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REVITALIZING ORGANIZATIONS: The Leadership Role

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### INTRODUCTION

General Motors, American Telephone & Telegraph, Citibank, Honeywell, TRW, General Electric, International Business Machines, and U.S. Steel are among a long list of major U.S. corporations investing in major organizational transformations to insure long term vitality. In some cases, transformations occur while companies experience financial success; for others change happens after pressures from foreign competition, economic shifts, and technological change have exacted a financial toll. In either case, the challenge is fundamentally the same. Mature corporations need to revitalize via new products, services, or markets, or by increased productivity quality or innovation, to compete in increasingly tough environments. Firms such as GM and U.S. Steel represent whole industries where revitalization is necessary, while firms such as GE or IBM fear gradual loss of world competitiveness. Transforming and revitalizing such massive institutions requires a special brand of leadership different from leadership requirements during decades of growth in relatively stable markets.

To revitalize organizations, leadership needs to help organizations develop a new vision of what they can be, then mobilize the organization to change toward the new vision. This new leader is similar to what Burns (1978) characterized as the "transformational" leader, one who commits people to action, who converts followers into leaders, and who may convert leaders into moral agents (Burns, 1978; p. 4). This leader contrasts to the "transactional" leader who merely exchanges such things as jobs, money, and security for compliance. Organizational revitalization calls for visionary, charismatic leadership. One of the most dramatic examples of transformational leadership

and organizational revitalization in the early 1980s has been the leadership of Lee Iacocca at Chrysler Corporation. He provided the leadership to transform a company from bankruptcy to success. He created a vision of success and mobilized large factions of key employees toward enacting that vision. Due in part to Iacocca's leadership, by 1983 Chrysler made profits, attained high employee morale, and helped employees generate a sense of meaning in their work and a desire to challenge themselves to experience success. Whether Chrysler will be able to sustain this organizational phenomena over time remains to be seen. If it does, it will provide a solid corporate example of Burns' (1978) transformational leader.

Lee Iacocca's high visibility may symbolize a missing element in management, namely the existence of transformational leaders. This chapter argues that a new brand of transformational leadership is central to revitalizing institutions. In the chapter, concepts are presented to help understand dynamics of individual and organizational transitions. Guidelines for transformational leadership are also presented.

#### RATIONALE FOR REVITALIZATION

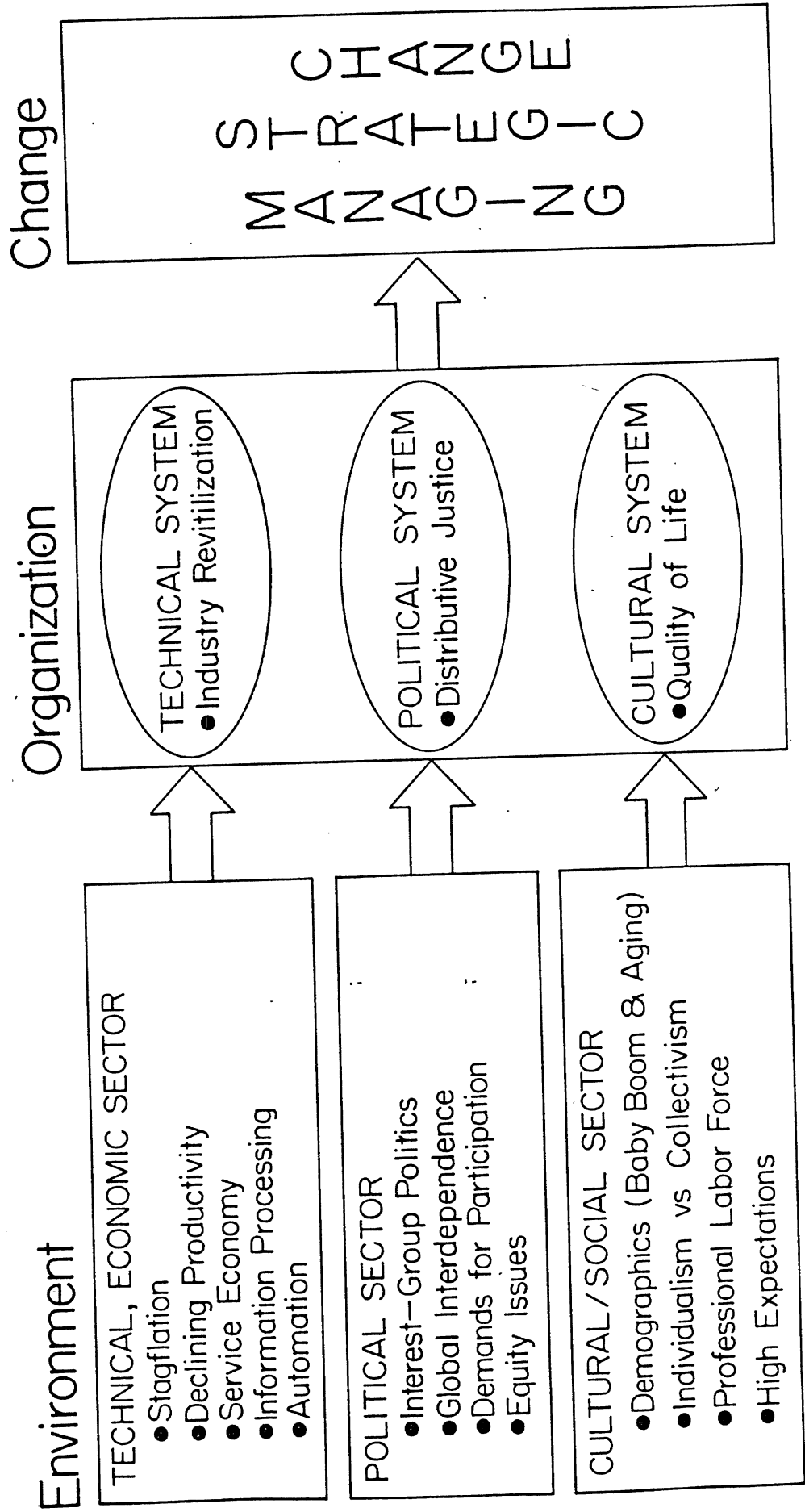
Technical, political and cultural pressures will likely shape organizations throughout the 1980s. Figure 1 lists environmental forces which will impact organizations. While these forces may not unfold as predicted in Figure 1, we assume that environmental technical, political, and cultural forces will be destabilizing to organizational technical, political and cultural systems. These environmental forces represent both threats and opportunities depending on the organization. Dealing with these forces may result in new missions and strategies, massive reorganizations, and major restructuring and revamping of the financial, marketing, production and

human resource systems. In addition internal political systems as reflected in who gets ahead, how they get rewarded, and who has the power to make decisions will face major overhaul. Finally, because of environmental forces, new cultures will be required. Old organizational norms and values must shift to new ones which are better aligned with the new organizational strategies and structure, with values of a changing workforce, and with emerging societal values.

