the front lines, you can't just ignore it. They're crying out: "We say we value 'client success,' and we want to grow our business. This one thing is getting in the way of both!" You've got to pay attention—if not to me, then to them.

So we took the pricers—the people who set the prices for client bids—and we said to them, "You work for IBM. When there's a cross-IBM bid with multiple products, you price it on the IBM income statement, not on the income statements of each product." Needless to say, this involved a series of very difficult meetings with senior executives. There was a huge debate among the finance people about all the reasons why we couldn't do it: "It will be too much work to reallocate all the costs and revenue of a project back to individual profit centers." And they're right: It isn't easy, especially when we now have to certify everything. But the CFO was with me on this: After all, he'd seen the problem firsthand! And we made the change, so that now when we make a truly cross-IBM bid, we can optimize it for the client and for us.

This brings us back to the tension between soft values and hard financial metrics. In the long run, they shouldn't conflict. But along the way, they're going to be jabbing at each other. After all, people still have to make their numbers.

Certainly, there's no getting around that in a commercial enterprise. But I think values inject balance in the company's culture and management system: balance between the short-term transaction and the long-term relationship, balance between the interests of shareholders, employees, and clients. In every case, you have to make a call. Values help you make those decisions, not on an ad hoc basis, but in a way that is consistent with your culture and brand, with who you are as a company.

Look at how we compensate our managing directors, who are responsible for our largest client relationships. We decided to take half their comp and calculate it not on an annual basis but on a rolling three-year basis. We ask clients to score the managing director's performance at the end of a project or engagement, which might last longer than a single year, and that plays a big part in his bonus. So a big piece of his compensation is based on a combination of the project's profitability—whether the manager made his annual numbers—and on the client's satisfaction over a longer-term horizon. The managing director can't trade off one for the other.

So we've tried to keep balance in the system, to make sure that things aren't completely oriented toward short-term financials. But you're absolutely right: There are times when people will argue, "Well, jeez, you guys are pushing us in both directions." It's a valid debate. I think, though, that the best place to have that debate is at the lowest level of your organization, because that's where these decisions are being made and having an impact. Thousands of these interactions go on every day that none of us at the top will ever, or should ever, know about. But you hope that the values are providing a counterweight to the drive for short-term profitability in all those interactions. In the long term, I think, whether or not you have a values-driven culture is what makes you a winner or a loser.

You've had the new values in place for just about a year now. They've already created strong emotions and high expectations. What's the prognosis?

We're just starting down the road on what is probably a ten- to 15-year process. I was back in Asia not long ago, and I did one of these town hall-style meetings with IBM employees and talked about the values. Probably two-thirds of the people clearly knew about them, had read about them. But a third of the people—you could look at their faces and see it—hadn't even heard of the values. Or at least the values hadn't resonated with them yet. So we have work to do. Not just in getting everyone to memorize three pithy statements. We need to do a heck of a lot to close the gaps between our stated values and the reality of IBM today. That's the point of it all.

I know that not everyone on my executive team is as enthusiastic about the values initiative as I am—though they'd never admit it! But people on the senior team who lived through IBM's near-death experience will do anything not to go back to that. The blow to everyone's pride when IBM became the laughingstock of the business world was almost too much to bear. I have zero resistance from the senior team to initiatives that can save us from a return to that. And our values work is one of the most important of those initiatives.

Then look at the employee response to ValuesJam. There is an unmistakable yearning for this to be a great company. I mean, why have people joined IBM over the years? There are a lot of places to make money, if that's what drives you. Why come here?

I believe it's because they want to be part of a progressive company that makes a difference in the world. They want to be in the kind of company that supports research that wins Nobel Prizes, that changes the way people think about business itself, that is willing to take firm positions on unpopular issues based on principle.

You know, back in the 1950s, Watson, Jr., wrote the governors of southern states that IBM would not adhere to separate-but-equal laws, and then the company codified an equal-opportunity policy years before it was mandated by law. I've got to believe that a company that conceives of itself that way, and that seriously manages

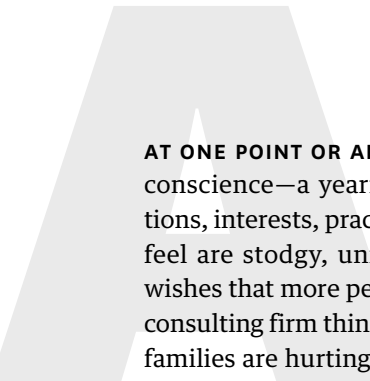
itself accordingly, has strong appeal to a lot of people. We can't offer them the promise of instant wealth, which they may get at a start-up, or a job for life, as in the old days. But we can offer them something worth believing in and working toward.

If we get most people in this company excited about that, they're going to pull the rest of the company with them. If they become dedicated to these values and what we're trying to accomplish, I can go to sleep at night confident of our future.

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Radical Change, the Quiet Way

by Debra E. Meyerson



AT ONE POINT OR ANOTHER, many managers experience a spang of conscience—a yearning to confront the basic or hidden assumptions, interests, practices, or values within an organization that they feel are stodgy, unfair, even downright wrong. A vice president wishes that more people of color would be promoted. A partner at a consulting firm thinks new MBAs are being so overworked that their families are hurting. A senior manager suspects his company, with some extra cost, could be kinder to the environment. Yet many people who want to drive changes like these face an uncomfortable dilemma. If they speak out too loudly, resentment builds toward them; if they play by the rules and remain silent, resentment builds inside them. Is there any way, then, to rock the boat without falling out of it?

Over the past 15 years, I have studied hundreds of professionals who spend the better part of their work lives trying to answer this question. Each one of the people I've studied differs from the organizational status quo in some way—in values, race, gender, or sexual preference, perhaps (see the sidebar “How the Research Was Done”). They all see things a bit differently from the “norm.” But despite feeling at odds with aspects of the prevailing culture, they genuinely like their jobs and want to continue to succeed in them, to effectively use their differences as the impetus for constructive change.

How the Research Was Done

THIS ARTICLE IS BASED ON a multipart research effort that I began in 1986 with Maureen Scully, a professor of management at the Center for Gender in Organizations at Simmons Graduate School of Management in Boston. We had observed a number of people in our own occupation—academia—who, for various reasons, felt at odds with the prevailing culture of their institutions. Initially, we set out to understand how these individuals sustained their sense of self amid pressure to conform and how they managed to uphold their values without jeopardizing their careers. Eventually, this research broadened to include interviews with individuals in a variety of organizations and occupations: business people, doctors, nurses, lawyers, architects, administrators, and engineers at various levels of seniority in their organizations.

Since 1986, I have observed and interviewed dozens of tempered radicals in many occupations and conducted focused research with 236 men and women, ranging from mid-level professionals to CEOs. The sample was diverse, including people of different races, nationalities, ages, religions, and sexual orientations, and people who hold a wide range of values and change agendas. Most of these people worked in one of three publicly traded corporations—a financial services organization, a high-growth computer components corporation, and a company that makes and sells consumer products. In this portion of the research, I set out to learn more about the challenges tempered radicals face and discover their strategies for surviving, thriving, and fomenting change. The sum of this research resulted in the spectrum of strategies described in this article.

They believe that direct, angry confrontation will get them nowhere, but they don't sit by and allow frustration to fester. Rather, they work quietly to challenge prevailing wisdom and gently provoke their organizational cultures to adapt. I call such change agents *tempered radicals* because they work to effect significant changes in moderate ways.

In so doing, they exercise a form of leadership within organizations that is more localized, more diffuse, more modest, and less visible than traditional forms—yet no less significant. In fact, top executives seeking to institute cultural or organizational change—who are, perhaps, moving tradition-bound organizations down new roads or who are concerned about reaping the full potential of marginalized employees—might do well to seek out these tempered

Idea in Brief

How do you rock your corporate boat—without falling out? You know your firm needs constructive change, but here's your dilemma: If you push your agenda too hard, resentment builds against you. If you remain silent, resentment builds inside you.

What's a manager to do? Become a **tempered radical**—an informal leader who quietly challenges prevailing wisdom and provokes cultural transformation. These radicals bear no banners and sound no trumpets. Their seemingly

innocuous changes barely inspire notice. But like steady drops of water, they gradually erode granite.

Tempered radicals embody contrasts. Their commitments are firm, but their means flexible. They yearn for rapid change, but trust in patience. They often work alone, yet unite others. Rather than pressing their agendas, they start conversations. And instead of battling powerful foes, they seek powerful friends. The overall effect? Evolutionary—but relentless—change.

radicals, who may be hidden deep within their own organizations. Because such individuals are both dedicated to their companies and masters at changing organizations at the grassroots level, they can prove extremely valuable in helping top managers to identify fundamental causes of discord, recognize alternative perspectives, and adapt to changing needs and circumstances. In addition, tempered radicals, given support from above and a modicum of room to experiment, can prove to be excellent leaders. (For more on management's role in fostering tempered radicals, see the sidebar "Tempered Radicals as Everyday Leaders.")

Since the actions of tempered radicals are not, by design, dramatic, their leadership may be difficult to recognize. How, then, do people who run organizations, who want to nurture this diffuse source of cultural adaptation, find and develop these latent leaders? One way is to appreciate the variety of modes in which tempered radicals operate, learn from them, and support their efforts.

To navigate between their personal beliefs and the surrounding cultures, tempered radicals draw principally on a spectrum of incremental approaches, including four I describe here. I call these *disruptive self-expression*, *verbal jujitsu*, *variable-term opportunism*,

Idea in Practice

Tempered radicals use these tactics:

Disruptive Self-Expression

Demonstrate your values through your language, dress, office décor, or behavior. People notice and talk—often becoming brave enough to try the change themselves. The more people talk, the greater the impact.

Example: Stressed-out manager John Ziwak began arriving at work earlier so he could leave by 6:00 p.m. to be with family. He also refused evening business calls. As his stress eased, his performance improved. Initially skeptical, colleagues soon accommodated, finding more efficient ways of working and achieving balance in their own lives.

Verbal Jujitsu

Redirect negative statements or actions into positive change.

Example: Sales manager Brad Williams noticed that the new marketing director's peers ignored her during meetings. When one of them co-opted a thought she had already expressed, Williams said: "I'm glad George picked up on Sue's concerns. Sue, did George correctly capture what you were thinking?" No one ignored Sue again.

Variable-Term Opportunism

Be ready to capitalize on unexpected opportunities for short-term change, as well as orchestrate deliberate, longer term change.

and *strategic alliance building*. Disruptive self-expression, in which an individual simply acts in a way that feels personally right but that others notice, is the most inconspicuous way to initiate change. Verbal jujitsu turns an insensitive statement, action, or behavior back on itself. Variable-term opportunists spot, create, and capitalize on short- and long-term opportunities for change. And with the help of strategic alliances, an individual can push through change with more force.

Each of these approaches can be used in many ways, with plenty of room for creativity and wit. Self-expression can be done with a whisper; an employee who seeks more racial diversity in the ranks might wear her dashiki to company parties. Or it can be done with a roar; that same employee might wear her dashiki to the office every day. Similarly, a person seeking stricter environmental policies

Example: Senior executive Jane Adams joined a company with a dog-eat-dog culture. To insinuate her collaborative style, she shared power with direct reports, encouraged them to also delegate, praised them publicly, and invited them to give high-visibility presentations. Her division gained reputé as an exceptional training ground for building experience, responsibility, and confidence.

Strategic Alliance Building

Gain clout by working with allies. Enhance your legitimacy and implement change more quickly and directly than you could alone. Don't make "opponents"

enemies—they're often your best source of support and resources.

Example: Paul Wielgus started a revolution in his bureaucratic global spirits company—by persuading the opposition to join him. Others derided the training department Wielgus formed to boost employee creativity, and an auditor scrutinized the department for unnecessary expense. Rather than getting defensive, Paul treated the auditor as an equal and sold him on the program's value. The training spread, inspiring employees and enhancing productivity throughout the company.

might build an alliance by enlisting the help of one person, the more powerful the better. Or he might post his stance on the company intranet and actively seek a host of supporters. Taken together, the approaches form a continuum of choices from which tempered radicals draw at different times and in various circumstances.

But before looking at the approaches in detail, it's worth reconsidering, for a moment, the ways in which cultural change happens in the workplace.

How Organizations Change

Research has shown that organizations change primarily in two ways: through drastic action and through evolutionary adaptation. In the former case, change is discontinuous and often forced on the

Tempered Radicals as Everyday Leaders

IN THE COURSE OF THEIR DAILY actions and interactions, tempered radicals teach important lessons and inspire change. In so doing, they exercise a form of leadership within organizations that is less visible than traditional forms—but just as important.

The trick for organizations is to locate and nurture this subtle form of leadership. Consider how Barry Coswell, a conservative, yet open-minded lawyer who headed up the securities division of a large, distinguished financial services firm, identified, protected, and promoted a tempered radical within his organization. Dana, a left-of-center, first-year attorney, came to his office on her first day of work after having been fingerprinted—a standard practice in the securities industry. The procedure had made Dana nervous: What would happen when her new employer discovered that she had done jail time for participating in a 1960s-era civil rights protest? Dana quickly understood that her only hope of survival was to be honest about her background and principles. Despite the difference in their political proclivities, she decided to give Barry the benefit of the doubt. She marched into his office and confessed to having gone to jail for sitting in front of a bus.

“I appreciate your honesty,” Barry laughed, “but unless you’ve broken a securities law, you’re probably okay.” In return for her small confidence, Barry shared stories of his own about growing up in a poor county and about his life in the military. The story swapping allowed them to put aside ideological disagreements and to develop a deep respect for each other. Barry sensed a

organization or mandated by top management in the wake of major technological innovations, by a scarcity or abundance of critical resources, or by sudden changes in the regulatory, legal, competitive, or political landscape. Under such circumstances, change may happen quickly and often involves significant pain. Evolutionary change, by contrast, is gentle, incremental, decentralized, and over time produces a broad and lasting shift with less upheaval.

The power of evolutionary approaches to promote cultural change is the subject of frequent discussion. For instance, in “We Don’t Need Another Hero” (HBR, September 2001), Joseph L. Badaracco, Jr., asserts that the most effective moral leaders often operate beneath the radar, achieving their reforms without widespread notice. Likewise, tempered radicals gently and continually

budding leader in Dana. Here was a woman who operated on the strength of her convictions and was honest about it but was capable of discussing her beliefs without self-righteousness. She didn't pound tables. She was a good conversationalist. She listened attentively. And she was able to elicit surprising confessions from him.

Barry began to accord Dana a level of protection, and he encouraged her to speak her mind, take risks, and most important, challenge his assumptions. In one instance, Dana spoke up to defend a female junior lawyer who was being evaluated harshly and, Dana believed, inequitably. Dana observed that different standards were being applied to male and female lawyers, but her colleagues dismissed her "liberal" concerns. Barry cast a glance at Dana, then said to the staff, "Let's look at this and see if we are being too quick to judge." After the meeting, Barry and Dana held a conversation about double standards and the pervasiveness of bias. In time, Barry initiated a policy to seek out minority legal counsel, both in-house and at outside legal firms. And Dana became a senior vice president.

In Barry's ability to recognize, mentor, and promote Dana there is a key lesson for executives who are anxious to foster leadership in their organizations. It suggests that leadership development may not rest with expensive external programs or even with the best intentions of the human resources department. Rather it may rest with the open-minded recognition that those who appear to rock the boat may turn out to be the most effective of captains.

push against prevailing norms, making a difference in small but steady ways and setting examples from which others can learn. The changes they inspire are so incremental that they barely merit notice—which is exactly why they work so well. Like drops of water, these approaches are innocuous enough in themselves. But over time and in accumulation, they can erode granite.

Consider, for example, how a single individual slowly—but radically—altered the face of his organization. Peter Grant¹ was a black senior executive who held some 18 positions as he moved up the ladder at a large West Coast bank. When he first joined the company as a manager, he was one of only a handful of people of color on the professional staff. Peter had a private, long-term goal: to bring more women and racial minorities into the fold and help them

succeed. Throughout his 30-year career running the company's local banks, regional offices, and corporate operations, one of his chief responsibilities was to hire new talent. Each time he had the opportunity, Peter attempted to hire a highly qualified member of a minority. But he did more than that—every time he hired someone, he asked that person to do the same. He explained to the new recruits the importance of hiring women and people of color and why it was their obligation to do likewise.

Whenever minority employees felt frustrated by bias, Peter would act as a supportive mentor. If they threatened to quit, he would talk them out of it. "I know how you feel, but think about the bigger picture here," he'd say. "If you leave, nothing here will change." His example inspired viral behavior in others. Many stayed and hired other minorities; those who didn't carried a commitment to hire minorities into their new companies. By the time Peter retired, more than 3,500 talented minority and female employees had joined the bank.

Peter was the most tempered, yet the most effective, of radicals. For many years, he endured racial slurs and demeaning remarks from colleagues. He waited longer than his peers for promotions; each time he did move up he was told the job was too big for him and he was lucky to have gotten it. "I worked my rear end off to make them comfortable with me," he said, late in his career. "It wasn't *luck*." He was often angry, but lashing out would have been the path of least emotional resistance. So without attacking the system, advancing a bold vision, or wielding great power, Peter chipped away at the organization's demographic base using the full menu of change strategies described below.

Disruptive Self-Expression

At the most tempered end of the change continuum is the kind of self-expression that quietly disrupts others' expectations. Whether waged as a deliberate act of protest or merely as a personal demonstration of one's values, disruptive self-expression in language, dress, office decor, or behavior can slowly change the atmosphere at work. Once people take notice of the expression, they begin to talk

about it. Eventually, they may feel brave enough to try the same thing themselves. The more people who talk about the transgressive act or repeat it, the greater the cultural impact.

Consider the case of John Ziwak, a manager in the business development group of a high-growth computer components company. As a hardworking business school graduate who'd landed a plum job, John had every intention of working 80-hour weeks on the fast track to the top. Within a few years, he married a woman who also held a demanding job; soon, he became the father of two. John found his life torn between the competing responsibilities of home and work. To balance the two, John shifted his work hours—coming into the office earlier in the morning so that he could leave by 6 pm. He rarely scheduled late-afternoon meetings and generally refused to take calls at home in the evening between 6:30 and 9. As a result, his family life improved, and he felt much less stress, which in turn improved his performance at work.

At first, John's schedule raised eyebrows; availability was, after all, an unspoken key indicator of commitment to the company. "If John is unwilling to stay past 6," his boss wondered, "is he really committed to his job? Why should I promote him when others are willing and able to work all the time?" But John always met his performance expectations, and his boss didn't want to lose him. Over time, John's colleagues adjusted to his schedule. No one set up conference calls or meetings involving him after 5. One by one, other employees began adopting John's "6 o' clock rule"; calls at home, particularly during dinner hour, took place only when absolutely necessary. Although the 6 o' clock rule was never formalized, it nonetheless became par for the course in John's department. Some of John's colleagues continued to work late, but they all appreciated these changes in work practice and easily accommodated them. Most people in the department felt more, not less, productive during the day as they adapted their work habits to get things done more efficiently—for example, running meetings on schedule and monitoring interruptions in their day. According to John's boss, the employees appreciated the newfound balance in their lives, and productivity in the department did not suffer in the least.

Tempered radicals know that even the smallest forms of disruptive self-expression can be exquisitely powerful. The story of Dr. Frances Conley offers a case in point. By 1987, Dr. Conley had already established herself as a leading researcher and neurosurgeon at Stanford Medical School and the Palo Alto Veteran's Administration hospital. But as one of very few women in the profession, she struggled daily to maintain her feminine identity in a macho profession and her integrity amid gender discrimination. She had to keep her cool when, for example, in the middle of directing a team of residents through complicated brain surgery, a male colleague would stride into the operating room to say, "Move over, honey." "Not only did that undermine my authority and expertise with the team," Dr. Conley recalled later, "but it was unwarranted—and even dangerous. That kind of thing would happen all the time."

Despite the frustration and anger she felt, Dr. Conley at that time had no intention of making a huge issue of her gender. She didn't want the fact that she was a woman to compromise her position, or vice versa. So she expressed herself in all sorts of subtle ways, including in what she wore. Along with her green surgical scrubs, she donned white lace ankle socks—an unequivocal expression of her femininity. In itself, wearing lace ankle socks could hardly be considered a Gandhian act of civil disobedience. The socks merely said, "I can be a neurosurgeon and be feminine." But they spoke loudly enough in the stolid masculinity of the surgical environment, and, along with other small actions on her part, they sparked conversation in the hospital. Nurses and female residents frequently commented on Dr. Conley's style. "She is as demanding as any man and is not afraid to take them on," they would say, in admiration. "But she is also a woman and not ashamed of it."

Ellen Thomas made a comparable statement with her hair. As a young African-American consultant in a technical services business, she navigated constantly between organizational pressures to fit in and her personal desire to challenge norms that made it difficult for her to be herself. So from the beginning of her employment, Ellen expressed herself by wearing her hair in neat cornrow braids.

For Ellen, the way she wore her hair was not just about style; it was a symbol of her racial identity.

Once, before making an important client presentation, a senior colleague advised Ellen to unbraid her hair “to appear more professional.” Ellen was miffed, but she didn’t respond. Instead, she simply did not comply. Once the presentation was over and the client had been signed, she pulled her colleague aside. “I want you to know why I wear my hair this way,” she said calmly. “I’m a black woman, and I happen to like the style. And as you just saw,” she smiled, “my hairstyle has nothing to do with my ability to do my job.”

Does leaving work at 6 PM or wearing lacy socks or cornrows force immediate change in the culture? Of course not; such acts are too modest. But disruptive self-expression does do two important things. First, it reinforces the tempered radical’s sense of the importance of his or her convictions. These acts are self-affirming. Second, it pushes the status quo door slightly ajar by introducing an alternative *modus operandi*. Whether they are subtle, unspoken, and recognizable by only a few or vocal, visible, and noteworthy to many, such acts, in aggregation, can provoke real reform.

Verbal Jujitsu

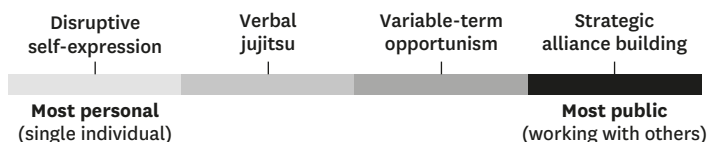
Like most martial arts, jujitsu involves taking a force coming at you and redirecting it to change the situation. Employees who practice verbal jujitsu react to undesirable, demeaning statements or actions by turning them into opportunities for change that others will notice.

One form of verbal jujitsu involves calling attention to the opposition’s own rhetoric. I recall a story told by a man named Tom Novak, an openly gay executive who worked in the San Francisco offices of a large financial services institution. As Tom and his colleagues began seating themselves around a table for a meeting in a senior executive’s large office, the conversation briefly turned to the topic of the upcoming Gay Freedom Day parade and to so-called gay lifestyles in general. Joe, a colleague, said loudly, “I can appreciate

A Spectrum of Tempered Change Strategies

THE TEMPERED RADICAL'S SPECTRUM of strategies is anchored on the left by *disruptive self-expression*: subtle acts of private, individual style. A slightly more public form of expression, *verbal jujitsu*, turns the opposition's negative expression or behavior into opportunities for change. Further along the spectrum, the tempered radical uses *variable-term opportunism* to recognize and act on short- and long-term chances to motivate others. And through *strategic alliance building*, the individual works directly with others to bring about more extensive change. The more conversations an individual's action inspires and the more people it engages, the stronger the impetus toward change becomes.

In reality, people don't apply the strategies in the spectrum sequentially or even necessarily separately. Rather, these tools blur and overlap. Tempered radicals remain flexible in their approach, "heating up" or "cooling off" each as conditions warrant.



that some people choose a gay lifestyle. I just don't understand why they have to flaunt it in people's faces."

Stung, Tom was tempted to keep his mouth shut and absorb the injury, but that would have left him resentful and angry. He could have openly condemned Joe's bias, but that would have made him look defensive and self-righteous. Instead, he countered Joe with an altered version of Joe's own argument, saying calmly, "I know what you mean, Joe. I'm just wondering about that big picture of your wife on your desk. There's nothing wrong with being straight, but it seems that you are the one announcing your sexuality." Suddenly embarrassed, Joe responded with a simple, "Touché."

Managers can use verbal jujitsu to prevent talented employees, and their valuable contributions, from becoming inadvertently

marginalized. That's what happened in the following story. Brad Williams was a sales manager at a high-technology company. During a meeting one day, Brad noticed that Sue, the new marketing director, had tried to interject a few comments, but everything she said was routinely ignored. Brad waited for the right moment to correct the situation. Later on in the meeting, Sue's colleague George raised similar concerns about distributing the new business's products outside the country. The intelligent remark stopped all conversation. During the pause, Brad jumped in: "That's an important idea," he said. "I'm glad George picked up on Sue's concerns. Sue, did George correctly capture what you were thinking?"

With this simple move, Brad accomplished a number of things. First, by indirectly showing how Sue had been silenced and her idea co-opted, he voiced an unspoken fact. Second, by raising Sue's visibility, he changed the power dynamic in the room. Third, his action taught his colleagues a lesson about the way they listened—and didn't. Sue said that after that incident she was no longer passed over in staff meetings.

In practicing verbal jujitsu, both Tom and Brad displayed considerable self-control and emotional intelligence. They listened to and studied the situation at hand, carefully calibrating their responses to disarm without harming. In addition, they identified the underlying issues (sexual bias, the silencing of newcomers) without sounding accusatory and relieved unconscious tensions by voicing them. In so doing, they initiated small but meaningful changes in their colleagues' assumptions and behavior.

Variable-Term Opportunism

Like jazz musicians, who build completely new musical experiences from old standards as they go along, tempered radicals must be creatively open to opportunity. In the short-term, that means being prepared to capitalize on serendipitous circumstances; in the long-term, it often means something more proactive. The first story that follows illustrates the former case; the second is an example of the latter.

Tempered radicals like Chris Morgan know that rich opportunities for reform can often appear suddenly, like a \$20 bill found on a sidewalk. An investment manager in the audit department of a New York conglomerate, Chris made a habit of doing whatever he could to reduce waste. To save paper, for example, he would single-space his documents and put them in a smaller font before pressing the “Print” button, and he would use both sides of the paper. One day, Chris noticed that the company cafeteria packaged its sandwiches in Styrofoam boxes that people opened and immediately tossed. He pulled the cafeteria manager aside. “Mary,” he said with a big smile, “those turkey-on-focaccia sandwiches look delicious today! I was wondering, though . . . would it be possible to wrap sandwiches only when people asked you to?” By making this very small change, Chris pointed out, the cafeteria would save substantially on packaging costs.

Chris gently rocked the boat by taking the following steps. First, he picked low-hanging fruit, focusing on something that could be done easily and without causing a lot of stir. Next, he attacked the problem not by criticizing Mary’s judgment but by enrolling her in his agenda (praising her tempting sandwiches, then making a gentle suggestion). Third, he illuminated the advantages of the proposed change by pointing out the benefits to the cafeteria. And he started a conversation that, through Mary, spread to the rest of the cafeteria staff. Finally, he inspired others to action: Eventually, the cafeteria staff identified and eliminated 12 other wasteful practices.

Add up enough conversations and inspire enough people and, sooner or later, you get real change. A senior executive named Jane Adams offers a case in point. Jane was hired in 1995 to run a 100-person, mostly male software-development division in an extremely fast-growing, pre-IPO technology company. The CEO of the company was an autocrat who expected his employees to emulate his dog-eat-dog management style. Although Jane was new to the job and wanted very much to fit in and succeed, turf wars and command-and-control tactics were anathema to her. Her style was more collaborative; she believed in sharing power. Jane knew that she could not attack the company’s culture by arguing with the CEO; rather, she

took charge of her own division and ran it her own way. To that end, she took every opportunity to share power with subordinates. She instructed each of her direct reports to delegate responsibility as much as possible. Each time she heard about someone taking initiative in making a decision, she would praise that person openly before his or her manager. She encouraged people to take calculated risks and to challenge her.

When asked to give high-visibility presentations to the company's executive staff, she passed the opportunities to those who had worked directly on the project. At first, senior executives raised their eyebrows, but Jane assured them that the presenter would deliver. Thus, her subordinates gained experience and won credit that, had they worked for someone else, they would likely never have received.

Occasionally, people would tell Jane that they noticed a refreshing contrast between her approach and the company's prevailing one. "Thanks, I'm glad you noticed," she would say with a quiet smile. Within a year, she saw that several of her own direct reports began themselves to lead in a more collaborative manner. Soon, employees from other divisions, hearing that Jane's was one of the best to work for, began requesting transfers. More important, Jane's group became known as one of the best training grounds and Jane as one of the best teachers and mentors of new talent. Nowhere else did people get the experience, responsibility, and confidence that she cultivated in her employees.

For Chris Morgan, opportunity was short-term and serendipitous. For Jane Adams, opportunity was more long-term, something to be mined methodically. In both cases, though, remaining alert to such variable-term opportunities and being ready to capitalize on them were essential.

Strategic Alliance Building

So far, we have seen how tempered radicals, more or less working alone, can effect change. What happens when these individuals work with allies? Clearly, they gain a sense of legitimacy, access to

resources and contacts, technical and task assistance, emotional support, and advice. But they gain much more—the power to move issues to the forefront more quickly and directly than they might by working alone.

When one enlists the help of like-minded, similarly tempered coworkers, the strategic alliance gains clout. That's what happened when a group of senior women at a large professional services firm worked with a group of men sympathetic to their cause. The firm's executive management asked the four-woman group to find out why it was so hard for the company to keep female consultants on staff. In the course of their investigation, the women discussed the demanding culture of the firm: a 70-hour work week was the norm, and most consultants spent most of their time on the road, visiting clients. The only people who escaped this demanding schedule were part-time consultants, nearly all of whom happened to be women with families. These part-timers were evaluated according to the same performance criteria—including the expectation of long hours—as full-time workers. Though many of the part-timers were talented contributors, they consistently failed to meet the time criterion and so left the company. To correct the problem, the senior women first gained the ear of several executive men who, they knew, regretted missing time with their own families. The men agreed that this was a problem and that the company could not continue to bleed valuable talent. They signed on to help address the issue and, in a matter of months, the evaluation system was adjusted to make success possible for all workers, regardless of their hours.

Tempered radicals don't allow preconceived notions about "the opposition" to get in their way. Indeed, they understand that those who represent the majority perspective are vitally important to gaining support for their cause. Paul Wielgus quietly started a revolution at his company by effectively persuading the opposition to join him. In 1991, Allied Domecq, the global spirits company whose brands include Courvoisier and Beefeater, hired Paul as a marketing director in its brewing and wholesaling division. Originally founded in 1961 as the result of a merger of three British brewing and pub-owning companies, the company had inherited a bureaucratic culture. Tony

Hales, the CEO, recognized the need for dramatic change inside the organization and appreciated Paul's talent and fresh perspective. He therefore allowed Paul to quit his marketing job, report directly to the CEO, and found a nine-person learning and training department that ran programs to help participants shake off stodgy thinking and boost their creativity. Yet despite the department's blessing from on high and a two-year record of success, some managers thought of it as fluff. In fact, when David, a senior executive from the internal audit department, was asked to review cases of unnecessary expense, he called Paul on the carpet.

Paul's strategy was to treat David not as a threat but as an equal, even a friend. Instead of being defensive during the meeting, Paul used the opportunity to sell his program. He explained that the trainers worked first with individuals to help unearth their personal values, then worked with them in teams to develop new sets of group values that they all believed in. Next, the trainers aligned these personal and departmental values with those of the company as a whole. "You wouldn't believe the changes, David," he said, enthusiastically. "People come out of these workshops feeling so much more excited about their work. They find more meaning and purpose in it, and as a consequence are happier and much more productive. They call in sick less often, they come to work earlier in the morning, and the ideas they produce are much stronger." Once David understood the value of Paul's program, the two began to talk about holding the training program in the internal audit department itself.

Paul's refusal to be frightened by the system, his belief in the importance of his work, his search for creative and collaborative solutions, his lack of defensiveness with an adversary, and his ability to connect with the auditor paved the way for further change at Allied Domecq. Eventually, the working relationship the two men had formed allowed the internal audit department to transform its image as a policing unit into something more positive. The new Audit Services department came to be known as a partner, rather than an enforcer, in the organization as a whole. And as head of the newly renamed department, David became a strong supporter of Paul's work.

Tempered radicals understand that people who represent the majority perspective can be important allies in more subtle ways as well. In navigating the course between their desire to undo the status quo and the organizational requirements to uphold it, tempered radicals benefit from the advice of insiders who know just how hard to push. When a feminist who wants to change the way her company treats women befriends a conservative Republican man, she knows he can warn her of political minefields. When a Latino manager wants his company to put a Spanish-language version of a manual up on the company's intranet, he knows that the white, monolingual executive who runs operations may turn out to be an excellent advocate.

Of course, tempered radicals know that not everyone is an ally, but they also know it's pointless to see those who represent the status quo as enemies. The senior women found fault with an inequitable evaluation system, not with their male colleagues. Paul won David's help by giving him the benefit of the doubt from the very beginning of their relationship. Indeed, tempered radicals constantly consider all possible courses of action: "Under what conditions, for what issues, and in what circumstances does it make sense to join forces with others?"; "How can I best use this alliance to support my efforts?"

Clearly, there is no one right way to effect change. What works for one individual under one set of circumstances may not work for others under different conditions. The examples above illustrate how tempered radicals use a spectrum of quiet approaches to change their organizations. Some actions are small, private, and muted; some are larger and more public. Their influence spreads as they recruit others and spawn conversations. Top managers can learn a lot from these people about the mechanics of evolutionary change.

Tempered radicals bear no banners; they sound no trumpets. Their ends are sweeping, but their means are mundane. They are firm in their commitments, yet flexible in the ways they fulfill them. Their actions may be small but can spread like a virus. They yearn for

rapid change but trust in patience. They often work individually yet pull people together. Instead of stridently pressing their agendas, they start conversations. Rather than battling powerful foes, they seek powerful friends. And in the face of setbacks, they keep going. To do all this, tempered radicals understand revolutionary change for what it is—a phenomenon that can occur suddenly but more often than not requires time, commitment, and the patience to endure.

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Notes

1. With the exception of those in the VA hospital and Allied Domecq cases, all the names used through this article are fictitious.

Tipping Point Leadership

by W. Chan Kim and Renée Mauborgne

IN FEBRUARY 1994, William Bratton was appointed police commissioner of New York City. The odds were against him. The New York Police Department, with a \$2 billion budget and a workforce of 35,000 police officers, was notoriously difficult to manage. Turf wars over jurisdiction and funding were rife. Officers were underpaid relative to their counterparts in neighboring communities, and promotion seemed to bear little relationship to performance. Crime had gotten so far out of control that the press referred to the Big Apple as the Rotten Apple. Indeed, many social scientists had concluded, after three decades of increases, that New York City crime was impervious to police intervention. The best the police could do was react to crimes once they were committed.

Yet in less than two years, and without an increase in his budget, Bill Bratton turned New York into the safest large city in the nation. Between 1994 and 1996, felony crime fell 39%; murders, 50%; and theft, 35%. Gallup polls reported that public confidence in the NYPD jumped from 37% to 73%, even as internal surveys showed job satisfaction in the police department reaching an all-time high. Not surprisingly, Bratton's popularity soared, and in 1996, he was featured on the cover of *Time*. Perhaps most impressive, the changes have outlasted their instigator, implying a fundamental shift in the department's organizational culture and strategy. Crime rates have

continued to fall: Statistics released in December 2002 revealed that New York's overall crime rate is the lowest among the 25 largest cities in the United States.

The NYPD turnaround would be impressive enough for any police chief. For Bratton, though, it is only the latest of no fewer than five successful turnarounds in a 20-year career in policing. In the hope that Bratton can repeat his New York and Boston successes, Los Angeles has recruited him to take on the challenge of turning around the LAPD. (For a summary of his achievements, see the table "Bratton in action.")

So what makes Bill Bratton tick? As management researchers, we have long been fascinated by what triggers high performance or suddenly brings an ailing organization back to life. In an effort to find the common elements underlying such leaps in performance, we have built a database of more than 125 business and nonbusiness organizations. Bratton first caught our attention in the early 1990s, when we heard about his turnaround of the New York Transit Police. Bratton was special for us because in all of his turnarounds, he succeeded in record time despite facing all four of the hurdles that managers consistently claim block high performance: an organization wedded to the status quo, limited resources, a demotivated staff, and opposition from powerful vested interests. If Bratton could succeed against these odds, other leaders, we reasoned, could learn a lot from him.

Over the years, through our professional and personal networks and the rich public information available on the police sector, we have systematically compared the strategic, managerial, and performance records of Bratton's turnarounds. We have followed up by interviewing the key players, including Bratton himself, as well as many other people who for professional—or sometimes personal—reasons tracked the events.

Our research led us to conclude that all of Bratton's turnarounds are textbook examples of what we call tipping point leadership. The theory of tipping points, which has its roots in epidemiology, is well known; it hinges on the insight that in any organization, once the beliefs and energies of a critical mass of people are engaged, conversion to a new idea will spread like an epidemic, bringing about

Idea in Brief

How can you overcome the hurdles facing any organization struggling to change: addiction to the status quo, limited resources, demotivated employees, and opposition from powerful vested interests?

Take lessons from police chief Bill Bratton, who's pulled the trick off five times. Most dramatically, he transformed the U.S.'s most dangerous city—New York—into

its safest. Bratton used **tipping point leadership** to make unarguable calls for change, concentrate resources on what really mattered, mobilize key players' commitment, and silence naysayers.

Not every executive has Bratton's personality, but most have his potential—if they follow his success formula.

fundamental change very quickly. The theory suggests that such a movement can be unleashed only by agents who make unforgettable and unarguable calls for change, who concentrate their resources on what really matters, who mobilize the commitment of the organization's key players, and who succeed in silencing the most vocal naysayers. Bratton did all of these things in all of his turnarounds.

Most managers only dream of pulling off the kind of performance leaps Bratton delivered. Even Jack Welch needed some ten years and tens of millions of dollars of restructuring and training to turn GE into the powerhouse it is today. Few CEOs have the time and money that Welch had, and most—even those attempting relatively mild change—are soon daunted by the scale of the hurdles they face. Yet we have found that the dream can indeed become a reality. For what makes Bratton's turnarounds especially exciting to us is that his approach to overcoming the hurdles standing in the way of high performance has been remarkably consistent. His successes, therefore, are not just a matter of personality but also of method, which suggests that they can be replicated. Tipping point leadership is learnable.

In the following pages, we'll lay out the approach that has enabled Bratton to overcome the forces of inertia and reach the tipping point. We'll show first how Bratton overcame the cognitive hurdles that block companies from recognizing the need for radical

Idea in Practice

Four Steps to the Tipping Point

1. *Break through the cognitive hurdle.*

To make a compelling case for change, don't just point at the numbers and demand better ones. Your abstract message won't stick. Instead, make key managers *experience* your organization's problems.

Example: New Yorkers once viewed subways as the most dangerous places in their city. But the New York Transit Police's senior staff pooh-pooed public fears—because none had ever ridden subways. To shatter their complacency, Bratton required all NYTP officers—himself included—to commute by subway. Seeing the jammed turnstiles, youth gangs, and derelicts, they grasped the need for change—and embraced responsibility for it.

2. *Sidestep the resource hurdle.*

Rather than trimming your ambitions (dooming your company to mediocrity) or fighting for more resources (draining attention from the underlying problems), concentrate *current* resources on areas *most* needing change.

Example: Since the majority of subway crimes occurred at only a few stations, Bratton focused manpower there—instead of putting a cop on every subway line, entrance, and exit.

3. *Jump the motivational hurdle.*

To turn a mere strategy into a movement, people must recognize what needs to be done and yearn to do it themselves. But don't try reforming your whole organization; that's cumbersome and expensive. Instead, motivate *key influencers*—persuasive

change. Then we'll describe how he successfully managed around the public sector's endemic constraints on resources, which he even turned to his advantage. In the third section, we'll explain how Bratton overcame the motivational hurdles that had discouraged and demoralized even the most eager police officers. Finally, we'll describe how Bratton neatly closed off potentially fatal resistance from vocal and powerful opponents. (For a graphic summary of the ideas expressed in this article, see the figure "Tipping point leadership at a glance.")

people with multiple connections. Like bowling kingpins hit straight on, they topple all the other pins. Most organizations have several key influencers who share common problems and concerns—making it easy to identify and motivate them.

Example: Bratton put the NYPD's key influencers—precinct commanders—under a spotlight during semiweekly crime strategy review meetings, where peers and superiors grilled commanders about precinct performance. Results? A culture of performance, accountability, and learning that commanders replicated down the ranks.

Also make challenges attainable. Bratton exhorted staff to make NYC's streets safe “block by block, precinct by precinct, and borough by borough.”

4. Knock over the political hurdle.

Even when organizations reach their tipping points, powerful vested interests resist change. Identify and silence key naysayers early by putting a respected senior insider on your top team.

Example: At the NYPD, Bratton appointed 20-year veteran cop John Timoney as his number two. Timoney knew the key players and how they played the political game. Early on, he identified likely saboteurs and resisters among top staff—prompting a changing of the guard.

Also, silence opposition with indisputable facts. When Bratton proved his proposed crime-reporting system required less than 18 minutes a day, time-crunched precinct commanders adopted it.

Break Through the Cognitive Hurdle

In many turnarounds, the hardest battle is simply getting people to agree on the causes of current problems and the need for change. Most CEOs try to make the case for change simply by pointing to the numbers and insisting that the company achieve better ones. But messages communicated through numbers seldom stick. To the line managers—the very people the CEO needs to win over—the case for change seems abstract and remote. Those whose units are doing well feel that the criticism is not directed at them, that the problem

Bratton in action

The New York Police Department was not Bill Bratton's first turnaround. The table describes his biggest challenges and achievements during his 20 years as a policy reformer.

Domain	Boston Police District 4	Massachusetts Bay Transit Authority (MBTA)	Boston Metropolitan Police ("The Mets")	New York Transit Police (NYTP)	New York Police Department (NYPD)
Years	1977–1982	1983–1986	1986–1990	1990–1992	1994–1996
Position	Sergeant, lieutenant	Superintendent	Superintendent	Chief of police	Commissioner
Setting	<p>Assaults, drug dealing, prostitution, public drinking, and graffiti were endemic to the area.</p> <p>The Boston public shied away from attending baseball games and other events and from shopping in the Fenway neighborhood for fear of being robbed or attacked or having their cars stolen.</p>	<p>Subway crime had been on the rise for the past five years.</p> <p>The media dubbed the Boston subway the Terror Train.</p> <p>The <i>Boston Globe</i> published a series on police incompetence in the MBTA.</p>	<p>The Mets lacked modern equipment, procedures, and discipline.</p> <p>Physical facilities were crumbling.</p> <p>Accountability, discipline, and morale were low in the 600-person Mets workforce.</p>	<p>Crime had risen 25% per year in the past three years—twice the overall rate for the city.</p> <p>Subway use by the public had declined sharply; polls indicated that New Yorkers considered the subway the most dangerous place in the city.</p> <p>There were 170,000 fare evaders per day, costing the city \$80 million annually.</p> <p>Aggressive panhandling and vandalism were endemic.</p> <p>More than 5,000 people were living in the subway system.</p>	<p>The middle class was fleeing to the suburbs in search of a better quality of life.</p> <p>There was public despair in the face of the high crime rate. Crime was seen as part of a breakdown of social norms.</p> <p>The budget for policing was shrinking. The NYPD budget (aside from personnel) was being cut by 35%.</p> <p>The staff was demoralized and relatively underpaid.</p>

Domain	Boston Police District 4	Massachusetts Bay Transit Authority (MBTA)	Boston Metropolitan Police ("The Mets")	New York Transit Police (NYPD)	New York Police Department (NYPD)
Results	<p>Crime throughout the Fenway area was dramatically reduced.</p> <p>Tourists, residents, and investment returned as an entire area of the city rebounded.</p>	<p>Crime on the MBTA decreased by 27%; arrests rose to 1,600 per year from 600.</p> <p>The MBTA police met more than 800 standards of excellence to be accredited by the National Commission on Accreditation for Police Agencies. It was only the 13th police department in the country to meet this standard.</p> <p>Equipment acquired during his tenure: 55 new mid-size cars, new uniforms, and new logos.</p> <p>Ridership began to grow.</p>	<p>Employee morale rose as Bratton instilled accountability, protocol, and pride.</p> <p>In three years, the Metropolitan Police changed from a dispirited, do-nothing, reactive organization with a poor self-image and an even worse public image to a very proud, proactive department.</p> <p>Equipment acquired during his tenure: 100 new vehicles, a helicopter, and a state-of-the-art radio system.</p>	<p>In two years, Bratton reduced felony crime by 22%, with robberies down by 40%.</p> <p>Increased confidence in the subway led to increased ridership.</p> <p>Fare evasion was cut in half.</p> <p>Equipment acquired during his tenure: a state-of-the-art communication system, advanced handguns for officers, and new patrol cars (the number of cars doubled).</p>	<p>Overall crime fell by 17%.</p> <p>Felony crime fell by 39%.</p> <p>Murders fell by 50%.</p> <p>Theft fell by 35% (robberies were down by one-third, burglaries by one-quarter).</p> <p>There were 200,000 fewer victims a year than in 1990.</p> <p>By the end of Bratton's tenure, the NYPD had a 73% positive rating, up from 37% four years earlier.</p>

is top management's. Managers of poorly performing units feel that they have been put on notice—and people worried about job security are more likely to be scanning the job market than trying to solve the company's problems.

For all these reasons, tipping point leaders like Bratton do not rely on numbers to break through the organization's cognitive hurdles.

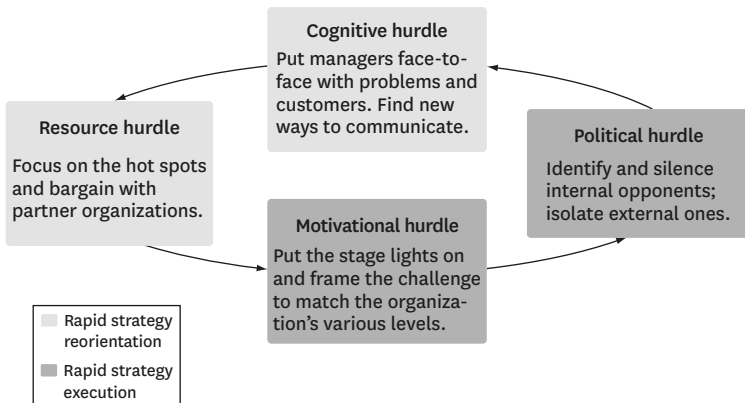
Instead, they put their key managers face-to-face with the operational problems so that the managers cannot evade reality. Poor performance becomes something they witness rather than hear about. Communicating in this way means that the message—performance is poor and needs to be fixed—sticks with people, which is essential if they are to be convinced not only that a turnaround is necessary but that it is something they can achieve.

When Bratton first went to New York to head the transit police in April 1990, he discovered that none of the senior staff officers rode the subway. They commuted to work and traveled around in cars provided by the city. Comfortably removed from the facts of underground life—and reassured by statistics showing that only 3% of the city's major crimes were committed in the subway—the senior managers had little sensitivity to riders' widespread concern about safety. In order to shatter the staff's complacency, Bratton began requiring that all transit police officials—beginning with himself—ride the subway to work, to meetings, and at night. It was many staff officers' first occasion in years to share the ordinary citizen's subway experience and see the situation their subordinates were up against: jammed turnstiles, aggressive beggars, gangs of youths jumping turnstiles and jostling people on the platforms, winos and homeless people sprawled on benches. It was clear that even if few major crimes took place in the subway, the whole place reeked of fear and disorder. With that ugly reality staring them in the face, the transit force's senior managers could no longer deny the need for a change in their policing methods.

Bratton uses a similar approach to help sensitize his superiors to his problems. For instance, when he was running the police division of the Massachusetts Bay Transit Authority (MBTA), which runs the Boston-area subway and buses, the transit authority's board decided to purchase small squad cars that would be cheaper to buy and run. Instead of fighting the decision, Bratton invited the MBTA's general manager for a tour of the district. He picked him up in a small car just like the ones that were to be ordered. He jammed the seats forward to let the general manager feel how little legroom a six-foot cop would have, then drove him over every pothole he could find. Brat-

Tipping point leadership at a glance

Leaders like Bill Bratton use a four-step process to bring about rapid, dramatic, and lasting change with limited resources. The cognitive and resource hurdles shown here represent the obstacles that organizations face in reorienting and formulating strategy. The motivational and political hurdles prevent a strategy's rapid execution. Tipping all four hurdles leads to rapid strategy reorientation and execution. Overcoming these hurdles is, of course, a continuous process because the innovation of today soon becomes the conventional norm of tomorrow.



ton also put on his belt, cuffs, and gun for the trip so the general manager could see how little space there was for the tools of the officer's trade. After just two hours, the general manager wanted out. He said he didn't know how Bratton could stand being in such a cramped car for so long on his own—let alone if there were a criminal in the backseat. Bratton got the larger cars he wanted.

Bratton reinforces direct experiences by insisting that his officers meet the communities they are protecting. The feedback is often revealing. In the late 1970s, Boston's Police District 4, which included Symphony Hall, the Christian Science Mother Church, and other cultural institutions, was experiencing a surge in crime. The public was increasingly intimidated; residents were selling and

leaving, pushing the community into a downward spiral. The Boston police performance statistics, however, did not reflect this reality. District 4 police, it seemed, were doing a splendid job of rapidly clearing 911 calls and tracking down perpetrators of serious crimes. To solve this paradox, Bratton had the unit organize community meetings in schoolrooms and civic centers so that citizens could voice their concerns to district sergeants and detectives. Obvious as the logic of this practice sounds, it was the first time in Boston's police history that anyone had attempted such an initiative—mainly because the practice up to that time had argued for detachment between police and the community in order to decrease the chances of police corruption.

The limitations of that practice quickly emerged. The meetings began with a show-and-tell by the officers: This is what we are working on and why. But afterward, when citizens were invited to discuss the issues that concerned them, a huge perception gap came to light. While the police officers took pride in solving serious offenses like grand larceny and murder, few citizens felt in any danger from these crimes. They were more troubled by constant minor irritants: prostitutes, panhandlers, broken-down cars left on the streets, drunks in the gutters, filth on the sidewalks. The town meetings quickly led to a complete overhaul of the police priorities for District 4. Bratton has used community meetings like this in every turnaround since.

Bratton's internal communications strategy also plays an important role in breaking through the cognitive hurdles. Traditionally, internal police communication is largely based on memos, staff bulletins, and other documents. Bratton knows that few police officers have the time or inclination to do more than throw these documents into the wastebasket. Officers rely instead on rumor and media stories for insights into what headquarters is up to. So Bratton typically calls on the help of expert communication outsiders. In New York, for instance, he recruited John Miller, an investigative television reporter known for his gutsy and innovative style, as his communication czar. Miller arranged for Bratton to communicate through video messages that were played at roll calls, which had the effect of bringing Bratton—and his opinions—closer to the people he had to

win over. At the same time, Miller's journalistic savvy made it easier for the NYPD to ensure that press interviews and stories echoed the strong internal messages Bratton was sending.

Sidestep the Resource Hurdle

Once people in an organization accept the need for change and more or less agree on what needs to be done, leaders are often faced with the stark reality of limited resources. Do they have the money for the necessary changes? Most reformist CEOs do one of two things at this point. They trim their ambitions, dooming the company to mediocrity at best and demoralizing the workforce all over again, or they fight for more resources from their bankers and shareholders, a process that can take time and divert attention from the underlying problems.

That trap is completely avoidable. Leaders like Bratton know how to reach the organization's tipping point without extra resources. They can achieve a great deal with the resources they have. What they do is concentrate their resources on the places that are most in need of change and that have the biggest possible payoffs. This idea, in fact, is at the heart of Bratton's famous (and once hotly debated) philosophy of zero-tolerance policing.

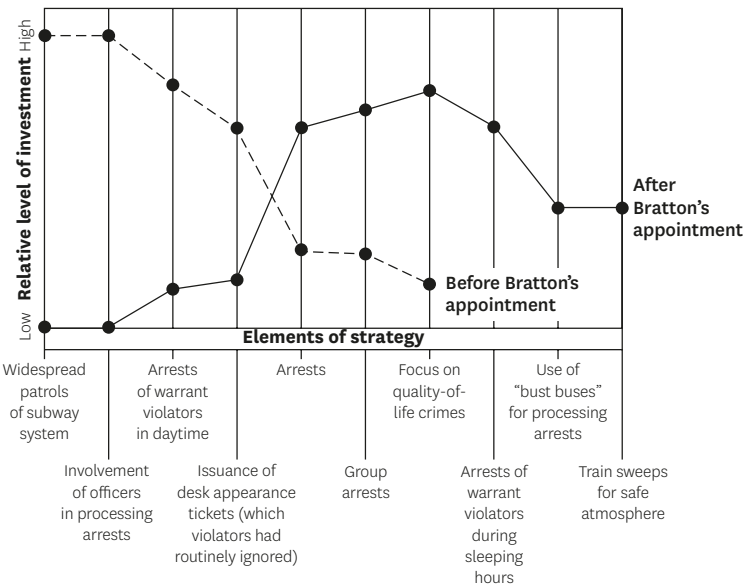
Having won people over to the idea of change, Bratton must persuade them to take a cold look at what precisely is wrong with their operating practices. It is at this point that he turns to the numbers, which he is adept at using to force through major changes. Take the case of the New York narcotics unit. Bratton's predecessors had treated it as secondary in importance, partly because they assumed that responding to 911 calls was the top priority. As a result, less than 5% of the NYPD's manpower was dedicated to fighting narcotics crimes.

At an initial meeting with the NYPD's chiefs, Bratton's deputy commissioner of crime strategy, Jack Maple, asked people around the table for their estimates of the percentage of crimes attributable to narcotics use. Most said 50%; others, 70%; the lowest estimate was 30%. On that basis, a narcotics unit consisting of less than 5% of the police force was grossly understaffed, Maple pointed out. What's

The strategy canvas of transit:

How Bratton refocused resources

In comparing strategies across companies, we like to use a tool we call the strategy canvas, which highlights differences in strategies and resource allocation. The strategy canvas shown here compares the strategy and allocation of resources of the New York Transit Police before and after Bill Bratton’s appointment as chief. The vertical axis shows the relative level of resource allocation. The horizontal axis shows the various elements of strategy in which the investments were made. Although a dramatic shift in resource allocation occurred and performance rose dramatically, overall investment of resources remained more or less constant. Bratton did this by de-emphasizing or virtually eliminating some traditional features of transit police work while increasing emphasis on others or creating new ones. For example, he was able to reduce the time police officers spent processing suspects by introducing mobile processing centers known as “bust buses.”



more, it turned out that the narcotics squad largely worked Monday through Friday, even though drugs were sold in large quantities—and drug-related crimes persistently occurred—on the weekends. Why the weekday schedule? Because it had always been done that way; it was an unquestioned *modus operandi*. Once these facts were presented, Bratton's call for a major reallocation of staff and resources within the NYPD was quickly accepted.

