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THE CHALLENGE OF REVITALIZATION

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by Noel M. Tichy and Dave Ulrich

INTRODUCTION

Much of U.S. industry has been on a crash diet for the last two years to get rid of the flab that caused productivity to lag in the late 1970s. But, as all failed dieters know, there is no faddish or quick way to lose weight permanently. That requires a change of lifestyle. The long-term revitalization of U.S. industry similarly requires a complete change in habitual corporate behavior. While most U.S. industry is still looking for the corporate equivalent of "How to eat all you want and still lose weight," a few companies are adopting a new regimen as tough as daily jogging, aerobic dancing, celery and sprouts.

Whether we in the U.S. continue to gradually decline as a competitive economy will to a large degree be due to the quality of leadership in the top echelons of our business organizations. This article presents the leadership challenge which is starting to be addressed in diverse companies and industries:

*Michael Blumenthal, Chairman of Burroughs Corporation, is attempting to transform that company into a major player in the world computer game. His efforts have included building a substantially new management team, largely from outside Burroughs.

*James Renier, President of Honeywell's Information Systems Group, is strategically reorienting and revitalizing Honeywell's computer business. (See New Management, Vol. 2, No. 1.) Similar efforts are underway at Digital Equipment Company and NCR.

*In the auto industry, the near-miraculous turnaround of Chrysler still has a long way to go to insure the long-term viability of the company. Meanwhile,

General Motors is undergoing its largest reorganization since the days of Alfred Sloan. The General Motors transformation is being overseen not only by Chairman Roger Smith and President James McDonald, but by Alex Cunningham Executive Vice President and his two subordinates Robert Stempel and Lloyd Reuss, the heads of the company's two new car divisions.

*One of the most interesting transformations is occurring at General Electric. When former GE Chairman Reginald Jones retired, he indicated that, in picking Jack Welch to be the chairman, careful consideration was given to the environment GE would face in the future. Since becoming chairman, Welch has exhibited a commitment to a strategy of revitalization at GE appropriate for an environment characterized by increasing world political uncertainty, intense international competition, changing social values and mores, and rapid technological change.

*The breakup of AT&T, the revolution in telecommunications, the major changes occurring throughout the banking system, and the innovation of health care providers are all further indicators of revitalization efforts occurring across American industry. These efforts are the beginning of an exciting process by which leaders in U.S. industry are seeking to reverse the economic decline of the 1970s.

The breed of manager needed to revitalize is similar to what James MacGregor Burns' calls the "transforming or transformational leader," one who, by engaging the entire self of the follower, converts followers into leaders, and who may even convert these new leaders into moral agents. Transformational leaders provide a vision and mobilize commitment to that vision, while helping the organization work through the process of reintegration.

To revitalize organizations, transformational leaders must successfully deal with four stages of a dynamic process of environmental change and organizational response, while simultaneously providing the stewardship necessary to help organizational members work through the psychodynamics of change.

REVITALIZATION STAGES AND THE LEADERSHIP AGENDA

As we talk with middle managers facing massive transformations, it is not unusual to hear the following comments:

"The uncertainty of our job performance and job security is unnerving to us all, and in my opinion, no one cares."

"I do not believe we are being told what is necessary to plan our lives and future at this time."

"Either senior management does not know what is going on, or they don't want to tell us. Any time a question is asked, the answer is we don't know yet. Why is this going on if no one knows anything."

These are quotes from managers caught in the maelstrom of change. The reactions are predictable. Change does not occur without tremendous mixed emotion. Thus, as industry after industry, and company after company go through major organizational transformations, these emotions and forces will increasingly be unleashed.

One bellweather company which started the revitalization process with the appointment of a new chairman, Jack Welch, in 1981, is General Electric (GE). GE illustrates the stages of revitalization quite well. As was stated in July 12, 1981 WALL STREET JOURNAL article:

. . . GE either must keep gaining or risk being trampled by foreign competition that can produce higher quality goods, faster and cheaper. Many of GE's old line manufacturing businesses, such as consumer appliance, electronics and industrial equipment have been buffeted by foreign competition and by the recession . . .
. . . GE is trying to instill a sense of urgency when there is no emergency. It's profitable now and has options . . . Getting the competitive message down through the hierarchy isn't going to be easy . . . there is a built-in arrogance that comes with being the biggest factor in so many businesses. GE managers have a tendency to believe there is a GE way and then there is a wrong way . . .