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Figure 1  
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Specific pressures for change may vary across industries and companies, but pressures listed in Figure 1 illustrate some external forces. Technological changes, symbolized by the computer revolution with easy access to and manipulation of information, may likely move organizations to become more service oriented and automated. Continued economic uncertainty around inflation, productivity, national deficits, interest rates and innovation may force organizations to retain flexibility and manage change. In the cultural arena, demographic changes, individualistic values, highly educated employees with high job expectations may lead to new organizational cultures. A tumultuous change may also affect organizational political systems where realignments and rewards reflect power. Power decisions are reflected in compensation programs, career decisions, budget decisions and informal power in organization. Unlike the technical area where formal tools such as strategic planning and organization design inform decision-making, in the political area concepts and language are less formal and often less overt. Nonetheless, with environmental pressures much management time and attention will be allocated to strategic political changes required to revitalize organizations. The political arena is illustrated by the time and attention

# THE MANDATE FOR ORGANIZATIONAL TRANSFORMATION



given to key leadership decisions such as American Bell reshuffling leadership resulting in the resignation of Archie McGill, the "brash" aggressive marketing leader hired from IBM to transform AT&T. McGill's resignation purportedly reflects a political realignment within the new American Bell organizations to shift power back into the hands of more traditional AT&T managers who were reacting against the "brash" outsider. Overall, environmental forces will require that revitalized organizations adapt to environmental pressures and work to overcome internal resistances to change.

Internal Resistance to change: Given environmental pressure, organizational change is a pressing need, however, accomplishing organizational transitions is more challenging and difficult than merely recognizing the need for change. Environmental pressures and uncertainties in Figure 1 not only provide an impetus for change but also trigger individual and organizational resistances to change. These forces of resistance are generated in each of the three inter-related systems which must be managed in the process of organizational transitions: technical, political and cultural (Tichy, 1983). Managing technical systems refers to managing the coordination of technology, capital, information, and people to produce products or services desired and used in the external market place. Managing political systems refers to managing the allocation of organizational rewards such as money, status, power and career opportunities and exercising power so employees and departments perceive equity and justice. Managing cultural systems refers to managing the set of shared values which guide the behavior of members of the organization.

Organization revitalization must overcome individual and organizational resistance to change in these three systems (Tichy, 1983).

Technical system resistances include:

- Resistance due to habit and inertia. Habit and inertia cause task-related resistance to change. Individuals who have always done things one way may not be politically nor culturally resistant to change, but have trouble for technical reasons in changing behavior patterns. A very simple example is the difficulty some office workers have shifting from electric typewriters to word processors, due to habit and inertia.
- Resistance due to fear of unknown or loss of organizational predictability. Not knowing and having difficulty predicting the future creates anxiety and hence resistance in many individuals. Again, the introduction of automated office equipment has often been accompanied by such resistances.
- Resistance due to sunk costs. Organizations, even when realizing that there are potential payoffs from a change, are often unable to enact the change due to sunk costs of the organization's resources in the old way of doing things.

Political system resistances include:

- Resistance due to threats to powerful coalitions. A common threat is found in the conflict between old guard and the new guard. One interpretation of the exit of Archie McGill, previously president of the newly formed AT&T American Bell, in mid 1983 is that the backlash of the old guard coalition exacted its price on the leader of the new guard coalition, Mr. McGill.
- Resistance due to resource limitations. In the days when the economic pie was steadily expanding and resources much less limited, change was easier to bring about as every party could gain, such was the nature of labor management agreements in the auto industry for decades. Now that the pie is shrinking decisions need to be made as to who shares with a smaller set of resources. These zero-sum decisions are much more politically difficult. As more and more U.S. companies deal with productivity, downsizing, and divestiture, political resistance will be triggered.
- Resistance due to indictment quality of change. Perhaps the most significant resistance to change comes from leaders having to indict their own past decisions and behaviors to bring about a change. For example, Roger Smith as Chairman and Chief Executive Officer of General Motors, must implicitly indict his own past behavior as a member of senior management when he suggests changes in General Motors' operations. Psychologically, it is very difficult for people to change when they were party to creating the problems they are trying to change. It is much easier for a leader from outside, such as Lee Iacocca, of Chrysler Corporation, who does not have to indict himself every time he says something is wrong with the organization and its management.



Cultural System resistance may be due to:

- Resistance due to selective perception (cultural filters). An organization's culture may highlight certain elements of the organization making it difficult for members to conceive of other ways of doing things. An organization's culture channels that which people perceive as possible, thus, innovation may come from outsiders or deviants who are not as channeled in their perceptions.
- Resistance due to security based on the past. Transition requires people to give up old ways of doing things. There is security in the past, one of the problems in change is getting people to overcome the tendency to want to return to the "good old days." One of the problems in General Motors is that there are still, in 1983, significant members of the white collar work force who are waiting for the "good old days" to return.
- Resistance due to lack of climate for change. Organizations often vary in their conduciveness to change. Cultures which require a great deal of conformity often lack much receptivity to change. A company such as General Motors with its years of internally developed managers must overcome a limited climate for change.

With all of these resistances to change, senior managers need to continually pose basic questions: What business(es) should we be in? Who should reap what benefits from the organization? What should be the values and norms of organizational members? Answers to these questions do not come easily, and require intensive soul-searching, then transformational leadership. Transformational leaders must be willing to lead dialogue around these issues and work to implement new answers by proactively managing individual and organizational transitions. The next section identifies the dimensions of the transition process which leaders need to understand and master.

#### THE NATURE OF TRANSFORMATIONS

Organizational transformations take time, often three to five years, to unravel conflicting, paradoxical forces which put extreme demands on organizational leadership. It is important to understand that:

Change requires exchanging something old for something new. It is important to recognize that all change requires exchange. People have to unlearn and relearn, exchange power and status, and exchange old norms and values for new norms and values. These changes are often frightening and threatening while at the same time potentially stimulating and providers of new hope. One must recognize the nature of exchanges: there are costs and benefits which must ultimately be balanced in favor of the benefits side. This can mean that transition managers have to help the balancing by reducing expected costs and enhancing expected benefits. At the simplest level, organizations sometimes provide monetary benefits for people to make change. They also increase the costs for some by firing them (Tichy, 1983, p. 332).

To revitalize organizations, both individual and organizational dynamics must be considered. Transformational leaders must deal with both dynamics. At each level we identify phases through which the successfully revitalized organization must pass. These phases will be described followed by a closer examination of specific tasks of transformational leaders.