A careful examination of the facts can also reveal where changes in key policies can reduce the need for resources, as Bratton demonstrated during his tenure as chief of New York's transit police. His predecessors had lobbied hard for the money to increase the number of subway cops, arguing that the only way to stop muggers was to have officers ride every subway line and patrol each of the system's 700 exits and entrances. Bratton, by contrast, believed that subway crime could be resolved not by throwing more resources at the problem but by better targeting those resources. To prove the point, he had members of his staff analyze where subway crimes were being committed. They found that the vast majority occurred at only a few stations and on a couple of lines, which suggested that a targeted strategy would work well. At the same time, he shifted more of the force out of uniform and into plain clothes at the hot spots. Criminals soon realized that an absence of uniforms did not necessarily mean an absence of cops.

Distribution of officers was not the only problem. Bratton's analysis revealed that an inordinate amount of police time was wasted in processing arrests. It took an officer up to 16 hours per arrest to book the suspect and file papers on the incident. What's more, the officers so hated the bureaucratic process that they avoided making arrests in minor cases. Bratton realized that he could dramatically increase his available policing resources—not to mention the officers' motivation—if he could somehow improvise around this problem. His solution was to park "bust buses"—old buses converted into arrest-processing centers—around the corner from targeted subway stations. Processing time was cut from 16 hours to just one. Innovations like that enabled Bratton to dramatically reduce subway crime—even without an increase in the number of officers on duty

at any given time. (The figure “The strategy canvas of transit: How Bratton refocused resources” illustrates how radically Bratton refocused the transit police’s resources.)

Bratton’s drive for data-driven policing solutions led to the creation of the famous Compstat crime database. The database, used to identify hot spots for intense police intervention, captures weekly crime and arrest activity—including times, locations, and associated enforcement activities—at the precinct, borough, and city levels. The Compstat reports allowed Bratton and the entire police department to easily discern established and emerging hot spots for efficient resource targeting and retargeting.

In addition to refocusing the resources he already controls, Bratton has proved adept at trading resources he doesn’t need for those he does. The chiefs of public-sector organizations are reluctant to advertise excess resources, let alone lend them to other agencies, because acknowledged excess resources tend to get reallocated. So over time, some organizations end up well endowed with resources they don’t need—even if they are short of others. When Bratton took over as chief of the transit police, for example, his general counsel and policy adviser, Dean Esserman, now police chief of Providence, Rhode Island, discovered that the transit unit had more unmarked cars than it needed but was starved of office space. The New York Division of Parole, on the other hand, was short of cars but had excess office space. Esserman and Bratton offered the obvious trade. It was gratefully accepted by the parole division, and transit officials were delighted to get the first floor of a prime downtown building. The deal stoked Bratton’s credibility within the organization, which would make it easier for him to introduce more fundamental changes later, and it marked him, to his political bosses, as a man who could solve problems.

Jump the Motivational Hurdle

Alerting employees to the need for change and identifying how it can be achieved with limited resources are necessary for reaching an organization’s tipping point. But if a new strategy is to become a

movement, employees must not only recognize what needs to be done, they must also want to do it. Many CEOs recognize the importance of getting people motivated to make changes, but they make the mistake of trying to reform incentives throughout the whole organization. That process takes a long time to implement and can prove very expensive, given the wide variety of motivational needs in any large company.

One way Bratton solves the motivation problem is by singling out the key influencers—people inside or outside the organization with disproportionate power due to their connections with the organization, their ability to persuade, or their ability to block access to resources. Bratton recognizes that these influencers act like kingpins in bowling: When you hit them just right, all the pins topple over. Getting the key influencers motivated frees an organization from having to motivate everyone, yet everyone in the end is touched and changed. And because most organizations have relatively small numbers of key influencers, and those people tend to share common problems and concerns, it is relatively easy for CEOs to identify and motivate them.

Bratton's approach to motivating his key influencers is to put them under a spotlight. Perhaps his most significant reform of the NYPD's operating practices was instituting a semiweekly strategy review meeting that brought the top brass together with the city's 76 precinct commanders. Bratton had identified the commanders as key influential people in the NYPD, because each one directly managed 200 to 400 officers. Attendance was mandatory for all senior staff, including three-star chiefs, deputy commissioners, and borough chiefs. Bratton was there as often as possible.

At the meetings, which took place in an auditorium at the police command center, a selected precinct commander was called before a panel of the senior staff (the selected officer was given only two days' notice, in order to keep all the commanders on their toes). The commander in the spotlight was questioned by both the panel and other commanders about the precinct's performance. He or she was responsible for explaining projected maps and charts that showed, based on the Compstat data, the precinct's patterns of crimes and

when and where the police responded. The commander would be required to provide a detailed explanation if police activity did not mirror crime spikes and would also be asked how officers were addressing the precinct's issues and why performance was improving or deteriorating. The meetings allowed Bratton and his senior staff to carefully monitor and assess how well commanders were motivating and managing their people and how well they were focusing on strategic hot spots.

The meetings changed the NYPD's culture in several ways. By making results and responsibilities clear to everyone, the meetings helped to introduce a culture of performance. Indeed, a photo of the commander who was about to be grilled appeared on the front page of the handout that each meeting participant received, emphasizing that the commander was accountable for the precinct's results. An incompetent commander could no longer cover up his failings by blaming his precinct's results on the shortcomings of neighboring precincts, because his neighbors were in the room and could respond. By the same token, the meetings gave high achievers a chance to be recognized both for making improvements in their own precincts and for helping other commanders. The meetings also allowed police leaders to compare notes on their experiences; before Bratton's arrival, precinct commanders hardly ever got together as a group. Over time, this management style filtered down through the ranks, as the precinct commanders tried out their own versions of Bratton's meetings. With the spotlight shining brightly on their performance, the commanders were highly motivated to get all the officers under their control marching to the new strategy.

The great challenges in applying this kind of motivational device, of course, are ensuring that people feel it is based on fair processes and seeing to it that they can draw lessons from both good and bad results. Doing so increases the organization's collective strength and everyone's chance of winning. Bratton addresses the issue of fair process by engaging all key influencers in the procedures, setting clear performance expectations, and explaining why these strategy meetings, for example, are essential for fast execution of policy.

He addresses the issue of learning by insisting that the team of top brass play an active role in meetings and by being an active moderator himself. Precinct commanders can talk about their achievements or failures without feeling that they are showing off or being shown up. Successful commanders aren't seen as bragging, because it's clear to everyone that they were asked by Bratton's top team to show, in detail, how they achieved their successes. And for commanders on the receiving end, the sting of having to be taught a lesson by a colleague is mitigated, at least, by their not having to suffer the indignity of asking for it. Bratton's popularity soared when he created a humorous video satirizing the grilling that precinct commanders were given; it showed the cops that he understood just how much he was asking of them.

Bratton also uses another motivational lever: framing the reform challenge itself. Framing the challenge is one of the most subtle and sensitive tasks of the tipping point leader; unless people believe that results are attainable, a turnaround is unlikely to succeed. On the face of it, Bratton's goal in New York was so ambitious as to be scarcely believable. Who would believe that the city could be made one of the safest in the country? And who would want to invest time and energy in chasing such an impossible dream?

To make the challenge seem manageable, Bratton framed it as a series of specific goals that officers at different levels could relate to. As he put it, the challenge the NYPD faced was to make the streets of New York safe "block by block, precinct by precinct, and borough by borough." Thus framed, the task was both all encompassing and doable. For the cops on the street, the challenge was making their beats or blocks safe—no more. For the commanders, the challenge was making their precincts safe—no more. Borough heads also had a concrete goal within their capabilities: making their boroughs safe—no more. No matter what their positions, officers couldn't say that what was being asked of them was too tough. Nor could they claim that achieving it was out of their hands. In this way, responsibility for the turnaround shifted from Bratton to each of the thousands of police officers on the force.

Knock Over the Political Hurdle

Organizational politics is an inescapable reality in public and corporate life, a lesson Bratton learned the hard way. In 1980, at age 34 one of the youngest lieutenants in Boston's police department, he had proudly put up a plaque in his office that said: "Youth and skill will win out every time over age and treachery." Within just a few months, having been shunted into a dead-end position due to a mixture of office politics and his own brashness, Bratton took the sign down. He never again forgot the importance of understanding the plotting, intrigue, and politics involved in pushing through change. Even if an organization has reached the tipping point, powerful vested interests will resist the impending reforms. The more likely change becomes, the more fiercely and vocally these negative influencers—both internal and external—will fight to protect their positions, and their resistance can seriously damage, even derail, the reform process.

Bratton anticipates these dangers by identifying and silencing powerful naysayers early on. To that end, he always ensures that he has a respected senior insider on the top team. At the NYPD, for instance, Bratton appointed John Timoney, now Miami's police commissioner, as his number two. Timoney was a cop's cop, respected and feared for his dedication to the NYPD and for the more than 60 decorations he had received. Twenty years in the ranks had taught him who all the key players were and how they played the political game. One of the first tasks Timoney carried out was to report to Bratton on the likely attitudes of the top staff toward Bratton's concept of zero-tolerance policing, identifying those who would fight or silently sabotage the new initiatives. This led to a dramatic changing of the guard.

Of course, not all naysayers should face the ultimate sanction—there might not be enough people left to man the barricades. In many cases, therefore, Bratton silences opposition by example and indisputable fact. For instance, when first asked to compile detailed crime maps and information packages for the strategy review meetings, most precinct commanders complained that the task would take too long and waste valuable police time that could be better spent fighting

crime. Anticipating this argument, deputy commissioner Jack Maple set up a reporting system that covered the city's most crime-ridden areas. Operating the system required no more than 18 minutes a day, which worked out, as he told the precinct commanders, to less than 1% of the average precinct's workload. Try to argue with that.

Often the most serious opposition to reform comes from outside. In the public sector, as in business, an organization's change of strategy has an impact on other organizations—partners and competitors alike. The change is likely to be resisted by those players if they are happy with the status quo and powerful enough to protest the changes. Bratton's strategy for dealing with such opponents is to isolate them by building a broad coalition with the other independent powers in his realm. In New York, for example, one of the most serious threats to his reforms came from the city's courts, which were concerned that zero-tolerance policing would result in an enormous number of small-crimes cases clogging the court schedule.

To get past the opposition of the courts, Bratton solicited the support of no less a personage than the mayor, Rudolph Giuliani, who had considerable influence over the district attorneys, the courts, and the city jail on Rikers Island. Bratton's team demonstrated to the mayor that the court system had the capacity to handle minor "quality of life" crimes, even though doing so would presumably not be palatable for them.

The mayor decided to intervene. While conceding to the courts that a crackdown campaign would cause a short-term spike in court work, he also made clear that he and the NYPD believed it would eventually lead to a workload reduction for the courts. Working together in this way, Bratton and the mayor were able to maneuver the courts into processing quality-of-life crimes. Seeing that the mayor was aligned with Bratton, the courts appealed to the city's legislators, advocating legislation to exempt them from handling minor-crime cases on the grounds that such cases would clog the system and entail significant costs to the city. Bratton and the mayor, who were holding weekly strategy meetings, added another ally to their coalition by placing their case before the press, in particular the *New York Times*. Through a series of press conferences and

articles and at every interview opportunity, the issue of zero tolerance was put at the front and center of public debate with a clear, simple message: If the courts did not help crack down on quality-of-life crimes, the city's crime rates would not improve. It was a matter not of saving dollars but of saving the city.

Bratton's alliance with the mayor's office and the city's leading media institution successfully isolated the courts. The courts could hardly be seen as publicly opposing an initiative that would not only make New York a more attractive place to live but would ultimately reduce the number of cases brought before them. With the mayor speaking aggressively in the press about the need to pursue quality-of-life crimes and the city's most respected—and liberal—newspaper giving credence to the policy, the costs of fighting Bratton's strategy were daunting. Thanks to this savvy politicking, one of Bratton's biggest battles was won, and the legislation was not enacted. The courts would handle quality-of-life crimes. In due course, the crime rates did indeed come tumbling down.

Of course, Bill Bratton, like any leader, must share the credit for his successes. Turning around an organization as large and as wedded to the status quo as the NYPD requires a collective effort. But the tipping point would not have been reached without him—or another leader like him. And while we recognize that not every executive has the personality to be a Bill Bratton, there are many who have that potential once they know the formula for success. It is that formula that we have tried to present, and we urge managers who wish to turn their companies around, but have limited time and resources, to take note. By addressing the hurdles to tipping point change described in these pages, they will stand a chance of achieving the same kind of results for their shareholders as Bratton has delivered to the citizens of New York.

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A Survival Guide for Leaders

by Ronald A. Heifetz and Marty Linsky

THINK OF THE MANY top executives in recent years who, sometimes after long periods of considerable success, have crashed and burned. Or think of individuals you have known in less prominent positions, perhaps people spearheading significant change initiatives in their organizations, who have suddenly found themselves out of a job. Think about yourself: In exercising leadership, have *you* ever been removed or pushed aside?

Let's face it, to lead is to live dangerously. While leadership is often depicted as an exciting and glamorous endeavor, one in which you inspire others to follow you through good times and bad, such a portrayal ignores leadership's dark side: the inevitable attempts to take you out of the game.

Those attempts are sometimes justified. People in top positions must often pay the price for a flawed strategy or a series of bad decisions. But frequently, something more is at work. We're not talking here about conventional office politics; we're talking about the high-stake risks you face whenever you try to lead an organization through difficult but necessary change. The risks during such times are especially high because change that truly transforms an organization, be it a multibillion-dollar company or a ten-person sales team, demands that people give up things they hold dear: daily

habits, loyalties, ways of thinking. In return for these sacrifices, they may be offered nothing more than the possibility of a better future.

We refer to this kind of wrenching organizational transformation as “adaptive change,” something very different from the “technical change” that occupies people in positions of authority on a regular basis. Technical problems, while often challenging, can be solved applying existing know-how and the organization’s current problem-solving processes. Adaptive problems resist these kinds of solutions because they require individuals throughout the organization to alter their ways; as the people themselves are the problem, the solution lies with them. (See the sidebar “Adaptive Versus Technical Change: Whose Problem Is It?”) Responding to an adaptive challenge with a technical fix may have some short-term appeal. But to make real progress, sooner or later those who lead must ask themselves and the people in the organization to face a set of deeper issues—and to accept a solution that may require turning part or all of the organization upside down.

It is at this point that danger lurks. And most people who lead in such a situation—swept up in the action, championing a cause they believe in—are caught unawares. Over and over again, we have seen courageous souls blissfully ignorant of an approaching threat until it was too late to respond.

The hazard can take numerous forms. You may be attacked directly in an attempt to shift the debate to your character and style and avoid discussion of your initiative. You may be marginalized, forced into the position of becoming so identified with one issue that your broad authority is undermined. You may be seduced by your supporters and, fearful of losing their approval and affection, fail to demand they make the sacrifices needed for the initiative to succeed. You may be diverted from your goal by people overwhelming you with the day-to-day details of carrying it out, keeping you busy and preoccupied.

Each one of these thwarting tactics—whether done consciously or not—grows out of people’s aversion to the organizational disequilibrium created by your initiative. By attempting to undercut you, people strive to restore order, maintain what is familiar to them, and protect themselves from the pains of adaptive change. They want to be comfortable again, and you’re in the way.

Idea in Brief

It's exciting—even glamorous—to lead others through good times and bad. But leadership also has its dark side: the inevitable attempts to take you out of the game when you're steering your organization through difficult change.

Leading change requires asking people to confront painful issues and give up habits and beliefs they hold dear. Result? Some people try to eliminate change's visible

agent—you. Whether they attack you personally, undermine your authority, or seduce you into seeing things their way, their goal is the same: to derail you, easing *their* pain and restoring familiar order.

How to resist attempts to remove you—and continue to propel change forward? Manage your hostile *environment*—your organization and its people—and your own *vulnerabilities*.

So how do you protect yourself? Over a combined 50 years of teaching and consulting, we have asked ourselves that question time and again—usually while watching top-notch and well-intentioned folks get taken out of the game. On occasion, the question has become painfully personal; we as individuals have been knocked off course or out of the action more than once in our own leadership efforts. So we are offering what we hope are some pragmatic answers that grow out of these observations and experiences. We should note that while our advice clearly applies to senior executives, it also applies to people trying to lead change initiatives from positions of little or no formal organizational authority.

This “survival guide” has two main parts. The first looks outward, offering tactical advice about relating to your organization and the people in it. It is designed to protect you from those trying to push you aside before you complete your initiative. The second looks inward, focusing on your own human needs and vulnerabilities. It is designed to keep you from bringing yourself down.

A Hostile Environment

Leading major organizational change often involves radically reconfiguring a complex network of people, tasks, and institutions that

Idea in Practice

Managing Your Environment

To minimize threats to eliminate you:

Operate in and above the fray.

Observe what's happening to your initiative, as it's happening. Frequently move back and forth from the dance floor to the balcony, asking, "What's really going on here?" "Who's defending old habits?"

Court the uncommitted.

The uncommitted but wary are crucial to your success. Show your intentions are serious, for example, by dismissing individuals who can't make required changes. And practice what you preach.

Example: The editor of the *St. Petersburg Times* wanted to create a harder-hitting newspaper. He knew that

reporters—no longer sparing interviewees from warranted criticism—faced intense public pressure. He subjected *himself* to the same by insisting a story about his drunk-driving arrest appear on the paper's front page.

Cook the conflict.

Keep the heat high enough to motivate, but low enough to prevent explosions. *Raise the temperature* to make people confront hidden conflicts and other tough issues. Then *lower the heat* to reduce destructive turmoil. Slow the pace of change. Deliver humor, breaks, and images of a brighter future.

Place the work where it belongs.

Resist resolving conflicts yourself—people will blame *you* for whatever turmoil results. Mobilize *others* to solve problems.

have achieved a kind of *modus vivendi*, no matter how dysfunctional it appears to you. When the status quo is upset, people feel a sense of profound loss and dashed expectations. They may go through a period of feeling incompetent or disloyal. It's no wonder they resist the change or try to eliminate its visible agent. We offer here a number of techniques—relatively straightforward in concept but difficult to execute—for minimizing these external threats.

Operate in and above the fray

The ability to maintain perspective in the midst of action is critical to lowering resistance. Any military officer knows the importance of maintaining the capacity for reflection, especially in the "fog of

Example: When a star Chicago Bulls basketball player sat out a play, miffed because he wasn't tapped to take the game's final shot, the coach let the *team* handle the insubordination. An emotional conversation led by a team veteran reunited the players, who took the NBA series to a seventh game.

Managing Yourself

To avoid self-destructing during difficult change:

Restrain your desire for control and need for importance

Order for its own sake prevents organizations from handling contentious issues. And an inflated self-image fosters unhealthy dependence on you.

Example: Ken Olson, head of once-mighty Digital Equipment Corporation, encouraged such

dependence that colleagues rarely challenged him. When he shunned the PC market (believing few people wanted PCs), top managers went along—initiating DEC's downfall.

Anchor yourself.

- Use a safe place (e.g., a friend's kitchen table) or routine (a daily walk) to repair psychological damage and recalibrate your moral compass.
- Acquire a confidant (*not* an ally from your organization) who supports you—not necessarily your initiative.
- Read attacks as reactions to your professional role, not to you personally. You'll remain calmer and keep people engaged.

war." Great athletes must simultaneously play the game and observe it as a whole. We call this skill "getting off the dance floor and going to the balcony," an image that captures the mental activity of stepping back from the action and asking, "What's really going on here?"

Leadership is an improvisational art. You may be guided by an overarching vision, clear values, and a strategic plan, but what you actually do from moment to moment cannot be scripted. You must respond as events unfold. To use our metaphor, you have to move back and forth from the balcony to the dance floor, over and over again throughout the days, weeks, months, and years. While today's plan may make sense now, tomorrow you'll discover the unanticipated effects of today's actions and have to adjust accordingly.

Sustaining good leadership, then, requires first and foremost the capacity to see what is happening to you and your initiative as it is happening and to understand how today's turns in the road will affect tomorrow's plans.

But taking a balcony perspective is extremely tough to do when you're fiercely engaged down below, being pushed and pulled by the events and people around you—and doing some pushing and pulling of your own. Even if you are able to break away, the practice of stepping back and seeing the big picture is complicated by several factors. For example, when you get some distance, you still must accurately interpret what you see and hear. This is easier said than done. In an attempt to avoid difficult change, people will naturally, even unconsciously, defend their habits and ways of thinking. As you seek input from a broad range of people, you'll constantly need to be aware of these hidden agendas. You'll also need to observe your own actions; seeing yourself objectively as you look down from the balcony is perhaps the hardest task of all.

Fortunately, you can learn to be both an observer and a participant at the same time. When you are sitting in a meeting, practice by watching what is happening while it is happening—even as you are part of what is happening. Observe the relationships and see how people's attention to one another can vary: supporting, thwarting, or listening. Watch people's body language. When you make a point, resist the instinct to stay perched on the edge of your seat, ready to defend what you said. A technique as simple as pushing your chair a few inches away from the table after you speak may provide the literal as well as metaphorical distance you need to become an observer.

Court the uncommitted

It's tempting to go it alone when leading a change initiative. There's no one to dilute your ideas or share the glory, and it's often just plain exciting. It's also foolish. You need to recruit partners, people who can help protect you from attacks and who can point out potentially fatal flaws in your strategy or initiative. Moreover, you are far less vulnerable when you are out on the point with a bunch of folks rather than alone. You also need to keep the opposition close. Knowing

Adaptive Versus Technical Change: Whose Problem Is It?

THE IMPORTANCE—AND DIFFICULTY—of distinguishing between adaptive and technical change can be illustrated with an analogy. When your car has problems, you go to a mechanic. Most of the time, the mechanic can fix the car. But if your car troubles stem from the way a family member drives, the problems are likely to recur. Treating the problems as purely technical ones—taking the car to the mechanic time and again to get it back on the road—masks the real issues. Maybe you need to get your mother to stop drinking and driving, get your grandfather to give up his driver's license, or get your teenager to be more cautious. Whatever the underlying problems, the mechanic can't solve them. Instead, changes in the family need to occur, and that won't be easy. People will resist the moves, even denying that such problems exist. That's because even those not directly affected by an adaptive change typically experience discomfort when someone upsets a group's or an organization's equilibrium.

Such resistance to adaptive change certainly happens in business. Indeed, it's the classic error: Companies treat adaptive challenges as if they were technical problems. For example, executives attempt to improve the bottom line by cutting costs across the board. Not only does this avoid the need to make tough choices about which areas should be trimmed, it also masks the fact that the company's real challenge lies in redesigning its strategy.

Treating adaptive challenges as technical ones permits executives to do what they have excelled at throughout their careers: solve other people's problems. And it allows others in the organization to enjoy the primordial peace of mind that comes from knowing that their commanding officer has a plan to maintain order and stability. After all, the executive doesn't have to instigate—and the people don't have to undergo—uncomfortable change. Most people would agree that, despite the selective pain of a cost-cutting exercise, it is less traumatic than reinventing a company.

what your opponents are thinking can help you challenge them more effectively and thwart their attempts to upset your agenda—or allow you to borrow ideas that will improve your initiative. Have coffee once a week with the person most dedicated to seeing you fail.

But while relationships with allies and opponents are essential, the people who will determine your success are often those in the middle, the uncommitted who nonetheless are wary of your plans.

They have no substantive stake in your initiative, but they do have a stake in the comfort, stability, and security of the status quo. They've seen change agents come and go, and they know that your initiative will disrupt their lives and make their futures uncertain. You want to be sure that this general uneasiness doesn't evolve into a move to push you aside.

These people will need to see that your intentions are serious—for example, that you are willing to let go of those who can't make the changes your initiative requires. But people must also see that you understand the loss you are asking them to accept. You need to name the loss, be it a change in time-honored work routines or an overhaul of the company's core values, and explicitly acknowledge the resulting pain. You might do this through a series of simple statements, but it often requires something more tangible and public—recall Franklin Roosevelt's radio “fireside chats” during the Great Depression—to convince people that you truly understand.

Beyond a willingness to accept casualties and acknowledge people's losses, two very personal types of action can defuse potential resistance to you and your initiatives. The first is practicing what you preach. In 1972, Gene Patterson took over as editor of the *St. Petersburg Times*. His mandate was to take the respected regional newspaper to a higher level, enhancing its reputation for fine writing while becoming a fearless and hard-hitting news source. This would require major changes not only in the way the community viewed the newspaper but also in the way *Times* reporters thought about themselves and their roles. Because prominent organizations and individuals would no longer be spared warranted criticism, reporters would sometimes be angrily rebuked by the subjects of articles.

Several years after Patterson arrived, he attended a party at the home of the paper's foreign editor. Driving home, he pulled up to a red light and scraped the car next to him. The police officer called to the scene charged Patterson with driving under the influence. Patterson phoned Bob Haiman, a veteran *Times* newsman who had just been appointed executive editor, and insisted that a story on his arrest be run. As Haiman recalls, he tried to talk Patterson out of it, arguing that DUI arrests that didn't involve injuries were rarely

reported, even when prominent figures were involved. Patterson was adamant, however, and insisted that the story appear on page one.

Patterson, still viewed as somewhat of an outsider at the paper, knew that if he wanted his employees to follow the highest journalistic standards, he would have to display those standards, even when it hurt. Few leaders are called upon to disgrace themselves on the front page of a newspaper. But adopting the behavior you expect from others—whether it be taking a pay cut in tough times or spending a day working next to employees on a reconfigured production line—can be crucial in getting buy-in from people who might try to undermine your initiative.

The second thing you can do to neutralize potential opposition is to acknowledge your own responsibility for whatever problems the organization currently faces. If you have been with the company for some time, whether in a position of senior authority or not, you've likely contributed in some way to the current mess. Even if you are new, you need to identify areas of your own behavior that could stifle the change you hope to make.

In our teaching, training, and consulting, we often ask people to write or talk about a leadership challenge they currently face. Over the years, we have read and heard literally thousands of such challenges. Typically, in the first version of the story, the author is nowhere to be found. The underlying message: "If only other people would shape up, I could make progress here." But by too readily pointing your finger at others, you risk making yourself a target. Remember, you are asking people to move to a place where they are frightened to go. If at the same time you're blaming them for having to go there, they will undoubtedly turn against you.

In the early 1990s, Leslie Wexner, founder and CEO of the Limited, realized the need for major changes at the company, including a significant reduction in the workforce. But his consultant told him that something else had to change: long-standing habits that were at the heart of his self-image. In particular, he had to stop treating the company as if it were his family. The indulgent father had to become the chief personnel officer, putting the right people in the right jobs and holding them accountable for their work. "I was an athlete

trained to be a baseball player,” Wexner recalled during a recent speech at Harvard’s Kennedy School. “And one day, someone tapped me on the shoulder and said, ‘Football.’ And I said, ‘No, I’m a baseball player. ‘And he said, ‘Football.’ And I said, ‘I don’t know how to play football. I’m not 6’4”, and I don’t weigh 300 pounds.’ But if no one values baseball anymore, the baseball player will be out of business. So I looked into the mirror and said, ‘Schlemiel, nobody wants to watch baseball. Make the transformation to football.’” His personal makeover—shedding the role of forgiving father to those widely viewed as not holding their own—helped sway other employees to back a corporate makeover. And his willingness to change helped protect him from attack during the company’s long—and generally successful—turnaround period.

Cook the conflict

Managing conflict is one of the greatest challenges a leader of organizational change faces. The conflict may involve resistance to change, or it may involve clashing viewpoints about how the change should be carried out. Often, it will be latent rather than palpable. That’s because most organizations are allergic to conflict, seeing it primarily as a source of danger, which it certainly can be. But conflict is a necessary part of the change process and, if handled properly, can serve as the engine of progress.

Thus, a key imperative for a leader trying to achieve significant change is to manage people’s passionate differences in a way that diminishes their destructive potential and constructively harnesses their energy. Two techniques can help you achieve this. First, create a secure place where the conflicts can freely bubble up. Second, control the temperature to ensure that the conflict doesn’t boil over—and burn you in the process.

The vessel in which a conflict is simmered—in which clashing points of view mix, lose some of their sharpness, and ideally blend into consensus—will look and feel quite different in different contexts. It may be a protected physical space, perhaps an off-site location where an outside facilitator helps a group work through its differences. It may be a clear set of rules and processes that give

minority voices confidence that they will be heard without having to disrupt the proceedings to gain attention. It may be the shared language and history of an organization that binds people together through trying times. Whatever its form, it is a place or a means to contain the roiling forces unleashed by the threat of major change.

But a vessel can withstand only so much strain before it blows. A huge challenge you face as a leader is keeping your employees' stress at a productive level. The success of the change effort—as well as your own authority and even survival—requires you to monitor your organization's tolerance for heat and then regulate the temperature accordingly.

You first need to raise the heat enough that people sit up, pay attention, and deal with the real threats and challenges facing them. After all, without some distress, there's no incentive to change. You can constructively raise the temperature by focusing people's attention on the hard issues, by forcing them to take responsibility for tackling and solving those issues, and by bringing conflicts occurring behind closed doors out into the open.

But you have to lower the temperature when necessary to reduce what can be counterproductive turmoil. You can turn down the heat by slowing the pace of change or by tackling some relatively straightforward technical aspect of the problem, thereby reducing people's anxiety levels and allowing them to get warmed up for bigger challenges. You can provide structure to the problem-solving process, creating work groups with specific assignments, setting time parameters, establishing rules for decision making, and outlining reporting relationships. You can use humor or find an excuse for a break or a party to temporarily ease tensions. You can speak to people's fears and, more critically, to their hopes for a more promising future. By showing people how the future might look, you come to embody hope rather than fear, and you reduce the likelihood of becoming a lightning rod for the conflict.

The aim of both these tactics is to keep the heat high enough to motivate people but low enough to prevent a disastrous explosion—what we call a “productive range of distress.” Remember, though, that most employees will reflexively want you to turn down the

heat; their complaints may in fact indicate that the environment is just right for hard work to get done.

We've already mentioned a classic example of managing the distress of fundamental change: Franklin Roosevelt during the first few years of his presidency. When he took office in 1933, the chaos, tension, and anxiety brought on by the Depression ran extremely high. Demagogues stoked class, ethnic, and racial conflict that threatened to tear the nation apart. Individuals feared an uncertain future. So Roosevelt first did what he could to reduce the sense of disorder to a tolerable level. He took decisive and authoritative action—he pushed an extraordinary number of bills through Congress during his fabled first 100 days—and thereby gave Americans a sense of direction and safety, reassuring them that they were in capable hands. In his fire-side chats, he spoke to people's anxiety and anger and laid out a positive vision for the future that made the stress of the current crisis bearable and seem a worthwhile price to pay for progress.

But he knew the problems facing the nation couldn't be solved from the White House. He needed to mobilize citizens and get them to dream up, try out, fight over, and ultimately own the sometimes painful solutions that would transform the country and move it forward. To do that, he needed to maintain a certain level of fermentation and distress. So, for example, he orchestrated conflicts over public priorities and programs among the large cast of creative people he brought into the government. By giving the same assignment to two different administrators and refusing to clearly define their roles, he got them to generate new and competing ideas. Roosevelt displayed both the acuity to recognize when the tension in the nation had risen too high and the emotional strength to take the heat and permit considerable anxiety to persist.

Place the work where it belongs

Because major change requires people across an entire organization to adapt, you as a leader need to resist the reflex reaction of providing people with the answers. Instead, force yourself to transfer, as Roosevelt did, much of the work and problem solving to others. If you don't, real and sustainable change won't occur. In addition, it's

risky on a personal level to continue to hold on to the work that should be done by others.

As a successful executive, you have gained credibility and authority by demonstrating your capacity to solve other people's problems. This ability can be a virtue, until you find yourself faced with a situation in which you cannot deliver solutions. When this happens, all of your habits, pride, and sense of competence get thrown out of kilter because you must mobilize the work of others rather than find the way yourself. By trying to solve an adaptive challenge for people, at best you will reconfigure it as a technical problem and create some short-term relief. But the issue will not have gone away.

In the 1994 National Basketball Association Eastern Conference semifinals, the Chicago Bulls lost to the New York Knicks in the first two games of the best-of-seven series. Chicago was out to prove that it was more than just a one-man team, that it could win without Michael Jordan, who had retired at the end of the previous season.

In the third game, the score was tied at 102 with less than two seconds left. Chicago had the ball and a time-out to plan a final shot. Coach Phil Jackson called for Scottie Pippen, the Bulls' star since Jordan had retired, to make the inbound pass to Toni Kukoc for the final shot. As play was about to resume, Jackson noticed Pippen sitting at the far end of the bench. Jackson asked him whether he was in or out. "I'm out," said Pippen, miffed that he was not tapped to take the final shot. With only four players on the floor, Jackson quickly called another time-out and substituted an excellent passer, the reserve Pete Myers, for Pippen. Myers tossed a perfect pass to Kukoc, who spun around and sank a miraculous shot to win the game.

The Bulls made their way back to the locker room, their euphoria deflated by Pippen's extraordinary act of insubordination. Jackson recalls that as he entered a silent room, he was uncertain about what to do. Should he punish Pippen? Make him apologize? Pretend the whole thing never happened? All eyes were on him. The coach looked around, meeting the gaze of each player, and said, "What happened has hurt us. Now you have to work this out."

Jackson knew that if he took action to resolve the immediate crisis, he would have made Pippen's behavior a matter between coach

and player. But he understood that a deeper issue was at the heart of the incident: Who were the Chicago Bulls without Michael Jordan? It wasn't about who was going to succeed Jordan, because no one was; it was about whether the players could jell as a team where no one person dominated and every player was willing to do whatever it took to help. The issue rested with the players, not him, and only they could resolve it. It did not matter what they decided at that moment; what mattered was that they, not Jackson, did the deciding. What followed was a discussion led by an emotional Bill Cartwright, a team veteran. According to Jackson, the conversation brought the team closer together. The Bulls took the series to a seventh game before succumbing to the Knicks.

Jackson gave the work of addressing both the Pippen and the Jordan issues back to the team for another reason: If he had taken ownership of the problem, he would have become the issue, at least for the moment. In his case, his position as coach probably wouldn't have been threatened. But in other situations, taking responsibility for resolving a conflict within the organization poses risks. You are likely to find yourself resented by the faction that you decide against and held responsible by nearly everyone for the turmoil your decision generates. In the eyes of many, the only way to neutralize the threat is to get rid of you.

Despite that risk, most executives can't resist the temptation to solve fundamental organizational problems by themselves. People expect you to get right in there and fix things, to take a stand and resolve the problem. After all, that is what top managers are paid to do. When you fulfill those expectations, people will call you admirable and courageous—even a “leader”—and that is flattering. But challenging your employees' expectations requires greater courage and leadership.

The Dangers Within

We have described a handful of leadership tactics you can use to interact with the people around you, particularly those who might undermine your initiatives. Those tactics can help advance your

initiatives and, just as important, ensure that you remain in a position where you can bring them to fruition. But from our own observations and painful personal experiences, we know that one of the surest ways for an organization to bring you down is simply to let you precipitate your own demise.

In the heat of leadership, with the adrenaline pumping, it is easy to convince yourself that you are not subject to the normal human frailties that can defeat ordinary mortals. You begin to act as if you are indestructible. But the intellectual, physical, and emotional challenges of leadership are fierce. So, in addition to getting on the balcony, you need to regularly step into the inner chamber of your being and assess the tolls those challenges are taking. If you don't, your seemingly indestructible self can self-destruct. This, by the way, is an ideal outcome for your foes—and even friends who oppose your initiative—because no one has to feel responsible for your downfall.

Manage your hungers

We all have hungers, expressions of our normal human needs. But sometimes those hungers disrupt our capacity to act wisely or purposefully. Whether inherited or products of our upbringing, some of these hungers may be so strong that they render us constantly vulnerable. More typically, a stressful situation or setting can exaggerate a normal level of need, amplifying our desires and overwhelming our usual self-discipline. Two of the most common and dangerous hungers are the desire for control and the desire for importance.

Everyone wants to have some measure of control over his or her life. Yet some people's need for control is disproportionately high. They might have grown up in a household that was either tightly structured or unusually chaotic; in either case, the situation drove them to become masters at taming chaos not only in their own lives but also in their organizations.

That need for control can be a source of vulnerability. Initially, of course, the ability to turn disorder into order may be seen as an attribute. In an organization facing turmoil, you may seem like a godsend if you are able (and desperately want) to step in and take

charge. By lowering the distress to a tolerable level, you keep the kettle from boiling over.

But in your desire for order, you can mistake the means for the end. Rather than ensuring that the distress level in an organization remains high enough to mobilize progress on the issues, you focus on maintaining order as an end in itself. Forcing people to make the difficult trade-offs required by fundamental change threatens a return to the disorder you loathe. Your ability to bring the situation under control also suits the people in the organization, who naturally prefer calm to chaos. Unfortunately, this desire for control makes you vulnerable to, and an agent of, the organization's wish to avoid working through contentious issues. While this may ensure your survival in the short term, ultimately you may find yourself accused, justifiably, of failing to deal with the tough challenges when there was still time to do so.

Most people also have some need to feel important and affirmed by others. The danger here is that you will let this affirmation give you an inflated view of yourself and your cause. A grandiose sense of self-importance often leads to self-deception. In particular, you tend to forget the creative role that doubt—which reveals parts of reality that you wouldn't otherwise see—plays in getting your organization to improve. The absence of doubt leads you to see only that which confirms your own competence, which will virtually guarantee disastrous missteps.

Another harmful side effect of an inflated sense of self-importance is that you will encourage people in the organization to become dependent on you. The higher the level of distress, the greater their hopes and expectations that you will provide deliverance. This relieves them of any responsibility for moving the organization forward. But their dependence can be detrimental not only to the group but to you personally. Dependence can quickly turn to contempt as your constituents discover your human shortcomings.

Two well-known stories from the computer industry illustrate the perils of dependency—and how to avoid them. Ken Olsen, the founder of Digital Equipment Corporation, built the company into a 120,000-person operation that, at its peak, was the chief rival of IBM.

A generous man, he treated his employees extraordinarily well and experimented with personnel policies designed to increase the creativity, teamwork, and satisfaction of his workforce. This, in tandem with the company's success over the years, led the company's top management to turn to him as the sole decision maker on all key issues. His decision to shun the personal computer market because of his belief that few people would ever want to own a PC, which seemed reasonable at the time, is generally viewed as the beginning of the end for the company. But that isn't the point; everyone in business makes bad decisions. The point is, Olsen had fostered such an atmosphere of dependence that his decisions were rarely challenged by colleagues—at least not until it was too late.

Contrast that decision with Bill Gates's decision some years later to keep Microsoft out of the Internet business. It didn't take long for him to reverse his stand and launch a corporate overhaul that had Microsoft's delivery of Internet services as its centerpiece. After watching the rapidly changing computer industry and listening carefully to colleagues, Gates changed his mind with no permanent damage to his sense of pride and an enhanced reputation due to his nimble change of course.

Anchor yourself

To survive the turbulent seas of a change initiative, you need to find ways to steady and stabilize yourself. First, you must establish a safe harbor where each day you can reflect on the previous day's journey, repair the psychological damage you have incurred, renew your stores of emotional resources, and recalibrate your moral compass. Your haven might be a physical place, such as the kitchen table of a friend's house, or a regular routine, such as a daily walk through the neighborhood. Whatever the sanctuary, you need to use and protect it. Unfortunately, seeking such respite is often seen as a luxury, making it one of the first things to go when life gets stressful and you become pressed for time.

Second, you need a confidant, someone you can talk to about what's in your heart and on your mind without fear of being judged or betrayed. Once the undigested mess is on the table, you can begin

to separate, with your confidant's honest input, what is worthwhile from what is simply venting. The confidant, typically not a coworker, can also pump you up when you're down and pull you back to earth when you start taking praise too seriously. But don't confuse confidants with allies: Instead of supporting your current initiative, a confidant simply supports you. A common mistake is to seek a confidant among trusted allies, whose personal loyalty may evaporate when a new issue more important to them than you begins to emerge and take center stage.

Perhaps most important, you need to distinguish between your personal self, which can serve as an anchor in stormy weather, and your professional role, which never will. It is easy to mix up the two. And other people only increase the confusion: Colleagues, subordinates, and even bosses often act as if the role you play is the real you. But that is not the case, no matter how much of yourself—your passions, your values, your talents—you genuinely and laudably pour into your professional role. Ask anyone who has experienced the rude awakening that comes when they leave a position of authority and suddenly find that their phone calls aren't returned as quickly as they used to be.

That harsh lesson holds another important truth that is easily forgotten: When people attack someone in a position of authority, more often than not they are attacking the role, not the person. Even when attacks on you are highly personal, you need to read them primarily as reactions to how you, in your role, are affecting people's lives. Understanding the criticism for what it is prevents it from undermining your stability and sense of self-worth. And that's important because when you feel the sting of an attack, you are likely to become defensive and lash out at your critics, which can precipitate your downfall.

We hasten to add that criticism may contain legitimate points about how you are performing your role. For example, you may have been tactless in raising an issue with your organization, or you may have turned the heat up too quickly on a change initiative. But, at its heart, the criticism is usually about the issue, not you. Through the guise of attacking you personally, people often are simply trying to

neutralize the threat they perceive in your point of view. Does anyone ever attack you when you hand out big checks or deliver good news? People attack your personality, style, or judgment when they don't like the message.

When you take “personal” attacks personally, you unwittingly conspire in one of the common ways you can be taken out of action—you make yourself the issue. Contrast the manner in which presidential candidates Gary Hart and Bill Clinton handled charges of philandering. Hart angrily counterattacked, criticizing the scruples of the reporters who had shadowed him. This defensive personal response kept the focus on his behavior. Clinton, on national television, essentially admitted he had strayed, acknowledging his piece of the mess. His strategic handling of the situation allowed him to return the campaign's focus to policy issues. Though both attacks were extremely personal, only Clinton understood that they were basically attacks on positions he represented and the role he was seeking to play.

Do not underestimate the difficulty of distinguishing self from role and responding coolly to what feels like a personal attack—particularly when the criticism comes, as it will, from people you care about. But disciplining yourself to do so can provide you with an anchor that will keep you from running aground and give you the stability to remain calm, focused, and persistent in engaging people with the tough issues.

Why Lead?

We will have failed if this “survival manual” for avoiding the perils of leadership causes you to become cynical or callous in your leadership effort or to shun the challenges of leadership altogether. We haven't touched on the thrill of inspiring people to come up with creative solutions that can transform an organization for the better. We hope we have shown that the essence of leadership lies in the capacity to deliver disturbing news and raise difficult questions in a way that moves people to take up the message rather than kill the messenger. But we haven't talked about the reasons that someone might want to take these risks.

Of course, many people who strive for high-authority positions are attracted to power. But in the end, that isn't enough to make the high stakes of the game worthwhile. We would argue that, when they look deep within themselves, people grapple with the challenges of leadership in order to make a positive difference in the lives of others.

When corporate presidents and vice presidents reach their late fifties, they often look back on careers devoted to winning in the marketplace. They may have succeeded remarkably, yet some people have difficulty making sense of their lives in light of what they have given up. For too many, their accomplishments seem empty. They question whether they should have been more aggressive in questioning corporate purposes or creating more ambitious visions for their companies.

Our underlying assumption in this article is that you can lead *and* stay alive—not just register a pulse, but really be alive. But the classic protective devices of a person in authority tend to insulate them from those qualities that foster an acute experience of living. Cynicism, often dressed up as realism, undermines creativity and daring. Arrogance, often posing as authoritative knowledge, snuffs out curiosity and the eagerness to question. Callousness, sometimes portrayed as the thick skin of experience, shuts out compassion for others.

The hard truth is that it is not possible to know the rewards and joys of leadership without experiencing the pain as well. But staying in the game and bearing that pain is worth it, not only for the positive changes you can make in the lives of others but also for the meaning it gives your own.

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The Real Reason People Won't Change

by Robert Kegan and Lisa Laskow Lahey

EVERY MANAGER IS FAMILIAR with the employee who just won't change. Sometimes it's easy to see why—the employee fears a shift in power, the need to learn new skills, the stress of having to join a new team. In other cases, such resistance is far more puzzling. An employee has the skills and smarts to make a change with ease, has shown a deep commitment to the company, genuinely supports the change—and yet, inexplicably, does nothing.

What's going on? As organizational psychologists, we have seen this dynamic literally hundreds of times, and our research and analysis have recently led us to a surprising yet deceptively simple conclusion. Resistance to change does not reflect opposition, nor is it merely a result of inertia. Instead, even as they hold a sincere commitment to change, many people are unwittingly applying productive energy toward a hidden *competing commitment*. The resulting dynamic equilibrium stalls the effort in what looks like resistance but is in fact a kind of personal immunity to change.

When you, as a manager, uncover an employee's competing commitment, behavior that has seemed irrational and ineffective suddenly becomes stunningly sensible and masterful—but unfortunately, on behalf of a goal that conflicts with what you and even the employee are trying to achieve. You find out that the project leader

who's dragging his feet has an unrecognized competing commitment to avoid the even tougher assignment—one he fears he can't handle—that might come his way next if he delivers too successfully on the task at hand. Or you find that the person who won't collaborate despite a passionate and sincere commitment to teamwork is equally dedicated to avoiding the conflict that naturally attends any ambitious team activity.

In these pages, we'll look at competing commitments in detail and take you through a process to help your employees overcome their immunity to change. The process may sound straightforward, but it is by no means quick or easy. On the contrary, it challenges the very psychological foundations upon which people function. It asks people to call into question beliefs they've long held close, perhaps since childhood. And it requires people to admit to painful, even embarrassing, feelings that they would not ordinarily disclose to others or even to themselves. Indeed, some people will opt not to disrupt their immunity to change, choosing instead to continue their fruitless struggle against their competing commitments.

As a manager, you must guide people through this exercise with understanding and sensitivity. If your employees are to engage in honest introspection and candid disclosure, they must understand that their revelations won't be used against them. The goal of this exploration is solely to help them become more effective, not to find flaws in their work or character. As you support your employees in unearthing and challenging their innermost assumptions, you may at times feel you're playing the role of a psychologist. But in a sense, managers *are* psychologists. After all, helping people overcome their limitations to become more successful at work is at the very heart of effective management.

We'll describe this delicate process in detail, but first let's look at some examples of competing commitments in action.

Shoveling Sand Against the Tide

Competing commitments cause valued employees to behave in ways that seem inexplicable and irremediable, and this is enormously

Idea in Brief

Tearing out your managerial hair over employees who just won't change—especially the ones who are clearly smart, skilled, and deeply committed to your company and your plans for improvement?

Before you throw up your hands in frustration, listen to recent psychological research: These otherwise valued employees aren't *purposefully* subversive or resistant. Instead, they may be unwittingly caught in a **competing commitment**—a subconscious, hidden goal that conflicts with their *stated* commitments. For example: A project leader dragging his feet has an unrecognized competing commitment to avoid tougher assignments that may come his way if he delivers too successfully on the current project.

Competing commitments make people personally immune to

change. Worse, they can undermine your best employees'—and your company's—success.

If the thought of tackling these hidden commitments strikes you as a psychological quagmire, you're not alone. However, you can help employees uncover and move beyond their competing commitments—*without* having to “put them on the couch.” But take care: You'll be challenging employees' deepest psychological foundations and questioning their longest-held beliefs.

Why bother, you ask? Consider the rewards: You help talented employees become much more effective and make far more significant contributions to your company. And, you discover what's *really* going on when people who seem genuinely committed to change dig in their heels.

frustrating to managers. Take the case of John, a talented manager at a software company. (Like all examples in this article, John's experiences are real, although we have altered identifying features. In some cases, we've constructed composite examples.) John was a big believer in open communication and valued close working relationships, yet his caustic sense of humor consistently kept colleagues at a distance. And though he wanted to move up in the organization, his personal style was holding him back. Repeatedly, John was counseled on his behavior, and he readily agreed that he needed to change the way he interacted with others in the organization. But time after

Idea in Practice

Use these steps to break through an employee's immunity to change:

Diagnose the Competing Commitment

Take two to three hours to explore these questions with the employee:

“What would you like to see changed at work, so you could be more effective, or so work would be more satisfying?”

Responses are usually complaints—e.g., Tom, a manager, grumbled, “My subordinates keep me out of the loop.”

“What commitment does your complaint imply?” Complaints indicate what people care about most—e.g., Tom revealed, “I believe in open, candid communication.”

“What are you doing, or not doing, to keep your commitment from being more fully realized?” Tom admitted, “When people

bring bad news, I tend to shoot the messenger.”

“Imagine doing the opposite of the undermining behavior. Do you feel any discomfort, worry, or vague fear?” Tom imagined listening calmly and openly to bad news and concluded, “I’m afraid I’ll hear about a problem I can’t fix.”

“By engaging in this undermining behavior, what worrisome outcome are you committed to preventing?” The answer is the competing commitment—what causes them to dig in their heels against change. Tom conceded, *“I’m committed to not learning about problems I can’t fix.”*

Identify the Big Assumption

This is the worldview that colors everything we see and that generates our competing commitment.

People often form big assumptions early in life and then seldom, if

time, he reverted to his old patterns. Why, his boss wondered, did John continue to undermine his own advancement?

As it happened, John was a person of color working as part of an otherwise all-white executive team. When he went through an exercise designed to help him unearth his competing commitments, he made a surprising discovery about himself. Underneath it all, John believed that if he became too well integrated with the team, it would threaten his sense of loyalty to his own racial group. Moving too close to the mainstream made him feel very uncomfortable, as if he were

ever, examine them. They're woven into the very fabric of our lives. But only by bringing them into the light can people finally challenge their deepest beliefs and recognize why they're engaging in seemingly contradictory behavior.

To identify the big assumption, guide an employee through this exercise:

Create a sentence stem that inverts the competing commitment, then “fill in the blank.”

Tom turned his competing commitment to not hearing about problems he couldn't fix into this big assumption: “I assume that if I *did* hear about problems I can't fix, *people would discover I'm not qualified to do the job.*”

Test—and Consider Replacing—the Big Assumption

By analyzing the circumstances leading up to and reinforcing their

big assumptions, employees empower themselves to test those assumptions. They can now carefully and safely experiment with behaving differently than they usually do.

After running several such tests, employees may feel ready to reevaluate the big assumption itself—and possibly even replace it with a new worldview that more accurately reflects their abilities.

At the very least, they'll eventually find more effective ways to support their competing commitment *without* sabotaging other commitments. *They* achieve ever-greater accomplishments—and your organization benefits by finally gaining greater access to their talents.

becoming “one of them” and betraying his family and friends. So when people gathered around his ideas and suggestions, he'd tear down their support with sarcasm, inevitably (and effectively) returning himself to the margins, where he was more at ease. In short, while John was genuinely committed to working well with his colleagues, he had an equally powerful competing commitment to keeping his distance.

Consider, too, a manager we'll call Helen, a rising star at a large manufacturing company. Helen had been assigned responsibility for speeding up production of the company's most popular product, yet

Getting Groups to Change

ALTHOUGH COMPETING COMMITMENTS and big assumptions tend to be deeply personal, groups are just as susceptible as individuals to the dynamics of immunity to change. Face-to-face teams, departments, and even companies as a whole can fall prey to inner contradictions that “protect” them from significant changes they may genuinely strive for. The leadership team of a video production company, for instance, enjoyed a highly collaborative, largely flat organizational structure. A year before we met the group, team members had undertaken a planning process that led them to a commitment of which they were unanimously in favor: In order to ensure that the company would grow in the way the team wished, each of the principals would take responsibility for aggressively overseeing a distinct market segment.

The members of the leadership team told us they came out of this process with a great deal of momentum. They knew which markets to target, they had formed some concrete plans for moving forward, and they had clearly assigned accountability for each market. Yet a year later, the group had to admit it had accomplished very little, despite the enthusiasm. There were lots of rational explanations: “We were unrealistic; we thought we could do new things and still have time to keep meeting our present obligations.” “We didn’t pursue new clients aggressively enough.” “We tried new things but gave up too quickly if they didn’t immediately pay off.”

Efforts to overcome these barriers—to pursue clients more aggressively, for instance—didn’t work because they didn’t get to the cause of the unproductive behavior. But by seeing the team’s explanations as a potential window

she was spinning her wheels. When her boss, Andrew, realized that an important deadline was only two months away and she hadn’t filed a single progress report, he called her into a meeting to discuss the project. Helen agreed that she was far behind schedule, acknowledging that she had been stalling in pulling together the team. But at the same time she showed a genuine commitment to making the project a success. The two developed a detailed plan for changing direction, and Andrew assumed the problem was resolved. But three weeks after the meeting, Helen still hadn’t launched the team.

Why was Helen unable to change her behavior? After intense self-examination in a workshop with several of her colleagues, she came to an unexpected conclusion: Although she truly wanted the project to succeed, she had an accompanying, unacknowledged commitment

into the bigger competing commitment, we were able to help the group better understand its predicament. We asked, "Can you identify even the vaguest fear or worry about what might happen if you *did* more aggressively pursue the new markets? Or if you reduced some of your present activity on behalf of building the new business?" Before long, a different discourse began to emerge, and the other half of a striking groupwide contradiction came into view: The principals were worried that pursuing the plan would drive them apart functionally and emotionally.

"We now realize we are also committed to preserving the noncompetitive, intellectually rewarding, and cocreative spirit of our corporate enterprise," they concluded. On behalf of this commitment, the team members had to commend themselves on how "noncompetitively" and "cocreatively" they were finding ways to undermine the strategic plans they still believed were the best route to the company's future success. The team's big assumptions? "We assumed that pursuing the target-market strategy, with each of us taking aggressive responsibility for a given segment, would create the 'silos' we have long happily avoided and would leave us more isolated from one another. We also assumed the strategy would make us more competitively disposed toward one another." Whether or not the assumptions were true, they would have continued to block the group's efforts until they were brought to light. In fact, as the group came to discover, there were a variety of moves that would allow the leadership team to preserve a genuinely collaborative collegiality while pursuing the new corporate strategy.

to maintaining a subordinate position in relation to Andrew. At a deep level, Helen was concerned that if she succeeded in her new role—one she was excited about and eager to undertake—she would become more a peer than a subordinate. She was uncertain whether Andrew was prepared for the turn their relationship would take. Worse, a promotion would mean that she, not Andrew, would be ultimately accountable for the results of her work—and Helen feared she wouldn't be up to the task.

These stories shed some light on the nature of immunity to change. The inconsistencies between John's and Helen's stated goals and their actions reflect neither hypocrisy nor unspoken reluctance to change but the paralyzing effect of competing commitments. Any manager who seeks to help John communicate more effectively or

Helen move her project forward, without understanding that each is also struggling unconsciously toward an opposing agenda, is shoveling sand against the tide.

