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WINNING ON THE GLOBAL PLAYING FIELD OF THE 1990s
THE TRANSFORMATIONAL LEADER

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INTRODUCTION

The global playing field of the 1990s is ushering in an era when multinational companies will be divided into two tiers. There will be a small, elite group of true world class companies capable of competing globally in terms of product quality, innovation, cost, and distribution and marketing muscle. The second tier will suffer continuous casualties among their ranks as they fail to compete successfully.

The key competitive advantage is an ability to continuously transform the company. Either corporations learn to make such transformations or they will lose in life endangering ways. The environment's capacity for inflicting life threatening damage on a corporation is intensifying rapidly; it took 25 years for the decline of U.S. Steel; 10 years ago GM had the best balance sheet in the world, now 10 years later it has little cash, its market value is 1/2 that of GE, it lost 5 points of market share in the last year and is hemorrhaging badly; Bank of America went from the largest bank in the U.S. to one living on life support systems from Japan; Citibank was the largest bank in the world for a while,

now it is barely in the top 10 and had to sell half of its New York headquarters to Japanese interests to help finance its write-down of the third world bad loans; finally, three years ago IBM was considered the invincible number one corporation in the world with prospects of growing to a \$185 billion company in ten years, instead within three years its sales have stayed flat at about \$50 billion, its net income has declined and things look worse before they get better. The transformational challenge is clear. No one is safe. The new world class competitors of the 1990s will be led by transformational leaders who will continuously revitalize their companies to:

- I. DEVELOP GLOBAL PRODUCT AND SERVICE STRATEGIES - as companies look more aggressively to world markets they are faced with developing world class products and services at world class costs. This means changes in product and service design, production, distribution and marketing. The leaders must be able to implement:
 - *New Forms of Design Teams
 - *Strategic Use of Sourcing
 - *World Class Standards for Design, Service and Performance
- II. DEVELOP STRATEGIC ALLIANCES - in order to deliver on global strategies, more and varied alliances are emerging - these are partnerships which are needed to gain market entry, price competitiveness, gain technology, develop new learnings about management, etc. The success of these alliances will be largely determined by a set of human factors, proper pre-screening of partners, proper negotiation, the right conditions for partnering and good coordination and integration mechanisms.
- III. DEVELOP NEW GLOBAL COORDINATION AND INTEGRATION MECHANISMS - as the boundaries span wider geopolitical and cultural diversity so does the difficulty of integrating the organization. Communication and cultural integration will be required - all of the human resource systems will be impacted.

- IV. DEVELOP NEW GLOBAL STAFFING AND DEVELOPMENT PROCESSES
- growing world class leaders will be the key to competitiveness. Staffing and development systems are outdated. A struggle is on to find the answer; the challenge is clearly there, either have world class leaders or don't survive.

THE TRANSFORMATIONAL DRAMA

Transformational leadership is about change, innovation, and entrepreneurship. I agree with Peter Drucker that these are not the provinces of lonely, half-mad individuals with flashes of genius. Rather, this brand of leadership is a behavioral process quite capable of being learned and managed. It's a leadership process that is systematic, consisting of purposeful and organized searches for changes, systematic analysis, and the capacity to move resources from areas of lesser to greater productivity.

The strategic transformation of organizations is a discipline with a set of predictable steps. Though complex, transformation can be thought about and acted on with a framework that's easy to understand. I see corporate transformation as a drama that can be thought about in terms of a three-act play.

