the florence melton school of adult jewish learning
A PROJECT OF THE HEBREW UNIVERSITY OF JERUSALEM

ADVANCE READING SECTION

Jewish Leadership 2.0 is a course designed to leverage the life and leadership experience of participants, challenging them to place their own emerging leadership into both different Jewish and different conceptual frameworks.

Too often in the business of leadership, the demands on a leader's time and energies prohibit reflection when it is most sorely needed – in the midst of difficult decision-making, strategic planning and the joys and hardships of managing others.

The following texts have been chosen as advance readings to give participants the opportunity to consider the central ideas prior to the upcoming module, in anticipation of the classroom discussions.[1]

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MODULE II: *MI HU MANHIG?* — ON THE DIFFERENCE BETWEEN POWER AND INFLUENCE

In preparation for Module II, read John P. Kotter's article, "**On What Leaders Really Do**" from ***On What Leaders Really Do*** (***Harvard Business Review***, May-June 1990).

The objective of this reading is to identify the central differences between managers and leaders and to determine which of your functions in leadership falls into a managerial framework and which is, by definition, an aspect of leadership.

GUIDED QUESTIONS:

- As you are reading this article, consider different roles that you fill in the context of your own leadership. Which express Kotter's notion of management and which express his notion of leadership?
- How might you separate your management and leadership roles according to Kotter's understanding?

1990

What Leaders Really Do

They don't make plans; they don't solve problems; they don't even organize people. What leaders really do is prepare organizations for change and help them cope as they struggle through it.

The article reprinted here stands on its own, of course, but it can also be seen as a crucial contribution to a debate that began in 1977, when Harvard Business School professor Abraham Zaleznik published an HBR article with the deceptively mild title "Managers and Leaders: Are They Different?" The piece caused an uproar in business schools. It argued that the theoreticians of scientific management, with their organizational diagrams and time-and-motion studies, were missing half the picture – the half filled with inspiration, vision, and the full spectrum of human drives and desires. The study of leadership hasn't been the same since.

"What Leaders Really Do," first published in 1990, deepens and extends the insights of the 1977 article. Introducing one of those brand-new ideas that seems obvious once it's expressed, retired Harvard Business School professor John Kotter proposes that management and leadership are different but complementary, and that in a changing world, one cannot function without the other. He then enumerates and contrasts the primary tasks of the manager and the leader. His key point bears repeating: Managers promote stability while leaders press for change, and only organizations that embrace both sides of that contradiction can thrive in turbulent times.

by John P. Kotter

LEADERSHIP IS DIFFERENT from management, but not for the reasons most people think. Leadership isn't mystical and mysterious. It has nothing to do with having "charisma" or other exotic personality traits. It is not the province of a chosen few. Nor is leadership necessarily better than management or a replacement for it.

Rather, leadership and management are two distinctive and complementary systems of action. Each has its own function and characteristic activities. Both are necessary for success in an increasingly complex and volatile business environment.

Most U.S. corporations today are overmanaged and underled. They need to develop their capacity to exercise leadership. Successful corporations don't wait for leaders to come along. They actively seek out people with leadership potential and expose them to career experiences designed to develop that

Management is about coping with complexity. Leadership, by contrast, is about coping with change.

potential. Indeed, with careful selection, nurturing, and encouragement, dozens of people can play important leadership roles in a business organization.

But while improving their ability to lead, companies should remember that strong leadership with weak management is no better, and is sometimes actually worse, than the reverse. The real challenge is to combine strong leadership and strong management and use each to balance the other.

Of course, not everyone can be good at both leading and managing. Some people have the capacity to become excellent managers but not strong leaders. Others have great leadership potential but, for a variety of reasons, have great difficulty becoming strong managers. Smart companies value both kinds of people and work hard to make them a part of the team.

But when it comes to preparing people for executive jobs, such companies rightly ignore the recent literature that says people cannot manage *and* lead. They try to develop leader-managers. Once companies understand the fundamental difference between leadership and management, they can begin to groom their top people to provide both.

The Difference Between Management and Leadership

Management is about coping with complexity. Its practices and procedures are largely a response to one of the most significant developments of the twentieth century: the emergence of large organizations. Without good management, complex enterprises tend to become chaotic in ways that threaten their very existence. Good management brings a degree of order and consistency to key dimensions like the quality and profitability of products.

Leadership, by contrast, is about coping with change. Part of the reason it has become so important in recent years is that the business world has become more competitive and more volatile. Faster technological change, greater international competition, the deregulation of markets, overcapacity in capital-intensive industries, an unstable oil cartel, raiders with junk bonds, and the changing demographics of the workforce are among the many factors that have contributed to this shift. The net result is that doing what was done yesterday, or doing it 5% better, is no longer a formula for success. Major changes are more and more necessary to survive and compete effectively in this new environment. More change always demands more leadership.

Consider a simple military analogy: A peacetime army can usually survive with good administration and management up and down the hierarchy, coupled with good leadership concentrated at the very top. A wartime army, however, needs competent leadership at all levels. No one yet has figured out how to manage people effectively into battle; they must be led.

These two different functions – coping with complexity and coping with change – shape the characteristic activities of management and leadership. Each system of action involves deciding what needs to be done, creating networks of people and relationships that can accomplish an agenda, and then trying to ensure that those people actually do the job. But each accomplishes these three tasks in different ways.

Companies manage complexity first by *planning and budgeting* – setting targets or goals for the future (typically for the next month or year), establishing detailed steps for achieving those targets, and then allocating resources to accomplish those plans. By contrast, leading an organization to constructive change begins by *setting a direction* – developing a vision of the future (often the distant future) along with strategies for producing the changes needed to achieve that vision.