Diagnosing Immunity to Change

Competing commitments aren't distressing only to the boss; they're frustrating to employees as well. People with the most

A diagnostic test for immunity to change

The most important steps in diagnosing immunity to change are uncovering employees' competing commitments and unearthing their big assumptions. To do so, we ask a series of questions and record key responses in a simple grid. Below we've listed the responses for six people who went through this exercise, including the examples described in the text. The grid paints a picture of the change-immunity system, making sense of a previously puzzling dynamic.

	Stated commitment I am committed to . . .	What am I doing, or not doing, that is keeping my stated com- mitment from being fully realized?	Competing commitments	Big assump- tions
John	. . .high quality communication with my col- leagues.	Sometimes I use sarcastic humor to get my point across.	I am committed to maintaining a distance from my white colleagues.	I assume I will lose my authentic connection to my racial group if I get too inte- grated into the mainstream.
Helen	. . .the new ini- tiative.	I don't push for top performance from my team members or myself; I accept mediocre prod- ucts and thinking too often; I don't prioritize.	I am committed to not upsetting my relationship with my boss by leaving the mentee role.	I assume my boss will stop support- ing me if I move toward becoming his peer; I assume that I don't have what it takes to success- fully carry out a cutting-edge project.

Tom	. . .hearing from my subordinates and maximizing the flow of information into my office.	I don't ask questions or ask to be kept in the loop on sensitive or delicate matters; I shoot the messenger when I hear bad news.	I am committed to not learning about things I can't do anything about.	I assume as a leader I should be able to address all problems; I assume I will be seen as incompetent if I can't solve all problems that come up.
Mary	. . .distributed leadership by enabling people to make decisions.	I don't delegate enough; I don't pass on the necessary information to the people I distribute leadership to.	I am committed to having things go my way, to being in control, and to ensuring that the work is done to my high standards.	I assume that other people will waste my time and theirs if I don't step in; I assume others aren't as smart as I am.
Bill	. . .being a team player.	I don't collaborate enough; I make unilateral decisions too often; I don't really take people's input into account.	I am committed to being the one who gets the credit and to avoiding the frustration or conflict that comes with collaboration.	I assume that no one will appreciate me if I am not seen as the source of success; I assume nothing good will come of my being frustrated or in conflict.
Jane	. . .turning around my department.	Too often I let things slide; I'm not proactive enough in getting people to follow through with their tasks.	I am committed to not setting full sail until I have a clear map of how we get our department from here to there.	I assume that if I take my group out into deep waters and discover I am unable to get us to the other side, I will be seen as an incompetent leader who is undeserving of trust or responsibility.

sincere intentions often unwittingly create for themselves Sisyphean tasks. And they are almost always tremendously relieved when they discover just why they feel as if they are rolling a boulder up a hill only to have it roll back down again. Even

though uncovering a competing commitment can open up a host of new concerns, the discovery offers hope for finally accomplishing the primary, stated commitment.

Based on the past 15 years of working with hundreds of managers in a variety of companies, we've developed a three-stage process to help organizations figure out what's getting in the way of change. First, managers guide employees through a set of questions designed to uncover competing commitments. Next, employees examine these commitments to determine the underlying assumptions at their core. And finally, employees start the process of changing their behavior.

We'll walk through the process fairly quickly below, but it's important to note that each step will take time. Just uncovering the competing commitment will require at least two or three hours, because people need to reflect on each question and the implications of their answers. The process of challenging competing commitments and making real progress toward overcoming immunity to change unfolds over a longer period—weeks or even months. But just getting the commitments on the table can have a noticeable effect on the decisions people make and the actions they take.

Uncovering Competing Commitments

Overcoming immunity to change starts with uncovering competing commitments. In our work, we've found that even though people keep their competing commitments well hidden, you can draw them out by asking a series of questions—as long as the employees believe that personal and potentially embarrassing disclosures won't be used inappropriately. It can be very powerful to guide people through this diagnostic exercise in a group—typically with several volunteers making their own discoveries public—so people can see that others, even the company's star performers, have competing commitments and inner contradictions of their own.

The first question we ask is, *What would you like to see changed at work, so that you could be more effective or so that work would be more satisfying?* Responses to this question are nearly always couched in a

complaint—a form of communication that most managers bemoan because of its negative, unproductive tone. But complaints can be immensely useful. People complain only about the things they care about, and they complain the loudest about the things they care about most. With little effort, people can turn their familiar, uninspiring gripes into something that's more likely to energize and motivate them—a commitment, genuinely their own.

To get there, you need to ask a second question: *What commitments does your complaint imply?* A project leader we worked with, we'll call him Tom, had grumbled, "My subordinates keep me out of the loop on important developments in my project." This complaint yielded the statement, "I believe in open and candid communication." A line manager we'll call Mary lamented people's unwillingness to speak up at meetings; her complaint implied a commitment to shared decision making.

While undoubtedly sincere in voicing such commitments, people can nearly always identify some way in which they are in part responsible for preventing them from being fulfilled. Thus, the third question is: *What are you doing, or not doing, that is keeping your commitment from being more fully realized?* Invariably, in our experience, people can identify these undermining behaviors in just a couple of seconds. For example, Tom admitted: "When people bring me bad news, I tend to shoot the messenger." And Mary acknowledged that she didn't delegate much and that she sometimes didn't release all the information people needed in order to make good decisions.

In both cases, there may well have been other circumstances contributing to the shortfalls, but clearly both Tom and Mary were engaging in behavior that was affecting the people around them. Most people recognize this about themselves right away and are quick to say, "I need to stop doing that." Indeed, Tom had repeatedly vowed to listen more openly to potential problems that would slow his projects. However, the purpose of this exercise is not to make these behaviors disappear—at least not now. The purpose is to understand why people behave in ways that undermine their own success.

The next step, then, is to invite people to consider the consequences of forgoing the behavior. We do this by asking a fourth

question: *If you imagine doing the opposite of the undermining behavior, do you detect in yourself any discomfort, worry, or vague fear?* Tom imagined himself listening calmly and openly to some bad news about a project and concluded, “I’m afraid I’ll hear about a problem that I can’t fix, something that I can’t do anything about.” And Mary? She considered allowing people more latitude and realized that, quite frankly, she feared people wouldn’t make good decisions and she would be forced to carry out a strategy she thought would lead to an inferior result.

The final step is to transform that passive fear into a statement that reflects an active commitment to preventing certain outcomes. We ask, *By engaging in this undermining behavior, what worrisome outcome are you committed to preventing?* The resulting answer is the competing commitment, which lies at the very heart of a person’s immunity to change. Tom admitted, “I am committed to not learning about problems I can’t fix.” By intimidating his staff, he prevented them from delivering bad news, protecting himself from the fear that he was not in control of the project. Mary, too, was protecting herself—in her case, against the consequences of bad decisions. “I am committed to making sure my group does not make decisions that I don’t like.”

Such revelations can feel embarrassing. While primary commitments nearly always reflect noble goals that people would be happy to shout from the rooftops, competing commitments are very personal, reflecting vulnerabilities that people fear will undermine how they are regarded both by others and themselves. Little wonder people keep them hidden and hasten to cover them up again once they’re on the table.

But competing commitments should not be seen as weaknesses. They represent some version of self-protection, a perfectly natural and reasonable human impulse. The question is, if competing commitments are a form of self-protection, what are people protecting themselves from? The answers usually lie in what we call their *big assumptions*—deeply rooted beliefs about themselves and the world around them. These assumptions put an order to the world and at the same time suggest ways in which the world

can go out of order. Competing commitments arise from these assumptions, driving behaviors unwittingly designed to keep the picture intact.

Examining the Big Assumption

People rarely realize they hold big assumptions because, quite simply, they accept them as reality. Often formed long ago and seldom, if ever, critically examined, big assumptions are woven into the very fabric of people's existence. (For more on the grip that big assumptions hold on people, see the sidebar "Big Assumptions: How Our Perceptions Shape Our Reality.") But with a little help, most people can call them up fairly easily, especially once they've identified their competing commitments. To do this, we first ask people to create the beginning of a sentence by inverting the competing commitment, and then we ask them to fill in the blank. For Tom ("I am committed to not hearing about problems I can't fix"), the big assumption turned out to be, "I assume that if I *did* hear about problems I can't fix, people would discover I'm not qualified to do my job." Mary's big assumption was that her teammates weren't as smart or experienced as she and that she'd be wasting her time and others' if she didn't maintain control. Returning to our earlier story, John's big assumption might be, "I assume that if I develop unambivalent relationships with my white coworkers, I will sacrifice my racial identity and alienate my own community."

This is a difficult process, and it doesn't happen all at once, because admitting to big assumptions makes people uncomfortable. The process can put names to very personal feelings people are reluctant to disclose, such as deep-seated fears or insecurities, highly discouraging or simplistic views of human nature, or perceptions of their own superior abilities or intellect. Unquestioning acceptance of a big assumption anchors and sustains an immune system: A competing commitment makes all the sense in the world, and the person continues to engage in behaviors that support it, albeit unconsciously, to the detriment of his or her "official," stated commitment. Only by bringing big assumptions to light can people

Big Assumptions: How Our Perceptions Shape Our Reality

BIG ASSUMPTIONS REFLECT the very human manner in which we invent or shape a picture of the world and then take our inventions for reality. This is easiest to see in children. The delight we take in their charming distortions is a kind of celebration that they are actively making sense of the world, even if a bit eccentrically. As one story goes, two youngsters had been learning about Hindu culture and were taken with a representation of the universe in which the world sits atop a giant elephant, and the elephant sits atop an even more giant turtle. “I wonder what the turtle sits on,” says one of the children. “I think from then on,” says the other, “it’s turtles all the way down.”

But deep within our amusement may lurk a note of condescension, an implication that this is what distinguishes children from grown-ups. Their meaning-making is subject to youthful distortions, we assume. Ours represents an accurate map of reality.

But does it? Are we really finished discovering, once we have reached adulthood, that our maps don’t match the territory? The answer is clearly no. In our 20 years of longitudinal and cross-sectional research, we’ve discovered that adults must grow into and out of several qualitatively different views of

finally challenge their assumptions and recognize why they are engaging in seemingly contradictory behavior.

Questioning the Big Assumption

Once people have identified their competing commitments and the big assumptions that sustain them, most are prepared to take some immediate action to overcome their immunity. But the first part of the process involves observation, not action, which can be frustrating for high achievers accustomed to leaping into motion to solve problems. Let’s take a look at the steps in more detail.

Step 1: Notice and record current behavior

Employees must first take notice of what does and doesn’t happen as a consequence of holding big assumptions to be true. We specifically ask people *not* to try to make any changes in their thinking or

the world if they are to master the challenges of their life experiences (see Robert Kegan, *In Over Our Heads*, Harvard University Press, 1994).

A woman we met from Australia told us about her experience living in the United States for a year. “Not only do you drive on the wrong side of the street over here,” she said, “your steering wheels are on the wrong side, too. I would routinely pile into the right side of the car to drive off, only to discover I needed to get out and walk over to the other side.

“One day,” she continued, “I was thinking about six different things, and I got into the right side of the car, took out my keys, and was prepared to drive off. I looked up and thought to myself, ‘My God, here in the violent and lawless United States, they are even stealing *steering wheels*!’”

Of course, the countervailing evidence was just an arm’s length to her left, but—and this is the main point—*why should she look?* Our big assumptions create a disarming and deluding sense of certainty. If we know where a steering wheel belongs, we are unlikely to look for it some place else. If we know what our company, department, boss, or subordinate can and can’t do, why should we look for countervailing data—even if it is just an arm’s length away?

behavior at this time but just to become more aware of their actions in relation to their big assumptions. This gives people the opportunity to develop a better appreciation for how and in what contexts big assumptions influence their lives. John, for example, who had assumed that working well with his white colleagues would estrange him from his ethnic group, saw that he had missed an opportunity to get involved in an exciting, high-profile initiative because he had mocked the idea when it first came up in a meeting.

Step 2: Look for contrary evidence

Next, employees must look actively for experiences that might cast doubt on the validity of their big assumptions. Because big assumptions are held as fact, they actually inform what people see, leading them to systematically (but unconsciously) attend to certain data and avoid or ignore other data. By asking people to search specifically for experiences that would cause them to question their

assumptions, we help them see that they have filtering out certain types of information—information that could weaken the grip of the big assumptions.

When John looked around him, he considered for the first time that an African-American manager in another department had strong working relationships with her mostly white colleagues, yet seemed not to have compromised her personal identity. He also had to admit that when he had been thrown onto an urgent task force the year before, he had worked many hours alongside his white colleagues and found the experience satisfying; he had felt of his usual ambivalence.

Step 3: Explore the history

In this step, we people to become the “biographers” of their assumptions: How and when did the assumptions first take hold? How long have they been around? What have been some of their critical turning points?

Typically, this step leads people to earlier life experiences, almost always to times before their current jobs and relationships with current coworkers. This reflection usually makes people dissatisfied with the foundations of their big assumptions, especially when they see that these have accompanied them to their current positions and have been coloring their experiences for many years. Recently, a CEO expressed astonishment as she realized she’d been applying the same self-protective stance in her work that she’d developed during a difficult divorce years before. Just as commonly, as was the case for John, people trace their big assumptions to early experiences with parents, siblings, or friends. Understanding the circumstances that influenced the formation of the assumptions can free people to consider whether these beliefs apply to their present selves.

Step 4: Test the assumption

This step entails creating and running a modest test of the big assumption. This is the first time we ask people to consider making changes in their behavior. Each employee should come up with a scenario and run it by a partner who serves as a sounding board.

(Left to their own devices, people tend to create tests that are either too risky or so tentative that they don't actually challenge the assumption and in fact reaf-firm its validity.) After conferring with a partner, John, for instance, volunteered to join a short-term committee looking at his department's process for evaluating new product ideas. Because the team would dissolve after a month, he would be able to extricate himself fairly quickly if he grew too uncomfortable with the relationships. But the experience would force him to spend a significant amount of time with several of his white colleagues during that month and would provide him an opportunity to test his sense of the real costs of being a full team member.

Step 5: Evaluate the results

In the last step, employees evaluate the test results, evaluate the test itself, design and run new tests, and eventually question the big assumptions. For John, this meant signing up for other initiatives and making initial social overtures to white coworkers. At the same time, by engaging in volunteer efforts within his community outside of work, he made sure that his ties to his racial group were not compromised.

It is worth noting that revealing a big assumption doesn't necessarily mean it will be exposed as false. But even if a big assumption does contain an element of truth, an individual can often find more effective ways to operate once he or she has had a chance to challenge the assumption and its hold on his or her behavior. Indeed, John found a way to support the essence of his competing commitment—to maintain his bond with his racial group—while minimizing behavior that sabotaged his other stated commitments.

Uncovering Your Own Immunity

As you go through this process with your employees, remember that managers are every bit as susceptible to change immunity as employees are, and your competing commitments and big assumptions can have a significant impact on the people around you. Returning once more to Helen's story: When we went through this

exercise with her boss, Andrew, it turned out that he was harboring some contradictions of his own. While he was committed to the success of his subordinates, Andrew at some level assumed that he alone could meet his high standards, and as a result he was laboring under a competing commitment to maintain absolute control over his projects. He was unintentionally communicating this lack of confidence to his subordinates—including Helen—in subtle ways. In the end, Andrew's and Helen's competing commitments were, without their knowledge, mutually reinforcing, keeping Helen dependent on Andrew and allowing Andrew to control her projects.

Helen and Andrew are still working through this process, but they've already gained invaluable insight into their behavior and the ways they are impeding their own progress. This may seem like a small step, but bringing these issues to the surface and confronting them head-on is challenging and painful—yet tremendously effective. It allows managers to see, at last, what's really going on when people who are genuinely committed to change nonetheless dig in their heels. It's not about identifying unproductive behavior and systematically making plans to correct it, as if treating symptoms would cure a disease. It's not about coaxing or cajoling or even giving poor performance reviews. It's about understanding the complexities of people's behavior, guiding them through a productive process to bring their competing commitments to the surface, and helping them cope with the inner conflict that is preventing them from achieving their goals.

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Cracking the Code of Change

by Michael Beer and Nitin Nohria

THE NEW ECONOMY HAS ushered in great business opportunities—and great turmoil. Not since the Industrial Revolution have the stakes of dealing with change been so high. Most traditional organizations have accepted, in theory at least, that they must either change or die. And even Internet companies such as eBay, Amazon.com, and America Online recognize that they need to manage the changes associated with rapid entrepreneurial growth. Despite some individual successes, however, change remains difficult to pull off, and few companies manage the process as well as they would like. Most of their initiatives—installing new technology, downsizing, restructuring, or trying to change corporate culture—have had low success rates. The brutal fact is that about 70% of all change initiatives fail.

In our experience, the reason for most of those failures is that in their rush to change their organizations, managers end up immersing themselves in an alphabet soup of initiatives. They lose focus and become mesmerized by all the advice available in print and online about why companies should change, what they should try to accomplish, and how they should do it. This proliferation of recommendations often leads to muddle when change is attempted. The result is that most change efforts exert a heavy toll, both human and economic. To improve the odds of success, and to reduce the human

carnage, it is imperative that executives understand the nature and process of corporate change much better. But even that is not enough. Leaders need to crack the code of change.

For more than 40 years now, we've been studying the nature of corporate change. And although every business's change initiative is unique, our research suggests there are two archetypes, or theories, of change. These archetypes are based on very different and often unconscious assumptions by senior executives—and the consultants and academics who advise them—about why and how changes should be made. Theory E is change based on economic value. Theory O is change based on organizational capability. Both are valid models; each theory of change achieves some of management's goals, either explicitly or implicitly. But each theory also has its costs—often unexpected ones.

Theory E change strategies are the ones that make all the headlines. In this “hard” approach to change, shareholder value is the only legitimate measure of corporate success. Change usually involves heavy use of economic incentives, drastic layoffs, downsizing, and restructuring. E change strategies are more common than O change strategies among companies in the United States, where financial markets push corporate boards for rapid turnarounds. For instance, when William A. Anders was brought in as CEO of General Dynamics in 1991, his goal was to maximize economic value—however painful the remedies might be. Over the next three years, Anders reduced the workforce by 71,000 people—44,000 through the divestiture of seven businesses and 27,000 through layoffs and attrition. Anders employed common E strategies.

Managers who subscribe to Theory O believe that if they were to focus exclusively on the price of their stock, they might harm their organizations. In this “soft” approach to change, the goal is to develop corporate culture and human capability through individual and organizational learning—the process of changing, obtaining feedback, reflecting, and making further changes. U.S. companies that adopt O strategies, as Hewlett-Packard did when its performance flagged in the 1980s, typically have strong, long-held, commitment-based psychological contracts with their employees.

Idea in Brief

Here's the brutal fact: 70% of all change initiatives fail. Why? Managers flounder in an alphabet soup of change methods, drowning in conflicting advice. Change efforts exact a heavy toll—human *and* economic—as companies flail from one change method to another.

To effect successful change, first **grasp the two basic theories of change:**

1. **Theory E** change emphasizes economic value—as measured *only* by shareholder returns. This “hard” approach boosts returns through economic incentives, drastic layoffs, and restructuring. “Chainsaw Al” Dunlop’s firing 11,000 Scott Paper employees and selling

several businesses—tripling shareholder value to \$9 billion—is a stunning example.

2. **Theory O** change—a “softer” approach—focuses on developing corporate culture and human capability, patiently building trust and emotional commitment to the company through teamwork and communication.

Then, carefully and simultaneously **balance these very different approaches**. It's not easy. Employees distrust leaders who alternate between nurturing and cutthroat behavior. But, done well, you'll boost profits and productivity, and achieve sustainable competitive advantage.

Managers at these companies are likely to see the risks in breaking those contracts. Because they place a high value on employee commitment, Asian and European businesses are also more likely to adopt an O strategy to change.

Few companies subscribe to just one theory. Most companies we have studied have used a mix of both. But all too often, managers try to apply theories E and O in tandem without resolving the inherent tensions between them. This impulse to combine the strategies is directionally correct, but theories E and O are so different that it's hard to manage them simultaneously—employees distrust leaders who alternate between nurturing and cutthroat corporate behavior. Our research suggests, however, that there is a way to resolve the tension so that businesses can satisfy their shareholders while building viable institutions. Companies that effectively combine hard and soft approaches to change can reap big payoffs in profitability and

Idea in Practice

The UK grocery chain, ASDA, teetered on bankruptcy in 1991. Here's how CEO Archie Norman combined change Theories E and O with spectacular results: a culture of trust and openness—and an eightfold increase in shareholder value.

Change dimension	How to combine theories E and O	Examples from ASDA
Goals	Embrace the paradox between economic value <i>and</i> organizational capability	Norman started his tenure by stating, "Our number one objective is to secure value for our shareholders" and "We need a culture built around common ideas . . . and listening, learning, and speed of response, from the stores upwards."
Leadership	Set direction from the top <i>and</i> engage people from below	Norman unilaterally set a new pricing strategy <i>and</i> shifted power from headquarters to stores. His forthright "Tell Archie" program encouraged dialogue with all employees. He hired warm, accessible Allan Leighton to complement his own Theory O leadership style and strengthened emotional commitment to the new ASDA.
Focus	Focus on both hard and soft sides of the organization	Norman set out to win both hearts <i>and</i> minds. He boosted economic value through hard, structural changes, e.g., removing top layers of hierarchy and freezing all wages. He paid equal attention to the soft side by spending 75% of his early months as HR director creating a more egalitarian and transparent organization—"a great place for everyone to work."

Change dimension	How to combine theories E and O	Examples from ASDA
Process	Plan for spontaneity	Norman encouraged experimentation, setting up three “risk-free” stores where employees could fail without penalty. Managers experimented with store layout, product range, employee roles. A cross-functional team redesigned ASDA’s entire retail organization—and produced significant innovations.
Reward system	Use incentives to reinforce rather than drive change	ASDA applied Theory E incentives in an O-like way. It encouraged all employees to participate actively in changing ASDA. And it rewarded their commitment with stock ownership and variable pay based on corporate <i>and</i> store performance.

productivity. Those companies are more likely to achieve a sustainable competitive advantage. They can also reduce the anxiety that grips whole societies in the face of corporate restructuring.

In this article, we will explore how one company successfully resolved the tensions between E and O strategies. But before we do that, we need to look at just how different the two theories are.

A Tale of Two Theories

To understand how sharply theories E and O differ, we can compare them along several key dimensions of corporate change: goals, leadership, focus, process, reward system, and use of consultants. (For a side-by-side comparison, see the table “Comparing theories of change.”) We’ll look at two companies in similar businesses that adopted almost pure forms of each archetype. Scott Paper

successfully used Theory E to enhance shareholder value, while Champion International used Theory O to achieve a complete cultural transformation that increased its productivity and employee commitment. But as we will soon observe, both paper producers also discovered the limitations of sticking with only one theory of change. Let's compare the two companies' initiatives.

Goals

When Al Dunlap assumed leadership of Scott Paper in May 1994, he immediately fired 11,000 employees and sold off several businesses. His determination to restructure the beleaguered company was almost monomaniacal. As he said in one of his speeches: "Shareholders are the number one constituency. Show me an annual report that lists six or seven constituencies, and I'll show you a mismanaged company." From a shareholder's perspective, the results of Dunlap's actions were stunning. In just 20 months, he managed to triple shareholder returns as Scott Paper's market value rose from about \$3 billion in 1994 to about \$9 billion by the end of 1995. The financial community applauded his efforts and hailed Scott Paper's approach to change as a model for improving shareholder returns.

Champion's reform effort couldn't have been more different. CEO Andrew Sigler acknowledged that enhanced economic value was an appropriate target for management, but he believed that goal would be best achieved by transforming the behaviors of management, unions, and workers alike. In 1981, Sigler and other managers launched a long-term effort to restructure corporate culture around a new vision called the Champion Way, a set of values and principles designed to build up the competencies of the workforce. By improving the organization's capabilities in areas such as teamwork and communication, Sigler believed he could best increase employee productivity and thereby improve the bottom line.

Leadership

Leaders who subscribe to Theory E manage change the old-fashioned way: from the top down. They set goals with little involvement from their management teams and certainly without input

from lower levels or unions. Dunlap was clearly the commander in chief at Scott Paper. The executives who survived his purges, for example, had to agree with his philosophy that shareholder value was now the company's primary objective. Nothing made clear Dunlap's leadership style better than the nickname he gloried in: "Chain-saw Al."

By contrast, participation (a Theory O trait) was the hallmark of change at Champion. Every effort was made to get all its employees emotionally committed to improving the company's performance. Teams drafted value statements, and even the industry's unions were brought into the dialogue. Employees were encouraged to identify and solve problems themselves. Change at Champion sprouted from the bottom up.

Focus

In E-type change, leaders typically focus immediately on streamlining the "hardware" of the organization—the structures and systems. These are the elements that can most easily be changed from the top down, yielding swift financial results. For instance, Dunlap quickly decided to outsource many of Scott Paper's corporate functions—benefits and payroll administration, almost all of its management information systems, some of its technology research, medical services, telemarketing, and security functions. An executive manager of a global merger explained the E rationale: "I have a [profit] goal of \$176 million this year, and there's no time to involve others or develop organizational capability."

By contrast, Theory O's initial focus is on building up the "software" of an organization—the culture, behavior, and attitudes of employees. Throughout a decade of reforms, no employees were laid off at Champion. Rather, managers and employees were encouraged to collectively reexamine their work practices and behaviors with a goal of increasing productivity and quality. Managers were replaced if they did not conform to the new philosophy, but the overall firing freeze helped to create a culture of trust and commitment. Structural change followed once the culture changed. Indeed, by the mid-1990s, Champion had completely reorganized all its

Comparing theories of change

Our research has shown that all corporate transformations can be compared along the six dimensions shown here. The table outlines the differences between the E and O archetypes and illustrates what an integrated approach might look like.

Dimensions of change	Theory E	Theory O	Theories E and O combined
Goals	Maximize shareholder value	Develop organizational capabilities	Explicitly embrace the paradox between economic value and organizational capability
Leadership	Manage change from the top down	Encourage participation from the bottom up	Set direction from the top and engage the people below
Focus	Emphasize structure and systems	Build up corporate culture: employees' behavior and attitudes	Focus simultaneously on the hard (structures and systems) and the soft (corporate culture)
Process	Plan and establish programs	Experiment and evolve	Plan for spontaneity
Reward system	Motivate through financial incentives	Motivate through commitment—use pay as fair exchange	Use incentives to reinforce change but not to drive it
Use of consultants	Consultants analyze problems and shape solutions	Consultants support management in shaping their own solutions	Consultants are expert resources who empower employees

corporate functions. Once a hierarchical, functionally organized company, Champion adopted a matrix structure that empowered employee teams to focus more on customers.

Process

Theory E is predicated on the view that no battle can be won without a clear, comprehensive, common plan of action that encourages

internal coordination and inspires confidence among customers, suppliers, and investors. The plan lets leaders quickly motivate and mobilize their businesses; it compels them to take tough, decisive actions they presumably haven't taken in the past. The changes at Scott Paper unfolded like a military battle plan. Managers were instructed to achieve specific targets by specific dates. If they didn't adhere to Dunlap's tightly choreographed marching orders, they risked being fired.

Meanwhile, the changes at Champion were more evolutionary and emergent than planned and programmatic. When the company's decade-long reform began in 1981, there was no master blueprint. The idea was that innovative work processes, values, and culture changes in one plant would be adapted and used by other plants on their way through the corporate system. No single person, not even Sigler, was seen as the driver of change. Instead, local leaders took responsibility. Top management simply encouraged experimentation from the ground up, spread new ideas to other workers, and transferred managers of innovative units to lagging ones.

Reward System

The rewards for managers in E-type change programs are primarily financial. Employee compensation, for example, is linked with financial incentives, mainly stock options. Dunlap's own compensation package—which ultimately netted him more than \$100 million—was tightly linked to shareholders' interests. Proponents of this system argue that financial incentives guarantee that employees' interests match stockholders' interests. Financial rewards also help top executives feel compensated for a difficult job—one in which they are often reviled by their onetime colleagues and the larger community.

The O-style compensation systems at Champion reinforced the goals of culture change, but they didn't drive those goals. A skills-based pay system and a corporatewide gains-sharing plan were installed to draw union workers and management into a community of purpose. Financial incentives were used only as a supplement to those systems and not to push particular reforms. While Champion did offer a companywide bonus to achieve business goals in two

separate years, this came late in the change process and played a minor role in actually fulfilling those goals.

Use of Consultants

Theory E change strategies often rely heavily on external consultants. A SWAT team of Ivy League-educated MBAs, armed with an arsenal of state-of-the-art ideas, is brought in to find new ways to look at the business and manage it. The consultants can help CEOs get a fix on urgent issues and priorities. They also offer much-needed political and psychological support for CEOs who are under fire from financial markets. At Scott Paper, Dunlap engaged consultants to identify many of the painful cost-savings initiatives that he subsequently implemented.

Theory O change programs rely far less on consultants. The handful of consultants who were introduced at Champion helped managers and workers make their own business analyses and craft their own solutions. And while the consultants had their own ideas, they did not recommend any corporate program, dictate any solutions, or whip anyone into line. They simply led a process of discovery and learning that was intended to change the corporate culture in a way that could not be foreseen at the outset.

In their purest forms, both change theories clearly have their limitations. CEOs who must make difficult E-style choices understandably distance themselves from their employees to ease their own pain and guilt. Once removed from their people, these CEOs begin to see their employees as part of the problem. As time goes on, these leaders become less and less inclined to adopt O-style change strategies. They fail to invest in building the company's human resources, which inevitably hollows out the company and saps its capacity for sustained performance. At Scott Paper, for example, Dunlap trebled shareholder returns but failed to build the capabilities needed for sustained competitive advantage—commitment, coordination, communication, and creativity. In 1995, Dunlap sold Scott Paper to its longtime competitor Kimberly-Clark.

CEOs who embrace Theory O find that their loyalty and commitment to their employees can prevent them from making tough

decisions. The temptation is to postpone the bitter medicine in the hopes that rising productivity will improve the business situation. But productivity gains aren't enough when fundamental structural change is required. That reality is underscored by today's global financial system, which makes corporate performance instantly transparent to large institutional shareholders whose fund managers are under enormous pressure to show good results. Consider Champion. By 1997, it had become one of the leaders in its industry based on most performance measures. Still, newly instated CEO Richard Olsen was forced to admit a tough reality: Champion shareholders had not seen a significant increase in the economic value of the company in more than a decade. Indeed, when Champion was sold recently to Finland-based UPM-Kymmene, it was acquired for a mere 1.5 times its original share value.

Managing the Contradictions

Clearly, if the objective is to build a company that can adapt, survive, and prosper over the years, Theory E strategies must somehow be combined with Theory O strategies. But unless they're carefully handled, melding E and O is likely to bring the worst of both theories and the benefits of neither. Indeed, the corporate changes we've studied that arbitrarily and haphazardly mixed E and O techniques proved destabilizing to the organizations in which they were imposed. Managers in those companies would certainly have been better off to pick either pure E or pure O strategies—with all their costs. At least one set of stakeholders would have benefited.

The obvious way to combine E and O is to sequence them. Some companies, notably General Electric, have done this quite successfully. At GE, CEO Jack Welch began his sequenced change by imposing an E-type restructuring. He demanded that all GE businesses be first or second in their industries. Any unit that failed that test would be fixed, sold off, or closed. Welch followed that up with a massive downsizing of the GE bureaucracy. Between 1981 and 1985, total employment at the corporation dropped from 412,000 to 299,000. Sixty percent of the corporate staff, mostly in planning and finance,

was laid off. In this phase, GE people began to call Welch “Neutron Jack,” after the fabled bomb that was designed to destroy people but leave buildings intact. Once he had wrung out the redundancies, however, Welch adopted an O strategy. In 1985, he started a series of organizational initiatives to change GE culture. He declared that the company had to become “boundaryless,” and unit leaders across the corporation had to submit to being challenged by their subordinates in open forum. Feedback and open communication eventually eroded the hierarchy. Soon Welch applied the new order to GE’s global businesses.

Unfortunately for companies like Champion, sequenced change is far easier if you begin, as Welch did, with Theory E. Indeed, it is highly unlikely that E would successfully follow O because of the sense of betrayal that would involve. It is hard to imagine how a draconian program of layoffs and downsizing can leave intact the psychological contract and culture a company has so patiently built up over the years. But whatever the order, one sure problem with sequencing is that it can take a very long time; at GE it has taken almost two decades. A sequenced change may also require two CEOs, carefully chosen for their contrasting styles and philosophies, which may create its own set of problems. Most turnaround managers don’t survive restructuring—partly because of their own inflexibility and partly because they can’t live down the distrust that their ruthlessness has earned them. In most cases, even the best-intentioned effort to rebuild trust and commitment rarely overcomes a bloody past. Welch is the exception that proves the rule.

So what should you do? How can you achieve rapid improvements in economic value while simultaneously developing an open, trusting corporate culture? Paradoxical as those goals may appear, our research shows that it is possible to apply theories E and O together. It requires great will, skill—and wisdom. But precisely because it is more difficult than mere sequencing, the simultaneous use of O and E strategies is more likely to be a source of sustainable competitive advantage.

One company that exemplifies the reconciliation of the hard and soft approaches is ASDA, the UK grocery chain that CEO Archie

Norman took over in December 1991, when the retailer was nearly bankrupt. Norman laid off employees, flattened the organization, and sold off losing businesses—acts that usually spawn distrust among employees and distance executives from their people. Yet during Norman's eight-year tenure as CEO, ASDA also became famous for its atmosphere of trust and openness. It has been described by executives at Wal-Mart—itself famous for its corporate culture—as being “more like Wal-Mart than we are.” Let's look at how ASDA resolved the conflicts of E and O along the six main dimensions of change.

Explicitly confront the tension between E and O goals

With his opening speech to ASDA's executive team—none of whom he had met—Norman indicated clearly that he intended to apply both E and O strategies in his change effort. It is doubtful that any of his listeners fully understood him at the time, but it was important that he had no conflicts about recognizing the paradox between the two strategies for change. He said as much in his maiden speech: “Our number one objective is to secure value for our shareholders and secure the trading future of the business. I am not coming in with any magical solutions. I intend to spend the next few weeks listening and forming ideas for our precise direction. . . . We need a culture built around common ideas and goals that include listening, learning, and speed of response, from the stores upwards. [But] there will be management reorganization. My objective is to establish a clear focus on the stores, shorten lines of communication, and build one team.” If there is a contradiction between building a high-involvement organization and restructuring to enhance shareholder value, Norman embraced it.

Set direction from the top and engage people below

From day one, Norman set strategy without expecting any participation from below. He said ASDA would adopt an everyday-low-pricing strategy, and Norman unilaterally determined that change would begin by having two experimental store formats up and running within six months. He decided to shift power from the headquarters to the stores, declaring: “I want everyone to be close to the stores.

We must love the stores to death; that is our business.” But even from the start, there was an O quality to Norman’s leadership style. As he put it in his first speech: “First, I am forthright, and I like to argue. Second, I want to discuss issues as colleagues. I am looking for your advice and your disagreement.” Norman encouraged dialogue with employees and customers through colleague and customer circles. He set up a “Tell Archie” program so that people could voice their concerns and ideas.

Making way for opposite leadership styles was also an essential ingredient to Norman’s—and ASDA’s—success. This was most clear in Norman’s willingness to hire Allan Leighton shortly after he took over. Leighton eventually became deputy chief executive. Norman and Leighton shared the same E and O values, but they had completely different personalities and styles. Norman, cool and reserved, impressed people with the power of his mind—his intelligence and business acumen. Leighton, who is warmer and more people oriented, worked on employees’ emotions with the power of his personality. As one employee told us, “People respect Archie, but they love Allan.” Norman was the first to credit Leighton with having helped to create emotional commitment to the new ASDA. While it might be possible for a single individual to embrace opposite leadership styles, accepting an equal partner with a very different personality makes it easier to capitalize on those styles. Leighton certainly helped Norman reach out to the organization. Together they held quarterly meetings with store managers to hear their ideas, and they supplemented those meetings with impromptu talks.

Focus simultaneously on the hard and soft sides of the organization

Norman’s immediate actions followed both the E goal of increasing economic value and the O goal of transforming culture. On the E side, Norman focused on structure. He removed layers of hierarchy at the top of the organization, fired the financial officer who had been part of ASDA’s disastrous policies, and decreed a wage freeze for everyone—management and workers alike. But from the start, the O strategy was an equal part of Norman’s plan. He bought time

for all this change by warning the markets that financial recovery would take three years. Norman later said that he spent 75% of his early months at ASDA as the company's human resource director, making the organization less hierarchical, more egalitarian, and more transparent. Both Norman and Leighton were keenly aware that they had to win hearts and minds. As Norman put it to workers: "We need to make ASDA a great place for everyone to work."

Plan for spontaneity

Training programs, total-quality programs, and top-driven culture change programs played little part in ASDA's transformation. From the start, the ASDA change effort was set up to encourage experimentation and evolution. To promote learning, for example, ASDA set up an experimental store that was later expanded to three stores. It was declared a risk-free zone, meaning there would be no penalties for failure. A cross-functional task force "renewed," or redesigned, ASDA's entire retail proposition, its organization, and its managerial structure. Store managers were encouraged to experiment with store layout, employee roles, ranges of products offered, and so on. The experiments produced significant innovations in all aspects of store operations. ASDA's managers learned, for example, that they couldn't renew a store unless that store's management team was ready for new ideas. This led to an innovation called the Driving Test, which assessed whether store managers' skills in leading the change process were aligned with the intended changes. The test perfectly illustrates how E and O can come together: it bubbled up O-style from the bottom of the company, yet it bound managers in an E-type contract. Managers who failed the test were replaced.

Let incentives reinforce change, not drive it

Any synthesis of E and O must recognize that compensation is a double-edged sword. Money can focus and motivate managers, but it can also hamper teamwork, commitment, and learning. The way to resolve this dilemma is to apply Theory E incentives in an O way. Employees' high involvement is encouraged to develop their commitment to change, and variable pay is used to reward that commitment.

ASDA's senior executives were compensated with stock options that were tied to the company's value. These helped attract key executives to ASDA. Unlike most E-strategy companies, however, ASDA had a stock-ownership plan for all employees. In addition, store-level employees got variable pay based on both corporate performance and their stores' records. In the end, compensation represented a fair exchange of value between the company and its individual employees. But Norman believed that compensation had not played a major role in motivating change at the company.

Use consultants as expert resources who empower employees

Consultants can provide specialized knowledge and technical skills that the company doesn't have, particularly in the early stages of organizational change. Management's task is figuring out how to use those resources without abdicating leadership of the change effort. ASDA followed the middle ground between Theory E and Theory O. It made limited use of four consulting firms in the early stages of its transformation. The consulting firms always worked alongside management and supported its leadership of change. However, their engagement was intentionally cut short by Norman to prevent ASDA and its managers from becoming dependent on the consultants. For example, an expert in store organization was hired to support the task force assigned to renew ASDA's first few experimental stores, but later stores were renewed without his involvement.

By embracing the paradox inherent in simultaneously employing E and O change theories, Norman and Leighton transformed ASDA to the advantage of its shareholders and employees. The organization went through personnel changes, unit sell-offs, and hierarchical upheaval. Yet these potentially destructive actions did not prevent ASDA's employees from committing to change and the new corporate culture because Norman and Leighton had won employees' trust by constantly listening, debating, and being willing to learn. Candid about their intentions from the outset, they balanced the tension between the two change theories.

By 1999, the company had multiplied shareholder value eight-fold. The organizational capabilities built by Norman and Leighton

Change Theories in the New Economy

HISTORICALLY, THE STUDY of change has been restricted to mature, large companies that needed to reverse their competitive declines. But the arguments we have advanced in this article also apply to entrepreneurial companies that need to manage rapid growth. Here, too, we believe that the most successful strategy for change will be one that combines theories E and O.

Just as there are two ways of changing, so there are two kinds of entrepreneurs. One group subscribes to an ideology akin to Theory E. Their primary goal is to prepare for a cash-out, such as an IPO or an acquisition by an established player. Maximizing market value before the cash-out is their sole and abiding purpose. These entrepreneurs emphasize shaping the firm's strategy, structure, and systems to build a quick, strong market presence. Mercurial leaders who drive the company using a strong top-down style are typically at the helm of such companies. They lure others to join them using high-powered incentives such as stock options. The goal is to get rich quick.

Other entrepreneurs, however, are driven by an ideology more akin to Theory O—the building of an institution. Accumulating wealth is important, but it is secondary to creating a company that is based on a deeply held set of values and that has a strong culture. These entrepreneurs are likely to subscribe to an egalitarian style that invites everyone's participation. They look to attract others who share their passion about the cause—though they certainly provide generous stock options as well. The goal in this case is to make a difference, not just to make money.

Many people fault entrepreneurs who are driven by a Theory E view of the world. But we can think of other entrepreneurs who have destroyed businesses because they were overly wrapped up in the Theory O pursuit of a higher ideal and didn't pay attention to the pragmatics of the market. Steve Jobs's venture, Next, comes to mind. Both types of entrepreneurs have to find some way of tapping the qualities of theories E and O, just as large companies do.

also gave ASDA the sustainable competitive advantage that Dunlap had been unable to build at Scott Paper and that Sigler had been unable to build at Champion. While Dunlap was forced to sell a demoralized and ineffective organization to Kimberly-Clark, and while a languishing Champion was sold to UPM-Kymmene, Norman and Leighton in June 1999 found a friendly and culturally compatible suitor in Wal-Mart, which was willing to pay a substantial

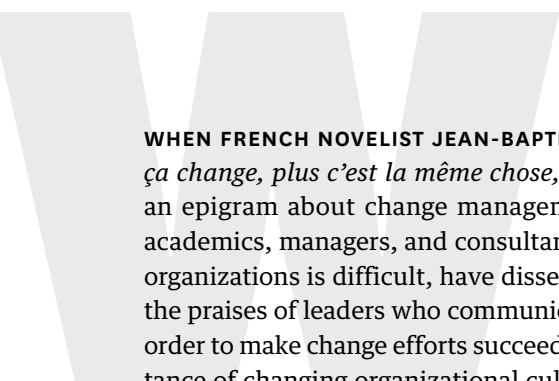
premium for the organizational capabilities that ASDA had so painstakingly developed.

In the end, the integration of theories E and O created major change—and major payoffs—for ASDA. Such payoffs are possible for other organizations that want to develop a sustained advantage in today's economy. But that advantage can come only from a constant willingness and ability to develop organizations for the long term combined with a constant monitoring of shareholder value—E dancing with O, in an unending minuet.

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The Hard Side of Change Management

by Harold L. Sirkin, Perry Keenan,
and Alan Jackson



WHEN FRENCH NOVELIST JEAN-BAPTISTE Alphonse Karr wrote “*Plus ça change, plus c’est la même chose*,” he could have been penning an epigram about change management. For over three decades, academics, managers, and consultants, realizing that transforming organizations is difficult, have dissected the subject. They’ve sung the praises of leaders who communicate vision and walk the talk in order to make change efforts succeed. They’ve sanctified the importance of changing organizational culture and employees’ attitudes. They’ve teased out the tensions between top-down transformation efforts and participatory approaches to change. And they’ve exhorted companies to launch campaigns that appeal to people’s hearts and minds. Still, studies show that in most organizations, two out of three transformation initiatives fail. The more things change, the more they stay the same.

Managing change is tough, but part of the problem is that there is little agreement on what factors most influence transformation initiatives. Ask five executives to name the one factor critical for the success of these programs, and you’ll probably get five different answers. That’s because each manager looks at an initiative from his

or her viewpoint and, based on personal experience, focuses on different success factors. The experts, too, offer different perspectives. A recent search on Amazon.com for books on “change and management” turned up 6,153 titles, each with a distinct take on the topic. Those ideas have a lot to offer, but taken together, they force companies to tackle many priorities simultaneously, which spreads resources and skills thin. Moreover, executives use different approaches in different parts of the organization, which compounds the turmoil that usually accompanies change.

In recent years, many change management gurus have focused on soft issues, such as culture, leadership, and motivation. Such elements are important for success, but managing these aspects alone isn’t sufficient to implement transformation projects. Soft factors don’t directly influence the outcomes of many change programs. For instance, visionary leadership is often vital for transformation projects, but not always. The same can be said about communication with employees. Moreover, it isn’t easy to change attitudes or relationships; they’re deeply ingrained in organizations and people. And although changes in, say, culture or motivation levels can be indirectly gauged through surveys and interviews, it’s tough to get reliable data on soft factors.

What’s missing, we believe, is a focus on the not-so-fashionable aspects of change management: the hard factors. These factors bear three distinct characteristics. First, companies are able to measure them in direct or indirect ways. Second, companies can easily communicate their importance, both within and outside organizations. Third, and perhaps most important, businesses are capable of influencing those elements quickly. Some of the hard factors that affect a transformation initiative are the time necessary to complete it, the number of people required to execute it, and the financial results that intended actions are expected to achieve. Our research shows that change projects fail to get off the ground when companies neglect the hard factors. That doesn’t mean that executives can ignore the soft elements; that would be a grave mistake. However, if companies don’t pay attention to the hard issues first, transformation programs will break down before the soft elements come into play.

Idea in Brief

Two out of every three transformation programs fail. Why? Companies overemphasize the soft side of change: leadership style, corporate culture, employee motivation. Though these elements are critical for success, change projects can't get off the ground unless companies address harder elements first.

The essential hard elements? Think of them as DICE:

- **Duration:** time between milestone reviews—the shorter, the better
- **Integrity:** project teams' skill
- **Commitment:** senior executives' and line managers' dedication to the program
- **Effort:** the extra work employees must do to adopt new processes—the less, the better

By assessing each DICE element *before* you launch a major change initiative, you can identify potential problem areas and make the necessary adjustments (such as reconfiguring a project team's composition or reallocating resources) to ensure the program's success. You can also use DICE *after* launching a project—to make midcourse corrections if the initiative veers off track.

DICE helps companies lay the foundation for successful change. Using the DICE assessment technique, one global beverage company executed a multiproject organization-wide change program that generated hundreds of millions of dollars, breathed new life into its once-stagnant brands, and cracked open new markets.

That's a lesson we learned when we identified the common denominators of change. In 1992, we started with the contrarian hypothesis that organizations handle transformations in remarkably similar ways. We researched projects in a number of industries and countries to identify those common elements. Our initial 225-company study revealed a consistent correlation between the outcomes (success or failure) of change programs and four hard factors: project *duration*, particularly the time between project reviews; performance *integrity*, or the capabilities of project teams; the *commitment* of both senior executives and the staff whom the change will affect the most; and the additional *effort* that employees must make to cope with the change. We called these variables the DICE factors because we could load them in favor of projects' success.

Idea in Practice

Conducting a DICE Assessment

Your project has the greatest chance of success if the following hard elements are in place:

Duration

A long project reviewed frequently stands a far better chance of succeeding than a short project reviewed infrequently. Problems can be identified at the first sign of trouble, allowing for prompt corrective actions. Review complex projects every two weeks; more straightforward initiatives, every six to eight weeks.

Integrity

A change program's success hinges on a high-integrity, high-quality project team. To identify team candidates with the right portfolio of skills, solicit names

from key colleagues, including top performers in functions other than your own. Recruit people who have problem-solving skills, are results oriented, and are methodical but tolerate ambiguity. Look also for organizational savvy, willingness to accept responsibility for decisions, and a disdain for the limelight.

Commitment

If employees don't see company leaders supporting a change initiative, they won't change. Visibly endorse the initiative—no amount of public support is too much. When you feel you're "talking up" a change effort at least three times more than you need to, you've hit it right.

Also continually communicate why the change is needed and what it

We completed our study in 1994, and in the 11 years since then, the Boston Consulting Group has used those four factors to predict the outcomes, and guide the execution, of more than 1,000 change management initiatives worldwide. Not only has the correlation held, but no other factors (or combination of factors) have predicted outcomes as well.

The Four Key Factors

If you think about it, the different ways in which organizations combine the four factors create a continuum—from projects that are set up to succeed to those that are set up to fail. At one extreme, a short

means for employees. Ensure that all messages about the change are consistent and clear. Reach out to managers and employees through one-on-one conversations to win them over.

Effort

If adopting a change burdens employees with too much additional effort, they'll resist. Calculate how much work employees will have to do beyond their existing responsibilities to implement the change. Ensure that no one's workload increases more than 10%. If necessary, remove nonessential regular work from employees with key roles in the transformation project. Use temporary workers or outsource some processes to accommodate additional workload.

Using the DICE Framework

Conducting a DICE assessment fosters successful change by sparking valuable senior leadership debate about project strategy. It also improves change effectiveness by enabling companies to manage large portfolios of projects.

Example: A manufacturing company planned 40 projects as part of a profitability-improvement program. After conducting a DICE assessment for each project, leaders and project owners identified the five most important projects and asked, "How can we ensure these projects' success?" They moved people around on teams, reconfigured some projects, and identified initiatives senior managers should pay more attention to—setting up their most crucial projects for resounding success.

project led by a skilled, motivated, and cohesive team, championed by top management and implemented in a department that is receptive to the change and has to put in very little additional effort, is bound to succeed. At the other extreme, a long, drawn-out project executed by an inexperienced, unenthusiastic, and disjointed team, without any top-level sponsors and targeted at a function that dislikes the change and has to do a lot of extra work, will fail. Businesses can easily identify change programs at either end of the spectrum, but most initiatives occupy the middle ground where the likelihood of success or failure is difficult to assess. Executives must study the four DICE factors carefully to figure out if their change programs will fly—or die.

The Four Factors

THESE FACTORS determine the outcome of any transformation initiative.

- D. The **duration** of time until the change program is completed if it has a short life span; if not short, the amount of time between reviews of milestones.
- I. The project team's performance **integrity**; that is, its ability to complete the initiative on time. That depends on members' skills and traits relative to the project's requirements.
- C. The **commitment** to change that top management (C1) and employees affected by the change (C2) display.
- E. The **effort** over and above the usual work that the change initiative demands of employees.

Duration

Companies make the mistake of worrying mostly about the time it will take to implement change programs. They assume that the longer an initiative carries on, the more likely it is to fail—the early impetus will peter out, windows of opportunity will close, objectives will be forgotten, key supporters will leave or lose their enthusiasm, and problems will accumulate. However, contrary to popular perception, our studies show that a long project that is reviewed frequently is more likely to succeed than a short project that isn't reviewed frequently. Thus, the time between reviews is more critical for success than a project's life span.

Companies should formally review transformation projects at least bimonthly since, in our experience, the probability that change initiatives will run into trouble rises exponentially when the time between reviews exceeds eight weeks. Whether reviews should be scheduled even more frequently depends on how long executives feel the project can carry on without going off track. Complex projects should be reviewed fortnightly; more familiar or straightforward initiatives can be assessed every six to eight weeks.

Scheduling milestones and assessing their impact are the best way by which executives can review the execution of projects, identify gaps, and spot new risks. The most effective milestones are those

that describe major actions or achievements rather than day-to-day activities. They must enable senior executives and project sponsors to confirm that the project has made progress since the last review took place. Good milestones encompass a number of tasks that teams must complete. For example, describing a particular milestone as “Consultations with Stakeholders Completed” is more effective than “Consult Stakeholders” because it represents an achievement and shows that the project has made headway. Moreover, it suggests that several activities were completed—identifying stakeholders, assessing their needs, and talking to them about the project. When a milestone looks as though it won’t be reached on time, the project team must try to understand why, take corrective actions, and learn from the experience to prevent problems from recurring.

Review of such a milestone—what we refer to as a “learning milestone”—isn’t an impromptu assessment of the Monday-morning kind. It should be a formal occasion during which senior-management sponsors and the project team evaluate the latter’s performance on all the dimensions that have a bearing on success and failure. The team must provide a concise report of its progress, and members and sponsors must check if the team is on track to complete, or has finished all the tasks to deliver, the milestone. They should also determine whether achieving the milestone has had the desired effect on the company; discuss the problems the team faced in reaching the milestone; and determine how that accomplishment will affect the next phase of the project. Sponsors and team members must have the power to address weaknesses. When necessary, they should alter processes, agree to push for more or different resources, or suggest a new direction. At these meetings, senior executives must pay special attention to the dynamics within teams, changes in the organization’s perceptions about the initiative, and communications from the top.

Integrity

By performance integrity, we mean the extent to which companies can rely on teams of managers, supervisors, and staff to execute change projects successfully. In a perfect world, every team would

be flawless, but no business has enough great people to ensure that. Besides, senior executives are often reluctant to allow star performers to join change efforts because regular work can suffer. But since the success of change programs depends on the quality of teams, companies must free up the best staff while making sure that day-to-day operations don't falter. In companies that have succeeded in implementing change programs, we find that employees go the extra mile to ensure their day-to-day work gets done.

Since project teams handle a wide range of activities, resources, pressures, external stimuli, and unforeseen obstacles, they must be cohesive and well led. It's not enough for senior executives to ask people at the watercooler if a project team is doing well; they must clarify members' roles, commitments, and accountability. They must choose the team leader and, most important, work out the team's composition.

Smart executive sponsors, we find, are very inclusive when picking teams. They identify talent by soliciting names from key colleagues, including human resource managers; by circulating criteria they have drawn up; and by looking for top performers in all functions. While they accept volunteers, they take care not to choose only supporters of the change initiative. Senior executives personally interview people so that they can construct the right portfolio of skills, knowledge, and social networks. They also decide if potential team members should commit all their time to the project; if not, they must ask them to allocate specific days or times of the day to the initiative. Top management makes public the parameters on which it will judge the team's performance and how that evaluation fits into the company's regular appraisal process. Once the project gets under way, sponsors must measure the cohesion of teams by administering confidential surveys to solicit members' opinions.

Executives often make the mistake of assuming that because someone is a good, well-liked manager, he or she will also make a decent team leader. That sounds reasonable, but effective managers of the status quo aren't necessarily good at changing organizations. Usually, good team leaders have problem-solving skills, are results oriented, are methodical in their approach but tolerate ambiguity,

are organizationally savvy, are willing to accept responsibility for decisions, and while being highly motivated, don't crave the lime-light. A CEO who successfully led two major transformation projects in the past ten years used these six criteria to quiz senior executives about the caliber of nominees for project teams. The top management team rejected one in three candidates, on average, before finalizing the teams.

Commitment

Companies must boost the commitment of two different groups of people if they want change projects to take root: They must get visible backing from the most influential executives (what we call C1), who are not necessarily those with the top titles. And they must take into account the enthusiasm—or often, lack thereof—of the people who must deal with the new systems, processes, or ways of working (C2).

Top-level commitment is vital to engendering commitment from those at the coal face. If employees don't see that the company's leadership is backing a project, they're unlikely to change. No amount of top-level support is too much. In 1999, when we were working with the CEO of a consumer products company, he told us that he was doing much more than necessary to display his support for a nettlesome project. When we talked to line managers, they said that the CEO had extended very little backing for the project. They felt that if he wanted the project to succeed, he would have to support it more visibly! A rule of thumb: When you feel that you are talking up a change initiative at least three times more than you need to, your managers will feel that you are backing the transformation.

