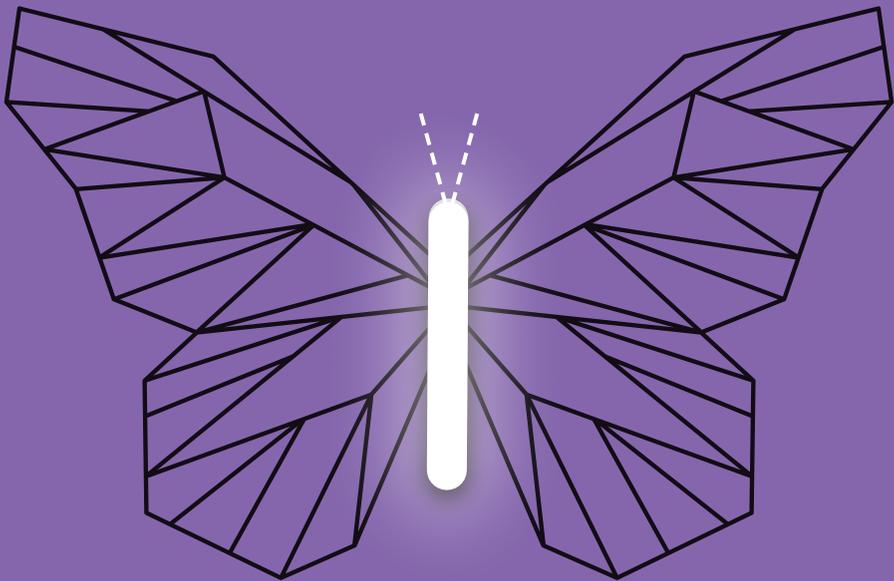




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THE TRANSFORMATION PLAYBOOK

INSIGHTS, WISDOM AND BEST PRACTICES
TO MAKE TRANSFORMATION REALITY



THE VERY BEST THINKING AND INSIGHTS
IN THE FIELD OF STRATEGY AND BEYOND

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50



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THE TRANSFORMATION PLAYBOOK

Insights, wisdom, and best practices to make transformation reality

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'If you want truly to understand something, try to change it.'

KURT LEWIN

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Preface

The *Transformation Playbook* is the third in a series of books the Brightline Initiative has produced in partnership with Thinkers50. As with the first two books – *Strategy@Work* and *The CSO Playbook* – we have gathered together insights from an array of practitioners and thinkers. They are a truly global and inspirational mix.

The aim of *The Transformation Playbook* is to ignite debate and thinking. Gone are the days (if they ever truly existed) when there was one single best answer to a business challenge. Now, there are a profusion of different approaches, tools and techniques. Ideas abound. And, reassuringly, so too does inspirational practice. Among the great transformation journeys recounted in the book are those of Michelin, Li & Fung, CenturyLink and the Department of Planning and Development in California’s Santa Clara County.

The linking theme to these stories and the ideas that fill the following pages is simple: people.

Our work at the Brightline Initiative has looked at strategy execution and the barriers that frequently prevent great strategies becoming brilliant reality. The biggest barriers are human. The human side of transformation is a recurring theme throughout *The Transformation Playbook*. One way or another, the purpose of transformation must be to enhance people’s lives. To make this reality demands that people are galvanized into dynamic action. Transformation is not a neat theory, but a human imperative in our fast-changing times. Transformation has never been more important and the human side of transformation is now, at long last, being fully appreciated.

We hope that *The Transformation Playbook* will challenge your own ideas about what it takes to transform organizations. And, we also hope that it provides useful and practical suggestions as to what to do when you start on your own transformation journey.

Start now!

Ricardo Viana Vargas

Executive Director, The Brightline Initiative

**'We cannot become what
we need to be by
remaining what we are.'**

MAX DE PREE

SUNIL PRASHARA

Foreword

In today's digital economy, the greatest rewards flow to those with the greatest capacity for change.

Organizations around the world are grappling with unprecedented upheaval, driven by profound and fast-moving shifts in disruptive technology, demographics, and customer expectations.

Empowered like never before with data-rich information at their fingertips, customers demand the highest quality services and products or they will quickly turn elsewhere, compelling every executive and leader to stretch their thinking in developing new solutions. Innovation and technological advancements are moving so quickly today that you may develop a new, differentiated way of delivering value, only for a competitor to come up with something as good (or better) within only a few weeks or months!

The only way to maintain pace in this environment is to embrace a culture of almost continuous change, in which transformation is seen not as a singular event, but as an ongoing journey.

Every executive today will attest to the importance of cultivating effective transformation; many struggle to actually implement it. The Project Management Institute and Forbes Insights conducted research in 2018, which found that nearly 80 percent of organizations had undergone a significant transformation effort over the past year that leveraged some type of disruptive technology. However, only about 25 percent of those initiatives have yielded tangible benefits realized against their original goals.

Clearly, many executives are struggling when it comes to navigating the complex journey of change given the complexity and fast-moving nature of today's technological landscape. So, what can be done to drive more successful transformation?

That's what this book is all about. Inside you will find insights from experts, distinguished thought leaders, and change makers from a wide variety of industries around the globe.

You'll gain insights on how organizations can more effectively capture the value of emerging technologies, from 5G to blockchain and artificial intelligence.

You will take away a greater understanding of how to effectively harness the talents of your entire team throughout every single stage of a transformation; even in the age of technology, change still succeeds or fails because of people. In my experience, leading large-scale change efforts throughout my career, full transparency is critical in carrying out effective transformation. I have learned first-hand the power of having people involved in the change journey from the very beginning through to the very end, and that requires communicating a clear vision of where you are heading together.

A common theme that runs through virtually every successful transformation is the importance of projects and leveraging proven project management practices to deliver value. Yet in the traditional workplace that many of us have grown accustomed to, work is largely organized around jobs defined by bulleted lists of static responsibilities. But the world is simply moving too fast to operate under this paradigm; rather than carrying out the same work each day, many professionals are increasingly called upon to tackle new challenges and embrace new approaches on a continual basis. We are far more likely to see a future in which more workplaces are organized around portfolios of projects, raising demand for talent who offer effective project skills and devote themselves to continually growing their abilities for the digital era.

Read on to learn more about some of the incredible projects driving change at leading organizations – and what you can do to strengthen your next large-scale transformation effort.

Sunil Prashara

President & CEO of the Project Management Institute

The human side of digital transformation

Digital transformation (DT) – the application of digital capabilities to organizations – promises to enhance efficiency, increase customer satisfaction, and uncover opportunities for growth. From big data, AI, blockchain technology, to the Cloud, many hail DT as the panacea to all organizational problems. Yet, 70 percent of all DT initiatives do not reach their goals. Of the \$1.3 trillion that was spent on DT in 2018, \$900 billion potentially went to waste. So, why do some DT efforts succeed and others fail?

Our experience in very different contexts suggests that, fundamentally, most digital technologies provide *possibilities* for efficiency gains through increasing the scale or pace of existing organizational practices. But if people lack the right mindset to change and the current practices are flawed, DT will magnify those flaws and amplify their debilitating impact on the organization. To make digital transformation work for your organization, here are five key lessons that have helped us.

Lesson 1: Give the authorship to insiders

Organizations that seek transformations (digital and otherwise) frequently bring in an army of outside consultants who tend to apply one-size-fits-all solutions in the name of “best practices.” Our approach to transforming our respective organizations relies on *insiders*: staff who have intimate knowledge about what works and what doesn’t in their daily operations. We involved a significant portion of staff members throughout the transformation process, from pre-transformation planning to implementation.

At Li & Fung, over 500 members of cross-functional teams were formed to remake the finance department from one that served as a back office to one that serves as a co-pilot to drive business performance through insights and analytics. At CenturyLink, 60 percent of the organization partook in the transformation process.

At the Department of Planning and Development of California’s Santa Clara County, staff insight fundamentally changed the course of the department’s transition to e-government. Initially, external consultants recommended workflows based on work they themselves had done for other jurisdictions, which tended to take a decentralized approach toward permit approval. Yet, based on staff

interactions with customers in Santa Clara County, they understood that customers far prefer a unified process. Therefore, Kirk Girard and his team redesigned the workflow and heavily adapted tools, processes, diagrams, and key elements of the core software originally prescribed by external consultants to fit the new process. Often, new technologies fail to improve organizational productivity not because of fundamental flaws in the technology but because of a lack of intimate insider knowledge.

Lesson 2: Let a three to five-year vision guide the transformation

Leaders who aim to enhance organizational performance through the use of digital technologies often approach consultants with the goal of implementing a specific kind of tool. “Our organization needs a *machine learning* strategy,” they state. But digital transformation should not be guided by the tool. Instead, the *broader* business strategy should drive the digital transformation.

At Li & Fung, leaders recognized that the ways in which businesses and consumers interact have fundamentally changed. The marketplace is no longer made up of bricks-and-mortar stores only, but also apps on mobile devices. Therefore, Li & Fung devised a three-year vision to reorient the company so it would thrive in this new business landscape.

This vision is driven by three goals: speed, innovation, and digitalization. This means that Li & Fung implements digital tools that will allow the company to reduce production lead times, increase speed-to-market, and upgrade its global supply chain to one that can provide synchronized data from end to end. After these concrete goals are established the company decides on *which* digital tools to implement. Just to take speed-to-market as an example, Li & Fung has embraced virtual design technology so now the time from design to sample has been reduced by 50 percent.

Li & Fung also helped suppliers to install real-time data tracking management systems to increase production efficiency. Moreover, it built *Total Sourcing*, a digital platform that integrates information from customers and vendors. The finance department at Li & Fung also embraced the same vision to focus on speed and data synchronization with redesigned workflows, reorganized teams, and revamped digital applications. Ed Lam and his team redesigned all key processes with a new data structure to allow business partners to have instant access to relevant financial data via dashboards. There is no single technology that will deliver “speed” or “digitalization” as such. It is the combination of multiple tools, and the best combination for a given organization will vary from one vision to another.

Lesson 3: Design customer experience from the outside in

If the goal of DT is to improve customer satisfaction and intimacy, then any effort must be preceded by a diagnostic phase with in-depth input from customers. From the outset of the transformation process, the staff of Santa Clara County’s Department of Planning and Development carried out over 90 individual interviews with customers in which they asked each customer to describe the department’s strengths and weaknesses in their own words. Furthermore, the department held focus groups during which it asked various stakeholders – including agents, developers, builders, agriculturalists, and crucial local institutions like Stanford University – to identify their needs, establish their priorities, and grade the department’s performance. The department then designed its digital transformation based on this input. To respond to customer requests for greater transparency about the permit approval process, the department broke down the process into phases and altered the customer portal so customers can now track the progress of their applications as they move from one phase to the next. To shorten processing time, the department configured staff software so that it would automatically identify stalled applications. To enable personalized help, the department gave Permit Center staff dashboard control of the permit workflow.

Digital tools can absolutely enhance customer satisfaction, but the solution does not lie in one single piece of software. Depending on customer needs, it might require changes in multiple digital tools.

Lesson 4: Design employee experience from the inside out

Organizations implement digital transformation to increase efficiency, but one of the greatest impediments to organizational high performance is low employee motivation. According to Gallup, 85 percent of employees report that they are disengaged at work. This results in \$7 trillion of lost productivity globally. This is not an issue that can be solved by digitization. To solve the issue at its root, we have to first transform the mindset of employees.

At CenturyLink, and at Li & Fung’s offices in Hong Kong, Britain, Germany, and the US, Behnam Tabrizi coached several thousand key transformation stakeholders – from executives to individual contributors – on the “Inside-Out” process. In groups of 60-70 people, Tabrizi guided them to compose vision statements about what the transformation process would mean to them personally. He asked employees to reflect on their personal experience to find out what they felt to be their strengths, what brought them joy, and what gave

them meaning. Then, he supported employees to take charge of the parts in the transformation process that best suited their strengths and interests. By aligning the personal with the organizational, all of us observed increased level of employee engagement, which in turn led to higher organizational output.

Lesson 5: Bringing Silicon Valley culture inside

Finally, for digital transformation to work, organizations need to adopt Silicon Valley culture, such as rapid prototyping, design thinking, agile culture, and lean methods. In all three organizations, all of our key employees were trained on these critical methods. Furthermore, we created a new flat organization under a governance outside of daily work that comprised cross-functional teams. These teams were in turn coordinated by a strong Project Management Office, to ensure alignment as well as fast and adaptable decision-making. These arrangements decreased overhead activities significantly and enabled employees to focus on tasks that are core to the organization.

The need for agility and prototyping is more pronounced than it might be in other change initiatives because so many digital technologies could be customized. Often, picking the best solutions requires extensive experimentation on interdependent parts. As a result, now at CenturyLink, the sales team does not just devote more time to selling; they have supercharged their productivity by customizing an AI tool that can optimize each salesperson's effort. The tool suggests which customers to call, when to call them, and what to say during the call in any given week. Even more, the tool has a gamification component, so, as Vernon Irvin said, "Sales people have fun selling, which translates into an increase in customer satisfaction, in terms of their understanding of our products and services and the value CenturyLink can provide, and an increase in sales." It is only after *both* the tools and the culture have been transformed that organizations can enjoy the maximum efficiency gains DT can bring.

When organizations implement these five lessons, they can reap outstanding results. At Li & Fung, through digitization, the finance department reduced month-end closing time by more than 30 percent. Furthermore, it increased working capital efficiency by \$200 million. At Santa Clara County's Department of Planning and Development, they successfully cut down permit processing time by 33 percent. What used to be a cumbersome process has now become a one-stop shop. Finally, at CenturyLink, the sales team went from declining revenue to 10 percent growth. We expect that the digitization and transformations will continue to improve their performance.

Digital transformation worked for these organizations because their leaders went back to the fundamentals: they focused on changing the mindset of its members as well as the organizational culture and processes *before* they decide what digital tools to use and how to use them. What the members envision to be the future of the organization *drove* the technology, not the other way around.

About the authors

Behnam Tabrizi has been teaching transformational leadership at Stanford University's Department of Management Science and Engineering and executive programmes for more than 20 years. He is the author of five books including *Rapid Transformation* (HBR Press, 2007) for companies and *The Inside-Out Effect* (Evolve Publishing, 2013) for leaders.

Ed Lam is CFO of Li & Fung Ltd.

Kirk Girard is former Director of Planning and Development in Santa Clara County.

Vernon Irvin is president of Government, Education, and Mid & Small Business Division at CenturyLink.

An earlier version of this article appeared in *Harvard Business Review*.

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'The world as we have created it is a product of our thinking. It cannot be changed without changing our thinking.'

ALBERT EINSTEIN

ROGER L. MARTIN

The fundamental problem with transformation implementation

I have a rule. When something doesn't seem to work and doesn't for a long time despite people's hard work, I stop asking how to work harder. Instead, I try to find the dog that didn't bark, as in *Silver Blaze* when Sherlock Holmes cracked the case by focusing on something inconsistent with the dominant premise. Only Holmes asked: "Why did the stable dog fail to bark while strangers absconded with the prize horse?" While everyone else was looking for the stranger, Holmes focused on an inside job because only that explained the non-barking dog. I see the "Transformation Implementation" question in a similar light. People are focusing on the wrong part of the scene before them. They are focusing on implementation, not transformation.

Consider first the framing of the problem. There is assumed to be an organization that is doing badly enough to need 'transformation.' That is a pretty loaded word. It is not 'improvement,' 'tweaking,' 'course correction,' or 'acceleration.' All of those latter words connote modest changes to the status quo. Transformation connotes a fundamental, discontinuous change – a revolution, a reboot, a makeover – otherwise we wouldn't call it 'transformation' in the first place and we wouldn't have a problem with transformation implementation.

Then let's think about who complains incessantly about the challenges to transformation implementation? It is, of course, the propagators of transformation attempts. They come up with a transformational plan and then complain about the failure of, cost of, and/or delays in its implementation. Who do they complain about? It is the human beings who occupy the organization for which they have a transformational objective and plan. These human beings resist, drag their feet, and/or attempt to undermine the transformation.

That defines the task for transformation implementation: to persuade these recalcitrant human beings to get with the programme and let the transformation happen. This means things like: figuring out better incentives to compel transformational behaviour, creating more detailed plans to drive transformation,

communicating more clearly about the transformation, creating project teams to better organize transformation, creating a Project Management Office with singular power to turbo-charge the transformation, etc. And generally speaking, despite lots of talk and effort in these areas, transformation implementation remains a thorny and daunting challenge.

What, then, is the dog that didn't bark? It is the transformation plan itself. In this narrative, it is assumed to be not only valid, but to be the right answer. Bright transformation plan propagators do all the thinking work necessary to come up with the optimal transformation plan. They analyze deeply. They may even, in modern style, seek the ideas of the human beings who will be subject to the transformation. But in the end, it is the transformation plan of the propagators. And therein lies the fatal flaw.

The fundamental problem isn't the presence of human behavioural roadblocks in the implementation of the plan; it is in the mental models of the propagators of these plans. Their model is that of the technocrat. Technocrats believe that they can study an issue, apply superior intellect and analytical rigour, figure out the right answer, and then provide that answer to the organization for it to bring it to fruition.

This fundamental model contains two really problematic assumptions. First, the model presumes that one can be scientific about creating something different in the future than is operational in the present and/or has been operational in the past: faux science. Second, the model presumes that one can, with reasonable accuracy, predict in advance how the transformation will work out when it is actually implemented: false precision.

Faux science

Transformation is fundamentally about creating something different in the future from what is operational in the present (and past). The father of science, Aristotle, warned against the use of science in what he termed "the part of the world where things can be other than they are." In the part of the world where things cannot be other than they are – e.g. the force of gravity; the speed of light, etc. – science is an extremely helpful tool for predicting the future: it will, by definition be the same as the past. But not in the world of transformation where, by definition, the future is going to be different from the past. For this reason, science can't tell us what an appropriate transformation would be or whether a given transformation effort will be successful or not. Science is limited to analyzing the past and predicting a future that is a simple extrapolation of the

past. So, technocratically analyzing the present and past to determine the right answer for the future is a fool's errand.

In this part of the world, Aristotle told us that the way to create that better – dare we say 'transformed' – future is to imagine possibilities and choose the one for which the most compelling argument can be made. He saw processes of imagining possibilities and choosing the most compelling as deeply social processes in which many participate in the imagination of possibilities and in which the arguments about alternative futures are aired in the relevant public spaces and debated openly and fairly. He termed the approach rhetoric – the deep exchange of ideas that helps develop and select for the future more compelling ideas over less compelling ideas. To be certain, Aristotle's world does not include providing one favoured solution and attempting to achieve buy-in!

Rarely, if ever, in the creation of transformation plans are the human beings who will have to live through and implement the transformation in question involved in a genuine dialog about alternative possibilities. Yet those subject to the transformation, whose jobs depend on it being an extremely thoughtful transformation, have to take it on faith that the propagators have done a smashing job. Most are not foolish enough to think that is the case. They are right to be sceptical.

False precision

If the transformation propagators were intervening in a machine, in which it is pretty clear what actions result in what effects, they would be in a better position to argue that they have figured out the perfect transformational path forward in advance. But in fact, they are intervening in a complex adaptive system – an organization that exists within an uncertain and fluid competitive and societal context. In such a system, one can never be certain about the effects of given actions. Does that mean that transformation propagators should throw up their hands and give up? No. But it means that they should not attempt to sell their particular transformation as more precise and perfect than it will ever be. Instead, they should admit openly that no plan survives contact with the enemy fully intact and get ready to tweak and tweak and tweak that transformation plan as new things are learned – often from members of their own organization.

Alternative routing

A better transformation implementation philosophy stops obsessing about implementation and instead focuses on the transformation plan. Rather than minimizing dialog and debate over real alternative transformational possibilities, the process of creating the plan should maximize dialog and debate. Many will respond that there is no time to engage in that dialog. To those people, I say: “Then stop complaining about the time it takes to achieve transformation implementation. Your method is generating that delay as a matter of course. If you want to keep ramming your transformation down the throat of your organization, then shut up and accept the delays, the pushback, the sabotage.”

And rather than espousing certainty and showing inflexibility, focus on maintaining agility and flexibility to respond to the eventualities that can never be accurately predicted. Many will say that is not strong or leaderly. To those people, I say: “Read some military history and understand the horrible human toll of inflexible plans – whether Stalingrad, Bay of Pigs, Charge of the Light Brigade, or Dieppe.” Think like a designer and see your transformation as a series of increasingly higher-resolution prototypes.

These two changes – first to the process of creating the plan and second to the acceptance of the limitations of planning – will accomplish much more than continuing to ignore the dog that isn’t barking and obsessing about the nuances of implementation.

About the author

Roger L. Martin is a writer, strategy advisor, and was ranked as the number one management thinker in the world by Thinkers50 in 2017. From 1998 to 2013, he served as Dean of the Rotman School of Management, from 2004 to 2018 Director of the Michael Lee-Chin Family Institute for Corporate Citizenship, and from 2013 to 2019 the Institute Director of the Martin Prosperity Institute. He has published 11 books, the most recent of which are *Creating Great Choices* (with Jennifer Riel, 2017), *Getting Beyond Better* (with Sally Osberg, 2015), and *Playing to Win* (with A.G. Lafley, 2013).

'Change will not come if we wait for some other person, or if we wait for some other time. We are the ones we've been waiting for. We are the change that we seek.'

BARACK OBAMA

MURAT BICAK

A purpose-driven transformation

T rue transformations are hard work. By definition, they involve reassessing an organization's business model and testing the fundamental assumptions about where to play, how to win, and how to operate. That takes strategic focus, objectivity, and no small measure of courage.

It's also why true transformations may be rarer than we think, and why in undertaking a transformation, we must always make sure that what we're doing is really transformative and not just an exercise in incremental improvement.

Across my 20-year career in the for-profit sector I thought I had learned all there was to know about how to drive true change. But, some of the most valuable lessons I've learned about transformation have been gained working for The Project Management Institute (PMI), a not-for-profit, or as I like to call it, a for-purpose organization.

What can for-profit organizations learn about true transformation from a for-purpose organization? Quite a lot, I believe, starting with the very notion of "purpose," which is at the heart of any true transformation. Let me offer a little background.

The Project Management Institute was founded in 1969 to foster professionalism in project management. It develops standards, conducts and publishes research, hosts conferences and training seminars, offers networking opportunities, and provides accreditation in project management. Since its founding 50 years ago, it has evolved into a global organization with some 300 chapters in more than 100 countries. It has created and launched products that have been widely adopted and that have become brands in their own right, including PMP®, the gold standard of project management, which has been awarded to some 1.5 million professionals.

But despite this success, by 2016, there were warning signals that PMI was not keeping pace with the expectations of its stakeholders.

For one thing, we had become overly dependent on a single offering – our PMP® certification. We were not as responsive to customers and stakeholders as we might have been. And we were not, by any reasonable definition of the word, agile. The organization, in effect, was focused on protecting its legacy versus preparing for the future and was only making incremental rather than transformative changes.

Recognizing these symptoms, our board of directors and leadership team decided to form an in-house strategy capability. That's how I joined PMI – as the leader of this new strategy function. We immediately conducted a strategy refresh and quickly realized that the change we needed to effect was nothing less than a major transformation.

We began by examining PMI's purpose. This experience has come to colour my views of organizational change and has led me to conclude that no true transformation can succeed without coming to terms with an organization's purpose.

In PMI's case, we realized that our purpose had become too narrowly focused on project management. Not that we weren't successful, but by hewing to such a narrow definition we had been ignoring other opportunities that might benefit our members.

To re-think our purpose, we started asking some fundamental questions, beginning with: "Who is our customer?" We realized that we had been defining customers in quite simplistic terms: whether the customer was a member, a higher-level chapter member, or a certification holder.

Of course, this simple classification didn't really tell us anything about these individuals – either about their aspirations or what they needed from PMI. So, we conducted a segmentation analysis drawing upon the "jobs to be done" theory of Clayton Christensen at Harvard Business School. This yielded a very robust ethnographic segmentation that allowed us to look at customers and, more importantly, potential customers based on what they were trying to do at various points in their careers.

The segmentation also helped us broaden our definition of customers beyond individuals who define their primary role as project managers. Our definition now encompasses people in a wide variety of roles who have project management as part of their responsibilities.

With this information in hand, we then examined where PMI sits in our customers' value chain. Historically, as a standards organization, we would bring our members together and solicit their views, perspectives, and experiences about how they did their jobs and what best practices they followed. These then became the basis for our standards.

The obvious problem, of course, is that this process is backward-looking and results in our standards being based on accepted practices that already existed. At the same time, we were seeing tremendous disruption in the marketplace – brought about by new digital technologies and led by organizations intent on upsetting the established order. The inevitable question was: "Were our standards

meeting the needs of individuals and organizations trying to adapt to these new technologies and embrace different ways of operating?”

That led us to re-examine our innovation capabilities and to recognize we had to do something different. So, we began bringing in people from consulting, innovation, and private equity backgrounds – people who had started businesses or launched innovative products or companies. We’re now using teams of these individuals to ideate and build product prototypes that, through an iterative process, we’re then testing in the marketplace. We are also continuing to work with our members as well as leading organizational partners to ensure that these innovative products resonate and deliver the results needed. It’s a completely different way of working for us, but we believe it will help us develop the right products to meet emerging customer needs.

The final step in our process was to rethink our market opportunity. As noted above, we’re living in a time of unparalleled disruption where the very nature of work is changing. At the same time, because all strategies need to be implemented through projects, the number of projects undertaken by organizations is increasing dramatically. Indeed, they are increasingly seen as an important center of value delivery.

Most of this project work, however, is being performed by individuals who graduated 10, 15 or 20 or more years ago. Where are these workers acquiring the updated skills and competencies required in this new world? Not from their employers, apparently. A recent Accenture study revealed that only 3 percent of organizations invest money to train their employees. We soon realized that we needed to think differently about the services we offered – that our customers’ needs might extend beyond a one-time certification to encompass training at different points in their careers.

As a result, we’re now building capabilities to be able to offer individuals opportunities to work and think differently and become much more effective in today’s project team environment.

At the end of the day, all of this analysis – of our customers, our value chain, and our market opportunity – suggested that our purpose needed to be expressed differently. It needed to capture our new reality, i.e. that:

PMI has not only advanced the state-of-the-art of project management, it has disseminated this growing body of knowledge to millions of members globally, helping make them successful in their workplaces.

While doing so, PMI has expanded its portfolio of offerings to include business analysis, agile ways of working, risk management, and scheduling, as well as

programme and portfolio management frameworks.

The project discipline that PMI represents has been a critical success factor for both individuals and organizations.

If that's the case, shouldn't we be talking about more than project management?

After much discussion and debate, we settled on this: "Empowering people to make ideas a reality." We call it our winning aspiration, and it drives all our choices as we continue to implement our transformation.

This simple, one-sentence purpose statement now serves as our north star. It transcends projects, programmes, and portfolios and allows us to focus on all individuals who implement strategies regardless of their role within an organization, whether or not they have project management in their title.

Rethinking our purpose has served as the gateway for PMI's transformation. Yes, there were other important elements that were part of the process. We spent a lot of time, for example, thinking about our "secret sauce" – what's authentically core to our mission and what's not. And we devoted significant resources to communicating about the transformation with our staff and our members. You can't have true transformation without winning the hearts and minds of people throughout an organization.

But my experience at PMI underscores the essential truth that transformation begins with truly understanding and defining an organization's purpose. That may come more naturally to not-for-profit organizations where purpose rather than profit is the overriding concern. But the PMI experience demonstrates that even not-for-profits need to undertake the difficult task of self-examination from time to time. The world changes, and so must we.

As we celebrate our 50th anniversary, we are committed to continuing the hard work of transformation. We know we are privileged to be celebrating our golden anniversary and realize that our transformation must focus on delivering value and remaining relevant to ensure our future. Before we make a strategic choice now, we ask whether it aligns with our purpose. If the answer is not clear, we go back to the drawing board. The question may be simple, but it helps us focus on doing the right thing and keep moving in the right direction.

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‘Transformation is fundamentally about creating something different in the future from what is operational in the present (and past).’

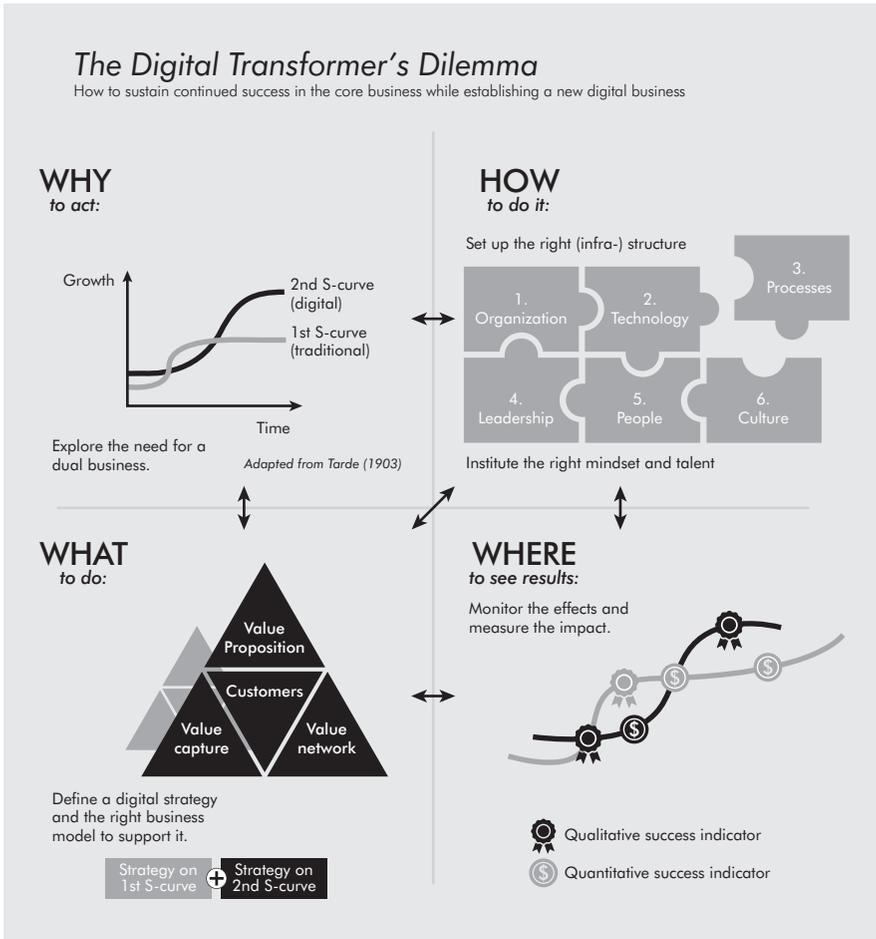
ROGER MARTIN

KAROLIN FRANKENBERGER, HANNAH MAYER, ANDREAS REITER & MARKUS SCHMIDT

The digital transformer's dilemma: how to sustain success in the core while building a new digital business

At the end of 2018, executives at Saubermacher – a waste management company headquartered in the quaint Austrian town of Graz – deserved a pat on the back for a digital transformation job well done. “Wastebox,” an app-based waste disposal solution, connecting construction companies with waste disposal firms via a digital platform, had garnered a significant valuation only two years after inception, and Saubermacher was wooed by one of the global industry leaders, Veolia of France, to engage in a partnership with them.

Waste management litter-ally isn't the sexiest of industries. But there's something to be learned (about digital transformation) in even the oddest of places. The success Wastebox experienced was not a lucky strike; instead they followed the textbook recipe for running a digital transformation. We have observed similar “recipe ingredients” across 80+ interviews with senior executives at globally leading companies from a variety of industries. In the context of digital transformation, they all face the same dilemma: how can they maintain profitability in their legacy-based, core business activities (the 1st S-curve) while reaping the full potential in a new, digital business (the 2nd S-curve)? Voilà, the recipe for how to address this dilemma and successfully digitally transform:



Why: Companies need to internalize a necessity to act. Businesses – especially those with a long legacy – may feel threatened to remain competitive in the face of newly emerging industry entrants competing with them in the digital space (e.g. tech players or start-ups). Organizations may also perceive shifting trends in customer preferences or industry trends that force them to transform. No matter their specific reasons, companies need to realize their continued economic performance will depend in large part on their ability to continue running their core business (1st S-curve) while preparing their new digital business (2nd S-curve). Managing this transformation is not simply a change project. Instead, we are talking about a fundamental overhaul, complicated by its pervasiveness across 1st and 2nd S-curves and, particularly, the complexities of having to ensure a link between the two to successfully run a dual business.

What: Once organizations have realized the need for a dual business, they will have to define a digital strategy and the right business model to support it. A key challenge will be the discussion around financing decisions and priorities, since the core business will initially have to fund efforts on both S-curves.

This means companies need to conceive an overarching digital strategy covering three dimensions: First, organizations need a sound strategy for the core business, focusing on how digitization can help safeguard and increase the competitiveness of the core. Second, organizations need a strategy for the inception of a new digital business to complement the core and generate additional growth. Third, organizations need to consider and plan for possible interactions between the core and the new digital business. This will include both opportunities, such as planned synergies, and risks, such as potential cannibalization and/or disruption of the core business. The purpose is to reach clarity of the overarching digital strategy and how the two S-curves can complement each other. This whole effort needs to yield both a re-thinking of the business model at the core and a digital business model rooted in novel ways of value creation – and a re-thinking of the business model in the core.

How: While it's indispensable to go through this process, great thinking is only the beginning. The real challenge lies in the nuts and bolts of getting the transformation done. To make sure the implementation goes smoothly, companies need to set up the right (infra-)structure (organization, technology, processes) and institute the right mindset and talent (leadership, people, culture).

Flexible organization: A digital transformation typically requires fundamental changes to the organizational set-up, and the build-up of a new separate flexible unit with dedicated people. The key challenge lies in the coexistence and alignment of two differing organizational set-ups within a single company. One senior executive at a European consumer goods company told us that large organizations like theirs can never act like a start-up, so to be fast and agile, separation is indispensable. The ultimate structure of the new unit (i.e. digital lab vs. internal accelerator etc.) depends on the overarching digital strategy and the scope for the 2nd S-curve. Despite a clear separation, a solid integration of the two S-curves is essential to minimize silos and potential antipathies. Integration is also necessary to unleash potential synergies. The required balance between separation and integration will depend on factors such as similarity to core business and the digital maturity level of the organization.

Technology as enabler: Newly emerging technologies, such as artificial intelligence, big data and the Internet of things, are threat and opportunity alike. Incumbents need to leverage these technologies to support the digitization of the core business and exploit possibilities for new digital business. The challenge is to build up new competencies quickly, following a balanced approach across both S-curves. Incumbents should also employ a mix of internal development of competencies and accessing of expertise from external sources (e.g. through mergers and acquisitions). Sometimes, the effective use of new technologies even requires collaboration across firms, as a CDO explained: “Technology efforts are often uncoordinated among firms although some technologies only work in an ecosystem, if everybody ultimately can participate. So, one of my big ambitions is to really put a huge focus on co-investment in industrial technology, to bring many more organizations onto the same agenda.” This illustrates that many of these new technologies are too important to remain within the IT department. Instead, they have to be on the C-level agenda and orchestrated throughout the organization.

Processual set-up: Compared with traditional approaches on the 1st S-curve, new processes on the second S-curve must allow for more freedom and flexibility – something that often feels unnatural to incumbents.

The key challenge is to adjust the requirements and set-up to the respective business development phase (i.e. seed – incubation – acceleration – scaling). This means that the decision-making body needs to define initial minimum process requirements (deviating from cumbersome standard requirements) and to evaluate the projects along a number of stages, following a venture capital-like approach. Although it may sound easy, it is often a difficult task, as a member of the executive team at a multibillion-dollar business pointed out, saying that companies, once they’ve made a financial commitment to something that ends up not performing well, are often reluctant to kill the initiative. They end up staying in it for too long, when instead they shouldn’t be afraid to get out.

Transformational leadership: Reconciling two differing leadership approaches (transactional and transformational) in one organization is a challenge – and finding leaders that can employ both authentically even more so. While some traditional leadership qualities will continue to be important in select areas of the 1st S-curve (e.g. a zero-failure tolerance in production), it will become increasingly important not only on the 2nd S-curve but also in the digitized 1st

S-curve to employ a transformational leadership style rather than an authoritarian-directive one. Leaders will put more emphasis on empowering and incentivizing teams to take the initiative rather than having them perform only their assigned core tasks. Their focus will be on leading people instead of on performing classic management tasks. In fact, the CEO of a pharma company's internal venture told us, "Classic leadership models are outdated. We see leaders as servants who create a safe space for employees to perform at their best."