Management develops the capacity to achieve its plan by *organizing and staffing* – creating an organizational structure and set of jobs for accomplishing plan requirements, staffing the jobs with qualified individuals, communicating the plan to those people, delegating responsibility for carrying out the plan, and devising systems to monitor implementation. The equivalent leadership activity, however, is *aligning people.* This means communicating the new direction to those who can create coalitions that understand the vision and are committed to its achievement.

Finally, management ensures plan accomplishment by *controlling and problem solving* – monitoring results versus the plan in some detail, both formally and informally, by means of reports, meetings, and other tools; identifying deviations; and then planning and organizing to solve the problems. But for leadership, achieving a vision requires *motivating and inspiring* – keeping people moving in the right direction, despite major obstacles to change, by appealing to basic but often untapped human needs, values, and emotions.

A closer examination of each of these activities will help clarify the skills leaders need.

Now retired, ***John P. Kotter*** *was a professor of organizational behavior at Harvard Business School in Boston. He is the author of such books as* The General Managers *(Free Press, 1986),* The Leadership Factor *(Free Press, 1988), and* A Force for Change: How Leadership Differs from Management *(Free Press, 1990).*

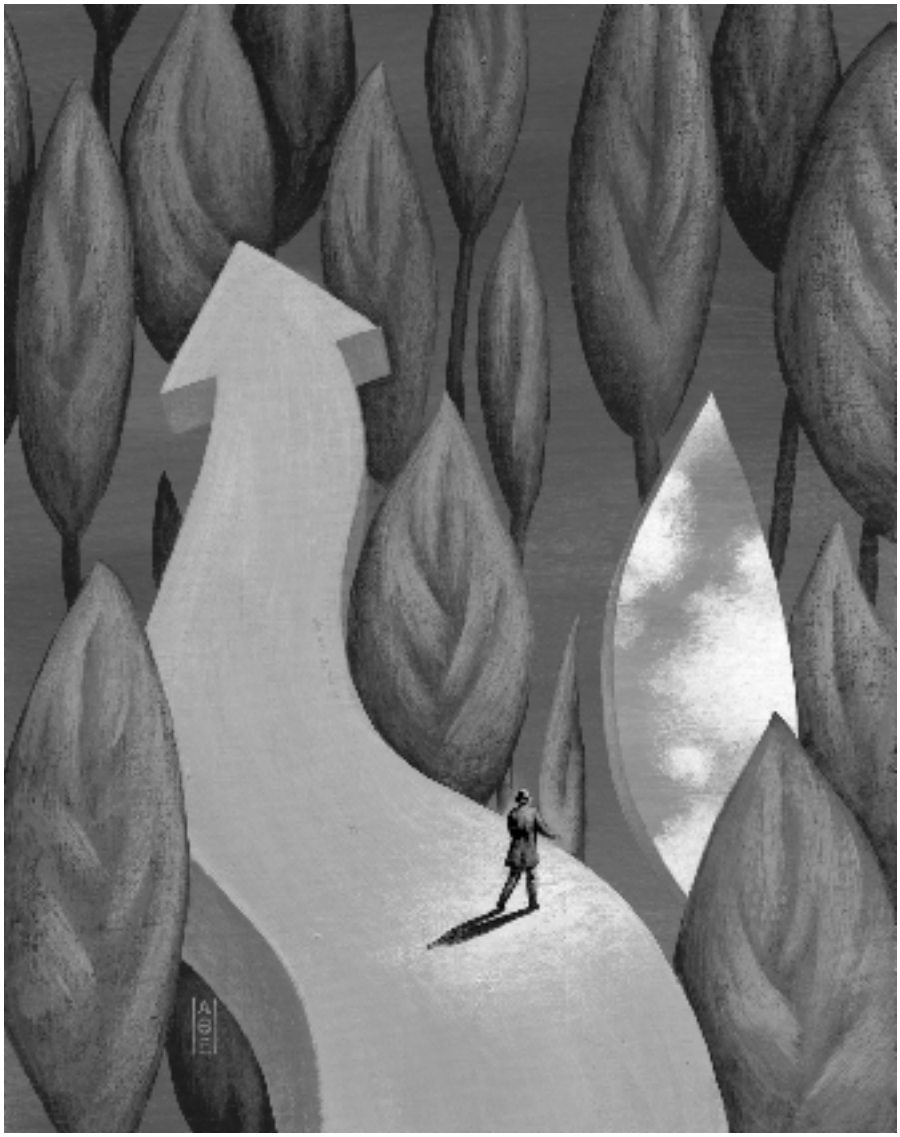


ILLUSTRATION: GEORGE ABE

Setting a Direction Versus Planning and Budgeting

Since the function of leadership is to produce change, setting the direction of that change is fundamental to leadership. Setting direction is never the same as planning or even long-term planning, although people often confuse the two. Planning is a management process, deductive in nature and designed to produce orderly results, not change. Setting a direction is more inductive. Leaders gather a broad range of data and look for patterns, relationships, and linkages that help explain things. What's more, the direction-setting aspect of leadership does not produce plans; it creates vision and strategies. These describe a business, technology, or corporate culture in terms of what it should become over the long term and articulate a feasible way of achieving this goal.

Most discussions of vision have a tendency to degenerate into the mystical. The implication is that a vision is something mysterious that mere mortals, even talented ones, could never hope to have. But developing good business direction isn't magic. It is a tough, sometimes exhausting process of gathering and analyzing information. People who articulate such visions aren't magicians but broad-based strategic thinkers who are willing to take risks.