Sometimes, senior executives are reluctant to back initiatives. That's understandable; they're often bringing about changes that may negatively affect employees' jobs and lives. However, if senior executives do not communicate the need for change, and what it means for employees, they endanger their projects' success. In one financial services firm, top management's commitment to a program that would improve cycle times, reduce errors, and slash costs was low because it entailed layoffs. Senior executives found it gut-wrenching to talk about layoffs in an organization that had prided

itself on being a place where good people could find lifetime employment. However, the CEO realized that he needed to tackle the thorny issues around the layoffs to get the project implemented on schedule. He tapped a senior company veteran to organize a series of speeches and meetings in order to provide consistent explanations for the layoffs, the timing, the consequences for job security, and so on. He also appointed a well-respected general manager to lead the change program. Those actions reassured employees that the organization would tackle the layoffs in a professional and humane fashion.

Companies often underestimate the role that managers and staff play in transformation efforts. By communicating with them too late or inconsistently, senior executives end up alienating the people who are most affected by the changes. It's surprising how often something senior executives believe is a good thing is seen by staff as a bad thing, or a message that senior executives think is perfectly clear is misunderstood. That usually happens when senior executives articulate subtly different versions of critical messages. For instance, in one company that applied the DICE framework, scores for a project showed a low degree of staff commitment. It turned out that these employees had become confused, even distrustful, because one senior manager had said, "Layoffs will not occur," while another had said, "They are not expected to occur."

Organizations also underestimate their ability to build staff support. A simple effort to reach out to employees can turn them into champions of new ideas. For example, in the 1990s, a major American energy producer was unable to get the support of mid-level managers, supervisors, and workers for a productivity improvement program. After trying several times, the company's senior executives decided to hold a series of one-on-one conversations with mid-level managers in a last-ditch effort to win them over. The conversations focused on the program's objectives, its impact on employees, and why the organization might not be able to survive without the changes. Partly because of the straight talk, the initiative gained some momentum. This allowed a project team to demonstrate a series of quick wins, which gave the initiative a new lease on life.

Effort

When companies launch transformation efforts, they frequently don't realize, or know how to deal with the fact, that employees are already busy with their day-to-day responsibilities. According to staffing tables, people in many businesses work 80-plus-hour weeks. If, on top of existing responsibilities, line managers and staff have to deal with changes to their work or to the systems they use, they will resist.

Project teams must calculate how much work employees will have to do beyond their existing responsibilities to change over to new processes. Ideally, no one's workload should increase more than 10%. Go beyond that, and the initiative will probably run into trouble. Resources will become overstretched and compromise either the change program or normal operations. Employee morale will fall, and conflict may arise between teams and line staff. To minimize the dangers, project managers should use a simple metric like the percentage increase in effort the employees who must cope with the new ways feel they must contribute. They should also check if the additional effort they have demanded comes on top of heavy workloads and if employees are likely to resist the project because it will demand more of their scarce time.

Companies must decide whether to take away some of the regular work of employees who will play key roles in the transformation project. Companies can start by ridding these employees of discretionary or nonessential responsibilities. In addition, firms should review all the other projects in the operating plan and assess which ones are critical for the change effort. At one company, the project steering committee delayed or restructured 120 out of 250 subprojects so that some line managers could focus on top-priority projects. Another way to relieve pressure is for the company to bring in temporary workers, like retired managers, to carry out routine activities or to outsource current processes until the changeover is complete. Handing off routine work or delaying projects is costly and time-consuming, so companies need to think through such issues before kicking off transformation efforts.

Calculating DICE Scores

COMPANIES CAN DETERMINE if their change programs will succeed by asking executives to calculate scores for each of the four factors of the DICE framework—duration, integrity, commitment, and effort. They must grade each factor on a scale from 1 to 4 (using fractions, if necessary); the lower the score, the better. Thus, a score of 1 suggests that the factor is highly likely to contribute to the program's success, and a score of 4 means that it is highly unlikely to contribute to success. We find that the following questions and scoring guidelines allow executives to rate transformation initiatives effectively:

Duration [D]

Ask: Do formal project reviews occur regularly? If the project will take more than two months to complete, what is the average time between reviews?

Score: If the time between project reviews is less than two months, you should give the project 1 point. If the time is between two and four months, you should award the project 2 points; between four and eight months, 3 points; and if reviews are more than eight months apart, give the project 4 points.

Integrity of Performance [I]

Ask: Is the team leader capable? How strong are team members' skills and motivations? Do they have sufficient time to spend on the change initiative?

Score: If the project team is led by a highly capable leader who is respected by peers, if the members have the skills and motivation to complete the project in the stipulated time frame, and if the company has assigned at least 50% of the team members' time to the project, you can give the project 1 point. If the team is lacking on all those dimensions, you should award the project 4 points. If the team's capabilities are somewhere in between, assign the project 2 or 3 points.

Senior Management Commitment [C₁]

Ask: Do senior executives regularly communicate the reason for the change and the importance of its success? Is the message convincing? Is the message consistent, both across the top management team and over time? Has top management devoted enough resources to the change program?

Score: If senior management has, through actions and words, clearly communicated the need for change, you must give the project 1 point. If senior executives appear to be neutral, it gets 2 or 3 points. If managers perceive senior executives to be reluctant to support the change, award the project 4 points.

Local-Level Commitment [C₂]

Ask: Do the employees most affected by the change understand the reason for it and believe it's worthwhile? Are they enthusiastic and supportive or worried and obstructive?

Score: If employees are eager to take on the change initiative, you can give the project 1 point, and if they are just willing, 2 points. If they're reluctant or strongly reluctant, you should award the project 3 or 4 points.

[D]	[I]	[C ₁]	[C ₂]	[E]

Calculate

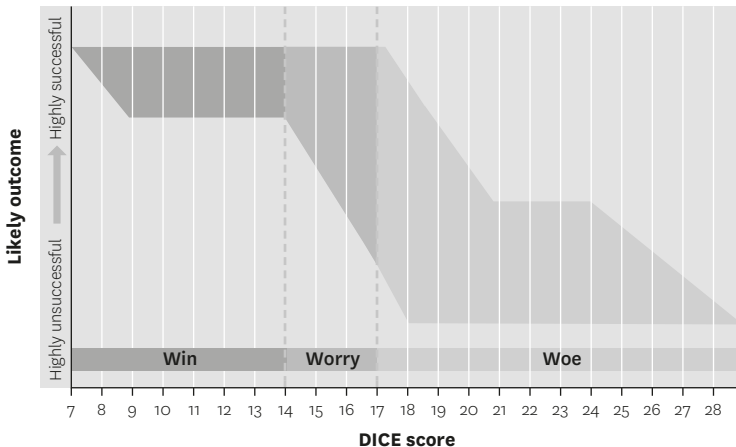
$$\text{DICE score} = D + 2I + 2C_1 + C_2 + E$$

Plot

Effort [E]

Ask: What is the percentage of increased effort that employees must make to implement the change effort? Does the incremental effort come on top of a heavy workload? Have people strongly resisted the increased demands on them?

Score: If the project requires less than 10% extra work by employees, you can give it 1 point. If it's 10% to 20% extra, it should get 2 points. If it's 20% to 40%, it must be 3 points. And if it's more than 40% additional work, you should give the project 4 points.



Calculating DICE Scores (continued)

Executives can combine the four elements into a project score. When we conducted a regression analysis of our database of change efforts, we found that the combination that correlates most closely with actual outcomes doubles the weight given to team performance (I) and senior management commitment (C₁). That translates into the following formula:

$$\text{DICE Score} = D + (2 \times I) + (2 \times C_1) + C_2 + E$$

In the 1-to-4 scoring system, the formula generates overall scores that range from 7 to 28. Companies can compare a project's score with those of past projects and their outcomes to assess if the project is slated for success or failure. Our data show a clear distribution of scores:

Scores between 7 and 14: The project is very likely to succeed. We call this the Win Zone.

Scores higher than 14 but lower than 17: Risks to the project's success are rising, particularly as the score approaches 17. This is the Worry Zone.

Scores over 17: The project is extremely risky. If a project scores over 17 and under 19 points, the risks to success are very high. Beyond 19, the project is unlikely to succeed. That's why we call this the Woe Zone.

We have changed the boundaries of the zones over time. For instance, the Worry Zone was between 14 and 21 points at first, and the Woe Zone from 21 to 28 points. But we found that companies prefer to be alerted to trouble as soon as outcomes become unpredictable (17 to 20 points). We therefore compressed the Worry Zone and expanded the Woe Zone.

Creating the Framework

As we came to understand the four factors better, we created a framework that would help executives evaluate their transformation initiatives and shine a spotlight on interventions that would improve their chances of success. We developed a scoring system based on the variables that affect each factor. Executives can assign scores to the DICE factors and combine them to arrive at a project score. (See the sidebar "Calculating DICE Scores.")

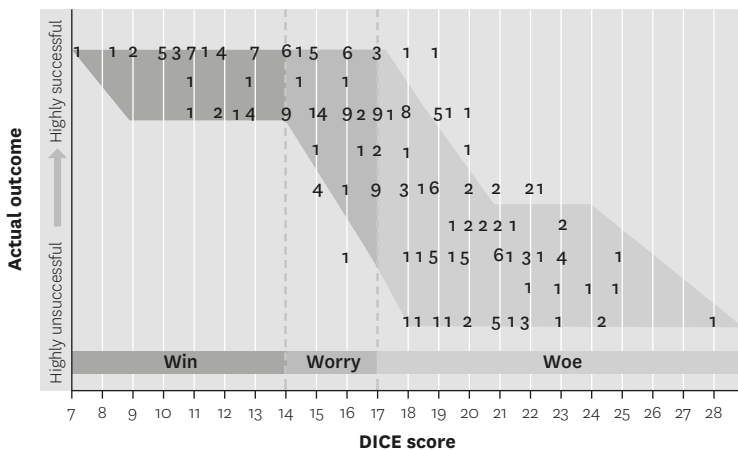
Although the assessments are subjective, the system gives companies an objective framework for making those decisions. Moreover, the scoring mechanism ensures that executives are evaluating projects and making trade-offs more consistently across projects.

A company can compare its DICE score on the day it kicks off a project with the scores of previous projects, as well as their outcomes, to check if the initiative has been set up for success. When we calculated the scores of the 225 change projects in our database and compared them with the outcomes, the analysis was compelling. Projects clearly fell into three categories, or zones: *Win*, which means that any project with a score in that range is statistically likely to succeed; *worry*, which suggests that the project's outcome is hard to predict; and *woe*, which implies that the project is totally unpredictable or fated for mediocrity or failure. (See the figure "DICE scores predict project outcomes.")

Companies can track how change projects are faring by calculating scores over time or before and after they have made changes to a

DICE scores predict project outcomes

When we plotted the DICE scores of 225 change management initiatives on the horizontal axis, and the outcomes of those projects on the vertical axis, we found three sets of correlations. Projects with DICE scores between 7 and 14 were usually successful; those with scores over 14 and under 17 were unpredictable; and projects with scores over 17 were usually unsuccessful. We named the three zones Win, Worry, and Woe, respectively. (Each number plotted on the graph represents the number of projects, out of the 225 projects, having a particular DICE score.)



project's structure. The four factors offer a litmus test that executives can use to assess the probability of success for a given project or set of projects. Consider the case of a large Australian bank that in 1994 wanted to restructure its back-office operations. Senior executives agreed on the rationale for the change but differed on whether the bank could achieve its objectives, since the transformation required major changes in processes and organizational structures. Bringing the team and the senior executives together long enough to sort out their differences proved impossible; people were just too busy. That's when the project team decided to analyze the initiative using the DICE framework.

Doing so condensed what could have been a free-flowing two-day debate into a sharp two-hour discussion. The focus on just four elements generated a clear picture of the project's strengths and weaknesses. For instance, managers learned that the restructuring would take eight months to implement but that it had poorly defined milestones and reviews. Although the project team was capable and senior management showed reasonable commitment to the effort, there was room for improvement in both areas. The back-office workforce was hostile to the proposed changes since more than 20% of these people would lose their jobs. Managers and employees agreed that the back-office staff would need to muster 10% to 20% more effort on top of its existing commitments during the implementation. On the DICE scale, the project was deep in the Woe Zone.

However, the assessment also led managers to take steps to increase the possibility of success before they started the project. The bank decided to split the project time line into two—one short-term and one long-term. Doing so allowed the bank to schedule review points more frequently and to maximize team members' ability to learn from experience before the transformation grew in complexity. To improve staff commitment, the bank decided to devote more time to explaining why the change was necessary and how the institution would support the staff during the implementation. The bank also took a closer look at the people who would be involved in the project and changed some of the team leaders when it realized that

they lacked the necessary skills. Finally, senior managers made a concerted effort to show their backing for the initiative by holding a traveling road show to explain the project to people at all levels of the organization. Taken together, the bank's actions and plans shifted the project into the Win Zone. Fourteen months later, the bank completed the project—on time and below budget.

Applying the DICE Framework

The simplicity of the DICE framework often proves to be its biggest problem; executives seem to desire more complex answers. By overlooking the obvious, however, they often end up making compromises that don't work. Smart companies try to ensure that they don't fall into that trap by using the DICE framework in one of three ways.

Track Projects

Some companies train managers in how to use the DICE framework before they start transformation programs. Executives use spreadsheet-based versions of the tool to calculate the DICE scores of the various components of the program and to compare them with past scores. Over time, every score must be balanced against the trajectory of scores and, as we shall see next, the portfolio of scores.

Senior executives often use DICE assessments as early warning indicators that transformation initiatives are in trouble. That's how Amgen, the \$10.6 billion biotechnology company, used the DICE framework. In 2001, the company realigned its operations around some key processes, broadened its offerings, relaunched some mature products, allied with some firms and acquired others, and launched several innovations. To avoid implementation problems, Amgen's top management team used the DICE framework to gauge how effectively it had allocated people, senior management time, and other resources. As soon as projects reported troubling scores, designated executives paid attention to them. They reviewed the projects more often, reconfigured the teams, and allocated more resources to them. In one area of the change project, Amgen used DICE to track 300 initiatives and reconfigured 200 of them.

Both big and small organizations can put the tool to good use. Take the case of a hospital that kicked off six change projects in the late 1990s. Each initiative involved a lot of investment, had significant clinical implications, or both. The hospital's general manager felt that some projects were going well but was concerned about others. He wasn't able to attribute his concerns to anything other than a bad feeling. However, when the general manager used the DICE framework, he was able to confirm his suspicions. After a 45-minute discussion with project managers and other key people, he established that three projects were in the Win Zone but two were in the Woe Zone and one was in the Worry Zone.

The strongest projects, the general manager found, consumed more than their fair share of resources. Senior hospital staff sensed that those projects would succeed and spent more time promoting them, attending meetings about them, and making sure they had sufficient resources. By contrast, no one enjoyed attending meetings on projects that were performing poorly. So the general manager stopped attending meetings for the projects that were on track; he attended only sessions that related to the three underperforming ones. He pulled some managers from the projects that were progressing smoothly and moved them to the riskier efforts. He added more milestones to the struggling enterprises, delayed their completion, and pushed hard for improvement. Those steps helped ensure that all six projects met their objectives.

Manage portfolios of projects

When companies launch large transformation programs, they kick off many projects to attain their objectives. But if executives don't manage the portfolio properly, those tasks end up competing for attention and resources. For instance, senior executives may choose the best employees for projects they have sponsored or lavish attention on pet projects rather than on those that need attention. By deploying our framework before they start transformation initiatives, companies can identify problem projects in portfolios, focus execution expertise and senior management attention where it is most needed, and defuse political issues.

Take, for example, the case of an Australasian manufacturing company that had planned a set of 40 projects as part of a program to improve profitability. Since some had greater financial implications than others, the company's general manager called for a meeting with all the project owners and senior managers. The group went through each project, debating its DICE score and identifying the problem areas. After listing all the scores and issues, the general manager walked to a whiteboard and circled the five most important projects. "I'm prepared to accept that some projects will start off in the Worry Zone, though I won't accept anything outside the middle of this zone for more than a few weeks. For the top five, we're not going to start until these are well within the Win Zone. What do we have to do to achieve that?" he asked.

The group began thinking and acting right away. It moved people around on teams, reconfigured some projects, and identified those that senior managers should pay more attention to—all of which helped raise DICE scores before implementation began. The most important projects were set up for resounding success while most of the remaining ones managed to get into the Win Zone. The group left some projects in the Worry Zone, but it agreed to track them closely to ensure that their scores improved. In our experience, that's the right thing to do. When companies are trying to overhaul themselves, they shouldn't have all their projects in the Win Zone; if they do, they are not ambitious enough. Transformations should entail fundamental changes that stretch an organization.

Force conversation

When different executives calculate DICE scores for the same project, the results can vary widely. The difference in scores is particularly important in terms of the dialogue it triggers. It provokes participants and engages them in debate over questions like "Why do we see the project in these different ways?" and "What can we agree to do to ensure that the project will succeed?" That's critical, because even people within the same organization lack a common framework for discussing problems with change initiatives. Prejudices, differences in perspectives, and a reluctance or inability to

speak up can block effective debates. By using the DICE framework, companies can create a common language and force the right discussions.

Sometimes, companies hold workshops to review floundering projects. At those two- to four-hour sessions, groups of eight to 15 senior and middle managers, along with the project team and the project sponsors, hold a candid dialogue. The debate usually moves beyond the project's scores to the underlying causes of problems and possible remedies. The workshops bring diverse opinions to light, which often can be combined into innovative solutions. Consider, for example, the manner in which DICE workshops helped a telecommunications service provider that had planned a major transformation effort. Consisting of five strategic initiatives and 50 subprojects that needed to be up and running quickly, the program confronted some serious obstacles. The projects' goals, time lines, and revenue objectives were unclear. There were delays in approving business cases, a dearth of rigor and focus in planning and identifying milestones, and a shortage of resources. There were leadership issues, too. For example, executive-level shortcomings had resulted in poor coordination of projects and a misjudgment of risks.

To put the transformation program on track, the telecom company incorporated DICE into project managers' tool kits. The Project Management Office arranged a series of workshops to analyze issues and decide future steps. One workshop, for example, was devoted to three new product development projects, two of which had landed in the Woe Zone and one in the Worry Zone. Participants traced the problems to tension between managers and technology experts, underfunding, lack of manpower, and poor definition of the projects' scopes. They eventually agreed on three remedial actions: holding a conflict-resolution meeting between the directors in charge of technology and those responsible for the core business; making sure senior leadership paid immediate attention to the resource issues; and bringing together the project team and the line-of-business head to formalize project objectives. With the project sponsor committed to those actions, the three projects had

improved their DICE scores and thus their chances of success at the time this article went to press.

Conversations about DICE scores are particularly useful for large-scale transformations that cut across business units, functions, and locations. In such change efforts, it is critical to find the right balance between centralized oversight, which ensures that everyone in the organization takes the effort seriously and understands the goals, and the autonomy that various initiatives need. Teams must have the flexibility and incentive to produce customized solutions for their markets, functions, and competitive environments. The balance is difficult to achieve without an explicit consideration of the DICE variables.

Take the case of a leading global beverage company that needed to increase operational efficiency and focus on the most promising brands and markets. The company also sought to make key processes such as consumer demand development and customer fulfillment more innovative. The CEO's goals were ambitious and required investing significant resources across the company. Top management faced enormous challenges in structuring the effort and in spawning projects that focused on the right issues. Executives knew that this was a multiyear effort, yet without tight schedules and oversight of individual projects, there was a risk that projects would take far too long to be completed and the results would taper off.

To mitigate the risks, senior managers decided to analyze each project at several levels of the organization. Using the DICE framework, they reviewed each effort every month until they felt confident that it was on track. After that, reviews occurred when projects met major milestones. No more than two months elapsed between reviews, even in the later stages of the program. The time between reviews at the project-team level was even shorter: Team leaders reviewed progress biweekly throughout the transformation. Some of the best people joined the effort full time. The human resources department took an active role in recruiting team members, thereby creating a virtuous cycle in which the best people began to seek involvement in various initiatives. During the course

of the transformation, the company promoted several team members to line- and functional leadership positions because of their performance.

The company's change program resulted in hundreds of millions of dollars of value creation. Its once-stagnant brands began to grow, it cracked open new markets such as China, and sales and promotion activities were aligned with the fastest-growing channels. There were many moments during the process when inertia in the organization threatened to derail the change efforts. However, senior management's belief in focusing on the four key variables helped move the company to a higher trajectory of performance.

By providing a common language for change, the DICE framework allows companies to tap into the insight and experience of their employees. A great deal has been said about middle managers who want to block change. We find that most middle managers are prepared to support change efforts even if doing so involves additional work and uncertainty and puts their jobs at risk. However, they resist change because they don't have sufficient input in shaping those initiatives. Too often, they lack the tools, the language, and the forums in which to express legitimate concerns about the design and implementation of change projects. That's where a standard, quantitative, and simple framework comes in. By enabling frank conversations at all levels within organizations, the DICE framework helps people do the right thing by change.

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Why Change Programs Don't Produce Change

by Michael Beer, Russell A. Eisenstat, and Bert Spector

IN THE MID-1980S, THE NEW CEO of a major international bank—call it U.S. Financial—announced a companywide change effort. Deregulation was posing serious competitive challenges—challenges to which the bank's traditional hierarchical organization was ill-suited to respond. The only solution was to change fundamentally how the company operated. And the place to begin was at the top.

The CEO held a retreat with his top 15 executives where they painstakingly reviewed the bank's purpose and culture. He published a mission statement and hired a new vice president for human resources from a company well-known for its excellence in managing people. And in a quick succession of moves, he established companywide programs to push change down through the organization: a new organizational structure, a performance appraisal system, a pay-for-performance compensation plan, training programs to turn managers into "change agents," and quarterly attitude surveys to chart the progress of the change effort.

As much as these steps sound like a textbook case in organizational transformation, there was one big problem: two years after the CEO launched the change program, virtually nothing in the way of actual changes in organizational behavior had occurred. What had gone wrong?

The answer is “everything.” Every one of the assumptions the CEO made—about who should lead the change effort, what needed changing, and how to go about doing it—was wrong.

U.S. Financial’s story reflects a common problem. Faced with changing markets and increased competition, more and more companies are struggling to reestablish their dominance, regain market share, and in some cases, ensure their survival. Many have come to understand that the key to competitive success is to transform the way they function. They are reducing reliance on managerial authority, formal rules and procedures, and narrow divisions of work. And they are creating teams, sharing information, and delegating responsibility and accountability far down the hierarchy. In effect, companies are moving from the hierarchical and bureaucratic model of organization that has characterized corporations since World War II to what we call the task-driven organization where what has to be done governs who works with whom and who leads.

But while senior managers understand the necessity of change to cope with new competitive realities, they often misunderstand what it takes to bring it about. They tend to share two assumptions with the CEO of U.S. Financial: that promulgating companywide programs—mission statements, “corporate culture” programs, training courses, quality circles, and new pay-for-performance systems—will transform organizations, and that employee behavior is changed by altering a company’s formal structure and systems.

In a four-year study of organizational change at six large corporations (see the sidebar, “Tracking Corporate Change”; the names are fictitious), we found that exactly the opposite is true: the greatest obstacle to revitalization is the idea that it comes about through companywide change programs, particularly when a corporate staff group such as human resources sponsors them. We call this “the fallacy of programmatic change.” Just as important, formal organization structure and systems cannot lead a corporate renewal process.

While in some companies, wave after wave of programs rolled across the landscape with little positive impact, in others, more successful transformations did take place. They usually started at the periphery of the corporation in a few plants and divisions far from

Idea in Brief

Two years after launching a change program to counter competitive threats, a bank CEO realized his effort had produced . . . no change. Surprising, since he and his top executives had reviewed the company's purpose and culture, published a mission statement, and launched programs (e.g., pay for-performance compensation) designed to push change throughout the organization.

But revitalization doesn't come from the top. It starts at an organization's periphery, led by unit

managers creating ad hoc arrangements to solve concrete problems. Through **task alignment**—directing employees' responsibilities and relationships toward the company's central competitive task—these managers focus energy on *work*, not abstractions like “empowerment” or “culture.”

Senior managers' role in this process? Specify the company's desired *general* direction, without dictating solutions. Then spread the lessons of revitalized units throughout the company.

corporate headquarters. And they were led by the general managers of those units, not by the CEO or corporate staff people.

The general managers did not focus on formal structures and systems; they created ad hoc organizational arrangements to solve concrete business problems. By aligning employee roles, responsibilities, and relationships to address the organization's most important competitive task—a process we call “task alignment”—they focused energy for change on the work itself, not on abstractions such as “participation” or “culture.” Unlike the CEO at U.S. Financial, they didn't employ massive training programs or rely on speeches and mission statements. Instead, we saw that general managers carefully developed the change process through a sequence of six basic managerial interventions.

Once general managers understand the logic of this sequence, they don't have to wait for senior management to start a process of organizational revitalization. There is a lot they can do even without support from the top. Of course, having a CEO or other senior managers who are committed to change does make a difference—and when it comes to changing an entire organization, such support is

Idea in Practice

Successful change requires commitment, coordination, and competency.

1. Mobilize commitment to change through joint diagnosis of problems

Example: Navigation Devices had never made a profit or high-quality, cost-competitive product—because top-down decisions ignored cross-functional coordination. To change this, a new general manager had his *entire* team broadly assess the business. Then, his task force of engineers, production workers, managers, and union officials visited successful manufacturing organizations to identify improvement ideas. One plant's *team* approach impressed them, illuminated their own problem, and suggested a solution. Commitment to change intensified.

2. Develop a shared vision of how to organize for competitiveness

Remove functional and hierarchical barriers to information sharing and problem solving—by changing roles and responsibilities, not titles or compensation.

Example: Navigation's task force proposed developing products through cross-functional teams. A larger team refined this model and presented it to all employees—who supported it because it stemmed from their own analysis of their business problems.

3. Foster consensus for the new vision, competence to enact it, and cohesion to advance it

This requires the general manager's strong leadership.

essential. But top management's role in the change process is very different from that which the CEO played at U.S. Financial.

Grass-roots change presents senior managers with a paradox: directing a “nondirective” change process. The most effective senior managers in our study recognized their limited power to mandate corporate renewal from the top. Instead, they defined their roles as creating a climate for change, then spreading the lessons of both successes and failures. Put another way, they specified the general direction in which the company should move without insisting on specific solutions.

In the early phases of a companywide change process, any senior manager can play this role. Once grass-roots change reaches a critical mass, however, the CEO has to be ready to transform his or her

Example: Navigation's general manager fostered *consensus* by supporting those who were committed to change and offering outplacement and counseling to those who weren't; *competence* by providing requested training; and *cohesion* by redeploying managers who couldn't function in the new organization. Change accelerated.

4. Spread revitalization to all departments—without pushing from the top

Example: Navigation's new team structure required engineers to collaborate with production workers. Encouraged to develop their own approach to teamwork and coordination, the engineers selected matrix management. People willingly learned needed skills and attitudes, because the new structure was *their* choice.

5. Institutionalize revitalization through formal policies, systems, and structures . . . only *after* your new approach is up and running.

Example: Navigation boosted its profits—without changing reporting relationships, evaluation procedures, or compensation. Only then did the general manager alter formal structures; e.g., eliminating a VP so that engineering and manufacturing reported directly to him.

6. Monitor the revitalization process, adjusting in response to problems

Example: At Navigation, an oversight team of managers, a union leader, an engineer, and a financial analyst kept watch over the change process—continually learning, adapting, and strengthening the commitment to change.

own work unit as well—the top team composed of key business heads and corporate staff heads. At this point, the company's structure and systems must be put into alignment with the new management practices that have developed at the periphery. Otherwise, the tension between dynamic units and static top management will cause the change process to break down.

We believe that an approach to change based on task alignment, starting at the periphery and moving steadily toward the corporate core, is the most effective way to achieve enduring organizational change. This is not to say that change can never start at the top, but it is uncommon and too risky as a deliberate strategy. Change is about learning. It is a rare CEO who knows in advance the fine-grained details of organizational change that the many diverse units

of a large corporation demand. Moreover, most of today's senior executives developed in an era in which top-down hierarchy was the primary means for organizing and managing. They must learn from innovative approaches coming from younger unit managers closer to the action.

The Fallacy of Programmatic Change

Most change programs don't work because they are guided by a theory of change that is fundamentally flawed. The common belief is that the place to begin is with the knowledge and attitudes of individuals. Changes in attitudes, the theory goes, lead to changes in individual behavior. And changes in individual behavior, repeated by many people, will result in organizational change. According to this model, change is like a conversion experience. Once people "get religion," changes in their behavior will surely follow.

This theory gets the change process exactly backward. In fact, individual behavior is powerfully shaped by the organizational roles that people play. The most effective way to change behavior, therefore, is to put people into a new organizational context, which imposes new roles, responsibilities, and relationships on them. This creates a situation that, in a sense, "forces" new attitudes and behaviors on people. (See the table, "Contrasting assumptions about change.")

One way to think about this challenge is in terms of three interrelated factors required for corporate revitalization. *Coordination* or teamwork is especially important if an organization is to discover and act on cost, quality, and product development opportunities. The production and sale of innovative, high-quality, low-cost products (or services) depend on close coordination among marketing, product design, and manufacturing departments, as well as between labor and management. High levels of *commitment* are essential for the effort, initiative, and cooperation that coordinated action demands. New *competencies* such as knowledge of the business as a whole, analytical skills, and interpersonal skills are necessary if people are to identify and solve problems as a team. If any of these elements are missing, the change process will break down.

Tracking Corporate Change

WHICH STRATEGIES FOR CORPORATE change work, and which do not? We sought the answers in a comprehensive study of 12 large companies where top management was attempting to revitalize the corporation. Based on preliminary research, we identified 6 for in-depth analysis: 5 manufacturing companies and 1 large international bank. All had revenues between \$4 billion and \$10 billion. We studied 26 plants and divisions in these 6 companies and conducted hundreds of interviews with human resource managers; line managers engaged in change efforts at plants, branches, or business units; workers and union leaders; and, finally, top management.

Based on this material, we ranked the 6 companies according to the success with which they had managed the revitalization effort. Were there significant improvements in interfunctional coordination, decision making, work organizations, and concern for people? Research has shown that in the long term, the quality of these 4 factors will influence performance. We did not define success in terms of improved financial performance because, in the short run, corporate financial performance is influenced by many situational factors unrelated to the change process.

To corroborate our rankings of the companies, we also administered a standardized questionnaire in each company to understand how employers viewed the unfolding change process. Respondents rated their companies on a scale of 1 to 5. A score of 3 meant that no change had taken place; a score below 3 meant that, in the employee's judgment, the organization had actually gotten worse. As the table suggests, with one exception—the company we call Livingston Electronics—employees' perceptions of how much their

Researchers and employees—similar conclusions

Extent of revitalization

Company	Ranked by researchers	Rated by employees	
		Average	Standard deviation
General Products	1	4.04	.35
Fairweather	2	3.58	.45
Livingston Electronics	3	3.61	.76
Scranton Steel	4	3.30	.65
Continental Glass	5	2.96	.83
U.S. Financial	6	2.78	1.07

Tracking Corporate Change (continued)

companies had changed were identical to ours. And Livingston’s relatively high standard of deviation (which measures the degree of consensus among employees about the outcome of the change effort) indicates that within the company there was considerable disagreement as to just how successful revitalization had been.

The problem with most companywide change programs is that they address only one or, at best, two of these factors. Just because a company issues a philosophy statement about teamwork doesn’t mean its employees necessarily know what teams to form or how to function within them to improve coordination. A corporate reorganization may change the boxes on a formal organization chart but not provide the necessary attitudes and skills to make the new structure work. A pay-for-performance system may force managers to differentiate better performers from poorer ones, but it doesn’t help them internalize new standards by which to judge subordinates’ performances. Nor does it teach them how to deal effectively with

Contrasting assumptions about change

Programmatic change	Task alignment
Problems in behavior are a function of individual knowledge, attitudes, and beliefs.	Individual knowledge, attitudes and beliefs are shaped by recurring patterns of behavioral interactions.
The primary target of renewal should be the content of attitudes and ideas; actual behavior should be secondary.	The primary target of renewal should be behavior; attitudes and ideas should be secondary.
Behavior can be isolated and changed individually.	Problems in behavior come from a circular pattern, but the effects of the organizational system on the individual are greater than those of the individual on the system.
The target for renewal should be at the individual level.	The target for renewal should be at the level of roles, responsibilities, and relationships.

performance problems. Such programs cannot provide the cultural context (role models from whom to learn) that people need to develop new competencies, so ultimately they fail to create organizational change.

Similarly, training programs may target competence, but rarely do they change a company's patterns of coordination. Indeed, the excitement engendered in a good corporate training program frequently leads to increased frustration when employees get back on the job only to see their new skills go unused in an organization in which nothing else has changed. People end up seeing training as a waste of time, which undermines whatever commitment to change a program may have roused in the first place.

When one program doesn't work, senior managers, like the CEO at U.S. Financial, often try another, instituting a rapid progression of programs. But this only exacerbates the problem. Because they are designed to cover everyone and everything, programs end up covering nobody and nothing particularly well. They are so general and standardized that they don't speak to the day-to-day realities of particular units. Buzzwords like "quality," "participation," "excellence," "empowerment," and "leadership" become a substitute for a detailed understanding of the business.

And all these change programs also undermine the credibility of the change effort. Even when managers accept the potential value of a particular program for others—quality circles, for example, to solve a manufacturing problem—they may be confronted with another, more pressing business problem such as new product development. One-size-fits-all change programs take energy *away* from efforts to solve key business problems—which explains why so many general managers don't support programs, even when they acknowledge that their underlying principles may be useful.

This is not to state that training, changes in pay systems or organizational structure, or a new corporate philosophy are always inappropriate. All can play valuable roles in supporting an integrated change effort. The problems come when such programs are used in isolation as a kind of "magic bullet" to spread organizational change rapidly through the entire corporation. At their

best, change programs of this sort are irrelevant. At their worst, they actually inhibit change. By promoting skepticism and cynicism, programmatic change can inoculate companies against the real thing.

Six Steps to Effective Change

Companies avoid the shortcomings of programmatic change by concentrating on “task alignment”—reorganizing employee roles, responsibilities, and relationships to solve specific business problems. Task alignment is easiest in small units—a plant, department, or business unit—where goals and tasks are clearly defined. Thus the chief problem for corporate change is how to promote task-aligned change across many diverse units.

We saw that general managers at the business unit or plant level can achieve task alignment through a sequence of six overlapping but distinctive steps, which we call the *critical path*. This path develops a self-reinforcing cycle of commitment, coordination, and competence. The sequence of steps is important because activities appropriate at one time are often counterproductive if started too early. Timing is everything in the management of change.

1. Mobilize commitment to change through joint diagnosis of business problems. As the term task alignment suggests, the starting point of any effective change effort is a clearly defined business problem. By helping people develop a shared diagnosis of what is wrong in an organization and what can and must be improved, a general manager mobilizes the initial commitment that is necessary to begin the change process.

Consider the case of a division we call Navigation Devices, a business unit of about 600 people set up by a large corporation to commercialize a product originally designed for the military market. When the new general manager took over, the division had been in operation for several years without ever making a profit. It had never been able to design and produce a high-quality, cost-competitive

product. This was due largely to an organization in which decisions were made at the top, without proper involvement of or coordination with other functions.

The first step the new general manager took was to initiate a broad review of the business. Where the previous general manager had set strategy with the unit's marketing director alone, the new general manager included his entire management team. He also brought in outside consultants to help him and his managers function more effectively as a group.

Next, he formed a 20-person task force representing all the stakeholders in the organization—managers, engineers, production workers, and union officials. The group visited a number of successful manufacturing organizations in an attempt to identify what Navigation Devices might do to organize more effectively. One high-performance manufacturing plant in the task force's own company made a particularly strong impression. Not only did it highlight the problems at Navigation Devices but it also offered an alternative organizational model, based on teams, that captured the group's imagination. Seeing a different way of working helped strengthen the group's commitment to change.

The Navigation Devices task force didn't learn new facts from this process of joint diagnosis; everyone already knew the unit was losing money. But the group came to see clearly the organizational roots of the unit's inability to compete and, even more important, came to share a common understanding of the problem. The group also identified a potential organizational solution: to redesign the way it worked, using ad hoc teams to integrate the organization around the competitive task.

2. Develop a shared vision of how to organize and manage for competitiveness. Once a core group of people is committed to a particular analysis of the problem, the general manager can lead employees toward a task-aligned vision of the organization that defines new roles and responsibilities. These new arrangements will coordinate the flow of information and work across interdependent functions at all levels of the organization. But since they do not

change formal structures and systems like titles or compensation, they encounter less resistance.

At Navigation Devices, the 20-person task force became the vehicle for this second stage. The group came up with a model of the organization in which cross-functional teams would accomplish all work, particularly new product development. A business-management team composed of the general manager and his staff would set the unit's strategic direction and review the work of lower level teams. Business-area teams would develop plans for specific markets. Product-development teams would manage new products from initial design to production. Production-process teams composed of engineers and production workers would identify and solve quality and cost problems in the plant. Finally, engineering-process teams would examine engineering methods and equipment. The teams got to the root of the unit's problems—functional and hierarchical barriers to sharing information and solving problems.

To create a consensus around the new vision, the general manager commissioned a still larger task force of about 90 employees from different levels and functions, including union and management, to refine the vision and obtain everyone's commitment to it. On a retreat away from the workplace, the group further refined the new organizational model and drafted a values statement, which it presented later to the entire Navigation Devices work force. The vision and the values statement made sense to Navigation Devices employees in a way many corporate mission statements never do—because it grew out of the organization's own analysis of real business problems. And it was built on a model for solving those problems that key stakeholders believed would work.

3. Foster consensus for the new vision, competence to enact it, and cohesion to move it along. Simply letting employees help develop a new vision is not enough to overcome resistance to change—or to foster the skills needed to make the new organization work. Not everyone can help in the design, and even those who do participate often do not fully appreciate what renewal will require until the new organization is actually in place. This is when strong leadership from

the general manager is crucial. Commitment to change is always uneven. Some managers are enthusiastic; others are neutral or even antagonistic. At Navigation Devices, the general manager used what his subordinates termed the “velvet glove.” He made it clear that the division was going to encourage employee involvement and the team approach. To managers who wanted to help him, he offered support. To those who did not, he offered outplacement and counseling.

Once an organization has defined new roles and responsibilities, people need to develop the competencies to make the new setup work. Actually, the very existence of the teams with their new goals and accountabilities will force learning. The changes in roles, responsibilities, and relationships foster new skills and attitudes. Changed patterns of coordination will also increase employee participation, collaboration, and information sharing.

But management also has to provide the right supports. At Navigation Devices, six resource people—three from the unit’s human resource department and three from corporate headquarters—worked on the change project. Each team was assigned one internal consultant, who attended every meeting, to help people be effective team members. Once employees could see exactly what kinds of new skills they needed, they asked for formal training programs to develop those skills further. Since these courses grew directly out of the employees’ own experiences, they were far more focused and useful than traditional training programs.

Some people, of course, just cannot or will not change, despite all the direction and support in the world. Step three is the appropriate time to replace those managers who cannot function in the new organization—after they have had a chance to prove themselves. Such decisions are rarely easy, and sometimes those people who have difficulty working in a participatory organization have extremely valuable specialized skills. Replacing them early in the change process, before they have worked in the new organization, is not only unfair to individuals; it can be demoralizing to the entire organization and can disrupt the change process. People’s understanding of what kind of manager and worker the new organization

demands grows slowly and only from the experience of seeing some individuals succeed and others fail.

Once employees have bought into a vision of what's necessary and have some understanding of what the new organization requires, they can accept the necessity of replacing or moving people who don't make the transition to the new way of working. Sometimes people are transferred to other parts of the company where technical expertise rather than the new competencies is the main requirement. When no alternatives exist, sometimes they leave the company through early retirement programs, for example. The act of replacing people can actually reinforce the organization's commitment to change by visibly demonstrating the general manager's commitment to the new way.

Some of the managers replaced at Navigation Devices were high up in the organization—for example, the vice president of operations, who oversaw the engineering and manufacturing departments. The new head of manufacturing was far more committed to change and skilled in leading a critical path change process. The result was speedier change throughout the manufacturing function.

4. Spread revitalization to all departments without pushing it from the top. With the new ad hoc organization for the unit in place, it is time to turn to the functional and staff departments that must interact with it. Members of teams cannot be effective unless the department from which they come is organized and managed in a way that supports their roles as full-fledged participants in team decisions. What this often means is that these departments will have to rethink their roles and authority in the organization.

At Navigation Devices, this process was seen most clearly in the engineering department. Production department managers were the most enthusiastic about the change effort; engineering managers were more hesitant. Engineering had always been king at Navigation Devices; engineers designed products to the military's specifications without much concern about whether manufacturing could easily build them or not. Once the new team structure was in place, however, engineers had to participate on product-development teams

with production workers. This required them to re-examine their roles and rethink their approaches to organizing and managing their own department.

The impulse of many general managers faced with such a situation would be to force the issue—to announce, for example, that now all parts of the organization must manage by teams. The temptation to force newfound insights on the rest of the organization can be great, particularly when rapid change is needed, but it would be the same mistake that senior managers make when they try to push programmatic change throughout a company. It short-circuits the change process.

It's better to let each department "reinvent the wheel"—that is, to find its own way to the new organization. At Navigation Devices, each department was allowed to take the general concepts of coordination and teamwork and apply them to its particular situation. Engineering spent nearly a year agonizing over how to implement the team concept. The department conducted two surveys, held off-site meetings, and proposed, rejected, then accepted a matrix management structure before it finally got on board. Engineering's decision to move to matrix management was not surprising, but because it was its own choice, people committed themselves to learning the necessary new skills and attitudes.

5. Institutionalize revitalization through formal policies, systems, and structures. There comes a point where general managers have to consider how to institutionalize change so that the process continues even after they've moved on to other responsibilities. Step five is the time: the new approach has become entrenched, the right people are in place, and the team organization is up and running. Enacting changes in structures and systems any earlier tends to backfire. Take information systems. Creating a team structure means new information requirements. Why not have the MIS department create new systems that cut across traditional functional and departmental lines early in the change process? The problem is that without a well-developed understanding of information requirements, which can best be obtained by placing people on task-aligned teams, managers

are likely to resist new systems as an imposition by the MIS department. Newly formed teams can often pull together enough information to get their work done without fancy new systems. It's better to hold off until everyone understands what the team's information needs are.

What's true for information systems is even more true for other formal structures and systems. Any formal system is going to have some disadvantages; none is perfect. These imperfections can be minimized, however, once people have worked in an ad hoc team structure and learned what interdependencies are necessary. Then employees will commit to them too.

Again, Navigation Devices is a good example. The revitalization of the unit was highly successful. Employees changed how they saw their roles and responsibilities and became convinced that change could actually make a difference. As a result, there were dramatic improvements in value added per employee, scrap reduction, quality, customer service, gross inventory per employee, and profits. And all this happened with almost no formal changes in reporting relationships, information systems, evaluation procedures, compensation, or control systems.

When the opportunity arose, the general manager eventually did make some changes in the formal organization. For example, when he moved the vice president of operations out of the organization, he eliminated the position altogether. Engineering and manufacturing reported directly to him from that point on. For the most part, however, the changes in performance at Navigation Devices were sustained by the general manager's expectations and the new norms for behavior.

6. Monitor and adjust strategies in response to problems in the revitalization process. The purpose of change is to create an asset that did not exist before—a learning organization capable of adapting to a changing competitive environment. The organization has to know how to continually monitor its behavior—in effect, to learn how to learn.

Some might say that this is the general manager's responsibility. But monitoring the change process needs to be shared, just as analyzing the organization's key business problem does.

At Navigation Devices, the general manager introduced several mechanisms to allow key constituents to help monitor the revitalization. An oversight team—composed of some crucial managers, a union leader, a secretary, an engineer, and an analyst from finance—kept continual watch over the process. Regular employee attitude surveys monitored behavior patterns. Planning teams were formed and reformed in response to new challenges. All these mechanisms created a long-term capacity for continual adaptation and learning.

The six-step process provides a way to elicit renewal without imposing it. When stakeholders become committed to a vision, they are willing to accept a new pattern of management—here the ad hoc team structure—that demands changes in their behavior. And as the employees discover that the new approach is more effective (which will happen only if the vision aligns with the core task), they have to grapple with personal and organizational changes they might otherwise resist. Finally, as improved coordination helps solve relevant problems, it will reinforce team behavior and produce a desire to learn new skills. This learning enhances effectiveness even further and results in an even stronger commitment to change. This mutually reinforcing cycle of improvements in commitment, coordination, and competence creates a growing sense of efficacy. It can continue as long as the ad hoc team structure is allowed to expand its role in running the business.

The Role of Top Management

To change an entire corporation, the change process we have described must be applied over and over again in many plants, branches, departments, and divisions. Orchestrating this company-wide change process is the first responsibility of senior management. Doing so successfully requires a delicate balance. Without explicit efforts by top management to promote conditions for

change in individual units, only a few plants or divisions will attempt change, and those that do will remain isolated. The best senior manager leaders we studied held their subordinates responsible for starting a change process without specifying a particular approach.

Create a market for change. The most effective approach is to set demanding standards for all operations and then hold managers accountable to them. At our best-practice company, which we call General Products, senior managers developed ambitious product and operating standards. General managers unable to meet these product standards by a certain date had to scrap their products and take a sharp hit to their bottom lines. As long as managers understand that high standards are not arbitrary but are dictated by competitive forces, standards can generate enormous pressure for better performance, a key ingredient in mobilizing energy for change.

But merely increasing demands is not enough. Under pressure, most managers will seek to improve business performance by doing more of what they have always done—overmanage—rather than alter the fundamental way they organize. So, while senior managers increase demands, they should also hold managers accountable for fundamental changes in the way they use human resources.

For example, when plant managers at General Products complained about the impossibility of meeting new business standards, senior managers pointed them to the corporate organization-development department within human resources and emphasized that the plant managers would be held accountable for moving revitalization along. Thus top management had created a demand system for help with the new way of managing, and the human resource staff could support change without appearing to push a program.

Use successfully revitalized units as organizational models for the entire company. Another important strategy is to focus the company's attention on plants and divisions that have already begun experimenting with management innovations. These units become developmental laboratories for further innovation.

There are two ground rules for identifying such models. First, innovative units need support. They need the best managers to lead them, and they need adequate resources—for instance, skilled human resource people and external consultants. In the most successful companies that we studied, senior managers saw it as their responsibility to make resources available to leading-edge units. They did not leave it to the human resource function.

Second, because resources are always limited and the costs of failure high, it is crucial to identify those units with the likeliest chance of success. Successful management innovations can appear to be failures when the bottom line is devastated by environmental factors beyond the unit's control. The best models are in healthy markets.

Obviously, organizational models can serve as catalysts for change only if others are aware of their existence and are encouraged to learn from them. Many of our worst-practice companies had plants and divisions that were making substantial changes. The problem was, nobody knew about them. Corporate management had never bothered to highlight them as examples to follow. In the leading companies, visits, conferences, and educational programs facilitated learning from model units.

Develop career paths that encourage leadership development. Without strong leaders, units cannot make the necessary organizational changes, yet the scarcest resource available for revitalizing corporations is leadership. Corporate renewal depends as much on developing effective change leaders as it does on developing effective organizations. The personal learning associated with leadership development—or the realization by higher management that a manager does not have this capacity—cannot occur in the classroom. It only happens in an organization where the teamwork, high commitment, and new competencies we have discussed are already the norm.

The only way to develop the kind of leaders a changing organization needs is to make leadership an important criterion for promotion, and then manage people's careers to develop it. At our

best-practice companies, managers were moved from job to job and from organization to organization based on their learning needs, not on their position in the hierarchy. Successful leaders were assigned to units that had been targeted for change. People who needed to sharpen their leadership skills were moved into the company's model units where those skills would be demanded and therefore learned. In effect, top management used leading-edge units as hot-houses to develop revitalization leaders.

But what about the top management team itself? How important is it for the CEO and his or her direct reports to practice what they preach? It is not surprising—indeed, it's predictable—that in the early years of a corporate change effort, top managers' actions are often not consistent with their words. Such inconsistencies don't pose a major barrier to corporate change in the beginning, though consistency is obviously desirable. Senior managers can create a climate for grass-roots change without paying much attention to how they themselves operate and manage. And unit managers will tolerate this inconsistency so long as they can freely make changes in their own units in order to compete more effectively.

There comes a point, however, when addressing the inconsistencies becomes crucial. As the change process spreads, general managers in the ever-growing circle of revitalized units eventually demand changes from corporate staff groups and top management. As they discover how to manage differently in their own units, they bump up against constraints of policies and practices that corporate staff and top management have created. They also begin to see opportunities for better coordination between themselves and other parts of the company over which they have little control. At this point, corporate organization must be aligned with corporate strategy, and coordination between related but hitherto independent businesses improved for the benefit of the whole corporation.

None of the companies we studied had reached this "moment of truth." Even when corporate leaders intellectually understood the direction of change, they were just beginning to struggle with how they would change themselves and the company as a whole for a total corporate revitalization.

This last step in the process of corporate renewal is probably the most important. If the CEO and his or her management team do not ultimately apply to themselves what they have been encouraging their general managers to do, then the whole process can break down. The time to tackle the tough challenge of transforming companywide systems and structures comes finally at the end of the corporate change process.

At this point, senior managers must make an effort to adopt the team behavior, attitudes, and skills that they have demanded of others in earlier phases of change. Their struggle with behavior change will help sustain corporate renewal in three ways. It will promote the attitudes and behavior needed to coordinate diverse activities in the company; it will lend credibility to top management's continued espousal of change; and it will help the CEO identify and develop a successor who is capable of learning the new behaviors. Only such a manager can lead a corporation that can renew itself continually as competitive forces change.

Companies need a particular mind-set for managing change: one that emphasizes process over specific content, recognizes organization change as a unit-by-unit learning process rather than a series of programs, and acknowledges the payoffs that result from persistence over a long period of time as opposed to quick fixes. This mind-set is difficult to maintain in an environment that presses for quarterly earnings, but we believe it is the only approach that will bring about successful renewal.

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About the Contributors

MICHAEL BEER is the Cahners-Rabb Professor of Business Administration, Emeritus, at Harvard Business School.

RUSSELL A. EISENSTAT is a partner at TruePoint, a management consulting firm in Massachusetts, and a former professor at Harvard Business School.

DAVID A. GARVIN is the C. Roland Christensen Professor of Business Administration at Harvard Business School.

RONALD A. HEIFETZ codirects the Center for Public Leadership at Harvard University's Kennedy School of Government.

PAUL HEMP, formerly a senior editor of *Harvard Business Review*, is the global director of brand transformation at HCL Technologies.

ALAN JACKSON is a senior partner at The Boston Consulting Group.

PERRY KEENAN is a partner and managing director in The Boston Consulting Group's Chicago office.

ROBERT KEGAN is the William and Miriam Meehan Professor in Adult Learning and Professional Development at Harvard's Graduate School of Education.

W. CHAN KIM is the Boston Consulting Group Bruce D. Henderson Chaired Professor of Strategy and International Management at Insead in France.

JOHN P. KOTTER is the Konosuke Matsushita Professor of Leadership, Emeritus, at Harvard Business School.

LISA LASKOW LAHEY is the associate director of the Change Leadership Group at Harvard's Graduate School of Education.

MARTY LINSKY is a cofounder and partner at Cambridge Leadership Associates, a consulting firm in Boston.

RENÉE MAUBORGNE is the Insead Distinguished Fellow and a professor of strategy at Insead in France.

DEBRA E. MEYERSON is an associate professor of organizational behavior at Stanford University's School of Education.

NITIN NOHRIA is the dean of Harvard Business School.

MICHAEL A. ROBERTO is a professor of management at Bryant University in Smithfield, Rhode Island.

HAROLD L. SIRKIN is a Chicago-based senior partner and managing director at The Boston Consulting Group, a global management consulting firm.

THOMAS A. STEWART, formerly the editor of *Harvard Business Review*, is the chief marketing and knowledge officer at Booz & Company in New York.

BERT SPECTOR is an associate professor of organizational behavior at Northeastern University in Boston.

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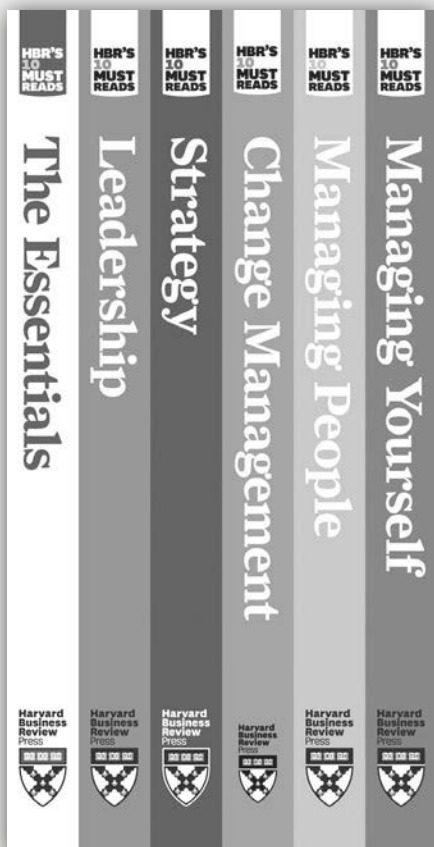
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On Change Management

(Vol. 2)

Accelerate!

by John P. Kotter

PERHAPS THE GREATEST CHALLENGE business leaders face today is how to stay competitive amid constant turbulence and disruption.

Any company that has made it past the start-up stage is optimized for efficiency rather than for strategic agility—the ability to capitalize on opportunities and dodge threats with speed and assurance. I could give you 100 examples of companies that, like Borders and RIM, recognized the need for a big strategic move but couldn't pull themselves together to make it and ended up sitting by as nimbler competitors ate their lunch. The examples always play out the same way: An organization that's facing a real threat or eyeing a new opportunity tries—and fails—to cram through some sort of major transformation using a change process that worked in the past. But the old ways of setting and implementing strategy are failing us.

We can't keep up with the pace of change, let alone get ahead of it. At the same time, the stakes—financial, social, environmental, political—are rising. The hierarchical structures and organizational processes we have used for decades to run and improve our enterprises are no longer up to the task of winning in this faster-moving world. In fact, they can actually thwart attempts to compete in a marketplace where discontinuities are more frequent and innovators must always be ready to face new problems. Companies used to reconsider their strategies only rarely. Today any company that isn't rethinking its direction at least every few years—as well as constantly adjusting to changing contexts—and then quickly making significant operational changes is putting itself at risk. But, as any

number of business leaders can attest, the tension between needing to stay ahead of increasingly fierce competition and needing to deliver this year's results can be overwhelming.

What to do, then?

