People

Changing for the better

It's hard to find any company that isn't concerned with change. But are the company and its leaders capable of changing? **Michael Jarrett** has pinpointed the five factors that separate the change masters from the change challenged.

Michael Jarrett is an Adjunct Professor of Organizational Behaviour at London Business School. In addition to his academic credentials, he has actually managed in the corporate world. He has also published numerous articles on the subject of corporate change and recently led a study of hundreds of organizations to find the factors that most affect the outcome of a corporate change strategy. As he says in this interview with Tom Brown, he has set for himself the goal of unlocking the DNA of successful organizational change.

You have been studying change for two decades. Why such an extended interest in this subject?
Over the last two decades, I have grown more and more fascinated by the fact that, although so many organizations claim both to need and desire major change, so few companies achieve the level of change they require to sail into the future. I often quote Charles Darwin to groups I address. He once noted, "It's not the strongest of species that survive, nor the most intelligent, but the one most responsive to change." That's the question that has kept my interest alive and growing: what makes an organization responsive to change?

Do you have a sense of the major obstacles that block organizational change?
Yes. It's important to note that every company changes to some degree. The important point to measure is whether a company has both positive and sufficient change for the market conditions in which it operates. More often that not, companies stumble. Sometimes very badly. Whenever I hear of this happening, three obstacles come immediately to mind as probable reasons for a corporate fall. A change initiative can trip over managerial factors, environmental conditions, or organizational issues. Naturally, many people first think of environmental conditions. This occurs when there are ecological and industry dynamics at play – as when IBM was stuck on selling mainframes to a world moving toward PCs. Anytime there's disruptive technology, or legislative changes, or new competitors (among other sweeping changes in one's business environment), such changes can catch a company unaware and impede even the very successful enterprise.

Which is why the management and the organization must be factors as well?
Every leadership team faces the prospect of having its own mental models, biases (making only products they like to make) or blind spots (not keeping up with trends). Polaroid's painfully slow move, that took nearly two decades, from thin film to digital is an excellent example. In other →

→ instances there could be damaging unresolved conflicts among the top team. These kinds of things affect the organization's change responsiveness.

A closed culture

But what if environmental factors are dealt with and the top team is sharp; can the organization itself be the reason why positive change does not occur?
Absolutely. A company can have a corporate culture that is closed to learning new habits; if you will, such companies cannot learn how to play in a new game (as IBM did when it realized that mainframes weren't going to be their key to the future). Organizations can also have an unhealthy degree of structural inertia. They can be rife with organizational silos, a structure in which the key units of the enterprise don't communicate or work well with other units. Lastly, organizations can know what needs to be done and just be inept at doing it. How many great strategic plans have flopped due to poor execution? And, I might add, many organizations are overflowing with a level of political machinations, self-interests doing battle with one another, or emotions that are over-powering a reasoned focus on the challenges at hand.

A company can have a corporate culture that is closed to learning new habits; if you will, such companies cannot learn how to play in a new game.

You're not speaking here just from your own personal experience, are you?
Not at all. While I have, in both my own business career and my academic career, confronted the need for major change, I have also been part of a team of people researching what's happening with organizations and change on a worldwide basis. In all, we've examined 4,500 individuals in 255 organizations. These span 25 business sectors, and only a little more than one-quarter were based in the UK. We've taken our studies around the world, from Australia to Zaire. And, if there's one headline to all this work, it's this: there appear to be five factors that most influence the success or failure of a change initiative. Whether the organization is large or small, these factors seem to play an interconnected and critical role in whether a company implements positive change in significant enough proportions to keep the organization stable and, hopefully, successful.

