

Leadership and Transformation: Learning from the Best of the Best

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Accelerating change in markets and technologies has made the ability to change successfully the determining factor in sustaining company performance. *Yet*, achieving transformational change in companies is a highly complex and difficult process, requiring explicit and expert management by the company's leaders. And companies that have been most successful often have the hardest time changing.

In September 1996, we invited some of Europe's most successful leaders of corporate transformation to come together in Evian, France, to share experiences and insights. Our guests were business leaders who, in transforming their organizations, have already had an impact on the way business is done in Europe (Exhibit 1). The transformations they have led – and are still leading – take a number of forms:

- Product innovation – launching breakthrough products that are runaway successes and have led to sustained growth
- Management innovation – introducing a new management style to succeed, for example, in handling the global/local challenge or in accommodating the multicultural environment of Europe while retaining the best management aspects of their non-European roots
- Aggressive restructuring – achieving successful diversification by effectively buying, streamlining, and running new companies
- Rejuvenation – breathing new life into established business empires in the face of international competition
- Consolidation – successfully merging operations within industry sectors

Of course, the process of transformation is never complete or final. As these leaders continue to guide their organizations into the future, they shared two pressing concerns that they consider more important than all the other challenges they face:

- How can I engage my people in the transformation process?
- How can I ensure that my people and I learn, continuously and effectively, for our own personal growth and the growth of our organization?

For two days, the colloquium participants exchanged ideas with their peers about how to address these concerns. Given the diversity of their cultural and organizational backgrounds, the colloquium participants reached a surprisingly strong consensus on two key aspects of future transformational leadership:

- Successful leaders of the future will be those who can master their own evolution as well as that of their organization.
- They will succeed in the latter not by closer and tougher supervision of „the numbers,“ but by inspiring their people to set their own ambitious targets, integrating those targets in a vision that is shared by the organization, and enabling their people to achieve the targets in a mode of continuous learning.

Meeting these requirements involves several practical steps: engaging people in the organization in the process of creating as well as achieving the vision; choosing and supporting champions of change to lead the rest of the organization; planning early successes in the transformation program and communicating them widely; and changing management models to be forward-looking („How do we change the markets?“) rather than history-driven („Have we met our targets?“).

Implementing the transformation process presents further practical challenges for leaders:

- Preparing the organization for the new ways of working while keeping it functioning effectively in the present
- Fueling enthusiasm for change throughout the organization, so that there is no loss of momentum
- Understanding and preparing for the leadership challenges in 10 year's time

Leaders also face a personal challenge: they must master the role of an effective and credible team player who can, when necessary, make tough decisions and stick to them.

Arthur D. Little's framework for the process of change and learning is the Pathway to Performance¹ (Exhibit 2). Within that framework, the colloquium considered transformation as a journey consisting of three key subprocesses:

- Defining where to go – creating the vision and strategy

- Defining how to get there – identifying leverage points
- Getting there – transforming the business

Exhibit 1

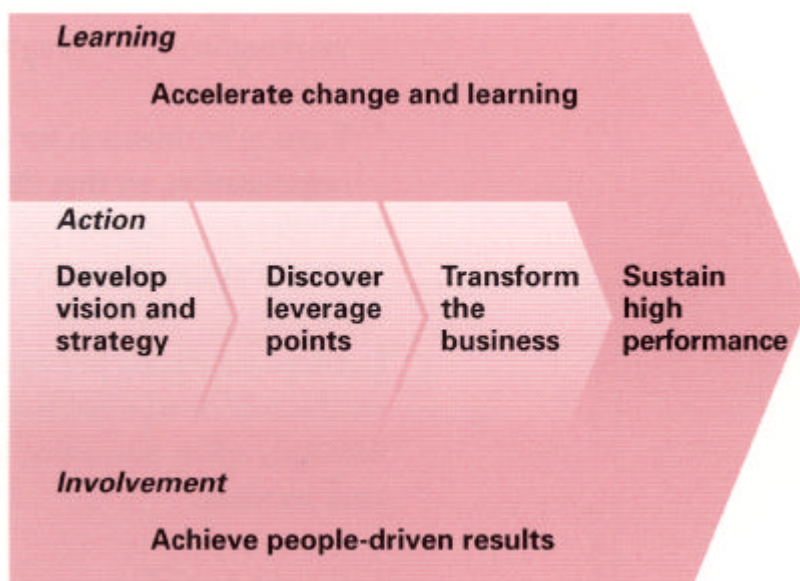
Participants in the Best of the Best Colloquium on Leadership and Transformation