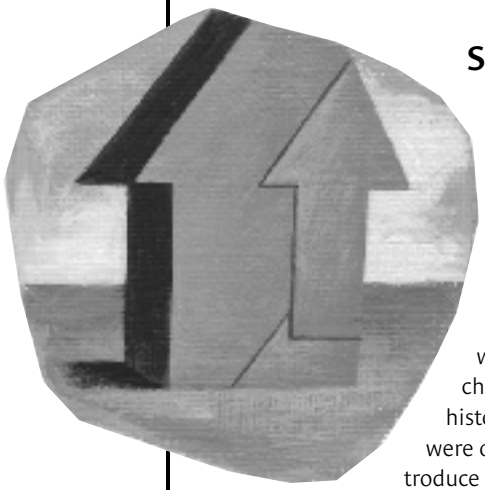
Nor do visions and strategies have to be brilliantly innovative; in fact, some of the best are not. Effective business visions regularly have an almost mundane quality, usually consisting of ideas that are already well known. The particular combination or patterning of the ideas may be new, but sometimes even that is not the case.

For example, when CEO Jan Carlzon articulated his vision to make Scandinavian Airlines System (SAS) the best airline in the world for the frequent business traveler, he was not saying anything that everyone in the airline industry didn't already know. Business travelers fly more consistently than other market segments and are generally willing to pay higher fares. Thus, focusing on business customers offers an airline the possibility of high margins, steady business, and considerable growth. But in an industry known more for bureaucracy than vision, no company had ever put these simple ideas together and dedicated itself to implementing them. SAS did, and it worked.

What's crucial about a vision is not its originality but how well it serves the interests of important constituencies – customers, stockholders, employees – and how easily it can be translated into a realistic competitive strategy. Bad visions tend to ignore the legitimate needs and rights of important constituencies – favoring, say, employees over customers or stockholders. Or they are strategically unsound. When a company that has never been better than a weak competitor in an industry suddenly starts talking about becoming number one, that is a pipe dream, not a vision.

One of the most frequent mistakes that overmanaged and underled corporations make is to embrace long-term planning as a panacea for their lack of direction and inability to adapt to an increasingly competitive and dynamic business environment. But such an approach misinterprets the nature of direction setting and can never work.

Long-term planning is always time consuming. Whenever something unexpected happens, plans have to be redone. In a dynamic business environment, the unexpected often becomes the norm, and long-term planning can become an extraordinarily burdensome activity. That is why most successful corporations limit the time frame of their planning activities. Indeed, some even consider "long-term planning" a contradiction in terms.



SETTING A DIRECTION:
Lou Gerstner at American Express

When Lou Gerstner became president of the Travel Related Services (TRS) arm at American Express in 1979, the unit was facing one of its biggest challenges in AmEx's 130-year history. Hundreds of banks were offering or planning to introduce credit cards through Visa and MasterCard that would compete with the American Express card. And more than two dozen financial service firms were coming into the traveler's checks business. In a mature marketplace, this increase in competition usually reduces margins and prohibits growth.

But that was not how Gerstner saw the business. Before joining American Express, he had spent five years as a consultant to TRS, analyzing the money-losing travel division and the increasingly competitive card operation. Gerstner and his team asked fundamental questions about the economics, market, and competition and developed a deep understanding of the business. In the process, he began to craft a vision of TRS that looked nothing like a 130-year-old company in a mature industry.

Gerstner thought TRS had the potential to become a dynamic and growing enterprise, despite the onslaught of Visa and MasterCard competition from thousands of banks. The key was to focus on the global marketplace and, specifically, on the relatively affluent customer American Express had been traditionally serving with top-of-the-line products. By further segmenting this market, aggressively developing a broad range of new products and services, and investing to increase productivity and to lower costs, TRS could provide the best service possible to customers who had enough discretionary income to buy many more services from TRS than they had in the past.

Within a week of his appointment, Gerstner brought together the people running the card organization and questioned all the principles by which they conducted their business. In particular, he challenged two widely shared beliefs – that the division should have only one product, the green card, and that this product was limited in potential for growth and innovation.

Gerstner also moved quickly to develop a more entrepreneurial culture, to hire and train people who would thrive in it, and to clearly communicate to them the overall direction. He and other top managers rewarded intelligent risk taking. To make entrepreneurship easier, they discouraged unnecessary bureaucracy. They also upgraded hiring standards and created the TRS Graduate Management Program, which offered high-potential young people special training, an enriched set of experiences, and an unusual degree of exposure to people in top management. To encourage risk taking among all TRS employees, Gerstner also established something called the Great Performers program to recognize and reward truly exceptional customer service, a central tenet in the organization's vision.

These incentives led quickly to new markets, products, and services. TRS expanded its overseas presence dramatically. By 1988, AmEx cards were issued in 29 currencies (as opposed to only 11 a decade earlier). The unit also focused aggressively on two market segments that had historically received little attention: college students and women. In 1981, TRS combined its card and travel-service capabilities to offer corporate clients a unified system to monitor and control travel expenses. And by 1988, AmEx had grown to become the fifth largest direct-mail merchant in the United States.

Other new products and services included 90-day insurance on all purchases made with the AmEx card, a Platinum American Express card, and a revolving credit card known as Optima. In 1988, the company also switched to image-processing technology for billing, producing a more convenient monthly statement for customers and reducing billing costs by 25%.

As a result of these innovations, TRS's net income increased a phenomenal 500% between 1978 and 1987 – a compounded annual rate of about 18%. The business outperformed many so-called high-tech/high-growth companies. With a 1988 return on equity of 28%, it also outperformed most low-growth but high-profit businesses.

In a company without direction, even short-term planning can become a black hole capable of absorbing an infinite amount of time and energy. With no vision and strategy to provide constraints around the planning process or to guide it, every eventuality deserves a plan. Under these circumstances, contingency planning can go on forever, draining time and attention from far more essential activities, yet without ever providing the clear sense of direction that a company desperately needs. After awhile, managers inevitably become cynical, and the planning process can degenerate into a highly politicized game.

