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Leading change

In chapter 2 we presented a framework to plan for and manage strategic and organizational change. Building upon this framework, this chapter examines the nature of the leadership tasks and skills required for leading change. It examines the nature of change leadership, identifies four “key drivers of change,” and identifies the skills that leaders need to develop to use these drivers in successfully managing change. Finally, the chapter examines some recent research that is relevant to leading successful change efforts.

Leadership required to create change

What kind of leadership is required to create change? Many scholars and writers approach this question by looking at the style or personality of the leader. There is a popular notion that leaders of change are people with bold vision, and that there is a set of leadership characteristics – including charisma – that are important determinants of leadership effectiveness. This school of thought might be termed the “heroic school of leadership.” Examples of heroic leaders are Lee Iacocca, who rescued Chrysler; Steven Jobs, of Apple and Pixar; Jack Welch, who led GE to the next level of greatness; Howard Schultz, who led Starbucks to become a coffee colossus; and Louis Gerstner, who led the revitalization of IBM. Undoubtedly these larger than life leaders do exist, and they were each successful in creating change; but it is not necessarily correct to assume that their results were the fruits of their efforts alone or that they personify the model or mode of leadership required to create change.

Three things are important to note. First, none of these individuals worked alone to create the changes required in their companies. Second, charisma alone does not an effective leader of change make. Finally, there is no one “best” style for leading change. Instead, successful change leadership is the result of having the skills and

capabilities to manage four key drivers of organizational success, which are identified below.

Change leadership: understanding the four key drivers of organizational change

Based upon our experience in working with organizations for many years, we have formulated a four-factor model of the key tools or “drivers” of organizational change. According to this view, there are four primary drivers of change: vision, culture, systems, and operations. We term this the “VCSO theory,” where the letters represent the four different drivers of change, as shown in exhibit 3.1. The basic notion is that these four factors are critical to helping organizations, teams, and individuals move through the change process that was described in chapter 1. Therefore, leaders of the change process need to focus on these four factors if they are to maximize the potential for success. Each of these factors and the role that leaders should play with respect to each is examined below.

Vision

A vision is both a requirement of effective leadership of change and a tool as well. Effective change, whether operational or strategic, requires a vision of what the leader is trying to achieve as the end result of the change process. This involves defining what the end state will “look like” – that is, what the business foundation is and/or how each of the six strategic building blocks (markets, products, resources, operational systems, management systems, culture) should be designed. It also involves communicating this vision effectively to all those who will need to be involved in making the vision a reality.

Unless people can “visualize” what the end result of the change will be, they will be uncertain. They will also be more likely to resist the change. As discussed in chapter 2, creating a vision of the desired end state is an essential first step in the change management process. Having a well-defined vision is, in fact, critical to the success of moving an organization, team, or individual from phase 1 (planning) to phases 2 and 3 (getting started and “letting go”) of the change process. This means that leaders of change must understand how to define, communicate, create buy-in for, and reinforce their vision. As

Vision

- Creating a “picture” of what the future state will be like (that is, results to be achieved)
- Clearly communicating the vision to all involved
- Continually reinforcing the vision through words and actions

Culture

- Identifying what the current culture is with respect to innovation, risk taking, change, etc.
- Defining the “desired” culture with respect to change
- Managing the culture so that it promotes valuing and embracing change (as opposed to resisting change)

Systems

- Identifying targets of change within existing systems
- Evaluating the costs and benefits of changing existing systems
- Developing new systems (operational and management) to support vision and culture changes
- Helping others “let go” of the old ways of doing things

Operations

- Using day-to-day operations of a business, business unit, or administrative unit to support change
- Influencing the behavior of people on a day-to-day basis to operate in ways consistent with changes to the vision, culture, and/or systems

Exhibit 3.1 Summary of the key drivers of change: VCSO theory

described in chapter 2, one tool that can be used in defining and communicating the vision is the “change management matrix.”

Definition and communication of a vision, however, are not enough to ensure success. Effective leaders also need to find ways to help those who must support the vision accept and embrace it as a desired end state. This means understanding and addressing possible resistance to change. It also means helping others understand how achieving the

vision will benefit them. Finally, leaders need to find ways to reinforce their vision – through their own words and actions and through recognizing those whose behavior is consistent with moving the organization, team/unit, or individual target of change to the desired end state.