"Right-skilled" people: Configuring the right mix of people is the gauntlet companies are running to build the workforce of the future. Across both S-curves, the most important lever in this respect is training.

Educational efforts will need to cover a variety of fields; most importantly, companies need to make sure their employees have the right competencies to thrive in a digital transformation environment. For instance, a steel company we spoke with built a dedicated digital academy to retrain and upskill employees in digital proficiency, thus investing hugely in their employees' long-term development. Besides investing in the existing employees' careers, other options to configure the workforce of the future include hiring new employees that already have the necessary skills and mindset, contracting freelancers to fill a short-term need or to outsource entire functions, redeploying people (geographically or task-wise) or releasing employees in roles no longer needed post transformation.

Culture of change: A fundamental shift towards a modern, change-embracing corporate culture is needed if the transformation is to succeed and yield reputational spillover effects. While there may be internal resistance to change, promoting a culture of encouragement to innovate, instituting a supportive work climate and providing life-long learning opportunities are must-dos. A change in ways of working will be necessary, including the departure from siloed bureaucratic hierarchies and long development cycles and instead towards a new collaboration model based on cross-functional teams embracing an agile "fail fast, fail cheap" approach. The company culture change needs to be driven by top management to stress the priority and sincerity of the transformation. FMCG and retail senior executives we spoke with stress that what is key is an open-door policy, whereby employees' doubts are addressed by the most senior leaders in everyday conversations (not just fancy slides). The biggest challenge, however, will be the evangelization of the middle management.

By the end, the cultural change will have to pervade all levels to have a chance at establishing itself as the new norm.

Where: Let's assume companies have tackled all the above. They are surely expecting bottom-line effects or else the whole transformation would be futile. Seeing that we define a digital transformation as spanning across the two S-curves, it is only natural that it will be reflected in the performance of both.

Where and how exactly it has effects will differ across the two S-curves so KPIs need to be determined specific to the respective S-curve and the relevant stage (e.g. incubation vs. scaling). The KPIs should reflect a healthy mix of quantitative and qualitative measures, whereby qualitative KPIs can initially prevail on 2nd S-curve and later be displaced by quantitative ones. Setting objectives, assigning accountability, and ensuring transparency vis-à-vis the relevant stakeholders is almost as important as the KPIs themselves. This stresses yet again the crucial role of measuring impact because even in a digital transformation the age-old saying holds: only what gets measured gets done. But then, luckily – as waste manager Saubermacher experienced – what goes around does come around.

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'There is no passion to be found playing small – in settling for a life that is less than the one you are capable of living.'

NELSON MANDELA

REINHARD MESSENBOECK, GRANT MCCABE, PERRY KEENAN,
JEANNE KWONG BICKFORD & MICHELLE STOHLMEYER RUSSELL

The new era of change management

Complex change is a necessity in today's environment, yet research continues to show that up to 75 percent of change programmes fail to sufficiently capture long-term value or secure lasting behavioural change. Consequently, these transformation efforts do not translate into sustainable competitive advantage. The results of these failures to adapt to competitive and market realities are manifold: increased volatility of business margins and high turnover of companies in market leading positions, for instance. In fact, over 50 percent of the Fortune 500 companies from the year 2000 were gone by the year 2017. In 2018, the estimated loss resulting from failed digital transformations alone was \$900 billion. As these alarming figures continue to grow, we ask, what can be done to improve the odds of success for large-scale transformations?

We see an answer in a trend that's emerging across all industries and geographies: companies are installing a Chief Transformation Officer (CTO). In 2019, BCG interacted with over 1,000 companies globally and completed more than 20 in-depth interviews with leading CTOs. From this research, we have identified three value drivers for CTOs to implement to increase the odds of success for large-scale transformation efforts.

First, it's about the whole journey – the whole is greater than the sum of its parts and a transformation needs to be constantly viewed in this way.

Second, focus on the Employee Capacity to Absorb Change (ECAC) – the next frontier for competitive advantage – is treating employees as your most important customers.

Third, transformations have to stay nimble and flexible in how they are set up.

With a dedicated CTO to guide a transformation using these value drivers, companies will be far better positioned to realize competitive advantage and to win in the 2020s.

It's about the whole transformation journey

A critical component of embarking on a transformation is ensuring that the right actions are taken at the right time and to the right degree. Achieving this in practice is difficult and seems more like an art than a science.

CTOs need to understand how to initiate a suite of initiatives across the change journey with the buy-in and commitment of the full C-suite. The consistent articulation of this to – and by – the broader leadership team is key to the successful delivery of a transformation.

When thinking of the suite of change management activities needed for a transformation, CTOs need to take a whole-of-organization view. People and leaders need to be engaged across the company and the infrastructure put in place to manage the transformation programme. To develop a truly holistic approach, we recommend thinking about change management along three journeys of Leader, People and Programme (Exhibit 1).

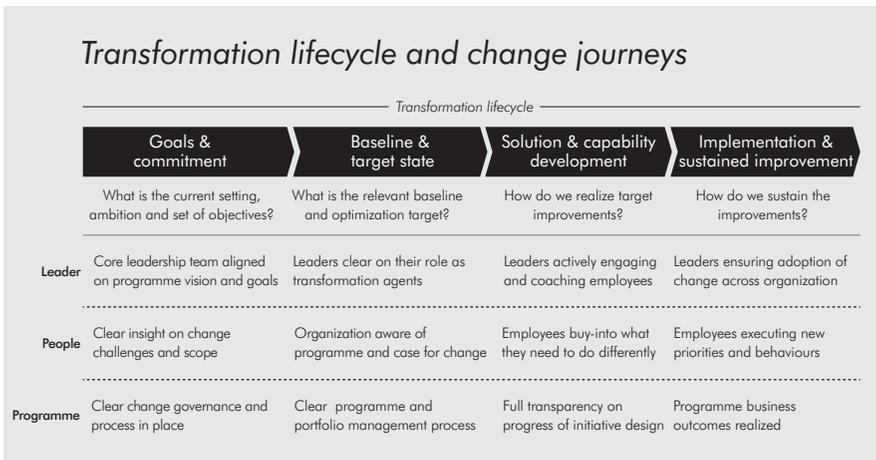


Exhibit 1: Transformation lifecycle and change journey

CTOs need to orchestrate the delivery across all three journeys throughout the transformation lifecycle. This approach allows change management activities to be outcome-focused at the enterprise and business level, to identify and enhance the management of critical dependencies and risks, and reinforces focus on what matters most for success at any given point of the journey.

Understanding and managing these journeys is vital. We have used our project work, and our research with over 1,000 companies globally, to correlate the importance of managing each journey with success in each phase of the transformation lifecycle. In each phase, we have identified what significantly

increases the odds of success, based on factors such as the type of change or size of the transformational impact. CTOs can use this knowledge to focus on what matters most.

For example, compare a cost reduction effort with a digital transformation. The leader element has significantly more importance during early transformation stages in the cost reduction effort. This shows the value of direction setting. With regard to digital transformation, the people element during implementation is more relevant for success. This shows the importance of employees being involved in identifying a digital solution and capability building as well as diligent programme follow up to monitor if the implementation of developed solutions is really happening and delivering value.

Other differences are driven by programme size. In large-scale transformations that affect more than half of an organization's people, the People journey in the goals and commitment phase, and the Programme journey in the baseline and target setting phase, are much more important than in smaller programmes. For CTOs, this highlights the need to involve people early in a transformation, and the diligent role of the programme office in the baselining and target-setting phase of a large, complex and interlinked transformation.

Based on these findings, CTOs need to facilitate an ongoing recognition of where their organization's transformation is along the "transformation journey." They need to evolve their programmes at fairly regular intervals, and change the focus in each journey based on the specifics of the situation, the success, and importance of each element over the successive phases of a transformation.

Employee capacity to absorb change (ECAC) – the next frontier in competitive advantage

Based on our research, we see a variety of reasons why transformation efforts fall short of their goals. A common symptom of failure is employees simply giving up. This is not surprising. Employees are asked to deal with large and constant changes: new operating models; new leadership structures; new productivity procedures (e.g. travel booking, digitized financial planning, and HR); new enterprise resource systems; modified pricing schemes and products; and new legal requirements. It is difficult for the people who work in an organization to comprehend the impact of all these changes, and the changes they need to make to their day-to-day activities and behaviours.

Giving up is the result of being overwhelmed with too many competing or contradicting priorities, insufficient support or guidance during the transformation, and not understanding their role in the transformation and what it all means to

them, their team, and their customers. Ultimately, this has a dramatic impact on the organization's ability to realize benefits from a transformation and the resources it has invested in it. As a result, CTOs need a rigorous focus on employees' ability to absorb change, and to identify when it starts to become a bottleneck to better and faster change. Change management activities need to be employee-centric in order to be adopted and embedded within the organization.

Employee-centric transformations have two essential components. First, CTOs must have an in-depth understanding of both employees' business-as-usual environments and the specific impacts that the transformation will have on them (e.g. magnitude and nature of a specific change element). Second, CTOs need the knowledge, influence and skills to guide both employees and their leaders through the transformation. Leaders, and most importantly CTOs, need to visibly and transparently promote change and model new behaviours to be adopted and internalized – and they must be resilient and relentless in this. New technology and tools can help in measuring an ECAC score and thereby find positive and negative hotspots, guide and deploy measures that leaders manage and support employees to absorb change at the maximum rate and thereby expand organizational capabilities at the fastest possible rate.

Stay nimble and flexible in your setup

Our interviews with over 20 CTOs globally confirmed the importance of flexible and agile leadership during transformations. CTOs must have the authority to steer a programme with required structure and discipline, yet be able to be flexible when needed. The CTO's direct reporting line to the CEO (and the associated authority and influence) is one of the most important success factors. CTOs must be adaptable and be able to trust the broader firm's leadership team to be successful in their leadership of the transformation. Command and control will no longer work in today's organizations.

The first step is to align the extended leadership team (top ~100/operational leadership group) with the mission. Without the buy-in of the broad base of senior leaders who will need to drive the change, the CTO and programme office will not be empowered to successfully implement the change. The extended leadership team also ensures that the transformation programme is appropriately resourced and monitored, and kept on track.

Successful CTOs tend to keep an intentionally slim, yet effective, group of direct reports and resources. Direct control is important for some areas (e.g. a communications liaison to help steer and coordinate messaging), but most

activities are better executed in business-as-usual units. For example, finance and budgeting is an important component of any transformation, but these teams often operate best in their traditional environment, with targeted guidance from the CTO. Maintaining reporting lines to only the most important workstreams allows CTOs to focus on critical issues.

Finally, leaders and CTOs need to stay flexible yet give direction – setting targets and milestones to maximize value, and using data, rigorous lead indicator metrics, and analytics to evaluate progress against targets and to be on the front foot as critical risks emerge or when plans may need to be adjusted.

Winning in the 20s with change management

Transformations will most often continue to fail, and companies will continue to disappear from the Fortune 500 listing, unless organizations embrace modern change management as a comprehensive, sustainable capability – not a one-off effort or a “soft,” unstructured set of actions. Successful change management is rigorous and scientific. It is tuned to the specific context of the transformation, leveraging comprehensively proven tactics and tools. This change management is not easy, it requires an integrated plan that is tested and adjusted to drive the best course of action. It actively prepares and supports an organization to make transformations successful and thereby to create a real competitive advantage.

CTOs can create significant value by taking ownership of transformation activities and sharpening their focus on critical change management areas in three journeys – taking an org-level approach, making change employee-centric, and working through, not on, an organization. Are you ready to make transformation work?

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**'Cure the disease that
has not yet happened.'**

CHINESE SAYING

MARTIN REEVES, LARS FAESTE, FABIEN HASSAN, HARSHAL PARIKH & KEVIN WHITAKER

Preemptive transformation: fix it before it breaks

In business transformations, there are plausible reasons to believe that preemption is valuable. Companies that change early may get a first-mover advantage, acting ahead of their competitors and potential disruptors. Besides, business organizations are complex systems, which often decline much faster than they grow, an asymmetry that has been called the Seneca effect. Considering that transformations take time, moving preemptively may be the best way to prevent obsolescence and collapse.

Nevertheless, leaders may be reluctant to change their companies when they are in a comfortable position. And they may understandably feel little urgency to change when current performance indicators are still healthy. Transformations are costly, monopolize management attention, and may create distraction or instability, leading many to follow the adage, “If it ain’t broke, don’t fix it.”

So, should business leaders engage in transformation preemptively or wait for a degradation of performance to trigger change? To answer this, we analyzed hundreds of transformations involving restructuring costs launched between 2010 and 2014 by large listed US companies. (The analysis included all US companies that reached a market capitalization of \$5 billion in 2010-14, excluding the energy sector – owing to the volatility of energy prices – and real estate sector – owing to insufficient sample size. Transformations were indicated by the appearance of restructuring costs in the company’s quarterly accounts). We found that preemptive change does indeed generate significantly higher long-term value than reactive change, and it does so faster and more reliably.

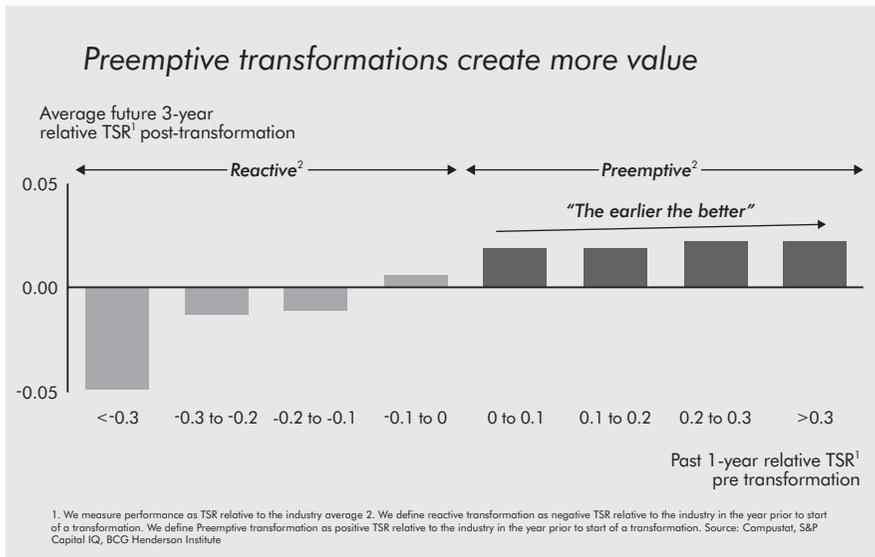
The value of preemptive transformation

Because each company’s circumstances are unique, we studied relative financial performance to identify preemption, rather than making qualitative timing judgments. If a company embarks on a transformation when it is outperforming its industry (as measured by total shareholder return (TSR) over the prior year), the transformation can be described as preemptive. On the other

hand, a transformation is categorized as reactive if it is launched while the firm is underperforming its industry.

Our analysis shows that in the three years following the start of a transformation, preemptive transformers have an annualized TSR that is three percentage points higher than that of reactive transformers. Preemptive transformers outperformed on average in nearly all industries, except financial services. (In the period of our analysis, the financial sector was still recovering from the crisis and the subsequent regulatory changes, which may have caused anomalies).

Is this outperformance explained simply by the tendency of high-performing firms to continue outperforming? In fact, for companies that do not transform, there is no observable link between past and future long-term TSR. A small “momentum effect,” where previously outperforming companies continue to outperform, is observable only within shorter time frames (up to one year). But, consistent with financial literature, we find that this effect disappears on longer time horizons.



Our findings suggest that in order to maintain outperformance, companies should pursue preemptive transformation rather than relying on performance momentum. As Giuseppe Tomasi di Lampedusa famously wrote in *The Leopard*, “If we want things to stay as they are, things will have to change.”

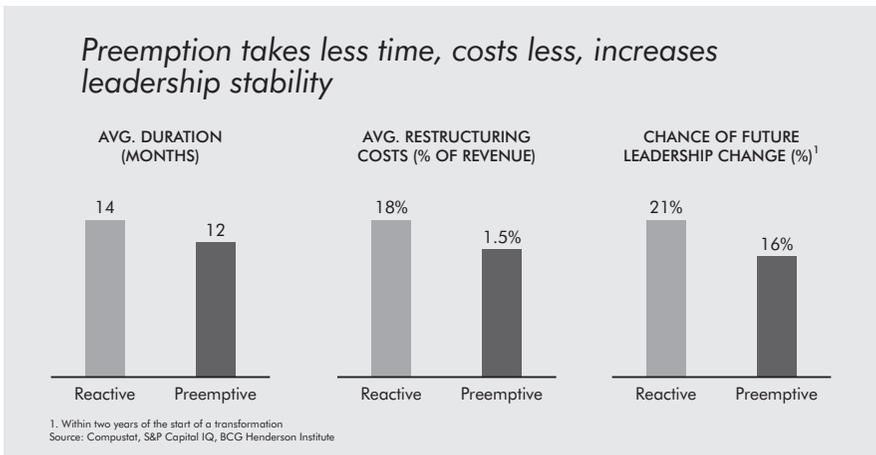
Furthermore, the preemption premium is continuous: the higher the relative performance of a company when it initiates change, the higher its long-term relative performance. In other words, the earlier a transformation is initiated, the better.

In spite of this pattern, preemptive transformations are less common than reactive transformations: in a given year, only 15 percent of outperforming companies embark on transformation, compared to 20 percent of underperforming and 25 percent of severely underperforming companies (the bottom decile of firm performance).

There are notable exceptions. For example, by 2011, Alibaba’s online marketplace Taobao had captured more than 80 percent of the digital Chinese consumer market. Even though Taobao was highly successful, Alibaba decided to split it into three independent businesses: one for consumer-to-consumer transactions (Taobao), one for business-to-consumer transactions (Tmall), and one for product search (Etao). The restructuring resulted in two successful mass-market businesses and one strong niche market. Such moves helped Alibaba grow from an 18-employee startup into one of the world’s most valuable companies in less than 20 years.

Secondary benefits of preemption

In addition to having better financial performance, preemptive transformations offer three secondary benefits. First, they take less time: preemptive transformations result in consecutive restructuring costs for an average of only 12 months, compared with 14 months for reactive ones. Second (and perhaps partly because of the shorter duration), they are less costly. The costs of restructuring in preemptive transformations total 1.5 percent of yearly revenues, on average, compared with 1.8 percent for reactive transformations.



By combining the lower average cost with the superior returns, we estimate the ROI of preemptive transformation to be approximately 50 percent higher than that of reactive transformations.

Finally, preemptive change is associated with increased leadership stability. The share of companies experiencing a CEO change in the two years following the start of the transformation is significantly lower in the case of preemption (16 percent versus 21 percent).

The primary success factor in transformation

How can leaders successfully implement preemptive transformation? In our previous study on evidence-based transformation, which focused on reactive change programmes, we identified several factors that boost the odds of success:

- Above-average capital expenditure
- Above-average R&D spending
- Long-term strategic orientation (as measured by a proprietary natural language processing analysis of corporate communications)
- Leadership change
- Above-average restructuring costs and a formal transformation initiative

Our analysis confirms that these success factors also apply to preemptive transformations. But a more fundamental question is whether and how timing affects that recipe for success. To answer that question, we used gradient boosting, a machine-learning technique that measures how well each factor discriminates between successful and unsuccessful transformation outcomes. The results show that transforming preemptively is actually the best predictor of success.

In preemptive transformations, R&D expenditure and capex are the next-most-decisive factors, reflecting a need to properly understand and invest in the future. In reactive transformations, leadership change is the second-most-important success factor – perhaps because companies that have already allowed performance to decline need to refresh their leadership and culture in order to accelerate change.

Microsoft illustrates the value of preemptive transformation with heavy investment in the future. After a few years of stagnant performance, the software company created strong momentum in 2012–2014 (36 percent annualized TSR). Rather than resting on its success, Microsoft changed its CEO and restructured preemptively in 2014, which enabled it to continue strongly outperforming. The

transformation aimed to orient the company to the new dominance of mobile and cloud, even though these trends had not yet damaged its bottom line. In March 2018, Microsoft announced another restructuring amid strong performance, reorganizing to get ahead of technological changes.

Six steps to successful preemptive change

Faced with a need to adapt to changes in their business, technology, or competitive environment, companies should transform early, before financial performance has started to decline. How can leaders turn around the successful company?

Constantly explore. To be able to transform preemptively, leaders need to anticipate change by continually exploring new options. The observation of biological systems teaches us that it is optimal for companies to begin searching well before they exhaust their current sources of profit, and that firms should use a mix of “big steps” to move to uncharted terrain and “small steps” to uncover adjacent options at low cost. This requires balancing short-term tactical moves with a long-term aspiration, and investing enough in the future, especially in digital technology and R&D.

Create a sense of urgency. When a company is doing well, danger lies in self-satisfaction. Leaders shouldn’t wait for an actual crisis to mobilize. Creating a sense of urgency is the best way for leaders to avoid the risk of complacency. Using strategy games, such as studying maverick challengers, surveying dissatisfied customers, and eliminating customer frictions, can help management envision new risks and opportunities and test the resilience of the current business model.

Watch out for early-warning signals. Most financial metrics, such as earnings, profits, or cash flow, are backward looking. Detecting the need for change requires a variety of early-warning signals for phenomena that have not yet affected the bottom line. Forward-looking metrics, such as vitality, can help assess a company’s readiness for the future.

Control the narrative. Preemptive change may generate frictions with stakeholders who believe that prudence and continuity are the best policies. Leaders should take control of the investor narrative and actively manage investor expectations to make preemptive transformation possible. Similarly, defining and conveying the purpose of the company, and relating change efforts to that purpose, can also help energize and recruit employees and middle management for change efforts, which may otherwise be perceived as threatening.

Choose the right approaches to change. Companies tend to drive change with a monolithic, linear project management mindset. But there is no universal form of change. In reality, a complex business transformation comprises multiple types of change. Each form requires a different mindset and different change management mechanisms. In particular, preemptive change is more likely to rely on adaptive or visionary models of change, rather than heavy-handed, top-down approaches.

Create ongoing transformation capabilities. Moving quickly against risks and opportunities is essential. This requires building permanent transformation capabilities and strengthening the adaptability of the organization. Leaders should apply the emerging science of change and leverage new technology to improve the odds of success in transformation.

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**'To improve is to change,
so to be perfect is to have
changed often.'**

WINSTON CHURCHILL

GEORGINA PETERS

Schein on change

Change is a fact of managerial life. Organizations change. Markets change. Leaders change. Contexts change. Technologies change. There is nothing new in this. Perhaps one of the biggest conceits of our time is the belief that our age is characterized by change at an unprecedented level. Change is the default setting of managerial life – and of life itself. Everyone in a managerial or leadership role is involved with change.

One of the all-time great thinkers on the subject is MIT's Edgar Schein. He believes that organizational culture evolves through a number of distinctive stages, and each requires a different type of leadership. For Schein, effective leadership does not depend so much on the individual activities the leader encounters during the day. Instead, it depends on which stage of its lifecycle the organization has reached. For each stage of organizational evolution there is a different corresponding leadership role: creating, building, maintaining, and changing.

In the creating stage, the entrepreneurial leader tries to get the organization off the ground. In doing so, as they wrestle with funding issues, try out different ideas, and inspire and enthuse their followers, they demonstrate high levels of energy. Schein calls this stage, typified by the leader's vibrant and energetic approach, the leader as animator.

When the organization has gained enough traction to be viable, the leader imprints their beliefs and values onto the followers. They do this by hiring like-minded people, indoctrinating employees to their way of thinking, and acting as role model for followers. At this point, says Schein, if the organization is successful and that success is associated with the leader then the leader's personality becomes part of the corporate culture. At the same time, if the leader is conflicted between wanting collaboration but also wanting control, for example, then those conflicts will be locked into the culture. At this evolutionary stage the leader is the creator of culture.

The third lifecycle stage is maintaining. When organizations outgrow their youthful exuberance and mature, a different set of challenges emerges: commoditization of products, changing and growing workforce, more intense competition, and greater complexity. Entrepreneur leaders often struggle at this point. The leaders that succeed are the ones that can identify the successful

aspects of the business and focus attention on those. At the same time, they are able to scale up the processes that proved so successful when the company was small and fast growing. For the leader as a sustainer of culture, judgment and wisdom are the most important qualities, says Schein.

Finally, Schein discusses change, paving the way for the leadership academics that have concentrated on change leadership – the leader’s role in navigating change successfully. The last evolutionary stage of the organization is changing. During this phase of organizational life, the leader operates as a change agent. When the external environment changes sufficiently, the strengths of the organization that were institutionalized during the sustaining period to ensure long-term success now need changing and undoing. The challenge for the leader is not only to bring in new things, but also to unlearn old things that no longer work.

For leaders to be able to lead organizations through such a period of change, says Schein, requires “the emotional strength to be supportive of the organization while it deals with the anxieties attendant upon unlearning processes that were previously successful,” and they also need “a true understanding of cultural dynamics and the properties of their own organizational culture.”

The change agent leader cannot change culture merely by trying to eliminate those areas that are no longer required, or that are dysfunctional, argues Schein. Instead, the leader must “evolve culture by building on its strengths while letting its weaknesses atrophy over time.”

Pronouncements of change, change programmes, and projects will not do either. The leader has to embody the changes required, to lead by example. The leader is transformed along with the organization. If the culture is, however, too entrenched in the ranks of senior executives, or elsewhere in the organization, the leader may have to implement a turnaround. Turnaround leaders often have to embark on a clear out of the old. Layers of management go, taking their outmoded, redundant, unproductive cultural values and beliefs with them. Organizations are deconstructed and rebuilt. The old culture is destroyed, while the leader establishes the conditions to create new cultural elements of the organization.

Change is particularly challenging, and requires a broad set of skills. As Schein notes: “It is more correct to think of this point in the organization’s history as a time when the organization-building cycle starts afresh. Turnaround managers can then be thought of as needing many of the same qualities as entrepreneurs, particularly the ability to animate a new organization. In addition, however, the turnaround manager must deal with the anxiety and depression of the employees who remain and who feel guilty that they survived while many of

their colleagues and friends did not. Rebuilding their motivation and commitment often requires higher levels of animation than building an organization in the first place.”

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**'The greatest discovery
of all time is that a
person can change
his future by merely
changing his attitude.'**

OPRAH WINFREY

EDIVANDRO CARLOS CONFORTO, RICARDO VIANA VARGAS & TAHIROU ASSANE OUMAROU

Using crisis as a catalyst for transformation

Most organizations are not well prepared to deal with a serious crisis. The end result of a crisis can either help transform the organization or leave it in a very dangerous position. Crises can evoke fight-or-flight conditions, which are a physiological reaction in response to perceived danger, attack, or threat to survival. In animals, as well as humans, this is a natural response mechanism that helps keep us alive.

Consider the crisis that Johnson & Johnson faced in 1982. You have probably heard the name Tylenol before, one of the most common painkillers available in the market. In September 1982, seven people in and around Chicago died after consuming capsules of Extra-Strength Tylenol. The capsules were laced with cyanide. At the time, Tylenol was Johnson & Johnson's best-selling product, making up 17 percent of the company's net income in 1981.

Experts predicted that the company would never recover. But, only two months later, Johnson & Johnson was back on track with improved, tamperproof packaging and an extensive media campaign.

What helped Johnson & Johnson to overcome this terrible crisis was not luck or magic. It was effective leadership and action, with the right approach to crisis management. The business followed a deliberate sequence of decisions and process changes to create a position of strength after the crisis had almost destroyed it.

First, the company prioritized consumers. All 31 million bottles of Tylenol capsules on store shelves were recalled and consumers were offered a replacement product free of charge. Leadership was key. As well as taking immediate action to pull the product off the market, Johnson & Johnson's chairman, James Burke, took a transparent approach with the media and public. He released a full chronology of actions the company had taken in the month that followed the start of the crisis. Johnson & Johnson's responses were extremely expensive, but the right actions and practices helped the organization transform itself, and today it is a global pharmaceutical powerhouse.

Of course, Johnson & Johnson is not alone. Examples of crises that threaten organizations' reputations, image, and market value are everywhere. They are industry agnostic and occur on a global scale as consumers, markets, and our economies are more connected than ever. Recent examples include defective lithium batteries in Samsung phones that were prone to explosion and banned from flights in the US, the Facebook data breach by Cambridge Analytica, the deadly accidents caused by Tesla autopilot problems, and the tragic accidents during 2019 involving two Boeing 737-MAX planes.

To better understand what happens during a crisis, and most importantly, what leaders can learn from a crisis situation that can help organizations to transform, Brightline Initiative partnered with Quartz Insights to conduct a global study. Our goal was to uncover ways organizations could leverage the experience of a crisis and use those learnings to improve their performance and transformation capabilities.

The study comprised both qualitative research and interviews with senior executives who had experienced a crisis situation in the past. Candidates represented different industry sectors and all had managed a team or organization through a crisis. Using a qualitative study, 1,258 executives and managers around the globe were surveyed to investigate specific aspects of crises. The sample was selected based on geographic representation, organization type and size, including government, non-profit, and the private sector. There are key learnings on both why crises happen, and what can be gained from them.

Understanding crises

Crises are inevitable. As pointed out, organizations are facing, have faced, or will face a crisis that may threaten their existence at some point. The study confirmed this argument, with 68 percent of respondents agreeing with the inevitability of their organizations facing a crisis in the future. There is also evidence that crises are usually a sign of poor leadership (Exhibit 1), regardless of whether it is in the private sector, non-profit or government, and the size of the organization. A CEO from an aerospace company stated in the report:

"A leader has to understand that dealing with a crisis requires a change of culture, and when they don't understand that, things will quickly spiral out of control."

Operational processes also come under scrutiny during crises. Respondents indicated that the organization must work to shift priorities and change team structure, as well as shift the operating mindset to act quicker. Sometimes, this means teams will go from making decisions over days and weeks to making

decisions in a manner of minutes. “In crisis, there needs to be accelerated decision-making, a tighter grip on direction from the top executive leadership,” said a government consultant.

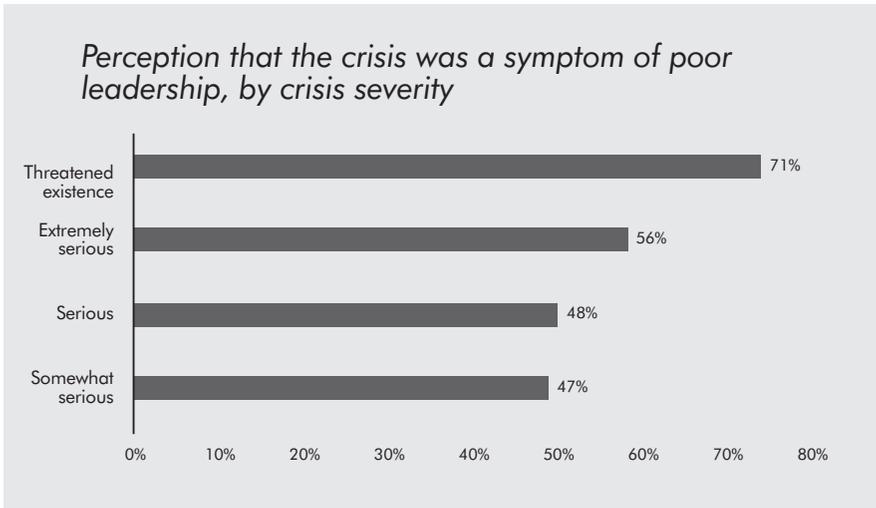


Exhibit 1: Perception that the crisis was a symptom of poor leadership, by crisis severity.
Source: Learning from crisis mode: implications for better strategy implementation.
Brightline Initiative, a special report by Quartz Insights, 2018.

But the question that we were more interested in was what happens when some organizations are facing a crisis situation? What changes might they experience in their leadership, processes, team dynamics, and culture? What can organizations learn from a crisis?

The crisis mode

When organizations face crises, their natural reaction is to go into what the research calls “crisis mode.” “Crisis mode” is the operational realities of an organization in crisis, including shifts in ways of working and employee responsibilities. It seems some organizations radically change the way they do things. A full 93 percent of respondents said their organizations went into “crisis mode” when crises hit them and over half (59 percent) agreed their organizations were facing an extremely serious crisis, or a crisis that threatened the company’s existence.

Entering crisis mode has to be a deliberate action, and organizations should recognize that this state of work helps them to recognize the threats and examine their ways of working, learn from specific changes, and learn how to capitalize on

key opportunities that a crisis can produce. The report clearly shows the opportunities that can emerge from a crisis mode state, and if the organization fails to act on these they will be unable to make substantial improvements in the way they work.

Effects of crises

It is not only about problems and challenges. Crises are ways to improve performance, if they are leveraged the right way. For instance, of the respondents who said they went into crisis mode when facing a crisis, 78 percent declared their strategy implementation capabilities grew stronger as a result of the crisis.

They also agreed that modifications to team structures that were introduced as a result of the crisis remained in place (79 percent), close working partnerships between cross-functional teams continued (74 percent), and a clearer understanding of the organization's priorities renewed its vision and sense of direction (71 percent).

One senior partner and managing director of a large consulting company asked:

“Why can't we have this degree of cooperative effectiveness more commonly in our organization? Why does it take a crisis for us to operate this way? How can we take at least a portion of this magic and make it a more common element of business as usual?”

In fact, the right answers for these questions will depend on an organization's ability to leverage the “crisis mode” and use the learnings to transform the way it works.

Leveraging crisis to transform

You can (and should) use crises to develop some of the key competences that will help your organization transform. The study identifies four areas where key capabilities need to be developed to transform organizations.

- **Focusing on what matters**

Prioritizing initiatives is a key success factor when facing crises. The ability to identify what is critical and focus resources on it is paramount. Teams need to encourage smart simplicity, by staying focused and keeping things as simple as possible to rapidly react to changes in the organizational environment. Leaders need “people who can get to the core of an opportunity or threat, understand the drivers, deliver the information, take the action you need in the way you need it.”

Of 75 percent of the respondents who reported a “crisis mode” environment,

91 percent reported making changes to their prioritization of initiatives, and 88 percent changed their team's priorities and dedication to initiatives.

A simple and effective way to identify key initiatives is how Steelcase, the 100-year-old furniture company, applies prioritization to all projects. The company divides initiatives into three main categories: Now – projects that are closest to the core business and demand immediate attention; Near – near-term initiatives that require building internal capabilities to respond to market shifts; and Far – investments in future projects with long-term shelf lives. With this approach, the company is able to prioritize what is critical for its transformation and maximize its resources with the right mix of investments across all three horizons.

- **Need for speed**

During a crisis situation, timing and the ability to respond quickly define whether the organization will successfully overcome the crisis or succumb. The study found that organizational decision-making was 10 percent more likely to have sped up during the crisis, increasing productivity and efficiency, rather than increasing error rates and quality issues. Eighty-one percent of respondents believed that business processes benefit from adaptation, as the crisis reveals weaknesses and strengths, rather than believed that business processes would suffer because unproven processes were adopted as a response to time constraints.

As a Chief Reputation Officer at a public relations agency stated in the report, “being forced to deal in the time constraints and under the pressure of a crisis forces you to identify roadblocks to getting things done.”

Similarly, teams were 11 percent more likely to increase their effectiveness in response to the crisis because of the challenge than they were to decrease effectiveness because of the emotional turmoil.

- **Power to the people**

Those organizations that performed well during a crisis situation believe that crises help to uncover talented leaders from within the organizational ranks, allowing those leaders to advance (75 percent), and this is why empowering key employees to take the lead on transformation is essential during a crisis.

The study revealed that respondents did not agree that responsibility for successfully resolving the crisis rested with the organizational leadership team more than employees. In crisis mode, non-leadership employees are motivated to take ownership of the situation, an attitude that has clear benefits in post-crisis scenarios.

“I think in a true crisis, it becomes an all-hands-on-deck situation where even the most senior leaders need to roll up their sleeves and get into the dirty work just to show solidarity on some level,” said a marketing director from a healthcare company.

In addition, modifications to the organizational and team structures as a result of the crisis were more likely to leave long-lasting impact and benefits, and close-working partnerships between cross-functional teams continued after the crisis was over.