We cannot ignore the daily demands of running a company, which traditional hierarchies and managerial processes can still do very well. What they do not do well is identify the most important hazards and opportunities early enough, formulate creative strategic initiatives nimbly enough, and implement them fast enough.

The existing structures and processes that together form an organization's operating system need an additional element to address the challenges produced by mounting complexity and rapid change. The solution is a second operating system, devoted to the design and implementation of strategy, that uses an agile, networklike structure and a very different set of processes. The new operating system continually assesses the business, the industry, and the organization, and reacts with greater agility, speed, and creativity than the existing one. It complements rather than overburdens the traditional hierarchy, thus freeing the latter to do what it's optimized to do. It actually makes enterprises easier to run and accelerates strategic change. This is not an "either or" idea. It's "both and." I'm proposing two systems that operate in concert.

The strategy system has its roots in familiar structures, practices, and thinking. Many start-ups, for example, are organized more as networks than as hierarchies, because they need to be nimble and creative in order to grab opportunities. Even in mature organizations, informal networks of change agents frequently operate under the hierarchical radar. What I am describing also echoes much of the most interesting management thinking of the past few decades—from Michael Porter's wake-up call that organizations need to pay attention to strategy much more explicitly and frequently, to Clayton Christensen's insights about how poorly traditionally organized companies handle the technological discontinuities inherent in a faster-moving world, to recent work by the Nobel laureate Daniel Kahneman (*Thinking, Fast and Slow*, 2011) describing the brain as two coordinated systems, one more emotional and one more rational.

Idea in Brief

Although traditional hierarchies and processes—which together form a company’s “operating system”—are optimized for day-to-day business, they can’t handle the challenges of mounting complexity and rapid change.

The solution is a second operating system, devoted to the design and implementation of strategy, that uses an agile, networklike structure and a very different set

of processes. The new operating system continually assesses the business, the industry, and the organization, and reacts with greater agility, speed, and creativity than the existing one. It complements rather than overburdens the hierarchy, thus freeing the latter to do what it’s optimized to do. It actually makes enterprises easier to run and accelerates strategic change.

The new strategy system also expands on the eight-step method I first documented 15 years ago (in *Leading Change*), while studying successful large-scale change: establishing a sense of urgency, creating a guiding coalition, developing a change vision, communicating the vision for buy-in, empowering broad-based action, generating short-term wins, never letting up, and incorporating changes into the culture.

There are three main differences between those eight steps and the eight “accelerators” on which the strategy system runs: (1) The steps are often used in rigid, finite, and sequential ways, in effecting or responding to episodic change, whereas the accelerators are concurrent and always at work. (2) The steps are usually driven by a small, powerful core group, whereas the accelerators pull in as many people as possible from throughout the organization to form a “volunteer army.” (3) The steps are designed to function within a traditional hierarchy, whereas the accelerators require the flexibility and agility of a network.

For a long time companies could invest all their energy and resources in doing one new thing very well: They might spend two years setting up a large IT project that required many changes and then, after a long pause, spend five years developing a propensity for risk-taking in the product development function. They could put the

eight-step process to work and then pack it away until it was needed again. But that methodology has a hard time producing excellent results in a faster-changing world.

Today companies must constantly seek competitive advantage without disrupting daily operations. Sure, industries face varying levels of turmoil, but what smart company isn't worried about being disintermediated, out-Google, or otherwise made irrelevant—and how many are successfully doing something about it? In fact, the whole notion of “strategy”—a word that is now used loosely to cover sporadic planning around what businesses to be in and important policies concerning how to compete in those businesses—has to evolve. Strategy should be viewed as a dynamic force that constantly seeks opportunities, identifies initiatives that will capitalize on them, and completes those initiatives swiftly and efficiently. I think of that force as an ongoing process of “searching, doing, learning, and modifying,” and of the eight accelerators as the activities that inform strategy and bring it to life. The network and the accelerators can serve as a continuous and holistic strategic change function—one that accelerates momentum and agility because it never stops. They impart a kind of strategic “fitness”: The more the organization exercises its strategy skills, the more adept it becomes at dealing with a hypercompetitive environment. The network and the hierarchy, functioning as a dual operating system, can produce more wealth, better products and services, and a more exciting place to work in an era of exponential change.

The Limits of Hierarchy and Conventional Change Management

Hierarchies are useful. They let us sort work into departments, product divisions, regions, and the like with expertise, time-tested procedures, and clear reporting relationships and accountability so that we can do what we know how to do with efficiency, predictability, and effectiveness. Hierarchies are directed by familiar managerial processes for planning, budgeting, defining jobs, hiring and firing, and measuring results.

We have learned how to improve our hierarchy-based businesses. We launch initiatives to take on new tasks and improve performance on old ones. We have learned how to identify new problems, find and analyze data in a dynamic marketplace, build business cases for change, and gain approval. We have learned to execute by adding task forces, tiger teams, project-management and change-management departments, executive sponsors for new initiatives, and associated measurement and incentive schemes. We can do this while taking care of the day-to-day work of the organization because this change methodology is easily accommodated by the hierarchical structure and basic managerial processes. It works especially well if we make the structure less bureaucratic, with fewer layers and fewer questionable rules, and give more discretion to people who sit lower in the hierarchy. This methodology can deal with both tactical and strategic issues in a changing world—but only up to a point.

The old methodology simply can't handle rapid change. Hierarchies and standard managerial processes, even when minimally bureaucratic, are inherently risk-averse and resistant to change. Part of the problem is political: Managers are loath to take chances without permission from superiors. Part of the problem is cultural: People cling to their habits and fear loss of power and stature—two essential elements of hierarchies. And part of the problem is that all hierarchies, with their specialized units, rules, and optimized processes, crave stability and default to doing what they already know how to do. (These characteristics are even more pronounced when you pile one hierarchy on top of another to create a matrixed organization.)

Moreover, strategy implementation methodologies, hung on the hierarchical spine, are not up to the challenge of managing speedy transformation. Change management typically relies on tools—such as diagnostic assessments and analyses, communications techniques, and training modules—that can be invaluable in helping with episodic problems for which there are relatively straightforward solutions, such as implementing a well-tested financial reporting system. These approaches are effective when it is clear that you need to move from point A to a well-defined point B; the distance

between the two is not galactic; and pushback from employees will not prove to be herculean. Change-management processes supplement the system we know. They can slide easily into a project-management organization. They can be made stronger or faster by adding more resources, more-sophisticated versions of the same old methods, or smarter people to drive the process—but again, only up to a point. After that point, using this approach to launch strategic initiatives that ask an organization to absorb more change faster can create confusion, resistance, fatigue, and higher costs.

Complementary Systems

Mounting complexity and rapid change create strategic challenges that even a souped-up hierarchy can't handle. That's why the dual operating system—a management-driven hierarchy working in concert with a strategy network—works so remarkably well.

At the heart of the dual operating system are five principles:

- **Many change agents, not just the usual few appointees.** To move faster and further, you need to pull more people than ever before into the strategic change game, but in a way that is economically realistic. That means not large numbers of full-time or even part-time appointments but volunteers. And 10% of the managerial and employee population is both plenty and possible.
- **A want-to and a get-to—not just a have-to—mind-set.** You cannot mobilize voluntary energy and brainpower unless people want to be change agents and feel they have permission to do so. The spirit of volunteerism—the desire to work with others for a shared purpose—energizes the network.
- **Head and heart, not just head.** People won't want to do a day job in the hierarchy and a night job in the network—which is essentially how a dual operating system works—if you appeal only to logic, with numbers and business cases. You must appeal to their emotions, too. You must speak to their genuine

desire to contribute to positive change and to take an enterprise in strategically smart ways into a better future, giving greater meaning and purpose to their work.

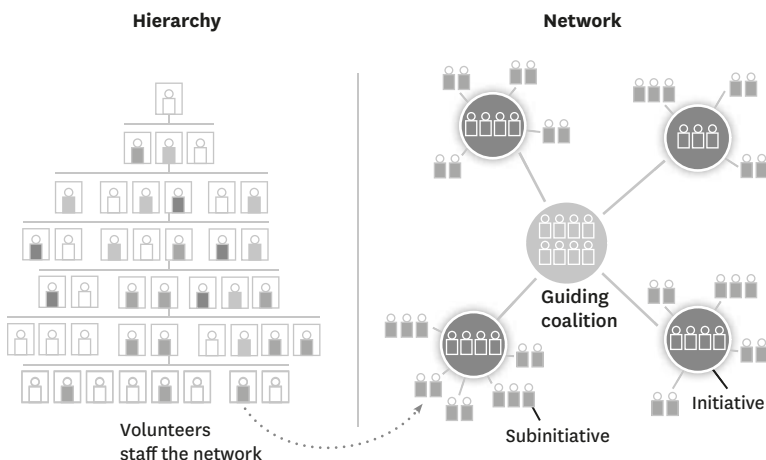
- **Much more leadership, not just more management.** At the core of a successful hierarchy is competent management. A strategy network, by contrast, needs lots of leadership, which means it operates with different processes and language and expectations. The game is all about vision, opportunity, agility, inspired action, and celebration—not project management, budget reviews, reporting relationships, compensation, and accountability to a plan.
- **Two systems, one organization.** The network and the hierarchy must be inseparable, with a constant flow of information and activity between them—an approach that works in part because the volunteers in the network all work within the hierarchy. (See the exhibit “Two structures, one organization.”) The dual operating system is not two supersilos, like the old Xerox PARC (an amazing strategic innovation machine) and Xerox (which pretty much ignored PARC and the commercial opportunities it uncovered).

Governed by these principles, the strategy network can be incredibly flexible and adaptable; the accelerators can drive problem solving, collaboration, and creativity; and the people doing this work—the volunteer army—will be focused, committed, and passionate.

The network is like a solar system, with a guiding coalition as the sun, strategic initiatives as planets, and subinitiatives as moons (or even satellites). This structure is dynamic: Initiatives and subinitiatives coalesce and disband as needed. Although a typical hierarchy tends not to change from year to year, the network can morph with ease. In the absence of bureaucratic layers, command-and-control prohibitions, and Six Sigma processes, this type of network permits a level of individualism, creativity, and innovation that not even the least bureaucratic hierarchy can provide. Populated with employees from all across the organization and up and down its ranks, the

Two structures, one organization

Traditional hierarchies and processes, which together form an organization's "operating system," do a great job of handling the operational needs of most companies, but they are too rigid to adjust to the quick shifts in today's marketplace. The most agile, innovative companies add a second operating system, built on a fluid, networklike structure, to continually formulate and implement strategy. The second operating system runs on its own processes (see "The eight accelerators," later in this chapter) and is staffed by volunteers from throughout the company.



network liberates information from silos and hierarchical layers and enables it to flow with far greater freedom and accelerated speed.

The hierarchy differs from almost every other hierarchy today in one very important way: All the junk ordinarily pasted on it for tackling big strategic initiatives—work streams, tiger teams, strategy departments—has been shifted over to the network. That leaves the hierarchy less encumbered and able to perform better and faster what it is designed for: doing today's job well, making incremental changes to further improve efficiency, and handling the small initiatives that help a company deal with predictable adjustments such as routine IT upgrades.

The strategy network meshes with the hierarchy as an equal. It is not a super task force that reports to some level in the hierarchy. It is seamlessly connected to and coordinated with the hierarchy in a number of ways, chiefly through the people who populate both systems. Still, the organization's leaders play an important role in launching and maintaining the network: the C-suite or executive committee must create it (more on that later) and explicitly bless and support it. The network cannot be viewed as a rogue operation. It must be treated as a legitimate part of the organization, or the hierarchy will crush it.

The Eight Accelerators

These are the processes that enable the strategy network to function:

1. Create a sense of urgency around a single big opportunity

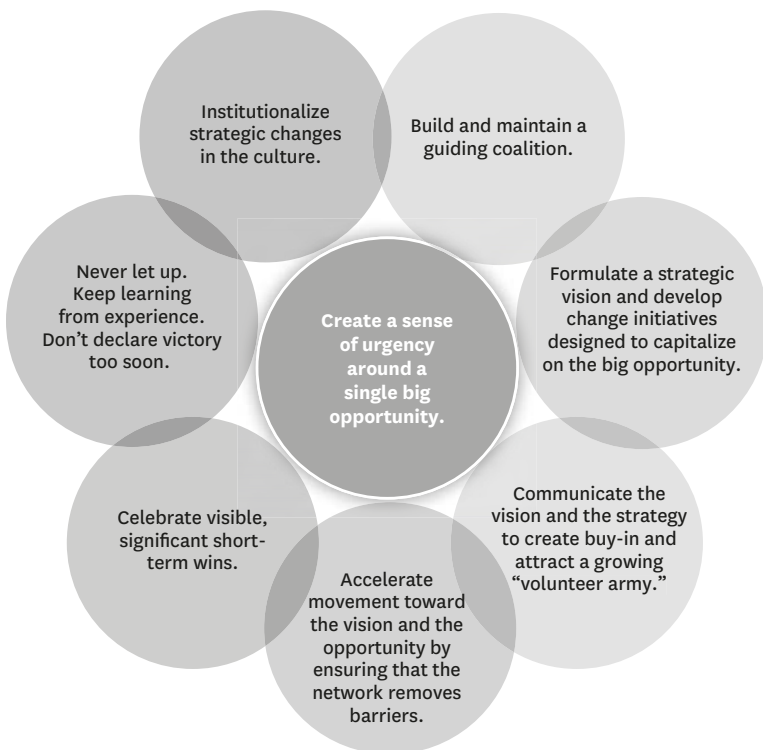
This is absolutely critical to heightening the organization's awareness that it needs continual strategic adjustments and that they should always be aligned with the biggest opportunity in sight. Urgency starts at the top of the hierarchy, and it is important that executives keep acknowledging and reinforcing it so that people will wake up every morning determined to find some action they can take in their day to move toward that opportunity.

Sufficient urgency around a strategically rational and emotionally exciting opportunity is the bedrock upon which all else is built. In my original work 15 years ago, I found that ridding an organization of complacency was important. In my more recent work, I've seen ongoing urgency emerge as a strong competitive advantage. It can galvanize a volunteer army and keep the dual operating system in good working order. It moves managers to focus on opportunities and allow the network to grow for the benefit of the organization. Without an abiding sense of urgency, no chance of creating a grander business will survive.

For clients, my team has begun by having the executive committee take a first pass at articulating the strategic opportunity. This makes sense because its members are in a position to see the big picture and because their role in nurturing the dual structure is

The eight accelerators

The processes that enable the strategy network to function



vital—particularly in the early days, when it is most vulnerable to the forces of resistance. (For the story of how one sales executive at a technology firm created urgency, see the sidebar “The Dual Operating System in Practice.”)

2. Build and maintain a guiding coalition

The core of a strategy network is the guiding coalition (GC), which is made up of volunteers from throughout the organization. In my

work with clients, people fill out applications to be on the GC. With a sufficient sense of urgency, you may get 10 times as many applications as there are roles in the network's core.

The GC is selected to represent each of the hierarchy's departments and levels, with a broad range of skills. It must be made up of people whom the leadership trusts, and must include at least a few outstanding leaders and managers. This ensures that the GC can gather and process information as no hierarchy ever could.

All members of the GC are equal; no internal hierarchy slows down the transfer of information. The coalition can see inside and outside the enterprise, knows the details and the big picture, and uses all this information to make good enterprisewide decisions about which strategic initiatives to launch and how best to do so. The social dynamics of the GC may be uncomfortable at first, but once a team learns how to operate well, most members seem to love being part of it.

3. Formulate a strategic vision and develop change initiatives designed to capitalize on the big opportunity

The vision will serve as a strategic true north for the dual operating system. A well-formulated vision is focused on taking advantage of a big make-or-break opportunity. (If no such opportunity exists, because you operate in a rare pocket of competitive stability, you may not need this system quite yet. But keep your eyes open: That situation won't last.) The right vision is feasible and easy to communicate. It is emotionally appealing as well as strategically smart. And it gives the GC a picture of success and enough information and direction to make consequential decisions on the fly, without having to seek permission at every turn.

In creating one company's vision statement, the guiding coalition sought input from top management, a consultant's report, and colleagues throughout the organization. The vision statement described what the sales group, which was dealing with market losses, could look like in a year if it accelerated toward a big opportunity. It outlined pragmatic goals but framed them with emotional resonance, using words such as "proud," "passionate," and "admired." As a

The Dual Operating System in Practice

PAUL DAVIDSON, A SALES EXECUTIVE for a B2B technology firm (I've disguised his name and some company details), had seen sales growth slip for a number of years. When his division started to lose market share, he commissioned an outside study, which recommended both a new strategy and an implementation process that Davidson judged to be too rigid and complex for the kind of rapid change needed. So he persuaded his division head and the CEO to support a more dynamic approach to change.

Davidson knew much of what he wanted: a less costly sales operation, a broader range of distributors, the ability to move into the marketplace faster, and more focus on high-growth Asian markets. To get started on making those changes, he convened the sales division's executive committee for a daylong meeting and charged it with creating a statement of opportunity. I can't share the statement (my team worked with Davidson), but here are its main points:

- We have an opportunity to increase our sales growth by 50% or more in two years, and to become the number one sales organization in the industry.
- This is possible because (1) customer needs are changing, requiring competitors to change (but it is not guaranteed that they will change fast enough), (2) markets in developing countries are starting to explode, and (3) we are not operating at peak efficiency within the company.
- We have not changed fast enough to keep up with external demands, even though we have great people. We are capable of changing faster—we've done it in the past.
- We can create a very successful field organization that we're deeply proud of.

Davidson put the eight accelerators to work for his company. First he pulled together an "urgency team" made up of 20 volunteers from across the field organization who had credibility and who had embraced the opportunity statement—intellectually and emotionally—as soon as they heard it. This group agreed to an ambitious goal: getting buy-in from at least 50% of the 1,500-member sales division. The urgency team spent three months devising dozens of ideas for forging a broad understanding of, passion for, and commitment to the opportunity. It organized meetings, created support materials, and built an intranet portal filled with information, videos, blogs, and stories about the ways in which individuals on the sales team were already changing.

Next the urgency team, working with the executive committee, invited employees to apply for a role in the guiding coalition. The application form asked why they wanted to be on the GC, how they planned to manage the additional workload, and more. About 210 people applied, and 36 were selected, mostly—but not entirely—from middle management and below. They functioned without a formal leader, though a facilitator organized meetings and phone calls. Despite initial awkwardness about the range of formal status across the GC, a new organizational logic arose: For any given activity, the people with the relevant information, connections, motivation, and skills took the lead.

With input from top management, the outside study, and colleagues throughout the organization, the GC developed a vision and a strategy. The vision statement is confidential, but it said roughly this: “Within 12 months we will be using intermediaries successfully more than we ever have; our growth rate in emerging markets will be at least twice what it is today; we will have developed a discipline around innovation; and decision-making time will be cut in half, from a month to two weeks. We will be a proud, passionate group, still gaining momentum to make us the most admired sales organization and the best place to work in the industry.” The statement was perfectly rational, but there was also a lot of heart in it.

The guiding coalition then took a first pass at identifying specific initiatives. Its members agreed on five, including attracting and hiring outstanding people with Asian experience, and making the product-introduction process faster and more efficient. The vision and list of initiatives went first to the executive committee, which was generally enthusiastic but worried that the GC might be taking on too much too fast. The GC extended the timetable on one of its initiatives and went to work.

The original urgency team’s methods helped the GC take the vision and the strategy to the entire field organization, using training, communications tools, the portal, and face-to-face conversations, which proved to be particularly powerful. The more team members talked to colleagues, the more excited people became. I was at one lunch where a GC member spoke, and as the group broke up, the man next to me said, “For the first time ever, I understand where we need to go, and how. And it really makes sense!”

Six months in, the GC had five major initiatives in place, each of which had from one to six subinitiatives. The initiative to hire excellent people in Asia, for example, sprouted a subinitiative to bring new people up to speed more quickly. The focus was on eliminating barriers to accelerated movement in the right direction.

(continued)

The people involved talked, e-mailed, and met as needed to get the work done. In the main GC meetings, members reported progress, shared information, solicited ideas, and asked for help (“Who has experience with the Japanese market?”). Senior managers helped to ensure that lower-level employees got the information they needed to make smart decisions. Lower-level people added frontline information that ordinarily wouldn’t have made it up the hierarchy to the executive committee.

The guiding coalition came up with a big, visible win six months into the process: It built a new, simplified IT tool at a remarkably low cost in a short period of time. (IT had been a time-consuming trouble spot.) First an initiative team interviewed users to understand why the existing system was failing; then it reached out to the volunteer army for expertise. One e-mail request for help, sent to 100 people, elicited 35 responses within four days. Salespeople and their managers loved the end product. Success with this single effort, observed in the field organization and broadcast on the portal, accelerated progress by removing a big barrier and boosted the dual operating system’s credibility.

The company never let up. I have lost count of how many initiatives it has completed over the past three years and how many barriers have been removed. Many mistakes occurred along the way, but the system continues to improve, and version 2.0, now at the division level, is without a doubt more sophisticated than version 1.0.

The biggest accomplishments so far have been institutionalized in the hierarchical organization and integrated in daily operations. In cases where strategic changes don’t fit some aspect of the company culture, the relevant team

result, the group vowed to work better with partners, double growth in emerging markets, innovate constantly, and halve the time it took to make decisions.

Next the GC identified the five strategic initiatives that its members deemed critical to achieving the vision and that they wanted very much to work on, including “innovation in attacking growing markets.” Inspired by the vision and guided by the initiatives that flowed logically from it, everyone within the network became an author of strategic change. That’s very powerful.

To keep the two parts of a dual operating system connected and aligned, we have found, the GC must show a draft of the vision and

looks for ways to change the culture. To a large extent this happens naturally if the new approach produces better results; but sometimes changes are so big that nurturing is needed.

Three years after Davidson began to create a dual operating system, his field organization, and increasingly the entire division, are handling important issues in a new way. No one on the executive committee is overwhelmed by being appointed to help guide two or three strategic initiatives at once. Despite all the change, complaints about change fatigue in the core business are few.

The results are dramatic. The system has accelerated the creation of new partnerships, new ways of dealing with direct customers, a faster product-introduction process, shorter response times on complaints, superior data for the product development group on shifting customer needs, and faster growth in Asia—it was up by more than 60% in 2011, compared with 25% three years ago. And the division has started to win back market share, which the financial community has rewarded with a 55% increase in the company's market cap.

These are still early days. If the dual operating system is to achieve its true potential, it must spread to the entire enterprise. I think it will. That's when the company will become a model of both strategic agility and short-term efficiency: Today's results will grow stronger and stronger while the whole organization works together to sense threats and respond to them before it's too late—and, more important, to seize and exploit opportunities at a pace that will ensure that it flourishes for years to come.

initiatives to the organization's executive committee for comments. A well-functioning GC will treat the committee's comments as highly valuable input but won't automatically accept them as commands.

4. Communicate the vision and the strategy to create buy-in and attract a growing volunteer army

A vividly formulated, high-stakes vision and strategy, promulgated by a GC in ways that are both memorable and authentic, will prompt people to discuss them without the cynicism that often greets messages cascading down the hierarchy. Done right, with creativity, such communications can go viral, attracting employees

who buy in to the ambition of the message and begin to share a commitment to it.

This point tends to prompt skepticism from people who have seen attempts to motivate a workforce fail. But if the right messages are sent from a passionate GC to colleagues who feel a sense of urgency, the volunteer army will start to gather. I've seen it happen. Motivation is an issue when people are forced to work in boxes within a hierarchy where workers become bored, new ideas aren't welcome, and managers aren't effective. And it does not take many volunteers to get a network launched: Again, 10% of the total employee population will do. That's 500 people in an organization of 5,000.

5. Accelerate movement toward the vision and the opportunity by ensuring that the network removes barriers

Perhaps a sales rep has gotten customer complaints about bureaucratic hang-ups. He doesn't know how to fix the problem and doesn't have time to think about it. Someone in the network gets wind of this and says, "I've seen that. I volunteer. I'll put together a group and attack it." That person writes up a description and sends it out to the volunteer army, and five people immediately step forward. They set up a call to begin learning why this is happening, figuring out how to remove the barrier, and designing a solution—a better CRM system, perhaps. The team probably includes someone from IT who has technical expertise and can help identify where the money for the new system might come from. The team works with additional volunteers who have relevant information—from whatever quarter may be germane—to act quickly and efficiently. The time between the first call and this point might be two weeks—a model of accelerated action. The network team settles on a practical solution that properly supports the sales team. Then its members take their thinking to the CIO, who gives feedback and may offer the budget and the resources.

Design and implementation occur in the network and are instituted within the hierarchy. And if the network is truly operating hand-in-glove with the hierarchy, the people in the hierarchy are champing at the bit to get the new CRM system.

6. Celebrate visible, significant short-term wins

A strategy network's credibility won't last long without confirmation that its decisions and actions are actually benefiting the organization. Skeptics will erect obstacles unless they see proof that the dual operating system is creating real results. And people have only so much patience, so proof must come quickly. To ensure success, the best short-term wins should be obvious, unambiguous, and clearly related to the vision. Celebrating those wins will buoy the volunteer army and prompt more employees to buy in. Success breeds success.

If wins are not forthcoming, that in itself is useful feedback: Something is wrong. A committed GC, with many eyes and ears to take in the reality of the situation and with no status or territory to protect, can quickly tweak either the decisions it has made or the methods used for implementing those decisions.

7. Never let up. Keep learning from experience. Don't declare victory too soon

Organizations must continue to carry through on strategic initiatives and create new ones, to adapt to shifting business environments, and thus to enhance their competitive positions. When an organization takes its foot off the gas, cultural and political resistance arise.

Here, again, is why urgency is so central to the strategy part of the dual operating system. It keeps people going. If it is weak to begin with, or neglected, the volunteer army's determination will flag, and the temptation to slow down or stop will become irresistible. The volunteers will start focusing on their work in the hierarchy, and the hierarchy will dominate once more.

8. Institutionalize strategic changes in the culture

No strategic initiative, big or small, is complete until it has been incorporated into day-to-day activities. A new direction or method must sink into the very culture of the enterprise—and it will do so if the initiative produces visible results and sends your organization into a strategically better future.

The Volunteer Army

The members of the volunteer army also help make the daily business of the organization hum; they're not a separate group of consultants, new hires, or task force appointees. They have organizational knowledge, relationships, credibility, and influence. They understand the need for change—they are often the first to see threats or opportunities—and have the zeal to implement it.

It is vital that this army be made up of individuals who bring energy, commitment, and genuine enthusiasm. They are not a bunch of grunts carrying out orders from the brass. Rather, they are change leaders. Whereas hierarchies require management to maintain an efficient status quo, networks demand leadership from every individual within them.

People who have never seen this sort of dual operating system work often worry, quite logically, that a bunch of enthusiastic volunteers might create more problems than they solve—by, for example, running off and making not very thoughtful decisions and disrupting daily operations. Here is where the very specific details built into the network and the accelerators come into play. This second system not only creates the army but guides the volunteers with a structure and processes that create a powerful, smart, and increasingly needed strategic force.

In organizations where the volunteer army has really taken hold, individuals have told me that the rewards are tremendous—though rarely monetary. They talk about the fulfillment they get from pursuing a mission they believe in. They appreciate the chance to collaborate with a broader array of people than they ever could have before. A number of them say that their strategy work led to increased visibility across the organization and to bigger jobs in the hierarchy. And their managers appreciate how the volunteers develop professionally. In June 2012 I got this e-mail message from a client in Europe: “I can’t believe how quickly this second operating system gives growth to real talents within the organization. Once people feel ‘Yes, I can do it!’ they also start faster growth in their regular jobs in the hierarchy, which helps make today’s operations more effective.”

Building Momentum

Over the past three years I've aided eight organizations, private and public, in building dual operating systems, and the challenges have been fairly predictable. One is how to ensure that the two parts work together and don't drift apart. Here it is essential that the GC and the executive committee maintain close communication. Another is how to build momentum: Most important is to communicate wins from the very start. Probably the biggest challenge is how to make people who are accustomed to a control-oriented hierarchy believe that a dual system is even possible. Again, this is why a rational and compelling sense of urgency around a big strategic opportunity is so important. Once it has been sparked, mobilizing the GC and putting the remaining accelerators in motion happens almost organically.

A dual operating system doesn't start fully formed and doesn't require a sweeping overhaul of the organization. It grows over time, accelerates action over time, and takes on a life of its own that seems to differ from company to company in the details. It can start with small steps. Version 1.0 of a strategy network may arise in only one part of an enterprise. After it becomes a powerful accelerating force there, it can expand throughout the organization. Version 1.0 may play little or no role in strategy formulation but be involved, rather, in implementation. It may feel at first more like a big employee-engagement exercise that does, indeed, produce a much bigger payoff for the same size payroll. But the network and the accelerators evolve, and momentum comes faster than you might expect.

A Summary and a Prediction

Because a dual operating system evolves, it doesn't jolt the organization the way sudden dramatic change does. It doesn't require the organization to build something gigantic and then flick a switch to get it going. Think of it as a vast, purposeful expansion in scale, scope, and power of the smaller, informal networks that accomplish tasks faster and cheaper than hierarchies can.

The system offers a solution to problems we have known about for some time. People have been writing for at least 20 years about the increasing speed of business and the need for organizations to be quicker and much more agile. But who has been able to pull that off? The situation won't be improved by tweaking the usual methodology or adding turbochargers to a single hierarchical system. That's like trying to rebuild an elephant so that it can be both an elephant and a panther. It's never going to happen.

People have been writing for 50 years about unleashing human potential and directing the energy to big business challenges. But who, outside the world of start-ups, has succeeded? So few do because they're working within a system that basically asks most people to shut up, take orders, and do their jobs in a repetitive way.

People have been talking for a quarter of a century about the need for more leaders, because an organization's top two or three executives can no longer do it all. But very few jobs in traditional hierarchical organizations provide the information and the experience needed to become a leader. And the solutions available—courses on leadership, for example—are wholly inadequate, because most development of complex perspectives and skills happens on the job, not in the classroom.


People have been grumbling for years about the strategy consulting industry, whose reports fail to solve the problem of finding and implementing strategies to better fit a changing environment. A consultant's report—all thought and little heart, forecasting where you can flourish in two or five or 10 years, produced by smart outsiders, and acted on in a linear way by a limited number of appointed people—has little or no chance of success in a faster-moving, more uncertain world.

The inevitable failures of single operating systems hurt us now. They are going to kill us in the future. The 21st century will force us all to evolve toward a fundamentally new form of organization. I believe that I have basically described that form here. We still have much to learn. Nevertheless, the companies that get there first, because they act now, will see immediate and long-term success—for shareholders, customers, employees, and themselves. Those that lag will suffer greatly, if they survive at all.

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What Everyone Gets Wrong About Change Management

by N. Anand and Jean-Louis Barsoux



CORPORATE TRANSFORMATIONS still have a miserable success rate, even though scholars and consultants have significantly improved our understanding of how they work. Studies consistently report that about three-quarters of change efforts flop—either they fail to deliver the anticipated benefits or they are abandoned entirely.

Because flawed implementation is most often blamed for such failures, organizations have focused on improving execution. They have embraced the idea that transformation is a process with key stages that must be carefully managed and levers that must be pulled—indeed, expressions such as “burning platform,” “guiding coalition,” and “quick wins” are now common in the change management lexicon. But poor execution is only part of the problem; our analysis suggests that misdiagnosis is equally to blame. Often organizations pursue the wrong changes—especially in complex and fast-moving environments, where decisions about what to transform in order to remain competitive can be hasty or misguided.

Before worrying about *how* to change, executive teams need to figure out *what* to change—in particular, what to change *first*. That’s the challenge we set out to investigate in our four-year study of 62 corporate transformations.

When companies don't choose their transformation battles wisely, their efforts have a negative effect on performance. Consider what happened after Ron Johnson took over as CEO of J.C. Penney: He immediately gave store design and pricing an overhaul to attract younger, trendier customers. Sales sank by a quarter, and the stock plummeted by half.

Johnson's first priority should have been a better integration of JCP's in-store and online operations. At that time customers could not find in the stores what was being showcased online, and vice versa. The two channels were run separately, each with its own merchandise and supply chain. Johnson's eventual replacement, Marvin Ellison, recognized the misalignment and restored JCP to profitability. Under Ellison's leadership, JCP became nimbler and more responsive to customers looking for deals (who had left in droves because of Johnson's changes). The retailer redesigned its shopping app to make it easier for in-store customers to find discounts, improved its website, and caught up with rivals by offering same-day in-store pickup of items ordered online.

As JCP and many other companies have learned, the costs of setting off on the wrong transformation journey are significant: First, underlying problems will persist and worsen as attention is invested elsewhere (JCP fell further behind in online sales as it freshened up store design). Second, new problems may emerge (JCP alienated loyal, deal-driven customers with its new pricing strategy and saddled itself with more than \$5 billion of debt, which hampered its ability to invest in technology). And third, the executive team risks undermining employee commitment to future initiatives (Ellison had to remobilize a workforce still traumatized by JCP's near collapse under Johnson). Having "fixed the plumbing," Ellison's leadership team has turned its attention to making JCP more relevant to shoppers in the coming decade. Although it has averted disaster, the company still has a lot of work to do. After a rough holiday season in 2016, the executive team decided to close almost 140 stores to compete more effectively with online retailers. The need for transformation is ongoing.

So how can leaders decide which changes to prioritize at the moment? By fully understanding three things: the catalyst for

Idea in Brief

The Problem

Failed corporate transformations are usually attributed to execution—but often leaders misdiagnose what changes need to be made.

The Costs

When organizations pursue the wrong changes or tackle them in the wrong order, existing problems get worse, new ones are created,

and employees, having been burned, become wary of future initiatives.

The Solution

Before setting their change priorities, leaders should analyze three things: the catalyst for transformation, the underlying quest, and the leadership capabilities needed to pursue it.

transformation, the organization's underlying quest, and the leadership capabilities needed to see it through. Our analysis of stalled transformations suggests that failing to examine and align these factors drastically reduces the odds of producing lasting change. In this article we illustrate this dynamic with several classic case studies that provide enough distance to observe and compare clear, verifiable outcomes. We also offer tools to help diagnose what's needed in your company's transformation efforts.

The Catalyst: Pursuing Value

The trigger for any corporate transformation is the pursuit of value. Ideally, that entails both improving efficiency (through streamlining and cost cutting) and reinvesting in growth. But many transformation efforts derail because they focus too narrowly on one or the other.

In some cases, attempts to streamline the business through productivity improvements, outsourcing, divestments, or restructuring undermine growth. The cuts are so deep that they hollow out capabilities, sap morale, and remove the slack that could have fueled new endeavors.

Consider Norske Skog, once the world's largest newsprint producer—now, according to Bloomberg, the third largest in Europe, in a dwindling market. Hit by falling demand for paper more

than a decade ago, the Norwegian company was forced to divest unprofitable operations across four continents. Thanks to its profitability improvement program, it became so good at identifying where to make cuts that it was praised by *BusinessWeek* in 2009 for turning “shrinking into a science.” But although the company has survived, it has not found a way to rebound. Like many companies in contracting or commoditizing industries, it is stuck in turnaround mode, with its share price consistently in decline. By contrast, its Swedish-Finnish paper rival Stora Enso also went through several rounds of painful restructuring but has since reinvented itself as a renewable-materials company.

In other cases, reinvestment in growth spins out of control. Lego had this problem. The Danish toy maker made two large-scale attempts to transform itself through greater innovation. The first, launched in 2000, delivered a wealth of freewheeling experimentation that over the next few years drove the company to the brink of bankruptcy. The second, launched in 2006 (once the company had recovered its financial stability), catapulted Lego past the two U.S. giants Hasbro and Mattel to become the world’s most profitable toy company by 2014, with margins greater than 30%. Why the big difference? The second time around, under then CEO Jørgen Vig Knudstorp, Lego maintained a dual focus on growth *and* discipline. The company set up a cross-functional committee (the Executive Innovation Governance Group) to fund, monitor, and strategically coordinate innovation activities, ensuring that they remained “around the box” rather than drifting way outside it.

This example brings us to a larger point about catalysts for change: While you’re striving for growth, discipline—through governance, metrics, and other controls—allows you to stay on track later on, after you have chosen your journey’s direction. Without such controls in place, your company can easily lose its way. This often happens through the hasty purchase of an overpriced or tough-to-integrate “transformative acquisition” that is meant to redirect the strategy but just ends up sucking value out of the corporation. Hewlett-Packard is a notable recidivist in this domain: Recall its ill-fated acquisitions of Compaq, EDS, and Autonomy.

But how can you and others on the leadership team figure out what kind of transformation to pursue, once growth opportunities or declining performance has alerted you to the need for major change of some kind? That's the second step in the process—defining the quest.

The Quest: Choosing Your Direction

Next the organization must identify the specific quest that will lead to greater value generation. Executives increasingly use the term “transformation” as shorthand for “digital transformation.” But the ongoing digital revolution does not itself constitute a transformation—it is a means to an end, and you must define what that end should be.

Studies and analysis that we have conducted show that most corporate transformation efforts are either derivatives or combinations of five prototypical quests:

1. *Global presence*: extending market reach and becoming more international in terms of leadership, innovation, talent flows, capabilities, and best practices
2. *Customer focus*: understanding your customers' needs and providing enhanced insights, experiences, or outcomes (integrated solutions) rather than just products or services
3. *Nimbleness*: accelerating processes or simplifying how work gets done to become more strategically, operationally, and culturally agile
4. *Innovation*: incorporating ideas and approaches from fresh sources, both internal and external, to expand the organization's options for exploiting new opportunities
5. *Sustainability*: becoming greener and more socially responsible in positioning and execution

Each quest has its own focus, enablers, and derailers, and each requires the company to do something more or different with

its operating model, customers, partners, internal processes, or resources. “Going digital” can support any of the five quests, and all of them call for discipline. (See the exhibit “Understanding the five quests.”)

Let’s return to the paper giant Stora Enso to see how it defined its quest. The catalyst for transformation was the plunging demand for paper along with the rise of digitization. Stora desperately needed not only to cut costs but also to rethink its business focus.

Members of the top team consulted widely with various divisions and layers of the company and engaged in lengthy deliberations. Weighing the options, they concluded that pursuing nimbleness, global presence, or customer focus would merely yield more market share in a declining industry. Innovation would not solve the main issue either. But the company had developed some breakthrough green offerings, including environmentally friendly packaging for the expanding e-commerce delivery market. Its greatest opportunity lay in shifting the whole axis of the business to specialize in offerings made with renewable and bio-based materials. So Stora’s was a sustainability quest. That turned out to be a shrewd pivot. Traditional paper-based products now represent only 8% of Stora’s profits, and the company’s share price has almost tripled since November 2011.

It can be difficult to choose the right quest. Should the company expand into new regions, get closer to customers, innovate with more partners, get faster and more responsive, or become more sustainable? Executives sometimes say “all of the above”—but that’s too much to handle at once. The right quest should be a compelling and uncontested priority. In some of the cases we analyzed, companies straddled quests (customer focus and agility, for instance, or innovation and sustainability). That can work as long as the components are fused into one cogent focus.

With multiple organizational challenges jostling for attention, top teams are liable to disagree on the transformation priority. That’s why we created a 15-question audit. (See the exhibit “Conduct a quest audit.”) In our research and consulting engagements, we’ve found that this tool allows executives to do their own systematic review so that they can make smart decisions regarding transformation.

Understanding the five quests

The best execution in the world won't lead to a successful transformation if your organization pursues the wrong change. Quests fall into five categories, and more than one may be relevant, so leadership teams must decide which to prioritize and which to postpone. Pursuing too many quests at once is a recipe for failure.

Quest	Enablers	Blockers
Global presence Become more international in mindset as well as market reach <i>by reconfiguring the operating model</i>	<ul style="list-style-type: none"> • Rewiring systems and networks to leverage capabilities, knowledge, and ideas wherever they are • Preserving corporate principles while remaining flexible on cultural practices • Using diversity as a source of competitive advantage 	<ul style="list-style-type: none"> • Acquiring weak businesses in haste to develop a global footprint • Honoring the "dominant" culture while paying lip service to the rest • Failing to integrate talent on a global scale
Customer focus Provide tailored solutions to user problems <i>by reconfiguring the customer experience</i>	<ul style="list-style-type: none"> • Organizing, equipping, training, and rewarding the workforce to better understand and address customers' needs • Redefining relationships with vendors, intermediaries, and suppliers • Reframing customer relations to learn rather than simply to close deals 	<ul style="list-style-type: none"> • Failing to reshape an entrenched culture that emphasizes pushing products • Continuing to depend on former sales intermediaries • Not coordinating front- and back-office units to deliver seamless solutions
Innovation Tap multiple sources of ideas and approaches <i>by reconfiguring R&D partners</i>	<ul style="list-style-type: none"> • Navigating the full innovation spectrum, from value chain partners to competitors to lead users and crowdsourcing • Collaborating to convert new ideas into tangible innovation • Articulating innovation needs clearly and creating win-win outcomes with partners 	<ul style="list-style-type: none"> • Relying too much on one or two parts of the innovation spectrum • Resorting to rigid contracts with innovation partners • Lacking oversight that ensures frugal investment

(continued)

Understanding the five quests (continued)

Quest	Enablers	Blockers
Nimbleness Become more strategically, operationally, and culturally agile <i>by reconfiguring business processes</i>	<ul style="list-style-type: none"> • Developing the capability to detect and respond to major changes in the environment • Leveraging diversity to exploit opportunities • Learning to prototype rapidly and institutionalizing what works 	<ul style="list-style-type: none"> • Allowing blind spots to produce an incomplete picture • Responding too slowly because of red tape • Taking too long to cut your losses when something doesn't work
Sustainability Become greener and more socially responsible <i>by reconfiguring resources</i>	<ul style="list-style-type: none"> • Engaging all stakeholders to become sustainable • Leveraging sustainability as a source of strategic advantage • Communicating top-team commitment to the sustainability agenda 	<ul style="list-style-type: none"> • Undermeasuring or -reporting progress toward sustainability • Broadcasting shallow PR victories ("greenwashing") • Failing to balance efficiency and sustainability goals

For example, at a French utility company we worked with, the top 200 executives participated in a “transformation jam” where they all filled out a status report that identified the critical enablers and blockers for each potential quest. This and the quest audit helped to clarify and reconcile the priorities of different parts of the organization, from the boardroom and the C-suite to the front lines.

The Capabilities: Developing Leaders

Finally, to support the chosen quest, the company must develop leaders who can see it through. Sustained transformation depends on this.

Again Stora Enso is a useful case in point. Jouko Karvinen, the company's CEO until July 2014, realized that his executive team—all Nordics, all industry veterans—could continue to squeeze costs out of core businesses but would struggle to explore prospects for fresh growth. So, in close consultation with then HR head Lars Häggström, he set up a parallel “Pathfinders” leadership team—a dozen managers from various parts of the organization—and gave them a mandate

Conduct a quest audit

Rate each of these competencies on a 1-to-7 scale (7 is strongest). Your lowest scores will identify your most urgent priorities for change.

Global presence

How well do we . . .

- pursue expansion with a strategic global perspective?
- share local learning about business practices globally?
- use digital technology to bring together key populations?

Customer focus

How well do we . . .

- create offerings with meaningful value to customers?
- recognize team-based efforts in developing and selling solutions?
- use analytics to identify which solutions customers need most?

Innovation

How well do we . . .

- cooperate with external partners to create new technologies and offerings?
- create an environment of trust for effective collaboration?
- leverage digital platforms for innovation?

Nimbleness

How well do we . . .

- sense changes in the environment?
- act on those changes in a timely way?
- share information across the organization?

Sustainability

How well do we . . .

- integrate our sustainability strategy into the overall corporate vision and strategy?
 - implement sustainability in decision making, processes, and systems throughout the organization?
 - use digital technology to catalog and evaluate sustainability initiatives?
-

to identify sustainability opportunities that were falling between silos and, more broadly, to challenge the old ways of doing business. Each year the organization replaces its Pathfinders with a new cohort of up to 16 members. At first this was mainly a way to keep bringing new perspectives into high-level decision making, but it expanded into a program for identifying and developing change agents within the organization who would then serve as internal management consultants. The Pathfinders program became the centerpiece of the company's new leadership-development activities.

Transformation journeys run out of steam when companies neglect leadership development. In order to keep an organization moving in the desired direction, executives and managers at all levels must understand which mindsets and behaviors will take the company there and then take care to model them so that employees know how to act in the new context.

Any mismatch between the leadership-development effort and the transformation quest is bound to impair value generation. The need for alignment is well demonstrated by the familiar but instructive story of two Asian rivals in personal computing.

In 2008 Taiwan's Acer and China's Lenovo ranked third and fourth respectively in global market share, well behind HP and Dell. By 2015 Lenovo had claimed the top spot and Acer had slipped to sixth. They had defined similar quests—achieving global reach—and they pursued similar strategies, seizing opportunities to generate value and transform their global presence by acquiring embattled Western businesses. Lenovo grabbed IBM's PC division in 2005; Acer snapped up Gateway in the United States in 2007 and Packard Bell in Europe in 2008. But a key difference between Lenovo and Acer was their commitment to globalizing the senior leadership ranks.

Acer's board struggled with “de-Taiwan ization,” rejecting CEO Gianfranco Lanci's bold plans to hire foreign talent with expertise in mobile technology and to triple the number of engineers. (It's worth noting that Lanci soon left Acer to head up Lenovo's PC group.) In 2010 Acer had six foreigners among its top 24 executives; by 2014 it was down to three out of 23. In the same period, the board went from having two foreign directors to having none. Predictably, the top team's decision making became increasingly cautious and inward-looking. In 2016, for example, it hired the founder's son to head up the company's cloud services, which prompted the *Tech-News* headline “Is Acer Becoming a Family Business?”

By contrast, leadership development at Lenovo was fully in line with the company's quest for a greater global presence. By 2012 its top team of nine represented six nationalities. Its Chinese CEO, Yang Yuanqing, relocated to the United States, and other members of the team were scattered globally, gathering for one week each month in

a different strategic market. Aware of the challenges his team faced as a result of its members' varied backgrounds, the CEO brought in a coach to work with the executives on cross-cultural issues. And to promote diversity as a source of competitive advantage—in both hiring and operations companywide—Lenovo elevated the role of cultural integration and diversity VP to the C-suite. Such efforts paved the way for ambitious acquisitions and joint ventures with German, Japanese, Brazilian, and U.S. companies—enabling Lenovo to extend into new software and services categories globally.

Transformation Traps

Many transformation efforts are set up to fail at the quest stage. Top teams get sidetracked or overreach when they lose focus on what value is worth pursuing—or they take on more change than their leadership capabilities can steer. Our investigations reveal three common failings:

Neglecting the quest

In companies that don't identify a mobilizing theme, value generation and leadership development can become ends in themselves—generic efforts, not really linked to the strategy. For example, India's Infosys developed a widely admired approach to leadership development but ran into trouble because it failed to tie that to the transformational needs of the business—forcing the IT giant to turn to an outside CEO to drive the necessary changes.

Being seduced by the wrong quest

The board and the top team may be led astray by the vision of a forceful CEO (like Ron Johnson at J.C. Penney), try to copy the strategic moves of competitors, or fall for recommendations from consultants who favor particular quests. In those situations, the chosen quest misfires because it was not the product of deep deliberation or shared conviction or it fails to address the central issue. For example, GE transplant Bob Nardelli tried to transform Home Depot by selling supplies to construction professionals as well as to homeowners.

The pursuit of customers in adjacent markets distracted attention from Home Depot's core problem of slumping store sales. When Nardelli resigned, under intense pressure from shareholders, the strategy was immediately reversed and the wholesale arm sold off to allow the company to refocus on its core retail business. From seventh-largest global retailer, Home Depot has since jumped to third.

Focusing on multiple quests

The quest choice may be muddled if leaders can't agree on which direction to go. Different parts of the business (regions, functions, levels) see different problems and priorities. Some corporations overreach, taking on too many quests at once or overestimating their leadership capabilities in a given area. Back in 2009 the incoming Carrefour CEO, Lars Olofsson, launched an ambitious transformation plan for the retail giant based on seven strategic initiatives, including enhanced innovation, customer engagement, agility, and global expansion. The result was confusion, a loss of domestic market share, and a 53% plunge in share price in one year. Olofsson lasted barely two years in the job. His replacement, Georges Plassat, panned the leadership capability of the previous team, labeling the members "incompetent in mass retailing." In a successful recovery plan, Plassat first focused on shedding operations in noncore markets and streamlining internal operations. He then reignited domestic sales by cutting prices and diversifying stores. Three years later Carrefour had regained a clear lead in the French market.

Getting Started

It can be useful to think of value generation and leadership development as the chariot wheels that support a transformation, and the quest as the horse that provides direction and momentum. Alignment among the three is critical if you want to reach your destination.

The quest audit facilitates alignment by making it easier to diagnose the current situation, identify which transformation could be a game changer, and decide which enablers and blockers to target

to make it happen. This tool has been validated with more than 500 executives and road tested by a dozen companies (across industries and continents) seeking to transform themselves. It helps address these underlying challenges:

Facing reality

Having a structured way to solicit and gather input allows senior teams to take a cold, hard look at the company. Knowledge, competencies, or activities that were once central to the organization may have become what Harvard's Dorothy Leonard-Barton calls core rigidities. If so, they need to be adapted or jettisoned. The more radical the transformation, the greater the chance that such limitations will be exposed. Confronting harsh reality may also involve identifying and addressing blind spots.

For the HR head of a European postal services group, a quest audit revealed a disconcerting pattern. "The low scores on value, customer focus, and innovation seem to highlight our company's ineffectiveness in listening respectively to the market, to our customers, and to suppliers or partners," she told her team. "It's hard to admit, but it's better to recognize now the inertia of our organization that needs to be tackled urgently." Similarly, the head of HR at a Japanese food group observed that doing the exercise opened up team dialogue on issues that were previously off-limits: "It provided 'permission' to reflect on the current reality and how we got to where we are. That immunity led us to frame some breakthrough questions to understand our challenge and what we needed to do to solve it."

Debating priorities

Often the diagnosis reveals multiple challenges and the debate centers on which of them matters most—or which can be tackled immediately, given the company's current leadership capabilities. Conceptual tools can't tell top teams what to do, but they can support a smarter discussion, with much of the critical information visible at a glance.

By mapping out where various parties see opportunities and hazards, executives can avoid a major decision-making trap: getting

stuck with a false choice between pursuing one strategic option and doing nothing. Articulating the pressures and challenges makes it easier to debate and evaluate the relative merits of various responses.

Take the case of Cosentino, a Spanish manufacturer of engineered surfaces for kitchens and bathrooms. Because the company had established a solid distribution foothold in the United States, the most obvious strategy was to keep extending its global presence. But after using the quest audit to weigh their options, the top 70 executives decided instead to prioritize co-innovation—not just with Cosentino’s supply chain partners but with other high-end kitchen and bathroom businesses (facades, flooring, and equipment)—to anticipate new trends. They elected to work on their biggest weakness rather than to build on an obvious strength.

Reconciling perspectives or priorities and developing a shared understanding of the cause of the current state of affairs is not painless. But sidestepping that discomfort only reduces the chances of selecting a viable transformation objective. According to the head of finance of an Italian fashion group, “Our discussions highlighted areas where we perhaps were not as aligned as we thought and emphasized common pain points regardless of where you sit in the organization. The reflection drove convergence about what we needed to do and stop doing.”

Joint consultation also builds a sense of involvement that boosts the perception of fair process and therefore commitment to the chosen course of action.

Communicating choices

Having debated the priorities and challenges, an organization’s leaders can feel more confident in advocating a particular course of action and communicating the message to others. They are better equipped to explain how they reached this conclusion, what alternatives they scrutinized, and why they think this is the right transformation journey. If employees feel that the analytical work was thorough and inclusive, they are more likely to accept the decision, even if they don’t like it.

Of course, analysis alone seldom inspires people to act in unfamiliar and perhaps unwelcome ways. When leading people into an uncertain future, it helps if the decision makers can get people talking about enablers and blockers. That gives everyone a sense of where the organization stands, what it must transform—and why, beyond “survival,” the journey is worth making.

Here’s an example of how this can play out: At GroupM, the world’s largest media investment group, the top team of the South Asia operation concluded that its competition in the digital age consisted of not just the traditional agency networks but also disruptive start-ups and digital platforms that could cultivate direct access to its clients. As the team debated priorities, innovation through deeper partnerships with potential new competitors emerged as number one. Further discussions, including one mediated by a “youth committee” made up of highfliers under the age of 30, revealed that a key enabler was the ability to pick the right innovation partners. A key blocker, according to C.V.L. Srinivas, the division’s CEO, was “getting people working in a successful organization to change their mindset and accept that we needed to change in order to stay relevant.” So the top team chose a communication strategy that balanced hard and soft approaches: setting tough targets for employees to increase their proportion of digital work while making it clear that they would receive the support and training to achieve those goals.

As the shelf life of business strategies grows shorter, a corporation’s transformation capability becomes its only enduring advantage. A quest for innovation provided a focus for Lego’s transformation under Knudstorp. But now, as Lego nears saturation in its lead markets, such as the United States and Germany, its attention is on fast-growth emerging economies—the new quest being to transform a Danish brand with global appeal into a truly global corporation.

With serial transformations becoming the norm, a key strategic question for any corporate leader is, How can we make our next transformation flourish? This article will help you answer that question.

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Cultural Change That Sticks

*by Jon R. Katzenbach, Ilona Steffen,
and Caroline Kronley*

IN THE EARLY 2000s Aetna was struggling mightily on all fronts. While on the surface revenues remained strong, its rapport with customers and physicians was rapidly eroding, and its reputation was being bludgeoned by lawsuits and a national backlash against health maintenance organizations and managed care (which Aetna had championed). To boot, the company was losing roughly \$1 million a day, thanks to cumbersome processes and enormous overhead, as well as unwise acquisitions.

Many of the problems Aetna faced were attributed to its culture—especially its reverence for the company’s 150-year history. Once openly known among workers as “Mother Aetna,” the culture encouraged employees to be steadfast to the point that they’d become risk-averse, tolerant of mediocrity, and suspicious of outsiders. The prevailing executive mindset was “We take care of our people for life, as long as they show up every day and don’t cause trouble.” Employees were naturally wary of any potential threat to that bargain. When Aetna merged with U.S. Healthcare, a lower-cost health care provider, in 1996, a major culture clash ensued. But instead of adapting to U.S. Healthcare’s more-aggressive ways, the conservative Aetna culture only became more intransigent. Aetna’s

leaders could make little headway against it, and one CEO was forced out after failing to change it.

What Aetna's management didn't recognize was that you can't trade your company's culture in as if it were a used car. For all its benefits and blemishes, it's a legacy that remains uniquely yours. Unfortunately, it can feel like a millstone when a company is trying to push through a significant change—a merger, for instance, or a turnaround. Cultural inclinations are well entrenched, for good or bad. But it's possible to draw on the positive aspects of culture, turning them to your advantage, and offset some of the negative aspects as you go. This approach makes change far easier to implement.