Culture

Some organizational cultures are more likely than others to promote the idea that change should be embraced (rather than resisted). A requirement of effective change management is to be able to create and manage a culture that is supportive of change, innovation, appropriate risk taking, etc. This is a characteristic of successful, growing, entrepreneurial companies. Support for change is also something that needs to be fostered and maintained in larger companies, where a variety of factors (discussed in chapter 1) may contribute to a culture that promotes resisting versus embracing change.

In the absence of a culture that promotes openness to change, change efforts can be ignored or resisted. Ignoring change is a form of passive aggressive resistance. There isn't outright resistance. Instead, people adopt the attitude that "this will eventually pass, so we'll just wait and see." They may give "lip service" to the change, but they do not embrace it. As discussed previously, resistance involves actively working against the change.

Leaders of the change process, then, need to understand how to create and manage a culture that promotes openness to change. Promoting this value needs to be a focus of leaders on an ongoing basis, as opposed to something that is addressed only when there is a need to change. In small organizations, leaders can promote this value through direct contact with employees – through their own words and actions and through the recognition that they give to others who support change efforts.

As the organization grows, the value placed on change can start to decline – unless there is a focus on preserving it. Direct contact with employees can no longer be the principal mechanism for communicating and reinforcing this value because the organization is simply too large. Therefore, leaders need to find less direct ways to help employees continue to embrace the need for and recognize the value of

change. This can be done through creating processes or systems that support or promote innovation (such as 3M's "skunk works"), through finding ways to recognize and reward innovation and appropriate risk taking, through implicit or explicit communication, and through other means.

Organizations of all sizes should include strategies for maintaining the focus on innovation and change in their strategic organizational development plans (as described in chapter 2). In brief, embedded in the strategic plan should be a "culture management plan."¹ A first step in developing this aspect of the plan involves collecting information on what the current culture is with respect to change, innovation, risk taking, etc. (the "current culture"). This might be done using a culture survey or interviews. Next, leaders need to identify what the culture should be with respect to these factors (the "desired culture"). Leaders then need to identify the steps that can be taken to move from the current to the desired culture. These steps should be reflected in the company's strategic plan. Since culture affects and is affected by all other aspects of the Pyramid of Organizational Development™, moving from the current to the desired culture will typically involve making changes in other components of the business model. Again, these will be reflected in the strategic plan. A final step in this "culture management process" is to monitor performance against the plan. Again, this will occur in the context of the overall strategic planning process.

While developing, implementing, and monitoring performance against a culture management plan is important, it is not enough to ensure success in terms of this driver of change. As is true of other drivers, leaders of the change process need to continually serve as role models for the value placed on change. Leaders' words and actions will serve as signals to employees about what is and is not valued with respect to change.

Systems

Systems – both operational and management systems – are important tools in creating and supporting change. These systems provide the infrastructure required to support ongoing operations and promote

¹ Flamholtz and Randle, *Growing Pains*, chap. 12.

long-term growth and development. They are also important elements in the successful change process.

As described in chapter 2, operational systems consist of all the systems required to facilitate the operations of the business on a daily basis. They include sales and marketing, production or service delivery, accounting, human resource management (recruiting, selection, training), and information systems. Management systems are the systems required for the growth and development of a business. They include the planning system, organization structure, management development processes and systems, and control/performance management systems.

Step 1 of the strategic organizational development planning process (assessing the need for change) should assist leaders in identifying the strengths and limitations of these systems. This assessment should involve identifying specific changes that may need to be made to these systems to support long-term growth – including changes that will help the organization maximize external opportunities and minimize external threats; and support specific changes within other components of the Pyramid of Organizational Development™ business model. Since changing systems can be costly (e.g., changing a computer platform), leaders of the change process need to evaluate carefully the costs and benefits associated with possible changes on both a short- and long-term basis. They also need to be sure to take a comprehensive view of their organization – rather than simply focusing on what might be best for their unit or business team. Finally, leaders (like all those the change will affect) need to be willing to “let go” of the old way of doing things and embrace the “new” system. This is, perhaps, the most difficult aspect to manage with respect to this driver of change.

Once the targets of change – that is, the specific systems that need to be changed – have been identified, the “new” systems need to be clearly defined in the organization’s strategic plan. In brief, they need to be reflected in the future business design (as described in chapter 2). Leaders and all those who will be affected by the change need to understand what the new system will look like or do. Further, leaders need to recognize that changing systems can lead to a cascade of organizational changes. Changes in technology or operations flow can lead to changes in roles and organizational structure. Changes in management systems such as planning can lead to changes throughout an organization.