Three years later, Mr. Welch is seen as relentlessly trying to carry out his transformational leadership role. So far, it has won him the nomination as the number one toughest CEO among U.S. corporations as determined by the annual FORTUNE (July 1984) poll. This designation, in part, reflects the mixed emotions within GE as they work through this transition. Jack Welch clearly sees this period of time as one in which he must lead. This may mean he has to make tough and unpopular

decisions and, thus, be nominated for his toughness rather than his vision. As he sees it (from a speech he gave on April 26, 1984 at Cornell University):

. . . a big company that fancies itself as world competitive today is likely to use words like entrepreneurial, lean and agile. What this really means is the ability of an institution to take the rigidity out of its bureaucracy--to move at a faster rate than the world around it . . . most bureaucracies--and ours is not exception--unfortunately still think in incremental terms, rather than in terms of fundamental change. They think incrementally primarily because they think internally. Changing the culture--opening it up to quantum change means to constantly be asking not how fast am I going, how well am I doing versus how well I did a year or two years before, but rather how fast and how well am I doing versus the outside world? . . .

The challenge for Mr. Welch and his managers at GE, along with all the other companies having a revitalization agenda, is the development of a critical mass of leadership which can create a vision of the future, can mobilize thousands of people to commit to that vision, and ultimately who can institutionalize the change, that is, build it into the culture of the organization.

The four organizational stages for revitalization which we have found to help organize the leader's agenda are presented below. These stages do not necessarily follow a nice, neat, linear progression; in reality they may be overlapping, reiterated, etc. Nevertheless we argue that thinking in terms of stages is a reasonable organizing framework.

STAGE 1: GETTING STARTED

Trigger Events: Organizations do not change without a strong environmental shock usually triggered by technological, economic, and social pressures in the operating environment. For example, at AT&T technological and political forces led to the need to undertake a massive organizational transformation. For General Motors, such factors as increasing international competition, shifting consumer preferences, and new technology are all forcing GM to change. Importantly, not all potential trigger events will lead to such thorough-going organizational responses. The external trigger event must be clearly perceived and responded to

by the organization's leaders.. Failure to respond may result in the organization's falling prey to the "boiled frog phenomenon." A frog can be boiled to death by slowly bringing the water to a boil, thus keeping the change in the water temperature just below the frog's threshold of noticeable difference. In effect, while the environment catastrophically changes around the frog, it sits there dumb and happy until it is too late to jump out of the pot! Organizations that don't respond to barely noticeable trigger events may also become boiled frogs, unable to move when the need to move is the greatest.

Triggers do not always have to inflict immediate pain on the organization. There are organizational leaders, such as Jack Welch at GE, who have had the foresight to trigger change long before the organization faces serious environmental danger. This is in contrast to the other end of the spectrum where we see Chrysler, International Harvester and countless other companies which faced serious financial damage in the market place before change was triggered.

Felt need for change: The triggers must create sufficient discomfort among the dominant coalition of the organization to release energy for change. For example, in the mid 1970s John DeButts, CEO of AT&T, was not satisfied with the long-term viability of AT&T as a regulated telephone monopoly in the age of computers and satellite communications, so he and his senior managers formulated a new competitive strategy for AT&T several years before Judge Green made his divestitive decision. When Roger Smith became CEO at General Motors at the start of 1980, he was dissatisfied with presiding over the first financial loss for General Motors since the depression. Such felt needs provide the impetus for change.