In late 2000, John W. Rowe, MD, became Aetna's fourth CEO in five years. Employees skeptically prepared for yet another exhausting effort to transform the company into an efficient growth engine. This time, however, they were in for a surprise. Rowe didn't walk in with a new strategy and try to force a cultural shift to achieve it. Instead, right from the start, he, along with Ron Williams (who joined Aetna in 2001 and became its president in 2002), took time to visit the troops, understand their perspective, and involve them in the planning. With other members of the senior team, they sought out employees at all levels—those who were well connected, sensitive to the company culture, and widely respected—to get their input on the strategy as well as their views on both the design and execution of intended process changes.

These conversations helped Rowe and his team identify Aetna's biggest problem: A strategy that focused narrowly on managing medical expenses to reduce the cost of claims while alienating the patients and physicians that were key to Aetna's long-term success. At the same time, they surfaced Aetna's significant cultural strengths: a deep-seated concern about patients, providers, and employers; underlying pride in the history and purpose of the company; widespread respect for peers; and a large group of dedicated professionals.

These insights led Rowe to rethink his approach to the company's turnaround. He declared that instead of just cutting costs, the organization would pursue a strategy he called "the New Aetna." It would

Idea in Brief

Many leaders blame their company's culture for thwarting significant change initiatives, such as mergers or turnarounds.

But when they try to solve the problem by changing the culture, their efforts tend to fizzle, fail, or backfire. The consequences can be severe.

What those leaders don't see is that culture is highly ingrained in the ways people work—and that any company culture has assets. The secret is to make the most of its positive elements—to work with

and within the culture, rather than fighting against it.

Leaders should take care to honor their culture's strengths, focusing on changing just a few critical behaviors rather than attempting a wholesale transformation. Once they take this view, some leaders even find that their culture has become their primary competitive advantage. These companies align their business priorities with the culture and use it to sharpen their strategic focus, all the while helping the culture evolve so that it becomes an accelerator of change, not an impediment.

build a winning position in health insurance and a strong brand by attracting and serving both patients and health care providers well. That was an appealing proposition but would require significant restructuring; no one's job was guaranteed. In other words, it was the kind of change that Mother Aetna traditionally resisted with every passive-aggressive move she could muster.

But this time, without ever describing their efforts as “cultural change,” top management began with a few interventions. These interventions led to small but significant behavioral changes that, in turn, revitalized Aetna's culture while preserving and championing its strengths. For instance, the New Aetna was specifically designed to reinforce employees' commitment to customers—reflected in the firm's history of responding quickly to natural disasters. Rowe also made a point of reinforcing a longtime strength that had eroded—employees' pride in the company. When, in an off-the-cuff response to a question at a town hall meeting, he highlighted pride as a reason employees should get behind change, he received a spontaneous standing ovation.

So while the plan for change challenged long-held assumptions (among other things, it would require the elimination of 5,000 jobs, with more cuts likely to come), it was embraced by employees. They had been heard and appreciated, and they came to accept the New Aetna.

Indeed, during the next few years it became clear, from surveys, conversations, and observation, that a majority of Aetna's employees felt reinvigorated, enthusiastic, and genuinely proud of the company. And Aetna's financial performance reflected that. By the mid-2000s, the company was earning close to \$5 million a day. Its operating income recovered from a \$300 million loss to a \$1.7 billion gain. From May 2001 to January 2006, its stock price rose steadily, from \$5.84 (split adjusted) to \$48.40 a share.

Aetna's story (which we have drawn from a draft of an unpublished book by Jon Katzenbach and Roger Bolton, a retired Aetna senior executive) isn't unique. We've known for a long time that it takes years to alter how people think, feel, and behave, and even then, the differences may not be meaningful. When that's the case, an organization with an old, powerful culture can devolve into disaster. This has happened at organizations like Washington Mutual, Home Depot (before its recent turnaround), and the U.S. Marine Corps during the Korean and Vietnam wars.

Happily, it's also possible for a culture to move in the right direction, as we saw at Aetna. After all, cultures do evolve over time—sometimes slipping backward, sometimes progressing—and the best you can do is work *with* and *within them*, rather than fight them. In our research we've found that almost every enterprise that has attained peak performance—including the Four Seasons, Apple, Microsoft, and Southwest Airlines—got there by applying five principles. Such companies see culture as a competitive advantage—an accelerator of change, not an impediment.

In this article, we'll walk through the five principles, using examples from our research and client experience. Following them can help an organization achieve higher performance, better customer focus, and a more coherent and ethical stance.

1. Match Strategy and Culture

Too often a company's strategy, imposed from above, is at odds with the ingrained practices and attitudes of its culture. Executives may underestimate how much a strategy's effectiveness depends on cultural alignment. Culture trumps strategy every time.

Some corporate leaders struggle with cultural intransigence for years, without ever fully focusing on the question: *Why* do we want to change our culture? They don't clearly connect their desired culture with their strategy and business objectives. Many times we've walked into organizations that presented us with an entire laundry list of hoped-for cultural traits: collaborative, innovative, a meritocracy, risk taking, focused on quality, and more. The list is too vague and too long to tackle. It sounds great but provides nothing in the way of differentiation.

Contrast such nebulous aspirations with those in an organization in which a few cultural traits truly do match and support the strategy, like the Mayo Clinic. World renowned for its ability to bring together specialists across a range of medical fields to diagnose and effectively treat the most complex diseases, the clinic promotes unusually high levels of collaboration and teamwork, reinforcing those traits through formal and informal mechanisms.

2. Focus on a Few Critical Shifts in Behavior

Studies show that only 10% of people who have had heart bypass surgery or an angioplasty make major modifications to their diets and lifestyles afterward. We don't alter our behavior even in the face of overwhelming evidence that we should. Change is hard. So you need to choose your battles.

Where do you start? First observe the behavior prevalent in your organization now, and imagine how people would act if your company were at its best, especially if their behavior supported your business objectives. Ask the people in your leadership groups, "If we had the kind of culture we aspire to, in pursuit of the strategy we

have chosen, what kinds of new behaviors would be common? And what ingrained behaviors would be gone?”

Say your organization is a former utility or government agency interested in becoming a better service business. If it excelled at service, how would people treat customers differently? What kinds of interactions would be visible in any new offices you opened? How would employees propose new ideas or evaluate one another? How would they raise difficult issues or bring potential problems to others’ attention? And how would employees react when they actually saw colleagues doing things differently?

When choosing priorities, it often helps to conduct a series of “safe space” discussions with thoughtful people at different levels throughout your company to learn what behaviors are most affected by the current culture—both positively and negatively. This is what Aetna did. It was also the approach taken by a national retailer that was looking to build a culture with a strong customer focus. The retailer’s leaders enlisted the help of internal “exemplars”—people who were known for motivating their teams effectively. A group of senior executives interviewed them and isolated a set of crucial motivating behaviors, such as role-modeling good customer service. Store managers received training in the behaviors, which were also translated into specific tactics, such as ways to greet customers entering the store. The stores that have introduced the new behaviors are already beginning to see results, including improved same-store sales in key product areas and fewer customer complaints.

The behaviors you focus on can be small, as long as they are widely recognized and likely to be emulated. Consider the response one company had to the discovery that a major source of employee frustration was its performance-review process. The company used a 360-degree evaluation mechanism, but employees were often unpleasantly surprised by the results. So management introduced a simple behavior: asking people who were providing input whether they had ever given the feedback to the person being reviewed. As a result of this straightforward question, colleagues began to share constructive criticisms with one another more often, resulting in fewer demotivating surprises and a better dialogue about performance.

The Cultural Slide at Arthur Andersen

ONE OF THE BEST-KNOWN, and yet most misunderstood, examples of cultural backsliding took place at the Arthur Andersen accounting firm.

With practices in more than 30 countries, it was once the envy of professional service firms. Then in 2002 indictments during the Enron investigation forced Andersen into bankruptcy. At the time, many believed that a single client relationship had brought the firm down for largely legal or regulatory reasons. In fact, its fall stemmed from a creeping cultural erosion that had begun decades before the Enron debacle.

At least that was the conclusion of analyst and journalist Charles Ellis, who studied the Andersen failure in depth and described it in an unpublished manuscript, *What It Takes*. “Arthur Andersen, once the world’s most admired auditing and professional services firm, descended through level after level of self-destructive decline to its ultimate death,” he says. Ellis traces the firm’s decline to the 1950s, when its leaders shifted their focus from quality and integrity to beating other firms’ revenue numbers and market position.

As Andersen expanded around the world, it abandoned practices geared toward professional excellence, such as a rule that all accountants had to spend two years in auditing and the use of a global profit pool that ensured that all partners had a stake in one another’s success. Each new measure, while defensible, made it a little easier to compromise the firm’s values. The cultural deterioration also made it easier to ignore many warning signs, including the 1973 bankruptcy of Four Seasons Nursing Centers of America, in which the founder pleaded guilty to securities fraud and Andersen, as the auditor, was indicted. By the time Enron became a key client in the late 1990s and insisted on using only individual accountants and auditors who accepted its questionable practices, the accounting firm’s professional culture had already declined past the point of no return. A few modest interventions might have preserved the firm’s commitment to integrity and avoided a very public and embarrassing demise.

When a few key behaviors are emphasized heavily, employees will often develop additional ways to reinforce them. As GM was emerging from bankruptcy, the company decided to spur innovation by placing a renewed emphasis on risk taking and the open exchange of ideas. After one colleague complimented another on his performance in a meeting, their team lightheartedly began a practice of handing out “gold star” stickers to recognize colleagues exhibiting strong character and candor. The practice soon began to spread.

While the stickers probably would have been received skeptically as a top-down initiative, as an organic peer-to-peer custom they helped reinforce GM's larger cultural evolution.

3. Honor the Strengths of Your Existing Culture

It's tempting to dwell on the negative traits of your culture, but any corporate culture is a product of good intentions that evolved in unexpected ways and will have many strengths. They might include a deep commitment to customer service (which could manifest itself as a reluctance to cut costs) or a predisposition toward innovation (which sometimes leads to "not invented here" syndrome). If you can find ways to demonstrate the relevance of the original values and share stories that illustrate why people believe in them, they can still serve your company well. Acknowledging the existing culture's assets will also make major change feel less like a top-down imposition and more like a shared evolution.

The same surveys of employee behavior, in-depth interviews, and observation that you use to diagnose your culture's weaknesses can also clarify its strengths. Executives at one financial services firm, for example, conducted a survey to test employees' readiness to follow a strategy that involved going head-to-head with a new, aggressive set of competitors. The survey revealed a number of serious cultural challenges, including passive-aggressive behavior, inconclusive decision making, and pervasive organizational silos. But it also showed that staff members were unusually willing to commit time and effort toward the strategy; they really wanted to help. This enormous strength had been largely untapped. That realization helped executives rethink how they communicated the strategy, and more important, how they interacted with employees to support the new behaviors.

Another way to harness the cultural elements you want to support is by acknowledging them. At Aetna a major turning point came during one question-and-answer session, when a longtime employee said, "Dr. Rowe, I really appreciate your taking the time to explain your new strategy. Can you tell me what it means for someone like me?"

Not an easy question. After a thoughtful pause, Rowe replied, “Well, I guess it is all about restoring the Aetna pride.” As we noted earlier, he got a spontaneous standing ovation from the hundreds of attendees. Why had that concept hit such a nerve? Aetna had always had a strong record of responding to natural disasters (including the Great Chicago Fire of 1871 and the 1906 San Francisco earthquake). Its employees were also proud of the many famous people—movie stars, astronauts, sports heroes, and other public figures—that the company insured. It was only as a result of a strong managed-care movement that emerged in the 1980s and 1990s that Aetna had gained a reputation as a stingy, recalcitrant company. Employees stopped feeling good about their association with it. “At cocktail parties,” said one longtime Aetna staffer, “I really dreaded the question, Who do you work for?” When Rowe and Williams made “restoring the pride” the core of their message, they touched the hearts of many employees and helped them believe Aetna could regain its former glory.

Another strength companies can leverage is the employees who are already aligned with their strategy and desired culture. Most companies, if they look hard enough, will find that they have pockets of activity where people are already exhibiting the new, desired behaviors every day—just as the “exemplar” store managers did at the retailer.

4. Integrate Formal and Informal Interventions

As you promote critical new behaviors, making people aware of how they affect the company’s strategic performance, be sure to integrate formal approaches—like new rules, metrics, and incentives—with informal interactions. (For a menu of tools, see the sidebar “Mechanisms for Getting the Most from Your Culture.”) Only a few companies understand how to do this well. In our experience, most corporate leaders favor formal, rational moves and neglect the informal, more emotional side of the organization. They adjust reporting lines, decision rights, processes, and IT systems at the outset but overlook informal mechanisms, such as networking, communities of interest, ad hoc conversations, and peer interactions.

Mechanisms for Getting the Most from Your Culture

Formal

- Reporting structures
- Decision rules and rights
- Business processes and policies
- Training, leadership, and organizational development programs
- Performance management
- Compensation and rewards
- Internal communications
- Councils and committees
- Company events

Informal

- Behavior modeling by senior leaders
- Meaningful manager-employee connections
- Internal, cross-organizational networks
- Ad hoc gatherings
- Peer-to-peer interactions and storytelling
- Communities of interest
- Engagement of exemplars and motivational leaders
- Changes to physical plant, resources, and aesthetics

Google is a good example of a company that makes the most of its informal organization. A senior leader we interviewed there compared the company to universities that plan out paved walkways when they expand their campuses. At Google, he said, “we would wait to do the walkways until the employees had worn informal pathways through the grass—and then pave over only those getting the most use.”

Whether formal or informal, interventions should do two things: reach people at an emotional level (invoking altruism, pride, and how they feel about the work itself) and tap rational self-interest (providing money, position, and external recognition to those who come on board).

At Aetna, Rowe explicitly sought out informal interactions with employees. These included social visits, ad hoc meetings, impromptu telephone discussions, and e-mail exchanges. He and Williams focused on getting cross-sections of people to reflect on

how they were feeling and on identifying their sources of anxiety and concern. Separate nonhierarchical forums among peers and colleagues were also held across the company to discuss Aetna's values—what they were, what they should be, why many of them were no longer being “lived,” what needed to happen to resurrect them, and what leadership behaviors would ensure the right employee behaviors.

One early and important networking effort by Rowe was to identify a core group of “key influencers”—potential leaders who could offer invaluable perspectives on the cultural situation, regardless of their level in the hierarchy. Rowe began interacting with a cadre of about 25 influencers and within a few months expanded the group to include close to 100. These discussions not only gave him insights about the staff but created a rapport between him and a respected group that disseminated his message both formally and informally.

5. Measure and Monitor Cultural Evolution

Finally, it's essential to measure and monitor cultural progress at each stage of your effort, just as you would with any other priority business initiative. Rigorous measurement allows executives to identify backsliding, correct course where needed, and demonstrate tangible evidence of improvement—which can help to maintain positive momentum over the long haul.

Executives should pay attention to four areas:

Business performance

Are key performance indicators improving? Are relevant growth targets being reached more frequently? What is happening with less obvious indicators, such as local sales improvements or decreases in customer complaints?

Critical behaviors

Have enough people at multiple levels started to exhibit the few behaviors that matter most? For example, if customer relationships are crucial, do managers update the CRM database on a regular basis?

Milestones

Have specific intervention milestones been reached? For example, has a new policy successfully been implemented? Are people living up to their commitments to key account targets?

Underlying beliefs, feelings, and mindsets

Are key cultural attitudes moving in the right direction, as indicated by the results of employee surveys?

This last area is usually the slowest to show improvement. Most people will shift their thinking only after new behaviors have led to results that matter—and thereby been validated.

When designing cultural metrics, remember that you get what you measure. An overemphasis on quarterly sales results, for example, can trigger inappropriate pressure on valued customer relationships. And if a company, in an effort to become more customer-centric, defines “engage with your client more often” as a critical behavior and measures it in number of calls per week, its staff may make lots of phone calls without increasing business. Similarly, focusing on retention metrics as an indication of overall engagement and job satisfaction may not be as useful—or as important—as what happens to retention of top performers once a cultural initiative gets under way.

Companies should also use their tracking efforts to remind people of their commitment. Some organizations send out a five- or 10-question survey every other week, asking how often particular behaviors have been exhibited. These surveys serve as good a basis for dialogue and act as a simple reinforcement mechanism.

If not approached correctly, measurement efforts can quickly become cumbersome, time-consuming, and expensive. It’s better to include a few carefully designed, specific behavioral measurements in existing scorecards and reporting mechanisms, rather than invent extensive new systems and surveys. In some cases, it may also be worth focusing on interactions within key subpopulations—such as midlevel managers or those in business-critical functions—whose own behaviors have a disproportionate impact on the experiences of others or on business success.

Cultural Intervention as the First Resort

All too often, leaders see cultural initiatives as a last resort, except for top-down exhortations to change. By the time they get around to culture, they're convinced that a comprehensive overhaul of the culture is the only way to overcome the company's resistance to major change. Culture thus becomes an excuse and a diversion, rather than an accelerator and an energizer.


But cultural intervention can and should be an early priority—a way to clarify what your company is capable of, even as you refine your strategy. Targeted and integrated cultural interventions, designed around changing a few critical behaviors at a time, can also energize and engage your most talented people and enable them to collaborate more effectively and efficiently.

Coherence among your culture, your strategic intent, and your performance priorities can make your whole organization more attractive to both employees and customers. Because deeply embedded cultures change slowly over time, working with and within the culture you have invariably is the best approach. The overall change effort will be far less jarring for all concerned. Simply put, rather than attacking the heart of your company, you will be making the most of its positive forces as your culture evolves in the right way.

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Culture Is Not the Culprit

by Jay W. Lorsch and Emily McTague



WHEN ORGANIZATIONS GET INTO BIG TROUBLE, fixing the culture is usually the prescription. That's what most everyone said General Motors needed to do after its recall crisis in 2014—and ever since, CEO Mary Barra has been focusing on creating “the right environment” to promote accountability and head off future disasters. Pundits far and wide called for the same remedy when it came to light that the U.S. Department of Veterans Affairs, deemed a corrosive bureaucracy by federal investigators, kept veterans waiting months for critical health care. Cultural reform has likewise been proposed as the solution to excessive use of force by police departments, unethical behavior in banks, and just about any other major organizational problem you can think of. All eyes are on culture as the cause and the cure.

But the corporate leaders we have interviewed—current and former CEOs who have successfully led major transformations—say that culture isn't something you “fix.” Rather, in their experience, cultural change is what you get after you've put new processes or structures in place to tackle tough business challenges like reworking an outdated strategy or business model. The culture evolves as you do that important work.

Though this runs counter to the going wisdom about how to turn things around at GM, the VA, and elsewhere, it makes intuitive sense to look at culture as an outcome—not a cause or a fix. Organizations

are complex systems with many ripple effects. Reworking fundamental practices will inevitably lead to some new values and behaviors. Employees may start seeing their contributions to society in a whole new light. This is what happened at Ecolab when CEO Doug Baker pushed decisions down to the front lines to strengthen customer relationships. Or people might become less adversarial toward senior executives—as Northwest employees did after Delta CEO Richard Anderson acquired the airline and got workers on board by meeting their day-to-day needs.

The leaders we spoke with took different approaches for different ends. For example, Alan Mulally worked to break down barriers between units at Ford, whereas Dan Vasella did a fair amount of decentralizing to unleash creative energy at Novartis. But in every case, when the leaders used tools such as decision rights, performance measurement, and reward systems to address their particular business challenges, organizational culture evolved in interesting ways as a result, reinforcing the new direction.

Revisiting their stories provides a richer understanding of corporate transformation and culture's role in it, so we share highlights from our conversations here. Most of these stories involve some aspect of merger integration, one of the most difficult transitions for companies to manage. And they all show, in a range of settings, that culture isn't a final destination. It morphs right along with the company's competitive environment and objectives. It's really more of a temporary landing place—where the organization should be at that moment, if the right management levers have been pulled.

Doug Baker

Doug Baker took over as the CEO of Ecolab, an industrial-cleaning-products company, in 2004. At the time company revenue was \$4 billion, and he set out to triple that figure, a highly audacious goal. By 2014 he had completed some 50 acquisitions, most notably buying Nalco, a water treatment company based in Naperville, Illinois. Sales had grown to \$14 billion, and the workforce had more than doubled.

Idea in Brief

When organizations get into big trouble, fixing the culture is usually the prescription. That's what most everyone said GM needed to do after its 2014 recall crisis. Cultural reform has likewise been proposed as the solution to the corrosive bureaucracy at the Veterans' Administration, unethical behavior in banks, and the excessive use of force by police. But interviews with successful change makers, conducted by Harvard Business School's Jay W. Lorsch and Emily McTague, suggest that culture isn't something you "fix." Rather, cultural change is what you get when you put new processes or structures in place to tackle tough business challenges.

Organizations are complex systems with many ripple effects—and reworking fundamental practices will inevitably lead to new values and behaviors. In this article, the authors explain how this played out during four

major transformations: the remake of Ecolab into a diversified corporation three times its original size; the postbankruptcy merger of Delta and Northwest; the turnaround of Ford; and Novartis's shift to a diversified health care portfolio. Each firm's CEO took a different approach for a different end. Ecolab's Doug Baker pushed decisions down to the front lines to strengthen customer relationships. Delta's Richard Anderson got airline workers on board by focusing on meeting their needs. Ford's Alan Mulally broke down barriers between units to improve collaboration and efficiency. Novartis's Daniel Vasella decentralized to unleash creative energy. But in every case, when the executives used tools such as decision rights, performance measurement, and reward systems to address their particular business challenges, organizational culture evolved as a result, reinforcing the new direction.

Doug Baker, CEO of Ecolab

- **Business challenge:** Staying connected with customers while tripling in size
 - **Levers pulled:** Encouraged more frontline decision making and instituted a more meritocratic reward system
 - **Cultural change:** Shift from father-knows-best management to a collaborative and independent workforce
-

The acquisitions allowed Ecolab to offer a more diverse set of products and services—essentially one-stop shopping—for its customers' cleaning needs. But as it absorbed each new entity, complexity grew. Organizational layers multiplied, and managers became siloed into different offices and units. Key decision makers spent less time interacting with customers and with one another. The expanding bureaucracy was eating into Ecolab's customer-centric culture, and that was hurting the business.

Baker wanted to restore customer focus as a core strength at Ecolab. The company's model was to provide on-site evaluations and training for customers and build them customized portfolios of products and services based on those visits. Many of its clients had worked with the company for years, and it was essential to maintain those strong relationships.

The answer, Baker believed, was to encourage more decision making on the front lines, by carefully training the employees who were closest to customers. The more they learned about all the products and services the company provided, the better equipped they would be to figure out on their own which solutions fit customers' needs.

It may seem risky to push decisions down, but Baker found that the bad calls were caught and fixed faster that way. Eventually, managers began to let go and trust their employees—which was a huge cultural shift. It took time to train employees, and it required constant tweaking and reevaluation as customer preferences and business dynamics changed. But ultimately fostering frontline responsibility allowed Ecolab to stay connected with its customers.

Baker also emphasized the importance of meritocracy in motivating employees to carry out business goals. "People watch who gets promoted," he says. Advancement and other rewards were used to signal the kind of behavior that was valued at the company. Baker found that public acknowledgment mattered even more than financial incentives over time. "What do you call people out for, what do you celebrate, how do people get recognized by their peers? The bonus check is not unimportant, but it is silent and it's not public,"

he points out. Kudos went to managers who delegated decisions to customer-facing employees and encouraged them to take the lead when they showed initiative.

This was especially critical at the smaller organizations Ecolab acquired. They included a number of private companies that had a “father knows best” style of management: The founders issued the orders, and people followed them. Although that could work in small organizations, it hindered growth and made it difficult to collaborate across divisions at Ecolab.

As frontline employees were rewarded for owning customer relationships and coordinating with one another, a culture of autonomy emerged. (This also freed up senior management time, allowing executives to focus on broader issues.) Once people throughout the ranks felt trusted, they in turn trusted the company more and began to view their work and their mission—to make the world cleaner, safer, and healthier—as real contributions to society. And in their enhanced roles, they could see firsthand how they were making customers’ lives better. This shift took time, though, because the process had to happen again and again with each acquisition.

“When we buy businesses, they’re not going to love the new company right away,” Baker says. “Love takes a while.”

Richard Anderson

Soon after he became Delta’s CEO, Richard Anderson oversaw the 2008 acquisition of Northwest, which created the world’s largest carrier, with approximately 70,000 employees. At the time, both

Richard Anderson, CEO of Delta

- **Business challenge:** Quick integration of a giant acquisition during a downturn
 - **Levers pulled:** Shared executive power, built more-direct relationships with employees, and focused on accommodating their workplace development and compensation needs
 - **Cultural change:** Shift from adversarial management-employee relationship to mutual loyalty and trust
-

airlines were emerging from bankruptcy protection and entering a major downturn in air travel.

Unlike Baker, who didn't rush postmerger integration, Anderson felt that this acquisition demanded speed and force. He didn't have the time or inclination to do any wooing. "There's no such thing as a merger of equals," he says. "We called all the shots here. It was going to be based in Atlanta; it was going to be called Delta; there was going to be no joint branding. It was pretty dictatorial."

To quickly integrate systems, processes, and people in a hugely complex industry, Anderson had to empower those around him to lead. He firmly believes in having a nonexecutive chairman, who oversees board agendas and processes, and a separate president, who independently manages deals. "The president and I carry the same cachet," Anderson says, "so we can get twice as much done. He can go run the Virgin Atlantic transaction while I'm in China trying to work a deal with our two Chinese partners." Anderson has also delegated a lot of responsibility to his chief operating officer and chief marketing officer.

Because Anderson had previously served as Northwest's CEO for three and a half years, he had an insider's view of the company—and he knew about a major obstacle he would encounter there. Northwest was highly unionized, which in his view set up an adversarial dynamic between employees and management. It also made communication between the two groups difficult. Management relied on unions to learn about employee needs as opposed to interacting with workers directly. With both management and employees going through a third party, it took longer to address issues.

That's why a critical part of this quick integration—once Anderson had clearly laid out that Delta was running the show—was to build strong relationships with employees. So he looked for ways to satisfy them and motivate them to serve the company and its customers. He decided to focus on meeting their needs both on the job and personally. Delta offered employees first-rate training, flexible scheduling, well-maintained airplanes with world-class equipment, and good crew hotels. Those things were relatively inexpensive,

especially compared with fuel—and they paid off handsomely in loyalty and trust.

Compensating people well made a difference, too—it motivated them to perform. “You want them to be very productive and work very hard and do everything right,” Anderson says, “but in return you want to provide a really good benefit system and a very good pay system.” Each year Delta earmarked 10% of its earnings before taxes and management compensation for employee bonuses. One year after the merger, the airline put 15% of the company’s equity into a stock-ownership plan for pilots, flight crews, and ground and support staff. The higher compensation demonstrated that management cared about its people, further feeding the culture of trust.

He also recognized that each employee had specific needs. Take the equipment service workers on the second shift. “It’s 10 below zero outside in Minneapolis this morning, with a blizzard, and they’ve got to get their job done,” Anderson says. “They’ve got to get up in the deicing bucket and get that airplane deiced and get off the gate.”

The bets that Anderson placed on meeting employee needs seem to have reversed the troubling “us versus management” dynamic. Two years after he took over as CEO, workers voted to get rid of unions (except for pilots, who gain industry influence from being in a union because it puts them on par with their peers at other airlines). Today Delta is the only major airline outside the Middle East that remains largely nonunionized.

The happier workers are, the longer they want to stay. So the company’s “lifer” culture has grown even stronger, which Anderson sees as a good thing. “We have a lot of 40- or 45-year employees in this company, and they may be second or third generation,” he says. “But we don’t have a nepotism rule, because I want generations of the same family working here.” His philosophy is that having relatives of employees join Delta tends to increase loyalty all around. Those hires come in with a certain understanding and a positive view of how the company operates.

Alan Mulally

When Alan Mulally took the helm at Ford, in 2006, the company was on the brink of bankruptcy and had lost nearly 25% of its market share since 1990. But, having managed Boeing through a rough downturn, he knew how to make tough calls and act decisively during a crisis. At his first financial meeting at Ford, he realized that the company was just months away from running out of cash. Mulally reversed the firm's course: By the time he left, in 2014, Ford had been reporting profits for five years, and the stock price had jumped significantly.

The challenge he faced wasn't just financial, though. To set the company straight, he had to get the management team working more collaboratively. It was notorious for being cutthroat and aggressive. Executives from different units hid information from one another instead of sharing it. Mulally says that Ford was like a "bunch of separate companies" when he took over. Each unit made different cars, targeted different markets, and operated independently—all of which reinforced the defensive "turf" mentality and generated enormous waste.

Drawing on his experience at Boeing, Mulally instituted regular meetings where several levels of executives gathered to share updates on their units. They used a color-coded system (green for good, yellow for caution, and red for trouble) to assess Ford's overall performance on a variety of initiatives quickly and holistically.

At the peak of the company's problems, the group met daily. Mulally hoped the meetings would help identify issues before they

Alan Mulally, former CEO of Ford

- **Business challenge:** Bringing a global manufacturer back from the brink of bankruptcy
 - **Levers pulled:** Increased transparency among unit heads and streamlined business processes
 - **Cultural change:** Shift from defensive and disparate to cooperative and connected business units
-

became intractable and encourage executives to share ideas and support one another. He also wanted to foster personal accountability; managers had to explain the problems they had and the headway they were making.

Mulally also launched “One Ford,” a strategy to integrate Ford units around the world so that the company could eliminate waste and streamline processes. He created global heads for manufacturing, marketing, and product development to lead collaboration internationally and simplify operations.

With all executives working openly, as a team, Mulally could more easily identify low-performing brands. He sold off several of Ford’s luxury vehicle brands to focus on the production of smaller, energy-efficient vehicles, including the Fiesta and the Focus, which had potential to expand. Ford returned to its original mission of producing quality cars for the masses.

At the beginning, executives were afraid to speak up about problems—they worried that their colleagues would pounce on any sign of vulnerability. In the first several meetings, all the charts were green, but Mulally pushed back: “We lost billions last year, and you’re telling me that there is not a problem?” Eventually, a few brave executives started speaking up, and he praised them for their transparency. (One of them was Mark Fields, who would succeed Mulally as CEO.) In time people realized that being honest allowed them to work together and find solutions more quickly, and their charts reflected what was really happening in their units.

Dan Vasella

After Dan Vasella orchestrated the merger between Sandoz and Ciba-Geigy, in 1996, he was named chief executive of the combined company, Novartis. It eventually became the largest producer of pharmaceuticals in the world.

To meet a broader range of customer needs—and better insulate the company—Vasella led the shift from a prescription-drug-based business to a diversified portfolio of health care products. This major transformation required a much more complex organization.

Dan Vasella, former CEO of Novartis

- **Business challenge:** Managing a more diverse portfolio of products and customers
 - **Levers pulled:** Articulated a clear vision, goals, and expectations, and decentralized decision making
 - **Cultural change:** Shift from narrowly focused and bureaucratic to a customer-centric and performance-minded organization
-

For Vasella, leading change started with a clear sense of purpose at the top. He had a series of early discussions with a small group of senior managers to establish the company's vision and objectives. The chief goal—"to discover, develop, and bring to patients better medicines again and again"—spoke directly to the challenge of broadening the company's offerings. To achieve it, Vasella increased spending on research and development during his tenure.

In those meetings, he also clearly spelled out his expectations for employees. They needed to be flexible, for one thing. As a growing company developing new medicines, Novartis would face challenges no one could anticipate, and the team would have to roll with whatever issues came up. And employees had to be accountable and act in the customers' interests.

To that end, Vasella set up clear metrics for gauging performance and ensuring quality across the company's increasingly diverse units and product groups. As Novartis grew, he knew, more people would need to take charge, and a good performance management system would help keep employees focused on the right things. "You also have to make it clear what you won't tolerate," he says. "I will not tolerate bribing. I will not tolerate bad stories internally."

Vasella believed that collaboration and alignment across divisions should not be forced in a growing company, so he decentralized decision making to empower people to do what was best for their own units. He felt that this allowed teams to move faster and to think and act more creatively. "My view was to focus on the outside—on the competition and the customers," he says. "Don't get inhibited or slow down because of concerns about whether you're behaving in a


collaborative way with people you don't need to collaborate with for your results."

As the new practices were implemented, Novartis employees became more customer-centric and performance-minded at the same time. "First you have to deliver to your customers what they hope for [better medicines and vaccines]," Vasella says, "and then you can ask for a return for what you deliver." With each organizational change he made, he realized that the company's culture was starting to match the vision he'd outlined in his early meetings with senior executives.

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The Network Secrets of Great Change Agents

by Julie Battilana and Tiziana Casciaro



CHANGE IS HARD, especially in a large organization. Numerous studies have shown that employees tend instinctively to oppose change initiatives because they disrupt established power structures and ways of getting things done. However, some leaders do succeed—often spectacularly—at transforming their workplaces. What makes them able to exert this sort of influence when the vast majority can't? So many organizations are contemplating turnarounds, restructurings, and strategic shifts these days that it's essential to understand what successful change agents do differently. We set out to gain that insight by focusing on organizations in which size, complexity, and tradition make it exceptionally difficult to achieve reform.

There is perhaps no better example than the UK's National Health Service. Established in 1946, the NHS is an enormous, government-run institution that employs more than a million people in hundreds of units and divisions with deeply rooted, bureaucratic, hierarchical systems. Yet, like other organizations, the NHS has many times attempted to improve the quality, reliability, effectiveness, and value of its services. A recent effort spawned hundreds of initiatives. For each one, a clinical manager—that is, a manager with a background in health care, such as a doctor or a nurse—was responsible for implementation in his or her workplace.

In tracking 68 of these initiatives for one year after their inception, we discovered some striking predictors of change agents' success. The short story is that their personal networks—their relationships with colleagues—were critical. More specifically, we found that:

1. Change agents who were central in the organization's informal network had a clear advantage, regardless of their position in the formal hierarchy.
2. People who bridged disconnected groups and individuals were more effective at implementing dramatic reforms, while those with cohesive networks were better at instituting minor changes.
3. Being close to “fence-sitters,” who were ambivalent about a change, was always beneficial. But close relationships with resisters were a double-edged sword: Such ties helped change agents push through minor initiatives but hindered major change attempts.

We've seen evidence of these phenomena at work in a variety of organizations and industries, from law firms and consultancies to manufacturers and software companies. These three network “secrets” can be useful for any manager, in any position, trying to effect change in his or her organization.

You Can't Do It Without the Network

Formal authority is, of course, an important source of influence. Previous research has shown how difficult it is for people at the bottom of a typical organization chart—complete with multiple functional groups, hierarchical levels, and prescribed reporting lines—to drive change. But most scholars and practitioners now also recognize the importance of the informal influence that can come from organizational networks. The exhibit below shows both types of relationships among the employees in a unit of a large company. In any group, formal structure and informal networks coexist, each influencing how people get their jobs done. But when it comes to change agents, our

Idea in Brief

The Question

Large organizations—and the people working in them—tend to resist change. Yet some people are remarkably successful at leading transformation efforts. What makes them so effective?

The Research

An in-depth analysis of change initiatives at the UK's National Health Service revealed that the likelihood of adoption often depended on three characteristics of change agents' networks of informal relationships.

The Findings

Change agents were more successful in the following situations:

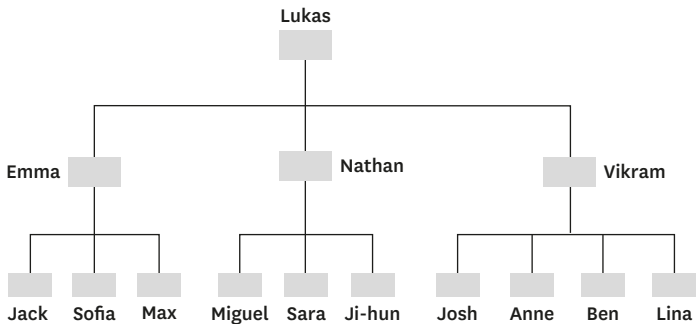
- when they were central in the informal network, regardless of their position in the formal hierarchy;
- when the nature of their network (either bridging or cohesive) matched the type of change they were pursuing; and
- when they had close relationships with fence-sitters, or people ambivalent about the change.

study shows that network centrality is critical to success, whether you're a middle manager or a high-ranking boss.

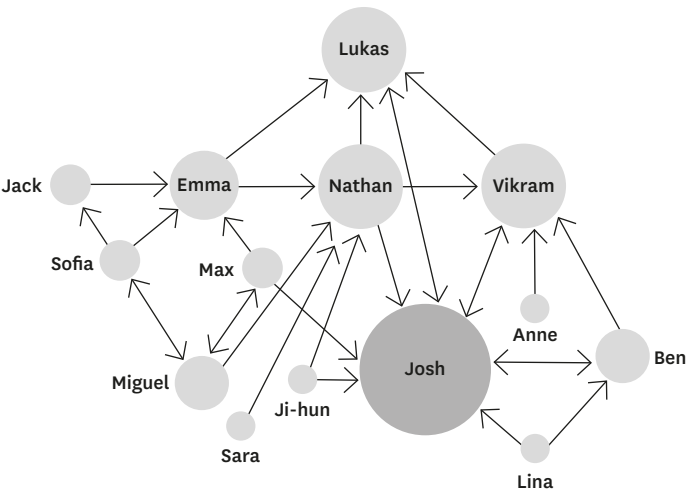
Consider John, one of the NHS change agents we studied. He wanted to set up a nurse-led preoperative assessment service that would free up time for the doctors who previously led the assessments, reduce cancelled operations (and costs), and improve patient care. Although John was a senior doctor, near the top of the hospital's formal hierarchy, he had joined the organization less than a year earlier and was not yet well connected internally. As he started talking to other doctors and to nurses about the change, he encountered a lot of resistance. He was about to give up when Carol, a well-respected nurse, offered to help. She had much less seniority than John, but many colleagues relied on her advice about navigating hospital politics. She knew many of the people whose support John needed, and she eventually converted them to the change.

Another example comes from Gustaf, an equity partner at a U.S. law firm, and Penny, his associate. Gustaf was trying to create a client-file transfer system to ensure continuity in client service during lawyers' absences. But his seniority was no help in getting

Formal hierarchy



Informal network



In the formal hierarchy of one unit in a large company, Lukas holds the most senior position, while Josh is at the bottom of the pyramid. But, as the informal network diagram shows, many people seek Josh out for advice, making him more central to the network than Lukas and thus highly influential.

other lawyers to support the initiative; they balked at the added coordination the system required. That all changed when Penny took on the project. Because colleagues frequently sought her out for advice and respected her judgment, making her central to the company's informal network, she quickly succeeded in persuading people to adopt the new system. She reached out to stakeholders individually, with both substantive and personal arguments. Because they liked her and saw her as knowledgeable and authentic, they listened to her.

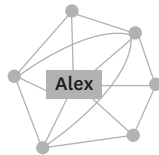
It's no shock that centrally positioned people like Carol and Penny make successful change agents; we know that informal connections give people access to information, knowledge, opportunities, and personal support, and thus the ability to mobilize others. But we were surprised in our research by how little formal authority mattered relative to network centrality; among the middle and senior managers we studied, high rank did not improve the odds that their changes would be adopted. That's not to say hierarchy isn't important—in most organizations it is. But our findings indicate that people at any level who wish to exert influence as change agents should be central to the organization's informal network.

The Shape of Your Network Matters

Network position matters. But so does network type. In a *cohesive network*, the people you are connected to are connected to one another. This can be advantageous because social cohesion leads to high levels of trust and support. Information and ideas are corroborated through multiple channels, maximizing understanding, so it's easier to coordinate the group. And people are more likely to be consistent in their words and deeds since they know that discrepancies will be spotted. In a *bridging network*, by contrast, you are connected to people who aren't connected to one another. There are benefits to that, too, because you get access to novel information and knowledge instead of hearing the same things over and over again. You control when and how you pass information along. And you can adapt your message for different people in the network because they're unlikely to talk to one another.

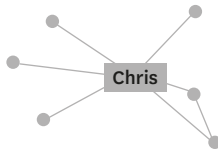
Cohesive network

The people in your network are connected to one another. This builds trust and mutual support, facilitating communication and coordination.



Bridging network

Your network contacts are not connected to one another. You are the bridge between disparate individuals and groups, giving you control over what, when, and how you communicate with them.



Which type of network is better for implementing change? The answer is an academic's favorite: It depends. It depends on how much the change causes the organization to diverge from its institutional norms or traditional ways of getting work done, and how much resistance it generates as a result.

Consider, for instance, an NHS attempt to transfer some responsibility for patient discharge from doctors to nurses. This is a *divergent change*: It violates the deeply entrenched role division that gives doctors full authority over such decisions. In the legal profession, a divergent change might be to use a measure other than billable hours to determine compensation. In academia, it might involve the elimination of tenure. Such changes require dramatic shifts in values and practices that have been taken for granted. A *nondivergent change*

Diagnose Your Network

How central am I in my organization's informal network?

Ask yourself: “Do people come to me for work-related advice?” When colleagues rely on you, it signals that they trust you and respect your competence, wisdom, and influence.

Do I have a cohesive or a bridging network?

Ask yourself: “Are my network contacts connected to one another?” You may not be able to answer this question with 100% accuracy, but it is worth investigating. Your network type can affect your success.

Which influential fence-sitters and resisters am I close to?

Ask yourself: “Who in my network is ambivalent about a proposed change and who is strongly opposed to it?” If it's not obvious where your contacts stand, use the OAR principle—observe, analyze, record—to sort them into groups. Pay attention to how people behave; ask questions, both direct and indirect, to gauge their sentiments; and keep a mental record of your observations. Research shows that managers can learn to map the networks around them—and network insight is, in itself, a source of power.

builds on rather than disrupts existing norms and practices. Many of the NHS initiatives we studied were nondivergent in that they aimed to give even more power to doctors—for example, by putting them in charge of new quality-control systems.

A cohesive network works well when the change is not particularly divergent. Most people in the change agent's network will trust his or her intentions. Those who are harder to convince will be pressured by others in the network to cooperate and will probably give in because the change is not too disruptive. But for more-dramatic transformations, a bridging network works better—first, because unconnected resisters are less likely to form a coalition; and second, because the change agent can vary the timing and framing of messages for different contacts, highlighting issues that speak to individuals' needs and goals.

Consider, for instance, an NHS nurse who implemented the change in discharge decision authority, described above, in her

hospital. She explained how her connections to managers, other nurses, and doctors helped her tailor and time her appeals for each constituency:

I first met with the management of the hospital to secure their support. I insisted that nurse-led discharge would help us reduce waiting times for patients, which was one of the key targets that the government had set. I then focused on nurses. I wanted them to understand how important it was to increase their voice in the hospital and to demonstrate how they could contribute to the organizational agenda. Once I had their full support, I turned to doctors. I expected that they would stamp their feet and dig their heels in. To overcome their resistance, I insisted that the new discharge process would reduce their workload, thereby enabling them to focus on complex cases and ensure quicker patient turnover.

By contrast, another nurse, who led the same initiative at her hospital, admitted that she was handicapped by her cohesive network: Instead of supporting her, the key stakeholders she knew quickly joined forces against the effort. She never overcame their resistance.

The cases of two NHS managers, both of whom had to convince colleagues of the merits of a new computerized booking system (a nondivergent change), are also telling. Martin, who had a cohesive network, succeeded in just a few months because his contacts trusted him and one another, even if they were initially reluctant to make the switch. But Robert, whose bridging network meant that his key contacts weren't connected to one another, struggled for more than six months to build support.

We've observed these patterns in other organizations and industries. Sanjay, the CTO of a software company, wanted his R&D department to embrace open innovation and collaborate with outside groups rather than work strictly in-house, as it had always done. Since joining the company four years earlier, Sanjay had developed relationships with people in various siloed departments. His bridging network allowed him to tailor his proposal to each audience. For

the CFO, he emphasized lower product development costs; for the VP of sales, the ability to reduce development time and adapt more quickly to client needs; for the marketing director, the resources that could flow into his department; for his own team, a chance to out-source some R&D and focus only on the most enriching projects.

Change agents must be sure that the shape of their networks suits the type of change they want to pursue. If there's a mismatch, they can enlist people with not just the right skills and competencies but also the right kind of network to act on their behalf. We have seen executives use this approach very successfully by appointing a change initiative "cochair" whose relationships offer a better fit.

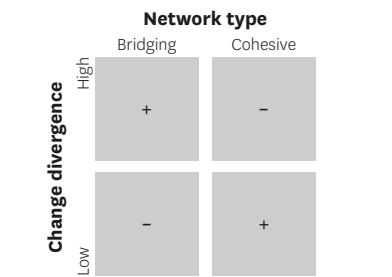
Keep Fence-Sitters Close and Beware of Resisters

We know from past research that identifying influential people who can convert others is crucial for successful change. Organizations generally include three types of people who can enable or block an initiative: *endorsers*, who are positive about the change; *resisters*, who take a purely negative view; and *fence-sitters*, who see both potential benefits and potential drawbacks.

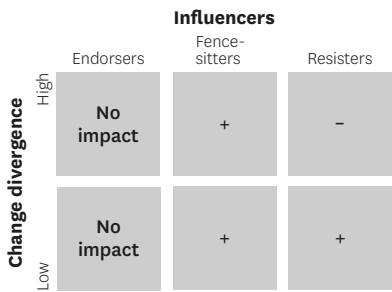
Which of these people should change agents be close to—that is, share a personal relationship built on mutual trust, liking, and a sense of social obligation? Should they follow the old adage "Keep your friends close and your enemies closer"? Or focus, as politicians often do, on the swing voters, assuming that the resisters are a lost cause? These questions are important; change initiatives deplete both energy and time, so you have to choose your battles.

Again, our research indicates that the answers often depend on the type of change. We found that being close to endorsers has no impact on the success of either divergent or nondivergent change. Of course, identifying champions and enlisting their help is absolutely crucial to your success. But deepening your relationships with them will not make them more engaged and effective. If people like a new idea, they will help enable it whether they are close to you or not. Several NHS change agents we interviewed were surprised to

Match your network to the type of change you’re pursuing



Consider how being close to influencers can affect your success



see doctors and nurses they hardly knew become advocates purely because they believed in the initiative.

With fence-sitters, the opposite is true. Being personally close to them can tip their influence in your favor no matter the type of change—they see not only drawbacks but also benefits, and they will be reluctant to disappoint a friend.

As for resisters, there is no universal rule; again, it depends on how divergent the change is and the intensity of the opposition to it. Because resistance is not always overt or even conscious, change agents must watch closely and infer people’s attitudes. For nondivergent initiatives, close relationships with resisters present

How We Conducted the Study

OUR FINDINGS ARE BASED on in-depth studies of 68 change initiatives over 12 months at the UK's National Health Service (NHS). We began by mapping the formal rank and informal networks of the middle and senior clinical managers spearheading the changes. Data on their demographics, position, and professional trajectories came from their curriculum vitae and NHS human resource records, while informal network data came from surveys, field visits, and interviews with them and their colleagues. We then gathered data about the content and adoption rates of the initiatives through field visits, interviews, telephone surveys conducted 12 months after implementation, and qualitative assessments from colleagues who had either collaborated with the change agents or observed them in the workplace.

an opportunity—their sense of social obligation may cause them to rethink the issue. But in the case of divergent change, resisters typically perceive a significant threat and are much less susceptible to social pressure. It's also important to note that the relationship works both ways: Change agents might be reluctant to pursue an initiative that's opposed by people they trust. They might decide that the emotional cost is too high.

An NHS clinical manager who failed in her effort to transfer responsibility for a rehabilitation unit from a physician to a physiotherapist—a divergent change—described her feelings this way: “Some of my colleagues with whom I had worked for a long time continued to oppose the project. Mary, whom I’ve known forever, thought that it was not a good idea. It was a bit hard on me.”

By contrast, a doctor who launched the same initiative in her organization did not try to convert resisters but instead focused on fence-sitters. This strategy was effective. As one of her initially ambivalent colleagues explained, “She came to me early on and asked me to support her. I know her well, and I like her. I could not be one of the people who would prevent her from succeeding.”

Similarly, John, a member of the operating committee of a boutique investment bank, initiated a rebalancing of traditional end-of-year compensation with a deferred component that linked pay to longer-term performance—a particularly divergent change in small banks that rely on annual bonus schemes to attract talent. His close

relationships with several fence-sitters enabled him to turn them into proponents. He also heard out the resisters in his network. But having concluded that the change was needed, he maintained his focus by keeping them at a distance until the new system had the green light.

The important point is to be mindful of your relationships with influencers. Being close to endorsers certainly won't hurt, but it won't make them more engaged, either. Fence-sitters can always help, so make time to take them out to lunch, express an authentic interest in their opinions, and find similarities with them in order to build goodwill and common purpose. Handle resisters with care: If you're pursuing a disruptive initiative, you probably won't change their mind—but they might change yours. By all means, hear them out in order to understand their opposition; the change you're pursuing may in fact be wrongheaded. But if you're still convinced of its importance, keep resisters at arm's length.

All three of our findings underscore the importance of networks in influencing change. First, formal authority may give you the illusion of power, but informal networks always matter, whether you are the boss or a middle manager. Second, think about what kind of network you have—or your appointed change agent has—and make sure it matches the type of change you're after. A bridging network helps drive divergent change; a cohesive network is preferable for nondivergent change. Third, always identify and cultivate fence-sitters, but handle resisters on a case-by-case basis. We saw clear evidence that these three network factors dramatically improved NHS managers' odds of successfully implementing all kinds of reforms. We believe they can do the same for change agents in a wide variety of organizations.

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Design for Action

by Tim Brown and Roger L. Martin

THROUGHOUT MOST OF HISTORY, design was a process applied to physical objects. Raymond Loewy designed trains. Frank Lloyd Wright designed houses. Charles Eames designed furniture. Coco Chanel designed haute couture. Paul Rand designed logos. David Kelley designed products, including (most famously) the mouse for the Apple computer.

But as it became clear that smart, effective design was behind the success of many commercial goods, companies began employing it in more and more contexts. High-tech firms that hired designers to work on hardware (to, say, come up with the shape and layout of a smartphone) began asking them to create the look and feel of user-interface software. Then designers were asked to help improve user experiences. Soon firms were treating corporate strategy making as an exercise in design. Today design is even applied to helping multiple stakeholders and organizations work better as a system.

This is the classic path of intellectual progress. Each design process is more complicated and sophisticated than the one before it. Each was enabled by learning from the preceding stage. Designers could easily turn their minds to graphical user interfaces for software because they had experience designing the hardware on which the applications would run. Having crafted better experiences for computer users, designers could readily take on nondigital experiences, like patients' hospital visits. And once they learned how to redesign the user experience in a single organization, they were more prepared to tackle the holistic experience in a system of organizations. The San

Francisco Unified School District, for example, recently worked with IDEO to help redesign the cafeteria experience across all its schools.

As design has moved further from the world of products, its tools have been adapted and extended into a distinct new discipline: design thinking. Arguably, Nobel laureate Herbert Simon got the ball rolling with the 1969 classic *The Sciences of the Artificial*, which characterized design not so much as a physical process as a way of thinking. And Richard Buchanan made a seminal advance in his 1992 article “Wicked Problems in Design Thinking,” in which he proposed using design to solve extraordinarily persistent and difficult challenges.

But as the complexity of the design process increases, a new hurdle arises: the acceptance of what we might call “the designed artifact”—whether product, user experience, strategy, or complex system—by stakeholders. In the following pages we’ll explain this new challenge and demonstrate how design thinking can help strategic and system innovators make the new worlds they’ve imagined come to pass. In fact, we’d argue that with very complex artifacts, the design of their “intervention”—their introduction and integration into the status quo—is even more critical to success than the design of the artifacts themselves.

The New Challenge

The launch of a new product that resembles a company’s other offerings—say, a hybrid version of an existing car model—is typically seen as a positive thing. It produces new revenue and few perceived downsides for the organization. The new vehicle doesn’t cause any meaningful changes to the organization or the way its people work, so the design isn’t inherently threatening to anyone’s job or to the current power structure.

Of course, introducing something new is always worrisome. The hybrid might fail in the marketplace. That would be costly and embarrassing. It might cause other vehicles in the portfolio to be phased out, producing angst for those who support the older models. Yet the designer usually pays little attention to such concerns.

Idea in Brief

The Problem

Complex new designs of products (say, an electric vehicle) or systems (like a school system) typically struggle to gain acceptance. Many good groundbreaking ideas fail in the starting gate.

Why It Happens

New products and systems often require people to change established business models and behaviors. As a result they encounter stiff resistance from their intended ben-

eficiaries and from the people who have to deliver or operate them.

The Solution

Treat the introduction of the new product or system—the “designed artifact”—as a design challenge itself. When Intercorp Group in Peru took that approach, it won acceptance for a new technology-enabled school concept in which the teacher facilitates learning rather than serves as the sole lesson provider.

Her job is to create a truly great new car, and the knock-on effects are left to others—people in marketing or HR—to manage.

The more complex and less tangible the designed artifact is, though, the less feasible it is for the designer to ignore its potential ripple effects. The business model itself may even need to be changed. That means the introduction of the new artifact requires design attention as well.

Consider this example: A couple of years ago, MassMutual was trying to find innovative ways to persuade people younger than 40 to buy life insurance—a notoriously hard sell. The standard approach would have been to design a special life insurance product and market it in the conventional way. But MassMutual concluded that this was unlikely to work. Instead the company worked with IDEO to design a completely new type of customer experience focused more broadly on educating people about long-term financial planning.

Launched in October 2014, “Society of Grownups” was conceived as a “master’s program for adulthood.” Rather than delivering it purely as an online course, the company made it a multichannel experience, with state-of-the-art digital budgeting and financial-planning tools, offices with classrooms and a library customers could visit, and a curriculum that included everything from investing in

a 401(k) to buying good-value wine. That approach was hugely disruptive to the organization's norms and processes, as it required not only a new brand and new digital tools but also new ways of working. In fact, every aspect of the organization had to be redesigned for the new service, which is intended to evolve as participants provide MassMutual with fresh insights into their needs.

When it comes to very complex artifacts—say, an entire business ecosystem—the problems of integrating a new design loom larger still. For example, the successful rollout of self-driving vehicles will require automobile manufacturers, technology providers, regulators, city and national governments, service firms, and end users to collaborate in new ways and engage in new behaviors. How will insurers work with manufacturers and users to analyze risk? How will data collected from self-driving cars be shared to manage traffic flows while protecting privacy?

New designs on this scale are intimidating. No wonder many genuinely innovative strategies and systems end up on a shelf somewhere—never acted on in any way. However, if you approach a large-scale change as two simultaneous and parallel challenges—the design of the artifact in question and the design of the intervention that brings it to life—you can increase the chances that it will take hold.