Fernando de Asua Alvarez, Vice Chairman, Banco Central Hispanoamericano (Spain)	Percy Henrik Mikael Lilius, President and CEO, Incentive AB (Sweden)
Dr. Heinrich Binder, CEO, Kolbenschmidt AG (Germany)	Arun N. Maira, Vice President, Arthur D. Little, Inc., and Managing Director, Innovation Associates, Inc.
Friedrich Bock, Vice President, Arthur D. Little International, Inc.	John Miller, Business Strategy & Operations Director, Halifax Building Society (U.K.)
Nils Bohlin, Vice President, Arthur D. Little International, Inc.	Dr. James Niedel, Executive Director, Group Research & Development, Glaxo Wellcome plc (worldwide)
Jean Pierre Depaemelaere, Managing Director, S.A. Distrigas (Belgium)	Dipl. Ing. Othmar Puhlinger, President & Chairman, VA Technologie (Austria)
Dkfm. Helmuth Hamminger, Chief Financial Officer and Member of the Managing Board, VA Technologie AG (Austria)	Dr. Claus J. Raidl, Chairman & CEO, Böhler- Uddeholm AG (Austria, Sweden, Germany)
Sir Colin Hope, Chairman, T&N plc (U.K.)	Thomas Schmidheiny, Chairman & CEO, Holderbank Financiere Glaris Ltd. (Switzerland)
Charles F. Kiefer, President, Innovation Associates, Inc.	Dr. Peter Scott-Morgan, Director, Arthur D. Little, Inc.
Peter Koerner, President, Federal Office of Defence Technology and Procurement (Germany)	Dr. Tom Sommerlatte, Senior Vice President, Arthur D. Little International, Inc.
Rose M. Kopras, Managing Director, 3M Benelux (Belgium, Netherlands, and Luxemburg)	

Everyone agreed that these subprocesses are not linear and sequential, but interrelated and overlapping. Nor are they „once and for all“: the transformation process is an iterative one, with the output from each subprocess feeding into the others in a never-ending series of loops. The colloquium participants agreed, however, that considering the transformation process in terms of these three activities was the best approach to addressing the fundamental challenges of change, getting the relationships among the activities right, and carrying out the iterations.

Exhibit 2

The Pathway to Performance



Defining Where to Go

Participants agreed that transforming an organization isn't just deciding how many people it should contain, which markets it should serve, and what products or services it should offer. The top three priorities for leaders are:

- Creating a shared vision
- Forming and energizing a team to help create and share the vision
- Establishing the vision

Creating a Shared Vision. As more and more leaders are finding, the creation of a vision for an organization is not something one person can do once. Nor can one person impose his or her vision on the rest of the organization. In a changing world, the vision itself must evolve. Perhaps most importantly, while the CEO must take responsibility for the vision, it is not the CEO's property: it must be owned by the organization.

„You need to get the organization into a *shared* discovery process, out of which comes a shared dream or vision,“ said Jim Niedel, Executive Director of Glaxo Wellcome's Group Research and Development. (One of the most striking features of the colloquium was the participants' use of the words „vision“ and „dream“ almost interchangeably, reflecting the deep and personal importance they attached to this aspect of managing change.)

Furthermore, the leader should not wait for a final or correct vision to be formulated, but start to communicate it as soon as possible. „Having the attitude that you dare to go to your people before you have the final dream is important,“ said Jean Pierre Depaemelaere, Managing Director of the Belgian utility Distrigas. „I often believe we wait too long to go to the people, and so we do not get the emotion from them that is needed.“

Forming and Energizing a Team to Help Create and Share the Vision. The leader needs to choose a team to help create and share the vision. In selecting the right team members, skills, motivation, awareness of the outside world, and ability to influence others to share the vision are more important than seniority in the company. A team drawn from a diagonal cut through the company is often more effective than a team drawn exclusively from the top echelons of the established hierarchy.