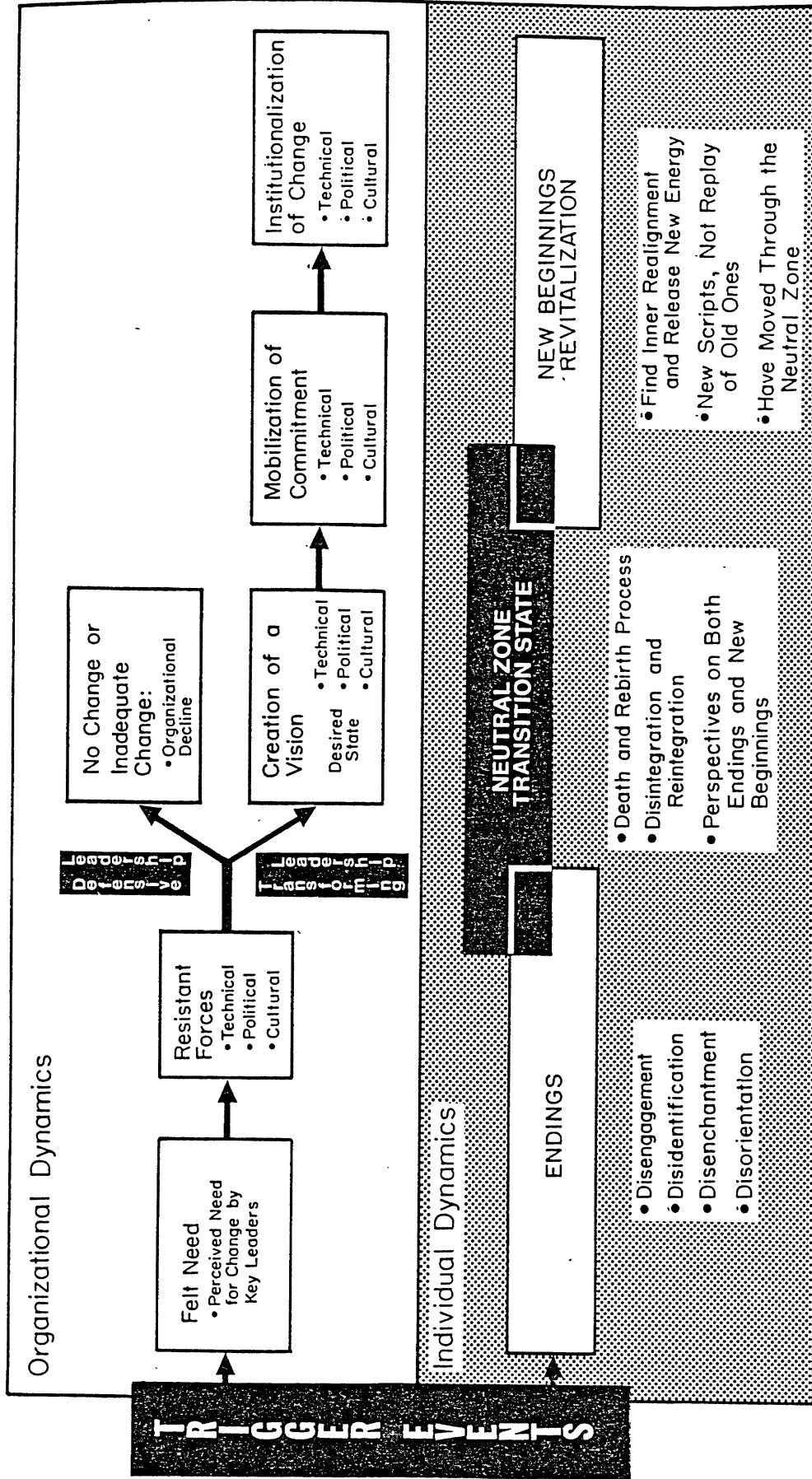
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Insert Figure 2  
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### Organizational Dynamics

Trigger Event: Change is often triggered by environmental pressures. Many of the technical, political and cultural environmental forces listed in Figure 1 will trigger organizational change for the next decade. For AT&T, technological and political forces led it to undertake its massive transformation. For General Motors, economic factors of world competition, shifting consumer preferences, and technological change are driving it to change. Not all potential trigger events lead to organizational responses. The external trigger event must be perceived and responded to by internal leaders in the first phase of the transformation process.

Felt Need for Change: As a result of the trigger event being perceived by the organizational leaders, the dominant group in the organization must experience a dissatisfaction with the status quo. Thus, in the late 1970s

# CHANGE LEADERSHIP



John DeButts, Chairman and Chief Executive Officer 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 communication systems. When Roger Smith became CEO at General Motors at the start of the 1980s he could hardly be satisfied with presiding over the first financial loss for General Motors since the depression. The felt need provides the impetus for transition, yet such impetus is not uniformly positive.

Just as the felt need for change releases energy for revitalizing organizations it also releases defensive forces. The technical, political and cultural resistances reviewed above are most evident during early stages of an organizational transformation. At General Motors, the early 1980s were marked by tremendous uncertainty with many technical issues including marketing strategy, production strategy, organization design, factory automation, and development of international management. Politically, many powerful coalitions were threatened. The UAW was forced to make wage concessions and accept staffing reductions. White collar workers saw their benefits cut and witnessed major lay-offs within the managerial ranks. Culturally, the once dominant managerial style no longer fit environmental pressures for change. "GM way" was no longer the right way. Losing market share and money, lay-offs, and cuts in compensation were not part of a culture General Motors employees had learned to expect. Even with environmental triggers for change, technical, political, and cultural resistances made the transition very difficult.

These resistances to change can lead to organizational stagnation rather than revitalization. In fact some managers at GM in late 1983 were waiting for "the good old days" to return. Such denial exemplifies an awareness of or

dysfunctional reaction to the felt need. As indicated in Figure 2, a key to whether resistant forces lead to little or adequate change and hence organizational decline or revitalization is leadership. Defensive, transactional leadership will not rechannel the resistant forces. International Harvester appears to have had defensive transactional leadership. The result at International Harvester in the early 1980s was lack of a new vision and mobilization of employees to engage in new behaviors. In contrast, Lee Iacocca, has been a transformational leader at Chrysler by creating a vision, mobilizing employees, and working toward the institutionalization of Chrysler's transition. Creation of a vision, mobilization of commitment, and institutionalization are three key activities for transformational leaders.