Designing the Intervention

Intervention design grew organically out of the iterative prototyping that was introduced to the design process as a way to better understand and predict customers' reactions to a new artifact. In the traditional approach, product developers began by studying the user and creating a product brief. Then they worked hard to create a fabulous design, which the firm launched in the market. In the design-oriented approach popularized by IDEO, the work to understand users was deeper and more ethnographic than quantitative and statistical.

Initially, that was the significant distinction between the old and new approaches. But IDEO realized that no matter how deep the up-

front understanding was, designers wouldn't really be able to predict users' reactions to the final product. So IDEO's designers began to reengage with the users sooner, going to them with a very low-resolution prototype to get early feedback. Then they kept repeating the process in short cycles, steadily improving the product until the user was delighted with it. When IDEO's client actually launched the product, it was an almost guaranteed success—a phenomenon that helped make rapid prototyping a best practice.

Iterative rapid-cycle prototyping didn't just improve the artifact. It turned out to be a highly effective way to obtain the funding and organizational commitment to bring the new artifact to market. A new product, especially a relatively revolutionary one, always involves a consequential bet by the management team giving it the green light.

Often, fear of the unknown kills the new idea. With rapid prototyping, however, a team can be more confident of market success. This effect turns out to be even more important with complex, intangible designs.

In corporate strategy making, for example, a traditional approach is to have the strategist—whether in-house or a consultant—define the problem, devise the solution, and present it to the executive in charge. Often that executive has one of the following reactions: (1) This doesn't address the problems I think are critical. (2) These aren't the possibilities I would have considered. (3) These aren't the things I would have studied. (4) This isn't an answer that's compelling to me. As a consequence, winning commitment to the strategy tends to be the exception rather than the rule, especially when the strategy represents a meaningful deviation from the status quo.

The answer is iterative interaction with the decision maker. This means going to the responsible executive early on and saying, "We think this is the problem we need to solve; to what extent does that match your view?" Soon thereafter the strategy designers go back again and say, "Here are the possibilities we want to explore, given the problem definition we agreed on; to what extent are they the possibilities you imagine? Are we missing some, and are any we're considering nonstarters for you?" Later the designers return one more time to say, "We plan to do these analyses on the possibilities

The Launch Is Just One Step in the Process

IN HIS BOOK *Sketching User Experiences*, user interface pioneer Bill Buxton describes the Apple iPod as the “overnight success” that took three years to happen. He documents the many design changes to the device that took place after its launch—and were essential to its eventual success.

As this story illustrates, a sophisticated designer recognizes that the task is first to build user acceptance of a new platform and later to add new features. When Jeff Hawkins developed the PalmPilot, the world’s first successful personal digital assistant, he insisted that it focus on only three things—a calendar, contacts, and notes—because he felt users initially could not handle complexity greater than that. Over time the PalmPilot evolved to include many more functions, but by then the core market understood the experience. The initial pitch for the iPod was an extremely simple “1,000 songs in your pocket.” The iTunes store, photos, games, and apps came along later, as users adopted the platform and welcomed more complexity.

As strategies and large systems become the focus of design thinking, imagining the launch as just one of many steps in introducing a new concept will become even more important. Before the launch, designers will confront increasing complexity in early dialogues with both the artifact’s intended users and the decision maker responsible for the design effort. A solution with purposely lower complexity will be introduced, but it will be designed to evolve as users respond. Iteration and an explicit role for users will be a key part of any intervention design.

New information and computing technologies will make it far easier to create and share early prototypes, even if they are complex systems, and gain feedback from a more diverse population of users. In this new world, the launch of a new design ceases to be the focus. Rather, it is just one step somewhere in the middle of a carefully designed intervention.

—Tim Brown

that we’ve agreed are worth exploring; to what extent are they analyses that you would want done, and are we missing any?”

With this approach, the final step of actually introducing a new strategy is almost a formality. The executive responsible for green-lighting it has helped define the problem, confirm the possibilities, and affirm the analyses. The proposed direction is no longer a jolt from left field. It has gradually won commitment throughout the process of its creation.

When the challenge is introducing change to a system—by, say, establishing a new kind of business or a new kind of school—the interactions have to extend even further, to all the principal stakeholders. We'll now look at an example of this kind of intervention design, which involved a major experiment in social engineering that's taking place in Peru.

Designing a New Peru

InterCorp Group is one of Peru's biggest corporations, controlling almost 30 companies across a wide variety of industries. Its CEO, Carlos Rodríguez-Pastor Jr., inherited the company from his father, a former political exile who, upon his return in 1994, led a consortium that bought one of Peru's largest banks, Banco Internacional del Perú, from the government. Rodríguez-Pastor took control of the bank when his father died, in 1995.

Rodríguez-Pastor wanted to be more than a banker. His ambition was to help transform Peru's economy by building up its middle class. In the newly renamed Interbank he saw an opportunity to both create middle-class jobs and cater to middle-class needs. From the outset, however, he grasped that he couldn't achieve this goal with the "great man" approach to strategy characteristic of the large, family-controlled conglomerates that often dominate emerging economies. Reaching it would take the carefully engineered engagement of many stakeholders.

Seeding a culture of innovation

The first task was making the bank competitive. For ideas, Rodríguez-Pastor decided to look to the leading financial marketplace in his hemisphere, the United States. He persuaded an analyst at a U.S. brokerage house to let him join an investor tour of U.S. banks, even though Interbank wasn't one of the broker's clients.

If he wanted to build a business that could trigger social change, absorbing some insights by himself and bringing them home wouldn't be enough, Rodríguez-Pastor realized. If he simply imposed his own ideas, buy-in would depend largely on his

authority—not a context conducive to social transformation. He needed his managers to learn how to develop insights too, so that they could also spot and seize opportunities for advancing his broader ambition. So he talked the analyst into allowing four of his colleagues to join the tour.

This incident was emblematic of his participative approach to strategy making, which enabled Rodríguez-Pastor to build a strong, innovative management team that put the bank on a competitive footing and diversified the company into a range of businesses catering to the middle class: supermarkets, department stores, pharmacies, and cinemas. By 2015 Intercorp, the group built around Interbank, employed some 55,000 people and had projected revenues of \$5 billion.

Over the years, Rodríguez-Pastor has expanded his investment in educating the management team. He sent managers each year to programs at top schools and companies (such as Harvard Business School and IDEO) and worked with those institutions to develop new programs for Intercorp, tossing out ideas that didn't work and refining ones that did. Most recently, in conjunction with IDEO, Intercorp launched its own design center, La Victoria Lab. Located in an up-and-coming area of Lima, it serves as the core of a growing urban innovation hub.

But Rodríguez-Pastor didn't stop at creating an innovative business group targeting middle-class consumers. The next step in his plan for social transformation involved moving Intercorp outside the traditional business domain.

From wallets to hearts and minds

Good education is critical to a thriving middle class, but Peru was severely lagging in this department. The country's public schools were lamentable, and the private sector was little better at equipping children for a middle-class future. Unless that changed, a positive cycle of productivity and prosperity was unlikely to emerge. Rodríguez-Pastor concluded that Intercorp would have to enter the education business with a value proposition targeted at middle-class parents.

Winning social acceptability for this venture was the real challenge—one complicated by the fact that education is always a minefield of vested interests. An intervention design, therefore, would be critical to the schools' success. Rodríguez-Pastor worked closely with IDEO to map one out. They began by priming the stakeholders, who might well balk at the idea of a large business group operating schools for children—a controversial proposition even in a business-friendly country like the United States.

Intercorp's first move was starting an award in 2007 for "the teacher who leaves a footprint," given to the best teacher in each of the country's 25 regions. It quickly became famous, in part because every teacher who received it also won a car. This established InterCorp's genuine interest in improving education in Peru and helped pave the way for teachers, civil servants, and parents to accept the idea of a chain of schools owned by the company.

Next, in 2010 InterCorp purchased a small school business called San Felipe Neri, managed by entrepreneur Jorge Yzusqui Chessman. With one school in operation and two more in development, Chessman had plans for growth, but InterCorp's experience in building large-scale businesses in Peru could take the venture far beyond what he envisioned. However, the business would have to reengineer its existing model, which required highly skilled teachers, who were in extremely short supply in Peru. Rodríguez-Pastor brought together managers from his other businesses—a marketing expert from his bank, a facilities expert from his supermarket chain, for instance—with IDEO to create a new model, Innova Schools. It would offer excellent education at a price affordable for middle-class families.

The team launched a six-month human-centered design process. It engaged hundreds of students, teachers, parents, and other stakeholders, exploring their needs and motivations, involving them in testing approaches, and soliciting their feedback on classroom layout and interactions. The result was a technology-enabled model that incorporated platforms such as the U.S. online-education pioneer Khan Academy. In it the teacher was positioned as a facilitator rather than the sole lesson provider.

Intervention Design at Innova

Setting the Stage

Innova Schools launched its initiative to bring affordable education to Peru by holding information sessions on its interactive-learning approach with local parents and students.

September 2011: Designing a New Model

The team began by exploring the lives and motivations of Innova's many stakeholders to find out how it could create a system that would engage teachers, students, and parents.

Final design guidelines were created for the classroom space, the schedule, the teaching methods, and the role of the teacher.

Ideas began to crystallize around a technology-enabled model that shifted the teacher from “sage on stage” to “guide on the side” and would make schools affordable and scalable. Teachers tried out software tools and provided feedback on them.



As that strategy solidified, Innova held many sessions with teachers, parents, and school leaders to get feedback on classroom design, discuss ways the schools would evolve, and invite stakeholders into the process of implementation.

November 2012: Piloting the Program

Full pilots were run in two seventh-grade classrooms in two schools. Teachers were thoroughly trained in the new approach, and the model was repeatedly adapted to address their real-time feedback.

2013–Present: Implementation & Evolution

Today the technology-enabled learning model is being implemented in all 29 of Innova's schools. Innova continues to work with its 940-plus teachers to help them use this new approach. It also regularly runs parent engagement sessions; seeks feedback from teachers, coaches, and students; and iterates on its methodology and curriculum.



The intervention design challenge was that parents might object to having their children learn via laptops in the classroom, and teachers might rebel at the notion of supporting learning rather than leading it. So after six months of preparation, Innova launched a full-scale pilot and brought in parents and teachers to design and run it.

The pilot demonstrated that students, parents, and teachers loved the model, but some of the assumptions were far off base. Parents didn't object to the teaching approach; in fact, they insisted that the laptops not be taken away at the end of the pilot. Additionally, 85% of the students used the laptops outside classroom hours. The model was tweaked on the basis of the insights from the pilot, and both the parents and teachers became huge advocates for the Innova model in nearby locations.

Word of mouth spread, and soon the schools were fully enrolled before they were even built. Because Innova had a reputation for innovation, teachers wanted to work there, even though it paid less than the public system. With 29 schools up and running, Innova is now on track to meet its goal of 70 schools by 2020 and plans to expand into every market in Peru and even markets outside the country.

Spreading the wealth

If it followed conventional business wisdom, Intercorp would have focused on the richer parts of the country's capital, Lima, where a middle class was naturally emerging. But Rodríguez-Pastor recognized that the provinces needed a middle class as well. Fostering one there obviously involved job creation. One way Intercorp could create jobs was to expand its supermarket chain, which it had purchased from Royal Ahold in 2003 and renamed Supermercados Peruanos.

In 2007 the chain began establishing stores in the provinces. Local consumers were certainly receptive to the idea. When one store opened in Huancaayo, curious customers queued up for an hour or more to enter it. For many it was their first experience with modern retail. By 2010 the chain was operating 67 supermarkets in nine regions. Today it boasts 102 stores nationwide.

Early on, Intercorp realized that retail ventures of this kind risked impoverishing local communities rather than enriching them. Though a supermarket did provide well-paid jobs, it could hurt the business of local farmers and producers. Since they were small scale and usually operated with low food-safety standards, it would be tempting to source almost everything from Lima. But the logistics costs of doing that would erode profit margins, and if the chain crowded out the local producers, it might destroy more jobs than it created.

Intercorp thus needed to stimulate local production through early engagement with local businesses. In 2010 the company launched the Perú Pasión program, with support from the Corporación Andina de Fomento (an NGO) and Huancayo's regional government. Perú Pasión helps farmers and small manufacturers upgrade their capabilities enough to supply their local Supermercados Peruano. Over time some of these suppliers have even developed into regional or national suppliers in their own right.

Currently, Supermercados Peruanos sources 218 products, representing approximately \$1.5 million in annual sales, from Perú Pasión businesses. One is Procesadora de Alimentos Velasquez. Originally a neighborhood bakery serving a few small nearby grocery shops, it began supplying a Supermercados store in 2010, generating just \$6,000 in annual sales. Today, thanks to Perú Pasión's help, it supplies three stores for nearly \$40,000 in annual sales. Concepción Lacteos, a dairy producer, is another success. In 2010 it began supplying its local Supermercados store for about \$2,500 in annual sales. In 2014 it supplied 28 stores, including the chain's upscale outlets in Lima, and generated \$100,000 in sales.

Intercorp's success in boosting the middle class in Peru depended on the thoughtful design of many artifacts: a leading-edge bank, an innovative school system, and businesses adapted for frontier towns across Peru. But equally important has been the design of the introduction of these new artifacts into the status quo. Rodríguez-Pastor carefully mapped out the steps necessary to engage all the relevant parties in their adoption. He deepened the skills of the executives on his leadership team, increased the design know-how of his people,

won over teachers and parents to the idea that a conglomerate could provide education, and partnered with local producers to build their capacity to supply supermarkets. In conjunction with well-designed artifacts, these carefully designed interventions have made the social transformation of Peru a real possibility rather than an idealistic aspiration.

The principles of this approach are clear and consistent. Intervention is a multistep process—consisting of many small steps, not a few big ones. Along the entire journey interactions with the users of a complex artifact are essential to weeding out bad designs and building confidence in the success of good ones.

Design thinking began as a way to improve the process of designing tangible products. But that's not where it will end. The Intercorp story and others like it show that design-thinking principles have the potential to be even more powerful when applied to managing the intangible challenges involved in getting people to engage with and adopt innovative new ideas and experiences.

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Digital Doesn't Have to Be Disruptive

by Nathan Furr and Andrew Shipilov

NEAR THE END OF A LONG LUNCH overlooking tranquil Lake Geneva, a senior vice president at a leading global company confessed to us: “We have a dozen committees on digital transformation; we have digital transformation initiatives; we are going full steam on digital transformation . . . but no one can explain to me what it actually means.”

At a very basic level, the answer is simple: The much-used term simply means adapting an organization’s strategy and structure to capture opportunities enabled by digital technology. This is not a new challenge—after all, computers and software have been around for decades and have brought changes both to products and services and to how we make and deliver them. But the point the SVP was making is that it has become increasingly difficult for a company to translate that answer into an action plan. Computers today can fit in your pocket or on your wrist, and the software applications that run on them increasingly enable the automation of tasks traditionally done by humans (such as managing expenses), the virtualization of hardware, and ever more targeted product and service customization. What’s more, these apps can reach people everywhere: Sensors embedded in devices and interfaces permit the real-time feed of data, allowing even more informed decision making and machine-driven recommendations. In short, digital technology is no longer in the cordoned-off domain of IT; it is being applied to almost every

part of a company's value chain. Thus it's entirely understandable that managers struggle to grasp what digital transformation actually means for them in terms of which opportunities to pursue and which initiatives to prioritize.

Faced with this reality, it's not surprising that many managers expect digital transformation to involve a radical disruption of the business, huge new investments in technology, a complete switch from physical to virtual channels, and the acquisition of tech start-ups. To be sure, in some cases such a paradigm shift *is* involved. But our research and work suggest that for most companies, digital transformation means something very different from outright disruption, in which the old is swept away by the new. Change is involved, and sometimes radical replacements for manufacturing processes, distribution channels, or business models are necessary; but more often than not, transformation means incremental steps to better deliver the core value proposition.

In the following pages we draw on the insights we have gathered—from interviews with more than 60 companies and from the hundreds of senior leaders with whom we have interacted while teaching—to dispel some critical myths about digital transformation and to offer executives a better understanding of how businesses need to respond to the current trends.

Myth: Digital requires radical disruption of the value proposition

Reality: It usually means using digital tools to better serve the known customer need

Some managers believe that to achieve a digital transformation, they must dramatically alter their company's value proposition or risk suffering a tidal wave of disruption. As a result, at the start of many digital transformations, companies aspire to be like Apple and try to find a new high-tech core product or platform that will serve brand-new customer needs. Although some might succeed, we believe that the customer needs most companies serve will look much the same as before. The challenge is to find the best way to serve those

Idea in Brief

The Problem

Many managers believe that digital transformation involves a radical disruption of the business, new investments in technology, a complete switch from physical to virtual channels, and the acquisition of tech start-ups.

Why It Happens

Digital technology is being applied to almost every part of

company value chains, making it difficult for managers to identify priorities.

How to Fix It

The authors dispel five critical myths about digital transformation and offer executives a better understanding of how to respond to current trends.

needs using digital tools. As the senior executive of Galeries Lafayette, a high-end French fashion retailer, told us, “This is another modernization. We have been around for more than 100 years, and we have had to undergo other changes in our history, such as the arrival of hypermarkets, shopping malls, specialty chains, fast fashion, brands becoming retailers, and finally e-commerce.”

The shipping container company Maersk provides a good example of what this executive meant. The costs of shipping are affected by global trade barriers and inefficiency in international supply chains. The industry also suffers from a lack of transparency. These are familiar challenges. What digital did for Maersk was provide a new way of overcoming them. The company partnered with IBM and government authorities to deploy blockchain technology for fast and secure access to end-to-end supply chain information from a single source. The technology, coupled with an ability to receive real-time sensor data, allows trustworthy cross-organization workflows, lower administrative expenses, and better risk assessments in global shipments. This shift allows Maersk to serve its core customers better. But Maersk has not been transformed into Google. It remains a company whose value proposition is providing a fast, reliable, cost-efficient shipping service—one with the potential to be more streamlined and transparent, thanks to a smart leveraging of digital technology.

Another good example is the Russian airline Aeroflot, which has transformed itself from one of the world's worst airlines into one of the best, with a Net Promoter Score that rose from 44% in 2010 to 72% in 2016 and a passenger load that grew from 64.5% in 2009 to 81.3% in 2016, according to company data. How? The airline used digital technology to significantly improve core activities: operations, reporting, passenger booking, scheduling, and customer care. Specifically, it created dashboards that provide management with an instant overview of more than 450 key performance indicators. The company also aggregates information from sensors installed on the planes, allowing visibility into aircraft performance and preventive maintenance and thereby reducing operating costs. The PR department was even able to lower its headcount, because responding to journalists' inquiries about company data now requires less effort: It's all available on the dashboard. In addition, Aeroflot repurposed the digital architecture created to run the main airline to simultaneously run a low-cost carrier—something few other airlines have succeeded in doing. Once again, nothing has altered the company's *raison d'être*: It remains a passenger airline, selling seats on planes to many different destinations. It's just a more efficient and user-friendly one through the use of digital tools.

This is not to say that disruption doesn't occur. Make no mistake: Things are changing quickly, and companies that do nothing will be either disrupted or at a minimum outcompeted by those that transform using digital tools. But even in the classic industries where disruption strikes hardest, the story is always a little more complicated when you look below the surface. Whether you are disrupted or not always depends on the job you do for customers. If an incumbent can use digital tools to meet customers' needs better than a disruptive new entrant can, it will still prosper.

Take the taxi business. Uber's impact on taxis is one of the most frequently cited examples of digital disruption. The public remembers taxi drivers' striking around the world—notably including in Paris, our hometown—in the face of what seemed to be an existential threat to their livelihoods. But today taxi companies in Paris are thriving.

G7 is a traditional taxi company founded in 1905. It once had a reputation in Paris, as did many other taxi companies, for its drivers' rudeness. Fast-forward to the present: Like Uber, G7 has developed an app that allows customers to book a taxi. The app offers various service levels: sharing, regular cab, green (hybrid or electric), van, and VIP. You can use the app to hail a car from the curb, or you can jump into one standing at the corner, and you can pay the driver with the app using his or her four-digit code.

But G7 differs from Uber in some important ways: Its drivers are better trained, the cars are cleaner, and you can prebook a ride for exactly the time you want it, instead of in a 15-minute window. More important, although a G7 might be slightly more expensive on average than an Uber, it is vastly less expensive when you most need it: Uber imposes surge pricing, multiplying your fare twofold, threefold, or even eightfold, while G7's prices remain constant. It's clear that Uber's arrival forced traditional taxi companies to improve their service: G7 drivers now take etiquette lessons. But it's hard to argue that the advent of digital necessitated a wholesale reinvention of G7's value proposition.

Likewise, the hotel business has been among the industries most threatened by the rise of digital technologies, first from OTA (over-the-air) players like Expedia, next from platforms like Airbnb, and now from search providers like Google. When we interviewed Marriott's CEO, Arne Sorenson, about the impact of digital technologies, he didn't downplay the threat. "The digital forces are clearly very revolutionary and powerful and can be frightening at times," he said. "We are in an absolute war for who owns the customer."

Sorenson emphasized that technology would be a major factor in winning the war: "We have to make sure we are using technology to be more efficient in our operations, deliver service, and create a great loyalty digital platform, but also make sure we have a platform that is big enough and delivers value to our customers so that they book directly with us. We are not going to out-Google Google, but we want to make sure we have a community of folks who can relate to us. It must be through a digital platform. But that platform is about engaging our customers." And that is something Marriott has always

done. Although it has launched platforms to compete with Airbnb and drive customers directly to its own site, it's also focusing on what it does best—delivering a great hotel and customer experience. Those who have stayed with Marriott or its sister company Starwood know they're unlikely to get the luxurious mattress and bedding these hotels are famous for at a typical Airbnb.

Understanding that digital transformation does not change the reason your business exists will help you identify the technologies you should focus on. Managers who believe that digital disruption requires wholesale reinvention of the core business end up running in a thousand directions. But if the challenge is simply to better address their customers' jobs to be done, they will most likely focus on the technologies that have the greatest effect on their customers (such as customer experience or relationship synergies) or their core capabilities (such as cost synergies). Your company, just like Maersk, Aeroflot, and G7, can probably continue to serve the same core customers even in the digital era. And the needs of those customers won't change—although digital will certainly provide a better way of catering to them.

Myth: Digital will replace physical

Reality: It's a “both/and”

There is no doubt that digital often enables the elimination of inefficient intermediaries and costly physical infrastructure. But that doesn't mean the physical goes away entirely. In fact, as has been well documented, many retailers are finding ways to create a hybrid of physical and digital that taps into the advantages of each. And it's not just retailers—the same trend can be seen in many other consumer-facing businesses.

In retail, Galleries Lafayette provides a classic example. Despite intense competition from online stores, GL recognizes the importance of physical proximity to the customer, which only a brick-and-mortar store can offer. Both models have advantages: Physical helps build an emotional relationship with customers, while digital (especially AI) helps better understand customers' needs. Whereas in the

past companies focused too much on the product and not enough on the customer, hybrid models can put the customer at the center of the business.

To ensure that it builds both an understanding of and an emotional connection with customers, the company is seamlessly blending the physical and digital worlds in its new store on the Champs-Élysées. The store will carry a curated selection of luxury items, and it will be staffed by salespeople hired for their ability to interact with visitors to the store, their expertise in fashion and style, and their facility with social media. These staffers, known as personal shoppers or personal stylists, will establish emotional relationships with their customers, making the physical store an initial customer attraction and touch point. Shoppers can then embark on digitally enabled transactions. The new technology will also help salespeople “remember” customers and their preferences and identify individualized perks that will appeal to them.

GL has already gone partway down this road at its flagship Boulevard Haussmann store, where employees are equipped with tablets. Customers come to the store having obtained—through online searches—a lot more information about some products than the salespeople have. The tablets allow employees to quickly browse the online catalogue and become equally well informed.

Shoppers value a physical store visit because they can see and feel actual products. They can reserve items online and try them out in the store without obligation. Alternatively, they can buy products online and simply pick them up in the store. In either case, salespeople must understand how to act like personal shoppers, and the product and customer data they have enable them to do so.

Many digital-first brands are converging on the same path. Bonobos, for example, which was born pure digital, now uses physical stores to let customers try on clothes. After a purchase the clothes are mailed directly from a centrally managed inventory. Warby Parker, another digital native, also now uses physical stores to create welcoming customer experiences. Like GL, these retailers are serving needs that digital meets poorly—creating emotional connections and dealing with the challenges of fitting clothing or

eyewear—while using technology to leverage data and achieve cost efficiencies.

We're seeing something similar in the energy sector. Several electric utility companies in Europe have effectively combined the advantages of physical and digital in their connected home systems, which contain smart thermostats and a variety of sensors and detectors. Google and Amazon have entered the market for smart home devices, but utilities have the advantage of engineers (or selected contractors) who back the smart thermostats' value proposition—and customers trust those people to do installation, maintenance, and repair. Some of these companies enable preventive maintenance: If a sensor indicates that a heating system is about to break, the customer is alerted through the thermostat and can schedule an engineer's visit in advance. The same alert helps the engineer understand the problem before the visit and arrive with the right equipment to fix it. This seamless integration of physical and digital can significantly reduce visits and parts used while granting the customer peace of mind.

TUI UK, a travel agency, has also turned to a hybrid of physical and digital. Initially it occupied a very precarious place—its industry is broadly viewed as being disrupted. But as it embarked on a digital transformation, the company discovered that although many customers wanted to make their travel plans digitally, they also wanted to interact with people in retail locations, asking questions and becoming comfortable with complex itineraries.

Myth: Digital involves buying start-ups

Reality: It involves protecting start-ups

Often companies try to access new technologies or ideas by acquiring start-ups and then integrating them. This approach risks killing the start-up's culture and chasing away the talent acquired during its creation. Smart companies prefer to build hybrid relationships with startups—strong enough to learn and find synergies but weak enough to avoid destroying the culture. So even though they may

own the start-ups, they allow them to operate as semi-independent businesses.

Avnet, a \$19 billion global technology solutions provider, is a good example. The company made two important digital acquisitions: Hackster.io, a platform that allows makers from around the world to post their ideas for new products (such as sensors to monitor city noise and pollution levels, augmented reality headsets, and baby oxygen monitors), and Dragon Innovation, a start-up that helps companies bridge the gap between made-for-prototype and industrial-scale electronic products. These companies operate as semi-independent entities and interact with Avnet through Dayna Badhorn, its vice president for emerging businesses. Her role is to protect the acquired companies from the inefficiencies—such as excessive planning and slow product development cycles—of the parent organization while helping Avnet learn agility and the importance of doing quick experiments. Hackster and Dragon Innovation call her their guardian angel.

The importance of a guardian angel is underlined by Galleries Lafayette's experience with its start-up accelerator, Lafayette Plug and Play, in which several big traditional retailers, including Richemont, Carrefour, Lagardère Travel, and Kiabi, are partners. Although GL executives spend a lot of time interacting with start-ups in the accelerator, the company struggled at first to translate such interactions into tangible projects inside GL, because no project leader was assigned to follow through. The situation has improved since GL appointed a manager to fill that role. GL does not buy start-ups from the accelerator (to avoid killing their innovative culture), so having someone to permanently liaise with them helps it maintain close relationships with accelerator members and implement the resulting initiatives. The other corporate members have followed suit, and their uptake of collaborations has improved as well.

In each case a guardian angel fights to take advantage of the best of both organizations, not only helping the start-up hold fast to its mission (which is what motivates much of the talent to stay) but also linking it to the mission of the larger organization while protecting the

start-up team from all the bureaucracy and reporting that traditionally eat up company time. Meanwhile, the big company can take full advantage of the start-up's ideas, processes, culture, and technology.

Myth: Digital is about technology

Reality: It's about the customer

Managers often think that digital transformation is primarily about technology change. Of course technology change is involved—but smart companies realize that transformation is ultimately about better serving customer needs, whether through more-effective operations, mass customization, or new offers. Because digital enables—even demands—the connection of formerly siloed activities for this purpose, the company must often reorganize both people and technology.

In practice this may mean changing structure—for example, in situations where a more agile structure is merited, creating internal squads with the capabilities and authority necessary to follow projects from beginning to end. Although a squad is a team, it differs from most big-company teams in being empowered to solve key problems quickly, as an entrepreneur would.

The credit card giant Mastercard has a systematic process for building such squads, overseen by Mastercard Labs. Employees from various functional areas can submit ideas to qualify for three stage awards: Orange Box, Red Box, and Green Box. The Orange Box gives employees a chance to explore their ideas and pitch them. Recipients of this award receive a \$1,000 prepaid card and coaching to develop a presentation about solving a specific customer problem. At the Red Box stage people turn an idea into a concept: The team receives \$25,000 for testing, prototype development, and research and a 90-day guide outlining the steps needed to refine the concept. The Green Box was designed to create a commercialized product from an official incubation project inside the labs. At this stage team members leave their jobs for six months to work on the project.

One major global bank, ING, teaches an important lesson about getting such squads to work in more-traditional organizational

structures. It recognized that to assign the right employees to cross-company initiatives, and to keep them from staying too long on an initiative that should be cut, it needed to support these intrapreneurs in transitioning between roles. It has developed a set of internal processes called PIE: P for *protect*, meaning that employees who leave their jobs to work on a squad project can return to those jobs if the initiative fails; I for *independence*, meaning that squad members have their own resources and can make their own decisions; and E for *encouragement*, meaning that if the squad is successful, its work will be widely celebrated in the company.

Of course, it must also be OK for these squads to fail. Failures, even relatively late ones, should not jeopardize a career. As ING CEO Ralph Hamers explains, “We have to be honest about failures. We also have to be honest about all that we learned in the process and that by using a different approach, we learned these lessons in a fraction of the time it takes competitors.”

There’s a framing aspect as well. As the Norwegian telecom giant Telenor (for which Nathan has done consulting) makes its digital transformation, it has experimented with job definitions. Instead of designating individuals as product owners—people who oversee functions and P&L—it now calls them project *managers*, responsible for designing the customer journey. This shift encourages them to operate like mini-CEOs, externally focused on the customer problem and able to work quickly across internal boundaries to deliver a solution.

Finally, it’s important to recognize that transitioning to squads can be a painful process. In a radical example of such reorganization, ING eliminated divisions and functions and instead embraced an agile organizational structure with squads tasked to deliver improved customer journeys. When it reorganized, over a weekend, all the employees were fired and had to reapply for their jobs, through the lens of the customer need they solved. With the help of these and similar initiatives, ING plans to reduce its head count in the Netherlands and Belgium by 30%–40% over a five-year period. Not all transitions will be so dramatic, but in most cases some friction is inevitable when jobs are redefined.

Myth: Digital requires overhauling legacy systems**Reality: It's more often about incremental bridging**

Digital transformation may ultimately require radically altering back-end legacy systems, but starting with a sweeping IT overhaul comes with great risks. Smart companies find a way to quickly develop front-end applications while slowly replacing their legacy systems in a modular, agile fashion. This can be achieved by building a middleware interface to connect the front and back ends, or by allowing business units to adopt needed solutions today while IT transforms the back end in an ambidextrous manner. Over time the pieces of the legacy system can be decommissioned, but progress in meeting customer needs doesn't have to wait until then.

For example, when TUI embarked on its digital transformation, it faced a difficult challenge: Its business operations in retail, telephone, and online were geographically and operationally separate, and back-end reservations systems in the UK were 35 years old. Technology was critical for the company at the time: The rise of Expedia and other OTA channels was threatening to totally disrupt the travel agency business. In this context it was very tempting for TUI to start its digital journey with a sweeping IT overhaul. But experience suggests that attempts to replace multiple complex, mission-critical systems all at once nearly always end in disaster. Instead, in the words of Jacky Simmonds, who was part of the leadership team, "the key was to envision the ideal customer journey and then see how it could make business sense through a digital lens."

Rather than embark on a complete overhaul, TUI developed a three-year plan to replace its technology, initially working with bespoke solutions to focus on a better customer experience. The company used this time to learn from customers what they wanted in a digital world. It then connected the front-end application to the legacy back end with a middleware interface. Next it divided the back end into modular subsystems and slowly replaced them, add-

ing front-end functionality with each step. Every time the company upgraded a component of the back end or the front end, it first tested it in one market and then iterated the prototype to improve it before working with other business units.

Although TUI decided not to roll its reservations system out more broadly, given the diversity of its markets, a coherent digital strategy allowed the markets to work together, maximizing the investment in technology. The company has enjoyed a decade of steady growth throughout its digitization of the customer journey.

The bridging role of middleware interfaces is particularly apparent in the financial services sector. In 2015 the European Parliament adopted a new Directive on Payment Services (PSD2). One of the objectives of the legislation was to enable third-party developers to build applications and services around a financial institution. If an individual is unhappy with the bank's money-transfer fees, PSD2 makes it easier for that person to use alternative services provided by a third party. Instead of waiting to change the legacy infrastructure to address the challenges of PSD2, institutions such as Deutsche Bank and the Hungary-based OTP have focused on building APIs (application programming interfaces) that allow them to connect external providers, such as TransferWise and the AI-enabled wealth adviser Wealthify, to their legacy infrastructure.

We aren't suggesting that large companies can ignore the need to update legacy systems forever. However, postponing your digital transformation until you can update them fully or all at once is dangerous. If you break the problem into modules and create a middle-layer interface, you can maintain operational stability for the core of the organization while experimenting with satisfying customer needs.

For most companies, even those truly threatened by disruption, digital transformation is not usually about a root-and-branch reimagining of the value proposition or the business model. Rather, it is about both transforming the core using digital tools *and* discovering and capturing new opportunities enabled by digital. Each company

we have described has incorporated different digital elements in its business model, and not all the changes were disruptive or intrusive. The keys to success have been a focus on customer needs, organizational flexibility, respect for incremental change, and awareness that new skills and technology must be not only acquired but also protected—something the best traditional companies have always been good at.

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Agile at Scale

by Darrell K. Rigby, Jeff Sutherland, and Andy Noble

BY NOW MOST BUSINESS LEADERS are familiar with agile innovation teams. These small, entrepreneurial groups are designed to stay close to customers and adapt quickly to changing conditions. When implemented correctly, they almost always result in higher team productivity and morale, faster time to market, better quality, and lower risk than traditional approaches can achieve.

Naturally, leaders who have experienced or heard about agile teams are asking some compelling questions. What if a company were to launch dozens, hundreds, or even thousands of agile teams throughout the organization? Could whole segments of the business learn to operate in this manner? Would scaling up agile improve corporate performance as much as agile methods improve individual team performance?

In today's tumultuous markets, where established companies are furiously battling assaults from startups and other insurgent competitors, the prospect of a fast-moving, adaptive organization is highly appealing. But as enticing as such a vision is, turning it into a reality can be challenging. Companies often struggle to know which functions should be reorganized into multidisciplinary agile teams and which should not. And it's not unusual to launch hundreds of new agile teams only to see them bottlenecked by slow-moving bureaucracies.

We have studied the scaling up of agile at hundreds of companies, including small firms that run the entire enterprise with agile methods; larger companies that, like Spotify and Netflix, were born agile

and have become more so as they've grown; and companies that, like Amazon and USAA (the financial services company for the military community), are making the transition from traditional hierarchies to more-agile enterprises. Along with the many success stories are some disappointments. For example, one prominent industrial company's attempts over the past five years to innovate like a lean start-up have not yet generated the financial results sought by activist investors and the board of directors, and several senior executives recently resigned.

Our studies show that companies can scale up agile effectively and that doing so creates substantial benefits. But leaders must be realistic. Not every function needs to be organized into agile teams; indeed, agile methods aren't well suited to some activities. Once you begin launching dozens or hundreds of agile teams, however, you can't just leave the other parts of the business alone. If your newly agile units are constantly frustrated by bureaucratic procedures or a lack of collaboration between operations and innovation teams, sparks will fly from the organizational friction, leading to meltdowns and poor results. Changes are necessary to ensure that the functions that don't operate as agile teams support the ones that do.

Leading Agile by Being Agile

For anyone who isn't familiar with agile, here's a short review. Agile teams are best suited to innovation—that is, the profitable application of creativity to improve products and services, processes, or business models. They are small and multidisciplinary. Confronted with a large, complex problem, they break it into modules, develop solutions to each component through rapid prototyping and tight feedback loops, and integrate the solutions into a coherent whole. They place more value on adapting to change than on sticking to a plan, and they hold themselves accountable for outcomes (such as growth, profitability, and customer loyalty), not outputs (such as lines of code or number of new products).

Conditions are ripe for agile teams in any situation where problems are complex, solutions are at first unclear, project requirements are likely to change, close collaboration with end users is feasible,

Idea in Brief

The Ambition

To go from a handful of agile innovation teams in a function like software development to scores, even hundreds, throughout your company—to make agile the dominant way you operate.

The Challenges

Figuring out where to start and how fast and far to go, deciding which functions can and should be converted to agile teams and which should not, and preventing slow-moving bureaucracies from impeding those that do convert.

The Solution

Leaders should use agile methods themselves and create a *taxonomy of opportunities* to set priorities and break the journey into small steps. Workstreams should be modularized and then seamlessly integrated. Functions not reorganized into agile teams should learn to operate with agile values. The annual budgeting process should be complemented with a VC-like approach to funding.

and creative teams will outperform command-and-control groups. Routine operations such as plant maintenance, purchasing, and accounting are less fertile ground. Agile methods caught on first in IT departments and are now widely used in software development. Over time they have spread into functions such as product development, marketing, and even HR. (See “Embracing Agile,” HBR, May 2016, and “HR Goes Agile,” HBR, March–April 2018.)

Agile teams work differently from chain-of-command bureaucracies. They are largely self-governing: Senior leaders tell team members where to innovate but not how. And the teams work closely with customers, both external and internal. Ideally, this puts responsibility for innovation in the hands of those who are closest to customers. It reduces layers of control and approval, thereby speeding up work and increasing the teams’ motivation. It also frees up senior leaders to do what only they can do: create and communicate long-term visions, set and sequence strategic priorities, and build the organizational capabilities to achieve those goals.

When leaders haven’t themselves understood and adopted agile approaches, they may try to scale up agile the way they have attacked

other change initiatives: through top-down plans and directives. The track record is better when they behave like an agile team. That means viewing various parts of the organization as their customers—people and groups whose needs differ, are probably misunderstood, and will evolve as agile takes hold. The executive team sets priorities and sequences opportunities to improve those customers' experiences and increase their success. Leaders plunge in to solve problems and remove constraints rather than delegate that work to subordinates. The agile leadership team, like any other agile team, has an "initiative owner" who is responsible for overall results and a facilitator who coaches team members and helps keep everyone actively engaged.

Bosch, a leading global supplier of technology and services with more than 400,000 associates and operations in 60-plus countries, took this approach. As leaders began to see that traditional top-down management was no longer effective in a fast-moving, globalized world, the company became an early adopter of agile methods. But different business areas required different approaches, and Bosch's first attempt to implement what it called a "dual organization"—one in which hot new businesses were run with agile teams while traditional functions were left out of the action—compromised the goal of a holistic transformation. In 2015 members of the board of management, led by CEO Volkmar Denner, decided to build a more unified approach to agile teams. The board acted as a steering committee and named Felix Hieronymi, a software engineer turned agile expert, to guide the effort.

At first Hieronymi expected to manage the assignment the same way Bosch managed most projects: with a goal, a target completion date, and regular status reports to the board. But that approach felt inconsistent with agile principles, and the company's divisions were just too skeptical of yet another centrally organized program. So the team shifted gears. "The steering committee turned into a working committee," Hieronymi told us. "The discussions got far more interactive." The team compiled and rank-ordered a backlog of corporate priorities that was regularly updated, and it focused on steadily removing companywide barriers to greater agility. Members fanned out to engage division leaders in dialogue. "Strategy evolved from an

annual project to a continuous process,” Hieronymi says. “The members of the management board divided themselves into small agile teams and tested various approaches—some with a ‘product owner’ and an ‘agile master’—to tackle tough problems or work on fundamental topics. One group, for instance, drafted the 10 new leadership principles released in 2016. They personally experienced the satisfaction of increasing speed and effectiveness. You can’t gain this experience by reading a book.” Today Bosch operates with a mix of agile teams and traditionally structured units. But it reports that nearly all areas have adopted agile values, are collaborating more effectively, and are adapting more quickly to increasingly dynamic marketplaces.

Getting Agile Rolling

At Bosch and other advanced agile enterprises, the visions are ambitious. In keeping with agile principles, however, the leadership team doesn’t plan every detail in advance. Leaders recognize that they do not yet know how many agile teams they will require, how quickly they should add them, and how they can address bureaucratic constraints without throwing the organization into chaos. So they typically launch an initial wave of agile teams, gather data on the value those teams create and the constraints they face, and then decide whether, when, and how to take the next step. This lets them weigh the value of increasing agility (in terms of financial results, customer outcomes, and employee performance) against its costs (in terms of both financial investments and organizational challenges). If the benefits outweigh the costs, leaders continue to scale up agile—deploying another wave of teams, unblocking constraints in less agile parts of the organization, and repeating the cycle. If not, they can pause, monitor the market environment, and explore ways to increase the value of the agile teams already in place (for instance, by improving the prioritization of work or upgrading prototyping capabilities) and decrease the costs of change (by publicizing agile successes or hiring experienced agile enthusiasts).

To get started on this test-and-learn cycle, leadership teams typically employ two essential tools: a taxonomy of potential teams and

a sequencing plan reflecting the company's key priorities. Let's first look at how each can be employed and then explore what more is needed to tackle large-scale, long-term agile initiatives.

Create a taxonomy of teams

Just as agile teams compile a backlog of work to be accomplished in the future, companies that successfully scale up agile usually begin by creating a full taxonomy of opportunities. Following agile's modular approach, they may break the taxonomy into three components—customer experience teams, business process teams, and technology systems teams—and then integrate them. The first component identifies all the experiences that could significantly affect external and internal customer decisions, behaviors, and satisfaction. These can usually be divided into a dozen or so major experiences (for example, one of a retail customer's major experiences is to buy and pay for a product), which in turn can be divided into dozens of more-specific experiences (the customer may need to choose a payment method, use a coupon, redeem loyalty points, complete the checkout process, and get a receipt). The second component examines the relationships among these experiences and key business processes (improved checkout to reduce time in lines, for instance), aiming to reduce overlapping responsibilities and increase collaboration between process teams and customer experience teams. The third focuses on developing technology systems (such as better mobile-checkout apps) to improve the processes that will support customer experience teams.

The taxonomy of a \$10 billion business might identify anywhere from 350 to 1,000 or more potential teams. Those numbers sound daunting, and senior executives are often loath even to consider so much change ("How about if we try two or three of these things and see how it goes?"). But the value of a taxonomy is that it encourages exploration of a transformational vision while breaking the journey into small steps that can be paused, turned, or halted at any time. It also helps leaders spot constraints. Once you've identified the teams you could launch and the sorts of people you would need to staff them, for instance, you need to ask: Do we have those people? If so,

where are they? A taxonomy reveals your talent gaps and the kinds of people you must hire or retrain to fill them. Leaders can also see how each potential team fits into the goal of delivering better customer experiences.

USAA has more than 500 agile teams up and running and plans to add 100 more in 2018. The taxonomy is fully visible to everyone across the enterprise. “If you don’t have a really good taxonomy, you get redundancy and duplication,” COO Carl Liebert told us. “I want to walk into an auditorium and ask, ‘Who owns the member’s change-of-address experience?’ And I want a clear and confident response from a team that owns that experience, whether a member is calling us, logging into our website on a laptop, or using our mobile app. No finger-pointing. No answers that begin with ‘It’s complicated.’”

USAA’s taxonomy ties the activities of agile teams to the people responsible for business units and product lines. The goal is to ensure that managers responsible for specific parts of the P&L understand how cross-functional teams will influence their results. The company has senior leaders who act as general managers in each line of business and are fully accountable for business results. But those leaders rely on customer-focused, cross-organizational teams to get much of the work done. The company also depends on technology and digital resources assigned to the experience owners; the goal here is to ensure that business leaders have the end-to-end resources to deliver the outcomes they have committed to. The intent of the taxonomy is to clarify how to engage the right people in the right work without creating confusion. This kind of link is especially important when hierarchical organizational structures do not align with customer behaviors. For example, many companies have separate structures and P&Ls for online and offline operations—but customers want seamlessly integrated omnichannel experiences. A clear taxonomy that launches the right cross-organizational teams makes such alignment possible.

Sequence the transition

Taxonomy in hand, the leadership team sets priorities and sequences initiatives. Leaders must consider multiple criteria, including strategic importance, budget limitations, availability of people, return on

investment, cost of delays, risk levels, and interdependencies among teams. The most important—and the most frequently overlooked—are the pain points felt by customers and employees on the one hand and the organization’s capabilities and constraints on the other. These determine the right balance between how fast the rollout should proceed and how many teams the organization can handle simultaneously.

A few companies, facing urgent strategic threats and in need of radical change, have pursued big-bang, everything-at-once deployments in some units. For example, in 2015 ING Netherlands anticipated rising customer demand for digital solutions and increasing incursions by new digital competitors (“fintechs”). The management team decided to move aggressively. It dissolved the organizational structures of its most innovative functions, including IT development, product management, channel management, and marketing—essentially abolishing everyone’s job. Then it created small agile “squads” and required nearly 3,500 employees to reapply for 2,500 redesigned positions on those squads. About 40% of the people filling the positions had to learn new jobs, and all had to profoundly change their mindset. (See “One Bank’s Agile Team Experiment,” HBR, March–April 2018.)

But big-bang transitions are hard. They require total leadership commitment, a receptive culture, enough talented and experienced agile practitioners to staff hundreds of teams without depleting other capabilities, and highly prescriptive instruction manuals to align everyone’s approach. They also require a high tolerance of risk, along with contingency plans to deal with unexpected breakdowns. ING continues to iron out wrinkles as it expands agile throughout the organization.

Companies short on those assets are better off rolling out agile in sequenced steps, with each unit matching the implementation of opportunities to its capabilities. At the beginning of its agile initiative, the advanced technology group at 3M Health Information Systems launched eight to 10 teams every month or two; now, two years in, more than 90 teams are up and running. 3M’s Corporate Research Systems Lab got started later but launched 20 teams in three months.

Whatever the pace or endpoint, results should begin showing up quickly. Financial results may take a while—Jeff Bezos believes that most initiatives take five to seven years to pay dividends for Amazon—but positive changes in customer behavior and team problem solving provide early signs that initiatives are on the right track. “Agile adoption has already enabled accelerated product deliveries and the release of a beta application six months earlier than originally planned,” says Tammy Sparrow, a senior program manager at 3M Health Information Systems.

Division leaders can determine the sequencing just as any agile team would. Start with the initiatives that offer potentially the greatest value and the most learning. SAP, the enterprise software company, was an early scaler of agile, launching the process a decade ago. Its leaders expanded agile first in its software development units—a highly customer-centric segment where they could test and refine the approach. They established a small consulting group to train, coach, and embed the new way of working, and they created a results tracker so that everyone could see the teams’ gains. “Showing concrete examples of impressive productivity gains from agile created more and more pull from the organization,” says Sebastian Wagner, who was then a consulting manager in that group. Over the next two years the company rolled out agile to more than 80% of its development organizations, creating more than 2,000 teams. People in sales and marketing saw the need to adapt in order to keep up, so those areas went next. Once the front end of the business was moving at speed, it was time for the back end to make the leap, so SAP shifted its group working on internal IT systems to agile.

Too many companies make the mistake of going for easy wins. They put teams into offsite incubators. They intervene to create easy workarounds to systemic obstacles. Such coddling increases the odds of a team’s success, but it doesn’t produce the learning environment or organizational changes necessary to scale dozens or hundreds of teams. A company’s early agile teams carry the burden of destiny. Testing them, just like testing any prototype, should reflect diverse, realistic conditions. Like SAP, the most successful

companies focus on vital customer experiences that cause the greatest frustrations among functional silos.

Still, no agile team should launch unless and until it is ready to begin. *Ready* doesn't mean planned in detail and guaranteed to succeed. It means that the team is:

- focused on a major business opportunity with a lot at stake
- responsible for specific outcomes
- trusted to work autonomously—guided by clear decision rights, properly resourced, and staffed with a small group of multidisciplinary experts who are passionate about the opportunity
- committed to applying agile values, principles, and practices
- empowered to collaborate closely with customers
- able to create rapid prototypes and fast feedback loops
- supported by senior executives who will address impediments and drive adoption of the team's work

Following this checklist will help you plot your sequence for the greatest impact on both customers and the organization.

Master large-scale agile initiatives

Many executives have trouble imagining that small agile teams can attack large-scale, long-term projects. But in principle there is no limit to the number of agile teams you can create or how large the initiative can be. You can establish “teams of teams” that work on related initiatives—an approach that is highly scalable. Saab's aeronautics business, for instance, has more than 100 agile teams operating across software, hardware, and fuselage for its Gripen fighter jet—a \$43 million item that is certainly one of the most complex products in the world. It coordinates through daily team-of-teams stand-ups. At 7:30 a.m. each frontline agile team holds a 15-minute meeting to flag impediments, some of which cannot be resolved within that team. At 7:45 the impediments requiring coordination are escalated

to a team of teams, where leaders work to either settle or further escalate issues. This approach continues, and by 8:45 the executive action team has a list of the critical issues it must resolve to keep progress on track. Aeronautics also coordinates its teams through a common rhythm of three-week sprints, a project master plan that is treated as a living document, and the colocation of traditionally disparate parts of the organization—for instance, putting test pilots and simulators with development teams. The results are dramatic: IHS Jane's has deemed the Gripen the world's most cost-effective military aircraft.

Building Agility Across the Business

Expanding the number of agile teams is an important step toward increasing the agility of a business. But equally important is how those teams interact with the rest of the organization. Even the most advanced agile enterprises—Amazon, Spotify, Google, Netflix, Bosch, Saab, SAP, Salesforce, Riot Games, Tesla, and SpaceX, to name a few—operate with a mix of agile teams and traditional structures. To ensure that bureaucratic functions don't hamper the work of agile teams or fail to adopt and commercialize the innovations developed by those teams, such companies constantly push for greater change in at least four areas.

Values and principles

A traditional hierarchical company can usually accommodate a small number of agile teams sprinkled around the organization. Conflicts between the teams and conventional procedures can be resolved through personal interventions and workarounds. When a company launches several hundred agile teams, however, that kind of ad hoc accommodation is no longer possible. Agile teams will be pressing ahead on every front. Traditionally structured parts of the organization will fiercely defend the status quo. As with any change, skeptics can and will produce all kinds of antibodies that attack agile, ranging from refusals to operate on an agile timetable (“Sorry, we can't get to that software module you need for six months”) to the withholding of funds from big opportunities that require unfamiliar solutions.

So a leadership team hoping to scale up agile needs to instill agile values and principles throughout the enterprise, including the parts that do not organize into agile teams. This is why Bosch's leaders developed new leadership principles and fanned out throughout the company: They wanted to ensure that everyone understood that things would be different and that agile would be at the center of the company's culture.

Operating architectures

Implementing agile at scale requires modularizing and then seamlessly integrating workstreams. For example, Amazon can deploy software thousands of times a day because its IT architecture was designed to help developers make fast, frequent releases without jeopardizing the firm's complex systems. But many large companies, no matter how fast they can code programs, can deploy software only a few times a day or a week; that's how their architecture works.

Building on the modular approach to product development pioneered by Toyota, Tesla meticulously designs interfaces among the components of its cars to allow each module to innovate independently. Thus the bumper team can change anything as long as it maintains stable interfaces with the parts it affects. Tesla is also abandoning traditional annual release cycles in favor of real-time responses to customer feedback. CEO Elon Musk says that the company makes about 20 engineering changes a week to improve the production and performance of the Model S. Examples include new battery packs, updated safety and autopilot hardware, and software that automatically adjusts the steering wheel and seat for easier entry and exit.

In the most advanced agile enterprises, innovative product and process architectures are attacking some of the thorniest organizational constraints to further scaling. Riot Games, the developer of the wildly successful multiplayer online battle arena League of Legends, is redesigning the interfaces between agile teams and support-and-control functions that operate conventionally, such as facilities, finance, and HR. Brandon Hsiung, the product lead for this ongoing initiative, says it involves at least two key steps. One is shifting the

functions' definition of their customers. "Their customers are not their functional bosses, or the CEO, or even the board of directors," he explains. "Their customers are the development teams they serve, who ultimately serve our players." The company instituted Net Promoter surveys to collect feedback on whether those customers would recommend the functions to others and made it plain that dissatisfied customers could sometimes hire outside providers. "It's the last thing we want to happen, but we want to make sure our functions develop world-class capabilities that could compete in a free market," Hsiung says.

Riot Games also revamped how its corporate functions interact with its agile teams. Some members of corporate functions may be embedded in agile teams, or a portion of a function's capacity may be dedicated to requests from agile teams. Alternatively, functions might have little formal engagement with the teams after collaborating with them to establish certain boundaries. Says Hsiung: "Silos such as real estate and learning and development might publish philosophies, guidelines, and rules and then say, 'Here are our guidelines. As long as you operate within them, you can go crazy; do whatever you believe is best for our players.'"

In companies that have scaled up agile, the organization charts of support functions and routine operations generally look much as they did before, though often with fewer management layers and broader spans of control as supervisors learn to trust and empower people. The bigger changes are in the ways functional departments work. Functional priorities are necessarily more fully aligned with corporate strategies. If one of the company's key priorities is improving customers' mobile experience, that can't be number 15 on finance's funding list or HR's hiring list. And departments such as legal may need buffer capacity to deal with urgent requests from high-priority agile teams.

Over time even routine operations with hierarchical structures are likely to develop more-agile mindsets. Of course, finance departments will always manage budgets, but they don't need to keep questioning the decisions of the owners of agile initiatives. "Our CFO constantly shifts accountability to empowered agile teams,"

says Ahmed Sidky, the head of development management at Riot Games. “He’ll say, ‘I am not here to run the finances of the company. You are, as team leaders. I’m here in an advisory capacity.’ In the day-to-day organization, finance partners are embedded in every team. They don’t control what the teams do or don’t do. They are more like finance coaches who ask hard questions and provide deep expertise. But ultimately it’s the team leader who makes decisions, according to what is best for Riot players.”

Some companies, and some individuals, may find these trade-offs hard to accept and challenging to implement. Reducing control is always scary—until you do so and find that people are happier and success rates triple. In a recent Bain survey of nearly 1,300 global executives, more respondents agreed with this statement about management than with any other: “Today’s business leaders must trust and empower people, not command and control them.” (Only 5% disagreed.)

Talent acquisition and motivation

Companies that are scaling up agile need systems for acquiring star players and motivating them to make teams better. (Treat your stars unfairly, and they will bolt to a sexy start-up.) They also need to unleash the wasted potential of more-typical team members and build commitment, trust, and joint accountability for outcomes. There’s no practical way to do this without changing HR procedures. A company can no longer hire purely for expertise, for instance; it now needs expertise combined with enthusiasm for work on a collaborative team. It can’t evaluate people according to whether they hit individual objectives; it now needs to look at their performance on agile teams and at team members’ evaluations of one another. Performance assessments typically shift from an annual basis to a system that provides relevant feedback and coaching every few weeks or months. Training and coaching programs encourage the development of cross-functional skills customized to the needs of individual employees. Job titles matter less and change less frequently with self-governing teams and fewer hierarchical levels. Career paths show how product owners—the individuals who set the vision and

own the results of an agile team—can continue their personal development, expand their influence, and increase their compensation.