The leadership team must be able to:

- Clarify the need for change
- Show that change in line with the vision will lead to success
- Make the change appealing
- Adapt its language to make the vision understood by everyone
- Define how to measure progress

The team members must also behave according to the emerging vision.

Establishing the Vision. „Misunderstanding frequently occurs,“ noted Helmuth Hamminger, Chief Financial Officer of the Austrian firm VA Technologie. „The vision should be formulated very, very simply, and we should encourage the people in the different businesses to build their own dreams, desires, and visions within that frame.“

„You also need to be able to explain the vision in multiple ways,“ said Jim Niedel. „You have to be able to speak all the different internal languages.“ To make the vision credible, the leadership team also has to be able to recognize and resolve conflict within itself. The visioning process can help to surface conflict and to put that conflict into a context in which it can be dealt with.

Defining How to Get There

Together, the leadership team members must define what needs to be done to achieve the vision, who should make the choices about what gets done when, and how these choices should be made and communicated to the rest of the organization. In arriving at these definitions, it's essential to stay focused on future needs and outcomes, while at the same time securing commitment along the way.

Focus on Future Needs and Outcomes When the people in the organization have started to share the evolving vision, the next challenge for leaders is stimulating movement toward that vision. This calls for a dual focus: on what you are trying to do and on how you are going to do it.

One of the most effective strategies for getting moving is to identify what will be the most important business capabilities in the new organization and then to set about establishing or improving them. For example, building the organization's technology competence will move it from a state of stagnation to an enabled state. However, the organization must move beyond that enabled state; otherwise it will become technology-driven and

vulnerable to even small increases in the pace of technological change. So leaders must explicitly seek to increase the organization's competence at handling business change. Tools that can help include scenario planning, microworlds, systems thinking, team learning, and the Unwritten Rules of the Game™.

To plan the transformation process itself, start with a review of previous strategic moves: What were the elements that worked? Which did not work? Why? Which of the successful elements are reproducible or adaptable for the present situation?

The next key is to focus on the outcome: to get the people in the organization to focus on their contribution to the success of the transformation, rather than on their jobs alone.

The organization needs to develop a „culture of change“ and become forward-looking. „The key element is now ‘How do we change the markets?’ as opposed to ‘Have you met your targets?’ like we had five years ago,“ said Sir Colin Hope, Chairman of the U.K. automotive components firm T&N.

„You must instill a sense of purpose,“ agreed John Miller, head of strategy at the Halifax Building Society, the UK's leading personal finance provider.

To implement a broad program of change, first divide it into projects that correspond to organizational units small enough to be managed. Then ensure that each unit thoroughly understands what is required. „If you do that, then you can get on with the change you're trying to achieve alongside normal business,“ pointed out John Miller.

The units can then determine the structure for their respective change projects, with leadership provided by line-management „change champions.“ Each unit's way of moving forward to implement the vision should be very specific to its situation and culture. The leadership team must allow individual approaches. „The center may want uniform results, but it cannot impose uniform processes,“ said Jim Nidel. And whatever approach each unit takes, it must have clear targets. As Banco Central Hispanoamericano's Vice Chairman Fernando de Asua Alvarez said, „You must be able to measure.“

Benchmarking can provide a good wake-up call to the need for change. When put into systematic practice, benchmarking can also help in navigating the best route. Benchmarking should be both external and internal. „The real difference between excellent and great firms is that the first compete with others and the latter compete with themselves,“ said Innovation Associates' President Charlie Kiefer.

Secure Commitment as well as Compliance.

An organization needs both commitment and compliance if it is to achieve its long-term vision without jeopardizing short-term business results. To gain commitment from the rest of the organization, the leadership team must have – and demonstrate – appropriate shared values. Sometimes personnel changes are needed in the leadership team to ensure that the transformation moves forward.