Creation of a Vision: The transformational leader must provide the organization with a vision of a desired future state. While this task may be shared with other key members of the organization, nonetheless, having a vision remains the core responsibility of the transformational leader. The leader needs to integrate analytic and creative, intuitive, and deductive thinking. Each leader must create a vision which gives direction to the organization while being congruent with the leader's philosophy and style. 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 General Motors. This statement was the first articulation of a strategic vision for General Motors since Alfred Sloan's leadership. This vision was developed consistently with the leadership philosophy and style of Roger Smith. Many people were involved in carefully assessing opportunities and constraints for General Motors. Meticulous staff work culminated in committee discussions to evoke agreement and commitment to the mission

statement. Through this process a vision was created paving the way for the next phases of the transformation at GM. At Chrysler, Lee Iacocca developed a vision without 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 transformational leaders proactively shaping a new organization mission and vision. The long term challenge to organizational revitalization are less "how" the visions are created and more the extent to which the visions correctly respond to environmental pressures and create transitions within the organization.

Mobilization of Commitment: In mobilization of commitment, the organization, or at least a critical mass of it, accepts the new mission and vision and makes it happen. At General Motors, Roger Smith took his top 900 executives to a five day retreat to share and discuss the vision. The event lasted five days not because it takes that long to share a one paragraph mission statement and eight objectives, but because the process of evolving commitment and mobilizing support requires a great deal of dialogue and exchange. Mobilization of commitment must go well beyond five day retreats. It is in this phase that transformational leaders tap into a deeper sense of meaning for their followers. Maccoby (1981) acknowledges that leaders who will guide organizations through revitalization are distinct from previous leaders and gamesmen who spearheaded managers to be winners in the growth days of the 1960s and early 1970s. In the 1980s Maccoby argues:

The positive traits of the gamesman, enthusiasm, risk taking, meritocratic fairness, fit America in a period of unlimited economic growth, hunger for novelty, and an unquestioned career ethic. The negative traits for manipulation, seduction and the perpetual adolescent need for adventure were always problems, causing distrust and unnecessary crises. The gamesman's daring, the willingness to innovate and take risks are still needed. Companies that rely on conservative company men in finance to run

technically based organizations (for example auto and steel) lose the competitive edge. But unless their negative traits are transformed or controlled, even gifted gamesmen become liabilities as leaders in a new economic reality. A period of limited resources and cutbacks, when the team can no longer be controlled by the promise of more, and one person's gains may be another's loss, leadership with values of caring and integrity and a vision of self-development must create the trust that no one will be penalized for cooperation and that sacrifice as well as rewards are equitable (Maccoby, 1981).

After transformational leaders create a vision and mobilize commitment, they must determine how to institutionalize the new mission and vision.

Institutionalization of Change: Organizations will not be revitalized unless transactions result in new patterns of behavior within the organization. Transformational leaders need to transmit their vision into reality, their mission into action, their philosophy into practice. New realities, action, and practices must be shared throughout the organization. Alterations in communication, decision making and problem solving systems are tools through which transitions are shared so that visions become practice. 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 of selection, development, appraisal and reward are major levers for institutionalizing change. Tools for institutionalizing transitions will be discussed later in the chapter.

### Individual Dynamics

The previous section outlined requisite processes for organizational revitalization. Although organizational steps are necessary, they are not sufficient to create and implement change. In managing transitions, a more problematic set of forces, focused on individual psycho-dynamics of change must be understood and managed. Major transitions unleash powerful conflicting forces in people. The change invokes 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.

Figure 2 also provides a set of concepts for understanding individual dynamics of transitions. The concepts, drawn from work by Bridges, propose a three phase process of individual change (Bridges, 1980). First come endings, followed by neutral zones, and then new beginnings. During each of these phases an identifiable set of psychological tasks can be identified which individuals need to successfully complete to accept change.

Endings: All individual transitions start with endings. Endings must be accepted and understood to proceed with the transition. Employees who refuse to accept that traditional behaviors have ended will be unable to begin new behaviors. The first task of an ending is disengagement, which often accompanies a physical transaction. When transferred from one job to another, individuals must learn to disengage from the old position. They must learn to accept the new physical setting and disengage from the previous setting. When transferred employees continually return to visit with former colleagues, they have inadequately disengaged. The second task is disidentification. Individual self-identity is often tied to job position, thus, when a plant manager is transferred to corporate staff to work in the marketing department, s/he must disidentify with the plant and its people, and the self-esteem felt as a plant manager. At a deeper personal level, individual transactions 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 accept disenchantment from those feelings as the present reality is different and self-worth can not be recaptured by longing for or thinking about the good old days. A new enchantment centered on new circumstances 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 disorient with past practices and discover in new organizations a sense of worth or 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 resistances and senses of loss in a transition. 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, International Harvester, and Braniff were unsuccessful at revitalization. There is a sense of dying in all endings. It does not help to treat transactions as if the past can be buried without effort. The past should provide new directions, not old memories.

Neutral Zone: The key to individuals being able to fully change may be in the second phase which Bridges (1980) terms the neutral zone. 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. To run across the neutral zone 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. To pass through the neutral zone requires taking the time and thought to gain perspective on both the ending--what went wrong, why it needs changing and what must be overcome in both attitude and behavioral change--and the new beginning--what the new priorities are, why they are needed and what new attitudes and behaviors will be required. It is in this phase that the most skillful transformation leadership is called upon. A timid bureaucrat leader who often reels in the good old days will not provide the needed support to help individuals cross through the neutral zone. On the other hand the militaristic dictatorial leader can try to force a new beginning that does not allow people to work through their own feelings and emotions. The purported backlash toward the "brash" Archie McGill at American Bell in June 1983 may have been an example of trying to force people through the neutral zone to a new beginning. Archie McGill was known to rant and rave about the stodgy, old fashioned and non-innovative "Bell Shaped Men" at AT&T. While he was trying to help and lead individuals to become innovative and marketing orientated, he may have not allowed them to accept the endings inherent in the transition. His enthusiasm may have been well placed, but his sensitivity to individual endings and neutral phases of transactions may have been lacking.

Failure to lead individuals through the neutral zone may result in aborted new beginnings. At International Harvester, the organization in 1983 appeared stuck in the neutral zone. The new beginning at International

Harvester must enable people to find a new identification with the future organization while accepting the end of the old organization so that new energies can be tapped. This transformation has occurred at Chrysler Corporation where morale and esprit de corps grew with the new vision implanted by Lee Iacocca. Organizational revitalization can only occur if individuals accept past failures and engage in new behaviors and attitudes.

Transactions which lead to revitalized organizations and renewed individuals must pass through the stages reviewed in Figure 2. Successful transformational leaders need the ability to understand, emotionally cope with, and inspire vision and commitment on the part of self and followers. Leaders can mobilize organizations; they can inspire and lead individuals through transactions; and they must play a central role in revitalizing organizations. The remainder of this chapter sets forth a set of concepts and tools available to transformational leaders engaged in revitalizing organizations.