What's the first factor?
Companies need to scan and do constant "radar sweeps" of the environment for trends that will – or might – affect their business. This translates into a lot more than just reading the business journals or keeping up with the news. They need to collect information about what their competitors are doing, what their customers are thinking, they need to be cognizant of the "soft data" that comes from their own workers and managers conversing about what they're seeing in the marketplace. All of this must be sifted through rigorous strategic analysis in an ambience of being willing to anticipate change, not just wait till it wallops the company over its collective head. I call all this *scanning the horizon.*

But is scanning enough?
No, and that leads me to the second factor. Companies have to read the signs of the times. This involves "sense making" of the data with regard to its organizational implications, interpreting sometimes seemingly incongruous or unrelated data to see if the dots connect to a pattern of significant change. Top management needs to construct, test and polish its process for doing all this. Companies spend inordinate amounts of time working on how they will assemble their strategic planning processes. They have to spend equal amounts of time on analysis of changing marketplace conditions. Of course, such a process must be relatively free of political biases or emotional distortion. Companies need top leaders who can make decisions about change using rational insights and solid judgement. After all, the entire future of the company could be on the line.

Taking action

When does a company act? Isn't action important?
Absolutely. But it's important to note the third factor that we found critical to a successful change effort. Before acting in a major way, the company needs to harness internal ingenuity by fostering innovation and collaboration. It's too easy, I'm afraid, for a company to become as myopic in dealing with change as it might have been in failing to take the widest possible view of what's happening in its industry and marketplace. Companies that can leverage a special openness to differences and diversity – tapping into the interpretations and recommendations of many different kinds of people – are much more likely to come up with the best plan of response to a major set of changes challenging them. Likewise, these same companies

All at sea

(perhaps because of their openness to differences and diversity) display a willingness to innovate and to use conflict as a source of new ideas. Another way to say this is that such companies learn quickly how not to fear doing things in a whole new way; they take risks and encourage mistakes as part of the required learning which will make any actions they take, by design, relatively more prudent actions.

If you ever look at a major sailing race, the winning boats do not move in straight lines. They tack from left to right and back again to gain as much advantage as they possibly can from prevailing winds.

Can companies facing major change afford to make mistakes?
I often speak to audiences in sailing terms since that analogy works for me whenever I'm talking about organizational change. If you ever look at a major sailing race, the winning boats do not move in straight lines against a prevailing wind. They tack from left to right and back again to gain as much advantage as they possibly can from prevailing winds. And, to address your question, they sometimes run aground. I love the quote from famed sailor and boat builder, Don Bamford: "Only two sailors, in my experience, never ran aground. One never left port and the other was an atrocious liar." Anyone who says that their company dealt with major change in a straight-line, no-mistakes-made way ought to consider the wisdom of Don's comments.

Then it's okay to start dealing with change without being paranoid about hitting some turbulence?
Turbulence will happen whenever major change is on the corporate agenda. It creates anxiety and unpredictable behaviours. Thus, the fourth factor that makes some companies successful in managing change, and some not, deals with the social dynamics of change. When, after data collection, →

→ analysis, debate and wide involvement, a company does respond to a challenging change, they need to do so by making sure they fully understand how their own people and organizational culture can derail their chances for success. Companies that change successfully do so by making change part of their DNA; they teach people to overcome fears about leaving the status quo behind, to take prudent risks, to work in unison to maximize the chances for dramatic change, and to help one another cope with the disquieting times and inevitable turbulence that accompanies all major change efforts. Creating an environment that helps people to deal with the shadow side of change is critical to success.

I mentioned earlier that managers and employees need to overcome their fears. If not, what often evolves is a set of dysfunctional defensive routines that undermine the process of change. These routines are nourished by internal politics, ego-driven behaviours, cliques, and inner circles that combine to generate a form of self-subversion. And what's subverted is the realization of what's best for the *whole* organization, not just what's good for any one person or clique.

Then there has to be a fluid execution of change?
That's the fifth factor I found in our research. Companies succeed or fail in positive, sustained change to the extent to which there is sharing and "organic" organizational structures that assist integration of change initiatives across different functions and tasks. These are preconditions for fluid execution. "It is easy to do business around here," I have heard managers comment. Just to stress the point: it's not enough for marketing to change and hope that engineering will follow right along. Top leadership can't commit to change while middle management hunkers down and defends status quo processes and procedures with all their might. When it comes to change, the people in accounting and the people in shipping have to be performing according to the same script. This calls for the highest level of organizational communication. And, to be emphatically clear, all organizational silos must be taken apart and dissolved in the interest of the entire company succeeding in its need to change. Breaking down the silos turned around Nissan and United Airlines during their recovery.