ING, the Dutch banking group, uses agile techniques to improve speed and collaboration. The company created the “One Way of Working,” a strategy that incorporates the principles of “agile” methodology to improve flexibility, innovate faster with shorter time to market, minimize handovers, and provide employees with greater freedom and responsibility than in a traditional company approach. Dina Matta, Head of the Global Transformation Office at ING, stated:

“As you empower people by being clear on a strategy’s purpose, and empower teams to participate in the decision-making process, they have a lot more ownership [and] a more direct impact on business performance and strategy execution.”

- **Committing to communication**

Communicate, communicate, and communicate. There is no question that during a crisis a successful resolution depends on communicating widely and effectively.

Improved understanding about the organization’s vision and goals, and a clear sense of direction will help organizations navigate any type of transformation.

Don’t just assume your people will get it – you must firmly establish a shared commitment to communicate and get buy-in from people about what needs to be done. A retired firefighter observed:

“You have to communicate. You could have all the strategic plans and all the strategies you want, but if you don’t have people that have bought into that, and if you are not communicating as a boss to your subordinates, they’re not going to understand what they’re doing and why they’re doing it. The big thing is why, why are we doing this? If you can’t communicate that, you shouldn’t be doing the job!”

Open, clear, and constant communication helps employees to understand the context and why their work is critical to solving the crisis.

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'An organization can't transform unless its people transform. And its people won't transform unless their managers and leaders transform. Leaders and managers must role model the new desired mindsets and behaviours that are necessary to successfully accomplish the transformation.'

EDWARD HESS & DONNA MURDOCH

CLAUDIO GARCIA, KAIHAN KRIPPENDORFF, ZACHARY NESS
& 13 THOUGHT LEADERS AND HEADS OF STRATEGY

Four transformation traps and how to avoid them

Everyone knows that transformation is a reality for business organizations trying to navigate and compete in the complex and unpredictable world in which we find ourselves. If that's so – if it's such a broad, shared experience – why do so many struggle with transformation? Why does it appear that the majority of organizations that leap into transformations do so with only a minimal understanding of the human and social implications of their decisions?

Those are the questions that we – a group of 16 senior executives and thought leaders with expertise in strategy and transformation – wanted to identify and analyze. (All those who contributed are listed at the end.) In short, we wanted to know the main barriers that organizations fall prey to as they attempt otherwise worthy transformations.

We certainly had a lot of possible traps and barriers from which to choose. From unrealistic expectations for growth, to profoundly underestimating the amount of time and effort required to implement transformation initiatives, to failing to build support and understanding about why the transformation is needed, it's clear that far too many organizations are incapable of executing a successful transformation.

We started with a comprehensive review of business literature to see what possible range of problems others had identified. This generated a collection of 22 potential barriers. Then, the members of our group shared our collective experience – we each have more than 20 years of experience with transformation and change – to identify the most common transformation problems we encountered during our own careers.

We rated the potential barriers on a scale from one to seven (where one is “not often at all” and seven is “pretty often”). We relied heavily on our own experiences, and setbacks, as individuals, while overseeing transformations.

FOUR TRANSFORMATION TRAPS AND HOW TO AVOID THEM

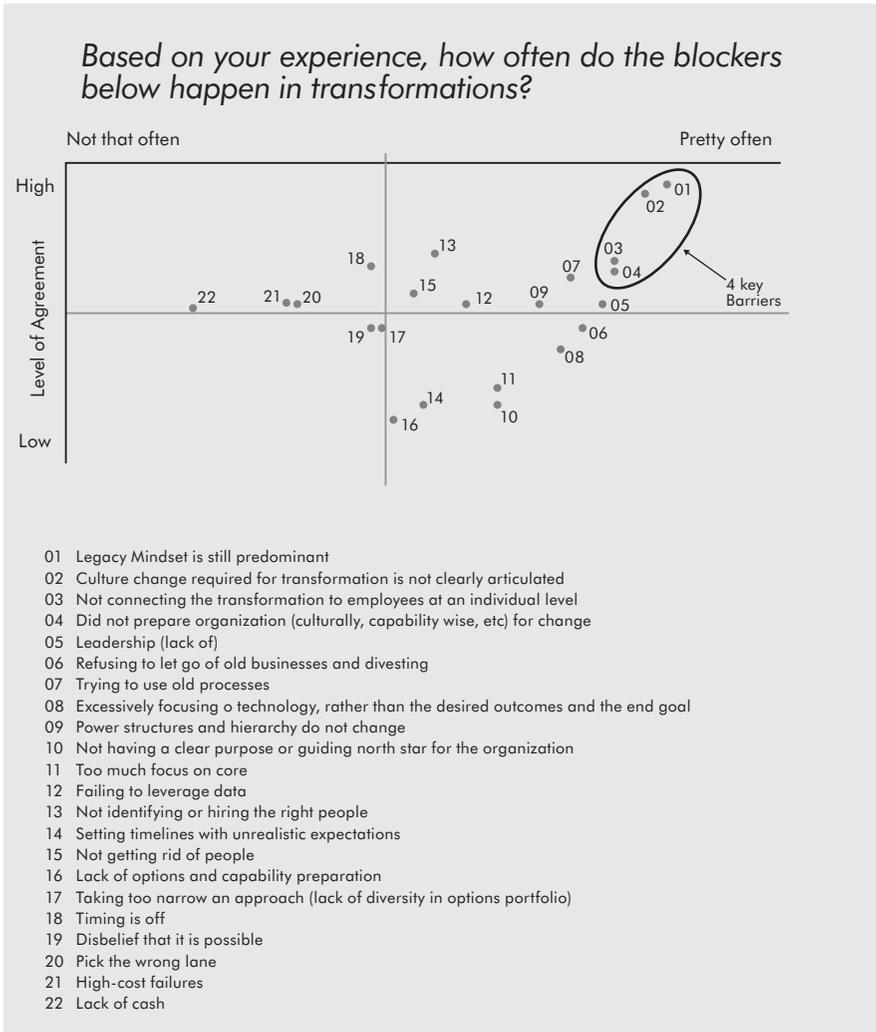


Image 1: 22 barriers to successful transformations

Once we had identified the four most common barriers, we found there was a common thread connecting them: all were closely associated with purely human aspects of transformation.

Interestingly, we determined that as transformations are designed and executed, few organizations are aware of just how important the top four barriers are to the fate of their transformation initiative. In other words, these problems are typically ignored right up until the time the transformation is derailed.

The top four barriers to a successful transformation

Legacy mindset

Legacy – the deeply ingrained, long-held way of thinking and doing things – is a powerful force in many organizations. Often, people who have built companies, or who have been in leadership positions for extended periods of time, resist taking the time to challenge their legacy mindset, even when the old way of doing things is not working anymore. Moreover, they have so much confidence in their traditional mindset and processes that they resist or even try to undermine a transformation. Legacy also skews our perceptions about why things are not working well. In organizations where legacy eclipses everything else, leaders will blame a lack of success on the failure of others to follow the legacy mindset. They will fire internal advocates of transformation, and dispose of consultants and partners who may be offering them an argument for change. It is essential to understand and address legacy early on in the transformation process.

Failure to build support for transformation

The idea that culture trumps strategy is well understood. So much so that it has become a mantra for leaders and thought leaders when discussing best practices in transformations. Despite this understanding, far too many organizations naively neglect this critical, subjective side to any transformation. As a result, these organizations fail to attract a critical mass of people necessary to shift the behaviours and thinking necessary for a true transformation. This is often due to inconsistent and conflicted messaging about the vision and purpose of the transformation. Middle managers are the most vulnerable group to this trap, given that they are faced with the pressure from senior leaders to transform, the increasing need to collaborate with peers, and the resistance of their direct reports. They try to manage all of these potentially conflicting relationships without having a clear idea themselves of why they are doing what they are doing. They should be the architects of the changes.

It is not just about understanding their perspective, or communicating more. It is about building internal mechanisms to source ideas, improvements, structures, approaches, etc., from across the organization and thus enrich the vision of what the transformation can be and how it can be achieved.

Underestimating the importance of preparation

When you need to perform an important task, you first must take the time to prepare. However, far too many organizations assume that their employees

already have the capacity and skills to change or do new things, and thus need minimal preparation and support. These organizations are focused almost solely on how quickly their employees can change the way they do things, without taking the time to ask whether their people need help to successfully transform. “Just go and do it” is the prevailing message, even if the gap between the old way of doing things and the new ways is broad and profound. It’s simply unrealistic to expect thousands of employees, in the case of large organizations, to learn a broad range of new skills and processes with no specific assistance. Consistent and adequate support is an absolute necessity.

Not connecting transformation to employees at an individual level

Most transformations are communicated top down, which ignores the organic relationships among individuals and their emotional connection with the organization. Independently of what’s being decided at the top, individuals will consciously or unconsciously react to the new reality of transformation, but not always in a positive way. When transformation does not account for an employee’s personal experience or perspective, and they feel that it is being foisted upon them without any consultation, they will lose energy and enthusiasm for the plan. They will focus on surviving the transformation, rather than thriving in the organization’s new reality.

Organizations should know and prepare themselves better

Far too many transformations fail unnecessarily. The traps that can derail success are plentiful, but they are known, and some matter more than others do. So by focusing your attention on predicting and preempting just four, your chances of success will greatly improve.

- Understand that any successful organization will produce legacy mindset to challenge the change you are pursuing. Assess from where it will appear, look for signs of its emergence, and act accordingly.
- Establish a mechanism and practices that will build internal support for the transformation, particularly with the middle-manager group.
- Be realistic about the amount of preparation transformation will take, giving people the time to change and setting expectations for the speed of change that the organization can meet.
- Connect the transformation to employees at an individual level so they understand and embrace the new reality.

In these scenarios, organizations lack a bare minimum of human and cultural infrastructure to execute the transformation. The original idea behind the transformation may have been sound, but with so many traps and barriers, it will never reach a point where people can see it live up to expectations.

In the absence of preparation and knowledge, organizations try to be bold and create high expectations often without realizing just how difficult it will be to achieve the vision of transformation. Organizations need to be a bit more sceptical about their own hype and do a better job of knowing themselves, and how their vulnerabilities and limitations can derail the big vision.

Also, leaders neglect the personal human contact necessary to manage a transformation. They must engage in extensive and exhaustive interactions and face-to-face conversations at all levels to overcome conflicts, resistance, and build a psychological commitment to transform. It means that they may need to accept short-term losses to guarantee long-term gains and be able to communicate that to all involved, including shareholders.

It's important to remember that your employees are not superheroes. They cannot absorb change without the support they need to develop the capabilities necessary to transform. Terminations may be necessary, but it's unrealistic and expensive to believe that you can find all needed skills in the external labour market, just as it is unrealistic to expect existing employees to adapt and learn unconditionally. You need to work with your existing people to help them reskill, upskill, and reach their full potential within a transformation.

Along this journey, you will find that candor, presence, and the willingness to support individuals will build trust in a transformation. That is the unique element that allows organizations to fail and learn fast, reduce unnecessary entropy, and build success.

Not all organizations fall in those traps at the same time and with the same intensity and many have learned how to mitigate them. Otherwise we wouldn't see so many successful transformations around. But they exist and were the focus of this article based in our experiences.

It all seems too obvious. If only more organizations got with the programme.

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Operations, PVH Corp

Tom Sholes, Chief Strategy Officer, Head of Global Strategy and Product
Management, BNY Mellon/Pershing

'Think of this point in the organization's history as a time when the organization-building cycle starts afresh. Turnaround managers can then be thought of as needing many of the same qualities as entrepreneurs, particularly the ability to animate a new organization.'

ED SCHEIN

Transformation in the 21st century: how not to implement change initiatives

The modern business world is evolving rapidly, and organizations that wish to be successful must be willing to embrace new ways of doing things. But even well-meaning, agile leaders often face an uphill battle when it comes to transformation, for the mechanics of making change happen can be difficult, especially when in a complex structure like an organization. But some techniques are better – and more likely to result in lasting change – than others.

Strong and innovative ideas and theories are not enough. Just as critical are effective planning, communication, and implementation processes. Here are 14 change initiative mistakes to avoid as you undertake digital and other types of business transformation.

1. Driving from the bottom instead of the top

Any successful change strategy requires the enthusiastic involvement of managers and employees on the ground, and bottom-up goal setting is terrific for innovation and morale. However, unless you work in an organization with no hierarchy (and then you have other problems), your proposed change won't go anywhere without executive buy-in and ongoing support. So, get it and get it early.

2. Assuming everyone agrees

It's a mistake to believe that the majority perspective mirrors yours, even if a certain point of view seems obvious. For example, it's tempting to think that everyone would naturally support a flexwork or automation initiative, but without polling and/or focus groups with representation from all functions and roles across the organization, you really can't be sure of anything. Even if you're in growth mode and are under pressure to act, do your due diligence before pulling the trigger.

3. Relying solely on logic

It's necessary to build a bulletproof business case full of rational and objective arguments for your strategy, but don't forget passion, fire, and story. Unless people can feel the problem you are trying to solve, they won't be motivated to help you. There's a happy medium here, though. You must create a sense of urgency and use emotion to persuade people to action without coming across as over the top.

4. Insisting everyone fall in line right away

There's a reason the most popular new style of management is called transformational leadership. The era of command-and-control – hierarchical dictatorships – is long behind us, and today's most effective leaders understand the need to introduce change gradually and in a non-threatening manner. People may not accept and 100 percent support your strategy right away, and that's okay. Ongoing discussion is part of the process.

5. Defying your culture

Corporate culture is an unseen, but tremendously powerful, force. In any organization, so much goes on behind the scenes of organizational charts, mission statements, and annual reports. Gaining an in-depth understanding of what drives your culture is a critical step in undertaking any change strategy, even those that aren't technically "culture" initiatives.

6. Giving non-negotiable direction

Change strategies should include specific rollout plans and timelines, but they should also incorporate wiggle room for managers and employees to customize their implementations and put their unique signatures on the effort. Acting like a tyrant and micromanaging everything is not likely to endear you – or the initiative – to the organization.

7. Leaving out implementation specifics

On the flipside of this, you can't unveil a proposed change strategy and leave your organization to its own devices. In most situations, the "how" is far more complex than the "what," and you may need to explain exactly what your plan means to individual groups and employees. How will it impact their daily responsibilities, the way they communicate, and the way they execute deliverables? Don't assume people will automatically make the right connections:

spell them out whenever possible and realize that some ongoing training and coaching may be required.

8. Focusing too much on the kickoff

We've all been there. Someone has a great concept, everyone else jumps on board, and in short order the initiative becomes more about the launch than the organizational change itself. Remember that the launch day is just that – a day. It's fine to plan a celebration, but make sure you follow it up with clear and sensible execution.

9. Going public prematurely

There's no better way to undermine your initiative than to have employees hear about it from outside the organization. Especially if you work at a large or publicly traded organization, details may either be purposefully shared or accidentally leaked to external stakeholders such as analysts and journalists. If you don't want to start off on the wrong foot with a lot of peeved employees reading about your plans online, emphasize confidentiality until you are ready to announce.

10. Ignoring detractors

Inevitably, some within your organization will resist your proposed change. They'll all have their reasons. It's human nature to avoid conflict, but if you're wearing blinders when it comes to opposing viewpoints and either direct or subtle attempts to block your progress, you're setting yourself up for trouble later. Instead, anticipate objections, plan your response, and communicate systematically with those who don't agree.

11. Not digging deep enough on resistance

There will, of course, be times when you can and should win over your detractors. But in other situations, people will resist your idea for genuinely good reasons. They may, for instance, be privy to inside information illustrating why the initiative won't work. Before proceeding, investigate if there is more to the story than a disgruntled employee. You may uncover information that will help your case in the long run.

12. Failing to execute a rollout/communication plan

Speaking of communication, recognize that informing the organization about the strategy at frequent intervals is essential to any change initiative.

Ensure that you have enough resources to accomplish your goals AND talk to people about them. Target your message to the needs of different organizational groups, solicit feedback often and put systems in place that facilitate an ongoing, two-way dialog.

13. Pushing for full as opposed to incremental change

When I advise clients who say they're procrastinating because they're overwhelmed by the sheer size of a task, I encourage them to break down the assignment into manageable chunks that can be accomplished one step at a time. Recognize that the scale of some transformations will naturally cause people to bury their heads in the sand. So instead of insisting on an overnight implementation, provide one or two small steps that are easy to achieve and will result in increased momentum and cooperation.

14. Measuring faraway outcomes

Meaningful organizational change often takes years, yet most people lose interest in an initiative after a few weeks or months. Be prepared for this, and bolster excitement and commitment by continuously rewarding the accomplishment of shorter-term goals. Also, don't stick too rigidly to your original plan. Successful long-term change requires constant re-evaluation and adjustment based on the ebb and flow of business.

Even if you have lived and learned and no longer make these mistakes in your transformation efforts, there are bound to be thorny issues and frustrating setbacks. Be patient with your people and yourself and remember that while transformation may not be the easiest path, it is certainly the smartest and most essential to 21st century success.

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**‘Don’t judge each day
by the harvest you reap
but by the seeds that
you plant.’**

ROBERT LOUIS STEVENSON

A roadmap for creating digitally-enabled organizations

Many managers struggle to see a clear path towards creating digitally-enabled organizations. It is not clear what digitalization investments should focus on, how they can be justified financially, and how the organization can be steered towards embracing these technologies. The plethora of vendors, system integration and digital transformations consultants adds further confusion to these important questions, leaving many organizational decision makers uncertain about how the digital transformation should be staged.

The shiny visions of highly automated operations where artificial intelligence drives countless decisions and activities, albeit fascinating, generate realistically unattainable expectations that can ultimately paralyze the change process. Rome was not built in a day, and the companies that created the most advanced digital environments took their time to do so.

Consider the case of Siemens' Nuremberg factory, which assembles industrial controls equipment. This site is a flagship factory where Siemens showcases a mind-blowing level of automation – human intervention is mostly left to exception reporting and control functions. Monitoring and connecting real-time data about products, processes, environmental conditions, and quality controls results in a whopping 99.9988 percent non-defective end products. When asked how they achieved this “miracle,” plant managers offered a shocking answer: “There was no revolution here. We constantly invested in improving and automating the factory for three decades.” As a result, the plant has multiplied by ten its output without increasing its workforce.

Many companies are far from where digital champions are. How can they get there, step by step? After interviewing hundreds of executives with digitalization responsibilities, my research points to four main stages that must be considered to drive this transformation. I refer to these as groundbreaking, experimenting, piloting, and scaling.

Groundbreaking

We all too often assume that companies have stores of high-quality data that span years of operations, ripe for being exploited. More often than one would expect, this data is not available, paper-based, incomplete, scattered across different systems and organizational units, or has serious quality problems. Most data lakes are dry lakes, or wetlands at best. For instance, until recently, Audi had only paper-based information about quality checks for some of its automotive assembly lines. A Ford assembly plant had a digital assembly line quality control system but, to save on data storage costs, it deleted process quality data six months after collection.

With inadequate data it is difficult to build effective digital solutions, so the first stage often entails creating a data collection infrastructure that feeds a to-be data lake. How can such an investment pass internal filters for investment decisions? The fundamental idea is that data collection systems are indeed monitoring and control systems – and monitoring brings disciplined and efficient execution. The payback of a state-of-the-art data collection infrastructure is ensured by enhanced control and visibility. But the real outcome is the creation of a potentially invaluable data lake.

Experimenting

Having a data lake is a good starting point but what to do with it is not clear to many managers. No wonder a frequent complaint is that “I do not know how to argue for the effect of digital initiatives on Return On Investment.” Besides this, investments aimed at exploiting data lakes raise expectations that may hurt the reputation of the proponent if the results turn out to be disappointing. For instance, Gartner deemed 90 percent of data lakes created through 2018 to be useless, as the organization is unable to generate significant value from the data stored. When uncertainty about the business potential of a data lake is high, then experiments – not pilots – are the way to go. The fundamental idea of experiments is to investigate cheaply a working hypothesis. Unlike projects, discovering that something we hoped was possible is not possible does not qualify an experiment as a failure. It is valuable learning. Learning and reducing uncertainty is the goal of experiments.

Experiments in the journey towards digitalization should use limited resources for a brief amount of time to investigate essentially two things. First, can any useful decision support tool (e.g. an algorithm, recommendation agents, etc.) be built based on statistical inferences from the data lake? For instance, an application service unit of IBM discovered that a regression-based tool could forecast the time it took to fulfill a customer request with two-digit accuracy improvement compared with human planners. Second, since people may be sceptical and even oppose the creation of these systems, the second experiment was aimed at creating a simulated user interface. This simulation enabled users to grasp the potential benefits of the digital solution, and IT people to understand and assess the kind of changes that were needed to the ticketing system for solution implementation.

Piloting

Once management knows what value-adding analytics to build from a data lake, and is less uncertain about the associated costs and benefits, then it is time to launch a real pilot, or even to revamp an existing process. At this stage the interest lies in improving hard business metrics, be they related to efficiency, customer service, or financial performance. Through pilots, managers can also explore the appropriate way to organize two distinct groups of stakeholders in digitalization initiatives: algorithm developers (i.e. those who create the algorithms based on data lakes) and algorithm deployers (i.e. those who embed these algorithms in the systems employees use in their everyday work). Pilots provide answers to important questions. Which specialists should be in the two groups? How should their efforts be evaluated? How open should these groups be to non-organizational members? How centralized versus decentralized should they be in different organizational areas, units, and subsidiaries?

An example of a successful digitalization pilot is offered by the Princes Group, a fast-moving consumer goods manufacturer based in the UK. Facing strong demand and capacity-constrained facilities, the CFO was interested in increasing equipment output. This directly translated into ensuring that loss of productive time, for example due to preventive and reactive maintenance, was minimized. The algorithm developers (which mostly included external consultants and production engineers) created algorithms that set time goals for worker activities based on ongoing process parameters. For instance, in case a specific piece of equipment broke, the algorithm could calculate how much time the serviceman had to fix the glitch before the process incurred a production loss. Essential to

the success of the pilot was the team of algorithm deployers, which also included workers, supervisors, IT specialists, as well as external industrial IT specialists. This team defined how the algorithm interfaced with the data collection platforms connecting the target production line, the line overhead displays, as well as a specific “app” that was plugged into the line so that maintenance and production engineering personnel could analyze data on line performance. The result was an almost 20 percent increase in the line output, which directly translated into a two-digit revenue increase.

Scaling

An ever-growing concern of managers, especially those working in sophisticated multinational firms, is the need for scaling “local” initiatives (oftentimes, local “pilots”) so that they can be easily transferred to other processes or facilities within the corporation. Without this final step, independent teams are likely to “rediscover the wheel” and produce limited, local, returns to their efforts in digital innovation, without making a real competitive difference. However, ensuring scalability of solutions is not a trivial problem, because the solution needs to be flexible enough to be adaptable to different processes and facilities.

The key concept to ensure that local pilots turn into global solutions for a large company is the creation of corporate digital innovation platforms. The idea of a platform is to facilitate the connection of solutions developers and solution users, enabling many different users to adopt the solution created by one developer. To this end, companies such as General Electric have created “digital twins,” which are digital representations of an asset or process that can be paired to a “standard” algorithm to support the management of that specific asset or process. When you move from a local to a platform solution, in other words, algorithm development also includes the creation of digital twins. For instance, the digital twin of a wind turbine collects data on the “history” of that specific turbine (failure events, repairs, past configurations, etc.) and couples it with a standard predictive maintenance algorithm from the Predix platform to reduce downtime and increase energy generation. Also, the deployment of digital solutions in a platform system must accommodate local interface requirement. For instance, different electric companies – say Germany’s E-ON versus Spain’s Iberdrola – may require different information displays for their technicians. Compared with a pilot, a platform solution must embed a customizable interface that eases its adaptation to local conditions.

Of course, the development of digital platforms requires central oversight to ensure that safety and quality standard are met by locally developed solutions. Likewise, proper incentives should be provided to local innovators. Developing scalable solutions entails a greater effort than developing local solutions: it is essential that some of the global benefits generated by the scalable solution be shared with the local innovator in order to make this effort attractive.

When an organization wants to assess the readiness of its digitalization roadmap, it must be clear that the maturity of the organization on a certain type of solution may be low – say at the “groundbreaking” stage, while for other types of solutions it may be higher – say at the “pilot” stage. What is important is to understand the overall picture. And that at each stage, the goals pursued by digitalization initiatives are different.

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'They always say time changes things, but you actually have to change them yourself.'

ANDY WARHOL

EDWARD D. HESS & DONNA MURDOCH

Fear: The big inhibitor of innovation and transformation

Momentum is growing in the corporate world – more and more companies are realizing that the convergence of advancing technologies will fundamentally change how we live and how we work.

This realization has led some leaders to initiate either a digital transformation or the building of an innovation system. In many cases, the ultimate objective is to “win” – to beat the competition by increasing the speed and quality of human learning in order to attain the highest levels of human cognitive and emotional performance in concert with advancing technologies.

Questions that are commonly asked include: Where do we start? How do we structure the initiative? Is the initiative company-wide or siloed? Who leads the initiative? What technology do we need? What skills are we lacking? What is our competition doing? How will we train our employees for new roles as these technologies are implemented?

Questions that are rarely asked happen to be as important: How do we handle the human, emotional part of the transformation? How do we lead in a way so that our employees will emotionally embrace the new learning and ways of working that need to occur? How do we minimize one of the biggest human inhibitors to transformation – fear?

Transformation starts at the top

An organization can't transform unless its people transform. And its people won't transform unless their managers and leaders transform. Leaders and managers must role model the new desired mindsets and behaviours that are necessary to successfully accomplish the transformation.

We all know that change is hard – especially in successful companies. People can become complacent in doing what they already do, especially if it has worked well in the past. But the old corporate axiom “If it's not broken, don't fix it” no longer applies in an environment of fast-paced technological change. Successful organizations today have to be constantly proactive, not reactive and defensive.

Transformation requires the mitigation of fear. Mitigating the fear of failing, the fear of not knowing what to do, the fear of learning new skills, and the fear of losing one's position or job. Change can be scary for employees – especially for employees who do not have the skills needed for the new way of working, and especially for employees who do not have significant financial reserves to fall back upon if they find themselves needing to change jobs. People cannot learn when they are fearful.

What has surprised us in our transformation work is that leaders and managers can be just as fearful of the transformative change as employees. For managers and executives, the fear can be a fear of losing what they now have (power, status, responsibilities) or the anxiety about whether they have the abilities to do what will be necessary in order to lead in this new era. We have seen leaders sink underneath conference tables when it was suggested that they do a transformative pilot programme. The fear of not knowing can be big.

Managers and leaders can deal with these fears many different ways. Reflex responses can be:

The “corporate grin and nodding yes” with the internal talk being “no way.”

Doing the minimal necessary to buy into the change or transformation initiative, hoping to make it to stock option vesting or retirement doing what one has done before.

Delegating responsibility for the change initiative to a group, creating distance – not having direct responsibility for the initiative so failure is not attributed to them.

Half-heartedly undertaking the transformation, believing this initiative – like many in the past – will blow over.

We have seen all of these attitudes in the last few years inside very successful companies that have embarked on a major transformation initiative.

How does a leadership team get to the place where they can admit their individual fears and find ways to support each other in acknowledging and working through those fears? How does a leadership team create a work environment that makes it easier for employees to deal with their fears? An answer to these questions begins with the “why.”

The why

The first part of mitigating fear is having a reason to embrace the fear – a story that each employee can identify with in answering the question: Why should I change? That story is a story of why the organization must change and a story of why each individual needs to learn new ways of working to enable that

organizational change. Employees need to make meaning personally of the “why” in ways that make sense to them. That “making sense” must emotionally connect with the individual.

Often, we need to help people find the “WIFM” – the what’s in it for me? Will it help me stay relevant? Will it help my career? Will it help me to be a better person or more successful in my life? We don’t usually know what will resonate, but ultimately the motivation needs to come from an intrinsic place. Conversations with employees individually and/or in small teams are necessary. The company story, and the common individual whys, must be continuously discussed and referred to for a long period of time until the new way of working becomes a habit. And the new way of working requires people to embrace their fears and to have the courage to go forward. Change is hard. Helping people buy into change takes time and effort by leaders and managers.

If people buy in to the “why” then they can move to the “how.” What mindsets and behaviours will be needed to accomplish the transformation? What kind of work environment is needed to enable those new mindsets and behaviours – both culturally and process-wise?

The how

With respect to mitigating fear, culturally the leadership needs to create a “psychologically safe workplace” following the research of Professor Amy Edmondson of Harvard Business School. A psychologically safe workplace is one where people agree to do no harm to each other and to act civilly at all times. It is a place where everyone can speak up, be candid, and have difficult conversations without the fear of – or actual – punishment or retribution.

It is a place where it is safe to challenge the status quo, to challenge each other’s thinking, to challenge higher-ups’ thinking and decisions, to admit one’s mistakes, and to say I don’t know. A safe workplace should mitigate corporate politics and internal competition, and it should enable collaboration, teamwork, and learning. In order for that to happen, leaders and managers need to empower people and ensure their safety. Leaders need to show their own weaknesses, they need to fail in front of others and pick themselves back up and try again. Initiatives and trials need to be rewarded, not only the successes but also the effort and spirit. At some point this becomes the norm.

Conquering fear

Everyone is fearful – individual differences are a matter of degree. And what differs is how one manages his or her fears.

Behaviourally, how do leaders enable workers to overcome their fears? How do leaders learn to personally embrace and deal with their own fears? Leaders need to become more human by publicly acknowledging their fears to others and encouraging their direct reports to do the same. Having nonjudgmental, respectful, caring, compassionate, safe conversations about fear starts at the top. Leaders have to take the first steps in being vulnerable with others and leaders need to have the conversations with others that result in the cocreation of the rules of engagement that can lead to creating an environment where it is psychologically safe for employees to talk about and work through their fears of change.

We have learned that for many leaders it is much easier to start the fear discussion by asking them a series of questions: “Why would your employees be fearful of the change that is needed? What can you do to mitigate that fear?” Then move to the personal discussion: “What about you – what fears do you have about the transformation? How can you mitigate your fear?” Transformation is very personal, and though we read studies and survey outcomes, we very infrequently hear about reasons for the fears. Acknowledging that everyone has personal reasons for their fears is a powerful step.

Managers and leaders can then have conversations with small groups of employees and ask them what they need from the company in order not to be so fearful and to be courageous. Leaders and managers can ask employees: “How can I help you feel safe here? What do I need to do differently?”

We are not saying you should lower your standards of performance. What we are saying is that if you want big changes in human behaviours, you need to face fear in the workplace courageously, both individually and organizationally.

As Abraham Maslow so aptly stated: “An individual engages in learning to the extent he (or she) is not crippled by fear and to the extent he (or she) feels safe enough to dare.”

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'Effectively communicating the change vision is critical to success. This should seem obvious, yet for some reason, executives tend to stop communicating during change, when in actuality they should be communicating more than ever.'

JOHN KOTTER

To out-transform your competition, activate internal entrepreneurs

In 1876, Western Union declined an opportunity to purchase Alexander Graham Bell's telephone patent, purportedly for \$100,000. That mistake could have proved fatal for most companies, as the telephone would eventually replace Western Union's core telegram business. But Western Union knew how to transform.

The long-term viability of any organization hinges on its ability to adapt to changes in its environment. They do this by (a) generating strategic options that could prove valuable in the future and (b) transforming the options that prove promising into valuable innovations.

Western Union had numerous options to choose from. The company had completed the first transcontinental telegraph line, introduced the first stock ticker (invented by a particularly resourceful Western Union telegraph operator named Thomas Edison), and invented the concept of wiring money. After the company passed up the telephone opportunity, it introduced the first consumer charge card, introduced teletypewriters (a precursor to email), and pioneered a device to send images over telegraph wires (a precursor to facsimile machines).

Of all the options available, moving money electronically proved to be a success. Western Union successfully transformed from a telegraph company into the money transfer company we know it as today.

But transformation is getting more difficult because the time organizations have to transform is shrinking. Western Union had six decades to engineer its transformation because it took 60 years for landline telephones to take over. Today's technologies replace old ones far more rapidly. Tomorrow's will be more rapid still.

As the table overleaf shows, the rate of technology adoption is accelerating.

Technology	When innovation took hold (reached adoption by 10 percent of US households)	Years to reach adoption (reached adoption by 80 percent of US households)
Landline	1880s	60
Radio	1925	15
Microwave	1981	10
Internet	1995	5-7

Source: Ourworldindata.org

This acceleration creates a challenge for any organization with aspirations to sustain. Your window to adapt to change is getting shorter.

“Most innovative companies” are ineffective at transformation

Every year, publications like *Forbes* and *Fast Company* publish “most innovative” lists. One would think companies that appear on such lists to be promising sources of best practices for how to stay relevant in the future. However, my research indicates, while “most innovative companies” are adept at creating new ideas, few are able to transform these ideas into businesses. Steve Jobs once said, “Innovation is creativity that ships.” By this definition, following the practices of “most innovative companies” may make you creative, but it does not guarantee you will be able to transform that creativity into an innovation that ships.

“Most innovative companies” seem to be falling for what innovation experts like Rita McGrath and Steve Blank call “innovation theatre,” which Blank describes this way: “All too often, a corporate innovation initiative starts and ends with a board meeting mandate to the CEO followed by a series of memos to the staff, with lots of posters and one-day workshops. This typically creates ‘innovation theater’ but very little innovation.”

In my book *Driving Innovation from Within: A Guide for Internal Entrepreneurs*, I assemble a macro list of 367 companies that have appeared on the *Fast Company* and *Forbes* “most innovative companies” lists over the last five years. My research team and I then measured their performance against their peers’ over a five-year span to see if their innovations took hold. In all we studied over 3,000 companies and 60,000 data points.

I found no correlation between appearing on a “most innovative” list and performance. With very few exceptions, these companies are creative but unable to transform their creative ideas into value. Indeed, we found only 13 innovative companies that outperformed their peers. We call these “innovative outperformers.”

In rank order, they are:

1. Illumina
2. Apple
3. Regeneron Pharmaceuticals
4. Tencent
5. Coloplast
6. Mastercard
7. Naver
8. Netflix
9. Amazon
10. Starbucks
11. Vertex Pharmaceuticals
12. Incyte
13. Visa

What are the implications of this finding? There are three:

- Depending on your industry, transformation is table stakes; it won't be enough to make you a superior performer.
- To become a superior performer, you could adopt a centrally organized model, however,
- Most of the companies that have mastered transformation adopt an organic model that activates internal entrepreneurs.

Sometimes transformation is table stakes

Some of the innovative companies that fail to outperform will surprise you. Adobe, Alphabet (Google), Salesforce.com, and Red Hat, for example, appear on "most innovative" lists often but do not outperform their peers. Yet these companies have proven themselves effective transformers. Adobe successfully transformed from a model selling expensive software licenses to selling low-cost subscriptions. Netflix successfully transformed from a content gateway into a content producer.

In fast-moving industries, like technology, the ability to rapidly transform is table stakes. Competitors unable to transform quickly burn out, leaving only fast-transformers in the market.

Sometimes transformation is centrally organized

To build the capability to transform ideas into valuable innovations, leadership most often adopts an organized approach. Kellogg professor Rob Wolcott has studied numerous innovation efforts and categorizes them along two dimensions that a leader can control: (a) who is asked to innovate (a specific group of innovators v. employees broadly) and (b) how innovations are funded (through a centralized innovation budget versus ad hoc by business units). In the majority of innovation efforts of “most innovative companies,” leadership will either designate an innovation group, dedicate innovation funding, or both.

But only a few of the 13 innovative outperformers adopt such organized models. Such models are particularly prevalent when R&D plays a significant role, such as with Illumina, Regeneron Pharmaceuticals, Coloplast, and Vertex Pharmaceuticals.

Most top performers adopt an organic model that activates internal entrepreneurs using three leverage points

The majority of “innovative outperformers” adopt a more organic, employee-driven model. They encourage employees broadly to innovate (i.e. “everyone innovates”) and task them with seeking funding in an ad hoc manner through business units. Wolcott calls this the “opportunist” model.

Nine out of thirteen innovative outperformers lean toward such “opportunist” models. Companies like Apple, Tencent, Mastercard, Netflix, Starbucks, and Amazon are able to sense the future and transform themselves rapidly into new forms by activating employees broadly to seek new ideas proactively, without significant innovation budgets, and empower their people to initiate the transformations the future demands.