This three-act play is portrayed in Figure 1. It has a set of dynamics which the organization goes through, as well as a set of individual dynamics associated with each act. In The Transformational Leader, Mary Anne Devanna and I trace the

drama of a group of protagonists as they struggle to revitalize their companies. The protagonists were chosen from dramas that we have had the opportunity to observe. Some have received a great deal of attention while others have played to smaller houses. Although most of these leaders were senior-level managers when their plays began, the lessons they have learned are applicable and useful for middle managers as well as policy makers. The purpose of our book was not to present actions for managers to imitate, but to spread a new way of thinking about corporate transformation as an everyday way of acting. The protagonists are:

- *Michael Blumenthal, CEO, Burroughs Corporation
- *Jeffrey Campbell, president, Burger King
- *Alex Cunningham, Lloyd Reuss, and Robert Stempel, senior executives, General Motors Corporation
- *Frederick Hammer, executive vice-president, Chase Manhattan Bank (currently CEO of Meritor)
- *John Harvey-Jones, chairman, Imperial Chemical Industries
- *Lee Iacocca, CEO, Chrysler Corporation
- *Mary Ann Lawlor, CEO, Drake Business Schools
- *James Renier, vice-chairman, Honeywell
- *Jack Sparks, CEO, Whirlpool Corporation
- *Edward Thompson, president, Schneider Transport
- *Jack Welch, chairman, General Electric

Insert Figure 1

(all figures are attached at the end of the article)

THE DRAMA: LEADERSHIP AND PARADOX

Leaders must deal with the tensions of the middle manager whose organization is about to embark on a major transformation. Many of the tensions involve the paradox of changing what has been successful.

Our transformational leaders deal with these feelings by creating organizations that embrace paradox, that are characterized by the ability to manage uncertainty.

Paradoxes create the dramatic tensions in our transformational drama. They include:

*A struggle between the forces of stability and the forces of change. Successful organizations must find ways to balance the need for adaptation with the need for stability.

*A struggle between denial and acceptance of reality. Potential revitalization dramas become tragedies when key protagonists attempt to deny reality and hide from its implications.

*A struggle between fear and hope. Organizations can regenerate themselves. The process, however, necessitates that the aging and increasingly impotent form be destroyed before a new form can emerge. The faith that destruction will result in rebirth is tied to the tension between stability and change and countered by the denial that change is necessary.

*A struggle between the manager and the leader. Managers are dedicated to the maintenance of the existing organization,

whereas leaders often are committed to its change. A tension arises between doing things right and doing the right things.

THE ORGANIZATION DURING ACT I

*Trigger_events. Environmental pressures trigger the need for change, though not all organizations respond to such signals. The failure of leadership to respond litters our economic landscape with bankruptcies.

*Felt_need_for_change. Once leaders accept the fact that their business environment is changing, key decision makers in the organization must be made to feel dissatisfaction with the status quo. Feeling the need for change provides the impetus for transition, and this process requires able leadership.

THE ORGANIZATION DURING ACT II

*Creating_a_vision. In organizational transformation, leaders need to create a vision of change that a critical mass of employees will accept as desirable for the organization. The vision and its communication must match the leader's philosophy and style.

*Mobilizing_commitment. When the organization, or at least some critical mass within it, accepts the new vision and makes it happen, the leader must tap into a deeper sense of meaning for the followers.

THE ORGANIZATION DURING ACT III

*Institutionalizing change. Revitalization becomes reality when the new way of thinking becomes day-to-day practice. At a deeper level, this requires shaping and reinforcing a new culture that fits the revitalized organization. It requires a new architecture for the organization's human resource systems, structure, and management.

THE INDIVIDUAL DURING ACT I

*Endings. All individual transitions start with endings. Employees who cling to old ways of doing things will be unable to adjust to new demands. They must follow a process that includes disengagement from the past, disidentification with its demands, disenchantment with its implications, and disorientation while learning new behaviors.

THE INDIVIDUAL DURING ACT II

*Transition state. Employees need time to disconnect from the past and commit emotionally to the future. This neutral zone causes the most trouble in action-oriented cultures, for it tends to be viewed as nonproductive. Yet it can mean the difference between success and failure in organizational transformations.

THE INDIVIDUAL DURING ACT III

*New Beginnings. Once employees are ready to deal with a new order, they must be prepared for the frustration that accompanies failure as they replace thoroughly mastered routines with a new act.