This means that the leaders of the change process need to have an understanding of organizational systems, their relationship to each other, and the impact that changing systems can have on overall operations. This is not to suggest that leaders need to understand all the technical details of all organizational systems. Instead, they need to have a more holistic understanding of how the various systems relate to one another. They can bring in technical experts to assist with the details.

Once the picture of the future system has been “painted,” leaders then need to identify the steps that will be taken to implement the new system fully. This involves creating a clear plan for how the organization will move from the current to the end state of the change process. It also involves identifying and developing plans to deal with possible resistance to these changes.

Operations

Operations may be either a driver of change or the element that is affected by other changes. In this context, “operations” refer to the day-to-day activities that take place in a business. The term relates to, among other things, how information flows through a business, how products move from idea through launch, how people are trained and coached daily by their managers, how “orders” flow from customers through shipping, how the company tracks its financials on a day-to-day basis, and many other processes and systems. At its most basic level, operations relates to how systems and processes are actually implemented and used, and how people behave within their roles and within the company.

As a driver of change, operations is, in a very real sense, on the “front line” of the change process. It is the most visible outcome of efforts to change the behavior of an organization, team/unit, or individual. Changes in the other drivers – vision, culture, systems – will ultimately be reflected in changes in operations, which, in turn, will be reflected in changes in people’s behavior.

Systems and operations are, in a sense, the most closely related drivers of change. The systems driver relates to the design and implementation of new operational or management systems, which, in turn, affect operations. The operations driver relates to influencing the behavior of people on a daily basis so that they embrace

and operate in ways consistent with the new systems, processes, etc. Therefore, it is typically the case that the leaders of the systems “driver” will be different from the leaders of the operations “driver.” One example of this is how the successful implementation of American Express’s shift to an Internet-based approach to operations (developed by systems people) depended on the ability of leaders in operations to help their team members accept and embrace the change. Another example is the adoption of the “just in time” inventory management philosophy of operations, which had a profound impact on inventory management operations in the automobile and other related industries in the 1980s. A third example is the shift from a “point-to-point” operational approach in the airline industry to a “hub and spoke” approach to operations. In each example, leaders focused on operations were important to the successful implementation of the change.

Leaders focused on the operations driver of change need to understand how to translate the changes made to the organization’s business model – that is, changes made within the Pyramid of Organizational Development™ – into changes in daily behavior. In a sense, they need to break these changes down into the concrete steps that will be taken by teams/units or individuals to implement the change fully. This can involve changing team/unit or individual roles and responsibilities, providing training, changing reward/recognition systems, and other factors. Leaders also need to find ways to show – through their words and actions – that they understand and embrace the “new” way of operating.

Developing change management leadership capabilities

Becoming an effective leader of change involves the following:²

- understanding and embracing the role of leader in the change process (role concept);
- developing the skills needed to implement this role effectively (skills); and

² The three factors described in this section – role concept, skills, and managerial psychology (the “inner game”) – represent three critical determinants of “management/leadership” effectiveness. This framework is explained in more depth in chapter 9 of Flamholtz and Randle, *Growing Pains*.

- managing one's "mindset" or psychology so that it supports, rather than detracts from, the ability to implement the leadership role effectively in the context of the change process (the "inner game").

Each of these factors is explained below.

Understanding and embracing the "leadership" role

For an individual to be an effective leader of change, he or she needs to understand the nature of this role. The role of "change leader" involves, among other things, devoting time to:

- continually monitoring the need for change at the organizational, team/unit, and individual levels of the enterprise;
- developing change management plans;
- creating buy-in on the proposed changes and the change management plan;
- implementing and monitoring performance against these plans; and
- identifying and dealing with resistance to change.

In brief, the change leader needs to spend time differently from a "traditional" manager. This may mean, in some cases, that certain tasks previously performed by this individual need to be delegated to others. In other cases, the role of the leader may have been defined from the very beginning as that of a "change agent."

In addition, the role of change leader involves behaving in ways that are consistent with moving the organization, team/unit, and/or individual to the desired end state. The change leader needs to be a role model for what behavior consistent with the desired end state "looks like."

Finally, the change leader needs to accept that his or her role involves focusing on and helping the organization, team/unit, and/or individual team members understand and embrace change. The final section of this chapter presents research findings that can assist those already in or making the transition to change leadership roles in understanding what they can do to increase the probability of a successful change effort.