Resistance to change: Just as the felt need for change releases energy for revitalization, it also increases individual and organizational resistance. This resistance to change can lead to organizational stagnation rather than revitalization, particularly when corporations have defensive managers as opposed to leaders. When the recession hit International Harvester in the early 1980s, there was a lack

of new vision and a failure to mobilize employees to engage in new behavior. In contrast, Lee Iacocca has been a transformational leader at Chrysler by 1) creating a vision, 2) mobilizing employees, and 3) working toward the institutionalization of Chrysler's transition--three key activities of transformational leaders.

STAGE 2: CREATION OF A VISION

The transformational leader must create a vision which gives direction to the organization while being congruent with the leader's philosophy and style. At General Electric, Jack Welch's vision of his company as being number one or two in all of its businesses and striving for the creation of an organization which will continuously go after the "quantum leap," that is, make bold steps to keep changing GE's many businesses to stay competitive. At General Motors, after several years of committee work and staff analysis, a vision of the future was drafted which included a mission statement and 8 objectives for the company. This statement was the first articulation of a strategic vision for GM since Alfred Sloan's leadership. This vision was developed consistent with the leadership philosophy and style of Roger Smith. Many people were involved in carefully assessing the opportunities and constraints for General Motors. Meticulous staff work culminated in committee discussion to evoke agreement and commitment to the mission statement. Through this process a vision was created paving the way to the next phase of transformation at GM.

At Chrysler, Lee Iacocca developed a vision without the committee work or heavy staff involvement. Instead, he relied more on his intuitive and directive leadership philosophy and style. Both GM and Chrysler ended up with a new vision because of leadership proactively shaping a new organizational mission and vision. The long term challenge to organizational revitalization is less how the visions are created and more the extent to which visions correctly respond to environmental pressures and create change.

Any such vision must go beyond desired financial returns and create within employees a deep sense of what the organization is trying to accomplish. Moreover, the vision must communicate to each department that what it offers the organization is crucial to the organization's overall success. For example, the research conducted at Bell Labs is seen by the engineers there as central to the future of AT&T.

In creating a vision, transformational leaders worry about capturing two ways of thinking. On the one hand, they make sure that the vision they create is consistent with "left-brain thinking." That is, the vision needs to be logical, deductive, and plausible. It needs to help each employee see what the future holds as an extension of the present. On the other hand, the vision needs to also capture "right-brain thinking." Leaders need to create visions which are mind-stretching, creative, and capture the imagination of employees. When Jack Welch communicated his view that each GE business would be number one or two in market share, he created a vision that was logical and consistent with GE's history, but also one that was visionary and forward looking. Thus, transformational visions are plausible pictures framed with creative imagination.

Transformational leaders, like Jack Welch, consistently and specifically share with employees their vision of the future. Each Honeywell Information Systems employee knows that Jim Renier is shaping a future for the company that is strikingly different from the past. These visions are reinforced in most of Welch's and Reiner's public appearances, memos, and staff meetings.

Two of the challenges the transformational leader faces in creating and communicating a vision are simplicity and consistency. Some leaders tend to float so many visions that employees drown in the confusion. Moreover, like basketball teams who continue to hope that the latest free agent will miraculously save the team, companies who create and communicate annual revisions of visions are likely to find themselves ignoring the present.

STAGE 3: COMMITMENT TO THE VISION

A vision without commitment is like flat beer--while some of the original taste may be present, the fizz is gone. Generating commitment to a vision requires that leaders share information, involve others and create new meanings connected with the vision.

In order for the organization to commit to the vision, many individuals have to be helped through some pretty difficult psychodynamics associated with change. It is the transformational leader's role to provide the needed direction, support, and stewardship necessary for these predictable emotions to be successfully resolved. These resolutions lead to the commitment necessary to avoid having the vision go "flat." Major organizational transitions unleash powerful conflicting forces in people. The change evokes simultaneous personal feelings of fear and hope, anxiety and relief, pressure and stimulation, leaving the old and accepting a new direction, loss of meaning and new meaning, threat to self-esteem and new sense of value. The challenge for transformational leaders is to recognize these mixed emotions, act to help people move from negative to the positive emotions, and mobilize and focus energy necessary for individual renewal and organizational revitalization.