LEADERSHIP CHALLENGES
IN EACH ACT OF THE DRAMA

ACT I: RECOGNIZING THE NEED FOR REVITALIZATION

Challenge_1: Avoid the boiled frog phenomenon. This phenomenon is based on a classic experiment in biology. A frog which is placed in a pan of cold water, but which still has the freedom to jump out can be boiled if the temperature change is gradual, for it is not aware of the barely detectable changing heat threshold. In contrast, a frog dropped in a pot of boiling water will immediately jump out; it has a felt need to survive. In a similar vein, many organizations that are insensitive to gradually changing environments are likely to become "boiled frogs", they act in ignorant bliss of environmental triggers and eventually are doomed to failure. Transformational leaders first test is creating change early, before there there is a dip in net income, market share or business performance.

Challenge_2: Overcoming resistance to change. Creating a felt need for change unleashes a mix of forces - both a

positive impetus for change, as well as a strong resistance among individuals and the organization as a whole. Resistance comes from each of three interrelated systems - technical, political, cultural - which must be managed in the process of organizational change.

Managing technical systems refers to managing the coordination of technology, capital, information, and people in order to produce products or services used in the external marketplace. Managing political systems refers to managing the allocation of organizational rewards such as money, status, power, and career opportunities and to exercising power so employees and departments perceive equity and justice. Managing cultural systems refers to managing the set of shared values which guides the behavior of members of the organization.

Technical, political, and cultural resistances are most evident during early stages of an organization's transformation. Figure 2 lists examples of resistance during a transformation.

(insert Figure 2)

Challenge_3: Avoiding the quick fix. Overcoming resistance to change requires transformational leadership, not defensive, transactional managers who are in search of the one-minute quick fix.

The scenario which has been followed in many major U.S.

and European firms goes something like this: the CEO wants to develop the company value statement, so he organizes an off-site meeting in order to spend a couple of days developing the company's value statement. The session is usually enlightening - managers become quite thoughtful, and soul-searching takes place. At the end of the session, the group is able to list the company's "ten commandments". The CEO is delighted that they are now well on the way to a major cultural change. He brings the ten commandments back to the corporation and calls in the staff to begin the communication program so that all employees can learn the new cultural values.

The problem with the "ten commandments" quick fix is that the CEOs overlook the lesson Moses learned several thousand years ago - that getting the ten commandments written down and communicated is the easy part; getting them implemented is the challenge.

Figure 3 provides a set of action planning questions and guidelines for transformational leaders.

(insert Figure 3)

ACT II: CREATING A MOTIVATING VISION

The next phase of the transformational's work is to provide the organization with a vision of the future. While this task may be shared with other key members of the

organization, the vision remains the core responsibility of the transformational leader. The leader needs to integrate analytic, creative, intuitive, and deductive thinking. Each leader must create a vision which gives direction to the organization while being congruent with the leader's and the organization's philosophy and style.

The challenge is to create a vision that correctly responds to environmental pressures and needs within the organization.

Second, there is mobilization of commitment. Here, the organization accepts the new mission and vision and makes it happen. Mobilization of commitment must go well beyond five-day retreats. It is in this phase that the transformational leaders acquire a deeper understanding of their followers.

Figure 4 provides action planning guidelines for articulating the vision and dealing with the commitment process for the new vision.

(insert Figure 4)

ACT III: INSTITUTIONALIZING THE CHANGE

The final challenge is to institutionalize the new vision. This requires re-architecting the organization's fundamental technical, political, and cultural systems. It is much like reweaving the strands of a rope. A rope is strong to the extent that its strands are interwoven and mutually

supportive, so too an organization. In transforming an organization, the fundamental technical, political, and cultural systems require adjusting. The transformational leader must be prepared to address the redesign of all nine cells of the matrix in Figure 5.

(insert Figure 5)

Figure 6 provides action planning guidelines for the final act of the drama.