Planning works best not as a substitute for direction setting but as a complement to it. A competent planning process serves as a useful reality check on direction-setting activities. Likewise, a competent direction-setting process provides a focus in which planning can then be realistically carried out. It helps clarify what kind of planning is essential and what kind is irrelevant.

Aligning People Versus Organizing and Staffing

A central feature of modern organizations is interdependence, where no one has complete autonomy, where most employees are tied to many others by their work, technology, management systems, and hierarchy. These linkages present a special challenge when organizations attempt to change. Unless many individuals line up and move together in the same direction, people will tend to fall all over one another. To executives who are overeducated in management and undereducated in leadership, the idea of getting people moving in the same direction appears to be an organizational problem. What executives need to do, however, is not organize people but align them.

Managers "organize" to create human systems that can implement plans as precisely and efficiently as possible. Typically, this requires a number of potentially complex decisions. A company must choose a structure of jobs and reporting relationships, staff it with individuals suited to the jobs, provide training for those who need it, communicate plans to the workforce, and decide how much authority to delegate and to whom. Economic incentives also need to be constructed to accomplish the plan, as well as systems to monitor its implementation. These organizational judgments are much like architectural decisions. It's a question of fit within a particular context.

The idea of getting people moving in the same direction appears to be an organizational problem. But what executives need to do is not organize people but align them.

Aligning is different. It is more of a communications challenge than a design problem. Aligning invariably involves talking to many more individuals than organizing does. The target population can involve not only a manager's subordinates but also bosses, peers, staff in other parts of the organization, as well as suppliers, government officials, and even customers. Anyone who can help implement the vision and strategies or who can block implementation is relevant.

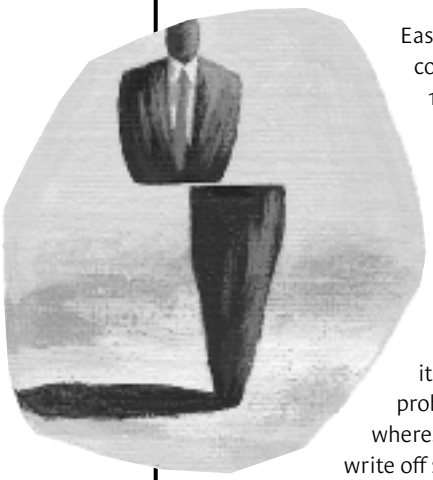
Trying to get people to comprehend a vision of an alternative future is also a communications challenge of a completely different magnitude from organizing them to fulfill a short-term plan. It's much like the difference between a football quarterback attempting to describe to his team the next two or three plays versus his trying to explain to them a totally new approach to the game to be used in the second half of the season.

Whether delivered with many words or a few carefully chosen symbols, such messages are not necessarily accepted just because they are understood. Another big challenge in leadership efforts is credibility – getting people to believe the message. Many things contribute to credibility: the track record of the person delivering the message, the content of the message itself, the communicator's reputation for integrity and trustworthiness, and the consistency between words and deeds.

Finally, aligning leads to empowerment in a way that organizing rarely does. One of the reasons some organizations have difficulty adjusting to rapid changes in markets or technology is that so many people in those companies feel relatively powerless. They have learned from experience that even if they correctly perceive important external changes and then initiate appropriate actions, they are vulnerable to someone higher up who does not like what they have done. Reprimands can take many different forms: "That's against policy," or "We can't afford it," or "Shut up and do as you're told."

Alignment helps overcome this problem by empowering people in at least two ways. First, when a clear sense of direction has been communicated throughout an organization, lower-level employees can initiate actions without the same degree of vulnerability. As long as their behavior is consistent with the vision, superiors will have more difficulty reprimanding them. Second, because everyone is aiming at the same target, the probability is less that one person's initiative will be stalled when it comes into conflict with someone else's.

ALIGNING PEOPLE:
Chuck Trowbridge and Bob Crandall at Eastman Kodak



Eastman Kodak entered the copy business in the early 1970s, concentrating on technically sophisticated machines that sold, on average, for about $60,000 each. Over the next decade, this business grew to nearly $1 billion in revenues. But costs were high, profits were hard to find, and problems were nearly everywhere. In 1984, Kodak had to write off $40 million in inventory. Most people at the company knew there were problems, but they couldn't agree on how to solve them. So in his first two months as general manager of the new copy products group, established in 1984, Chuck Trowbridge met with nearly every key person inside his group, as well as with people elsewhere at Kodak who could be important to the copier business. An especially crucial area was the engineering and manufacturing organization, headed by Bob Crandall.

Trowbridge and Crandall's vision for engineering and manufacturing was simple: to become a world-class manufacturing operation and to create a less bureaucratic and more decentralized organization. Still, this message was difficult to convey because it was such a radical departure from previous communications, not only in the copy products group but throughout most of Kodak. So Crandall set up dozens of vehicles to emphasize the new direction and align people to it: weekly meetings with his own 12 direct reports; monthly "copy product forums" in which a different employee from each of his departments would meet with him as a group; discussions of recent improvements and new projects to achieve still better results; and quarterly "State of the Department" meetings, where his managers met with everybody in their own departments.

Once a month, Crandall and all those who reported to him would also meet with 80 to 100 people from some area of his organization to discuss anything they wanted. To align his biggest supplier – the Kodak Apparatus Division, which supplied one-third of the parts used in design and manufacturing – he and his managers met with the top management of that group over lunch every Thursday. Later, he created a format called "business meetings," where his managers meet with 12 to 20 people on a specific topic, such as inventory or master scheduling. The goal: to get all of his 1,500 employees in at least one of these focused business meetings each year.