Break down their innovation programmes, and you will see three key leverage points they apply. If you want to out-innovate your competition, if you want to establish an ability to continually transform for the future, consider focusing your attention on these three points:

- Talent
- Culture
- Structures

Talent

Research shows that the characteristics of people most effective at transforming new ideas into valuable businesses from within an established organization are

uniquely different from entrepreneurs or from traditional managers. For example, entrepreneurs often grow exasperated by the political effort that innovating from within requires, and managers often struggle with the ambiguity such efforts entail. Specifically, research shows that effective internal innovators exhibit six traits. They:

- are innovative thinkers
- keep abreast of the market (customers and competitors)
- are proactive
- take a strategic approach to risk
- exhibit political acumen and even enjoy the politics
- are intrinsically motivated to create change and don't do it for financial pay-off

You can cultivate these traits through your organizational structures and cultures (see both below), but hiring people who already bring some of these traits to the table can give you a head start.

For example, to ensure Amazon's new hires fit the attributes of innovative thinkers, Jeff Bezos says he likes to ask applicants he interviews to share an example of something they have invented. These may not be product inventions, but "lots of different kinds of inventions and I find that they are all super valuable." He is looking for people who "tend to be dissatisfied by a lot of the current ways. As they go about their daily experiences, they notice that little things are broken in the world and they want to fix them. Inventors have a divine discontent."

Culture

The right talent will only persist with right behaviours if they are boosted by cultural values that reinforce the six attributes above. Specifically, research shows four cultural characteristics that correlate with an organization's ability to adapt, innovate, and transform:

- innovative thinking
- autonomy & proactivity
- market awareness
- risk-taking

If you map the cultural norms of companies that are innovative and outperform you will see a clear correlation. They explicitly encourage many of these four cultural norms. Netflix, for example, which does not significantly outperform its peers but has transformed repeatedly, states in its cultural statement: “We believe that people thrive on being trusted, on freedom, and on being able to make a difference... We are dedicated to constantly increasing employee freedom to fight the python of process.”

Structures

Developing the right talent then burdening them with bureaucratic structures will naturally lead nowhere. Research shows that your organizational structure must meet four criteria if it is to liberate employees to drive transformation:

Innovation resources: providing the resources (capital and time) employees need to pursue new ideas.

Rewards: establishing incentive systems that reward innovative activity.

Allowance of risk-taking: providing structures that allow risk-taking by, for example, not requiring detailed business plans with return on investment proofs, and valuing failure for the learning it provides.

Organizational freedom: allowing the ability to work across silos and form cross-functional teams.

Tencent, for example, forms small, fast-moving teams that launch “micro-innovations” that are tested and iterated. Haier has broken its hierarchical structure down into 4,000 “micro-enterprises” with their own CEOs that operate with remarkable autonomy.

MIT professor Tom Malone offers a particularly promising approach for rethinking your organizational structures. He argues that humans organize to make decisions in five ways: (1) hierarchies, (2) democracies, (3) marketplaces, (4) communities, and (5) ecosystems. Even if today you consider your organization to be hierarchical, you are actually already composed of a multiple of these. At the top of your organization, you may find some kind of democracy in the form of a board of directors. Internally, you have a marketplace for talent in which managers compete for the best talent. Recognizing this, you can now intentionally rethink your organizational design by identifying key decisions your organization makes and deciding which decision-making approach is optimal.

In summary, the challenge of transforming ideas into valuable innovations is widespread. Few companies, even “most innovative” ones, prove themselves able to do this well. The natural propensity of leadership wishing to build this

capacity is to organize it by establishing an innovation group or setting up dedicated innovation funding. But most innovative outperformers are instead winning through an organic approach that activates internal entrepreneurs. They unlock the innovative potential of their employees by establishing the talent, culture, and structures that free people to seek, and seize, exciting opportunities. To do this, ask three questions:

- Talent: How are you recruiting talent that is innovative, aware of the market, proactive, politically acute, and intrinsically motivated, and that takes risks strategically?
- Culture: Does your culture encourage innovative thinking, autonomy and proactivity, market awareness, and risk-taking?
- Structures: How can you design your organizational structures – hierarchies, democracies, marketplaces, communities, and ecosystems – to allow for innovation resources, rewards, allowance of risk-taking, and organization?

About the author

Kaihan Krippendorff began his career as a strategy consultant with McKinsey & Company before founding the growth strategy and innovation consulting firm Outthinker. He has written four books on business strategy, growth, and transformation. They include *Outthink the Competition* and *The Employee Innovator* (2019). He is a member of the Thinkers50 Radar cohort for 2019.

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**'Whatever got you here
may well prevent you
from getting there.'**

MARSHALL GOLDSMITH

THALES TEIXEIRA, LEANDRO GUISSONI & FREDERICO TRAJANO

An unlikely case of successful digital transformation

“Look around, anywhere in the world. Where can you find examples of incumbent companies that were able to successfully transform their traditional businesses into digital ones?”

Frederico (Fred) Trajano, CEO of Magazine Luiza (Magalu)

Many executives of established companies are torn between two worlds. In one, they remain a traditional company and hold onto current profits but aren't prepared for the digital future. To be a member of the other world requires going through a major digital transformation, thereby competing with a swath of money-losing, venture-funded start-ups.

Fueled by venture capital, many of the fastest-growing tech and digital start-ups have adopted a new playbook. They spend vast amounts of money on growing as quickly as possible to achieve leadership positions. Among the most prominent adopters of this profit-losing growth strategy are Uber, Dropbox, Airbnb, Pinterest, Tesla, and WeWork. The latter recently filed for an IPO on \$1.8 billion in revenue and \$1.9 billion in losses in 2018. By contrast, Brookfield, a traditional real estate investment firm, had nearly \$48 billion in revenue and \$2.3 billion in profits that year, yet WeWork had a higher market value.

Established businesses in industries such as auto manufacturing, industrials, hospitality, media, real estate, and retailing are well aware that their customers are moving toward acquiring, paying for, using, and maintaining products and services over the internet. Therefore, some degree of transitioning to digital products, services and processes is critical to a traditional company's survival. The real dilemma faced by executives of established businesses is not if, but how, to move from a traditional profit-making business to a digital business positioned to maintain a profitable leadership position.

Since 2016, as CEO of Magazine Luiza (Magalu), one of Brazil's oldest and most traditional mass-market retailers, Frederico Trajano has faced this dilemma.

Magalu was founded by his aunt in 1957, and by 2019 had 24,000 employees across 1,000 stores scattered across Brazil, serving 18 million customers. Before his decision to transform the traditional retailer, Mr. Trajano had led the company's ecommerce since 2000. By 2015, less than 20 percent of its sales came from online channels. Four years later, this figure had more than doubled. But purely increasing the percentage of online sales was not Mr. Trajano's main goal. He wanted to modernize the company for continued leadership in the decades to come. His vision was to completely transform the brick-and-mortar retailer into a digital company subject to economic drivers and strategies akin to Amazon, Apple, and Google.

The question Mr. Trajano wrestled with was how to go about a full digital transformation of the \$4.5 billion-revenue retailer.

Magalu at a crossroads: growth or profitability?

Mr. Trajano saw two avenues. One was to emulate Silicon Valley: get venture capital funding and grow as fast as possible. That would require investing in top talent, building a digital platform and offering digital services. This playbook also meant advertising heavily to acquire customers and drastically lower prices to beat the competition. Amazon, Flipkart, Rakuten, and Brazil's ecommerce leader, B2W, had all taken this route at one time. Investing in new technologies, new hires, and new partnerships meant that maintaining the historical profitability level would not be realistic. But over time, the thinking went, as scale economies and network effects kicked in, large upfront investments and price aggressiveness would lead the way to profitability.

The alternative to this "Silicon Valley Way" was to keep investing in technology, new hires, and partnerships but not abdicating margins. However, this avenue would certainly reduce the speed of online customer acquisition, dampening growth.

Choosing between Silicon Valley's growth-focused model and a traditional profit-focused model was a mutually exclusive decision at the time. But investors pointed out to Mr. Trajano that if he separated the businesses into a traditional brick-and-mortar retailer (to focus on profits) and an ecommerce player (to focus on growth), he could have the best of both worlds. Such a separation would also allow each business to cater to different investor profiles.

Still, Mr. Trajano resisted the temptation to separate. In his view, it was in the best interest of the customer to have a seamless shopping experience across all channels. An integrated frontend user experience online and in stores would

generate customer-side synergies, whereas backend logistics and inventory management would generate firm-side synergies. This decision, however, would carry a significant toll as investors might not see the long-term benefits but rather focus on the short-term downsides.

Indeed, amid a sluggish economy in Brazil, investors were sceptical and with cause. Such a monumental digital transformation of an established player had never been done before and certainly not in the retailing industry where many retailers worldwide were shrinking or going bankrupt. As a result of lack of investor confidence, Magalu's stock price lost 86 percent of its value, reaching one Brazilian Real (0.33 US dollars) in December 2015.

Phase 1 – Technology innovation

Given the all-time low stock price, raising new funds in the equity markets was not advantageous at the time. Mr. Trajano would have to fund a sizable investment in technology from the company's operations. The company hired and housed 55 software engineers and programmers, which eventually grew to 850, in a secluded corner at the company's headquarters. They were instructed to build digital tools for both the online and offline businesses and to do so from the ground up, quickly and with total focus on the end user experience. In the following years, free cash flow was pumped into building new technologies in-house, such as a consumer-friendly app, an integrated on-demand delivery system, and a store employee point-of-sale support tool. Shoppers, suppliers, salespeople, and employees became digitally connected.

By September 2017, ecommerce sales represented 30 percent of total sales and, except for one year, the company was profitable throughout the transformation. As the economy improved, the stock price increased by 7,900 percent to 80 Brazilian reals and it became favourable for the company to issue a follow-on round of stocks, which raised funds for the second phase of digital transformation.

Phase 2 – Business model innovation

Having instilled a customer-first digital culture at the company, Mr. Trajano saw an opportunity to greatly increase product assortment without having to invest in inventory, by building an online marketplace.

In less than three years, Magalu carefully curated a list of 5,000 suppliers who carried more than five million new SKUs to offer in its new marketplace. Similar to other two-sided platforms such as Uber and Airbnb, network effects

drove more suppliers and customers, which fed into each other to build momentum and growth. This time, giving up some profitability for growth was warranted, in preparation for Amazon's impending entry into Brazil with its own national operations.

By mid-2019, Magalu was one of the largest retailers in Brazil and, at +32 percent, growing revenues at near-start-up rates. After two critical phases of digital transformation, it was in the midst of completely changing itself from a traditional retailer into a tech company with physical locations. For a country with only 5 percent of retail sales coming from online channels, Magalu stood well above its competitors with 41 percent of its sales done online. The financial markets blessed the transformation and the company's stock price reached 180 Brazilian reals. In 2018, Magalu was recognized by *Fast Company* as one of the top ten most innovative companies in Latin America, the only one on the list that was not a start-up.

For phase 3, Mr. Trajano's goal is to spread the benefits of the digital economy to all Brazilians, not just the affluent, just as his aunt had done half a century ago by popularizing electric home appliances for lower class Brazilians.

Lessons for other incumbents

In our collective experience, there is a mismatch between what people say about digital transformation and what successful companies actually do. Digital transformation is not about buying tech start-ups and forcing their employees to collaborate with the old guard. While you can purchase many things on the Internet, you can't buy yourself into a digital world. Four lessons we have learned are noteworthy.

On the dip of profits: Companies that are transitioning from established businesses to digital ones need to realize that during this transition (see phase 1 in Figure 1) investments may cause their profitability to fall into negative territory. The reason this occurs is because during the transition from a 100 percent traditional business (phase 0) to a predominantly digital business (phase 2), you are operating two inefficient businesses with two sets of cost structures at the same time. As an example, in The New York Times' multiyear transition from a physical-only to a digital-only newspaper, its CEO, Mark Thompson, had to both invest in new digital assets such as servers, software development, and social media savvy reporters, while at the same time maintaining old-school reporters, printing presses, and trucks to deliver print newspapers. Unfortunately, he could not flip a switch and instantly divest away all the traditional assets. He needed

some of them to keep catering to print newspaper buyers. New customers of digital subscriptions take time to come on board. The idea is that if you manage the speed of transition, you get to keep and convert the “old” customers at the same time that you acquire the “new” digital subscribers. Go too slow, and you stay in the loss territory for too long. That is the alpha risk. But go too fast, and when you emerge from the transition you risk losing customers to competitors and your business becoming smaller than it was originally. That is the beta risk. Different classes of businesses in different industries possess inherently different combinations of alpha and beta risks that need to be managed. As in any investment decision, the upside is not necessarily achieved by minimizing both types of risk.

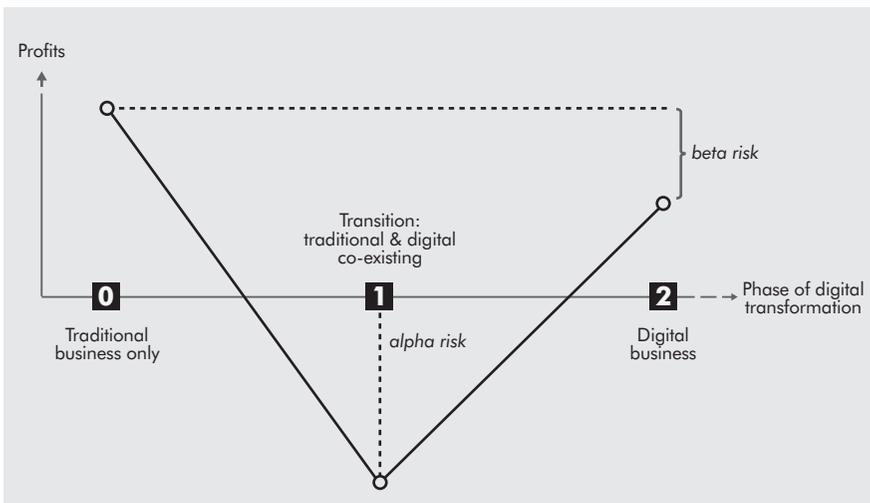


Figure 1.

On controlling the narrative: If you expect profits to decline in the transition, don't wait for it to happen before telling your employees, customers, and investors. Predicted outcomes should be preempted. Say to them, “Guys, this is going to happen, and this is why.” Don't be overly optimistic either. As the CEO of a top US retailer told one of us, “We knew annual profits would go down in the transition. But it went down by twice what we had expected, and the transition took two times as long as we intended.” Therefore, the financial impact of a digital transformation to the bottom line, even a successful one, can be 4X worse than what senior management predicts.

On integration versus separation: While the technology development unit

eventually has to be front and center in a digital business, the reality is that it starts small and powerless. If left to fend for itself inside the larger organization, it will get rejected. It needs to first be separated and incubated by the CEO, who should give it opportunities to get initial credibility through small wins that do not require much integration with the rest of the company. As these small wins accumulate and a digital culture permeates the rest of the company, the tech unit can start to work on projects that require and benefit the rest of the organization. Integrating should occur the moment tech has shown itself as the enabler of growth for the rest of the organization.

On alternatives to the Silicon Valley Way: The start-ups and tech giants have shown how customer-centric digital innovation should be built. Organizational tools and processes such as squads, lean methods, A-B testing, and agile development can, and should, be used by larger organizations. What Silicon Valley has not yet convincingly shown is whether the private capital funding model that fuels fast growth at the expense of profits in search of a leadership position should be applied to established companies. Losing great sums of money to achieve fast growth does not need to be the only game in town, at least not when it comes to the digital transformation of incumbents.

About the authors

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Frederico (Fred) Trajano is the CEO of Magazine Luiza (Magalu). He joined the company in 1999 to lead its first ecommerce business. In 2016, he became only the fourth CEO in the retailer’s 62 years of existence. One year later, he was awarded the Entrepreneur of The Year by audit firm EY, Brazil.

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'There is nothing quite so useless as doing with great efficiency something that should not be done at all.'

PETER DRUCKER

DES DEARLOVE

Kotter on change

One of the most influential people in the field of change leadership is John Kotter, Konosuke Matsushita Professor of Leadership, Emeritus at Harvard Business School. Kotter is a graduate of MIT and Harvard, joining the Harvard Business School faculty in 1972 as one of the youngest faculty members to be given tenure and a full professorship. He has described his chosen field as “managerial behaviour.”

Kotter identified eight errors to be avoided when leading an organization through change. Each error is tied to one of a series of phases that most change processes go through.

The first potential pitfall is not creating a sufficient sense of the urgent need for change. Having discovered important drivers of change, whether that is poor performance, greater competition, or new opportunities, the information that underpins the need to change must be communicated rapidly, broadly, and with impact.

Successful change requires the efforts of a critical mass of key individuals in order to move the organization in a significantly different direction. Getting that critical mass requires a sense of urgency.

This is one of the most changing pitfalls, says Kotter, with over half of the companies he had noted during his research failing at this stage. There are many reasons for this: overestimating the success of efforts to increase urgency; underestimating how difficult it can be to get people fired up for change; being paralyzed by the potential downside and managers worrying that they will get blamed.

Successful change agents tend to get information supporting the need for change out into the open to stimulate discussion. They engineer a position where the consequences of a no-change option look worse than choosing change. The required urgency level, says Kotter, is when “about 75 percent of a company’s management is honestly convinced that business as usual is totally unacceptable.”

The next pitfall is not creating a powerful enough guiding coalition. This group of individuals requires four characteristics to successfully perform its role. They must have sufficient power to hold up the process if they are marginalized. They need a broad spectrum of expertise. Sufficient credibility is required if the group’s actions and decisions are to be taken seriously. Plus, the group must contain proven leaders.

No overdeveloped egos are needed.

The next three errors are united by a common thread – vision. First, the guiding coalition must create a vision – “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.”

And as Kotter also notes, the vision isn't a 30-page document, or a rambling 15-minute discourse. His useful rule of thumb is that if the vision cannot be “communicated to someone in five minutes or less and get a reaction that signifies both understanding and interest,” then the vision is not a vision with which the organization is ready to move forward to the next phase.

It is not simply enough to have clearly defined vision, though. That vision must be communicated widely through the organization, with a process that ensures everyone understands, and with senior executives visibly behaving in ways that support the rhetoric. Finally, obstacles to realizing the vision must be removed, whether they be narrow job descriptions, misaligned reward systems, or intransigent executives.

Change often involves potentially demotivating events such as layoffs, plant closures, pay cuts, and other significant changes in long-standing corporate policies, values, and ways of doing business. People need to see results early on, or they are unlikely to buckle up for the long haul. One way of doing this, suggests Kotter, is to create and celebrate short-term wins. Pitfall six is neglecting to address this.

“Short-term wins,” says Kotter, “show progress in the direction set by the organization itself; demonstrate that the change ideas are working; increase morale among workers who may be slipping into cynicism or suffering from the fatigue that change and stress engender; give you a chance to throw a party and say thanks; and, they build momentum. Short-term wins are a reason for people to stay with the programme.”

Given the difficulties associated with change, there is always a risk of celebrating victory too soon. It is hard to make change stick. It is tempting to celebrate success prematurely in an effort to persuade doubters. The problem is that the change-resistors, seeing an opportunity to abandon the pursuit of change if only temporarily, are just as likely to herald the successful transformation. Only after the celebration, they will be urging everyone to pack up tools and go home, having completed the project. Thus, a potentially successful transformation is defeated at the very last moment, and the status quo and attendant traditions reemerge.

Far better, suggests Kotter, to present change as an ongoing process, with

attention shifting to other points of focus, rather than a discrete exercise. Use the momentum for change, and the growing expertise around the change process, to lead people onto other transformations.

Finally, the last mistake associated with the phases of change is failing to embed change into the culture of the organization so that it becomes “the way things are done around here.” Two factors are particularly important here: one is demonstrably linking new success to new changes; the other, making sure the talent pipeline embodies the changes.

Change first

When we spoke with John Kotter, we asked what got him interested in the field of change in the first place:

I’ve always been interested, actually, in performance; curious about why organizations, managers, etc., perform. That led me to the topic of change because the businesses mostly – but government afterwards – that were performing best were dealing better in a more rapidly changing environment. So, that leads to trying to understand what change is about on the outside and how they’re dealing with it inside organizations.

How do you work?

The simple logic of my work is that I am a pure field guy. I hang around talking to people. I talk to managers. I sit and watch them. I snoop around, listen to their problems. It’s simple detective work. My work is developed by looking out of the window at what’s going on. It is about seeing patterns. If I’m good at anything, it’s pattern analysis and thinking through the implications of those patterns.

I use stories constantly – 95 percent of what I do is storytelling. It has evolved as I’ve thought about it as a process of education.

What are your stories drawn from?

There’s no-one who has spent more time talking to managers. That’s one reason why my books have won awards. I spend a huge amount of time talking to people.

Is that worth more than theorizing?

Who would write a better book about trees: Someone in the forest or someone in an office?

You have written about change and the importance of a mobilizing, inspiring vision. Is that possible in an environment marked by downsizing?

It is not easy, but it is both possible and necessary. The key is to go beyond the downsizing clichés – talking only of lean and nice. And, carefree statements like “I see a smaller firm in the future” are not a vision that allows people to see a light at the end of the tunnel, that mobilizes people, or that makes them endure sacrifices.

So, what’s your advice?

Be creative, be genuine, and most of all, know why you’re doing what you’re doing. Communicate that and the organization will be stronger. Anything short of this will breed the cynicism that results when we see inconsistencies between what people say and what they do, between talk and practice.

Can a single person ignite true change?

The desire for change may start with one person – the Lee Iacocca, Sam Walton, or Lou Gerstner. But it certainly doesn’t end there. Nobody can provoke great changes alone. There are people that think it is possible, but it is not true. Successful change requires the efforts of a critical mass of key individuals – a group of two to 50 people, depending on the size of the corporation we are considering – in order to move the organization in significantly different directions. If the minimum of critical mass is not reached in the first stages, nothing really important will happen.

Failing to establish a sense of urgency is one of the key mistakes made by change leaders. In *Leading Change*, you discuss seven additional steps in successful change efforts.

That’s right. Beyond establishing a sense of urgency, organizations need to create a powerful, guiding coalition; develop vision and strategy; communicate the change vision; empower broad-based action; celebrate short-term wins; continuously reinvigorate the initiative with new projects and participants; and anchor the change in the corporate culture.

What does this “guiding coalition” look like?

The guiding coalition needs to have four characteristics. First, it needs to have position power. The group needs to consist of a combination of individuals

who, if left out of the process, are in positions to block progress. Second, expertise. The group needs a variety of skills, perspectives, experiences, and so forth relative to the project. Third, credibility. When the group announces initiatives, will its members have reputations that get the ideas taken seriously? And fourth, leadership. The group needs to be composed of proven leaders. And remember, in all of this the guiding coalition should not be assumed to be composed exclusively of managers. Leadership is found throughout the organization, and it is leadership you want – not management.

Who needs to be avoided when building this team?

Individuals with large egos – and those I call “snakes.” The bigger the ego, the less space there is for anyone else to think and work. And snakes are individuals who destroy trust. They spread rumours, talk about other group members behind their backs, nod yes in meetings but condemn project ideas as unworkable or short-sighted when talking with colleagues. Trust is critical in successful change efforts, and these two sorts of individuals put trust in jeopardy.

“Communication” seems to crop up in most discussions of organizational effectiveness, and certainly in discussions of effective change. What do you mean when you use the term?

Effectively communicating the change vision is critical to success. This should seem obvious, yet for some reason, executives tend to stop communicating during change, when in actuality they should be communicating more than ever. Effective change communication is both verbal and nonverbal. It includes simplicity, communicating via different types of forums and over various channels, leading by example – which is very important, and two-way communication. Change is stressful for everyone. This is the worst possible time for executives to close themselves off from contact with employees. And this is particularly important if short-term sacrifices are necessary, including firing people.

You came up with this rather startling statistic that 70 percent of change programmes actually either fail or disappoint.

We’ve actually redone that and there was a bigger study that said large-scale change, which is particularly what I’m interested in because it’s becoming more and more important, that in 70 percent of the cases, in one way or another they fail and maybe in 20 percent it’s okay and 5 percent actually get it right.

Does that depress you, that so many years on, still 70 percent are failing?

Yes, but it's not as bad as it sounds because the amount and the size of change that is coming at businesses today is so much larger and more often more complex than back then. So, they've actually gotten better, but the problem has stayed ahead of them just as far.

In *Buy-In: Saving Your Good Idea From Getting Shot Down*, you looked at getting people on board. You might think that a good idea would sell itself, but that's not the case.

How do you figure out the good idea? How do you look, do the analysis, figure out among the choices this is the best one? That's what education does 90 percent of the time; the implication being that's the name of the game and once you've got the good idea, everybody will see the logic of it and it moves on from there, but in reality, good ideas get shot down all the time. If you add that up, the cost to organizations and to society is huge.

You talk about four particular types of attack on ideas. How do they work and what do they look like?

Well, we see that there are four fundamental strategies that people use to take shots at even what is a great idea, and sometimes succeed. One is confusion. A huge one is what we call death by delay. The number of good ideas that basically aren't killed immediately – that's a great idea and we'll do it next year. Well, by next year whatever the conditions were that'll make it easy are gone.

This plays against the whole thing about urgency.

Absolutely. Government is the king of this. We'll set up this commission. That means the guy hates it and he knows by the time the commission reports, which will be 14 years from now, everybody will have forgotten. The issue will be gone. Fearmongering is – in some usually subtle way – raising anxiety in the audience. And the last is just ridicule; at worst even character assassination.

It's almost impossible as an outsider to guess precisely what somebody's motives are and they range all the way from a person who is really almost on your side and just trying to ask a question that'll help clarify a point to somebody who for whatever reason deeply hates it, may be jealous of you, and is – in as clever and nefarious a way as he can – trying to shoot you down. The response strategy we found that works doesn't worry about what's behind the curtain in the person's head.

We would have assumed that for each of the basic strategies there would be a different kind of response, but that's not what you find when you study it. There's basically just one way that you handle all of this that saves ideas.

It has four or five very simple components. The first is not doing what the body is programmed to do from a million years ago, which is fight or flight. Calmly be respectful of the person. Don't assume that this is a nasty person trying to do nasty things because it may not be.

Second is to do again what is counterintuitive to what we're taught. The best responses tend to be simple, straightforward, and filled with common sense. It's amazing how powerful common sense is as opposed to going into levels of detail.

Third is remembering you're always dealing with an audience. The audience may not even be there. We may be in a hallway, but the story of our conversation is going to go out and you can't win over everybody. You can't get everybody to buy into something. Don't worry about it. What you're trying to do is get sufficient support and strong enough support that they'll accept the idea and when you need their help, they feel strong enough that they'll say, yes, I'll help you implement this somehow. The fourth is preparation. It never hurts and in some cases when the stakes are big it is essential.

Who wants to have bullets come at them? You strategize how to keep the nasty people away. You roll the idea out when Harry is on vacation, you keep Sally off the email list, etc. Invite them all in and let them attack you because a little bit of drama draws attention. All of a sudden people will start paying attention and then you have the possibility of them actually listening to your commonsense response. Let the lions in, don't try to cage them.

About the author

Des Dearlove is co-founder of Thinkers50.

This is a Thinkers50 classic interview.

**'Think like a designer
and see your
transformation as a
series of increasingly
higher-resolution
prototypes.'**

ROGER MARTIN

TONY O'DRISCOLL

From transformation insanity to enterprise instancy: catalyzing an adaptive leadership system

Technological innovations such as the printing press, the steam engine, and the transistor were catalysts in creating disruption and discontinuity during their respective eras, permanently altering the global playing field upon which the game of life is currently playing out.

Today, humanity is facing a digital-divide of a different kind, where technology is proliferating, information is exploding, time is compressing, and change is evolving. Our species finds itself in a prolonged period of permaflux, as successive waves of disruptive technologies are emerging, converging, and evolving into a synthetic digital ecosystem that is redefining how we connect, communicate, coordinate, collaborate, and take collective action.

Change is nothing new to human beings. In fact, our innate ability to adapt to ever evolving environmental circumstances is the reason we have – so far – avoided extinction. This time around, however, the pace, scope, and nature of the change we are collectively experiencing differ markedly from any other period in our history.

Mathematics can shed some light on our collective plight. In calculus, the first derivative of distance is termed velocity and the second derivative is termed acceleration. Today's synthetic digital ecosystem is evolving at a third derivative rate-of-change that physicists appropriately term "Jerk."

The time signature of life in the 21st century is no longer synchronized with velocity and acceleration: instead, it is syncopating with jerk. We have reached an inflection point in history where technology is literally jerking humanity around (see Figure 1).

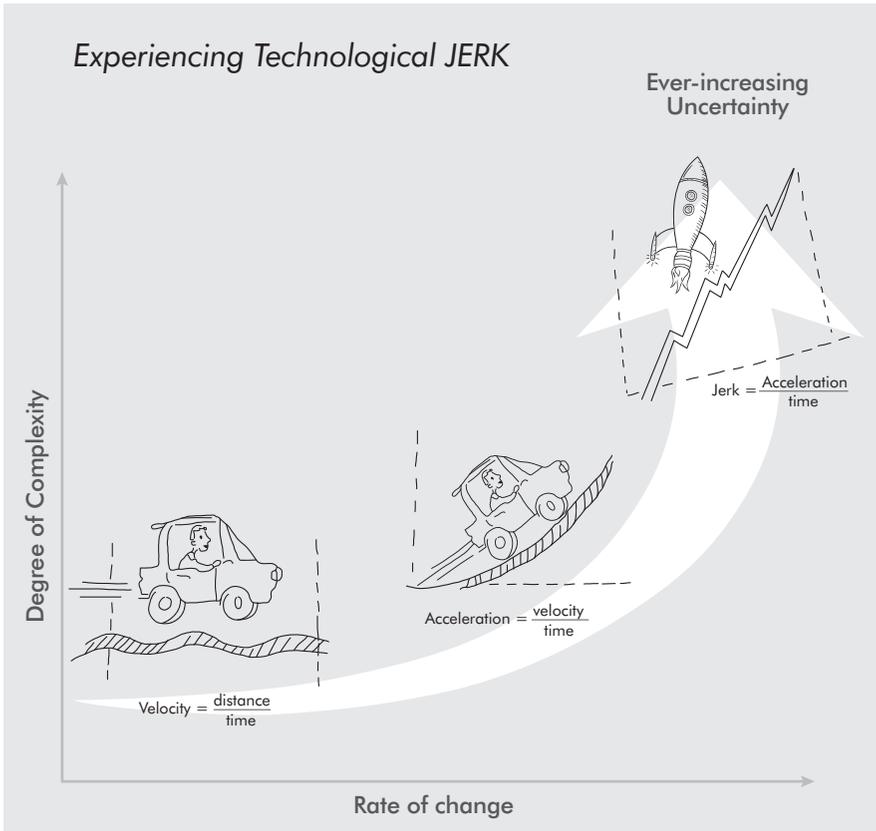


Figure 1: Experiencing technological “jerk”

In this new world of discontinuous jerk, change is baked into the synthetic digital ecosystem itself, and it is giving off tensions and tradeoffs that must be dealt with in real time, all the time. We are living in a state of continuous disequilibrium where the “new normal” is one where nothing ever returns to normal.

Dealing with digital Darwinism

The fact that the average lifespan of a publicly traded company in the United States today is almost two-and-a-half times shorter than the average lifespan of a typical employee is disturbing evidence that the modern day enterprise is struggling to survive in this “new normal” of continuous disequilibrium.

More than half of the Fortune 500 companies have been wiped out since the year 2000. Those that remain are literally fighting for their lives in an era of digital Darwinism: where market expectations are evolving and morphing at

such an astonishing rate, businesses simply can't keep up.

To survive and thrive in this synthetic digital ecosystem where the only constant is change, organizations must become more responsive to unanticipated ecosystem shifts, more resilient to unpredicted technological disruptions, and more adaptable to unforeseen needs to deviate from conventional norms.

The need for organizations to adapt to changing business conditions is not new. Nearly two decades ago, in GE's 2000 Annual Report, Jack Welch warned, "When the rate of change on the inside becomes slower than the rate of change on the outside, the end is near." Today, however, the ever-accelerating rate at which goods, information, and capital flow around the world creates extraordinary levels of opportunity and threat for the modern-day enterprise. To avoid extinction, organizations must cultivate the capability to syncopate with the third derivative rate-of-change.

Likewise, as the digital connections within this synthetic ecosystem compound exponentially, a higher level of interdependency and an ever-increasing degree of complexity emerge. To avoid demise, organizations must cultivate the capability to navigate this ever-increasing degree of complexity.

To survive and thrive in the era of digital Darwinism, organizations must evolve into responsive, resilient, and adaptive "instant enterprises," that maintain a perpetual state of readiness to respond to the unforeseen. The capability of instancy empowers organizations to simultaneously navigate the complexity and syncopate with the jerk that characterizes their existing operating environment.

Overcoming organizational orthodoxy

In our quest to achieve enterprise instancy, biology can provide some perspective. In nature, organisms that fail to develop the capability to interpret data from their surroundings and take immediate evasive action in the interest of their own survival become extinct. They either adapt or they die.

Organizations typically evolve through a maturation cycle where they successfully see and seize a new market opportunity and develop structures, practices, and routines to improve productivity and maximize profitability around that opportunity. Over time, however, as ecosystem shifts occur, these core capabilities calcify into core rigidities that limit the organization's ability to see and seize the next market opportunity.

These core rigidities ultimately degenerate into a destructive set of cultural orthodoxies that unconsciously undermine the organization's ability to respond to change. Most organizations today are suffering from a severe case of

“responsiveness lag,” where their structures, procedures, routines, and time signatures are increasingly out of sync with the external pace and scale of change. What began as the pursuit of building capability to capitalize on a new business opportunity culminates in the unconscious adoption of crippling orthodoxies that undermine the organization’s ability to respond to uncertainty.

Today, organizations are disappearing at alarming rates because they are failing to adapt to the complexity and jerkiness of the environment they inhabit. So, the modern-day organization can be envisioned as an organism that exists within a synthetic digital ecosystem, where data is its source of sustenance and analysis and learning are the metabolic mechanisms it employs to guide its agency to ensure survival and growth (see Figure 2).

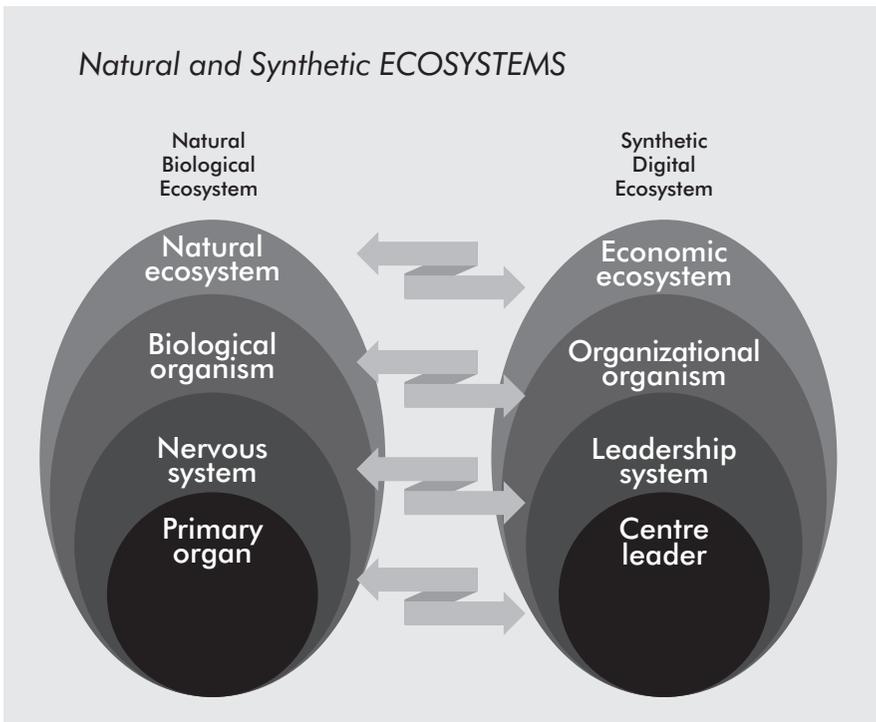


Figure 2: Natural and synthetic ecosystems

Just like organisms in nature, instant enterprises must evolve a perpetual state of readiness to respond to the unexpected. Within the enterprise organism, value is created by individual organizational agents that sense shifts within their ecosystem and self-organize to harmonize with them in real time to seize an opportunity or thwart a threat. These adaptive actions at the individual level are

propagated via feedback loops to dynamically reconfigure the organizational response in real time. The organization's evolved structure, in turn, influences the actions of the individual agents creating a dynamic "response ability" capability within the organization organism. This is a complex adaptive property called emergence.