Are there companies doing all that you've mentioned and doing them well?
My sense is that Procter & Gamble is very good at all five factors. I'd also cite Barclay's Capital and Swiss International Air Lines. There are, of course, others; but these three are at the top of my mind at this moment.

Is it possible for an organization to change without its top leaders leading the change?
Let's say, strongly, that in such a situation, positive, needed changes are not likely. That's one reason I cite P&G as a model. Its CEO, A.G. Lafley, grew up working in many parts of the business. He was a true insider. Yet, when he took on the top spot, he found he had a lot to learn. In an article in *The McKinsey Quarterly* (July 2005), he confided that "I discovered that the cupboard was bare on the technology side in one business, that we didn't have the leadership we needed in another business, and that we didn't know what the strategy was going to be in a third business." So, what did he credit as the skill set and the mind set required to lead P&G through a difficult period of change? Here's what he said:

> *You need to understand how to enrol a leadership team and then an organization, how to operationalize the strategy, how to get the accountability that you want all the way down the organization. The more deeply you understand something, the more willing you are to take risks and the more intelligent those risks are.*

He, and P&G, are models of mastering change.

Is it possible for you to classify the kinds of people and organizations you encountered in your extensive research?
It's a rough sorting, but I'd say that change causes people and organizations to classify themselves into one of at least three categories. The most easy to spot, in some ways, are the *change avoiders,* the

Such companies truly lead change; they thrive on change. It's like the sailor friend of mine who had to navigate a 40-foot wave. In describing it to me, he used words like "exhilarating".

people and companies so stuck in their status quo rut that they can see no other way to behave. Or it might be that they are so comfortable, they see no reason to change. Such companies and their workforce are, by their own limitations, doomed.

Next up are the *change analysers.* They cruise along taking note of change. They debate change. They study change. They discuss options. They think – and rethink – what they could and might do. Sometime. Such companies are not without their strengths. As I noted earlier, awareness of the need for change and debate about courses of action are two of the five required factors we found in our research. But analysers never come to act. They suffer from analysis paralysis.

Change adapters

And the third kind?
Change adapters – companies like Google – are the true change leaders. They combine an openness to change and a willingness to take prudent risks and to act. Such companies and their leadership team are typically strong across all five factors. But it's more than that, really. Such companies truly lead change; they *thrive* on change. It's like the sailor friend of mine who had to navigate a 40-foot wave. In describing it to me, he used words like "exhilarating". Such change adapters are strategic learners; and by their healthy outlook and healthy response to change, they further strengthen themselves after each change challenge. They find they have grown in their capabilities because they have practised and adjusted to changes in the past. This gives them an ever deeper sense of confidence. And I should add that change adapters have an external focus and energy. They don't allow themselves to be so introspective that they can't see the forest or the trees; they're not too locked in on their own cosy status quo.

So much has been written and spoken about change. Do you find most of it to be accurate and of value?
We're all learning about change and we all need to. It was the US president, John Kennedy, who commented, "Change is the law of life. And those who look only to the past or the present are certain to miss the future."

Then what are the most essential learnings from your 20 years of dealing with and researching change?
Good question. Let me try to highlight them. First, external factors are often the driver for change, but how organizations respond is the critical factor. Then, too, the managerial capabilities of companies help determine organizational responses; so, the change leadership at the top, middle and bottom is something to be audited and bolstered.

I'd also note that organizations with greater levels of internal dynamic capabilities have a source of competitive advantage as they can adapt more easily. Again, the more locked into the status quo, the more cumbersome any company becomes when it tries to convert a desire to change into real action.

But I should add a caveat or two. Radical change is not the answer for everyone. It's important to gauge how much change is needed. Incremental and process changes work in relatively stable environments. The invention of the transistor shook the entire electronics industry. The kind of change your own company is facing may not be that profound, and so you must not overreact to change. High-change organizations do better in volatile environments than their lower-change counterparts. In stable environments, the differences are not as significant. Over 20 years, I have seen some organizations face change and succeed; and I have seen some organizations confront change and remain inert. Those who banked on inertia to propel themselves into the future are no longer around. ■

Tom Brown (tom.brown@suntopmedia.us) is on the editorial staff for *Business Strategy Review.*