„We had to go through certain loops in our transformation, and we identified certain people who were preventing progress,“ said VA Technologie President and Chairman Othmar Pühringer. „We ended up getting rid of some directors and board members.“

To communicate, guide, and monitor the change process, leaders must explicitly plan to have high visibility. They must also emphasize listening to employees, as well as clearly and continually articulating what is happening and why.

„We found that once you have a credible shared vision, you can make tough decisions in a credible way,“ said Thomas Schmidheiny, Chairman and CEO of Holderbank, the Swiss family-owned cement and aggregates giant.

„Management needs to help, to be involved, and not just expect the shop floor to execute,“ added Jean Pierre Depaemelaere.

Getting There

To create change – and a culture of sustained change-readiness – people at every level in the company must be inspired as much as possible to give up the comfort of certainty for the excitement and opportunity of the unknown. Toward that end, the CEO is responsible for ensuring that everyone in the organization can answer, in his or her own way, the following five questions:

- Why is our organization changing?
- Why is it changing in this particular way?
- Will my contribution to the „old“ organization be recognized and valued in the „new“ one?
- Will I have the skills to survive in the new organization?

- Will the structures, systems, etc., change too in a way that will adequately support the changes we are making?

Why change? Why this change? Will I be recognized? At many levels in the organization, the CEO needs to ensure that the people are engaged in a process of dialogue and that mechanisms are in place so that the center can become aware, quickly and accurately, of the business units' response to corporate ambitions. However, people will trust this process only if they can recognize that their input is having an effect and is recognized as valuable. At the same time, people need to feel and understand that senior managers are using such input to make the decisions that will address the future in the right way. Senior managers have to give clear evidence that there will be no compromising the company's objectives, but that flexibility exists in the way those objectives are achieved.

Every transformation process involves a long list of things that need to be done to achieve the desired changes. One of the best ways forward is for leaders to select carefully two kinds of initiatives for immediate action: those that will demonstrate most clearly, and on a large scale, how things are going to be different in the „new“ organization; and those that will deliver „early wins“ and so help to convert cynics. A powerful approach to making the rest of the long list manageable is to create clusters of activities whose implementation will demonstrably support the systemic change in the organization.

Sir Colin Hope's experience bears this out. „The real burst of enthusiasm always comes with achieving the first success and communicating it,“ he said. „People can see their own contribution to the success. Then the transformation develops momentum.“

Will I have the skills? Will the systems be right?

People throughout the organization need the attitudes and skills to distill from the vision some realistic but challenging numbers. Reorganization is also needed to bring together the people who think and act for the long term (typically in R&D) and those who do so for the short term (e.g., in Sales and Marketing). Leaders must also be prepared to change the management models with which they work. Standard models based on budgets, and allocations of financial targets, can be too mechanical and compartmentalized for an undefined future.

„We created a forum of thinkers and did brainstorming with our managers,“ said Jean Pierre Depaemelaere, explaining how Distrigas harnessed the collective intelligence of the organization. „We reduced our hierarchy, installed a more anticipatory way of thinking, flattened the organization, and installed a good system of reporting progress on the various projects. Essentially what we have is small thinking groups that are also hard-working groups.“

The Changing Leadership Role

The CEO alone cannot be the source of energy that keeps the transformation moving. The strongest feature in management over the next 10 years will be the evolution of the leader from „the person who changed the company“ to „the person who enabled the company to change.“ Increasingly, the most successful organizations will be those in which leadership is the responsibility of a team rather than an individual, and where there is scope for moving anyone out of the organization, even the CEO, particularly if he or she has become too committed to something that is no longer creating sufficient value.

„The old model of the leader was someone who stepped in, saw what was needed, changed the company, and disappeared,“ commented John Miller. „Now the leader is the one who puts the structure, processes, skills, systems, and people in place to enable the organization to change itself.“

„The CEO has to ask himself, when he's advocating change all around him, is he prepared to change himself?“ remarked Kolbenschmidt CEO Heinrich Binder. „As a CEO, you have to be constantly learning and changing yourself.“

„No one can change you; you must do it for yourself,“ said Thomas Schmidheiny. „As long as you can grow yourself, you're a better choice for CEO than a radical change [of CEO].“

Cultivating Champions of Change. In any organization, there will be a number of people who strenuously oppose any proposed change. (Exhibit 3). Leaders should not waste time endlessly trying to convert these people. The colloquium participants' experience shows that it's far more effective to focus on supporting the people who are keenly in favor of the transformation. These people pull with them the majority of employees in the organization, who may feel some degree of skepticism but are ready to give the new ideas a chance.