As these individual agents continue to connect, communicate, collaborate, coordinate, and take collective action in response to unanticipated shifts in their environment, the organization evolves a collective intuitive ability to ride the waves of disruption and discontinuity rather than become crushed by them.

Reframing enterprise transformation

History is replete with organizations that have struggled mightily to transform themselves to overcome organizational orthodoxy. Less than one-third of organizations have produced any meaningful improvement in performance as a result of their transformation efforts.

Despite this unfortunate reality, the transformation train continues to gather steam as it chugs along the rails of organization and change. Nearly half of all CEOs launch a reorganization during their first two years on the job, and over 95 percent of organizations report being engaged in some phase of transformation at any one time.

Today, the key to avoiding digital Darwinism does not lie in transforming the organization from one static state to another. By the time the transformation is complete, it is already obsolete, and the cycle begins anew. Einstein defined insanity as "Doing the same thing over and over again and expecting different results." Here, it appears, we are experiencing a severe case of "transformation insanity" that is distracting organizations from creating the responsiveness, resilience and adaptability they so desperately need to survive.

Einstein is also widely credited with the quip, "Everything should be as simple as possible, but no simpler." A key reason why most transformation efforts fail is that they do not adhere to the Law of Requisite Complexity, which states that organizations must achieve complexity-parity with their environment in order to survive. Most organization transformation efforts are suboptimized from the outset because they fail to acknowledge the inherent complexity that characterizes the modern day digital enterprise.

Survival can no longer be achieved by discretely transforming the organization's structure, systems, processes, and technology from one state to another. Instead, we must overcome our proclivity towards transformation insanity and develop a holistic

and systemic human-centered capability building approach that enables the organization organism to respond to uncertainty in perpetuity.

Envisioning leadership as an adaptive system

In times of disruptive change, leadership has consistently emerged to bridge the gap between an untenable present and an uncertain future. As our planet careens towards a future that is increasingly data rich but certainty poor, the need for leadership becomes increasingly acute. The primary leadership challenge today is to develop the responsiveness, resilience, and adaptability required by the organization to avoid extinction.

Paradoxically, to better understand how leadership can be leveraged to cultivate enterprise instancy, we must first critically examine the phenomenon of leadership itself.

For too long, we have errantly assumed that leadership is a noun and not a verb. In so doing, we have unconsciously separated the leader from the system within which leadership itself is being exercised. As a result, we tend to overvalue the impact of individual leadership actions while ignoring the reality that leadership is an integral part of the organization system. In short, we have failed to recognize that leadership is not simply a person, position, or role, but a complex and interconnected set of relationships that is a property of the organization, not of the individual.

Today's reality is that organizations are complex amalgamations of people, structures, systems, processes, technologies, and behaviours. The organizational capability required to avoid digital Darwinism lies well beyond the ability of any single leader, no matter where they sit in the hierarchy. Individual leaders simply do not possess the competence or capacity to sense – let alone make sense of – the complexity and jerkiness whirling around organizations today.

So, we find ourselves in a paradoxical situation where our dependence on leadership is greater than ever before, but what will be required of leadership in the future is markedly different from how it has been conceived of and leveraged in the past. To begin this journey, we must conceive of “leadership as an adaptive system,” that has the requisite complexity and response ability to enable the organization to avoid digital Darwinism. This shift will require unlearning much of what we have previously believed about what it means to lead.

Leading from the middle-out

An “adaptive leadership system” requires that leaders at every level engage

disparate and diverse sets of people, systems, processes and technologies in real time to increase the likelihood of survival.

Perhaps contrary to popular opinion, the leaders operating in the middle of the current hierarchy are the greatest source of leverage to build the responsiveness, resilience, and adaptability that the modern day enterprise so desperately needs. Leaders at the center of the organization operate at the confluence of a new normal of constant disequilibrium where unanticipated change is constantly giving off tensions and tradeoffs that require immediate response. We call them Centre-Leaders.

Center-Leaders work from the “middle-out,” to tackle these tradeoffs and tensions by playing a critical role in navigating two perennial organizational polarities (see Figure 3):

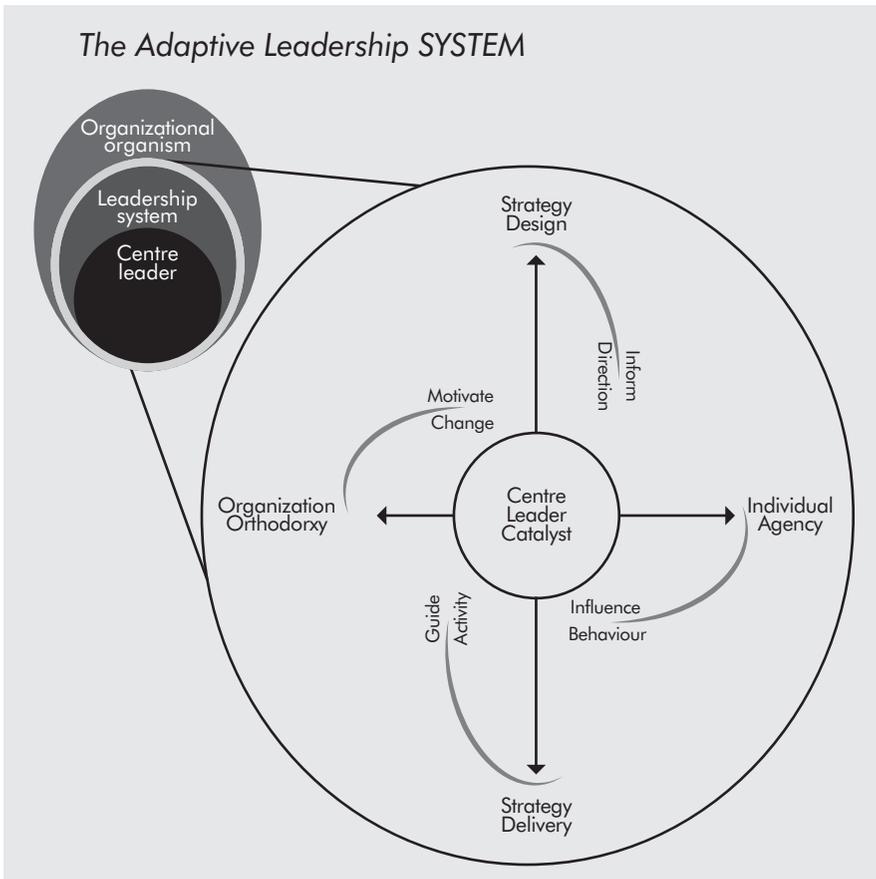


Figure 3: The adaptive leadership system

The strategy design/delivery polarity

A perennial challenge for every organization is to ensure that its strategy is designed and delivered in a way that maximizes value creation, delivery, and capture. Today, the interdependencies between strategy design and delivery are far more fluid and dynamic than ever before. Strategy design and delivery are no longer discrete problems to be solved at the top and bottom of the traditional leadership hierarchy. Instead, they are polarities that must be navigated from the center of the adaptive leadership system.

In proactively navigating the design/delivery polarity, Centre-Leaders play a critical role in ensuring the leadership system effectively balances and iterates around a top-down directive approach and bottom-up participatory approach to dynamically formulate, execute, and adjust strategy.

The organization orthodoxy/individual agency polarity

Today, evolving a culture that fosters innovation, collaboration, learning, and adaptability is fundamental to enterprise survival. Centre-Leaders play a critical role in increasing the ability of others to respond to unanticipated change by creating conditions that encourage people to lead, follow, experiment, learn, and adapt.

In proactively navigating the orthodoxy/agency polarity, Centre-Leaders play a critical role in ensuring that people are fully engaged and motivated to adopt the next waves of practices, routines, and behaviours required to ensure organizational survival and encourage ongoing renewal.

Catalyzing Centre-Leaders

The first step on the journey to developing an adaptive leadership system requires a lesson from chemistry. A catalyst is defined as “a substance that enables a chemical reaction to proceed at a faster rate or under different conditions than otherwise possible.”

So, Centre-Leaders function as catalysts within an adaptive leadership system to accelerate the responsiveness, resilience and adaptability of the organization under increasingly uncertain conditions. By working from the “middle-out” to inform strategic direction, motivate cultural change, guide key work activity, and influence individual behaviour, they orchestrate the capability required to respond instantly to uncertainty.

To move from “transformation insanity” to “enterprise instancy,” leaders at every level will have to fundamentally reframe what they see, rewire how they

think, and reconfigure what they do when faced with uncertainty. Anything short of this sweeping and seismic shift in leadership behaviour will ensure that the laws of mathematics, physics, biology, and chemistry conspire to bring about the demise of their enterprise.

About the author

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'Progress is impossible without change, and those who cannot change their minds cannot change anything.'

GEORGE BERNARD SHAW

DAVID KALLÁS, CARLOS AFONSO CALDEIRA
& FABIANA CHERUBIM BORTOLETO

The role and functions for transformation

As the pace of changes in technology increases, fueled by digital transformation, managing change is now (again) a key skill and function for organizations. The business landscape seems to be evolving faster than most companies can keep pace with. Challenges come from the growth in importance of technological aspects, increasingly competitive markets for hiring talent, new opportunities for business model transformation, and the move to customer experience design-centric enterprises. Bottlenecks in the decision-making related to transformation of large corporations can lead to a “Kodak-esque” catastrophic lethargy. Bringing that context to the strategy domain, agile and successful strategy execution is in demand. On the bright side, there is an unmatched window of opportunity for nimble organizations.

Although the focus on issues such as disruption, innovation, and collaborative economics are in the scope of the strategy literature, we argue that strategy execution (or strategy implementation) and transformation efforts have been under-explored in the last few years of research given the above context. Specifically, what are the skills and competencies of the professionals in charge of making strategy happen within organizations? What are the organizational arrangements to make execution happen?

The transformation of organizational structures and the role of strategy

Let’s consider the broad definition of competitive advantage such as capacity (or set of capacities) or resource (or set of resources) that allows firms to gain an advantage over their competitors that, *ceteris paribus*, would lead to greater relative performance.

This is a key concept in strategic management research. We have seen that competitive advantage disappears quickly in many sectors and companies. None of the five biggest companies in market value in 2009 remained on the list in 2019 (see table 1). Also, the top most valuable companies in the world

in 2019 have some kind of platform strategy. Competitive advantages evolve and are copied, forcing companies to perform faster and faster to capture the benefits when new opportunities arise.

2009			2019		
Rank	Company	USbn	Rank	Company	USbn
1	ExxonMobil	335.54	1	Amazon	802.18
2	PetroChina	270.56	2	Microsoft	789.25
3	Wal-Mart Stores	193.15	3	Alphabet	737.37
4	China Mobile	175.85	4	Apple	720.12
5	ICBC	170.83	5	Berkshire Hathaway	482.36

Source: Forbes (2009) and FXSSI (2019)

Table 1 – Largest Global Companies in 2009 and 2019 (Market Value)

Being transformative can mean changes in many ways. In the classic organizational model, the CEO has the role of being the main guiding leader of the company’s pathway, having as their right-hand support the Chief Strategy Officer (CSO), responsible for effective strategy formulation and execution. The CEO is also commonly supported by a Chief Operating Officer (COO), capable of implementing and managing organizational processes, and by a Chief Financial Officer (CFO), guardian of business “knowledge” and stand-in for supporting strategy execution. This model seems to have been a pattern for most companies over time. However, it is our duty to question whether, in this new business environment, these organizational structures have the capacity to adapt rapidly to transformations.

For CEOs and the top management team (TMT), leadership is no longer just the management of a portfolio of strategic initiatives, measured by financial metrics, while building and maintaining a specific competitive advantage. Being a leader in turbulent times is to understand transformations and be adaptive to the point of extracting competitive advantages more quickly than other players in the market. Also, with great transformations come great barriers to change.

Transformation is a continuing element of the new leadership structure and therefore must be a primary concern for TMT, arranged in new configurations of enterprises. Whether for the creation of new positions in the top management,

such as the assignment of a Chief Transformation Officer (CTO), or by assigning transformation functions to other members of senior management, this accelerated transformation and ability to translate new opportunities into competitive advantage requires senior management to have related capabilities to understand and capture business opportunities and turn them into effective execution.

However, what would be the role of the classical functions in this context? Mainly strategy execution? There are arguments that the predominant organizational functions already take responsibility for the transformation in organizations. It is not uncommon to have Project Management Offices (PMOs) and Officers and/or strategy execution teams in companies.

One may argue that both traditional and new roles are essential to driving performance improvement, mainly due to the complexity of managing transformation in the present context. Transformational teams maintain important responsibilities that should not be compromised through additional medium-term complexity that may distract the organization from the agreed direction or jeopardize ongoing actions at the site.

One should expect that the strategy executor would have the capacity to deal with transformation environments and be aware of both the operational and the strategic aspects of the transformation. Particularly in this new environment of accelerated change, these characteristics are primordial to promoting transformations that can guarantee sustainable performance for the organization. How should individual skills and organizational function be applied to keep up with this demand?

The research

Brazil is a good laboratory for studying these new arrangements. First, it is a massive market and one of the top ten largest economies in the world. Second, despite the presence of domestic business groups, there is a notable presence of multinationals from several countries of the world. Third, as with other emerging economies, it has experienced important institutional changes in the last 30 years, such as pro-market reforms, (re)democratization, shifts in regulations, and technological changes, to mention just a few of them. Brazilian companies and executives are used to living in turbulent times.

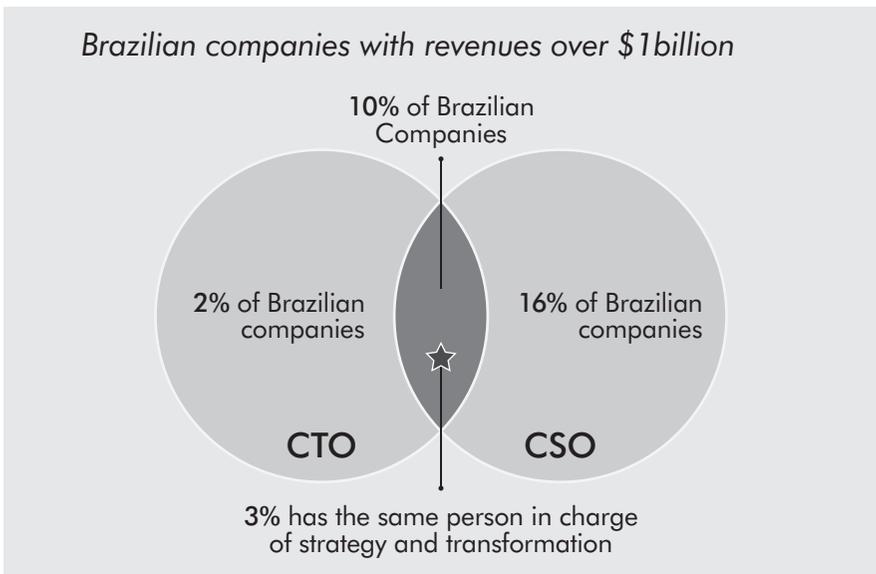
In this context, one can observe that accelerating changes are increasingly being incorporated by companies. Where before there was a classic model of organization, with a well-defined leadership structure with a specific form,

one now sees a movement toward corporate transformation. Companies worried about the new business environment have sought to rethink their organizational structure, strategies, and their business models. All this is driven by the development of companies that were already included in the culture of technology. However, this movement is not reflected in the organizational structure of companies.

Analyzing Brazilian companies with revenues above US \$1 billion, only 12 percent of them declare the position of CTO in their organizational chart (even allowing for other variable denominations). For the position of CSO, the rate is 26 percent. Ten percent of the organizations have both functions. It is worth mentioning that these percentages are those of Brazilian companies that disclose the positions nominally attributed to transformation and strategy tasks.

Figure 1 – How Brazilian companies denominate their transformation executives

Source: Authors' research on companies' websites and CVM (Brazilian Securities and Exchange Commission)



Some companies in this sample delegate these activities to the managerial level, as is the case of a strategy execution area. The transformation activities are closely related to the areas of technology (both IT and digital transformation). We also perceive by the distribution of activities that the CEO has the role of higher leadership as both “guardian” of the strategy (in companies where there is no CSO named directly) and operations, acting as a centralizer.

While companies have apparently not yet formally incorporated the CTO and CSO positions into their senior management teams, they are moving towards an effective mindset shift. Still, in three percent of cases, the person responsible for executing the strategy also has the attribution of leading the transformation within the large Brazilian companies, so there is a lot of space for synergies of areas in the Brazilian business environment.

Also, in order to understand the complementary (and perhaps substitution) interfaces of the positions, we conducted in-depth interviews with C-suite managers of three large Brazilian companies. The aim was to understand both the capabilities and functions attributed to the strategy leader and the interrelation between strategy execution and organizational transformation. We also researched secondary data from other large companies operating in Brazil.

The main skills of strategy managers are: negotiation skills (“navigation”), being the “right-hand” of the CEO, understanding the roles of everyone in the company transformation, being respected among peers. In our sample, generally speaking, there was no mention of the necessity to come from inside the operation. This last characteristic is different from what has been found in past literature, where having experience in the industry and in the company was considered a plus for the occupant of strategy leadership. Another feature worth highlighting is the ability to reorient the organization’s attention to horizon two (medium term), the critical period for executing the strategy (within two to four years of the strategy cycle), and a strong background in finance.

We also observed synergies between the areas of strategy and transformation. The strategy executive must have connections with the entrepreneurial environment and provide an open innovation environment within the company. It is desirable to have the qualities of adapting to new environments, dealing with uncertainty in the middle of the process and with complex information scenarios.

Executives also understand that there is room for more synergy between strategy and transformation in the future. Once the professionals work with shorter cycles (faster strategic planning and implementation and shorter horizons), they should constantly reinvent the organizations, using their experience as a base to do so. Still, the strategist must be the visionary who understands the operation and be the leading driver of change.

Considerations

Looking at the cases studied and the current panorama of Brazilian organizations, it is possible to see the transformations that they are living or

should live in the coming years. In a volatile environment, in which the motto “innovates or dies” is perceived as the only way out for many organizations, it is necessary to create new avenues of value creation and business sustainability.

However, job creation or corporate reorganization with new assignments and/or new areas should be used as resources that consider the specificities of each business. The necessary adaptability in this new environment goes hand in hand with the understanding of the ability to execute the strategies derived from this transformation need.

So regardless of title and/or position, every business needs people whose obsession revolves around what products, services and experiences they can build to help their customers, and what changes in businesses models are necessary. This is the key to building competitive strategies that can create value.

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Fabiana Cherubim Bortoleto is a researcher on corporate governance and strategy at Insper.

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'Organizations are communities of human beings, not collections of human resources.'

HENRY MINTZBERG

PETER BREGMAN

Transforming culture

“I’d like to talk to you about a big project,” the woman told me on the phone. “We need to change our culture.”

She was a senior leader in a professional services firm, where people really are their most important asset. Only it turns out that the people weren’t so happy. Theirs was a very successful firm with high revenues, great clients, and hard-working employees. But employee satisfaction was abysmally low and turnover rates were staggeringly high. Employees were performing; they just weren’t staying.

This firm had developed a reputation for being a terrible place to work. When I met with the head of the firm, he illustrated the problem with a personal example. Just recently, he told me, a client meeting had been scheduled on the day one of his employees was getting married. “I told her she needed to be there. That the meeting was early enough and she could still get to her wedding on time.”

He paused and then continued, “I’m not proud of that story, but it’s how we’ve always operated the firm.” Then he looked at me, “So, Peter, how do you change the culture of a company?”

Such a simple question. I wanted to give him a simple answer.

But a culture is a complex system with a multitude of interrelated processes and mechanisms that keep it humming along.

Performance reviews and training programmes define the firm’s expectations. Financial reward systems reinforce them. Memos and communications highlight what’s important. And senior leadership actions – promotions for people who toe the line and a dead-end career for those who don’t – emphasize the firm’s priorities.

In most organizations, these elements develop unconsciously and organically to create a system that, while not always ideal, works. To change the culture is awkward, self-conscious, and complex. It’s better to avoid it if possible.

“Why do you want to change the culture?” I asked him. “The firm seems successful. Highly profitable. The culture seems to be working to support those goals. Why not keep it?”

He had to think for a few moments. “It’s not sustainable. Eventually we’ll lose our best people. No one will want to work here.” And then he paused. “I won’t want to work here.”

That was good enough for me. But maybe not for everyone else. They'd spent years playing the game by a certain set of rules and they were playing to win. Now the head of the firm wanted to change the rules mid-game. Not easy to do. And not particularly subtle. We'd have to consciously change all the elements that had developed over decades to make up the system.

Or would we? In the late 1970s, University of Illinois researcher Leann Lipps Birch conducted a series of experiments on children to see what would get them to eat vegetables they disliked. This is a high bar. We're not talking about simply eating more vegetables. We're talking about eating specific vegetables, the ones they didn't like.

You could tell the children you expect them to eat their vegetables. And reward them with ice cream if they did. You could explain all the reasons why eating their vegetables is good for them. And you could eat your own vegetables as a good role model. Those things might help.

But Birch found one thing that worked predictably. She put a child who didn't like peas at a table with several other children who did. Within a meal or two, the pea-hater was eating peas like the pea-lovers.

Peer pressure.

We tend to conform to the behaviour of the people around us, which is what makes culture change particularly challenging, because everyone is conforming to the current culture. Sometimes though, the problem contains the solution.

"Stories." I said to the head of the firm.

"Excuse me?" he responded.

"You change a culture with stories. Right now, your stories are about how hard you work people. Like the woman you forced to work on her wedding day. You may not be proud of it, but it's the story you tell. That story conveys your culture simply and reliably. And I'm certain you're not the only one who tells it. You can be sure the bride tells it. And all her friends. If you want to change the culture, you have to change the stories."

I told him not to change the performance review system, the rewards packages, the training programmes. Don't change anything. Not yet anyway. For now, just change the stories. For a while there will be a disconnect between the new stories and the entrenched systems promoting the old culture. And

that disconnect will create tension; tension which can be harnessed to create mechanisms to support the new stories.

To start a culture change all we need to do is two simple things:

- Do dramatic story-worthy things that represent the culture we want to create. Then let other people tell stories about it.
- Find other people who do story-worthy things that represent the culture we want to create. Then tell stories about them.

For example, if you want to create a faster moving, less perfectionist culture, instead of berating someone for sending an email without proper capitalization, send out a memo with typos in it.

Or if you want managers and employees to communicate more effectively, stop checking your computer in the middle of a conversation every time the new message sound beeps. Instead, put your computer to sleep when they walk in your office.

Or if you're trying to create a more employee-focused culture, instead of making the bride work on her wedding day, give her the week off.

We live by stories. We tell them, repeat them, listen to them carefully, and act in accordance with them.

We can change our stories and be changed by them.

*I've changed a couple of details in this story to protect the organization's identity.

About the author

Peter Bregman is CEO of Bregman Partners (www.bregmanpartners.com), a company that helps senior leaders and teams work more effectively together to achieve the company's most critical business results. He is author of four books including *18 Minutes* and *Leading with Emotional Courage*.

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**'Truth loves its
limits, for here it
meets the beautiful.'**

RABINDRANATH TAGORE

DEBORAH ROWLAND

The I.AM framework

Too much wasted effort in change ends up in busy action – launching lots of initiatives that create more work and never seem to stick – or fails to crack the nut of changing behaviour. It all feels (very) heavy. To assuage this situation, research and development in the change management field has either been on the skills that leaders need to deliver successful change, or the models and toolkits available to help their change advisors.

In our work, we have indeed found out that the change leader's skills are a critical variable in change success, yet, little attention has been given to what it takes to be a great change advisor – beyond the propagation of change management theories, recipes, and toolkits.

In our own research, we have found that these classic ways of developing change capability may not get true change. Indeed, they risk “change management” becoming a separate industry in its own right – divorced from the exquisitely messy realities of human systems and out of touch with the complexities of the ever-changing, disruptive, and interconnected world of today. Change has changed.

So how can change helpers, be they internal or external to organizations, make change be both sustainably impactful and more effortless for their clients, the leaders they coach who are grappling with navigating today's seismic change? The answer lies within the change practitioners themselves.

Introducing the I.AM change practitioner's framework

At Still Moving, helping leaders steward large complex systems through change is our primary task. Increasingly, we are being asked to train other change practitioners in this challenging work too. It helps, of course, if change practitioners can model the very skills we have found to be related to success in leading change. But it doesn't stop there. Change practitioners also need to pause and consider their helping stance – the fundamental source from which they operate.

To aid this exploration into source, we have created the Change Helpers' Intention; Attention; Mode – or, I.AM – Framework (see Table 1). Grounded in both our change research and combined decades of in-the-field experience, I.AM goes to the heart of the matter – the quality of all skillful change coaching/consulting begins with the quality of presence, or inner stance, of the change practitioner.

The I.AM framework is predicated on our underlying premise that most conventional change is led through “action” (stance 1), not “movement” (stance 2). We define action as “the unconscious repetition of past routines.” Such action is fine when no dramatic change or new capabilities are necessary, yet, this stance risks using old ways to get to new places and therefore becomes a liability in radically disruptive contexts. The “how” (change process) does not shift to match the new “what” (desired change outcomes). For example, how often are we now seeing our clients make attempts at becoming more “agile” through centrally led over-programmed change approaches?

Movement, on the other hand, which we define as “the intentional shift in the source from which the system operates,” uses change and leadership approaches that disturb repeating patterns and enable a system to move to a genuinely different place. For example, building agile skills through emergent and ripe-issues-led approaches – not simply rolling out a sprint methodology across the whole system. Such pattern-breaking work requires the change practitioner to first alter the level of consciousness, or awareness, of their client system – you can’t change what you don’t notice. And this catalytic awareness-building work starts with the practitioner and their own process.

I.AM invites the change practitioner to consciously reflect on three elements of their helping stance:

First, intention: examining their true purpose in relation to the work their client is asking them to do. Is it personally stepping in to solve the client’s problems (salvation), or enabling the client to see its own patterns (revelation)?

Secondly, attention: asking the practitioner to take off the spectacles they use to view their client system and hold them up to inspection – is experience perceived through an event-led personality lens (“he said/she said” – personalized), or by seeing a deeper and bigger interconnected field (“what are the interactions between these two representing for the whole” – systemic)?

Thirdly, mode: the conscious consideration of the intervention approach – is the action logic of the practitioner to bring expertise and gather facts to get to right answers (scientific), or to elicit the client’s own sense-making of the situation that maybe yields inconclusive answers, yet catalyzes experimental movement to a yet unknown place (phenomenological)?

Within these three elements we have intentionally created stances 1 and 2 as two distinct poles so that the change helper can reflect on their own practice. There is no “right or wrong” here, but we do wish to challenge the perhaps currently

	STANCE 1 (Action)	STANCE 2 (Movement)
INTENTION	Salvation? ←	→ Revelation?
<i>Why are you doing the work?</i>	Rescue client with (yr) solution (client as “victim”) Head towards a destination Make the learning smooth Put in a lot of effort (push)	Help the client see itself (client as “agent”) Hold a liminal state Allow crisis & discomfort Do the last needed (pull)
ATTENTION	Personalized? ←	→ Systematic?
<i>What kind of perception do I bring to my client’s system?</i>	Here’s a bunch of personalities Resistance is awkward behaviour I see the iron filings I am in the drama What’s here is what’s here	This group = fractal of the whole Resistance is unaware loyalties I can sense the magnet beneath I wish to stand with distance Bring in ever larger contexts
MODE	Scientific? ←	→ Phenomenological?
<i>How do I approach what I do with the client?</i>	Work with logic, cognition, “being right truth” – as it is Immerse in analysis and detail Bring prior theories & models Run a rational process	Work with images, emotions, impulses, meanings, hypotheses – as it is perceived Seek to find the “meta-pain” Examine what’s being presented Provide safe spaces for fierce and tender moments

The I.AM Framework © Still Moving Consultancy Ltd

Table 1: The Still Moving intention, attention, mode (I.AM) change helpers’ framework

predominant helping action logic (that the change helper is there as an expert to point and bring the client to their new destination through the change helper’s own ideas and effort), and invite a quite different way of helping (that the change practitioner is there to fiercely yet supportively hold and nudge the client through their own disruptive threshold, enabling the client system to “do their work”).

It’s the difference between solving problems and awakening patterns, providing answers and provoking ambivalence, getting busy doing the client work, and knowing when to keep out of the way. Which stance might best generate underlying movement in the client system, and not launch just further wasted action?

In Table 2 we invite this shift from stance 1 towards stance 2 as we have seen the dramatic difference it makes to enable the client to work at both depth and speed in change: building broad ownership; releasing necessary truth-telling; shifting fear of failure to freedom to choose a new response; getting rapidly to the really important issues; lifting the weight off the senior leaders’ shoulders; seeing

and naming the necessary price not just prize of change; and building capacities that travel into one’s life, not just one’s work.

But doing such transforming work takes an intentional, disciplined, and courageous stance from the change practitioner.

	STANCE 1 (Action)	STANCE 2 (Movement)
INTENTION	Salvation? ←————→	Revelation?
<i>Why are you doing the work?</i>	Rescue client with (yr) solution (client as “victim”) Head towards a destination Make the learning smooth Put in a lot of effort (push)	Help the client see itself (client as “agent”) Hold a liminal state Allow crisis & discomfort Do the last needed (pull)

Reflect...

- Are you doing more work than the client?
- What are you being (often unconsciously) pulled into doing, for the system?
- Can you see your task as provoking irritation, while staying in connection?
- Can you provide “delicate yet not duvet” support – letting anxieties run their course?
- Am I getting overdrawn into the suffering of the client’s system?

	Personalized? ←————→	Systematic?
<i>What kind of perception do I bring to my client’s system?</i>	Here’s a bunch of personalities Resistance is awkward behaviour I see the iron filings I am in the drama What’s here is what’s here	This group = fractal of the whole Resistance is unaware loyalties I can sense the magnet beneath I wish to stand with distance Bring in ever larger contexts

Reflect...

- Do I attribute judgement to behaviour or can I ask, “what is this good for?”
- Is my “conditioned self” blinding me to what’s true for this system?
- Can I catch my own vanity and see myself as “just one brick in the wall”?
- People show a lot of what organizations are “doing” with them – do I spot this?

	Scientific? ←————→	Phenomenological?
<i>How do I approach what I do with the client?</i>	Work with logic, cognition, “being right truth” – as it is Immerse in analysis and detail Bring prior theories & models Run a rational process	Work with images, emotions, impulses, meanings, hypotheses – as it is perceived Seek to find the “meta-pain” Examine what’s being presented Provide safe spaces for fierce and tender moments

Reflect...

- Am I able to purely work with direct, lived experience – including the somatic?
- How can I move beyond right/wrong (truth-seeking to what is useful here (way-seeking)?
- How can I empty myself and show up to the client without memory, intention, judgment?
- How can I be a promoter of ambivalence, diminishing my status into mutual not-knowing?

Table 2: I.AM change helpers’ reflection guide

About the author

Deborah Rowland created the Still Moving change consultancy, helping CEOs and their teams around the world and offering Still Moving change practitioner programmes. She is also a member of the Archbishop's Review Group into leadership development in the Church of England. In the 2017 Thinkers50 Radar, she was named as one of the new generation of management thinkers changing the world of business. She is the co-author of *Sustaining Change: Leadership That Works* (Wiley, 2008), and author of *Still Moving: How to Lead Mindful Change* (Wiley, 2017). She has personally led change in organizations including Shell, Gucci Group, BBC Worldwide, and PepsiCo.

'Some people don't like change, but you need to embrace change if the alternative is disaster.'

ELON MUSK

ANDY VESEY

The A to Z of transformation

Transformation is big business in today's corporate world. As a CEO and leader of global organizations, I've walked the walk, leading multiple global initiatives that were utterly transformative in nature. I know what it means when we get these massive undertakings right – the return on shareholder value, the pride of the business owners, the elevation of the culture, and the positive impact on the customer. But when we don't, things can be disastrous and life altering in all the ways we hope to avoid.

I've come to look at the business of transformation as a particular type of alchemy – some of it is an art, some of it a science. But there are base elements that must exist for leadership to execute any of it properly and to great effect. It's why I wrote my book, *The A to Z of Transformation*. I wanted to capture what I've learned from years of business transformations both on a global scale and on a microeconomic level and condense it into a playbook for my fellow business leaders. This is the truth, the no-holes-barred reality of what it takes to effect real change and return value for your shareholders and customers. As a fellow CEO, I'm sharing all the advice I wish someone had given me.

I should take a step back for a moment: when I talk about the "A-to-Z of Transformation," it's not a cookbook to perform a transformation initiative start to finish. This is how I would counsel an executive who's going to go forward with a large-scale overhaul idea and lead it. Consider it a guide for executive leadership.

So, below is a teaser on all the things we wish we knew about business transformation. It's not the run-of-the-mill, canned advice that consultants will tell you; this is the stuff to remember, the advice you follow to be successful.

A is for "Alignment with Equity"

The first one is alignment with equity. This simply means you should know your "why" before starting any transformation effort and, as the CEO, that why should be quite simple: any transformation is ultimately about benefitting the owner(s), not for the comfort of management. This is the fundamental issue that sinks so many leaders when they begin a transformation effort: they get lost on the purpose of the whole thing. Transformations large and small must be done with the purpose of enhancing the equity holders of the business.

Now, with businesses that aren't publicly traded – let's say it's a government institution or something of that nature – merely modify your thinking about the line of ownership to the ultimate benefactors. But make no mistake: transformation is always about the owners of the business. Transformation efforts performed for the comfort or egos of management are a) not worth taking; and b) will not be successful because of the amount of support you're going to need from the top of the organization. Whether it's the Board of Directors or Governors or whatever – there absolutely has to be strong, very tight alignment between the transformation effort and the owners of the business.

Let's address an obvious question: one might surmise that I'm speaking solely about benefiting the business owners, which would lead you to ask, "Well, shouldn't we serve the customers?" Of course, we should, because in serving the customers, you're serving the owners, and we'll get to that. But transformation efforts are inevitably about alignment. These initiatives are complicated: they're tough and they're hard, which means you will absolutely need support from your owners. Therefore, your business case has to lead to their benefit.

B is for "Believe"

You must have a bone-deep belief in what you're doing because there are going to be days when, even though your inevitable vision is aligned with equity, you're going to have to stay laser focused on what you're attempting to accomplish. You must have unshakable faith, belief beyond a shadow of a doubt in what you're doing.

If you don't actually believe in your transformation initiative to the point where you wake up thinking about it, spend your day ruminating on it, and then go to bed thinking and dreaming about it, you won't be successful, because every single day everything will act to take you off track.

The hard fact is that transformations are tough, right? They're very difficult because they challenge the structure, the culture, and everything about the company. You have to believe in what you're doing so you bring yourself 100 percent to the effort every single time and you absolutely will not be deterred. If you don't believe in it, don't start it.

The origin of your belief is irrelevant; it doesn't matter from where the belief comes, but you positively must have it. You're running the business for your owners, and you have a plan that will benefit them. You'd better believe in that plan. This isn't about faith; it's about a commitment, a deep belief that drives you to get this done. It's behind the motivation to fight all the battles. The alignment with equity

gives you the business case, and you have to believe in it with all your heart. If it's not that important, don't do it. Find something else to do.

C is for “Clarity”

You must not only be crystal clear with yourself on what you're trying to accomplish, but you need to translate that crystal vision to all your key stakeholders. Communication is critical not only to you but to everyone you're going to interface with because it's what's going to build the clarity of purpose so people can align with what you're trying to achieve.

Be explicit about your vision. Paint a picture. The ability to do this creates followership for where you're going as a leader. Success lies in your ability to specifically describe in graphic, passionate detail what you are trying to achieve. Your people need this kind of clarity.

Be certain and clear of your purpose and direction: what are you trying to achieve and what are the details that support this vision? Because the next thing is...

D is for “Discipline”

When you go into a transformation project, you bring the same management discipline as you would to anything else you do. That means, when you have the clarity, you have to bring it to the table and work with it every single day until the work is done. You will have consequences, you will have great wins, but inevitably the wins are found in your unending dedication and methodical approach to winning.

Transformation, in this regard, is like every other project, which means it requires all the discipline and focus you would normally apply along with regular progress measures: What are the KPIs? What are the closely watched numbers? What are the metrics? What happens when you're off? What happens when you're reporting suggests that things are going south? Who's responsible? What are the accountabilities? All of that falls under discipline, and you can't have discipline without clarity of purpose and mission and destination.