In order to help frame the problem of individual transitions, we use a three phase process drawn from the work of William Bridges (1980). First comes the ending, then the transition state, and finally the new beginning. During each of these phases there are an identifiable set of psychological tasks for individuals to confront and to work through or else the transition may not succeed.

Endings: All individual transitions start with endings. The first task of an ending is disengagement, which often accompanies a physical transition. The divestative at AT&T, caused many job changes as in the reorganization at GM where Fisher Body and GMAD are being dismantled. The second task of an ending is disidentification. Individual self-identity is often tied to a job and organization, thus, when the Fisher Body manager is transferred to one of the new car groups

at GM he/she must disidentify with Fisher Body and the people as well as the self-esteem felt as a member of Fisher. At a deeper personal level, individual transitions require disenchantment. Disenchantment entails recognizing that the enchantment or positive feelings toward past situations will not be possible to replicate in the future. Chrysler, GM, AT&T, or U.S. Steel employees who remember the good old days need to work through the disenchantment from those feelings as the present reality is different and their self-worth cannot be recaptured by longing for or thinking about the good old days. A new enchantment centered on new circumstance needs to be built. Finally, individuals need to experience and work through disorientation which reflects the loss of familiar trappings. Endings are necessary for individuals to accept transitions.

As mature organizations become revitalized, individuals must disengage, disidentify, disenchant, and work through the disorientation created by the ending process in order to discover in the new situation a sense of worth and value.

To help individuals, transformational leaders need to replace past glories with future opportunities. However, in helping individuals pass through endings, leaders must acknowledge individual resistance and sense of loss in a transition. At General Motors, Charles Catco who headed up Fischer Body and is overseeing its current dismantling, lead his people through the ending phase. He held numerous meetings, talked about the ending and encouraged people to express their feelings. As a transformational leader he understood his role as the steward who needs to provide emotional support for his organization as it struggled through the ending phase. He did not try to bury the past but faced up to the strong emotional attachment people had to the old organization. Leaders also need to encourage employees to face and accept failures as learning opportunities before moving onto new opportunities. Holding on to past glories and memories without coming to grips with failure and need to change may be why companies such as W. T. Grant and Braniff were unsuccessful at revitalization. There is a sense of dying in all endings. It does not help to treat

transitions as if the past can be buried without considerable effort. The past should help provide new directions, not old memories.

Transition State--The Neutral Zone: The key to individuals being able to fully change may be the second phase which we call the transition state. This phase can be interpreted as a seemingly unproductive "time out" when individuals feel disconnected from people and things of the past and emotionally unconnected with the present. In reality, this phase is a time of reorientation where individuals complete endings and begin new patterns of behavior. Often Western, and especially U.S. culture avoids this experience and treats the neutral zone like a busy street, to be crossed as fast as possible and certainly not a place to contemplate and experience. The run across the transition state too hurriedly does not allow the ending to occur nor the new beginning to properly start. A death and rebirth process is necessary so that organizational members can work through the disintegration and reintegration. At Honeywell in the fall of 1983, Jim Renier laid out his business strategy for both the external investment community and his own managers. Internally the strategy did not translate into enthusiasm and a revitalized new beginning for his top cadre of management. As a matter of fact the climate at that time was characterized as one of cynicism, skepticism, depression and questioning. It was as if the general of an army had laid out the battle plan for victory but the troops were not committed or charged up to carry it out. It was here that Jim Renier recognized that the top cadre of leadership at Honeywell Information Systems, the top one hundred managers of the over twenty thousand person organization, needed help in working through the transition. In order to mobilize commitment to the vision, managers needed help in psychologically unhooking from the past and getting revitalized.

A transition vehicle was created in the form of a one week workshop. The purpose of the workshop was to supportively confront senior management with the need for each to pick up the banner and become transformational leaders in their part of the organization. The workshop included activities dealing with endings, visioning exercises to focus on new beginnings and the mobilization of teamwork needed to create

the new Honeywell Information Systems.