#### LEADERSHIP WHICH CAN REVITALIZE

Above, we have argued for leaders who can revitalize, below we set out some guidelines and characteristics of those whom we feel can fill the role. This section first presents an outline of general characteristic of transformational leaders followed by a set of tools for each major phase of the organizational transformations: trigger and felt need phase, vision creation phase, commitment phase and institutionalization phase.

#### General Characteristics of Transformational Leaders

Transformational leaders are called upon to create something new out of something old. They must develop and communicate a the new vision and get others not only to see the vision but to be committed to it. Transactional

managers, in contrast, make only minor adjustments in the organization's mission, structure, and human resource management. Transformational leaders not only make major changes in the organization mission, structure and human resources systems, but evoke more fundamental changes in the basic political and cultural systems of the organization. It is the revamping of the political and cultural systems which most distinguish transformational leaders from the transactional. At Chrysler, until Lee Iacocca took over as leader, the basic internal political structure had been unchanged for decades. It was clear who reaped what benefits from the organization, how the pie was to be divided and who could exercise what power. Mr. Iacocca needed to alter these political traditions starting with a new definition of Chrysler's link to external stakeholders. The government was given a great deal of control over Chrysler in return for the guaranteed loan that staved off bankruptcy. Modification of the political system required other adjustments, including the trimming of fat in the management ranks, limiting financial rewards for all employees, and receiving major concessions from the UAW. An indicator of a significant political shift was the inclusion of Douglas Frazer on the Chrysler Board of Directors as part of UAW concessions. This brief list gives examples of the extent to which the political system was revamped as part of Mr. Iacocca's role.

Equally dramatic was the change in the cultural system. First, the company had to recognize its unique status as a recipient of a federal bail out. This needed bailout came with a stigma. Mr. Iacocca had to change the cultural values from a losers to a winning feeling. Employees were not going to be winners unless they could in cultural norms be efficient and more innovative than competitors. This change had to be accomplished with fewer resources than competitors. The molding and shaping of the new culture was

clearly and visibly led by Mr. Iacocca who not only used internal communication as a vehicle to signal change, but used his own personal appearance in Chrysler ads to reinforce his internal messages. Quickly, the internal culture was transformed to that of a lean and hungry team looking for victory.

So what does it take to transform an organization's technical, political and cultural systems? The transformational leader must possess a much deeper understanding of organizations and their place both in the wider society and in the lives of individuals. It is this deeper understanding of social systems that the transformational leader must either intuitively know or have been formally prepared to comprehend. The ability to build a new institution requires the kind of political dialogue our founding fathers had when Jefferson, Hamilton, Adams and others debated issues of justice, equity, separation of powers, checks and balances, and freedom. This language may sound foreign to corporate settings but when major organization revitalization is being undertaken all of these concepts merit some level of examination. At Chrysler, issues of equity, justice, power, and freedom underlied many Mr. Iacocca's decisions. Thus, as a beginning, transformational leaders need to understand concepts of equity, power, freedom, and the dynamics of decision making. In addition to modifying political systems, transformational leaders must understand and realign cultural systems.

Culture plays two central roles in organizations.<sup>1</sup> First, culture provides organizational members with a way of understanding and making sense of events and symbols. Thus, when confronted with certain complex problems in an organization, employees "know" how to approach it the "right" way. For example, at IBM it is very clear to all insiders how to form a task force to solve problems since task forces and problem solving are a way of life in IBM's culture. Like the Eskimos who differentiate five types of snow and have a

vocabulary to describe it, organizations create vocabularies to describe how things are done in the organization.

A second role that culture plays in organizations is to provide meaning. It embodies a set of values which help justify why certain behaviors are encouraged at the exclusion of other behaviors. Companies with strong cultures (Deal and Kennedy, 1982) have been able to commit people to the organization and to identify very personally and closely with the organization's success. Superficially, this is seen in the "hoopla" activities associated with an IBM sales meeting, a Tupperware party, or an Amway distributor meeting. Outsiders often ridicule such activities yet they are part of the process by which some successful companies manage cultural meaning. On one level it is analogous to rituals carried out in religious groups. The key point in assessing culture is to realize that to transform an organization the culture that provides meaning must be revamped. The transformational leader needs to articulate new values and norms and then to use multiple change levers ranging from role modeling, symbolic acts, creation of rituals revamping of the human resource systems and management processes to support new cultural messages.

In addition to managing political and cultural systems, transformational leaders must make difficult decisions quickly. Leaders need to know when to push and when to back off. Finally, transformational leaders are often seen as creators of their own luck. These leaders seize opportunities and know when to act so that casual observers may perceive luck as a plausible explanation for success; where as, in reality it is transformational leaders knowing when to jump and when not to jump. Again, Mr. Iacocca can be viewed as a very lucky person or else the possessor of a great ability to judge when to jump and when not to jump. These general characteristics of transformational leaders will now be incorporated into a more detailed look at the

transformational leadership role as it gets played out across the phases of an organizational change. In the next section we identify a set of leadership behavior and tools which can help organization move toward revitalization.

### Transformation Leadership Role and Skills

At each phase of organizational transitions, transformational leaders can engage in practices which revitalize the organization. Below we highlight leadership skills at each phase which transformational leaders may practice for revitalizing organizations.

Trigger/Felt Need Phase: Identifying triggers for change and sensing felt needs require environmental scanning capability which is linked to transformational leaders need to information process and and decision making. Environmental scanning may also be done by projecting future environmental conditions which a company may face. For example, a company's future environment may require increased technical skills for continued organization sources. In this case, the transformational leader must create a vision for technological growth and development. Environment scanning occurs by assessing economic, political, and cultural trends and by projecting how those trends may affect organizational practices. When the automobile industry started in the early 1900's cars were designed for the "average" family of 4 to 5 people. However, as families became smaller in the 1960s and 1970s, smaller cars could more easily meet family transportation needs. While the economic oil crisis may have speeded up small car production, cultural trends may have eventually produced the same result. Transformational leaders must continually scan environmental changes and prepare organizational visions to match these changes.

Another major factor in organizations experiencing an appropriate felt need for change is transformational leaders performing stakeholder analysis. Stakeholders are actors external to an organization who play major roles in organizational success. Organizations are supported by a complex web of stakeholders. Relevant stakeholders include competitors, customers, suppliers, regulatory agencies, distributors, unions, stockholders, employees, and financial institutions (Ulrich, 1983). Each of these stakeholders interacts with the organization to receive necessary services. Transformational leaders must understand what stakeholders provide to and receive from their organization, so that stakeholder relationships can be maintained during organizational revitalization. During revitalization, changes likely occur in stakeholder relationships. When Lee Iacocca solicited government funds, he had to simultaneously maintain relationships with financial supporters, unions, and customers. These stakeholders had to modify their relationship with Chrysler as Mr. Iacocca made changes with government stakeholders. In setting strategies to revitalize organizations, the goals and influence of each stakeholder must be considered to determine efficient allocation resource.