Skills

Developing effective change leadership skills means having the skills needed to deploy the four drivers of change presented in the last

section – “visioning,” corporate culture management, systems development and implementation, and the management of day-to-day operations. Being able to deploy these four drivers involves, at its broadest sense, developing what might be termed “organizational development skills.” In brief, what this means is that skilled change leaders need to understand and be able to implement effectively the strategic organizational development process (described in chapter 2). In addition, the ability to deploy these four drivers is also dependent upon leaders developing certain supporting skills.

To use the “visioning” driver effectively, an individual needs to understand how to define clearly the future state of the change process and create buy-in to this vision. Since visioning should begin with an understanding of the situation the organization, team/unit, and/or individual team members currently find themselves in, the individual needs to be able to analyze and use as input to decision making information about the environment and the organization’s own capabilities. In brief, the change leader needs to possess effective decision-making skills – including understanding how to make decisions as a member of a team. Deploying the visioning driver effectively also involves having effective communication skills. The change leader needs to be able to communicate this vision effectively to all those it will affect and be able to listen to feedback carefully. Finally, deploying the visioning driver involves understanding how to motivate others to embrace the change and be willing to work toward its realization. This involves possessing the skills of motivation and performance management – including understanding the role the leader needs to play in driving behavior.

Deploying the culture driver effectively involves understanding and being able to use a “culture management process.” Change leaders need to understand how to identify the organization’s or unit’s/team’s current culture as it relates to change. This involves collecting and analyzing information about what employees believe the company’s values are and about how employees actually behave. Using this information, change leaders need to be able to identify what the culture should be and what aspects of the existing culture need to be changed. Finally, change leaders need to understand and be able to use culture management “tools” such as recruiting/selection, systems redesign, communication, rewards/recognition, structure redesign, and others to support the culture change process. As is true of the visioning driver, fully deploying the culture driver involves understanding how to

motivate others to embrace the change and be willing to work toward its realization.

The skills needed to deploy the systems driver effectively can range from high-level “strategic” design of the systems required to support the change effort to more detailed design and implementation of these systems. The strategic aspect of design involves understanding the framework for organizational effectiveness and development described in chapter 2 and being able – individually or with a team – to identify the systems, processes, etc. that need to be in place at each level in the Pyramid of Organizational Development™ to support the continued success of the enterprise. This does not mean that change leaders operating at this level need to understand all the details of the design of these systems. Instead, it means that they need to be able to define and communicate clearly what the “new” system needs to do (i.e., the “end state”). As is true of being able to deploy the visioning driver, deploying the systems driver effectively involves having and using effective decision-making and communication skills.

There will be some change leaders in the systems area who *do* operate as experts in the detailed design of required systems. For example, the unit leader of the IT function might be a key member of the team who is developing and implementing a new computer system; or the head of manufacturing might be involved in the design and implementation of new, innovative manufacturing processes. In these cases, the individual needs to possess not only the skills needed to manage and work as a member of a team but also the technical knowledge needed to assist in system design and implementation.

Deploying the operations driver effectively involves developing and using a variety of skills. First, change leaders need to have the skills to translate plans into action. This typically involves understanding how to develop and work with others to develop detailed action plans. Second, change leaders need to understand how to create buy-in to the changes in behavior that are involved in using the operations driver. This means understanding how to motivate team members and using performance management systems as tools to promote desired behavior. Third, to deploy the operations driver effectively, change leaders need to have effective communication skills – including listening. They need to be able to help others understand what needs to be done or done differently and, at the same time, need to be able to listen to and address others’ concerns. Finally, as is true of deploying

the other drivers, it is important that change leaders demonstrate behavior consistent with the new ways of operating.

Utilizing the key drivers of change: need for a leadership team

Based upon our experience in working with organizations, we have observed that it is rare for a single individual to have the skills needed to deploy effectively all four drivers of change. Even when a single person can use all four drivers, it becomes increasingly difficult to do so alone and remain effective as the organization increases in size. In larger organizations that have been successful in managing growth and change, it is, therefore, most typical to find a core leadership team of three people who perform these functions as a team. We call this the “leadership molecule.”

The “leadership molecule”

A “leadership molecule” is an organizational unit of two or more leaders who function as a team and perform the key functions of creating a vision, managing the culture, developing systems, and managing operations. This leadership team typically consists of three people. Three is not a magic number, however. Sometimes it is a team of two, and occasionally a team of four.