(insert Figure 6)

THE EPILOGUE: HISTORY REPEATS ITSELF

The true transformational leader must be prepared to avoid the "boiled frog" phenomenon all over again. Lee Iacocca at Chrysler is having to create a new sense of urgency for his organization in 1988 as it begins to slip again. Jack Welch at GE is creating a new sense of urgency about the 1990s, pushing businesses such as Major Appliances, Aircraft Engines, Aerospace, and NBC which have been big winners in the 1980s to wake up for a new round of transformations in the 1990s.

THE TRANSFORMATIONAL CHALLENGE

The previous section outlined requisite processes for organizational revitalization. Although organizational steps

are necessary, they are not sufficient in creating and implementing change. In managing transitions, a more problematic set of forces which focuses on individual psychodynamics of change must be understood and managed. Major transitions unleash powerful conflicting forces in people. The change invokes simultaneous positive and negative 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 positive emotions, and mobilize and focus energy that is necessary for individual renewal and organizational revitalization.

I conclude with the following challenges for the transformational leader of the 1990s. The winners will be able:

- *To have the capacity to turn threat into opportunity, be able to excite others about a new vision.
- *To motivate people to excel, not just to survive.
- *To be able to drive organizational innovation into the marketplace at a much faster rate.
- *To have the ability to operate in global marketplaces, have analytic frames for new thinking, and cross-cultural problem-solving skills for negotiating and partnering around the world.
- *To invent new organizational forms from shop floor innovative work design, on up through new organizational structures, joint ventures, and strategic alliances around the globe. Team building capabilities are critical.