The skill of identifying and responding to stakeholders is central to its revitalization strategy. An organization's multiple goals need to remain balanced with multiple goals of stakeholders. If, in developing a revitalization strategy, key stakeholders are not considered, these stakeholders will be less likely to help the company reach its revitalization goal. In an organizational transition, the ability to adapt to different stakeholder groups is critical. Since different stakeholders may have different expectations of organizations, transformational leaders need to work with each stakeholder and communicate how the organizational transition will affect each group. Lee Iacocca communicated to Chrysler workers that the short term transition,



although painful, would be essential to Chrysler's future. He also communicated to federal agencies, financial supporters, suppliers, and customers the new direction of Chrysler and how each stakeholder would be benefited by the transition from larger to smaller automobiles. He was adept at showing the importance of Chrysler to the overall economy of the United States to federal agencies, to convincing the financial community that their short term patience would be led to financial gain over time, to suppliers that they needed to endure some shortages in orders, and to customers through advertising that Chrysler was changing to meet consumer needs. Identifying and responding to interest groups is critical to both strategy formulation and organizational transition.

Stakeholders often trigger need for change. Low customer demand moved GM to design small cars. Financial institutions and loss of investor confidence triggered Chrysler's need for government support. Government legislation triggered AT&T's transition to a deregulated company. Foreign competitors triggered change in U.S. Steel. In these and other cases, triggers for revitalization came from stakeholders. Transformational leaders who maintain contact with stakeholders respond more quickly to triggers for change. Once there is an appropriate felt need for change, the transformational leader must overcome resistant forces by moving throughout the next phases of organizational transition.

Creation of a Vision Phase: In order to overcome the resistant forces triggered by a felt need for change, organizations need a vision which people can become committed to achieving. Transformational leaders need to spearhead the creation of this vision. The future vision must be shared throughout much of the organization so that members have a clear idea of where they are heading. Martin Luther King's "I have a dream" speech symbolizes

such a vision. Charles Brown, Chairman of AT&T, articulated a vision of AT&T after the break up of the system. Other leaders such as Tom Watson at IBM and Walter Reuther at UAW are remembered for their ability to shape organizational visions.

An important skill in developing a vision is to be able to define a firm's distinctive competence. Without this vision, the strategy which gets formulated may unrealistic and inconsistent with the firm's capabilities. Therefore a key transformational leader skill is to identify a firm's strengths and weaknesses, its distinctive competence. This is accomplished by leaders knowing the overall business and the areas of the business which are the firm's distinctive competencies vis-a-vis competitors. By defining a firm's distinctive competencies, transformational leaders can make decisions about where to allocate resources to maximize the probability of reaching strategic goals. Resources of the firm can be allocated to those areas which will provide the firm success over time. In the electronics industry, a number of firms have attempted different strategies. IBM's distinctive competence is its size, its ability to offer a total range of services, and its marketing ability to convince customers of its service and reputation. Some electronics firms such as Burroughs and Honeywell have tried to compete with IBM in all parts of the electronics industry. Their experience has been unsatisfactory as the distinctive competence of these firms is not the same as IBM's. In contrast, some electronics firms have worked to become a market leader in a particular niche. Intel specializes in components and chips. They have not tried to imitate some of the other multiproduct electronics firms, but identified their distinctive competence in one area and worked to leverage that distinctive competence to their advantage. Cray Electronics has

worked to become a leader in very large hardware computer technology. Strategic decisions based on the distinctive competence of the firm provide clear direction. In particular, as organizations undergo revitalization, distinctive competencies must be identified, developed or enriched. AT&T's distinctive competencies of telecommunications market share, name recognition, and technology conserve as a basis for new markets with the reorganization. However, new competencies must be developed at AT&T to compete in unregulated markets.

For managing organizational transitions, defining a firm's distinctive competence also allows transformational leaders to focus on how the transition will position the firm in the marketplace. Having a clear definition of a firm's distinctive competence helps the organizational transition define where organizational changes are necessary. For example, Intel's commitment to being a supplier of components allows Andrew Grove, Founder and President of Intel, to focus on ensuring a stable customer demand to use their components. When IBM purchased 12% of Intel's stock, Intel's major customer ensured a long term relationship with the firm thus guaranteeing that the firm's distinctive competence in components would be supported by the marketplace. A similar agreement between IBM and Rolm Corporation, a telecommunications company, signifies the breadth of efforts to link firms with complementary distinctive competencies. Also, to define a firm's distinctive competence requires an awareness of the overall business so that strengths and weaknesses in the business can be managed. Recognizing these strengths and weaknesses allows for organizational revitalizations to occur in a realistic and systematic pattern. By creating a vision through emphasis on distinctive competencies, transformational leaders embark on a valuable step towards organizational

revitalization. Following creation of a vision, commitment to the vision occurs.

Commitment Phase: It is during the commitment phase that the psychodynamics of changing people can make or break the transformation. This is the phase when an individual organization member must be helped through his or her neutral zone to find a new beginning. The process skills required of leaders in this phase are considerable. It ranges from involvement of key individuals or the dominant coalition in the formulation of the change plans. Those individuals need to be more connected and involved in central transactions of the organization change.

In addition to involving key individuals, managing the process involves setting goals which can be visible and reinforced by success. Managing the process implies getting early success in part of the transition and using those early successes to reinforce other required changes. These early successes are often communicated through stories about how an employee was particularly successful by attempting new behaviors. As such stories proliferate, patterns emerge that reinforce the transition changes (Peters, 1978). Another skill in managing the process of transition is to have gatekeepers make public statements about their response to the transition. Such public statements reinforce behavior in others as well as the gatekeepers.

It is during this phase that leaders must always be aware of the critical importance of arousing subordinates to accept the vision and to see how the vision and future will meet their needs. This means that leaders must be sensitive and responsive to employee needs and are able to help individuals manage their mixed emotions about endings, neutral zones, and beginnings.

Transformational leaders will need to act as a role model for subordinates. These leaders will embody the attitudes and behaviors which subordinates

should work to attain. Gandhi, although a political example, set the example for passive resistance to British rule. His goal was to communicate by example to others alternative actions against British rule. Transformational leaders need to look for opportunities to exhibit the behaviors embodied in the desired state vision. Leaders work to create in followers a sense of moral commitment to the company and its cause. In new firms the founder often instills this sense of moral commitment. A religious cult may be built around working for the company. Employees are seen as an "Intel" person which encompasses much personal life. In organizations which are being revitalized, transformational leaders must instill this same moral commitment that the founders did. This is precisely what happened at Chrysler.