These core leadership teams are always recognized by the organization, and sometimes, but not always, have a nickname. They might be known as “the Three Musketeers,” “the Dynamic Duo,” “the Four Musketeers,” or other creative names. At Starbucks, the core team of Howard Schultz, Howard Behar, and Orin Smith were known as “H₂O,” a play both on their initials and on the chemical formula for water, which is the foundation for coffee. At another company, there were two groups with nicknames: the “Three Musketeers” and the “Four Musketeers.” In this company, people recognized that there was an inner core of three people and a fourth member who was an “insider,” but not quite the equal of the other three.

An illustration: Starbucks

To make this concept more concrete, we now examine how it operated at Starbucks. As we shall see in chapter 5, for many years Howard

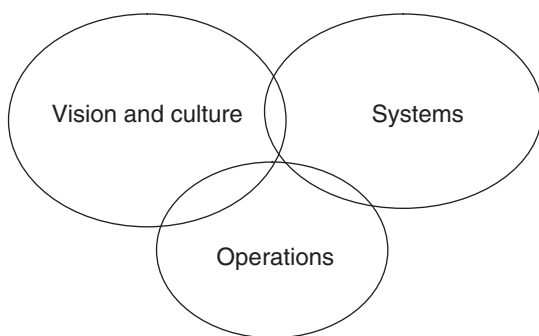


Exhibit 3.2 The “molecule” theory of leadership: the four functions exist as an integrated unit

Schultz was the CEO of Starbucks, and he performed the functions of vision and culture management. He had two major “sidekicks:” Orin Smith and Howard Behar. Smith, then the chief financial officer (CFO), was largely responsible for the development of support systems – not just financial management systems, but information systems and management systems as well. Howard Behar was the head of Starbucks operations. He ran the day-to-day operations of the largest component of the business: the retail stores or cafés. He was also a key person in transmitting the corporate culture throughout Starbucks.

Although many people contributed to the development of Starbucks, for years these three would have a weekly dinner to discuss the business. One of the authors of this book, who was consulting with Starbucks, was invited to sit in on one of these dinners and observe the dynamics. The three clearly operated as a team. This does not mean that there was not conflict. There was conflict and a clashing of opinions, but it was clear that they saw themselves as a team.

This notion of a leadership team as a molecule is shown schematically in exhibit 3.2. Exhibit 3.3 shows some examples of companies where we have observed the existence of this type of effective leadership molecule. These include Countrywide Financial Corporation and PacifiCare, as well as Starbucks.

When the four functions are not a “molecule”

We have observed many situations in which there is no molecule. This can be because a piece is missing (e.g., there is no one focused on

PacifiCare (early 1990s)

- Culture: Terry Hartshorn, CEO
- Vision and systems: Alan Hoops, COO
- Operations: Rich Lapellis, Head of California HMO

Starbucks

- Culture and vision: Howard Schultz, CEO
- Systems: Orin Smith, CFO
- Operations (and culture) : Howard Behar, SVP, Retail Stores

Countrywide

- Vision and culture: Angelo Mozilo, CEO
- Vision and systems: Stanford Kurland, COO
- Operations: Dave Sambol, EVP

Exhibit 3.3 Examples of companies where the leadership molecule exists

Note: HMO = health maintenance organization;

SVP = senior vice-president;

EVP = executive vice-president.

culture) or because the team is not functioning as a true molecule. This can best be viewed as three atoms in search of a molecule, as shown in exhibit 3.4.

When the four functions are not performed effectively by a leadership team, one or more of the following can occur:

- success will be “suboptimal”;
- there will be significant conflict;
- the organization will be overly “cautious”; and/or
- people will resist change because of the danger of “crossfire.”

All or any of these can significantly undermine the organization’s ongoing success.

Research on leading change: creating buy-in

As discussed throughout this chapter, one of the key skills that change leaders need to possess is the ability to help others understand and

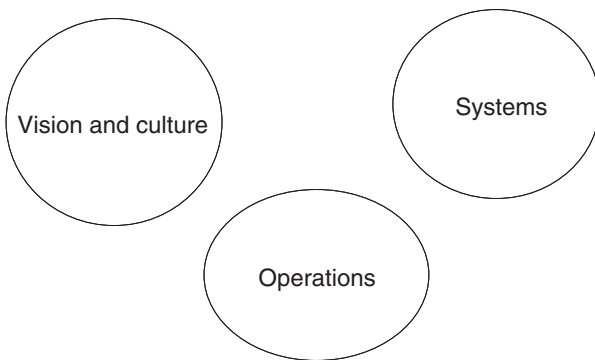


Exhibit 3.4 Three atoms in search of a molecule: the four functions exist, but not as a unit

“buy in” to the change. This section examines some of the research that is relevant to this skill.