E is for “Eliminate the Old Guard”

This is necessary because the old guard stands in sharp contrast to transformation efforts; they're guarding the old. These are people who simply will not move an inch in support of your transformation efforts.

Simply put, you need to get rid of them.

The problem we must recognize as CEOs is that the old guard is a massive

obstacle: they stand in opposition to everything you want in an effort to protect what's important to them: status, position, etc. It's everything to them, and they'll stop at nothing to protect it. The fact is, if you sit around the table with a bunch of senior executives and one person isn't on board, that one person is a massive threat to your ideas. They potentially represent huge swaths of people in their network that they're never going to bring along to your manner of thinking.

Disregarding this person – or people – will cause immense problems for you. These are senior executives with deep, broad networks that will prevent you from being successful. Any belief that you can win them over, manage around them, or that the energy and support of everyone else is enough is misguided and will lead to a story that has a bad ending. Bottom line – you've got to replace them with people who are supportive.

In order to effect real change, it's got to be all hands on deck, and all hands pulling the oars in the same direction. Every executive manages resources. Every executive influences their own private networks; everybody has their cliques. These individuals represent a major portion of your organization, and you cannot embark on this journey unless all hands are pulling in the same direction and everyone's committed to the same outcome.

F is for “Focus on the End Customer”

This means exactly what it says: your inevitable focus in transformation efforts absolutely **MUST** be driven and implemented with the end customer in mind. And I'm not speaking about this internal jargon that says every person in the organization has a customer; this is about the people who will inevitably consume the company's goods and/or services. It's **ONLY** the end-use customer you care about and on whom you should be focused. Therefore, whatever you're doing in terms of transformation has to be quite literally focused with intent on that customer, the ultimate consumer of the enterprise's product or service.

This is where businesses get tripped up in intermediary steps; you don't do transformations to make sure Accounting writes a better report for Operations. That has to do with creating agility and making the organization lean for the organization's sake. Transformation, in contrast, is all about focusing on driving outcomes that create or deliver new innovations for the customer.

G is for “Gearing Up for Growth”

The final concept is to gear up for growth, which means transformations, when you do them, must be executed in such a way they help you grow the

business. Success is all about growth and making sure that, as you transform, you expand the business.

Transformations, by their nature, are discontinuous; they're not incremental. Smaller, marked changes are process improvement. That's not transformation. Transformation is a discontinuous process, which is why these larger concepts are so important. Too many times, people think they're creating transformation when in reality what they're doing is incremental change. This is why gearing the company up for growth is so much larger: it means you must have some big, bold vision around what the growth is going to look like.

Transformation should yield a big step in total shareholder returns for that business – it's all about growth. It's not about doing the same with less; growth is an essential part of this process because it inevitably powers the engine of transformation.

I set out to gather my thoughts as a time-tested leader in global business transformation for my fellow corporate leaders. While A to G provides merely a glimpse of what the A to Z is about, my hope is that it prompts some level of deeper thinking and reflection.

In my upcoming book, I outline in much more detail, with stories and examples, why I believe that having a systematic, thoughtful, and intelligent approach that focuses on all aspects of transformation – A to Z – is the way to ensure that our businesses will thrive and succeed today, tomorrow, and beyond.

About the author

Andy Vesey is the former COO of AES Corporation and managing director and CEO of AGL Energy.

'The sinkhole of change is communication and motivation. It's where change projects go to die.'

NANCY ROTHBARD

The discipline of change

We are in the fourth industrial revolution, Industry 4.0. The speed of change is truly exponential, driven by digital technologies including artificial intelligence, robotics, cognitive technologies, autonomous cars, 3D printing, and many advances in science. It is a revolution involving a fusion of physical and digital technologies that impacts every part of our daily lives, creating vast possibilities as well as threats across all sectors and industries. Organizations must be more agile, transform more quickly in an atmosphere of urgency and uncertainty, and put the human dimension at the forefront of creating higher performing learning cultures.

Successful transformation remains difficult to achieve – research by John Kotter and McKinsey shows still only 30 percent of transformations are successful, even less in the public sector. Key reasons include:

- Lack of leadership of the change effort
- Failure to change mindsets of stakeholders
- Absence of an approach to managing the change

When organizations use effective leadership and apply a rigorous and structured approach, they are more likely to succeed. We find repeatedly that whilst some organizations may use a form of project management to manage change projects, few effectively integrate project management with change management.

An integrated approach to leading change

Over the past 25 years of change consulting applying Kotter's renowned 8-Step Approach using the Project Management Institute's methodology, we developed a practical approach for implementing organizational change that integrates Kotter's model with the discipline of project management (PMI) and the psychology of change in a structured process.

Our 3-D Approach to Leading Transformation (Figure 1) focuses on people, processes and projects/programmes. Successful change is managed in three phases through a series of steps for leading change and managing change projects with ongoing communication throughout. This article summarizes the approach and provides examples of practices that lead to successful implementation of change.

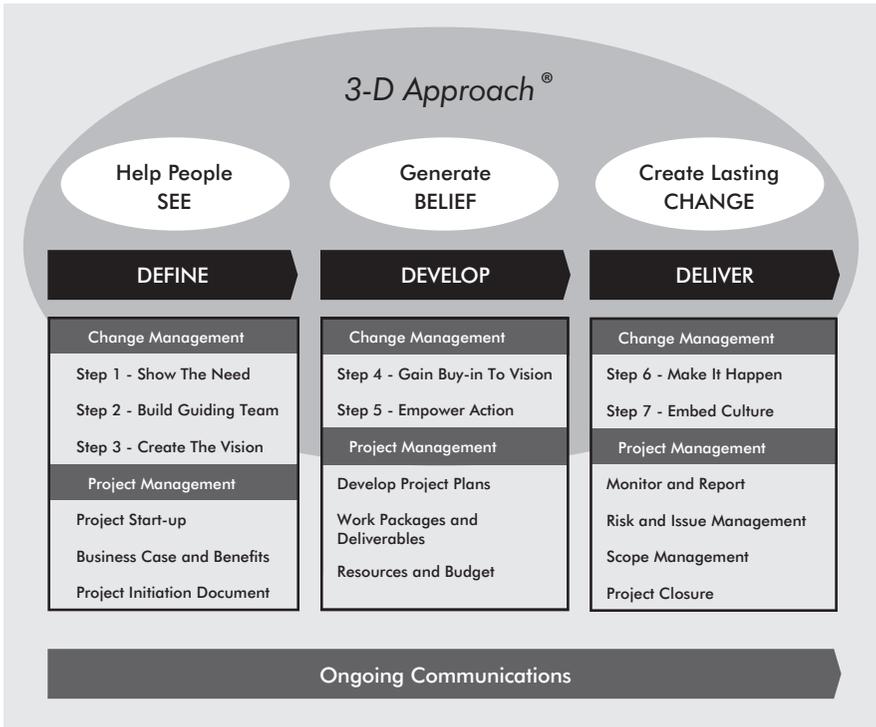


Figure 1: The 3-D Approach to Leading Transformation. ©2019 KBA Solutions Limited. All rights reserved.

Phase 1 - Help people see

The initial phase of the transformation process involves three key steps to help people see the need for change and three elements of project management to get the change project off to a good start with ongoing communications to engage and change mindsets.

Step 1 involves helping people see things need to change in a way that engages them from the outset and starts to shift mindsets.

Step 2 involves setting up a guiding team of change leaders to lead the change effort and maintain ongoing change leadership.

Step 3 involves developing a vision of the future in a way that engages key stakeholders early on.

The change initiative is clearly defined using the business case with benefits identified and through the project initiation document (PID).

In practice these first three steps are managed through initial workshops with

the guiding team. Strategic analysis tools are used to answer the questions, “Why do we need to change?”, “Who are our key stakeholders?”, and “How will this change benefit and impact them?” The answers help to create a credible narrative for the reasons, benefits, and implications of the change for each stakeholder group.

To build a vision of the future, change leaders should explore and agree the purpose of their organization or unit to anchor the visioning exercise by asking, “Why do we exist?” The process of answering this question creates meaningful focus and positive energy as leaders feel a sense of purpose and pride in their discovery. For example, the leadership team of the Research Division of the University of Cambridge were proud to say their purpose was to offer expert guidance on sponsored research funding to enable world-class research, rather than to process research funding applications.

Building on this energy, the guiding team can ask, “What do we want to be known for?” projecting forward to a relevant future time and imagining what they would want key stakeholders to say of the unit/organization. This discipline of visioning from stakeholders’ perspective allows the human dimension to be kept at the forefront of the transformation.

Integration of project management at this stage ensures common understanding of what the transformation must actually deliver and must be documented in the PID. The name of the initiative should be used to engage (not alienate) those involved – a name relating to business benefit rather the technology is more appropriate. At key planning sessions, change leaders should routinely update stakeholders on what’s happening and what to expect next.

Phase 2 - Generate belief

In the second phase of the change process there are two major steps to manage in order to generate belief in the vision and three key elements to develop the project plans and create momentum plus the ongoing communications.

Step 4 involves translating the vision into a change strategy, stating what has to be done, identifying quick wins, and getting more people involved in the process whilst communicating the vision.

Step 5 involves giving people reasons to believe in the change by identifying barriers; delivering quick wins; developing leadership capability; encouraging

greater creativity and reviewing how the existing culture, processes, and structures fit with the new vision.

In parallel with the change steps, the project plans are developed, work packages and deliverables established, and resources and budget identified.

An effective way to engage more people as early as possible is to repeat the visioning exercises with employees. This creates a valuable opportunity for everyone to think more deeply about their purpose and what they want to be known for. In articulating the purpose and positive aspirations, employees feel emotionally engaged, believe their contribution is genuinely valued, and have a role to play in the transformation.

Change leaders under pressure to deliver and concerned that employees' views might differ widely from theirs, may be tempted to "tell" rather than "ask." This is a mistake, as McKinsey research shows that people are five times more committed to an outcome when they have an input to it. Also, if employees' views on purpose and vision do differ, this is the ideal time to listen and understand why the differences exist. In our experience this is a rare but important opportunity. During a visioning workshop in a large public sector organization, the recently merged community care and housing divisions could not agree on a single purpose statement. This gave senior managers the opportunity to review their strategic alignment and recognize the need to focus on the needs of their common customer rather than on current service.

Once the vision statement is achieved, the guiding team work together to translate it into a high-level strategy map with objectives that enable projects, work packages, and deliverables to be identified, and responsibilities to be allocated. This activity helps build the guiding team as it is a challenging and energizing task, which results in a robust plan of action. Also, the strategy map creates clarity on a single page, which serves as an effective communication tool for stakeholders and monitoring tool for project sponsors. Legend has it that during the implementation of a new accounting system in the UK Ministry of Defence, then Prime Minister Margaret Thatcher carried the strategy map in her handbag!

Phase 3 - Create lasting change

The final stage of change involves two change steps and four project management elements to embed the change whilst communicating successes.

Step 6 involves delivering the change strategy; keeping momentum; refreshing the change team; and staying on track.

Step 7 involves embedding new behaviours and practices in the culture by creating mechanisms for reinforcing the desired behaviours.

Delivering the strategy involves project monitoring and reporting, risk and issue management, scope management, and project closure.

This phase of the change process requires focused leadership and discipline to maintain momentum as membership of the guiding team may change and other new exciting initiatives may divert attention and resources. Guiding teams that stick to the rigour and routine of regular meetings to monitor and communicate progress long after the initial glamour has faded, are more likely to deliver successful transformation.

Reinforcing desired behaviours to influence culture change should start with role modeling. The Heathrow Airport Safety Improvement team vision was to transform the culture of health, safety, and wellbeing for the 76,000 people working across the airport. They focused first on identifying and developing the desired behaviours that would enable their own health and safety specialists to influence others, updated job descriptions and amended recruitment processes to reinforce these new ways of working within the team.

Project monitoring should measure the actual transformation (as defined in the PID) not just the completion of activities – benefits achieved and behaviour change should also be monitored. Putting in a new IT system is not a success until staff are using it and embracing new ways of working. Such was the case for a luxury retailer who had to do more work on changing mindsets when it became apparent that staff, having received training on a new system, continued to revert to old manual methods.

The speed of change is increasing and organizations must transform quickly to take advantage of opportunities and mitigate threats that the fourth industrial revolution presents. Achieving successful transformation remains as difficult today as it was a quarter of a century ago. However, one in three transformations result from a combination of effective leadership to engage people and change mindsets, and the application of a rigorous structured approach to managing the change. Against the odds, leaders can increase their chances of delivering successful transformation by applying the discipline of change.

About the authors

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Andrew Bray is senior partner of KBA Solutions Limited. As a qualified Civil Engineer he managed construction projects for large design and construction companies including Balfour Beatty and WS Atkins. He has an MBA from Warwick Business School and consulted on major transformation projects at Deloitte Consulting. He is Programme Director for the Strategy and Implementation modules of KBA's Strategic Leadership Programme.

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**'If you don't like
something, change it. If
you can't change it,
change your attitude.'**

MAYA ANGELOU

The human side of transformation

Continuous transformation is an imperative for contemporary business leaders. With the rapid pace of technological change and disruption that is taking place, no industry will remain untouched. It is in this context that many companies across the world are launching and driving change programmes. Some of these programmes involve putting in place new technologies and processes to drive innovation. What we are learning is that, while implementing new technologies and processes may be hard to do, it is the human part of transformation that is most difficult.

Implementing changes in the technologies we use to run our organizations is key to success and leaders should do their best to ensure success at this. However, the benefits of these new technologies and processes will only be successfully leveraged if the transformation programme also succeeds in changing people and their mindsets. This human side of change is the most difficult because it speaks to people's deep-seated needs for stability and an almost instinctive resistance to change.

I have worked with several companies that have succeeded in putting in place the right technologies they needed for digital transformation. However, leadership was struggling to change how people behaved. They had the technology in place, but their people were still using the same old linear ways of working they had always used. One frustrated leader once remarked to me that, "We have given our teams a Formula 1 car and they are driving it around country roads."

The paradox of change

As leaders, we need to recognize that transformation speaks to universal human challenges. Human life is a constant tension between progress and inertia. For most people, changes within their company can feel like chaos is being introduced into their once predictable workplace. This is why transformation can be most difficult in traditional organizations with a long-running history of success and low employee turnover. It can be a blessing and a curse to have employees that love working at a successful company and strongly identify with it.

It is a blessing because these employees understand the true DNA of their company and this can serve as a true north during any transformation programme. However, this employee commitment can become a challenge when people start to confuse their daily rituals and ways of working as being a reflection of the DNA of their company. When transformation is taking place, it forces people to face uncomfortable existential questions – what are the truly essential elements that are core to the DNA of our company? And what are the ways of working and technologies that can and must be changed?

In addressing these questions, leaders often make the mistake of simply avoiding the issue and discussing their plans for transformation in terms of roadmaps for technology or process implementation. The human side of transformation remains largely unaddressed. Here, I will discuss three human barriers to transformation that have to be addressed before our programmes can succeed.

Inertia

People have a strong tendency to do nothing or remain unchanged. Inertia is particularly strong when things are going well within a company. Unless there is a crisis, most people will question why change within the company is necessary at all. The company is doing well, things are working and we are making profits. So why do we need to change? Most companies are organized in siloed departments. As such, many employees struggle to see the big picture.

Most employees cannot sense their business environment changing before it's too late. They need to see a burning platform first! However, if leaders wait until there is a crisis to drive change, it might be too late to transform effectively. As such, inertia is something that must be addressed by leaders directly. Leaders must provide clearly articulated reasons for the transformation programme that paint an aspirational view of the future.

Doubt

In every organization, there are people who understand the need for change and are broadly supportive. Their biggest barrier is doubt. They doubt that such change can ever happen in a company such as theirs. Many of them have experienced the negative impacts from a number of failed change programmes. So, they will take a point of view that the current transformation programme is just another one of those.

I have been in meetings with employees who remember how their company tried and failed to transform several times. They don't believe that their leadership

team has the capability to enact lasting change. So, they choose to hunker down and get on with their work – this change programme will soon blow by. Ironically, this is a self-fulfilling prophecy. Transformation programmes can fail simply because the very people that are supposed to drive change don't believe that change can happen.

Cynicism

This is the human barrier that can be most frustrating for leaders. Cynicism is the *schadenfreude* that some employees feel when the transformation programme runs into problems or has to change direction. This results from a combination of inertia and doubt. People don't want change to happen and they already doubt that leadership can do it. So, these people will use any sign of failure or change of plan as a talking point to illustrate how they always knew that their company's leadership was incompetent.

Leaders can become frustrated because there is no transformation programme that can run without problems or challenges. To paraphrase Steve Blank, no transformation plan survives contact with the organization. As such, the willingness for leaders to change and adapt their plans is a good sign that they are listening and testing their ideas. This is to be celebrated, rather than mocked. Cynics can be like rotten apples within a transformation programme and must be addressed directly.

A battle for hearts and minds

Beyond planning the implementation roadmap for the transformation programme, leaders need to consider the human side. Overcoming the challenges of inertia, doubt, and cynicism goes beyond convincing people about the merits of the transformation. Even when people find little to disagree with, their main concerns will be on how change will happen within their company; and whether their company has the right leadership team to do it successfully.

Social science research on behavioural change has found that positive attitudes alone are not enough to predict behaviour change. People may have positive attitudes towards a certain behaviour but fail to change as we expect. According to psychologists Icek Ajzen and Martin Fishbein, there are two other factors that influence whether people will act in line with their positive attitudes: subjective norms and perceived behavioural control.

Subjective norms refer to people's perceptions of the social support to perform or not perform a particular behaviour. Perceived behavioural control

refers to people's perceptions of how easy it is to perform a particular behaviour. In our organizations, these two factors can have an impact on transformation. In the first instance, people may perceive that there is social pressure from their cynical colleagues to not support the programme.

In addition to this, the negative history of previously failed transformations may also influence perceived behavioural control. After seeing others who embraced change struggle to get things done, people may perceive that it is not easy to implement any meaningful change inside the company. These concerns are real and can impact how people behave.

What leaders need is a way to show people that there is positive support for change in the organization and that it is possible for change to happen. Beyond simply communicating the value of the transformation, we can start with small projects and get an early win. Getting an early win will show that change is possible inside our company and can yield positive results. As we celebrate our early success, we provide people with a sense that being part of the transformation programme is acceptable behaviour within our company. Early wins increase subjective norms and perceived behavioural control. Which in turn reduces inertia, doubt, and cynicism.

In a 2018 *Forbes* article on digital transformation trends, Daniel Newman noted that company culture is still the biggest barrier to digital transformation. Beyond planning the roadmap and implementing technology, leaders need to think seriously about the human side of transformation. A change management programme focused on tackling the human side of change needs to be run in parallel to any transformation programme. Companies that are able to change their technologies, processes, and employee mindsets will benefit the most from transformation and end up with innovative organizations.

About the author

Tendayi Viki is an author and innovation consultant. As Associate Partner at Strategyzer, he helps large organizations innovate for the future while managing their core business. He co-designed Pearson's Product Lifecycle, which is an innovation framework that won the Best Innovation Programme 2015 at the Corporate Entrepreneur Awards in New York. He has been shortlisted for the Thinkers50 Innovation Award and was named on the Thinkers50 2018 Radar List for emerging management thinkers to watch. He is co-author of *The Corporate Startup* and *The Lean Product Lifecycle*, and author of *Pirates in The Navy*.

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'The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic.'

PETER DRUCKER

STUART CRAINER

Kanter on change

Rather mischievously, one reviewer called Rosabeth Moss Kanter “the Eartha Kitt of change management.” The Harvard Business School professor, one of the 50 most powerful women in the world according to one magazine, is amused by the comparison to the husky songstress. “I suppose it is very flattering, perhaps a way of saying that I’ve been a sustained performer over the years rather than appearing in a flash and then disappearing.” Then Kanter reflects on the comparison. “But how many people now know who she is?”

Another take on her place in the intellectual firmament comes from an introduction at a management seminar: “If Peter Drucker is the left brain and Tom Peters the right brain; Rosabeth Moss Kanter is the whole brain.”

While this sounds a little like the introduction of an over-stimulated boxing MC, there is no doubt that Kanter is intellectually formidable. Her career includes spells at Yale and Harvard Law School. She edited the Harvard Business Review, advises the CEOs of major multinationals, and is active in public service – among other things she was an economic adviser to Democrat Michael Dukakis when he stood for US President and served on Republican Mitt Romney’s steering committee for his transition from head of the Olympics to Massachusetts Governor. Kanter is also one of the founders of the consulting firm Goodmeasure and involved in a host of other social and business activities.

She is also a woman in a man’s world. Female management gurus – or thought leaders - are thin on the ground. Indeed, the only one of historical note is Mary Parker Follett, who died unheralded in 1933 and whose reputation Kanter has helped resuscitate.

Kanter’s work – which includes the bestsellers *Change Masters*, *When Giants Learn to Dance*, *World Class*, and *Evolve!* – combines academic rigour with a degree of idealism not usually found in the bottom-line fixated world of management thinking. She does not consider idealism and business as mutually exclusive.

Unlike some other commentators, Kanter’s worldview is not confined to the boardroom. Her doctoral thesis examined 19th century utopian communities including the Shakers. Such was her enthusiasm that in the early 1970s she

compared IBM to a utopian culture. Trained as a sociologist, she found the business world beguiling. But, rather than leaving her youthful utopian idealism behind, Kanter brought it to bear on the big management issues.

In her quest to get close to the corporate action, Kanter first tackled the narrow-minded, hierarchy-heavy corporation of the 1970s. In her 1977 book *Men and Women of the Corporation*, she effectively sounded the death knell for the traditional company. Unfortunately, as the bell tolled, the men and women of the corporation were too busy signing forms in triplicate, sending meaningless memos to each other, and jockeying for position in the ornate hierarchy to actually hear anything. The book was a powerful obituary, though the victim kept on breathing for a while longer (and can still be viewed gasping for breath in many places).

Then Kanter moved on to look at the perennially thorny issue of change in *The Change Masters* and innovation culture in *When Giants Learn to Dance*. Kanter's next book, *World Class*, outlined many of the issues now being violently aired by anti-capitalist protestors. She describes it as "an activist's book." It looked at the need among companies, communities and regions to create an infrastructure for collaboration. It suggests that globalization can only be a force for good if it delivers at a local and regional level. In *Evolve!*, she puts her ideas in the context of the new economy.

Change skills

In 1999, Kanter set out eight classic skills for leaders at any level engaged in change. Kanter says initially that, "the most important things a leader can bring to a changing organization are passion, conviction, and confidence in others."

Leaders need to be on the lookout for new trends, actively eliciting information from a range of stakeholders, including customers, partners, and employees. Kanter suggests cultivating a series of "listening posts" to help with this. She calls this skill tuning-in to the environment. Do not tune out to the bad news about the business, either.

The second skill is about challenging prevailing wisdom in the organization. Absorb information from different sources, look for the patterns in the information, and then construct new patterns, question assumptions, find a new lens through which to view a problem. Job rotations, interdisciplinary projects, and interactions outside the organization all help with kaleidoscopic thinking, as Kanter calls it.

Leaders must also communicate compelling aspirations, conveying a clearly understood case for change. They build coalitions too, identifying early on in the

process the key people who need to be on board to make things happen, and then selling them the aspiration. This should be a limited group of key constituents.

When the coalition of key people is well established, they can be set loose on a series of experiments that roll out change in ways that will not sink the company should they fail. Meanwhile, the leader supports, guides, and motivates; makes sure the team is well resourced and protected, allowing it to get on with change.

Kanter emphasizes that giving the team the room and resources to engage with change is not the same as abandoning them and then returning later at some point to see if everything turned out for the best. It is in the middle of a transformation process that things can so often go wrong. So, it is the in-between stage, where the change leader earns a large proportion of their salary and other rewards.

Finally, a great change leader remembers to reward, recognize, and celebrate the accomplishments of the people involved in the change process. Make everyone a hero, says Kanter. Because as she points out: “There is no limit to how much recognition you can provide, and it is often free. Recognition brings the change cycle to its logical conclusion, but it also motivates people to attempt change again.”

Turning Change

Later in her career, Kanter cast a critical eye over the role of the turnaround specialist. Corporations like Chrysler, IBM, Gillette, sports teams like the San Jose Sharks, even countries like South Africa, have all experienced a major turnaround in fortunes. But what kind of leader does it take to engineer such a risky and difficult endeavour? One with a unique combination of skills that make them ideally suited for the job it seems.

Based on her studies of several turnaround situations, Kanter says that information and relationships are crucial aspects of turnaround leadership. A turnaround leader must facilitate a psychological turnaround of attitudes and behaviour before a recovery can take place.

Good turnaround leaders possess the ability to extract the information from an organization that enables them to appraise the situation and form a viable strategic turnaround plan. But they must also possess the necessary qualities to see that confidence is restored to the employees and team members, as well as those people who deal with the organization.

There are four essential components of the turnaround process, according to

Kanter: promoting dialog, engendering respect, sparking collaboration, and inspiring initiative.

When turnaround CEOs grab the controls and wrest organizations out of the downward spiral of decline, often the first thing that they do is encourage openness and free communication. Even if it means making management performance criteria and data freely available.

Turnaround leaders foster a culture of respect, both internally among co-workers, and externally between the company and its customers, other stakeholders, analysts, the media, and all other parties who come into contact with the company.

This means moving beyond blame. Take Nelson Mandela's Truth and Reconciliation Commission in post-apartheid South Africa, for example, says Kanter. Put the bad experiences behind and move towards a better future.

Once the turnaround CEO has the company heading on a better course, then it is time to tear down some internal barriers and rebuild collaborative partnerships. An energetic turnaround leader will invigorate innovation and banish destructive compartmentalization and negative attitudes. Finally, turnaround leaders can empower individuals to continue the revolution.

There is a caveat, says Kanter: not all great leaders make great turnaround leaders.

Tools for change

When we spoke, Rosabeth Moss Kanter began describing her research on turnarounds:

I have been doing some intensive case studies on situations in which failing organizations have been turned around and what that process involves and also what role innovation plays in turning around a failing organization. That's very timely at the moment, because this is definitely a time to turn things around rather than thinking about grand new visions.

One of my cases involves Gillette, a global company that is very well regarded but which slipped badly a few years ago, and appointed a new CEO from outside the company. It's a classic general management situation that allows me to continue to think about leadership issues as well as about actions and steps to change direction. The issue of how you reverse course is very interesting. Most ideas about turnarounds focus on financial and organizational issues. I'm adding a psychological dimension: how leaders rebuild confidence when staff are demoralized, how they open dialog when information has been

hoarded in silos, how they stimulate imagination and innovation when people feel punished for poor results. The secret of effective turnarounds is empowerment. One of the first things Greg Dyke did when he became Director-General of the BBC was to empower programme makers and broadcasters by increasing budgets, reducing bureaucracy, and becoming a cheerleader for creativity in all functions; these actions reversed a decline in audience share.

I have also been looking at this in terms of my interest in the digital age. Large institutions need to change because of the new technology and new ways to communicate they now have presenting both demands and opportunities. The delivery of healthcare, education, and government services require fundamentally different systemic models – getting big organizations out of self-perpetuating closed cycles into new modes that involve grass roots innovation guided by standards and accountability, instead of rules and regulations that stifle change.

I am also very interested in the corporation as a social institution. I started looking in particular at the corporation's role in major world problems. There's a big debate about trade, about globalization, at the same time that corporate social responsibility has actually been growing as a movement, though perhaps not fast enough in light of the problems. So, I want to see what role businesses actually play – positively or negatively – in the lives of countries, particularly developing countries, other than their own.

Do we have unrealistic expectations of our corporate and political leaders?

Yes. If the expectation is that a single leader can do it all then it is unrealistic. But it is also interesting how much a single leader can set in motion. In turnarounds, it is quite striking how much fresh leadership can accomplish by unlocking talent and potential that was already there in the organization but which was stifled by rules, regulations, and bureaucracy.

In the corporate world, we should have very high expectations and standards. I wish there were more corporate leaders stepping forward to address the accounting problems, not simply responding to the rules saying they have honest numbers, but talking about the responsibilities businesses have.

We should hope that people do more than just their job. In the corporate world, it is not unrealistic to expect people to exercise leadership in terms of acting in advance of a crisis and not simply being defensive – something I hope to urge pharmaceutical industry leaders to do. But in the last decade, we created very unrealistic expectations of business leaders in terms of how quickly they

could get major financial results. The expectations of speed and continuing growth – 15 percent per year earnings growth, quarterly earnings increases - put pressure on companies to do it by any means they could. Some of those means were not necessarily accurately reflecting the underlying strength or health of the company. So, the expectations for speedy responses, speedy returns, unfettered growth and so forth are quite unrealistic.

In the 1990s there was a hope that business cycles had been defeated and there was no patience because everything had to happen so fast. There were unrealistic expectations about big, bold moves. But there weren't unrealistic expectations about standards, speaking honestly about issues, and about acting before being forced to act by government rules or regulations. Companies need to get ahead of the issues rather than waiting to be forced into a defensive posture. Leadership involves setting realistic but challenging expectations.

In one turnaround I have been involved with, one of the first things the new CEO did when he came in was to stress honest targets, realistic forecasts - in essence real numbers - and he was willing to pay the price for that, which was that the analysts didn't like the numbers. That was lowering expectations – not in some manipulative way so that they could be beaten – but to say that the company couldn't possibly deliver impossible performance. One of the ways leaders build confidence is to make short-term achievable promises and keep them; that encourages faith in their long-term visions.

We should expect people in positions of public trust and responsibility to rise to that trust and responsibility and to reflect the needs, desires, and interests of all of their constituencies - but also to tell people the truth. We have been reduced to having to say things like leaders should tell the truth. Those are not unrealistic expectations.

People in the Western world got a little greedy and wanted and expected too much. When leaders are being pushed to promise these inflated things in order to get support from various stakeholders, especially the investment community, that's not a healthy situation. It's easier to exercise leadership when expectations are more realistic, but it's up to leaders to set those expectations.

Do you remain optimistic?

I always have a degree of optimism though I think we're in a rough period in which things could get worse before they get better. This comes to one of my ultimate definitions of leadership: leadership looks at the root causes and systems issues and not just superficial issues. Trying to patch over a bad situation with a

little cosmetic treatment is like putting lipstick on a bulldog. That's the wrong way to deal with a deteriorating situation. Right now we have the threat of terrorism, military action and tremendous tension, and it has a dampening effect on countries and businesses that have no direct involvement. It creates fear, reduces investment, increases costs, and slows down the movement of goods and people.

Then we have the disclosure of corporate ethical lapses and mistakes, which creates crises. A lot of people have lost a lot of money. Trust in institutions is low. If people don't have trust in the honesty and ethics of leaders, that's a problem. In addition, there is the weakness of the economy.

We can pretend everything is all right. But, should we instead be looking more deeply at the entire underlying system and how we might fix it? Is there some different kind of policy, some reconfiguration, something else we could be doing? That's what leaders should be doing, taking a deeper look and offering new solutions rather than simply cosmetic responses.

Turnaround CEOs who come in and say let's cut costs but don't rethink the business model or assumptions are cosmetic and don't last. But if they come in and say we need to rethink some practices, how we are organized and the underlying business assumptions, then that kind of change takes longer and hopefully lasts longer.

We're in a situation where turnarounds and quick fixes aren't enough. There's a sober mood everywhere. China is still booming but its boom creates problems for others in Asia. No one I know is exuberant. The assumption in the 1990s was that you could declare yourself a capitalist country and everything else would take care of itself. Building institutions and creating trust and confidence takes time.

I have enormous hopes for the benefits of the digital and Internet age. There have been tremendous improvements in education and many businesses are more efficient internally. In education, technology can empower. There are already results available from the empowerment of teachers and enormous potential is still available. In healthcare, physicians and providers can be empowered through having less paperwork and the ability to get information faster and so on. If you can get the result of a medical test in minutes rather than hours then it can save lives.

The potential of technology remains very great but we're in a period where companies aren't spending money, and we're in the era's infancy. We lived through a period of peace and prosperity and now we've had some crises and perhaps a challenge to some of the assumptions of Western capitalism. Now there's a cooling-off period. But new technology is fundamental and will make a difference.

So, in the long run I am optimistic. I believe that if corporate citizenship and social entrepreneurship continue to flourish, then we'll find new solutions and take them to new countries. Business has a pivotal role to play because business disciplines are very beneficial in creating any kind of change. And business enterprise creates the jobs that bring prosperity.

About the author

Stuart Crainer is cofounder of Thinkers50.

This is a Thinkers50 classic interview.

'It's necessary to build a bulletproof business case full of rational and objective arguments for your strategy, but don't forget passion, fire, and story. Unless people can feel the problem you are trying to solve, they won't be motivated to help you.'

ALEXANDRA LEVIT

CHRISTIAN STADLER

Opening up to transform

It's 1999. You live in Stuttgart and work as an engineer for Daimler. Life is good. Daimler has recently merged with Chrysler, a tie-up that your CEO Jürgen Schrempp calls a "marriage made in heaven." It's time to find out for yourself. You are about to meet your new colleagues in Detroit.

As you enter the conference room, the mood is upbeat. The Americans are always so positive, there are plenty of smiles and laughter – it's refreshing. Everything seems possible and so, perhaps unsurprisingly, ambitious goals are set for the new project you kick-off together.

A few months later you are less sure. There were a few hiccups along the way and the American's don't seem to stick to the plan you set out in the beginning. What's wrong with them? Whenever there is a bit of headwind, they simply want to adjust the goals. This way you will never meet your targets. You could really do with a little less optimism and a bit more realism paired with determination to deliver on promises.

Meanwhile, Joe, your American counterpart has also aired his frustration. "Why are you so stubborn," he says, "the market has changed and you still want to stick to the original plan. That simply makes no sense."

Similar scenes played out throughout DaimlerChrysler in the years after the merger, as one of the managers responsible for the integration told me. The cultural divide was substantial. But deep integration was necessary to realize the synergies envisioned when the deal was struck. The development cost of new cars is substantial and one of the most effective ways to bring them down was a coherent "platform" strategy, where new vehicles would share a substantial amount of parts. Likewise, a compelling brand architecture would have been attractive. Toyota managed to achieve that at the time, where the hip and young would start off with a Scion and move on to a Toyota when they started families, while the more affluent ones would eventually progress to a Lexus. But all this did not happen at DaimlerChrysler because integration was such a nightmare.

When a small coterie of executives chart a company's strategy journey, they so often fail to consider whether they can mobilize employees to execute it. Will employees get behind their thinking? Will they push as hard as they can? Will they feel a strong sense of ownership? Quite often, the answer is no, because employees haven't had a hand in creating or debating the strategy. According to

Jon L. Pierce, Tatiana Kostova, and Kurt T. Dirks, who developed a theory of psychological ownership in organizations, individuals will most likely take ownership over a strategy, process, or project if they feel some level of control, and if they develop intimate knowledge of it. Without deep involvement on their part, they have a hard time feeling personally connected and engaged. It's one thing to do something because a boss tells you to, quite another because you feel like an owner.

This is most pressing when a strategy requires substantial changes, a full-blown transformation – as it did at Daimler after the merger. A “closed” approach often leads to strategies that seem incomprehensible or misguided to employees, simply because leaders failed to take their perspectives into account. If Schrempp had solicited the opinions of Daimler's workforce when devising his plans (which he didn't), they might have articulated fears about how the company's acquisition of a mass market car manufacturer might undermine the premium status of Mercedes. They would have pointed out that using the same platforms might be far from easy. He might have adjusted his grand strategy of creating a global giant accordingly. As it stood, his strategy failed to deliver, in part because it lacked popularity among employees. Nine years after the deal, Daimler had finally had enough of the permanent turnaround struggle. Chrysler was sold to the private equity group Cerberus Capital for \$7.4bn. Nine years earlier, Daimler had splashed out \$35bn to buy the US car firm. It is telling how easy it was to carve out Chrysler.

It's not that companies never appreciate the need to get employees on board. My point is that they often do so too late. A strategy is set, it then becomes apparent that this strategy requires substantial changes in the organization, and only then will executives start to think about involving a wider group of employees. Implementing transformational changes becomes a communications game – which is too little too late.