At one of Honeywell's competitors, Burroughs, Mike Blumenthal, can be found holding numerous meetings with managers throughout the company. These act as transition vehicles for dealing with the endings and new beginnings. His task is to help people find a new identification with the future organization while accepting the end of the old organization. So that new energies can be tapped. Thus, a widespread organizational commitment to a new vision must rest on the leader dealing with the emotions of the followers going through transition.

STAGE 4: INSTITUTIONALIZATION OF CHANGE

The revitalization is not successful if it is dependent on the personal charisma of the top leader to keep everything together. This is one of the big questions still to be answered at Chrysler. Is its success a transitory phenomena of a highly charismatic leader who was able to lead a short term turnaround, or will Iacocca help Chrysler institutionalize change in such a way that it does not need him at the top? The institutionalization means that the vision becomes a reality throughout the organization and that it is built into the bureaucratic processes of the organization. At a deeper level, institutionalization of change requires shaping and reinforcement of a new culture which fits with the revitalized organization. The human resource systems for selection, development, appraisal and reward are major levers for institutionalization of change. The four levers listed below need to be systematically worked at Chrysler if Iacocca is to succeed in the third phase of his challenge, namely institutionalization of the change. The challenge transformational leaders need to also focus attention on the "four M's" of managing human resources.

Managing the staffing function requires projecting present and future staffing needs, fitting people to roles, that fit the vision. When Jack Welch of GE states that "strategy follows people," he means that if his current cast of managers are placed in more appropriate organizational positions, successful revitalization is

more likely to occur.

Managing development systems requires attention to both formal training programs and on-the-job training. Both kinds of development programs need to be consistent with the future needs of the firm so that as the firm evolves to a new desired state, key individuals in the transition will have acquired necessary skills to fulfill their modified responsibilities. Transformational leaders use development programs to communicate their visions of the future: Jack Welch speaks at many many General Electric training programs so that he can personally communicate his vision of the new GE.

Managing appraisal systems requires measuring that behavior which is consistent with the future vision of the organization. As AT&T moves from a regulated environment to competitive telecommunications market, new appraisal systems are being developed that focus on success in highly competitive market.

Managing reward systems that are consistent with the future vision of the organization is high on the agendas of transformational leaders. Since employees often do that which is rewarded, making rewards consistent with the organizational vision helps to make the vision endure. At GE, the rewards for managers have been designed to reflect Jack Welch's vision of being number one or two in the market.

CONCLUSION

In mapping out the framework and agenda for leadership needed for revitalization it should be clear that the success stories will not just come from those who solely deal with the business strategy of product and market mix or technological innovation. The success stories will be about people. In order to revitalize an organization we need to understand why people in organizations often don't wake up to the need for change until it is too late, why when they do wake up to the need for change they resist the change that they claim they want to make, and why they often go looking for easy, quick-fix bandaids to deal with change. We have argued for the importance of having a critical mass of transformational leadership at the top. Ones who can

deal with these problems and create the needed vision, commitment to the vision, and ultimately build the ongoing institutionalization of the change.

It should be emphasized that transformational leaders are not only found at the top levels of management, but throughout revitalizing organizations. Mid-level managers--who have been chastised in recent years for not being creative and innovative--have just as much responsibility and opportunity to be transformational leaders of their departments as have senior executives for their overall organizations. In fact, in those organizations where revitalization has moved from faith to fact, upper and middle level managers have caught the vision of the senior executives and carried the revitalization efforts to completion. Thus, while the leadership agenda described above may not apply to every manager in every situation, it highlights specific activities and tasks which should be undertaken at all organizational levels.

The strengthening of our economy in the U.S. will require many new entrepreneurial, start-up companies. These settings are fun and exciting to be in and will provide much impetus for change. However, they will not succeed without the rest of society, much of which needs revitalization. These organizational revitalizations will occur as a result of human beings going through an emotionally wrenching set of endings, transitions, and if successful, new beginnings--in terms of their attitudes, behaviors, and self-images. Making this happen is the challenge for the transformational leader--the framework and agenda are seen as helpful guides.