Trowbridge and Crandall also enlisted written communication in their cause. A four- to eight-page "Copy Products Journal" was sent to employees once a month. A program called "Dialog Letters" gave employees the opportunity to anonymously ask questions of Crandall and his top managers and be guaranteed a reply. But the most visible and powerful written communications were the charts. In a main hallway near the cafeteria, these huge charts vividly reported the quality, cost, and delivery results for each product, measured against difficult targets. A hundred smaller versions of these charts were scattered throughout the manufacturing area, reporting quality levels and costs for specific work groups.

Results of this intensive alignment process began to appear within six months, and still more surfaced after a year. These successes made the message more credible and helped get more people on board. Between 1984 and 1988, quality on one of the main product lines increased nearly 100-fold. Defects per unit went from 30 to 0.3. Over a three-year period, costs on another product line went down nearly 24%. Deliveries on schedule increased from 82% in 1985 to 95% in 1987. Inventory levels dropped by over 50% between 1984 and 1988, even though the volume of products was increasing. And productivity, measured in units per manufacturing employee, more than doubled between 1985 and 1988.

Motivation and inspiration energize people, not by pushing them in the right direction but by satisfying basic human needs.

Motivating People Versus Controlling and Problem Solving

Since change is the function of leadership, being able to generate highly energized behavior is important for coping with the inevitable barriers to change. Just as direction setting identifies an appropriate path for movement and just as effective alignment gets people moving down that path, successful motivation ensures that they will have the energy to overcome obstacles.

According to the logic of management, control mechanisms compare system behavior with the plan and take action when a deviation is detected. In a well-managed factory, for example, this means the planning process establishes sensible quality targets, the organizing process builds an organization that can achieve those targets, and a control process makes sure that quality lapses are spotted immediately, not in 30 or 60 days, and corrected.

For some of the same reasons that control is so central to management, highly motivated or inspired behavior is almost irrelevant. Managerial processes must be as close as possible to fail-safe and risk free. That means they cannot be dependent on the unusual or hard to obtain. The whole purpose of systems and structures is to help normal people who behave in normal ways to complete routine jobs successfully, day after day. It's not exciting or glamorous. But that's management.

Leadership is different. Achieving grand visions always requires a burst of energy. Motivation and inspiration energize people, not by pushing them in the right direction as control mechanisms do but by satisfying basic human needs for achievement, a sense of belonging, recognition, self-esteem, a feeling of control over one's life, and the ability to live up to one's ideals. Such feelings touch us deeply and elicit a powerful response.

Good leaders motivate people in a variety of ways. First, they always articulate the organization's vision in a manner that stresses the values of the audience they are addressing. This makes the work important to those individuals. Leaders also regularly involve people in deciding how to achieve the organization's vision (or the part most relevant to a particular individual). This gives people a sense of control. Another important motivational technique is to support employee efforts to realize the vision by providing coaching, feedback, and role modeling, thereby helping people grow professionally and enhancing their self-esteem. Finally, good leaders recognize and reward success, which not only gives people a sense of accomplishment but also makes them feel like they belong to an organization that cares about them. When all this is done, the work itself becomes intrinsically motivating.

The more that change characterizes the business environment, the more that leaders must motivate people to provide leadership as well. When this works, it tends to reproduce leadership across the entire organization, with people occupying multiple leadership roles throughout the hierarchy. This is highly valuable, because coping with change in any complex business demands initiatives from a multitude of people. Nothing less will work.

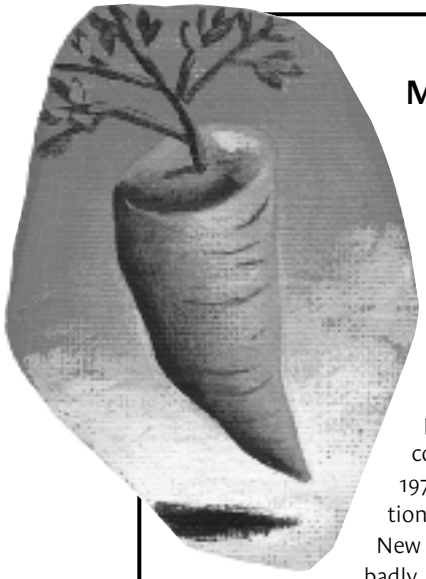
Of course, leadership from many sources does not necessarily converge. To the contrary, it can easily conflict. For multiple leadership roles to work together, people's actions must be carefully coordinated by mechanisms that differ from those coordinating traditional management roles.

Strong networks of informal relationships – the kind found in companies with healthy cultures – help coordinate leadership activities in much the same way that formal structure coordinates managerial activities. The key difference is that informal networks can deal with the greater demands for coordination associated with nonroutine activities and change. The multitude of communication channels and the trust among the individuals connected by those channels allow for an ongoing process of accommodation and adaptation. When conflicts arise among roles, those same relationships help resolve the conflicts. Perhaps most important, this process of dialogue and accommodation can produce visions that are linked and compatible instead of remote and competitive. All this requires a great deal more communication than is needed to coordinate managerial roles, but unlike formal structure, strong informal networks can handle it.

Informal relations of some sort exist in all corporations. But too often these networks are either very weak – some people are well connected but most are not – or they are highly fragmented – a strong network exists inside the marketing group and inside R&D but not across the two departments. Such networks do not support multiple leadership initiatives well. In fact, extensive informal networks are so important that if they do not exist, creating them has to be the focus of activity early in a major leadership initiative.