But here is the good news: the last decade has seen a proliferation of tools that enable companies to involve a much larger group of people in the drafting of new ideas. Your company might be one of the many that embraced this in the innovation arena already. Companies like Innocentive or Kaggle have helped thousands of companies to engage the wisdom of the crowd to come up with new innovative products and novel solutions to tricky problems. A smaller but growing group has taken the next step and allowed a wider group of people into more central decision-making, often transforming their business. Arguably the pioneer at the forefront of this movement has been Jim Whitehurst. In December

2007, when he became CEO of Red Hat, an open-source software company, he refrained from molding the company in his own image. Instead, he started to observe and listen. He realized that in a company that prized transparency and collaboration above all else, it would make little sense to introduce a secretive, top-down strategy development process. He decided to open up the process, to get everyone involved. Yes, everyone! It started off with exploration teams led by members of the leadership team. What was unusual though, was that they had to lead teams outside their own area of expertise. For example, financial models were handled by someone usually engaged in staff development. The exploration teams then used wikis in addition to their own networks to get people involved in the discussion. There were also company-wide online chat sessions, material available on its intranet, and numerous meetings. And some teams brought customers into the conversation as well. For example, the technology roadmap team engaged the open-source community, increasing their understanding of the directions to take. Engagements like this helped Red Hat to synthesize the many ideas they got by opening up.

The second stage brought even more devolution. Rather than having a centralized team lording over the details, Red Hat set up new teams run by leaders from a level below the top management team. Their role was bringing those together who were actually working on things that were affected by strategy, not specialists removed from the operations. Not only did they develop the plans, they also decided on what to do. Take note: decisions were not centralized, they happened close to the front line.

The results were phenomenal. Everyone understood the strategy. People were on board as they had been involved and had their say. Over just three years, revenues went from \$400 million to over \$1 billion. The stock price doubled.

Since Red Hat's pioneering days, many companies including IBM, Barclays, BASF, and Ericsson have used strategy jams, wikis, social media, idea contests, and conventional workshops to open up, knowing that this will increase both the quality of ideas and the likelihood of these ideas being implemented. In fact, when truly fundamental changes are required the smartest companies have long done this. When Munich Re, the world's second largest re-insurance company, was reorganizing itself to better serve customers in the early 1990s, the company's leadership set up a series of task groups to discuss the plan, engaging participants from all levels of the organization.

In an interview with me, Christian Kluge, a member of the board of Munich Re at the time, recounted how critical that move was to ensuring employee buy-

in, especially as the company was about to abandon an organizational model it had followed for the past four decades. Even employees whose jobs would be phased out under the transformation wound up supporting it, as their involvement in the process raised their confidence that the company would find new jobs for them. Moreover, leaders were able to anticipate potential problems with the plan, since they had solicited the opinions of frontline workers who would have to execute it. Munich Re's plan didn't go off seamlessly, but it didn't encounter the kind of pitched resistance that transformations often engender.

To return once more to Daimler, my message is clear: bringing frontline employees only on board after the decisions have been taken always results in an uphill struggle. They should be part of developing the ideas that later require big changes. This way they will be champions of your transformation journey.

About the author

Christian Stadler is a strategy professor at Warwick Business School, UK. He has written a book about long living organizations (*Enduring Success*) and is currently working on a new book, helping companies to open up their strategy process.

Resources

Read more on the DaimlerChrysler deal in Köhler, H.D., "From the marriage in heaven to the divorce on earth: the DaimlerChrysler trajectory since the merger". in: *The Second Automobile Revolution*, ed. Michel Freyssenet, pp 309-331. <http://news.bbc.co.uk/1/hi/business/88965.stm>

The description of Red Hat's strategy process is based on an interview with Jackie Yeane (who was the executive vice president for Strategy and Corporate Marketing at Red Hat) and an article she has written. <http://www.managementexchange.com/story/democratizing-corporate-strategy-process-red-hat>

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'In fast-moving industries, like technology, the ability to rapidly transform is table stakes. Competitors unable to transform quickly burn out, leaving only fast-transformers in the market.'

KAIHAN KRIPPENDORFF

The transformation: how Michelin redefined the twenty-first century industrial corporation

Michelin had been always proud of its shop floor ambiance – its “soul” – made of benevolent foremen and of workers smiling and greeting visitors. Then, in the early 2000s, Michelin’s adaptation of Toyota Production System (TPS) threw a spanner in the works. Just like many Western companies, the Michelin Manufacturing Way (MMW) focused on the TPS tools instead of its human-centered philosophy.

In 2011, several top executives on a regular shop floor visit noticed the distinct lack of smiles – and started to worry.

The corporate Industrial Director shared his observations with his HR counterpart Jean-Michel Guillon: “I propose that you restart the empowerment programme we had before the MMW and give workers responsibility for their production activities.”

In fact, this restart has been already underway. In 2008, Guillon begun undertaking employee engagement surveys to find out if Michelin was really “losing its soul.” Not convinced by the results, he asked his deputy Bénédicte Perronin to revitalize in all the plants the old empowerment (in French, *responsabilisation*) programme Michelin had in the 1990s and simultaneously, to conceive a true in-depth empowerment programme. To achieve the second, in January 2012, she organized a four-day seminar involving 25 carefully selected top managers. Introduced by both the Industrial and the HR Directors, its findings were presented to the CEO Jean-Dominique Senard. The findings were limited but profound: the group formulated a goal to build a corporate organizational model that allowed the teams full autonomy. The CEO asked to see the group again once they had devised a way to achieve this. The group interpreted this as *carte blanche* to create a plan to truly transform Michelin.

One participant at the seminar was the Shanghai plant director Bertrand Ballarin. He was preselected to coordinate this transformation beginning in March 2012. A former army colonel, Ballarin had a habit of reading a lot when facing a novel

challenge, hoping for a “eureka” moment. This came in June 2012. His insight was that the workplace transformation must be carried out by those who do the work!

To allow it, he launched the first in-depth *responsabilisation* experiment. Called MAPP (in French, *Management Autonome du Progrès et de la Performance*) and coordinated by Ballarin and his associate Olivier Marsal, it involved 1500 workers in 38 “islets” – Michelin’s basic manufacturing teams – from 18 plants. Each team was asked the same question: “What would you need to do your work better?” Teams demanded to have full responsibility for operations, maintenance, multi-skills development, or safety, with some even asking to be informed of corporate financials or strategy. Though the teams didn’t know it, the goal was to pretty much meet all their demands and allow them to put them into practice. Consequently, the teams assumed full collective responsibility for the areas they requested. Each team leader became a coach, Ballarin and his associates remaining in the teams’ service if required.

The result was that the teams were allowed to redesign any or all of the MMW they chose without any outside control. It met Guillon’s two objectives: to integrate the experiment in the MMW context; and to explore how it could contribute to the manufacturing teams’ wellbeing, a.k.a. Michelin’s “soul.” It was time to present the experiment to Michelin’s top management.

In December 2013, Ballarin presented the results of the experiment to Michelin’s executive board. Once he had finished, there was applause. Ballarin waited a while, then said: “We haven’t proven a thing yet: these 38 islets are protected from the plant management’s intrusion. Yet, since you’ve appreciated the presentation, we need one to two industrial units to prove the concept at the level of an entire plant. In addition, we need your agreement to transform our divisional headquarters and corporate support units.” He got six plants. For his additional request, he got a three-hour slot in the next Michelin Top 60 meeting, so that he could explain the *responsabilisation* concept to all the executives and try to enroll some of the divisional and corporate support unit directors in the transformation.

Ballarin contacted me for the first time in June 2013. He had read my book *Freedom, Inc.*, in which he found the freedom and responsibility-based philosophy he sought for Michelin. He asked my opinion on his approach. I replied to him doubtfully: “I have studied several dozen transformations to build a freedom- and responsibility-based workplace, but none the size of Michelin. I don’t believe it’s doable, but I wish you success and am interested to follow how it goes.” I also told him that the key to such transformation is the capacity of the plant directors to practice leadership without ego. We agreed to continue our conversation on

a regular basis.

At a further meeting in early 2014, Ballarin asked me for help in the next Top 60 meeting to explain the corporate liberation concept and attract volunteers. I did, and several divisional and corporate support unit directors volunteered. He also asked me to run the kick-off seminar for the six plant directors. The goal was again to explain and illustrate the concept and involve them in designing the first steps of the transformation they would lead locally. Ballarin's small team of facilitators helped plant directors, while he focused on the corporate and support unit transformation. Within the plants, the islets' heads asked their teams the same question: "What do you need to do your work better?" If some islet heads were unwilling to relinquish the responsibility their team claimed, they had to justify it, and then, redefine their role as creating the conditions for the team to ultimately assume this responsibility.

Independently, in 2015, Michelin's CEO established four axes for its future: client service, digitalization, simplification and *responsabilisation*. Thus, the *responsabilisation* programme became a corporate basis for Michelin's differentiation. Ballarin even proposed to the executive board that Michelin should aspire to become the twenty-first century Toyota. The motto was rejected by the company, whose culture has always been low-key.

Meanwhile, outside the company *responsabilisation* was beginning to get noticed. In March 2015, a leading French business monthly *l'Usine Nouvelle* featured "Michelin *libéré*" (liberated Michelin) as its cover story. In 2016, Michelin's CEO, largely thanks to the *responsabilisation* programme, won the Corporate Leader of the Year Award. Then in 2017, the *Financial Times* published an in-depth examination of what it described as "Michelin's great experiment."

Michelin charged ahead. At the beginning of 2018, in addition to its initial plants, 12 new ones joined the programme. In the plant in Homburg, Germany, teams self-direct most activities and managers have transitioned into the role of leaders without formal authority. Operators set their work schedules and their vacations, design and monitor their own performance indicators, do their own maintenance, and are consulted on the choice of new machinery. *Responsabilisation* also includes several divisional headquarters, such as agricultural tyres and mold manufacturing, corporate support units, such as IT, HR, and R&D. Amazingly, it even includes the executive board – top executives have handed authority over to their units' staff and instead become "sponsors" (similar to Harley Davidson's transformation led by Rich Teerlink in the 1990s). The HR Director Guillon doesn't even tell the HR staff what to do anymore and the team has shrunk from 100 to

15. There, as in all support units, the staff were asked to “let people breathe” and to keep only the documents and procedures compatible with the *responsabilisation* philosophy. Altogether, 1000 support staff migrated to value-adding roles.

Michelin is a huge company in a relatively mature industry, but it has still managed to increase its sales from €19.553 billion in 2014, to €22.208 billion in 2018. In 2018, Michelin was ranked by *Forbes* the #1 *America’s Best Large Employer*. Google came third.

Lessons

1. The WHY of the transformation

Michelin launched its organizational transformation to allow freedom of action and responsibility – not to make more money. The company did it to (re)create a workplace where people go not because they must but because they want to, and while there, they also want to give their best. Michelin considered that the natural by-product of this is increased economic performance.

2. The WHAT of the transformation

From the beginning, Michelin asked the participating units to find their own way to articulate the general *responsabilisation* philosophy in their unique organizational form. There was no organizational point B at which to arrive, because each unit started at a different point A (its human, cultural, and industrial heritage) and because point B doesn’t exist. The WHAT wasn’t a new fixed organizational form but an evolving one, which employees cocreated and continue to adapt to meet their needs and those of the changing world.

3. The HOW of the transformation

Michelin didn’t provide the units with a transformation method or consultants. While it did provide coaching, readings, or seminars the transformation itself had to be carried out by those “who do the work,” per Ballarin’s insight. The unit’s leader provided them with the proper conditions for the transformation effort, while Ballarin’s team made sure that the evolving workplace fitted in with the overall *responsabilisation* philosophy.

4. The LEADERSHIP of the transformation

Each unit’s transformation success relied on its director’s “leadership without ego” capacity. First, they had to be driven by human – not economic – concerns to enter this transformation, all the while understanding that the latter was the by-product of meeting the former. Second, they had to practice *leadership without ego*: not considering themselves better than other employees in terms of special perks – corner office, chauffeured car, and so on, or intelligence – believing they

had better ideas and solutions than others. Third, these leaders practiced the Taoist attitude of *Wu Wei* – to act without acting – which according to one inspirational leader of *responsabilisation* philosophy, Jean-François Zobrist, is “a *laissez-faire* approach that does not mean doing nothing, but means creating conditions in which things happen by themselves.” *Wu Wei* requires a constant vigilance on the part of the leader to seize favourable circumstances and sometimes even provoke them.

Such leadership capacity is the world’s scarcest resource. Michelin had it to start the transformation: Ballarin, Guillon, and Senard – who supported it at the corporate level – and then, half a dozen plant directors. Michelin had more in reserve to continue: Florent Menegaux, the new CEO, who is very supportive of the *responsabilisation* transformation, the executive – a former plant director – who replaced Ballarin after his retirement, as well as several dozen plant, corporate, and support units’ directors. Thus, for its biggest French plant, Michelin’s incoming director was chosen on the criterion of being namely such a leader with a clear mandate to implement the *responsabilisation* transformation. Eighty percent of Michelin’s eighty plants are in the programme, half having been partially transformed and about a quarter having been essentially transformed.

That said, for the *responsabilisation* to succeed, all of the company’s top managers must be leaders without ego. That’s what Michelin has embarked on lately with its top 1000 managers, 500 of whom, including its executive board, are already being coached in this style of leadership.

Responsabilisation isn’t just another change project. Former CEO François Michelin used to say: “We don’t do projects, we build cathedrals,” meaning Michelin thinks in centuries, not in quarters. *Responsabilisation* is one of those cathedrals. Perhaps, after all, Ballarin was right? Perhaps we are witnessing in Michelin *the* industrial company of the twenty-first century? Like Toyota was of the twentieth century, but with no tools or models to share – just the freedom and responsibility-based philosophy.

About the author

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**'Understand that
commitment to a major
change is always
expensive, and that you
either pay for achieving it
or pay for not having it.'**

DARYL CONNER

ALF REHN

Sensemaking and interpretation in transformation

“When Gregor Samsa woke up one morning from unsettling dreams, he found himself changed in his bed into a monstrous vermin.”

So begins Franz Kafka’s novella *The Metamorphosis*, a strange yet powerful tale about becoming something bizarre, something alien. It might seem an odd thing to reference in a book on corporate transformation and the attendant uplifting promise of a better tomorrow, but I will argue that it might also be a necessary one. In the following, I will discuss the difficulties attendant in trying to transform an organization into a more innovative version of itself, and how a badly managed transformation process can create the innovation version of Kafka’s monstrous vermin.

There are exactly two forms that corporations are most keen to transform into – the digital and the innovative, and if possible both. Yes, there are other things that companies can be keen on, but these two are by far and away the most popular ones. Both promise new value production, and carry with them notions of a better tomorrow. At the same time, neither represents terms that are very clear, nor futures that are very transparent. One can in fact often come across corporations that speak excitedly of their desired transformation, but without a clear notion about what they are transforming into. All they know is that their new form will be “digital” or “innovative” (or both). But who’s to say that there aren’t digital monsters, or innovative abominations?

A key challenge in the notion of corporate transformation is the one of invocation. By this I refer to the tendency of top management to think that they can, primarily by invoking something and stating that this is the desired end state of the transformation, actually realize the same. Transformation is at least in part storytelling, and requires both heroes and “big hairy audacious goals” (as popularized by Jim Collins). Now, invoking the notion of transforming into an “innovative organization,” with its promise of consistently churning out innovative

offerings, would seem to be a very good such goal (as would turning into a “fully digital organization,” but I shall here focus specifically on innovation). The challenge, however, is that whilst everyone might agree that this is a desirable goal, it is far less clear what the goal actually means.

Meaning, innovation, and transformation

The key to a successful transformation tends to be that one manages to get the entire organization committed to a defined goal and a clear direction. Without this, transformation efforts can turn into boondoggles of conflicting initiatives and internecine infighting. Here, the danger of ill-defined concepts such as “innovation” is often systematically undervalued. This, as with stating innovation as a goal and a desired end-state, assumes that the organization has a shared sensemaking regarding this. If this turns out not to be the case, we can, whilst believing we’re all going in one direction, actually be tearing the company apart.

Consider the following case of a transformation I followed in an advisory capacity (anonymized to protect the company). Here, it was agreed at the highest executive levels that the organization needed to be reorganized and transformed to become far more agile and quick when it came to innovation capacities. All agreed that this should be a strategic priority, and several projects were started to ensure that the transformation would start sooner rather than later. I soon started observing that whilst there was a general consensus regarding innovation and the need for more of it, the interpretations regarding what this meant varied greatly inside the company. One very powerful division in the company saw that the key to this was the adoption of agile methodologies and a focus on digital offerings. This suited their ways of working, and was also well in line with the division’s strategy. With the “innovation mandate,” they started pushing very hard for a company-wide agile process, and that digital projects should receive the lion’s share of development budgets.

Other parts of the organization, which existed in a very different business environment, interpreted the transformation to an innovative company differently. To them, this should mean that there should be far more autonomy, and that each division should be allowed their own innovation strategy, to increase idea diversity and usher in a culture of experimentation. To them, digital innovation was only one possibility, and not one that should automatically have precedence over other alternatives. Further, to them the introduction of one specific methodology,

mandated from a corporate level, was the very antithesis of how an innovative company was supposed to function. Added to this, there were several smaller factions, all championing their own take on what the transformation should mean.

The executive team saw relatively little of this. They saw lots of work being done on innovation, often with the right words – agile, experimental, quick, and so on – attached. It should also be noted that on some level, everyone in the organization was driving what they believed would be the best way to usher in more innovation. Few people can argue that things such as agility or autonomy or experimentation or diversity are bad things. What was missing, however, was an overarching meaning for exactly what kind of innovation culture one tried to transform into. As a result, the project turned out to take a lot longer than originally envisioned, and in many cases factions inside the company started to view each other in a hostile manner. Accusations of being anti-innovation became more prevalent, and collaboration between divisions lessened. There were still change initiatives, but looked upon as a whole, the organization didn't look so much as an innovative organization in the making, but rather like an emergent chimera, a strange miscreation where different mutations battled rather than supported each other.

In this way, transformations can morph into monstrous vermin. Not because anyone wanted anything but the best for the organization, but because vague and fuzzy targets can be misinterpreted and understood in a plethora of ways. Transformation without a management of meaning is bound to fail, which is why executives need to remain humble when it comes to the critical issues of communication and listening in the process.

Transformative tools

So, what is an executive to do? One could easily write several books regarding all of this, but there are some basic principles that deserve repeating and reflecting upon. I've found that three such are particularly important.

Lead and speak transparently. Managers often overestimate how clearly and transparently they communicate, and if I had a dollar for every time a CEO has said to me that they are convinced everyone in their organization knows exactly what is desired of them I'd be a very rich man indeed. If a leader wishes to enact a corporate transformation, they need to be exceptionally careful when using concepts that can be understood in varied ways. If speaking of innovation, be very

clear what kind of innovation is desired. If wishing to lead a digital transformation, it's not enough to talk in generalities about Apple and Google.

Transform by example. Following on from the first point, examples are both a key tool for a transformation leader, and an underutilized one at that. Whereas abstract concepts such as innovation can be understood in numerous ways, a rich case used as an example of what one wishes for (or wishes to avoid) has far more meaning-carrying capacity. Just make sure to avoid hackneyed examples like the aforementioned Apple and Google, however impressive you find them.

Manage the translation process. If philosophy, linguistics, communication studies, and research into cognition have taught us anything, it is that one can never escape the human tendency to interpret and translate. No matter how clearly and transparently you think you've outlined your wishes for a transformation, these will still be filtered through biases and heuristics, and seen from the specific perspectives of the recipients. As you cannot stop this, or ever achieve perfectly disseminated ideas, you need to manage the interpretations. Active listening plays a part, as does a continued questioning of the assumptions regarding transformation different parts of the organization operate with.

The end of the tale

Nobody wants to transform into monstrous vermin. Still, many transformations and metamorphoses fail, wholly or in part. Smart managers accept this, and that the goals can be seen in varied ways and lead to varied engagements. In my experience, the very best leaders of transformations are not those who lay out flashy and ambitious visions, but those who understand the human, oh-so-human, dimension of the organization. They are humble when it comes to their capacity to fully communicate, and prepared to take the effort to understand how the organization and its constitutive parts make sense of the transformation at hand. It can be frustrating work, but not nearly as frustrating as having invested in a huge transformation effort, based on a shared desire to innovate, only to see this tear the organization apart.

About the author

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**'You don't change a culture
by talking, you change it
through action.'**

MARIO MOUSSA

Resilient transformations

How did your organization handle its last major transformation? You had a detailed plan, discussed at length – and then what happened? We recently put that question to 40 senior executives responsible for transforming organizations in the production, engineering, consulting, and financial service sectors. Most stories had three parts: The plan, a surprising “but then...,” and finally a response to the “post-surprise reality” (or what we may just call “reality”).

The third part is the most important part of any transformation, because this is where the transformation happens in the organization. We argue that the success or failure of major transformations depends not on better predictions, better plans, or better visions. Transformations depend on responding effectively to what we cannot practically know in advance: surprises.

The plan: what should have happened

Our cases of major strategic transformations typically begin like this: “It became clear that [insert burning platform]. And so we wanted to [insert ambitious and appealing destination]. To do that, we had to [undertake a well-defined course of action]. So, we got everyone engaged through [efforts to onboard the organization], and off we went.”

The transformations initiated by managers in our study were not without good reason: product lines had failed to turn a profit for years, competitors produced cheaper goods abroad, clients were unwilling to adopt new proposed solutions, IT systems had proved troublesome or outdated, and quality standards were insufficient, just to mention a few.

Senior leaders then laid out a landscape of appealing destinations. They outlined visions of technological leadership in emerging fields, dominant shares of hitherto untapped markets, beating competitors on price, attaining higher status for their business unit, and many more. A clear and desirable future lies at the other end of transformation plans.

Between an untenable “now,” and the envisioned future destination, managers outlined a detailed course of action. They sketched diagrams of radically changing pricing models, the construction of new production facilities abroad, aggressive new investments signaling commitment to the stock market,

and the phased adoption of new technologies. Thus, transformation plans commonly outline a pathway, by which the now is to be exchanged for a well-defined, more desirable future.

The final part of the transformation plan is getting the organization onboard, overcoming resistance, and building momentum along the course of action. To that end, managers personally talked to everyone involved, built broad coalitions of the willing, engineered win-win situations, and convinced reluctant boards members. Some even carved out room for a new business unit, and handpicked the right people for the job. One manager called this a “social wrapper” around the transformation.

All of this is nicely consistent with research on how transformations are supposed to be done. In the 1950s, psychologist Kurt Lewin recognized that most organizations are naturally resistant to change. He encouraged managers to first “unfreeze” their organizations, then transform them, and then “re-freeze” them afterwards. In the 1980s, Thomas J. Peters and Robert H. Waterman, Jr. popularized McKinsey’s 7S Framework, working as a type of before-and-after “checklist” for transformations. They highlighted transformations of “hard elements” like strategy (means and ends), and structure (division of activities and coordination between them), and systems (formal procedures and incentives). They also focused on “soft elements” like values (of the organization), skills and competencies, staff (human resources), and finally style (or the behaviour) of the organization. The central message was that transformations should not leave any of this out.

In the 1990s, John Kotter told transformation managers to “establish a vision for the future, and set the strategy for getting there.” He urged managers to first establish a sense of urgency, then build a guiding coalition, and with them, develop a vision and a strategy before communicating it broadly. Then they were to empower employees for action, create (and celebrate) short-term wins, consolidate what had been achieved, and finally, anchor the transformation as a whole in the culture of the organization.

And more recently in the 2000s, Jeffery Hiatt outlined his ADKAR model, telling managers to create Awareness of the need to change, Desire to participate and support the change, Knowledge on how to change, Ability to implement required skills and behaviours, and finally, Reinforcing change achieved.

In short: transformations start with a clear idea of where we are, where we want to go, and how to get there. And from there, we set out and take action.

The surprise: what actually happens

At this point, most major transformation cases get interesting. They continue like this: “but then, [insert surprising turn of events] and so, [insert significant course deviation], so in the end, we [insert adjusted destination].”

Academics and consultants regularly report staggeringly high numbers of “failed strategic initiatives.” A global survey of managers conducted by Harvard Business Review Analytic Services, in association with the Brightline Initiative, found that only roughly one-fifth of organizations achieve 80 percent or more of their strategic targets. In other words: four out of five firms fail to meet some or all of their major strategic goals.

Managers sometimes forget that both destination and direction are mere assumptions. They assume that the destination will be better than where they currently are, and better than other possible destinations. They also assume that the direction they choose will get them there. Plans, then, are bundles of assumptions. And the test of those assumptions is the transformation itself. In most cases, some of these assumptions regarding direction and destination are untrue.

In terms of direction, transformations regularly fail to reach the vision they aim at. Means turn out to be unavailable or ineffective. In our study, unexpected funding shortfalls, legislative change, and technical problems stood in the way of many transformations. Beyond our study, in 2018 German-based retail giant Lidl aborted a seven-year long (purportedly costing some 500 million euros) endeavour to transform its merchandise management system to a unified SAP solution. The vision of a unified merchandize management system remained beyond Lidl’s reach, and it is now returning to its old IT system.

The direction you set for your organization may fail to lead to your chosen destination, even if that would have been the ideal destination for your organization.

Regarding destination, the end point of many transformations unexpectedly loses value or relevance along the way. In our study, one manager’s vision of an offshore production line lost its allure when the true conditions on the ground became clear. Another manager’s new organizational model was surprisingly poorly received among employees. In another case, in the 1990s, LEGO – not wanting to bet everything on traditional play sets alone – diversified into too many specialized bricks and play systems. The diversified product portfolio was realized, but it did not bring with it the financial success of the foregone status quo – to which they would later return. This was a lesson that Apple also learned around the same time – before bringing Steve Jobs back on board. In both cases, the destination failed to outperform the pre-transformation departure point, and, arguably, alternative destinations too.

This highlights a paradox: classic transformation models underline that to overcome inertia, managers need to on-board people, and build up momentum. To do so, they need to exude certainty. There is not much motivation in “maybe,” and nobody gets excited by “probably.” Yet, the underlying assumption is that managers are right about where they are going and about how to get there. But what if the manager’s pep talk has pointed in the wrong direction, or to the wrong destination?

The response: new direction, new destination, or both?

What happens “post surprise,” we argue, is the most important part of any transformation. This is the part where plan meets reality. At this point, transformation stories diverge: while many managers are left with expensive, embarrassing, and unattractive responses, others are not surprised to be surprised – they made the best plan they could, but they also prepared to be wrong.

These managers created what we call resilient transformations. From its Latin roots, resilience is the ability to “rebound” from unforeseen events in whatever form they might take. The modern concept emerged from the study of ecological systems adapted to unpredictable change – without the use of foresight.

Managers of resilient transformations built three “post surprise responses” into their plans: (i) direction change, (ii) destination change, and (iii) some did both.

Reserving the option for a direction change in response to surprise, one manager explained: “Our vision is unchanged. But how to get there becomes more clear along the way.” In this camp, some managers started new markets or product lines in parallel, and picked one that worked later. Another reserved the option of “trying again,” should the first attempt to implement new quality standards fall short. Others designed their transformation as a “living shape,” attaching new partners to a project, as they became needed. This group traded off a high number of failures against a low cost per failure. For these managers, transformations are a process of pathfinding to their eventual, but set, destination.

In the second camp, managers held open the destination, in case of surprises. As one said: “I think direction is becoming much more interesting to talk about than destination.” In this group, some defined several possible destinations: the new product turned no profit on its own, but drew business to other products. Others set “corner flags” demarking a “ballpark” of workable destinations, and selected initiatives that could make it into that general space. Others prepared movable goal posts, adjusting ambitions to the financial reality of their organization. This group traded off a high cost of trying against a low probability of failure. For these

managers, transformations are a process of exploring objectives, in search of desirable destinations.

A third camp kept both options open, even reserving the option of returning to the status quo altogether, to start again. In this camp, some managers built “exit ramps” into their plan, i.e. points where the organization could most easily be disentangled, just in case. As one manager explained: “I’m not going to blow up the company if we just throw it [the transformation] out. It’s extremely cheap to fail. And if it succeeds, it’s fairly cheap to implement.”

In our view, managers building resilience into their plans do three things right. First, they adopt an attitude of scepticism, not confidence, about well-laid plans. Second, they are wary of irreversibility, not uncertainty, being mindful of not doing what they could later regret, but not change. Third, while committing willingly to a clear direction or a desirable destination, they prudently avoided doing both at the same time. And contrary to a standard talking point in management literature, you can admit to not knowing everything, and still be a trusted and successful leader.

About the authors

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**'Culture isn't just one
aspect of the game.
It is the game.'**

LOUIS V. GERSTNER, JR.

PAUL DINSMORE

Digital transformation: make people first!

Emphasis on people in organizations is an obvious “no brainer.” Of course, it’s fundamental! Yet it is particularly imperative in the jungles of digital transformation punctuated by volatility, uncertainty, complexity, and ambiguity well known under the nickname VUCA. This exponential change beams a powerful spotlight on people.

A galloping, raging, exponential rate of change, long foreseen by authors like Alvin Toffler and Tom Peters, has been at the strategic forefront since well before the turn of the century. While this shift has long been on the horizon, exponential means more and more, faster and faster. Change happens, then transformation follows. Change might be triggered by an economic boom, invention of something revolutionary like television, or a disruptive service like Uber. Change sets off a transformation process that unfolds over time and impacts people. Since change is inevitable, strategists and leaders are faced with making sure transformation spins off benefits for the parties involved. In organizations, this means molding a process that meets goals and ensures desired benefits.

Digital transformation is not about technology!

The term digital suggests an assemblage of technological hardware, software, and services. Oddly, the technological side of digital transformation shows itself to be straightforward, when compared with the behavioural quirks involving people, communication, and culture. While technology is pragmatic and logical, organizational and people’s ways are amorphous and fuzzy. In digital transformation projects, organizations are challenged with creating synergy between digital and transformation. As CIOs take on greater roles in creating a digital environment along with CHROs, the techies and the softies are able to meld into an essential collaborative culture.

The World Economic Forum (WEF), the not-for-profit international organization for public-private cooperation, addresses the transformation challenge through its Digital Transformation Initiative (DTI). Launched in 2015

as a multi-year engagement, the DTI aims to analyze the impact of digital technologies on business and society. Four building blocks comprise the WEF solution for digital transformation:

1. Digital Strategy: defining where business should be going
 2. Business Model: how new direction fits with ongoing business
 3. Enablers: what and who needs to change
 4. Orchestration: how to manage change to reach desired vision.
- And in all these blocks, the people essence is present.

For instance, strategy itself is developed by people, who are to design how everyone will be intertwined from the start-up process throughout waves of transformation. A new business model involves operations that exert influence on customers, products and services, all of which fully depend on people. Enablers are both technical and behavioural in nature, the technical composed of systems and data, and the behavioural, people and culture. Orchestration, or implementation, focuses on governance, scaling, finance and regulatory matters, as well as leadership and stakeholder management.

Stakeholder management

Stakeholder management is a major key to digital transformation. Everybody in transformation programmes is a stakeholder. Stakeholders are those positively or negatively affected by the activities or final outcomes. They include people working on digital transformation programmes, those who influence them, and others who will be impacted. So, stakeholder management is a cornerstone for digital transformation. It deals with game changers involving power, influence and politics, as well as special interests, hidden agenda, and interpersonal conflicts.

Stakeholder management makes or breaks any programme. Paradoxically, stakeholders are traditionally handled intuitively, as opposed to being formally managed. While enlightened intuition is always welcome, a phased slant boosts the odds for dealing with parties and provoking desired outcomes. The first phase consists of Identifying Stakeholders, who are people with names and faces – as opposed to departments or groups. Background, roles, past experiences, and special circumstances are also documented. Next comes Planning Stakeholder Engagement, which outlines a game plan aimed so that each party is aligned and engaged in the programme. Level of interest and ability to exert

control are also assessed. Then comes Managing Stakeholder Engagement, which ensures stakeholders' needs are met and adequate support is achieved. And finally, Monitoring Stakeholder Engagement, which is executed systematically throughout the programme to check on the stakeholders through interviews and feedback.

Upgrading classical training and development

Leaders, executives and HR folks have long heeded the call to upgrade and maintain human capabilities. While on-going measures may still make sense, these upgrades have to be carried out in the turbulent digital arena. Here are ways to ensure that people are competent, aligned and engaged with the direction of an organization's programmes.

Setting examples. All leaders communicate their management philosophies both overtly and subliminally. Those "tuned to the times," who delegate, motivate, and foster a give-and-take approach naturally generate synergy among followers and other stakeholders. Some leaders may require an upgrade in soft skills, or even a major makeover. Or in extreme cases, an easement into outplacement.

Coaching. External coaching, the leader-coach, the informal chat, and in-house coaching are valid options for boosting greater competence of team members. Long-practiced face to face by coach and coachee, remote coaching by phone or video call is a cost-effective way to go.

Training sessions. Seminars, courses, workshops, and lectures are effective upgrading techniques. So, what's different now? Time for classroom-type training is scarce, so distance learning becomes attractive and gains increasing acceptance. Blended approaches (part classroom, part distance) make sense in other settings. In these digital times, students expect improved quality visuals and dynamic teaching.

Formal team building programmes. For synergy, the formal team building programme spawns best results. It provides retention, experimentation, feedback, in-depth treatment, and time for consensus and relationship building. Again, blended approaches involving classroom, field experiences, and distance communications create optimal cost-benefit results.

The digital bandwagon requires all stakeholders onboard. For that, an overall T&D programme helps nurture an effective digital culture. However, specific programmes may be needed to accelerate learning for particular groups. To address this topic, Project Management Institute (PMI), launched a

path called Project Management Technology Quotient (PMTQ). This suggests that project professionals gear up even further for the ongoing digital times. So, training and development (T&D) may need to address different groups in different ways. When coupled with behavioural skills covered in project management, PMTQ emerges as a professional skill set needed to thrive in the digital age, with special emphasis aimed at the below points:

Always-on curiosity: be on the lookout for new ideas, new perspectives, and new technologies to integrate emerging project delivery practices.

All-inclusive leadership: integrate divergent team members, independently of age, position, digital knowledge, skills, or location. Manage people to be able to manage both people and tech.

A future-proof talent pool: recruit and retain professionals with the technical and behavioural skills needed for the digital era including the will, the disposition, and the ability to keep up with trends and inspire teammates to do the same.

How about an organization's people manifesto?

In the digital world, people are expected to think, act, and react differently from how they or their counterparts did in the pre-digital era. Cognitive thinking patterns and models are to reflect the galloping exponential times, and behaviour is expected to align with transparency, fast-moving timetables, emotional maturity, and ability to deal with adversity.

An experiment involving a People Manifesto is worth examining by leaders in organizations focused on developing teams primed to thrive in the digital world. Such a manifesto would be disruptive enough to induce thinking patterns, behaviours, and emotional reactions coherent with the rampaging times.

The Brightline Initiative proposed a simplified model based on the classic premise that people are the linchpin for generating organizational results. Drafted as a People Manifesto, the document is designed to provoke, to question, and to inspire people to rethink actions and behaviours of the past. Here are four very different, perhaps debateable, principles paraphrased below, that might constitute a starting point for an organization's People Manifesto.

Leadership is over-emphasized. Leadership is recognized as an essential characteristic in organizations, yet more emphasis needs to be placed on “follower-ship” as a valued behaviour. Rather than always looking for ways to lead, recognize when and how to take more of a backseat. Rather than always looking for ways to create more leaders, acknowledge and support the essential role of those who follow.

Collaboration is key but isn't everything. Team effort and collaboration are recognized as needed characteristics for organizational success. Yet broad-reaching collaboration takes time and coordination and may be superfluous in many cases. So, when consensus building takes excessive time and doesn't measure up to a cost-benefit analysis, then delegating appropriate tasks and authority to individuals or small groups makes more sense.

Culture is never built. The desire to build a culture to fully support a company's desired strategy is a noble goal. Yet while strategy can be outlined in a clear, precise list of intentions, culture is more akin to an amorphous blob made up of individuals' behaviours, opinions, and responses. Although culture cannot be built, managerial energy is needed to make sure that culture upholds strategy.

People act in their own self-interest. While alignment of individual interests with organizational strategies is an honourable intention, in practice it cannot be fully achieved. So, leaders must devote time and effort to influence individual mindsets and behaviours.

This paraphrased version of Brightline's 2019 version of the People Manifesto is shown as an example of what might be developed in an organization to shine a spotlight on people first.