Research on role of participation in change

There has been a great deal of research on the role of participatory leadership as a tool to enhance people’s willingness to change. Although participation is not a panacea or silver bullet, there is substantial evidence that when people participate in planning changes they are more willing to change themselves. For leaders in the change process, this suggests that it is important to identify how those who will be affected can and should participate in planning for and implementing the change.

It also appears that the simple act of having people discuss something among themselves and reach an agreement about an intention to act is more effective than attempts at persuasive communication. For example, during World War II the US government was interested in having people eat different cuts of beef. Research was conducted on the relative effectiveness of persuasive communication versus group discussion. It was found that, when people were permitted to discuss it among themselves, and when they indicated an intention to try the different cuts of meat, it was more effective in producing changed behavior than persuasive communication. These findings suggest that

leaders of the change process should identify ways to solicit input from those who will be affected early in the process. For example, in the context of the strategic planning process (described in chapter 2), this might mean asking people for input on the strengths and limitations of the organization at each level in the Pyramid of Organizational Development™ (part of step 1 of this process) and then sharing with those who provided input how this information was used in the development of the plan.

Risks of “pseudo-participation”

Unfortunately, the focus on the benefits of participation has led, at times, to the practice of “pseudo-participation.” This is a spurious form of participation in which leaders give the illusion of a participative process. For example, one general manager of a major world-class pharmaceuticals company had learned about the benefits of participation when he received his MBA degree at a leading Ivy League university. His practice was to bring up an issue for discussion until his team reached a decision. Then, if he did not like the decision, he would bring up the issue again and again until the “correct” decision – one he agreed with – was reached. His team was aware of this practice, but did not confront him on it. They simply played along. Privately, however, one asked: “Why do we go through this charade? This is a waste of time. Why doesn’t he just tell us what he wants to do?”

Leaders of the change process, then, need to be sure that if they ask people to participate in the change process – by providing input to decisions, actively working with a team to make decisions, and in other ways – the output of these efforts will actually be used and used effectively.

Research on data-based change

Another stream of research that is relevant to understanding how to communicate and create buy-in to change concerns the idea of “data-based change.” This is the notion that people are more likely to change as a result of data rather than persuasive communication.

A great deal of research, particularly by researchers at the Center for Utilization of Scientific Knowledge at the University of Michigan,

supports the notion of data-based change. In brief, when people are presented with data (either in qualitative or quantitative form) it allows them to formulate their own opinions about the need for change.

The authors of this book have had a great deal of experience with this strategy of change – both at the individual and organizational levels. In one instance, for example, the CEO of a mutual fund investment company refused to change the company's practice of being a "no minimum fund." Although virtually all the other senior executives in the company argued that the company was losing money on many of its clients, he refused to change the practice of there being no minimum amount in clients' accounts. Some of these arguments were quite heated, and the CEO was called stubborn. He held a strong belief that a young boy or girl who invested \$50 in his or her account from a newspaper route or babysitting would continue to invest more as he or she earned more money. After several years of arguments, a project was conducted to address this issue. The company determined that the break-even point for a client investment was \$5,000. If someone had less than \$5,000, the company would lose money. Research was also conducted to obtain actual data on the practices of the company's clients. The data derived indicated that the CEO's belief was not correct, and he finally changed his views about the need for account minimums.³

For leaders of change, this research suggests that using data in the planning, implementation, communication, and monitoring stages of the change management process is important. For example, sharing information on environmental opportunities and threats as a part of the strategic planning process can help those the change will affect understand its importance. Further, during the implementation process, those affected should be provided with regular feedback (information) about progress in achieving desired results, problems in achieving desired results and the impact these problems are having on the organization and team, and how the organization or team will be addressing the problems identified.

³ The CEO of this company had many strongly held views. Once he had changed his views on this issue, however, all other issues were then open for discussion.

The important role of planning in managing change

Research on change management is telling us that:

- a principle tool for managing change is participation in the planning process; and
- the key is creating congruence or alignment among the goals of different individuals or groups.

The value of planning is not just the plan per se but the process of creating the plans.

Summary

This chapter has examined the nature of the leadership tasks and skills required for leading change. We have also discussed the need for a leadership team or “molecule” as the key unit for leading complex strategic and organizational change. Finally, we have examined some research that is relevant to leading successful change efforts.