Figure 1

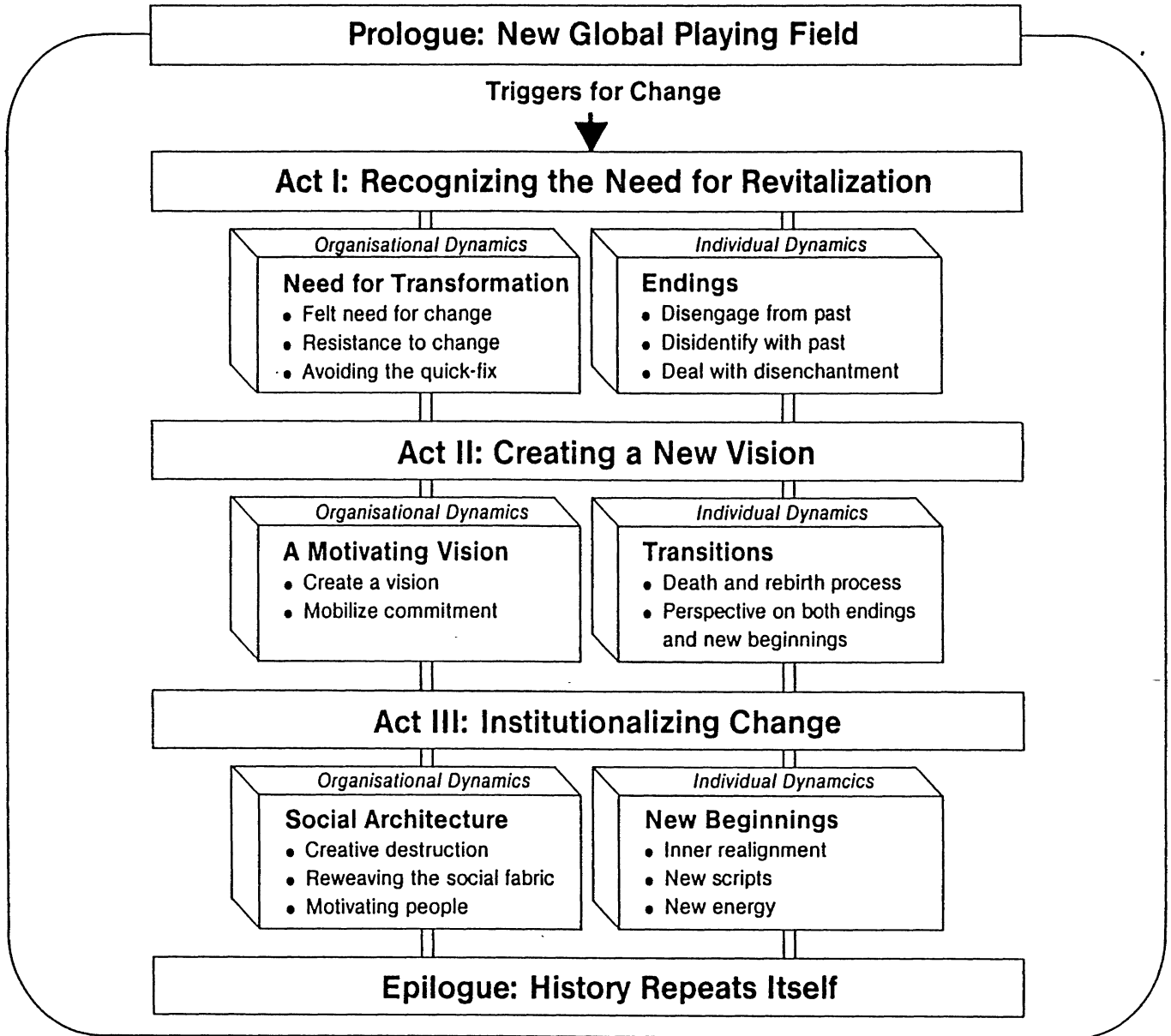


Figure 2

A List of Technical, Political, and Cultural System Resistances

Technical System Resistances include:

Habit and inertia. Habit and inertia cause task-related resistance to change. Individuals who have always done things one way may not be politically or culturally resistant to change, but may have trouble, for technical reasons, changing behavior patterns. Example: some office workers may have difficulty shifting from electric typewriters to word processors.

Fear of the unknown or loss of organizational predictability. Not knowing or having difficulty predicting the future creates anxiety and hence resistance in many individuals. Example: the introduction of automated office equipment has often been accompanied by such resistances.

Sunk costs. Organizations, even when realizing that there are potential payoffs from a change, are often unable to enact a change because of the sunk costs of the organizations' resources in the old way of doing things.

Political System Resistances include:

Powerful coalitions. A common threat is found in the conflict between the old guard and the new guard. One interpretation of the exit of Archie McGill, former president of the newly formed AT&T American Bell, is that the backlash of the old-guard coalition exacted its price on the leader of the new-guard coalition.

Resource limitations. In the days when the economic pie was steadily expanding and resources were much less limited, change was easier to enact as every part 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 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.

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. Example: Roger Smith, chairman and CEO of GM, must implicitly indict his own past behavior as a member of senior management when he suggests changes in GM's 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 the outside, such as Lee Iacocca, who does not have to indict himself every time he says something is wrong with the organization.

Cultural System Resistances include:

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.

Security based on the past. Transition requires people to give up the old ways of doing things. There is security in the past, and one of the problems is getting people to overcome the tendency to want to return to the "good old days." Example: today, there are still significant members of the white-collar workforce at GM who are waiting for the "good old days" to return.

Lack of climate for change. Organizations often vary in their conduciveness to change. Cultures that require a great deal of conformity often lack much receptivity to change. Example: GM with its years of internally developed managers must overcome a limited climate for change.

Figure 3 cont.

ACT 1 (Continued)

4. What "quick fix" solutions have failed or must be avoided?

Action Implications

Failed:

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Avoided:

