HARVARD | BUSINESS | SCHOOL
WORKING Knowledge

Leading Large-Scale Change

HBSWK Pub. Date: Feb 6, 2006

Can large-scale change in an organization be made self-sustaining? Yes, says Jonathan Byrnes: It's all about leadership.

by Jonathan Byrnes

How can a leader move his or her organization to the point where large-scale change is self-sustaining?

This question is crucial for virtually all business leaders at critical points in their careers. Most of the time, business leadership consists of constant improvement in a generally satisfactory situation. But at key times, a manager must lead large-scale disruptive change, generally turning around a problematic situation or managing a major merger. The process of leading large-scale change is completely different from managing constant improvement.

The need for periodic large-scale change is rooted in human nature. When people interact in organizations, they naturally form repetitive patterns of activities, and continue them as "the way we do business." This is fundamentally constructive, because without these patterns, organizations would be chaotic.

However, these patterns of activities become very entrenched and difficult to change. Over time, most organizations lose their effectiveness as the environment around them requires new and different ways of doing business. Ironically, the more successful a company is the more deeply rooted and change-resistant the longstanding ways of doing business become.

To the company's managers and workers, the underlying reason for the company gradually veering away from what the market needs is almost invisible. These individuals usually focus almost entirely on implementing the company's business processes, and rarely think about the underlying patterns themselves.

Survivor mentality

When a company experiences a widening gap between what worked in the past and what is needed in the future, its market share declines, and sooner or later its financial performance degrades as well. The natural reaction is to work harder at doing the things that brought success in the past. Unfortunately, this usually does not help, and the organization gets increasingly dispirited.

It is critical to link the organizational change to the changing company situation in a very explicit way.

I've seen this in a number of companies. The managers become risk-averse, bureaucratic, technically oriented, tactical, and reactive. They focus on hard work rather than results. When the hard work fails to pay off, cynicism sets in. I think of this as a "survivor mentality," where managers know that the old way of managing is problematic but they don't see a way to get out of the box.

At this point, top management typically tries a number of initiatives to reengage the company's best managers in creative decision making. However, in most cases while each initiative may have merit, together they do not achieve critical mass for self-sustaining change. This creates an extremely dangerous situation: If the company's top managers feel that their best efforts at reforming the company cannot bear fruit, they become very disillusioned and begin looking around for other jobs. If they leave, the company is left with its weaker managers, and a downward spiral quickly sets in.

What can a business leader do about this?

At this point top management faces a huge opportunity or a monumental problem, depending on how they manage it. In this situation, organizations almost always head in one of two directions. Either the managers will "put their heads down" and try to wait for the storm to blow over, or they will pick up the company and move it forward.

What success looks like
The leadership process a company's top management adopts determines which path their managers choose. The first key to success or failure is whether top management can convince the managers throughout the company that the organizational change and a new way of doing things are part of a package that will enable the company to become successful and to prosper over the long run.

It is critical to link the organizational change and the new way of managing to the changing company situation in a very explicit way. It is not enough to say that innovative management will benefit the company. This is too vague.

Here's an example of an explicit linkage: In the mid-1980s, the U.S. government instituted major price pressure on hospitals, and the hospital supply industry felt a severe squeeze. At the time, I advised one of the major hospital supply companies. It was not enough to say that there was revenue pressure and everyone had to get more efficient and creative. Rather, we looked closely at the company's customer relations with major hospitals and saw that it could transform its business by managing the inventories within the hospitals.

This was the beginning of vendor-managed inventory. In early showcase projects, the company saw over 35 percent sales increases in its most highly penetrated accounts. With this evidence of potential success, it was possible to motivate the company's managers to organize and manage the company in a new way. They had a clear vision of "what success looked like" and "why it looked like that." This motivated them to renew the company. (See Profit from Customer Operating Partnerships.)

These managers became very innovative, creative, and productive, and led the industry for years.

Here's another example. When the telecom companies (RBOCs) were divested from AT&T, and cost-plus regulation ended, I worked with several of the major telecom companies to reposition for success in their new situation. Again, it was not enough to point to deregulation and exhort the managers to change.

For large-scale renewing change to be successful, it has to be comprehensive and bold.

Instead, we looked carefully at the changing market. We saw that competition was entering in a very geographically defined way. This led to two imperatives: (1) There had to be a reorganization to coordinate the targeting of customers and provision of service on a geographic, rather than network-wide, basis; and (2) there had to be a new process for prioritizing and allocating resources among the geographic units based on profitability and market potential. These imperatives became the guideposts for major organizational change.

The managers who went through this change now run one of the most successful companies in the telecommunications industry, and have been among the top-performing managers in all of telecom for decades.

For large-scale renewing change to be successful, it has to be comprehensive and bold. Managers will resist the change unless they see that it will make a major difference in the company's prospects. Unless the change is large enough, the managers will backslide.

This principle also is the critical success factor for managing a major merger. In my experience advising merging companies, the mergers that are most successful are those in which the merged company forges a fundamentally new strategy that builds on the relative strengths of each party, and that neither party alone could have executed. The new strategy must be explicit and detailed enough so managers throughout the merged company really believe it will bring them success.

In this way, top management can create a win-win situation in which all the managers in both merger partners can focus constructively on building a new company that is better than either former company. In the absence of this, mergers usually devolve into zero-sum political bickering over which company "wins." Note, however, that this is not always necessary when a large company acquires a smaller company for geographic, account, or product line extension.

Relentless and unwavering
In leading the change process, top management must be relentless and unwavering. They must be consistent in their message that change is necessary for the company's survival, and that their concrete view of "what success looks like" will turn around the company's declining results. The only way to accomplish this is to root the change in the incontrovertible, observable needs of the company to meet its changing external

circumstances.

The actual process of positioning and meting out the change depends on the particular circumstances of the company. In a recent column I describe the critically important role of establishing a series of "base camps" in the change process.

In managing large-scale change, as in climbing a high mountain, base camps allow the participants to undergo change in a manageable way, to adjust to new ways of doing things, and to realign the company along the way. In most change situations, as in many ascents, the best specific ascent route will not be clear until the next base camp is reached.

Focused action training is very important. Action training is a process in which the management team meets regularly over a period of several months to work through cases and other teaching materials and, at the same time, to apply the principles to the process of changing their business. This is a very effective way to teach a new way of doing business, to forge a new group understanding and identity, and to build a new set of concrete plans for changing the company.

Action training was a key to the success of the telecom company I mentioned earlier. (See Action-Training for Effective Change.) The training must be very action-oriented, rather than general and abstract. It should focus on building new plans and processes that can be executed quickly.

Shadow of the leader

There is a term, "shadow of the leader," which means that managers in an organization do what their leaders do, not what they say. Depending on how comprehensively and relentlessly they act, a company's top leaders will either accelerate positive change or accelerate cynicism.

If the executive team does not fully adopt comprehensive, renewing change when needed, and treat it as the company's number one priority, managers throughout the company will do what these top managers are doing, regardless of what they say.

On the other hand, a top management team that commits to the path of constructive, comprehensive change as the company's number one priority, and reflects this in their day-to-day activities rather than treating change as a side project, will cast the right shadow, and lead the company to long-term success. wK

See you next month . . . here and at my Web site!

Jonathan Byrnes is a senior lecturer at MIT and President of Jonathan Byrnes & Co., a focused consulting company. He earned a doctorate from Harvard Business School in 1980 and can be reached at jlbyrnes@mit.edu. Please see his Web site http://mit.edu/jlbyrnes and join a discussion forum on his articles and other topics of interest.