Taking action

Since change is inevitable, strategists and leaders are faced with making sure transformation spins off benefits for individual stakeholders, and ultimately, for the organization. Digital transformation, paradoxically, is not about technology, so success in the digital world depends heavily on a laser-like focus on organization, communication, and the human factor.

Making people first, then, requires an overarching people programme, which means determining present competencies and desired levels for the future. This includes knowledge, skills, and expertise, as well as underlying attitudes and behaviours. Concrete people-generated results require training programmes that guarantee existing skills are up-to-date. Development programmes are also needed to ensure competencies are advanced, and organizational structure and

culture are appropriate for doing business in new evolving settings.

Since in the digital world, people are expected to think and behave differently, classic T&D approaches like setting examples, coaching, training sessions, and formal team building programmes need to be revamped and tailored to adjust to the context and speed of the galloping digital times. To spur along awareness of the human factor, experiments such as a People Manifesto and PMTQ are highly constructive. Making people first in transformation programmes requires maintaining priority on the human factor throughout the entire programme.

About the author

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Resources

<https://www.projectengineer.net/project-stakeholder-management-according-to-the-pmbok/>

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'In the corporate world, we should have very high expectations and standards. I wish there were more corporate leaders stepping forward to address the accounting problems, not simply responding to the rules saying they have honest numbers, but talking about the responsibilities businesses have.'

ROSABETH MOSS KANTER

ROBIN SPECULAND

Digital execution: what it takes to succeed

Digitalization will transform every business, at various speeds, in the next few years. The trouble is that, after 16 years of steadily improving in strategy execution, organizations are getting worse. The failure rate is now as high as 84 percent. In 2002, my company Bridges found that 90 percent of strategy implementations were failing. Every four years, we survey the market and there was a steady improvement to a 67 percent failure rate in 2016. Still high but at least we were improving. But that positive trend has now stopped.

There are some significant reasons why we are getting worse. One of the most prominent is that digital execution requires a complete business transformation. Previously, strategies, such as expanding to overseas markets, did not necessarily require such a comprehensive transformation. But, digital execution can't be achieved by tinkering with the business model. It requires leaders to examine how the end-to-end business is impacted by technologies such as AI, IoT, analytics, APIs, cloud, and so on. Digital execution weaves through every component of the business and alters the organization's DNA. It requires a whole business model transformation.

Essential to this is a cultural transformation. Leaders need to reflect on the culture they need to drive digital execution. An important realization for leaders is that strategy drives the organizational culture and culture drives the way you execute. Two organizations can have the same strategy, but how they execute it is driven by their culture. This was different a few years ago where culture typically drove strategy, but the dramatic shortening of strategy lifecycles (some organizations have experiments as their strategy) has changed this model.

Organizations are now working at a faster strategy cadence (speed of execution) than ever before. The Canadian Prime Minister Justin Trudeau captured it well in his 2018 address to the World Economic Forum when he said: "The pace of change has never been this fast, yet it will never be this slow again." On average, strategy now changes every three years. This fast pace of transformation translates to the organizational culture being in a constant state of flux to keep pace with the rapidly changing strategies. Recognize that culture drives the way your organization executes its strategy.

It's common for many leaders, in this faster paced environment, to assume they have to execute digital by tomorrow because of the pressures around them. While crafting the strategy, leaders identify the best strategy cadence, which has three gears of execution:

Slow – more than five years

Medium – less than five years and more than three years

Fast – less than three years

I was working in London with the leadership team from Cisco and they wanted to execute by tomorrow, a fast strategy cadence. The next week I was in Thailand working with an organization that provided seeds to farmers, and technology for them was placing a phone in the hand of the farmers, a slow strategy cadence. Consider your market and strategy objectives to identify your organization's strategy cadence.

Employee empowerment is non-negotiable in digital execution. Why? Transforming the whole business cannot be done by dictating from the top. Leaders need to point their employees in the right direction, set the parameters for empowerment and then step back, allowing them to take the right actions.

DBS Bank in Singapore has not only been awarded the best digital bank in the world, but also the best bank in the world, in 2018 (the first Asian bank to achieve this award). When Piyush Gupta, the CEO, initially started to transform the bank, he adopted situational leadership, meaning he attended all key meetings to ensure what he wanted was being done. Now, he goes to the meetings to find out what's going on! The employees have been empowered to execute the digital strategy, which is called "Making Banking Joyful." From the start, employees were trained in how to digitalize the business. This included participating in hackathons, selecting their own digital training and adopting new tools and methodologies, such as design thinking, and how to use big data and agile.

In digital execution, your employees must fail to succeed. To transform the whole business, there will be failures. It is how leaders respond to these failures and to their employees that can then dictate the success or failure of the execution. In the organizations we consult to, the leaders empower their employees and embrace failure as a stepping stone to success. They coach their employees through decisions so they can learn the right lessons and take the right actions.

Digital execution is also transforming customer service. For many years, leaders have adopted strategies that involve being more customer centric than before. They have trained their employees in customer service, adopted customer centricity as a core value, and found ways to integrate the “voice of the customer” into the business. But many of the organizations have failed to make the substantial changes required to sustain a permanent customer centric culture.

In digital execution, customer centricity is an essential component. It depends on an organization-wide understanding of customer problems that need to be solved as well as the different customer experiences that can be created by leveraging technology. Many leaders start their digital execution journey with customer centricity as the main focus. They adopt techniques such as design thinking so their employees can integrate digital solutions that create better customer experiences. The majority of time in this approach is spent really understanding their customer, not by discussing internally what they think the customer wants, but by sitting with the customer and capturing their emotions as well as their detailed feedback.

Customer centricity can result in significantly reduced costs, which can be passed on to customers as you leverage new technologies. McKinsey and Co reported that digitizing customer service could increase customer satisfaction by 33 percent and reduce costs by as much as 35 percent. Creating a customer centric digital experience involves examining the process end-to-end to eliminate non-value adding work and to restructure to deliver beyond customer expectations. The whole customer journey needs to be digitalized and the value is in the last mile. For example, DBS discovered that digital customers are twice as profitable as traditional banking customers, maintain higher loan and deposit balances, and cost 57 percent less to acquire.

As digital execution affects the whole organization, the board needs to fully support the organization’s transformation. But before starting to transform, the board and the leadership team must discuss and collaborate on key decisions, creating the digital vision for the organization. This includes changes to products and services offered to customers, potential changes in customer segments, and required changes in operations. It also includes allocating significant investments for adopting new technologies and expanding current ones, as well as guiding employees to make the right decisions when they are empowered.

The leadership team and the board need to also agree on the roadmap for transformation and assign new metrics to track performance. To keep the board’s support along the journey, board members should be kept fully informed. The board should never be surprised.

Digital execution is an exciting but challenging organizational transformation. Leaders are unfortunately, more than ever, repeating the same mistakes from previous executions. To break these negative behaviours, they first need to develop an execution discipline among themselves so as to lead by example, and then throughout the whole organization. The goal is to understand what's required in the approach, and drive the right actions that will lead the organization to success, and follow through to hold people accountable in this digital world.

It's not about having a digital strategy but a strategy with execution discipline, in a digital world.

About the author

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'Adults are much more likely to act their way into a new way of thinking than to think their way into a new way of acting.'

RICHARD PASCALE

RITA TREHAN

Are you ready?

Every business today is confronted with disruption; disruption of any variety, as we know, has the power to actually corrode market share and destroy a business. Publishing, technology, banking, travel, transportation, hospitality, food – there isn't a market that hasn't seen established companies slip into the annals of history from pillars of great strength, their positions eroding from great pillars of market prowess and presence to become a footnote in history. There are businesses right now that used to be household names and that are being destroyed by their inability to harness the power of disruption.

As thought leaders in our industries and leaders in our respective organizations, we know on an almost cellular level that disruption and change is the new constant of our existence. The problem most are having isn't the understanding of the concept of change – it's how to harness the disruption on the path to profitability.

The truth is, in order to harness the power of disruption, you need to create a business culture and infrastructure that simply thrives on it. It's the thing that most businesses miss entirely when it comes to both short and long-term business strategies: we focus on slamming a new disruptive technology or struggle to adapt a rigid infrastructure to a rapidly changing marketplace, instead of creating a business with the agility and cultural aspects to simply undulate with the changes. It's the difference between weathering the storm and riding the lightning, and it is how companies that thrive on the power of disruption are, quite frankly, rendering everyone else completely irrelevant.

I'm not overstating the gravity of this issue: simply consider the companies crushed under the wheel of disruption to see how these missed details can derail an organization.

Only 12 percent of the original Fortune 500 firms remain intact. That's right: if you compare the 1955 list to that of 2016, only 60 companies appear on both lists. This amounts to a mere 12 percent (fewer than 1 in 8) that remain on the list: more than 88 percent have either gone bankrupt, were merged or acquired, or have fallen off eligibility in total revenue.

You may say to yourself, these firms weren't going to remain around anyway. Market and technology evolution, progress, etc. were always going to render them obsolete. Maybe. I'd argue that many failed to make the leap because they were ineffective in riding disruption, particularly technological transformation. It's a

mistake that cost a good many of them their standing in the business.

While the list of issues causing constant market disruption are myriad – the geopolitical landscape, technology, cultural shifts like the emergence of Millennials and Gen Z into the workforce along with the decline of the Baby Boomer generation, the rise of the gig economy, etc. – the response to any and all of these issues inside most companies is almost always the same. Read this and see if it rings true to your company’s typical chosen path to manage disruption:

A disruptor comes along or is perceived as a market opportunity or threat. The business responds by attempting to adapt, which means the resulting technological tool or concept is assigned to someone within the organization. It becomes a change management initiative within the business, something that happens while the business runs as usual. Corporate leadership assigns someone to manage it in such a way that the expectation is such that the rest of the business won’t really need to change or shift.

We attempt to manage a full-scale demand for change by attempting to minimize the impact, like setting off a bomb in an open field, away from civilization. We demand minor alterations here and there, and it’s fine as long as nothing else changes.

Minimized in this way, no one asks the right questions. Which means surprises happen. Internal structures fail. Lack of information sinks the project. Trying to push a whole disruptive strategy into an existing structure exposes all the flaws. Attempting to “manage change” within the silos crashes the whole thing from the inside.

The initiative fails. The company suffers. Layoffs occur. Stock price downturns. Business failure. And for some the door closes.

The reason most of these initiatives fail is because transformation is viewed from an antiquated perspective: businesses look at harnessing disruption as a project within the business, just another initiative on the books to be handled by one of the executives. “Make it happen” is usually the rallying cry. You have to make it happen. So, businesses do what they’ve been known to do, they attempt to press and squeeze this new technology or new product or service within the existing structure and the existing culture. They don’t think about any of the enterprise-wide challenges. Readiness is not a question that’s asked about.

And that’s when the trouble starts.

Transformational change is not an isolated project – it’s a whole business initiative. Consider Jeff Immelt’s attempt to turn GE from an Industrial Company to an Industrial Technology Company. Now viewed by some as an unmitigated

disaster, it serves as a startling reminder of what can happen to even those that many might have viewed as indestructible. A strategy that lacked focus, a lack of awareness of organizational readiness, and a failure to bring employees and stakeholders along on the journey, resulted in Jeff's departure, a plummeting share price, and a downgrade to Baa credit status.

The inability to consider organizational readiness, paired with the typical siloed business approach, leads to disconnected transformation initiatives, stifled information flow, accountability issues, and kills innovation. The result: failure.

Transformations fail because businesses fail to assess their readiness for success. In order to harness the power of disruption it's time to see things differently and lead transformations differently. The way to do that is to assess organizational readiness at the start, not part way through, or when you hit trouble, or at the end when you look for a scapegoat.

Begin with a holistic change management approach. No more trying to contain disruption within the business or function domain or placing digital in a business unit, separate from the core business in order to "manage" the change. Digital transformation is an enterprise-wide event that requires a 360-degree view of the business. This means starting with asking how it will impact the entire business today and looking long-term into every aspect of the business to see how it will impact it moving forward. How do you do this? Consider the following:

Organizational Readiness: assessing business readiness is key. Understanding the culture, process, and capability of the organization to achieve the end state vision, enables you to know what it will take to get it there.

Start with your purpose: really understand WHY you're doing this. I strongly suggest you take a 360-degree view of everything and not just what you want to do and why you're doing it. Look at the business and everything you are and all that you want to be, and be very clear on your intention before you start. That intention allows for clarity and focus from beginning to end. It's the navigation for your roadmap.

Define your desired future state: where do you want to go as a company and how does this strategy help you reach that destination? What does your business look like, what is your culture, what is your market, how do you make impact? All of this is critical.

Evaluate leadership capacity: dive deeply into exactly what's going on with the business. Do you have the right leadership engaged with the right message and understanding to carry your vision forward? Is the business leadership in a position to make this happen? Are they taking a holistic approach to lead the business through this large-scale change or are they protecting their fiefdoms? Does leadership understand the impact of digital transformation on the business long-term? Do they comprehend what readiness means? Can they translate this message from the top? What problem are they trying to truly solve by jumping on the digital bandwagon?

Determine your digital maturity: are the right platforms, tools, and talent in place to make these dreams a reality? Be very realistic here. You're gathering all the information upon which you're going to make the plan to ensure a digital transformation win. How disparate is all the data and information? Do you have the ability to gather and synchronize your different sources of information so the data can "talk to each other." This means everything from performance metrics of your business right down to the performance metrics of your people. Market data, financial data, and technological prowess. Information is the new competitive advantage, so it's vital to understand where you are in the ability to harness its power.

Last, but the most important readiness factor, is about understanding that nothing will move forward without the right culture.

Assess cultural preparedness: do you have the right people organized and engaged in the right ways to make this digital transformation a success? Do you have the bench to pull this off? Do you need to re-scope the business? Redeploy talent? Change the structure of the business? What capabilities will change and how can you prepare for this? Is the organization structure too rigid or inflexible to adapt to an agile project team design? Is your culture ready for this transformation? How are you planning to bring people on the journey? What does this mean for your culture in a year to five years?

Taking the time to determine the transformation implications and changes needed at an enterprise level enables you to construct a path for the enterprise that moves your strategy forward. Be sure to craft an agile performance feedback loop, which provides real time feedback at every step of implementation so you can assess productivity and shift when and where needed.

I feel passionately about getting this right as a business community. Digital transformation is the pathway to progress for all our businesses, and if we consider a holistic approach, we won't find ourselves asking why 70 percent of transformation efforts fail and billions of dollars are wasted.

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'Companies need to get ahead of the issues rather than waiting to be forced into a defensive posture. Leadership involves setting realistic but challenging expectations.'

ROSABETH MOSS KANTER

Can caterpillars fly?

If one were to ask a caterpillar to fly, it might try fitting some wings onto its chubby little body in order to operate within the different environment of the sky. However, we know that for caterpillars to fly they need more than an innovative adaptation, they need a total transformation to become a butterfly. Interestingly, all the genes to become a butterfly are already in the caterpillar but are not “switched on”; it is only in the cocoon or pupa phase where the transformation takes place.

Charles Handy applies this same logic when he talks about the second curve. To survive and thrive in the constantly disrupted new world of work, leaders can no longer rely only on 1st curve thinking – adapting or innovating caterpillar behaviour with a set of wings will just not do it.

The 1st curve represents business as usual and the current organizational journey. When faced with disruptions, like for example AI, robotics, or a prominent new competitor with a new business model, leaders’ first consideration is often to go back to basics, tapping into their past successes to find answers. This would involve the “fitting wings on the caterpillar” option – for example, restructuring the organization, a new IT system, introducing new business processes, or cutting costs. They may call in consultants to save them and the courageous ones may embark on agility and innovation training programmes. We refer to these actions as innovative adaptations. They involve making positive incremental changes, but within the current business paradigm. Whilst these may all be useful in their attempt to squeeze more life out of the current business, what is actually needed is 2nd curve thinking.

Leaders with good foresight will start proactively thinking about the disruptions facing them and how to embark on a new curve (2nd curve) before the 1st curve business peaks, or reaches maturity – in other words, while still making money through doing good business on the 1st curve. This timing is crucial, as any new idea will first take a dip due to experimenting with the new, before it takes the growth turn upwards towards maturity (see Figure 1):

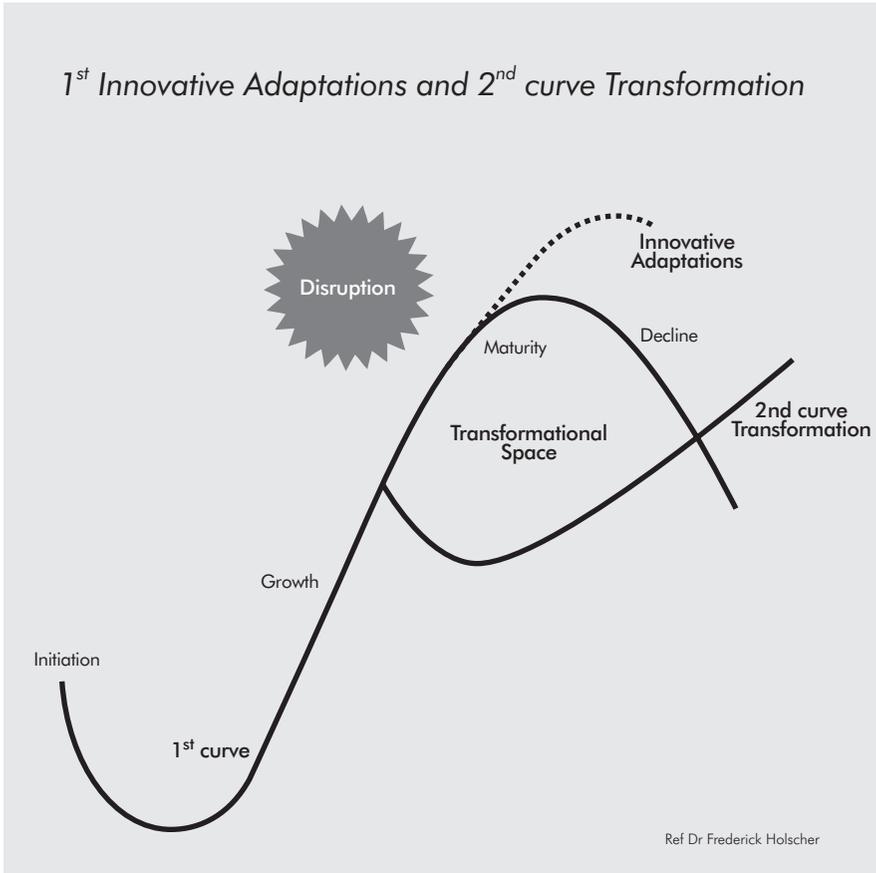


Figure 1: 1st innovative adaptations and 2nd curve transformation

Getting the timing right

The disruption could come from outside or from inside the organization. Should the organization not respond appropriately it would inevitably go into decline or even “death,” which has been the journey of so many businesses, such as Kodak and Blackberry, over the last 20 years. On the other hand, IBM is a good example of a company that took the 2nd curve in good time, leading with cognitive computing. Another good example is the motor industry where access and processing of data opens up the possibilities of self-driving cars, and climate change is forcing the industry to rethink their use of fuel, and switch to electrical vehicles.

The harsh reality is that when leaders wait until their current business as usual 1st curve has peaked or has taken its downward turn, it may be too late, as their resources, motivation, income, and profits are under pressure and the

leaders go into survival mode, which is not conducive to creativity and experimentation.

On the other hand, when 2nd curve initiatives are introduced too early, for example when still in their growth phase of the last initiative, they may create confusion or “change fatigue” as the organization requires focus, commitment, and dedication to the outcomes during this phase.

The transformational space is not easy or comfortable as it brings with it conflicts between those with a 1st curve mindset, knowledge and experience, and those who see the need for transformation.

The secret is to get the timing right and to have 1st and 2nd curve initiatives running concurrently in the organization. This will require developing a diverse set of leadership capabilities to lead on both curves, leaders who will continue with business as usual, and leaders who will start experimenting with the 2nd curve, in parallel. Once the first curve has been through its growth phase, it could be integrated into the mainstream or it could become the new mainstream business. It will also require an organizational culture and agile structures that create a context for transformation to take place while the business is still enjoying success from business as usual.

We believe that the current environmental, technological, and socio-economic disruptions require more than just a few innovative adaptations on the “what and how” of the business. In many instances, it requires a fundamental rethink of the “why” or core purpose of the business (see Simon Sinek’s TED talk on the “Golden Circle”).

Vision led or purpose driven?

On the first curve, businesses may be “vision led”; in other words, they have clarity of their focus and end point, which creates a slipstream for all their activities. Leaders operate with a convergent or reductive mindset, using linear thinking to keep on track towards reaching their goals and vision. The 2nd curve or transformational space requires “purpose driven” organizations with leaders who have a divergent or expansive mindset, exploring various opportunities and options through generative dialogue with stakeholders. In this case, linear thinking may not work. Leaders need to think in an integrative way, able to hold divergent thoughts and extract value from opposing ideas, to serve the purpose of the organization.

Shifting to the second curve

In the course of our research into ego and eco leadership intelligence, we studied a European insurance company that was enjoying success on the 1st curve. At this stage, their focus was on efficiency and cost, trimming systems and work processes to save costs and “create a customer experience” through a strategy called OPEX – Operational Excellence. However, the CEO, through his own personal journey with his coach, started to realize that something fundamental was missing in the organization, namely the quality of relationships within the business, as well as with the customers, which in turn was leading to a lack of innovation. He realized that the voices and needs of customers were absent, and that the business had become a “cold policy production and claim handling machine.”

The CEO led a 2nd curve transformation initiative, which brought the customer and staff right into focus. He said that when they discovered their purpose of “simply safe” and the formula of “happy employees equals happy customers equals successful business” it seemed so simple and self-evident that he felt silly sharing it with us. However, trying to transform the hearts and minds of people to achieve this was not so easy.

The company engaged in a transformation programme which involved keeping business as usual going (1st curve), while at the same time initiating a series of start-ups where entrepreneurial staff moved into a new business unit and were encouraged to experiment with new ideas and models in line with increased customer intimacy and customer centrality.

The results are beginning to show after two years of hard work, with some significant growth in target markets and impressive growth in non-life business. Above all, customer satisfaction and staff engagement have been radically improved.

In summary, the disruptions that come with 2nd curve thinking require not only “new wings” on the caterpillar, but also a fundamental rethinking of the business. It opens up new business possibilities and a need for new partnerships, which will help enable the metamorphosis from caterpillar to butterfly.

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**'The pace of change
has never been this
fast, yet it will never
be this slow again.'**

JUSTIN TRUDEAU

Making sense of the transforming power of AI

The current attempts to automate and reproduce intelligence are not deterministic, they are probabilistic, subject to issues and experiential biases that plague all other kinds of intelligence.

Consider medicine. At one time or another, doctors are likely to be involved in a patient's death whether through a mistaken diagnosis, exhaustion, or a variety of other influences. Indeed, one piece of research suggests that medical errors are the number three cause of deaths in America. AI is taking up the challenge and shows promise but, as with doctors, if you give AI the power of decision-making along with the power of analysis, it will more than likely be involved in a patient's death. If so, is it the responsibility of the doctor, the hospital, the engineer, or the firm that developed the technology?

Answers to such questions depend on governance – whether or not a doctor at the end of each use of AI provided analysis, checking whether or not it was correct, and whether or not the decision-making paths of each AI driven diagnosis can be followed.

The same issues arise for self-driving cars, autonomous drones, and the host of intentional and incidental ways AI will be involved in life-or-death scenarios, and the day-to-day risks people face.

As machine to machine data grows in the Internet of things, companies with preferential access will have more and more insight into more and more minute aspects of behavioural patterns we ourselves might not understand. With that comes a powerful ability to nudge behaviour, or more worryingly, limit choices.

We can begin to see the larger picture, but governance is in the details. The risks of 99 percent accuracy in a hospital, in image recognition for food safety, in text analysis for legal documents, will not be the same – as such, policy makers will need more nuanced accounts of what is involved. The kind of oversight, standards, and frameworks for making AI accountable in healthcare may require different conditions than AI in education, finance, telecoms, energy, and so on.

From tech literacy to tech fluency

Effective governance of AI means the burden of adjustment falls, if unequally, on all partners – on governments, on firms, on users, and non-users. Ethical governance takes it further.

New technology means new risks, meaning firms, governments, and users have to be literate enough about the technology to understand the new set of risks and responsibilities that come with the tech. Understanding those risks is not straightforward.

Ethical AI means that everyone will have to improve their tech literacy – to go from the prediction or analysis we get from an AI to the response. Yet it goes further, with the insights we derive from AI. Understanding AI implies and demands a better understanding of our own habits, behaviours, and often-unconscious trends. This begins with how to not only treat our behaviours, but what others know about them – in short, we have to begin with the data.

Governance for all or for nobody at all

The first step to good AI governance means being honest about whether or not the dataset represents what we want the AI to understand and make decisions about.

However, we cannot conflate AI with data – and governing data can only go so far. Datasets cover a limited range of situations, and inevitably, most AI will be confronted with situations it has not encountered before – the ethical issue is the framework by which decisions occur, and good data cannot secure that kind of ethical behaviour by itself.

Generically, we can train AI to make better decisions. The issue is not simply in the algorithm, but in the choices about which kinds of datasets, the design of the algorithm, and the intended function of that AI in impacting decision-making, in short, its ecology of use. Even at 99 percent accuracy, we will need a system of governance to structure the appeals – in fact, under such conditions, we will need it even more.

Ethical governance is not deterministic. Good approaches to governance do not begin from one size fits all. Governance begins with the concepts by which we determine what is relevant and irrelevant, appropriate or inappropriate, good, bad, or inconsequential.

When the concepts are understood, rules are derived, and the system of rules is precisely what makes up governance – what is permissible, what is impermissible, and what to do about each. Technologies are all impacted by

such rules, and so, who is writing the rules will continue to matter. Blockchain in particular is often considered to be neutral – but strategic decisions on block size and incentive structure still need to be made.

As AI takes hold, we need to know what counts as good governance for governments, firms, people, and societies driven and shaped by AI. In short, we need to be ethically literate.

Getting beyond transparency

When a decision was made using AI, we may not know whether or not the data was faulty – and as such, may have a right to appeal an AI driven decision. The first step is to be informed that a decision concerning your life was conducted with the help of AI.

Conventionally, these issues are to be resolved in the courtroom – but what if the courtrooms are themselves run by AI? Judges, like everyone, are biased. If an AI is trained on datasets from previously biased judicial decisions, then the parameters of successful judgements for an AI will likely include that bias.

Governments will need a better record of what companies and institutions use AI for and when. Furthermore, companies may have to better understand the architecture of decisions within their company, and where precisely AI is placed within that architecture.

However, simply being informed does not provide enough transparency. Even after the data is understood, mistakes can still occur, and biases can still arise. As such, those lives that have been shaped by AI have a right to understand why a decision was made.

Currently, while the right to be informed is feasible, the ability to explain why an algorithm made one decision instead of another is far less so. Decisions on whether to train algorithms based on past data, or design in the rules, make the decisions about whether to follow one set of rules instead of another explicit. Teams will have to choose what kind of ethical rules, and the specifics of those rules.

While public service decisions may be open to appeals on breaking open the black box to understand why one decision was made instead of another, corporate governance decisions may be less so – the most common defense to expect is the appeal to intellectual property, of specialized AI as a trade secret. When AI driven systems are under such protections, we may need to wonder whether incentives are aligned for firms to maintain an adequate understanding of the derived decision-making system.

Different kinds of practices will require different approaches to making AI decisions understandable. One method already proposed is to have counterfactual assessments, a running account of different scenarios and their flow, which can be followed. While this enables oversight, it does not equate to getting the reasoning by which a decision was made.

Opting in and out: why the choice is up to us to take

These rules give us a right to an explanation, a means to be informed – but effective governance has to go a step further. To proceed, there needs to be a common ability to appeal an unintelligible decision, which may itself demand knowing whether or not the companies themselves understand the decision-making process.

Citizens, consumers, and users need to have the ability to not only opt out but to do so feasibly. But, as with the rest, this problem will not resolve the issues. Opting out may require a larger percentage of data ownership on behalf of the citizen, leasing companies the right to use that data for targeted advertising – and then there is the question of what data is actually private enough to justify the right to opt out: when there is a change in your heartbeat, is that private?

The ultimate source of legitimacy, and a key provider of effective governance, will be giving the choice to citizens – offering the chance to say no to uses of their data, and maybe even to opt out of AI driven decision-making.

However, just as ethical governance places new demands on firms, there is a new demand on the public to be aware. Ethics cannot be a one-way street – consent may be the point of departure, but cooperation and consensus is how the practice has to continue.

The more frightening demand of AI governance comes from the possibility that such choices to opt out or opt in may themselves be subject to influence by firms or governments using AI.

Any light at the end of the tunnel?

The decisions that corporations and governments will need to face follow from the previous issues – governing data is essential but may be insufficient; as is being informed; as is providing a right to an explanation; as is providing more alternative means to providing that explanation.

Governments will need to make decisions about where the largest burden of adjustment will fall – who will need to educate themselves most, and continuously – as AI innovation progresses, the specifics of the decision-making will change,

reshaping the specifics of our arguments about what kinds of risks practices built off a given algorithm actually pose.

The pursuit of such transparency on the use of AI may provide new avenues for oversight in governments and firms. Many government decisions – policy, policing, and judicial – are currently intractable, that is to say, we may not get an explanation, only a rationalization. If the black box problem is resolved then we may eventually have new means to make the governmental process fundamentally more transparent.

The general data protection regulation (GDPR) ruling in the EU remains a step in the right direction; however, the future of effective appeals and governance will need to be case by case. A one size fits all will only serve to hide the discrepancies that complex algorithms are so effective at generating.

It is unlikely AI will replace decision-making fully anytime soon – as such, the issue is not a purely technical problem, it is an issue, firstly, of awareness and intelligence in the response to what an AI will tell us. The issue of ethical AI is not simply the openness of the algorithm, but the effective design of the institutions that use AI, and the clarity of the decision-making derived from AI analyses.

Suffice to say, politicians, coders, and philosophers have their work cut out for them. Technology is a tool, an extension of our problems – AI is no different, for now.

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**'We must become the
change we want to see.'**

MAHATMA GANDHI

TIFFANI BOVA

What can the survivors teach us?

Know any 100-year old companies? Fifty-year-old? Twenty-five-year old? Probably not many. Why is that? After all, companies are institutions, not living things that have a fixed lifespan. By perpetually replacing people, facilities, and products, they should be able to last almost forever, handed down from generation to generation while they continue building upon the founder's legacy.

So, what happened to all of those companies founded in the years immediately after World War Two or even in the 1950s, 1980s, and even the 2000s? Many just went out of business because they were struggling to survive. If you look closely at all of these lost companies, their stories, while told in a million different ways, all have roughly the same plot: the market changed, competition changed, technology changed, the customer changed – hell, *the world changed* – and they were left behind holding onto something that was no longer as relevant as it once was.

There have been the famous failures we are all aware of like Kodak and Blockbuster, but there have been thousands, hundreds of thousands, that we never heard of. These companies were filled with hard-working smart people but, eventually, they made one or two seemingly insignificant decisions that ended up being bad choices over the long-term, missed opportunities to transform business models, to make changes in revenue and growth streams . . . and the accumulation of those bad choices eventually caught up with them.

But, when you step back and take the time to deconstruct those companies on both sides of the fence – those that have survived and those that have not – you find that *companies fade away because they fail to reassess the market context on a regular basis to make sure the course they are on, which they chose some time ago, is still the right growth bet for them to be making with today's environment*. Growth is a thinking game. Successful growth requires a combination of a finite number of growth paths and activities done in the right combination and sequence to set the company up for long-term success.

Let's look at a few surviving century-old companies. You should notice that almost none of them are in the same business that the founders began, nor are they generating revenue exclusively from the same products and services or the

same customers. In fact, most have transformed themselves on multiple occasions, transitioned through a half-dozen or more different business models, product categories, and customer segments. Each time was difficult, but it wasn't because they woke up one day and decided to abandon what they were doing – what had grown the business so far – but rather it was in response to significant shifts in their revenue and growth streams that threatened their very existence.

Consider the 150-year history of Union Pacific Railroad (UP). After a century-and-a-half, it is still growing at a rapid pace. Why? UP is one of the few companies of its time that has kept stride with a changing environment and not only survived, but also prospered. From 1866-1971 its primary revenue stream was transporting passengers. In 1971, when Amtrak came online, UP could have just kept doing what it was doing and watched its business erode. Instead, the company decided it could not profitably compete against this new enterprise – so it shut down its passenger business and looked for new ways to realize revenue and growth. Ultimately, UP decided to double down on its core business model – running a successful railroad operation – and *shifted its “customer” from people to freight.*

In other words, UP's new growth strategy was to use existing capabilities (railroad operations) while targeting a new customer base (freight). The result? UP has since become America's leading logistics company, carrying millions of tons of freight every year. Between 2009 and 2014, Union Pacific's core revenue surged by a whopping 53.7 percent.

Take another example: General Electric Corporation (GE) is one of the largest companies in the world. It was formed in 1892, and in 1896 was one of the original 12 companies listed on the newly formed Dow Jones Industrial Average. After 125 years, it is *the only* one of the original companies still listed on the Dow index. Why is this important? Because it wasn't on the list year after year – there were a number of years it fell off. Even with its market capitalization, competitive products, and massive footprint globally, repeatable growth isn't a given. GE is continuously looking to reinvent itself, shedding businesses that no longer meet current market demand, its long-term aspirations, or growth goals, and entering businesses that show even greater promise.

Or consider the United States Postal Service, which began in 1775, and Australian Post, which began in 1849 (Australia's oldest continuously operating organization). Both have had to look for innovative ways to generate new revenue streams to combat pressure on their core business of delivering mail. They have expanded the products and services they offer, such as same day

delivery, to meet customer demands. They are establishing new partnerships with UPS and FedEx, historically competitors, and offer delivery services for e-commerce giants such as Amazon, eBay, and OzSales.

These companies didn't survive by sticking to their core business, products, or even revenue models when they realized that the market had shifted. They assessed what was in front of them, what their core strengths were and they looked for new ways to transform and stimulate growth in the future. But don't let this over-simplification fool you. Change for change sake is not enough, nor is it easy – you have to change the right things, in the right combination and sequence based on what your company's growth aspirations are, current internal capabilities, and current market conditions.

But here's the thing: those venerable companies didn't survive only because they made big leaps. Those are just the ones we remember, the ones that historians write about. Those happened about once per generation. But in-between there were dozens, even scores, of smaller course corrections as these great companies tacked and turned in pursuit of future growth paths. And some were better than others: Apple, for example, is justly celebrated for making gigantic, high-risk market leaps (the iPad, iPhone, iTunes), launching products consumers didn't even know they wanted. But the company has never been good at the smaller course corrections. That's why during the 1980s and 1990s Apple's market share in computers fell from 90 percent to less than 10 percent. Without the genius of Steve Jobs, Apple would likely be gone by now, rather than being one of the world's most valuable and admired companies.

Big leaps take great leaders, but timely course corrections just take smart ones. *And when it comes to growth, it is the sum of all those smaller course corrections and more informed decisions that build upon each other and create a sustainable business.* Establishing a mindset that is highly tuned to how best to grow your company – based on a strong, repeatable Growth IQ – is critical in this fast-paced competitive climate.

You don't need to be frightened by change or discouraged by a growth stall. Don't be intimidated by those stories of massive course corrections taken by giant companies. The chances are you will never face such a threat. Far more likely, you will encounter short-term, manageable challenges that won't demand that you turn your company upside down and enter a whole new business; but rather, that you identify changes in the market earlier, respond quickly and confidently with the right growth path in the right combination and sequence.

The moral to this story is, get comfortable with being uncomfortable, because the only thing that is constant in business is change. The twenty-first century leader who is managing to survive in the Fourth Industrial Revolution must become the storyteller of the business, both internally and externally. Inspiring employees to want to change, engaging customers in new ways to generate loyalty – creating a culture that is able and willing to become more open to what lies ahead. Be bold!

About the author

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Among the great transformation journeys recounted in the book are those of Michelin, Li & Fung, CenturyLink and the Department of Planning and Development in California’s Santa Clara County.

The contributors to *The Transformation Playbook* include Tiffani Bova, Behnam Tabrizi, Mark Esposito and Terence Tse, Isaac Getz, Roger Martin, and Tony O’Driscoll as well as experts from the Project Management Institute, Boston Consulting Group, Lee Hecht Harrison, Inspier and the Technical University of Denmark.

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