Creating a Culture of Leadership

Despite the increasing importance of leadership to business success, the on-the-job experiences of most people actually seem to undermine the development of the attributes needed for leadership. Nevertheless, some companies have consistently demonstrated an ability to



MOTIVATING PEOPLE:
Richard Nicolosi at Procter & Gamble

For about 20 years after its founding in 1956, Procter & Gamble's paper products division had experienced little competition for its high-quality, reasonably priced, and well-marketed consumer goods. By the late 1970s, however, the market position of the division had changed. New competitive thrusts hurt P&G badly. For example, industry analysts estimate that the company's market share for disposable diapers fell from 75% in the mid-1970s to 52% in 1984.

That year, Richard Nicolosi came to paper products as the associate general manager, after three years in P&G's smaller and faster moving soft-drink business. He found a heavily bureaucratic and centralized organization that was overly preoccupied with internal functional goals and projects. Almost all information about customers came through highly quantitative market research. The technical people were rewarded for cost savings, the commercial people focused on volume and share, and the two groups were nearly at war with each other.

During the late summer of 1984, top management announced that Nicolosi would become the head of paper products in October, and by August he was unofficially running the division. Immediately he began to stress the need for the division to become more creative and market driven, instead of just trying to be a low-cost producer. "I had to make it very clear," Nicolosi later reported, "that the rules of the game had changed."

The new direction included a much greater stress on teamwork and multiple leadership roles. Nicolosi pushed a strategy of using groups to manage the division and its specific products. In October, he and his team designated themselves as the paper division "board" and began meeting first monthly and then weekly. In November, they established "category teams" to manage their major brand groups (like diapers, tissues, towels) and started pushing responsibility down to these teams. "Shun the incremental," Nicolosi stressed, "and go for the leap."

In December, Nicolosi selectively involved himself in more detail in certain activities. He met with the advertising agency and got to know key creative people. He asked the marketing manager of diapers to report directly to him, eliminating a layer in the hierarchy. He talked more to the people who were working on new product development projects.

In January 1985, the board announced a new organizational structure that included not only category teams but also new-brand business teams. By the spring, the board was ready to plan an important motivational event to communicate the new paper products vision to as many people as possible. On June 4, 1985, all the Cincinnati-based personnel in paper plus sales district managers and paper plant managers – several thousand people in all – met in the local Masonic Temple. Nicolosi and other board members described their vision of an organization where "each of us is a leader." The event was videotaped, and an edited version was sent to all sales offices and plants for everyone to see.

All these activities helped create an entrepreneurial environment where large numbers of people were motivated to realize the new vision. Most innovations came from people dealing with new products. Ultra Pampers, first introduced in February 1985, took the market share of the entire Pampers product line from 40% to 58% and profitability from break-even to positive. And within only a few months of the introduction of Luvs Delux in May 1987, market share for the overall brand grew by 150%.

Other employee initiatives were oriented more toward a functional area, and some came from the bottom of the hierarchy. In the spring of 1986, a few of the division's secretaries, feeling empowered by the new culture, developed a secretaries network. This association established subcommittees on training, on rewards and recognition, and on the "secretary of the future." Echoing the sentiments of many of her peers, one paper products secretary said: "I don't see why we, too, can't contribute to the division's new direction."

By the end of 1988, revenues at the paper products division were up 40% over a four-year period. Profits were up 68%. And this happened despite the fact that the competition continued to get tougher.

develop people into outstanding leader-managers. Recruiting people with leadership potential is only the first step. Equally important is managing their career patterns. Individuals who are effective in large leadership roles often share a number of career experiences.

Perhaps the most typical and most important is significant challenge early in a career. Leaders almost always have had opportunities during their twenties and thirties to actually try to lead, to take a risk, and to learn from both triumphs and failures. Such learning seems essential in developing a wide range of leadership skills and perspectives. These opportunities also teach people something about both the difficulty of leadership and its potential for producing change.

Later in their careers, something equally important happens that has to do with broadening. People who provide effective leadership in important jobs always have a chance, before they get into those jobs, to grow beyond the narrow base that characterizes most managerial careers. This is usually the result of lateral career moves or of early promotions to unusually broad job assignments. Sometimes other vehicles help, like special task-force assignments or a lengthy general management course. Whatever the case, the breadth of knowledge developed in this way seems to be helpful in all aspects of leadership. So does the network of relationships that is often acquired both inside and outside the company. When enough people get opportunities like this, the relationships that are built also help create the strong informal networks needed to support multiple leadership initiatives.

Corporations that do a better-than-average job of developing leaders put an emphasis on creating challenging opportunities for relatively young employees. In many businesses, decentralization is the key. By definition, it pushes responsibility lower in an organization and in the process creates more challenging jobs at lower levels. Johnson & Johnson, 3M, Hewlett-Packard, General Electric, and many other well-known companies have used that approach quite successfully. Some of those same companies also create as many small units as possible so there are a lot of challenging lower-level general management jobs available.

Sometimes these businesses develop additional challenging opportunities by stressing growth through new products or services. Over the years, 3M has had a policy that at least 25% of its revenue should come from products introduced within the last five years. That encourages small new ventures, which in turn offer hundreds of opportunities to test and stretch young people with leadership potential.

Such practices can, almost by themselves, prepare people for small- and medium-sized leadership jobs. But developing people for important leadership positions requires more work on the part of senior executives, often over a long period of time. That work begins with efforts to spot people with great leadership potential early in their careers and to identify what will be needed to stretch and develop them.

Again, there is nothing magic about this process. The methods successful companies use are surprisingly straightforward. They go out of their way to make young employees and people at lower levels in their organizations visible to senior management. Senior managers then judge for themselves who has potential and what the development needs of those people are. Executives also discuss their tentative conclusions among themselves to draw more accurate judgments.