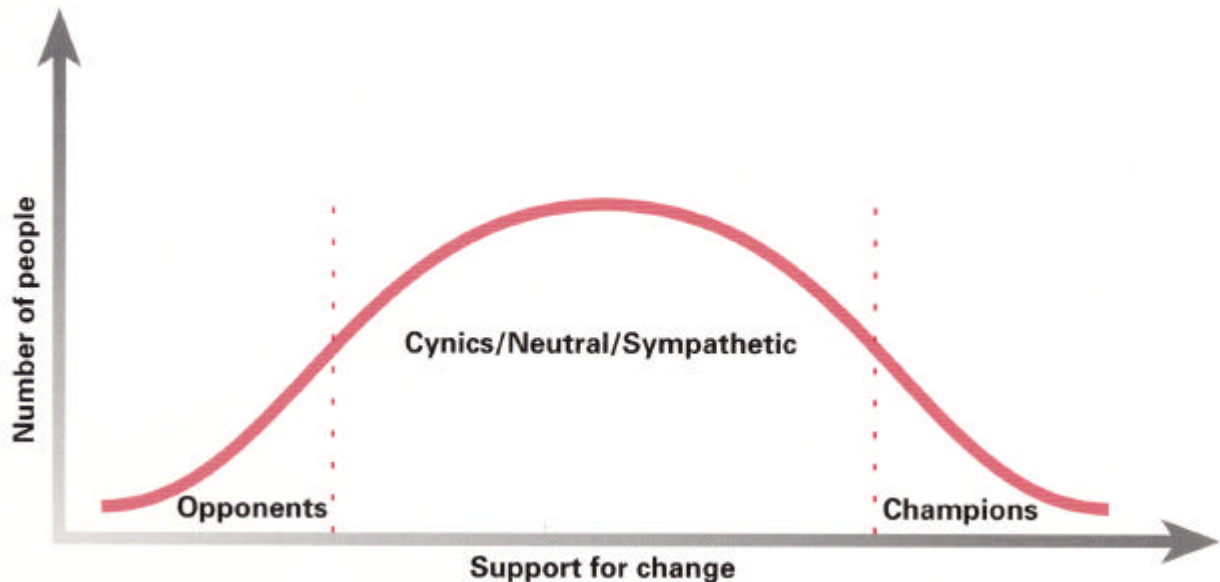
„To out-manuever the opponents of change, you have to keep the pace of change so fast that the thing they're arguing about is irrelevant very soon,“ was John Miller's advice. „Don't allow them to coalesce, and don't argue on their terms.“

Growing the Learning Capability of the Organization to Create Maximum Stakeholder Value.

The cultivation of champions of change as local leaders will become increasingly important as organizations continue to evolve into networks based on local expertise centers, in which data and equipment – rather than the experts themselves – are moved. In such future organizations, core competencies will no longer be knowing how to do something, but knowing how to manage the process to get it done.

Exhibit 3

Cultivating Champions of Change



„Individuals who can access outside information and turn it into knowledge to be used inside their companies hold the key to future success,“ stated Thomas Schmidheiny.

To create maximum value for its stakeholders, the company of the future will still seek growth, but not necessarily in terms of size. More importantly, companies will seek to grow their knowledge capital and their learning capability. They will attract top people around a special idea, and they will keep to the minimum size needed. Success will depend on being able to manage the core competencies in a value chain that will increasingly extend outside the company.

The new management approaches outlined here, based on vision-based action, involvement, and learning, offer today's leaders the means to enable their organizations to create their own futures.

1 Arun N. Maira and Peter B. Scott-Morgan, „Learning to Change and Changing to Learn – Managing for the 21st Century,“ Prism Third Quarter 1995, p. 10.

2 Peter B. Scott-Morgan, The Unwritten Rules of the Game, McGraw-Hill, New York, 1994.

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