To accomplish this commitment and moral identification the leader must systematically use symbols to create meaning. Slogans are created, rituals and ceremonies are scheduled, and visual signs are prepared, all to reinforce the new cultural values. The use of symbols, rituals, and visual signs is part of consistent communication from leaders who keep repeating and repeating the same messages about the vision and desired state. It is the consistent and constant repetition through multiple channels which helps generate the commitment.

Institutionalization Phase: The final phase of transitions, once the commitment phase has been successfully completed and individual new beginnings are underway, is to insure that the transformation is institutionalized and does not slip away. Four major sets of tools will be discussed in this section to help transformational leaders institutionalize transformation: organization structure, management processes, culture management, and human resource management systems.

Manage the Organization Structure to Meet Strategic Goals: The study of organization design has been the focus of much theory and research. While the study of organization design serves many purposes, we highlight the role which organization design plays in institutionalizing organizational transformations. Transformational leaders need to ensure that organization's structure matches strategic goals. Chandler's (1962) classic work identifies how at Sears Roebuck, Dupont and GM the strategy was closely aligned with organization structure. At GM the strategy set by Alfred Sloan was to offer a car for every potential buyer. The five divisions allowed a structure where Chevrolet, Oldsmobile, Pontiac, Buick, and Cadillac automobiles could be produced for different income levels. If the structure matches the firm's strategy, the firm is more likely to be successful in meeting its strategic goals. For example, as AT&T made strategic shifts by entering new markets, a number of organization structure changes followed. Divisions became profit centers, marketing departments became more involved in decision-making, and managers assumed more profit/loss responsibility as AT&T moved to being a competitor in the telecommunications marketplace. The structure at AT&T changed to fit with the new strategic direction of the firm. In modifying structure, leaders have a primary tool to institutionalize transitions. Structure can be one means to implement a firm's strategic goals.

As leaders define a firm's strategic goals, decisions also must be made on how to structure organization to meet those strategic goals. Decisions need to be made about centralization vs. decentralization of the firm. Centralization has advantages of economies of scale, control, and stability. Decentralization has advantages of profit centers, autonomy, and clear indicators of responsibility. Decisions also must be made in regard to

the organization's structure: functional vs. product vs. geographical vs. matrix. Each organization structure is appropriate in different environmental circumstances and managers must decide about which structure best matches organization and environment needs. Organization decisions also need to be made about roles, rules, and responsibilities.

Efforts need to be made to define what reporting relationships will be used during the transition period. Roles need to be defined so that individuals know their responsibility in the organization and how the organization is structured. Job responsibilities and who has responsibility for ensuring performance during the transition need to be defined and specified. Clear descriptions of what the organization structure will look like after the transition also need to be made to reduce uncertainty during the transition. These clear descriptions need to include clarification of roles (who will report to whom), rules (policies which might be modified by the transition), and responsibilities (who will be held responsible for different actions). Just as the organization structure needs to fit with the strategic direction of the firm, so also the organization structure needs to be managed during the firm's transition.

Manage Management Processes: In managing transitions, tools of planning, programming, and budgeting can be used by transformational leaders. Skills in these areas are central to institutionalizing revitalization. For effective planning, skills are needed in setting objectives, and specifying resources required to reach objectives. These same skills are needed for managing transitions. Objectives for the transition period need to be set. Methods, or alternative plans and procedures used in the transition period need to be specified. Resources such as people, financial support, facilities, time, and

equipment which are needed during a transition period also need to be identified. Where resources are lacking, efforts need to be made to increase those resources.

Programming refers to making specific program decisions about how to institutionalize strategic goals of a firm. Strategic programs may include new products, product modifications, new facilities, or market shifts (Stonich, 1982). When a strategic program is defined, funds must be allocated to a program so that the changes will occur. Program management requires skills in setting clear objectives about specific projects and following through with the project until its completion. Transition management requires the same skills. Defining an entire transition project is important for leaders. Allocating funds so that transitions occur smoothly is also an important ingredient to transition management. Budget decisions also need to be made which institutionalize transitions. Managing the budget strategically requires allocation of resources to ensure that neither current or future goals are compromised. It requires that leaders make decisions to support future programs while maintaining current standards. In managing transitions, the same skills are necessary. Organizational transitions also require balancing current and future financial demands. To balance current and future budget demands while in transition, leaders need to design an effective budget allocation process which identifies key decision nodes.

Culture Management. Corporate culture is a leadership tool in institutionalizing transformations. Culture refers to the shared values and norms inherent within a firm (Deal & Kennedy, 1982). An organization's culture must be managed to help organizations stabilize changes. To manage culture requires that transformational leaders identify their personal philosophy and how that philosophy is translated into organizational values and practices. Books by



Alfred Sloan of General Motors, Ray Kroc of McDonalds, and Willard Marriott of Marriott Hotels are written as statements of philosophy and culture. In revitalizing organizations, leaders need to make explicit their philosophy and the desired corporate culture consistent with that philosophy.

In addition to defining personal and corporate values, transformational leaders need to identify existing and desired cultures within their organizations. Corporate cultures can be identified by the patterns of behavior and existing practices within the company. Wilkins (1978) was able to identify existing cultures in companies by examining stories which employees continually told and which become legends and myths within the company. Transformational leaders should recognize existing cultures so that as companies engage in transitions, the changes will be enacted around specific practices and beliefs. As AT&T changes from a regulated to unregulated industry, the culture Charles Brown must work to instill is one that goes from little worry about incentives, profits, and aggressiveness in the market to one of marketing, sales, customer oriented, and market driven. This change in culture will be central to AT&T's success in a competitive environment.

As new cultural statements are defined from the leader's philosophy, those cultural premises must be shared with management and employees throughout the organization. By transformational leaders knowing their personal philosophy and their desired corporate culture, they can communicate through speeches, memos, informal discussions, and formal presentations the culture of the revitalized organization. Lee Iacocca was explicit about Chrysler's need to change from a culture of defeatism to one of aggressiveness and success. He communicated this culture to employees through a variety of leverage points. As employees caught the vision which Mr. Iacocca shared, they became more committed to the future success at Chrysler.

Finally, culture can be institutionalized through rewarding practices and activities consistent with desired values, staffing key positions with individuals who have a clear cultural bias, and developing the new cultural norms in formal training events. At General Electric, the corporate culture is a key component of the formal development programs. Managers who attend GE's training programs learn the "GE way." In addition to classroom training about GE's culture, for each group of managers who attend GE's programs, Jack Welch, the CEO, speaks about his philosophy and vision for GE and the requisite culture to accomplish his vision. For institutionalizing change, culture is a key management tool. In the transition state, leaders need to identify the elements of the culture that need to be maintained, eliminated, and introduced. As this is done, transformational leaders can communicate the new culture throughout the company.