Companies may also need to revamp their compensation systems to reward group rather than individual accomplishments. They need recognition programs that celebrate contributions immediately. Public recognition is better than confidential cash bonuses at bolstering agile values—it inspires recipients to improve even further, and it motivates others to emulate the recipients’ behaviors. Leaders can also reward “A” players by engaging them in the most vital opportunities, providing them with the most advanced tools and the greatest possible freedom, and connecting them with the most talented mentors in their field.

Annual planning and budgeting cycles

In bureaucratic companies, annual strategy sessions and budget negotiations are powerful tools for aligning the organization and securing commitments to stretch goals. Agile practitioners begin with different assumptions. They see that customer needs change frequently and that breakthrough insights can occur at any time. In their view, annual cycles constrain innovation and adaptation: Unproductive projects burn resources until their budgets run out, while critical innovations wait in line for the next budget cycle to compete for funding.

In companies with many agile teams, funding procedures are different. Funders recognize that for two-thirds of successful innovations, the original concept will change significantly during the development process. They expect that teams will drop some features and launch others without waiting for the next annual cycle. As a result, funding procedures evolve to resemble those of a venture capitalist. VCs typically view funding decisions as opportunities to purchase options for further discovery. The objective is not to instantly create a large-scale business but, rather, to find a critical component of the ultimate solution. This leads to a lot of apparent failures but accelerates and reduces the cost of learning. Such an approach works well in an agile enterprise, vastly improving the speed and efficiency of innovation.

Companies that successfully scale up agile see major changes in their business. Scaling up shifts the mix of work so that the business is doing more innovation relative to routine operations. The business is better able to read changing conditions and priorities, develop adaptive solutions, and avoid the constant crises that so frequently hit traditional hierarchies. Disruptive innovations will come to feel less disruptive and more like adaptive business as usual. The scaling up also brings agile values and principles to business operations and support functions, even if many routine activities remain. It leads to greater efficiency and productivity in some of the business's big cost centers. It improves operating architectures and organizational models to enhance coordination between agile teams and routine operations. Changes come on line faster and are more responsive to customer needs. Finally, the business delivers measurable improvements in outcomes—not only better financial results but also greater customer loyalty and employee engagement.

Agile's test-and-learn approach is often described as incremental and iterative, but no one should mistake incremental development processes for incremental thinking. SpaceX, for example, aims to use agile innovation to begin transporting people to Mars by 2024, with the goal of establishing a self-sustaining colony on the planet. How will that happen? Well, people at the company don't really know . . . yet. But they have a vision that it's possible, and they have some steps in mind. They intend to dramatically improve reliability and reduce expenses, partly by reusing rockets much like airplanes. They intend to improve propulsion systems to launch rockets that can carry at least 100 people. They plan to figure out how to refuel in space. Some of the steps include pushing current technologies as far as possible and then waiting for new partners and new technologies to emerge.

That's agile in practice: big ambitions and step-by-step progress. It shows the way to proceed even when, as is so often the case, the future is murky.

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The Merger Dividend

by Ron Ashkenas, Suzanne Francis, and Rick Heinick

MERGERS AND ACQUISITIONS are high-stakes moves, and most executives are acutely aware of the potential downsides of a failed integration. But companies routinely overlook one key opportunity embedded in the integration process: the chance to develop both the current and the next generation of leaders.

Mergers and acquisitions are driven by strategy, and to ensure their success, it's tempting to either make the crucial decisions from on high or off-load much of the integration work to a small cadre of trusted lieutenants or hired guns. But doing so robs your leaders of opportunities for learning and growth and prevents you from seeing how people from both sides cope under pressure. More important, working with leaders already in place lets you build a team with the capacity to take full advantage of the new organization that emerges from the deal.

In the following pages we'll explain how three leadership areas can be intentionally developed during the integration process: Getting everyone on the same page, executing with discipline, and building an A-team. Using examples from our consulting work, we'll illustrate this process and identify some challenges.

Getting Everyone on the Same Page

Managers from different segments often have their own interpretations of company strategies, so their operational plans and priorities don't necessarily match. That's true in the course of normal business

and even more so during a time of significant change. A large-scale integration—where there’s extra urgency to show results and jobs are at stake—can be a living laboratory for clarifying how leaders with disparate backgrounds and views can collaborate.

At one insurance company we worked with, a stated strategy through a merger was to “preserve the unique products and platforms of each institution to give customers a broader range of support.” That wording left lots of room for interpretation. Some managers (who wanted to keep things the way they were before the deal) inferred that each organization would continue to operate independently and, at most, would cross-refer customers. Others (who wanted to run larger units) thought the goal was to fully combine the product portfolios. Still others (mostly from sales) expected tailored menus of products from the two companies that would give customers more choices. All of them were pursuing the same strategic agenda.

Given these conflicting interpretations, the team charged with creating integrated marketing collateral was paralyzed. It didn’t know whether to simply change the logo or fundamentally rethink how the products should be positioned. Without clear direction or the authority to resolve differences, it did nothing, leaving the sales force high and dry, without any new materials. This scenario should have been fertile ground for improving managers’ capacity to align vision and priorities quickly and effectively; instead it was a missed opportunity that hindered the integration in the short term and reinforced a dysfunctional management pattern that persisted long after.

A better choice would have been to involve leaders within the newly combined company in developing a specific picture of what the enterprise would look like one year after the close of the deal—financially, strategically, operationally, and organizationally. This means creating what we call a “merger intent” document that outlines expectations for the deal and holds people accountable for meeting them.

Integration provides a chance for senior leaders from both sides of a deal to build their skills in creating strategic alignment. In 2007, when ING’s U.S. retirement services business announced the

Idea in Brief

Mergers and acquisitions present an often-overlooked opportunity for leadership development during the integration process. Working with managers that are already in place offers room for leadership growth and gives senior executives the best insight into the new organization that will emerge.

Firms that don't take advantage of a deal as a way to challenge and develop their talent are leaving money on the table.

To make the most of their M&As companies can develop leadership in three areas. They can help managers learn to:

- **Get people on the same page.** Involving leaders in

implementation planning helps build their skills in creating strategic alignment.

- **Strengthen execution capability.** Mergers are large, complex projects that require fast results, innovative thinking, and collaboration with relative strangers. The skills needed are relevant to many other complex undertakings.
- **Build a strong team.** Putting two companies together is a lot of work and creates opportunities to test managers by giving them stretch assignments and rotating them through new and challenging roles.

purchase of CitiStreet, then-CEO Kathy Murphy (now the president of personal investing at Fidelity Investments) knew that she'd need an especially strong team of managers to run the business, which would almost double in size. Nearly every manager who stayed, from both ING and CitiStreet, would be given what amounted to an "invisible promotion": a job with more scale and scope but not necessarily a new title. Murphy decided to use the integration not only to bring the companies together but also to accelerate her managers' development. A starting point for doing that was to help everyone get comfortable with the kind of dialogue necessary to create and own the merger intent.

Murphy started by conducting a session with her ING direct reports. First she asked each person to write down his or her views on what should go into each of four categories: financial, strategic, operational, and organizational. (See the sidebar "Put Your Team to Work on Planning" for a sample merger intent document; the

specifics have been altered to protect the company's privacy.) The participants then shared their results and spent several hours debating the statements until they felt they had a reasonable working draft. The next week Murphy led a similar session with the combined leadership team from ING and CitiStreet, using the first draft as a starting point and refining it based on additional input and debate. Those leaders took the document back to their own teams for input and then regrouped to further sharpen the focus. By the time Murphy presented the results at the integration launch, her managers—both old and new—had gotten a real-time lesson in creating alignment.

Merck took a different approach when it integrated Schering-Plough, in 2009. Then-CEO Richard Clark (now Merck's chairman) and integration leader Adam Schechter wanted not only to create alignment around the merger intent but also to use the process to develop greater "courage and candor" within the senior team. They wanted to discourage people from holding back their ideas for fear of conflict or agreeing to something that they might not actually support.

Clark and Schechter commissioned an outside firm to engage team members in confidential conversations about the strategy and consolidate views into a merger intent document, highlighting the areas of consensus as well as points of disagreement about specific financial and operational goals and pace. (As it happened, one of the authors of this article was among the consultants.) Clark and Schechter then led an executive committee session to debate and resolve the disagreements and make the statements more specific. The resulting merger intent document was shared with the integration teams and used as a basis for their planning. Two years after the close of the deal, it continues to serve as a guidepost for tracking the benefits of the merger.

Executing with Discipline

Merger integrations create temporary hothouses for growing execution capacity. There are lots of tasks—on top of the existing workload—many of which have to be done in collaboration with

relative strangers in an emotionally charged, high-pressure, and time-constrained atmosphere where getting results is an absolute necessity. Teams must quickly mobilize, develop work plans, and prioritize tasks and time, among other execution skills.

To compensate for a deficit in execution expertise, senior executives often hire large consulting firms to organize and run the project management office during the integration. This approach may get the job done for a given deal but at the cost of building staff execution capacity for the long term—or even getting that capacity to emerge in the first place. This was the case when two large health care companies merged. Senior management, thinking that the execution was beyond its people's capability, essentially turned over the integration to a large consulting firm. The firm did an excellent job of bringing the companies together—but never left. Years after the deal was closed, the consulting firm was embedded in the organization, and managers at all levels were dependent on it for almost every complicated project (and many simple ones). When a new CEO took over, he found that consulting fees were costing the company hundreds of millions of dollars a year and that most of his managers struggled with execution.

Consultant dollars can instead be used to invest in your own people. When manufacturing company Timken bought the Torrington group of businesses from Ingersoll Rand, in 2003, both companies considered their managers to be skilled at execution, but they decided to bring in consultants to help create common expectations regarding implementation and communication. Because Timken's chief operating officer (and now CEO) Jim Griffith insisted that a key deliverable from the consultants would be knowledge within the company about how to integrate new acquisitions, this short-term assistance led to a new, repeatable capability. "We've done a dozen deals since then," Griffith says. "We just did a review of those acquisitions, and only two, with very small dollars, fell short of expectations."

There are two ways to use integration to develop execution capacity. The first is to select high-potential people and put them into critical temporary positions during the transition, with the explicit goal

Put Your Team to Work on Planning

ONE WAY TOP LEADERS can use the integration of two companies as a development tool is to have teams from both sides work together to create a “merger intent” document that specifies the expected one- to two-year outcomes of the deal. Managers write down their own views on what should go into four categories—financial, strategic, operational, and organizational—and then work together to achieve alignment. Here’s an example of how a merger intent document might look.

Financial

- Produce \$4.1 billion in revenue
- Gain \$535 million in EBITDA
- Reduce \$340 million in annualized costs
- Generate 25% of revenue from new products

Strategic

- Divest four of six nonstrategic businesses
- Jointly develop five new product platforms
- Increase emerging market business by 15%
- Cross-sell services into process industries
- Increase customer base and profitability in Europe

of strengthening their ability to get things done. The second is to set particularly challenging short-term goals with direct accountability for rapid execution, increasing the pressure on teams to try something new.

Let new leaders shine

The chance to put your leaders in the hot seat begins when the parties agree to a deal (even before any announcements are made). Company heads need to immediately define an integration planning and governance structure that is distinct from the usual mechanisms for running the business. For the managers assigned to this structure, these jobs are testing grounds for big jobs in the new enterprise.

Operational

- Shut down headquarters in Europe
- Optimize production; close eight redundant plants
- Establish best-in-industry cost structures (such as supply chain, IT, and operations)
- Consider value of sales offices in the U.S., Asia, and Europe
- Integrate crossover product lines and brands
- Combine research centers

Organizational

- Reduce workforce by 1,560 salaried and 425 hourly employees
- Integrate management structure and define all reporting relationships four months post-close
- Set up a new talent-management process across the company
- Establish a unified set of policies, procedures, and benefits, with full integration across sites and divisions

For example, when paper company Westvaco announced its merger with Mead in 2001, Westvaco CEO John Luke appointed executive vice president Jim Buzzard as the full-time integration leader. Having spent most of his career in manufacturing and supply chain, Buzzard was now forced to learn new aspects of the business, bring together multiple functions, and take a broader, more strategic view. After spending two years helping to create MeadWestvaco, he was named president. Similarly, when Timken bought Torrington, leadership of the integration process was given to Ward J. “Tim” Timken, Jr., as a developmental step toward becoming chairman.

Merck CEO Clark put Schechter, his head of global pharmaceutical marketing and the U.S. pharmaceutical business, in charge of the

integration of Schering-Plough instead of giving the job to a specialist, which would have been a more traditional move. He off-loaded some of Schechter's duties to regional business heads to give him the chance to develop the skills for a broader role. For Schechter, the new assignment was a stretch. He told us, "I remember going home that night and taking out a blank sheet of paper and saying, 'What do I do tomorrow?'"

Over the course of the next year Schechter, who had excelled in a career spent in sales and marketing, got a crash course in being an enterprise-wide senior Merck executive. He had to deal with every part of the company, from the supply chain to the research labs to regulatory areas. He reported to the board of directors, met with external analysts and shareholders, organized the integration office, managed consultants, created a framework and timeline for integration plans, and worked closely with Merck and Schering-Plough executives.

Some of this came naturally to Schechter, and some did not. For example, he initially struggled with the idea that not all of the plans needed to be perfect before they were set in motion—that sometimes it was better to proceed with speed than to demand perfection. But as the volume of plans and actions accumulated and the time frames accelerated, he learned that such trade-offs were not only acceptable but often preferable. Similarly, Schechter learned that he needed to trust the experts in their own segments to do the right things, particularly when he was in unfamiliar territory. Because he had previously run areas where he himself was the expert, this was not easy. Clark pushed him hard but also provided direct support, both personally and organizationally. And when the integration was complete, Schechter was even better prepared for a bigger role as president of the considerably expanded global human health business.

Other promising managers from Merck and Schering-Plough were assigned to the integration office as well, selected not only for their existing skills but also for their potential to grow as leaders. Schering CEO Fred Hassan made his president of the consumer business, Brent Saunders, Schechter's counterpart on the Schering side so that

Saunders could contribute (and build on) the experience he gained leading the \$16 billion integration of Organon BioSciences two years earlier. The process increased Saunders's ability to manage complexity and led to his becoming CEO at Bausch + Lomb a year later.

Challenge your team to innovate in a crunch

Setting distinct, ambitious short-term goals for your team during an integration—and holding people immediately accountable for outcomes—is the other way to use mergers and acquisitions as teaching tools. This often prompts teams to push themselves to try something new and achieve more than any one member would have thought possible. When JLG Industries, a manufacturer of vertical lifts, bought OmniQuip, in 2003, it was a make-or-break deal for the company. Then-CEO Bill Lasky recalls, “Because of the size of the loan and because of the decline in the construction industry after September 11, JLG was in the crosshairs. So my job was to insist on flawless execution—on time, on budget, and preferably ahead of schedule.”

One of the keys to making the deal work was to transfer the manufacture of a few of OmniQuip's nonmilitary products (heavy construction vehicles with sophisticated engineering and hundreds of parts) to JLG's McConnellsburg, Pennsylvania, facilities within 60 days of closing the deal. Lasky made it clear that failure was not an option, and because of that, the key managers and their people put considerable discipline into the execution. Failure would be costly and might lead to lost contracts, which in turn would most likely lead to lost jobs. The project involved multiple functions and locations, but the integration leaders designated a single accountable manager. The team developed contingencies to account for parts of the plan that were high risk, and Lasky himself reviewed progress every week. As a result of these efforts, JLG hit its date, and everyone celebrated when the first units rolled off the production line as planned. “Not only was it a great business accomplishment,” says Lasky, “it also was a great learning experience for everyone.”

Westvaco anticipated significant early procurement savings when it bought Mead. But the pre-close planning hit a major stumbling

block. Information about pricing and suppliers' terms and conditions couldn't be shared between the two companies until the deal was closed. Under normal circumstances, a team would have just said that it had gone as far as it could for now and it would have to wait until the deal closed to finish. But as the senior executive in charge of the integration, Jim Buzzard was unwilling to let the planning come to a halt. He was counting on the projected savings—and he also recognized a good opportunity to teach managers in action how to push through execution barriers. He told the procurement-planning team that it didn't have a choice: It needed to find a solution that would not postpone the implementation of changes in procurement. After much deliberation, the team solved the problem by hiring a group of retired employees who worked in a clean room to examine the information, do the analysis, and come up with a ready-to-execute plan before close—something it would not have done without Buzzard's demand.

Building an A-Team

Mergers and acquisitions increase the pool of available talent. In most cases there are more people than positions, and managers need to make choices about who will be on their team. The process is fraught with emotion, yet it has to be done quickly so that teams can get to work and individuals can get on with their lives. But most managers have limited experience selecting talent. Many inherit their teams or are promoted to head a team they already know; openings are often filled through existing succession processes. Even when managers do need to add or replace a person, HR often does the heavy lifting of finding candidates and developing selection criteria and will even help make the decision, particularly when it is a painful or emotional one.

Selecting talent during a merger is an opportunity to assess the whole team, not just one position at a time. But the manager in charge may be unfamiliar with some candidates, especially those coming from the other company. Many firms take the easy way out. Instead of driving themselves to create a winning team for the long

term, they resort to political formulas or compromises: This many positions for people from one company, and this many from the other—or, in some cases, a default to the acquiring company whenever there is a choice. In other cases, they outsource the process to a third-party HR firm, with the rationale that outsiders will be more objective. This saves managers the work of interviewing, vetting, comparing, and having to make difficult decisions. That may get the job done for the short term, but it doesn't engage managers in building their own teams, and it certainly doesn't develop their abilities to size up talent.

Putting people into stretch assignments is not only a chance to develop their execution capacity; it's also a chance to see whether they can step up to a new challenge. When Clark and his team moved people into integration roles at Merck, for instance, they were able to make more-informed decisions later about permanent positions. (See the sidebar "How Merck Made a Merger Work.")

Talent selection can also be a formative teaching and learning experience about building a top-notch team. During ING's acquisition of CitiStreet, CEO Murphy worked with her top human resources executive to create a structured process that could cascade through multiple levels. The idea was to have the vast majority of managerial positions settled before day one, while meeting the cost synergy targets specified in the merger intent.

First Murphy created what she called a "blank box" structure that specified roles and responsibilities (but no names) for her direct reports. Then she and the HR head identified possible candidates for each role from both ING and CitiStreet, including incumbents (if the role already existed) and other employees who seemed to have the appropriate skills. Whenever there was more than one candidate for a job, they conducted a side-by-side comparison, listing such factors as education, experience, skills, and past performance ratings. Murphy used these comparisons, along with her personal knowledge of the candidates, to make her selections, factoring in the need for diversity and some balance between the two legacy organizations.

Once Murphy had her top team in place (and had informed people about who had gotten the top jobs and who had not), she brought

How Merck Made a Merger Work

by Richard Clark

IF EVER THERE WERE two pharma companies that should have merged, they were Merck and Schering-Plough.

We had complementary products, research pipelines, regional strength, and global diversification. I knew the deal presented major business potential. What I didn't know was what an incredible leadership development opportunity it would be for the combined organization.

When I returned from signing papers, my first job was to energize the senior leadership team members, to make sure they understood that this merger was as much about the science as the synergies. We had a responsibility to patients, physicians, shareholders, and our employees. The team members, in turn, had the job of leading their own units through the process. I wanted all of our 100,000 employees across the globe to have the same enthusiasm for this that I did. At the same time, I needed to make sure leadership stayed focused on current performance, especially the late-stage pipeline.

I asked one of my most respected senior executives, Adam Schechter (currently Merck's president of global human health), to temporarily put

everyone together to jointly create a blank-box structure for the next level down. Her new direct reports sketched out views of how their functions or business units should be structured, and their ideas were posted on the wall of a conference room. Murphy then held a working session in which she challenged the team to create flatter and more-efficient organizational designs, eliminate overlaps between units, and rethink basic processes. Many team members started by replicating existing structures, which would have protected some of their most trusted lieutenants. Murphy pushed them to put aside their loyalties and think first about what was needed to achieve the merger intent.

After a couple of tough working sessions, an acceptable overall structure for the next level of management emerged. Murphy, with support from HR, brought her team together again to identify candidates for the approximately 100 roles. Working from existing organization charts from ING and CitiStreet and their own knowledge of

aside his responsibilities to become the full-time integration leader. This move sent a strong signal to our employees that the merger integration process would be taken extremely seriously. It was also a great opportunity for Adam to lead areas of the business that did not report to him day-to-day. He had to direct, experiment, and learn what it took to achieve real results from the integration.

I viewed the integration as a laboratory for developing our top leaders. We emphasized that our success would require leaders who were determined and who could persevere during serious challenges—those who could learn from both their successes and their mistakes.

A good merger starts with strategy, but when it comes to integration, I'm fond of saying that "culture eats strategy for lunch." This integration required managers to develop skills and simultaneously navigate a high-performance culture. The merger significantly strengthened the Merck leadership team at all levels.

Richard Clark is the chairman and former CEO of Merck.

the individuals, members put sticky notes with suggested names next to the jobs in their area.

Everyone then walked through each function or business unit, debating candidates, moving sticky notes around, and identifying people who were nominated for more than one position. The group also made lists of managers who were not nominated for any position—and who would either have to take a demotion or be laid off.

After hours of hard work, the team had clear preferred candidates for many of the positions. Where there was more than one candidate, HR used the side-by-side comparison to help make a choice. In a few cases, where the comparisons were inconclusive, a consultant was hired to conduct an objective assessment of the candidates and make a recommendation. Once all the decisions had been reached, the team took a comprehensive look to make sure that the overall selections met diversity criteria and synergy targets and had

sufficient balance between the legacy organizations. People were then informed about their job (or their lack of one), and the process was replicated at succeeding levels.

This exercise took countless hours of Kathy Murphy's time—not just for meetings but also for iterative one-on-one coaching sessions with her direct reports to help them break through their natural biases and loyalties and learn how to build a solid team. It was often painful, especially when Murphy had to tell long-serving managers that they couldn't have the job they wanted or, in some cases, any job. Getting the best of the best on the field of play is hard work—and it's work that is never really finished. This became clear a few months after the deal had closed, when it was apparent that some of the selected managers weren't performing as expected. Although it would have been easy to let them slide or give them more time, Murphy insisted that her senior leaders either create plans to help them do better within a month or replace them.

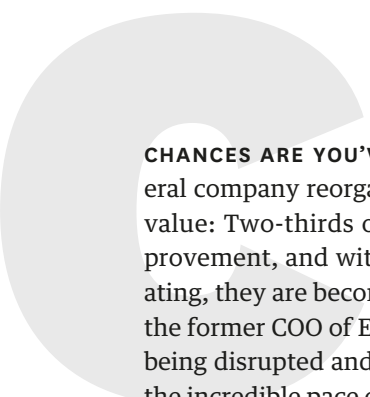
The integration process is an unparalleled opportunity to learn how to build a top team: There are more people than available positions, time is of the essence, and the future of the organization is at stake. Yes, it's difficult and emotional. But if managers don't develop leadership skills during an integration, when the pressure is on, they're unlikely to when things return to normal.

Companies enter into mergers and acquisitions for many reasons: to increase volume and margins, diversify revenue streams, enter new markets, expand global reach, gain access to new products and technologies, and so on. Achieving measurable results in these areas is a major accomplishment. But unless executives also explicitly focus on using the deal as a leadership development opportunity, they are leaving money on the table. Leadership capability is a major dividend from an effectively run integration—one that will provide returns for many years to come.

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Getting Reorgs Right

by Stephen Heidari-Robinson and Suzanne Heywood



CHANCES ARE YOU'VE EXPERIENCED at least one and possibly several company reorganizations. Reorgs can be a great way to unlock value: Two-thirds of them deliver at least some performance improvement, and with change in the business environment accelerating, they are becoming more and more common. As John Ferraro, the former COO of Ernst & Young, told us, “Every company today is being disrupted and so must frequently reorganize to keep up with the incredible pace of change. Those that can do this well will thrive in the current environment and be tomorrow’s winners.”

At the same time, few reorgs are entirely successful. According to a McKinsey survey we conducted, more than 80% fail to deliver the hoped-for value in the time planned, and 10% cause real damage to the company. More important, they can be damned miserable experiences for employees. Research suggests that reorgs—and the uncertainty they provoke about the future—can cause greater stress and anxiety than layoffs, leading in about 60% of cases to noticeably reduced productivity. In our experience, this occurs because the leaders of reorgs don’t specify their objectives clearly enough, miss some of the key actions (for example, forgetting processes and people in their focus on reporting lines), or do things in the wrong order (such as choosing the way forward before assessing the strengths and weaknesses of what they already have). Yet the pitfalls they succumb to are common and entirely predictable. (See the sidebar “Why Reorgs Fail.”)

During our careers we have seen many reorgs, read lots of books and articles about which type of organization companies

should adopt, and watched countless fads come and go. But we've found precious little advice on how to actually run a reorg. Many practitioners assert that reorgs are so fluid and dynamic that it would be naive and counterproductive to try to impose a process on them. Our conclusion, based on experience and analysis, is the opposite: *How* you go about your reorg is as important as—and sometimes more important than—*what* you do.

To help maximize the value and minimize the misery of reorgs, we have developed a simple five-step process for running them. We don't claim that this is rocket science; indeed, we're proud to assert that it is not. But we do know that companies need to take a more systematic approach if reorgs are to deliver on their potential. And we have personally advised companies through the five steps in more than 25 reorganizations—companies with 100,000 employees or a handful, in the Americas, Europe, the Middle East, Asia, and Africa. In fact, survey data shows that companies using this process are three times as likely as others to achieve their desired results.

Step 1: Develop a Profit and Loss Statement

A reorganization is not some esoteric pursuit but a business initiative like any other—similar to a marketing push, a product launch, or a capital project. So you should start by defining the benefits, the costs, and the time to deliver. Remember that the costs are not just those of employees and consultants involved in the reorg; they also include the human cost of change and the disruption it can create in your business. We have accumulated data on these factors for 1,800 reorgs. Previous reorgs in your company, and the experience of employees who have worked elsewhere, can help you estimate the impact.

It may seem like common sense to weigh costs and benefits, but according to McKinsey research, only 15% of executives set detailed business targets for their reorgs, and 17% of reorgs are launched at the whim of an executive or because the leadership team believes the company needs to be shaken up—reasons that typically lead to problems. Both the objective of the reorg and the process for running it should be as fair, transparent, and reasonable as possible. Not

Idea in Brief

The Problem

Most reorganizations fail to deliver on their initial promise, for several reasons: They run into employee resistance, they're not given sufficient resources, and they distract people from day-to-day work.

What's Missing

The biggest reason for disappointing results, though, is that few organizations follow a rigorous, disciplined process—even though

reorgs are a common occurrence in large companies.

The Solution

The authors propose a five-step process: Begin with a profit and loss estimate, inventory your strengths and weaknesses, consider multiple options for the new organization, focus special attention on execution, and assume you'll need to make course corrections.

only is that right for your employees, but it will make them much more likely to accept, get behind, and improve your ideas. (See the sidebar “Communicating the Reorg.”)

Let's consider the case of an international media company. Its reorg started with an exercise to define the revenue-improvement opportunity worldwide. At the time, it was a federation of local businesses with no net growth. Teams of company strategists and business experts estimated that a more integrated global approach could significantly grow flat revenue and set a specific target for the reorg. The cost of internal project support and external consultants was agreed on, and a timeline was proposed: The new organization would ideally be set up and running within a year—in time to deliver results in the latter half of a new three-year business plan. A reorg P&L had been constructed.

Step 2: Understand Current Weaknesses and Strengths

No surgeon would start operating on a patient before conducting tests and reaching a diagnosis. And when excising a tumor, he or she would be careful to avoid removing healthy tissue. So should it be with a reorg. Unfortunately, this step is often skipped, which means that changes at best have no impact and at worst undermine previous strengths. Those companies that do take the time to self-diagnose

Why Reorgs Fail

A MCKINSEY SURVEY OF 1,800 EXECUTIVES identified the most common pitfalls for reorganizations (in order of frequency).

1. Employees actively resist the changes.
2. Insufficient resources—people, time, money—are devoted to the effort.
3. Employees are distracted from their day-to-day activities, and individual productivity declines.
4. Leaders actively resist the changes.
5. The org chart changes, but the way people work stays the same.
6. Employees leave because of the reorg.
7. Unplanned activities, such as an unforeseen need to change IT systems or to communicate the changes in multiple languages, disrupt implementation.

before embarking on major surgery typically rely on interviews with senior executives to get input. That's a good place to start, but we would recommend adding an electronic survey, which will enable you to capture a companywide range of input and to see the differences between headquarters and the front line and between levels and geographies. In addition, since reorgs are all about performance improvement, take time to understand how outcomes vary across the business. For example, if you have multiple sales teams, which one is most successful and why? These inputs will help you decide what to retain, what to roll out elsewhere, and what to change.

The media company interviewed 23 leaders across all parts of the business, using a “card sort” in which 40 attributes of the existing organization—such as innovation, local responsiveness, and leadership bench strength—were written on cards, and interviewees were asked to categorize them as “significant issue,” “somewhat of an issue,” or “not an issue.” This process highlighted problems that the company was having finding the right people to fill roles, sharing information across geographies, and incentivizing innovation. Yet the company scored well on P&L accountability and local responsiveness—strengths that needed to be preserved. (Although

these interviews were helpful, we realized in retrospect that the responses represented too thin a slice of the organization. In subsequent reorgs elsewhere in the company, we used electronic survey tools that captured a much wider range of opinions across levels, business units, and geographies.)

Step 3: Consider Multiple Options

The next step is to decide on the design of your new organization. You can take one of two approaches. You can change the entire organizational model—for example, organizing by customer segments instead of along geographical lines. That approach is best if your organization is completely broken (although such cases are rare) or is facing a fundamental market shift that cannot be navigated under the current model. Or you can change only those elements that don't work—for example, altering the executive board process for financial approvals, removing a layer of middle management, or upgrading your frontline leaders while leaving the rest of the organization unchanged. That approach is best when the overall organization works well or the focus is on cutting costs. The analysis you conducted in the first two steps will help you make the choice. If in doubt, choose the second approach.

A common mistake in this step is to focus on *what the organization looks like* (its reporting structure, for instance) and forget about *how it works* (management and business processes and systems; and the numbers, capabilities, mindsets, and behaviors of its people). In our experience, the latter is usually more important than the former.

Finally, you should explicitly choose from a number of options for exactly how to restructure your organization. Any solution has its downsides; only by weighing alternatives will you see what you might gain and what you might lose. Too often leaders realize late in the day that they missed something in the original design. If they insist on adding it later, the company may end up with a push-me-pull-you design that blunts the effectiveness of the new organization and unnecessarily complicates people's lives.

Communicating the Reorg

TO BE CONSIDERATE of your employees and get their buy-in, the process needs to be fair and transparent.

Plan communications across all steps of the reorg

Start with transparent information: what will happen, when, and whom it will affect. Try to excite people only after it's clear what they will be doing (in step 4). If you try earlier, they won't listen, and you'll come across as detached.

Focus your communications on topics that matter to your people, not just to you

Sadly, few of your employees will care as much as you do about ROIC. You have to find something about the change that motivates them. Elon Musk says of the companies he's founded and their organization going forward, "People at Tesla, SolarCity, and SpaceX feel that they are doing things that matter: If we can advance sustainable energy by 10 years, that is 10 years of less carbon."

Make sure communication is in person, not just in e-mail cascades

Too often your carefully crafted e-mails will get no further than your direct reports' in-boxes. Make sure your leaders are spelling out the practicalities of the reorg for their staffs and answering employees' questions.

Communication should be two-way

This is especially true in steps 4 and 5, when you are trying to get the details of the reorg right and ensure that it is working properly. On-the-ground feedback from your staff is essential. Reflecting on his experience of reorganizations, John Browne, the former CEO of BP, told us, "Your people are sometimes aware of what is going on before you are, so you need to listen to them."

At the media company, the top 12 global business leaders gathered offsite to debate the relative merits of three options. They were assigned to teams—one for each option—and asked to advocate for their given option (no negatives allowed) and to answer questions from the other teams. Leaders who were expected to dislike a particular model were deliberately put on the team for that model: For example, the most autonomous local leaders were put on the team for the most centralized option.

During the debate it became increasingly clear that the most centralized model was the only one that would provide sufficient benefits to justify the disruption and the human cost of the change. At the end of the meeting, nine of the 12 leaders voted for that option, and the specific concerns of the remaining three were accounted for in the detailed design. After the exercise, the CEO reflected, “There is always more than one right answer, so how you bring people along and get them behind the new organization is really important. Through the workshop, we came to a good answer, and—perhaps more important—we brought our leadership team along with us.”

Step 4: Get the Plumbing and Wiring Right

After step 3, most executives stand back, trusting their teams to handle the details of the new organization and the transition plan. External consultants usually clock off at this point as well. Yet we’ve repeatedly found—and a 2014 McKinsey survey confirmed—that step 4 is the hardest part of the reorg to get right. The secret is knowing all the elements that need to change and planning the changes in the right sequence. For example, you must create new job descriptions before the jobs can be filled, and they must be filled before you start location moves, potentially across countries. Similarly, you need to agree on how your P&L will be managed before you can allocate costs and revenues, and only then can you design the required IT changes, test them, and ultimately implement them. All this takes effort, and if you miss something in any area of the detailed design—structural changes, processes and systems, or people—you may either hold up the whole reorg or find that your new organization has been launched half born. In many cases the organization has changed but the systems (notably the P&L) have not, and leaders are left driving a fast car with no steering wheel.

Executives at the media company put in extra effort at this stage. The CEO continued to spend significant time on the reorganization; leaders were appointed to their new roles before the switchover so that they could begin to own and steer the work; and the reorg project team members moved from managing the process out of HQ to

visiting the regional businesses that would be most difficult to transition and working with the local management teams to hammer out the plan. In particular, they took pains to understand how the P&L of each local business broke down and who would be responsible for each revenue or cost lever in the new organization. Of course, this process highlighted previously unappreciated challenges—such as the fact that customer segmentation, which was clear at the global level, was sometimes less clear in a few countries where customer groups blended together; and the need to account for acquisitions that were midway through integration when the detailed design was developed. This prompted the company to make some tweaks and exceptions to its new structure and processes and to lengthen transition periods for some units. But its leaders stood fast on something we’ve found to be a fundamental rule for successful reorgs: 80% of the business (by revenue, profit, and people) must make the change, and the exceptions must not be allowed to hold up progress for the rest.

Step 5: Launch, Learn, and Course Correct

No matter how much thought and preparation you put into a reorg, it’s unrealistic to expect that it will work perfectly from the beginning. As Nancy McKinstry, the CEO of another client—the information services company Wolters Kluwer—says, “You have to live with and digest it, and rapidly course correct when you find issues.” That doesn’t mean you need to do a 180 in the design as soon as you hit a snag. But you do need to encourage everyone to spot and point out the new organization’s teething problems, openly debate solutions, and implement the appropriate fixes as soon as possible, in line with the logic of your original plans.

The media company’s reorg was altered in several ways after the launch. One activity around developing content, which had been allocated to a new business line, was returned to its original unit, because synergies that had been persuasive on paper turned out to be less impressive in practice. Back-office activities, untouched by

the revenue-focused reorg, were further consolidated afterward, bringing cost savings into the mix.

Within three years of the reorg, the company had met its goal: The issue of flat revenue had been addressed and the growth target met.

If you're contemplating a reorg, you owe it to your shareholders and employees to follow a rigorous process rather than winging it, as so many leaders do. You'll make better decisions, keep your people more involved and engaged, and capture more value.

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Your Workforce Is More Adaptable Than You Think

*by Joseph B. Fuller, Judith K. Wallenstein,
Manjari Raman, and Alice de Chalendar*

MANY MANAGERS HAVE LITTLE FAITH in their employees' ability to survive the twists and turns of a rapidly evolving economy. "The majority of people in disappearing jobs do not realize what is coming," the head of strategy at a top German bank recently told us. "My call center workers are neither able nor willing to change."

This kind of thinking is common, but it's wrong, as we learned after surveying thousands of employees around the world. In 2018, in an attempt to understand the various forces shaping the nature of work, Harvard Business School's Project on Managing the Future of Work and the Boston Consulting Group's Henderson Institute came together to conduct a survey spanning 11 countries—Brazil, China, France, Germany, India, Indonesia, Japan, Spain, Sweden, the United Kingdom, and the United States—gathering responses from 1,000 workers in each. In it we focused solely on the people most vulnerable to changing dynamics: lower-income and middle-skills workers. The majority of them were earning less than the average household income in their countries, and all of them had no more than two years of postsecondary education. In each of eight countries—Brazil, China, France, Germany, India, Japan, the

United Kingdom, and the United States—we then surveyed at least 800 business leaders (whose companies differed from those of the workers we surveyed). In total we gathered responses from 11,000 workers and 6,500 business leaders.

What we learned was fascinating: The two groups perceived the future in significantly different ways. Given the complexity of the changes that companies are confronting today and the speed with which they need to make decisions, this gap in perceptions has serious and far-reaching consequences for managers and employees alike.

Predictably, business leaders feel anxious as they struggle to marshal and mobilize the workforce of tomorrow. In a climate of perpetual disruption, how can they find and hire employees who have the skills their companies need? And what should they do with people whose skills have become obsolete? The CEO of one multinational company told us he was so tormented by that last question that he had to seek counsel from his priest.

The workers, however, didn't share that sense of anxiety. Instead, they focused more on the opportunities and benefits that the future holds for them, and they revealed themselves to be much more eager to embrace change and learn new skills than their employers gave them credit for.

The Nature of the Gap

When executives today consider the forces that are changing how work is done, they tend to think mostly about disruptive *technologies*. But that's too narrow a focus. A remarkably broad set of forces is transforming the nature of work, and companies need to take them all into account.

In our research we've identified 17 forces of disruption, which we group into six basic categories. (See the sidebar "The Forces Shaping the Future of Work.") Our surveys explored the attitudes that business leaders and workers had toward each of them. In their responses, we were able to discern three notable differences in the ways that the two groups think about the future of work.

Idea in Brief

The Problem

As they try to build a workforce in a climate of perpetual disruption, business leaders worry that their employees can't—or just won't—adapt to the big changes that lie ahead. How can companies find people with the skills they will need?

What the Research Shows

Harvard Business School and the BCG Henderson Institute surveyed thousands of business leaders

and workers around the world and discovered an important gap in perceptions: Workers are far more willing and able to embrace change than their employers assume.

The Solution

This gap represents an opportunity. Companies need to start thinking of their employees as a reserve of talent and energy that can be tapped by providing smart on-the-job skills training and career development.

The first is that *workers seem to recognize more clearly than leaders do that their organizations are contending with multiple forces of disruption, each of which will affect how companies work differently.* When asked to rate the impact that each of the 17 forces would have on their work lives, using a 100-point scale, the employees rated the force with the strongest impact 15 points higher than the force with the weakest impact. In comparison, there was only a nine-point spread between the forces rated the strongest and the weakest by managers.

In fact, the leaders seemed unable or unwilling to think in differentiated ways about the forces' potential for disruption. When asked about each force, roughly a third of them described it as having a significant impact on their organization today; close to half projected that it would have a significant impact in the future; and about a fifth claimed it would have no impact at all. That's a troubling level of uniformity, and it suggests that most leaders haven't yet figured out which forces of change they should make a priority.

Interestingly, workers appeared to be more aware of the opportunities and challenges of several of the forces. Notably, workers focused on the growing importance of the gig economy, and they ranked "freelancing and labor-sharing platforms" as the third most

The Forces Shaping the Future of Work

Accelerating Technological Change

- New technologies that replace human labor, threatening employment (such as driverless trucks)
- New technologies that augment or supplement human labor (for example, robots in health care)
- Sudden technology-based shifts in customer needs that result in new business models, new ways of working, or faster product innovation
- Technology-enabled opportunities to monetize free services (such as Amazon web services) or underutilized assets (such as personal consumption data)

Growing Demand for Skills

- General increase in the skills, technical knowledge, and formal education required to perform work
- Growing shortage of workers with the skills for rapidly evolving jobs

Changing Employee Expectations

- Increased popularity of flexible, self-directed forms of work that allow better work-life balance
- More widespread desire for work with a purpose and opportunities to influence the way it is delivered (for example, greater team autonomy)

significant of all 17 forces. Business leaders, however, ranked that force as the least significant.

The second difference that emerged from our survey was this: *Workers seem to be more adaptive and optimistic about the future than their leaders recognize.*

The conventional wisdom, of course, is that workers fear that technology will make their jobs obsolete. But our survey revealed that to be a misconception. A majority of the workers felt that advances such as automation and artificial intelligence would have a positive impact on their future. In fact, they felt that way about

Shifting Labor Demographics

- Need to increase workforce participation of underrepresented populations (such as elderly workers, women, immigrants, and rural workers)

Transitioning Work Models

- Rise of remote work
- Growth of contingent forms of work (such as on-call workers, temp workers, and contractors)
- Freelancing and labor-sharing platforms that provide access to talent
- Delivery of work through complex partner ecosystems (involving multiple industries, geographies, and organizations of different sizes), rather than within a single organization

Evolving Business Environment

- New regulation aimed at controlling technology use (for example, “robot taxes”)
 - Regulatory changes that affect wage levels, either directly (such as minimum wages or Social Security entitlements) or indirectly (such as more public income assistance or universal basic income)
 - Regulatory shifts affecting cross-border flow of goods, services, and capital
 - Greater economic and political volatility as members of society feel left behind
-

two-thirds of the forces. What concerned them most were the forces that might allow *other workers*—temporary, freelance, outsourced—to take their jobs.

When asked why they had a positive outlook, workers most commonly cited two reasons: the prospect of better wages and the prospect of more interesting and meaningful jobs. Both automation and technology, they felt, heralded opportunity on those fronts—by contributing to the emergence of more-flexible and self-directed forms of work, by creating alternative ways to earn income, and by making it possible to avoid tasks that were “dirty, dangerous, or dull.”

In every country workers described themselves as more willing to prepare for the workplace of the future than managers believed them to be (in Japan, though, the percentages were nearly equal). Yet when asked what was holding workers back, managers chose answers that blamed employees, rather than themselves. Their most common response was that workers feared significant change. The idea that workers might lack the support they needed from employers was only their fifth-most-popular response.

That brings us to our third finding: *Workers are seeking more support and guidance to prepare themselves for future employment than management is providing.*

In every country except France and Japan, significant majorities of workers reported that they—and not their government or their employer—were responsible for equipping themselves to meet the needs of a rapidly evolving workplace. That held true across age groups and for both men and women. But workers also felt that they had serious obstacles to overcome: a lack of knowledge about their options; a lack of time to prepare for the future; high training costs; the impact that taking time off for training would have on wages; and, in particular, insufficient support from their employers. All are barriers that management can and should help workers get past.

What Employers Can Do to Help

The gap in perspectives is a problem because it leads managers to underestimate employees' ambitions and underinvest in their skills. But it also shows that there's a vast reserve of talent and energy companies can tap into to ready themselves for the future: their workers.

The challenge is figuring out how best to do that. We've identified five important ways to get started.

1. Don't just set up training programs—create a learning culture

If companies today engage in training, they tend to do it at specific times (when onboarding new hires, for example), to prepare

workers for particular jobs (like selling and servicing certain products), or when adopting new technologies. That worked well in an era when the pace of technological change was relatively slow. But advances are happening so quickly and with such complexity today that companies need to shift to a continuous-learning model—one that repeatedly enhances employees’ skills and makes formal training broadly available. Firms also need to expand their portfolio of tactics beyond online and off-line courses to include learning on the job through project staffing and team rotations. Such an approach can help companies rethink traditional entry-level barriers (among them, educational credentials) and draw from a wider talent pool.

Consider what happens at Expeditors, a *Fortune* 500 company that provides global logistics and freight-forwarding services in more than 100 countries. In vetting job candidates, Expeditors has long relied on a “hire for attitude, train for skill” approach. Educational degrees are appreciated but not seen as critical for success in most roles. Instead, for all positions, from the lowest level right up to the C-suite, the company focuses on temperament and cultural fit. Once on staff, employees join an intensive program in which every member of the organization, no matter how junior or senior, undertakes 52 hours of incremental learning a year. This practice supports the company’s promote-from-within culture. Expeditors’ efforts seem to be working: Turnover is low (which means substantial savings in hiring, training, and onboarding costs); retention is high (a third of the company’s 17,000 employees have worked at the company for 10 years or more); most senior leaders in the company have risen through the ranks; and several current vice presidents and senior vice presidents, along with the current and former CEOs, got their jobs despite having no college degree.

2. Engage employees in the transition instead of herding them through it

As companies transform themselves, they often find it a challenge to attract and retain the type of talent they need. To succeed, they have to offer employees pathways to professional and personal

improvement—and must engage them in the process of change, rather than merely inform them that change is coming.

That's what ING Netherlands did in 2014, when it decided to reinvent itself. The bank's goal was ambitious: to turn itself into an agile institution almost overnight. The company's current CEO, Vincent van den Boogert, recalls that the company's leaders began by explaining the *why* and the *what* of the transformation to all employees. Mobile and digital technologies were dramatically altering the market, they told everybody, and if ING wanted to meet the expectations of customers, improve operations, and deploy new technological capabilities, it would have to become faster, leaner, and more flexible. To do that, they said, the company planned to make investments that would reduce costs and improve service. But it would also eliminate a significant number of jobs—at least a quarter of the total workforce.

Then came the *how*. Rather than letting the ax fall on select employees—a process that creates psychological trauma throughout a company—ING decided that almost everybody at the company, regardless of tenure or seniority, would be required to resign. After that, anybody who felt his or her attitude, capabilities, and skills would be a good fit at the “new” bank could apply to be rehired. That included Van den Boogert himself. Employees who did not get rehired would be supported by a program that would help them find jobs outside ING.

None of this made the company's transformation easy, of course. But according to Van den Boogert, the inclusive approach adopted by management significantly minimized the pain that employees felt during the transition, and it immediately set the new, smaller bank on the path to success. The employees who rejoined ING actively embraced its new mission, felt less survivor's remorse, and devoted themselves with excitement to the job of transformation. “When you talk about the *why*, *what*, and *how* at the same time,” Van den Boogert told us, “people are going to challenge the *why* to prevent the *how*. But in this case, everyone had already been inspired by the *why* and *what*.”

3. Look beyond the “spot market” for talent

Most successful companies have adopted increasingly aggressive strategies for finding critical high-skilled talent. Now they must expand that approach to include a wider range of employees. AT&T recognized that need in 2013, while developing its Workforce 2020 strategy, which focused on how the company would make the transition from a hardware-centric to a software-centric network.

The company had undergone a major transformation once before, in 1917, when it launched plans to use mechanical switchboards rather than human operators. But it carried that transformation out over the course of five decades! The Workforce 2020 transformation was much more complex and had to happen on a much faster timeline.

To get started, AT&T undertook a systematic audit of its quarter of a million employees to catalog their current skills and compare those with the skills it expected to need during and after its revamp. Ultimately, the company identified 100,000 employees whose jobs were likely to disappear, and several areas in which it would face skills and competency shortages. Armed with those insights, the company launched an ambitious, multiyear \$1 billion initiative to develop an internal talent pipeline instead of simply playing the “spot market” for talent. In short, to meet its evolving needs, AT&T decided to make retraining available to its existing workforce. Since then, its employees have taken nearly 3 million online courses designed to help them acquire skills for new jobs in fields such as application development and cloud computing.

Already, this effort has yielded some unexpected benefits. The company now hires far fewer contractors to meet its needs for technical skills, for example. “We’re shifting to employees,” one of the company’s top executives told CNBC this past March, “because we’re starting to see the talent inside.”

4. Collaborate to deepen the talent pool

In a fast-evolving environment, competing for talent doesn’t work. It simply leads to a tragedy of the commons. Individual companies

try to grab the biggest share of the skilled labor available, and these self-interested attempts just end up creating a shortage for all.

To avoid that problem, companies will have to fundamentally change their outlook and work together to ensure that the talent pool is constantly refreshed and updated. That will mean teaming up with other companies in the same industry or region to identify relevant skills, invest in developing curricula, and provide on-the-job training. It will also require forging new relationships for developing talent by, for instance, engaging with entrepreneurs and technology developers, partnering with educational institutions, and collaborating with policy makers.

U.S. utilities companies have already begun doing this. In 2006 they joined forces to establish the Center for Energy Workforce Development. The mission of the center, which has no physical office and is staffed primarily by former employees from member companies, is to figure out what jobs and skills the industry will need most as its older workers retire—and then how best to create a pipeline to meet those needs. “We’re used to working together in this industry,” Ann Randazzo, the center’s executive director, told us. “When there’s a storm, everybody gets in their trucks. Even if we compete in certain areas, including for workers, we’ve all got to work together to build this pipeline, or there just aren’t going to be enough people.”

The center quickly determined that three of the industry’s most critical middle-skills jobs—linemen, field operators, and energy technicians—would be hit hard by the retirement of workers in the near future. Together, those three jobs make up almost 40% of a typical utility’s workforce. To make sure they wouldn’t go unfilled, CEWD implemented a two-pronged strategy. It created detailed tool kits, curricula, and training materials for all three jobs, which it made available free to utility companies; and it launched a grass-roots movement to reach out to next-generation workers and promote careers in the industry.

CEWD believes in connecting with promising talent early—very early. To that end, it has been working with hundreds of elementary, middle, and high schools to create materials and programs

that introduce students to the benefits of working in the industry. These include a sense of larger purpose (delivering critical services to customers); stability (no offshoring of jobs, little technological displacement); the use of automation and technology to make jobs less physically taxing and more intellectually engaging; and, last but not least, surprisingly high wages. Describing the program to us, Randazzo said, “You’re *growing* a workforce. We had to start from scratch to get students in the lower grades to understand what they need to do and to really be able to grow that all the way through high school to community colleges and universities. And it’s not a one-and-done. We have to continually nurture it.”

5. Find ways to manage chronic uncertainty

In today’s world, managers know that if they don’t swiftly identify and respond to shifts, their companies will be left behind. So how can firms best prepare?

The office-furniture manufacturer Steelcase has come up with some intriguing ideas. One is its Strategic Workforce Architecture and Transformation (SWAT) team, which tracks emerging trends and conducts real-time experiments in how to respond to them. The team has launched an internal platform called Loop, for example, where employees can volunteer to work on projects outside their own functions. This benefits both the company and its employees: As new needs arise, the company can quickly locate workers within its ranks who have the motivation and skills to meet them, and workers can gain experience and develop new capabilities in ways that their current jobs simply don’t allow.

Employees at Steelcase have embraced Loop, and its success illustrates an idea that came through very clearly in our survey results. As Jill Dark, the director of the SWAT team, put it to us, “If you give people the opportunity to learn something new or to show their craft, they will give you their best work. The magic is in providing the opportunity.”

That’s a lesson that all managers should heed.

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About the Contributors

N. ANAND is the Shell Professor of Global Leadership and the dean of faculty and R&D at IMD.

RON ASHKENAS is a coauthor of the *Harvard Business Review Leader's Handbook* and a Partner Emeritus at Schaffer Consulting. His books include *The Boundaryless Organization*, *The GE Work-Out*, and *Simply Effective*.

JEAN-LOUIS BARSOUX is a term research professor at IMD.

JULIE BATTILANA is the Joseph C. Wilson Professor of Business Administration at Harvard Business School and the Alan L. Gleitsman Professor of Social Innovation at Harvard Kennedy School.

TIM BROWN is Executive Chair of the international design consulting firm IDEO and the author of *Change by Design*.

TIZIANA CASCIARO is a professor of organizational behavior and holds the Professorship in Leadership Development at the University of Toronto's Rotman School of Management.

ALICE DE CHALENDAR is a consultant at BCG and a researcher at the BCG Henderson Institute.

SUZANNE FRANCIS is a senior partner at Schaffer Consulting, based in Stamford, Connecticut.

JOSEPH B. FULLER is a professor of management practice and a cochair of the Project on Managing the Future of Work at Harvard Business School.

NATHAN FURR is a strategy professor at INSEAD and a coauthor of *Innovation Capital* (HBR Press, 2019), *Leading Transformation* (HBR Press, 2018), and *The Innovator's Method* (HBR Press, 2014).

STEPHEN HEIDARI-ROBINSON was British Prime Minister David Cameron's adviser on energy and the environment. He was a leader in McKinsey's organization practice, and he is a coauthor of *ReOrg: How to Get It Right* (HBR Press, 2016).

RICK HEINICK is the corporate vice president of global human resources and transformation at Bausch + Lomb and a former senior partner at Schaffer Consulting.

SUZANNE HEYWOOD is the managing director of Exor Group. She was a leader in McKinsey's organization practice, and she is a coauthor of *ReOrg: How to Get It Right* (HBR Press, 2016).

JON R. KATZENBACH is a leading practitioner in organizational strategies for Strategy&, PwC's strategy consulting group.

JOHN P. KOTTER is a best-selling author, award-winning business and management thought leader, business entrepreneur, and the Konosuke Matsushita Professor of Leadership, Emeritus at Harvard Business School. His ideas, books, and company, Kotter, help people lead organizations in an era of increasingly rapid change.

CAROLINE KRONLEY is the president of the Tinker Foundation.

JAY W. LORSCH is the Louis E. Kirstein Professor of Human Relations at Harvard Business School.

ROGER L. MARTIN is the director of the Martin Prosperity Institute and a former dean of the Rotman School of Management at the University of Toronto. He is a coauthor of *Creating Great Choices: A Leader's Guide to Integrative Thinking* (HBR Press, 2017).

EMILY MCTAGUE is a research associate at Harvard Business School.

ANDY NOBLE is a partner in Bain & Company's Boston office, specializing in retail and organization.

MANJARI RAMAN is a program director and senior researcher for Harvard Business School's Project on U.S. Competitiveness and the Project on Managing the Future of Work.

DARRELL K. RIGBY is a partner in the Boston office of Bain & Company. He heads the firm's global innovation and retail practices. He is the author of *Winning in Turbulence* and a coauthor of *Doing Agile Right: Transformation without Chaos* (HBR Press, 2020).

ANDREW SHIPILOV is a John H. Loudon Chaired Professor of International Management at INSEAD. He is a coauthor of *Network Advantage: How to Unlock Value From Your Alliances and Partnerships*.

ILONA STEFFEN is a director in the Zurich office of Strategy&.

JEFF SUTHERLAND is a cocreator of the scrum form of agile innovation and the CEO of Scrum Inc., a consulting and training firm.

JUDITH K. WALLENSTEIN is a senior partner and managing director at Boston Consulting Group, a BCG Fellow, and the director of the BCG Henderson Institute in Europe.

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