Armed with a clear sense of who has considerable leadership potential and what skills they need to develop, executives in these companies then spend time planning for that development. Sometimes that is done as part of a formal succession planning or high-potential development process; often it is more informal. In either case, the key ingredient appears to be an intelligent assessment of what feasible development opportunities fit each candidate's needs.

Well-led businesses tend to recognize and reward people who successfully develop leaders.

To encourage managers to participate in these activities, well-led businesses tend to recognize and reward people who successfully develop leaders. This is rarely done as part of a formal compensation or bonus formula, simply because it is so difficult to measure such achievements with precision. But it does become a factor in decisions about promotion, especially to the most senior levels, and that seems to make a big difference. When told that future promotions will depend to some degree on their ability to nurture leaders, even people who say that leadership cannot be developed somehow find ways to do it.

Such strategies help create a corporate culture where people value strong leadership and strive to create it. Just as we need more people to provide leadership in the complex organizations that dominate our world today, we also need more people to develop the cultures that will create that leadership. Institutionalizing a leadership-centered culture is the ultimate act of leadership.

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MODULE III: TZMICHA MIKISHALON — GROWING FROM FAILURE

In preparation for Module III, read John P. Kotter, "**Leading Change: Why Transformation Efforts Fail**" in "***On What Leaders Really Do*".** (*Harvard Business Review,* May-June 1990).

Guided Questions:

- What steps does Kotter identify that make true transformation challenging?
- Reading this article, what steps might you take to ensure leadership success in an area of change?

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BEST OF HBR

Leaders who successfully transform businesses do eight things right (and they do them in the right order).

Leading Change

Why Transformation Efforts Fail

by John P. Kotter

Included with this full-text *Harvard Business Review* article:

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Leading Change

Why Transformation Efforts Fail

The Idea in Brief

Most major change initiatives—whether intended to boost quality, improve culture, or reverse a corporate death spiral—generate only lukewarm results. Many fail miserably.

Why? Kotter maintains that too many managers don't realize transformation is a *process,* not an event. It advances through stages that build on each other. And it takes years. Pressured to accelerate the process, managers skip stages. But shortcuts never work.

Equally troubling, even highly capable managers make critical mistakes—such as declaring victory too soon. Result? Loss of momentum, reversal of hard-won gains, and devastation of the entire transformation effort.

By understanding the stages of change—and the pitfalls unique to each stage—you boost your chances of a successful transformation. The payoff? Your organization flexes with tectonic shifts in competitors, markets, and technologies—leaving rivals far behind.

The Idea in Practice

To give your transformation effort the best chance of succeeding, take the right actions at each stage—and avoid common pitfalls.

Stage	Actions Needed	Pitfalls
Establish a sense of urgency	• Examine market and competitive realities for potential crises and untapped opportunities. • Convince at least 75% of your managers that the status quo is more dangerous than the unknown.	• Underestimating the difficulty of driving people from their comfort zones • Becoming paralyzed by risks
Form a powerful guiding coalition	• Assemble a group with shared commitment and enough power to lead the change effort. • Encourage them to work as a team outside the normal hierarchy.	• No prior experience in teamwork at the top • Relegating team leadership to an HR, quality, or strategic-planning executive rather than a senior line manager
Create a vision	• Create a vision to direct the change effort. • Develop strategies for realizing that vision.	• Presenting a vision that's too complicated or vague to be communicated in five minutes
Communicate the vision	• Use every vehicle possible to communicate the new vision and strategies for achieving it. • Teach new behaviors by the example of the guiding coalition.	• Undercommunicating the vision • Behaving in ways antithetical to the vision
Empower others to act on the vision	• Remove or alter systems or structures undermining the vision. • Encourage risk taking and nontraditional ideas, activities, and actions.	• Failing to remove powerful individuals who resist the change effort
Plan for and create short-term wins	• Define and engineer visible performance improvements. • Recognize and reward employees contributing to those improvements.	• Leaving short-term successes up to chance • Failing to score successes early enough (12-24 months into the change effort)
Consolidate improvements and produce more change	• Use increased credibility from early wins to change systems, structures, and policies undermining the vision. • Hire, promote, and develop employees who can implement the vision. • Reinvigorate the change process with new projects and change agents.	• Declaring victory too soon—with the first performance improvement • Allowing resistors to convince "troops" that the war has been won
Institutionalize new approaches	• Articulate connections between new behaviors and corporate success. • Create leadership development and succession plans consistent with the new approach.	• Not creating new social norms and shared values consistent with changes • Promoting people into leadership positions who don't personify the new approach

Leaders who successfully transform businesses do eight things right (and they do them in the right order).

BEST OF HBR

Leading Change

Why Transformation Efforts Fail

by John P. Kotter

Editor's Note: Guiding change may be the ultimate test of a leader—no business survives over the long term if it can't reinvent itself. But, human nature being what it is, fundamental change is often resisted mightily by the people it most affects: those in the trenches of the business. Thus, leading change is both absolutely essential and incredibly difficult.

Perhaps nobody understands the anatomy of organizational change better than retired Harvard Business School professor John P. Kotter. This article, originally published in the spring of 1995, previewed Kotter's 1996 book *Leading Change*. It outlines eight critical success factors—from establishing a sense of extraordinary urgency, to creating short-term wins, to changing the culture ("the way we do things around here"). It will feel familiar when you read it, in part because Kotter's vocabulary has entered the lexicon and in part because it contains the kind of home truths that we recognize, immediately, as if we'd always known them. A decade later, his work on leading change remains definitive.

Over the past decade, I have watched more than 100 companies try to remake themselves into significantly better competitors. They have included large organizations (Ford) and small ones (Landmark Communications), companies based in the United States (General Motors) and elsewhere (British Airways), corporations that were on their knees (Eastern Airlines), and companies that were earning good money (Bristol-Myers Squibb). These efforts have gone under many banners: total quality management, reengineering, rightsizing, restructuring, cultural change, and turnaround. But, in almost every case, the basic goal has been the same: to make fundamental changes in how business is conducted in order to help cope with a new, more challenging market environment.