Manage Human Resource Management: Perhaps the most powerful means for institutionalizing change are the people systems in organizations. The human resource processes of staffing, appraising, developing, and rewarding direct energies and activities. When it comes to institutionalizing change, these systems need to be redirected.

Managing the staffing function requires projecting present and future staffing needs, fitting people to roles, and setting up day to day monitoring systems. It also requires managing succession politics such as who gets ahead and how they get ahead and requires selection and placement of key gatekeepers of the desired culture. In particular, leaders might address the following staffing decisions:

What types of individuals need to be hired to support a future desired state after the transition is complete?

What individuals do we need to hire during the transition to signal to employees and other stakeholder groups the direction of the transition?

What staffing needs can we meet within the company to signal the direction of the transition?

For transformational leaders, the above issues are salient. Jack Welch, CEO at GE, has stated that "strategy follows people." He believes that if correct people are placed in appropriate organizational positions, revitalizations are more likely to occur. In addition, selection and succession of employees during a transition serves as important cues to employees of the company's future vision and the leader's commitment to allocating resources to ensure that the transition will occur.

Managing development systems requires that attention be paid to both formal training programs and on-the-job training programs. These development programs need to be consistent with transition needs of the firm so that as the transition evolves to a new desired state, key individuals in the transition will have acquired necessary skills to fulfill their modified responsibilities. Transformational leaders manage development systems by deciding individuals and departments to receive developmental efforts and by responding to the following questions:

What training do we need to provide current employees so that they fit with future goals of the company?

What will the impact on careers be from the transition?

What socialization procedures are in place to help new employees understand the direction of the firm? What individuals are running this program? Could we involve other key gatekeepers of the organization's transition to orient new employees?

Development requires identifying the key individuals who will be required to support the transition and working with those individuals to voice their public commitment to the transition process. Development efforts can also be made to mold and shape the organization's shared values. The formal development programs should be consistent with the culture implicit with the organization's transition. This may involve socialization of new employees to the

organization's pivotal values (Schein, 1968) and awareness of current employees to new values inherent in the transition.

Appraisal systems need to be developed which determine the behaviors which will be rewarded, how to measure performance, and how to administer benefits and compensation during and after the transition. The appraisal system must also be designed to deal with issues of equity (are different groups in the organization appraised equitably?) and involvement (who is involved in the appraisal process?). In addition, transformational leaders might address the following appraisal issues:

What skill mix is critical to meeting the objectives set forth in the transition plan?

How will future appraisal systems match with goals of the firm?

How do we manage short term appraisals (while in transition) and how will those appraisals be consistent with future appraisal systems?

During the transition, these issues become sensitive as new roles are assumed and changes are enacted. The appraisal system must also be designed to measure behaviors which are consistent with the culture implied by the transition. As AT&T moves from a regulated environment to the competitive telecommunications environment, new appraisal systems must be developed which focus on behaviors consistent with the desired state implied by AT&T's transition. The culture changes which will be needed for AT&T to accomplish its transition will need to be built into the appraisal system.

Reward systems also must be consistent with the transition. Linking the reward system to the desired state of the transition is important to focusing individual's attention on embarking on new beginnings. Designing rewards and specifying performance criteria for rewards during and after a transition enable the transition to occur more quickly. Issues of who gets what and how are central to reward systems during organizational transitions.

Having key gatekeepers rewarded for working towards the desired state implied by the transition overcomes some of the common resistance to change. Reward systems during transitions must also fit with the desired culture implied by the transition. Some specific reward issues include:

How will the reward system need to be modified for the transition to occur? In particular, how will gatekeepers in the firm need to be rewarded to get their commitment to the transition plan?

How do we motivate other employees to see the value of adopting the transition plan for their personal needs and desires?

What alternative rewards might we employ to gain commitment to a transition plan?

Rewards need to be designed to shape and reinforce the culture of the organization both during and after the transition. Incentive systems need to be designed to motivate individuals to work towards accomplishing the transition (Lorange & Murphy, 1982).

As HRM systems of staffing, development, appraisal, and rewards are used to institutionalize change, transformational leaders should be more able to revitalize organizations. By working HRM issues during transitions, leaders and organizations should accrue the following benefits:

1. A sensitivity to people. Organizations do not make transitions, people do. Working explicitly on managing the issues most critical to individuals (staffing, development, appraisal, and rewards), leaders can direct the transition so that it occurs smoothly and effectively.
2. An ability to prepare managerial and technical talent during and after the organizational transition. Ensuring that the right people are in the right place at the right time (staffing) and with the right skills (development) will help the organization institutionalize a new vision.
3. An ability to overcome resistance to the transition. Using appraisal and reward systems consistent with the firm's future desired state should help overcome technical, political, and cultural resistances to change.

Issues addressed by HRM concepts can help an organization institutionalize change. In linking HRM concepts and organizational transitions, a number of key skills can be practiced by transformation leaders to institutionalize the transition process.

Implicit in the above discussion about institutionalizing change is the fact that for transitions to last, transformational leaders need to spend more time thinking about, discussing, and working on HRM issues. Some of this time may be shared by forming a transition team which includes experts in HRM to raise questions such as those reviewed above. Spending time with HRM issues should help stabilize organizational transitions.

In addition to spending time thinking about HRM issues, efforts need to be made to collect and process information about HRM. Collecting information on HRM and strategy might help transformation leaders allocate resources to stabilize organizational revitalization.

### Conclusion

While difficult to project all dilemmas which organizations will have to overcome in the future, two likely dilemmas can be posited. First, increasing economic, political, and cultural environmental pressures for change will likely force organizations to make continually changes to respond to such externally triggered demands. Second, the next decade is likely to be a less resource rich environment. Organizations which succeed will have to do so by more efficiently managing scarcer resources. To successfully lead organizations in times of change, transformational leaders are necessary. Transformational leaders move organizations from current to future states, create visions of potential opportunities for organizations, instill within employees commitment to change and instill new cultures and strategies in organizations

which mobilize and focus energy and resources. Transformational leaders are necessary to lead individuals and organizations through transition.

Transformational leaders help individuals work through endings, neutral zones, and new beginnings during transition state. Transformational leaders move organizations through transitions by working through the transition phases of trigger/felt need, creation of a vision, commitment, and institutionalization. In this chapter, we have identified skills which transformational leaders can practice to allow individual and organizational transitions to come to fruition.

Transformational leaders are not born. They arise when mature organizations face environmental problems which cannot be solved by slow evolution. They assume responsibilities for reshaping organizational practices to adapt to environmental triggers for change. They proactively direct organizational changes which instill confidence in employees for new ways of doing things. They help overcome resistance to change by creating visions which evoke confidence in new organization practices. Over the next decade, transformational leaders will become more evident in organizations able to respond to changing, resource scarce environments.

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