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Figure 5

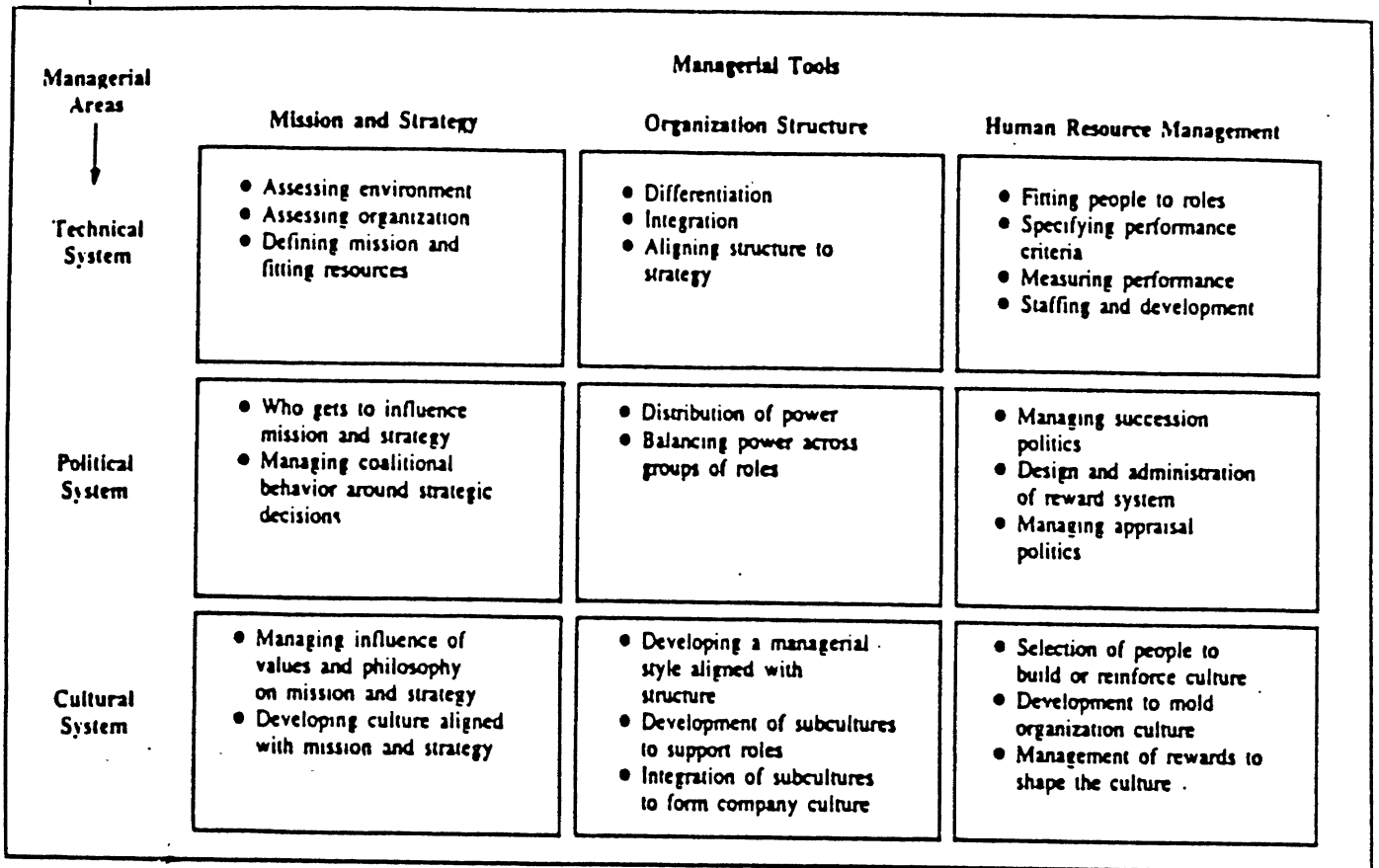
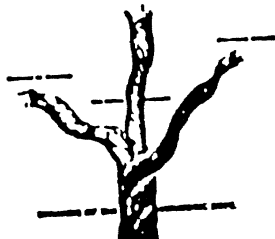


Figure 6

ACT III: Transformational Leader Action
 Planning Guidelines

Reweaving
 the
 strategic
 rope



7. What are the major social architectural attributes, what are the critical characteristics?	<u>Action Implications</u>
Technically (technical and structural) <hr/> <hr/>	
Politically (power, decision-making, rewards) <hr/> <hr/>	
Culturally (shared values, management style) <hr/> <hr/>	
8. What is your first action step? <hr/> <hr/>	