A few of these corporate change efforts have been very successful. A few have been utter failures. Most fall somewhere in between, with a distinct tilt toward the lower end of the scale. The lessons that can be drawn are interesting and will probably be relevant to even more or-

ganizations in the increasingly competitive business environment of the coming decade.

The most general lesson to be learned from the more successful cases is that the change process goes through a series of phases that, in total, usually require a considerable length of time. Skipping steps creates only the illusion of speed and never produces a satisfying result. A second very general lesson is that critical mistakes in any of the phases can have a devastating impact, slowing momentum and negating hard-won gains. Perhaps because we have relatively little experience in renewing organizations, even very capable people often make at least one big error.

Error 1: Not Establishing a Great Enough Sense of Urgency

Most successful change efforts begin when some individuals or some groups start to look hard at a company's competitive situation, market position, technological trends, and financial performance. They focus on the potential revenue drop when an important patent expires, the five-year trend in declining margins in a core business, or an emerging market that everyone seems to be ignoring. They then find ways to communicate this information broadly and dramatically, especially with respect to crises, potential crises, or great opportunities that are very timely. This first step is essential because just getting a transformation program started requires the aggressive cooperation of many individuals. Without motivation, people won't help, and the effort goes nowhere.

Compared with other steps in the change process, phase one can sound easy. It is not. Well over 50% of the companies I have watched fail in this first phase. What are the reasons for that failure? Sometimes executives underestimate how hard it can be to drive people out of their comfort zones. Sometimes they grossly overestimate how successful they have already been in increasing urgency. Sometimes they lack patience: "Enough with the preliminaries; let's get on with it." In many cases, executives become paralyzed by the downside possibilities. They worry that employees with seniority will become defensive, that morale will drop, that events will spin out of control, that short-term business results will be jeopardized, that the stock will sink, and that they will be blamed for creating a crisis.

A paralyzed senior management often comes from having too many managers and not enough leaders. Management's mandate is to minimize risk and to keep the current system operating. Change, by definition, requires creating a new system, which in turn always demands leadership. Phase one in a renewal process typically goes nowhere until enough real leaders are promoted or hired into senior-level jobs.

Transformations often begin, and begin well, when an organization has a new head who is a good leader and who sees the need for a major change. If the renewal target is the entire company, the CEO is key. If change is needed in a division, the division general manager is key. When these individuals are not new leaders, great leaders, or change champions, phase one can be a huge challenge.

Bad business results are both a blessing and a curse in the first phase. On the positive side, losing money does catch people's attention. But it also gives less maneuvering room. With good business results, the opposite is true: Convincing people of the need for change is much harder, but you have more resources to help make changes.

But whether the starting point is good performance or bad, in the more successful cases I have witnessed, an individual or a group always facilitates a frank discussion of potentially unpleasant facts about new competition, shrinking margins, decreasing market share, flat earnings, a lack of revenue growth, or other relevant indices of a declining competitive position. Because there seems to be an almost universal human tendency to shoot the bearer of bad news, especially if the head of the organization is not a change champion, executives in these companies often rely on outsiders to bring unwanted information. Wall Street analysts, customers, and consultants can all be helpful in this regard. The purpose of all this activity, in the words of one former CEO of a large European company, is "to make the status quo seem more dangerous than launching into the unknown."

In a few of the most successful cases, a group has manufactured a crisis. One CEO deliberately engineered the largest accounting loss in the company's history, creating huge pressures from Wall Street in the process. One division president commissioned first-ever customer satisfaction surveys, knowing full well that the

Now retired, **John P. Kotter** was the Konosuke Matsushita Professor of Leadership at Harvard Business School in Boston.

results would be terrible. He then made these findings public. On the surface, such moves can look unduly risky. But there is also risk in playing it too safe: When the urgency rate is not pumped up enough, the transformation process cannot succeed, and the long-term future of the organization is put in jeopardy.

When is the urgency rate high enough? From what I have seen, the answer is when about 75% of a company's management is honestly convinced that business as usual is totally unacceptable. Anything less can produce very serious problems later on in the process.

Error 2: Not Creating a Powerful Enough Guiding Coalition

Major renewal programs often start with just one or two people. In cases of successful transformation efforts, the leadership coalition grows and grows over time. But whenever some minimum mass is not achieved early in the effort, nothing much worthwhile happens.

It is often said that major change is impossible unless the head of the organization is an active supporter. What I am talking about goes far beyond that. In successful transformations, the chairman or president or division general manager, plus another five or 15 or 50 people, come together and develop a shared commitment to excellent performance through renewal. In my experience, this group never includes all of the company's most senior executives because some people just won't buy in, at least not at first. But in the most successful cases, the coalition is always pretty powerful—in terms of titles,

EIGHT STEPS TO TRANSFORMING YOUR ORGANIZATION

1 Establishing a Sense of Urgency
- Examining market and competitive realities
- Identifying and discussing crises, potential crises, or major opportunities

2 Forming a Powerful Guiding Coalition
- Assembling a group with enough power to lead the change effort
- Encouraging the group to work together as a team

3 Creating a Vision
- Creating a vision to help direct the change effort
- Developing strategies for achieving that vision

4 Communicating the Vision
- Using every vehicle possible to communicate the new vision and strategies
- Teaching new behaviors by the example of the guiding coalition

5 Empowering Others to Act on the Vision
- Getting rid of obstacles to change
- Changing systems or structures that seriously undermine the vision
- Encouraging risk taking and nontraditional ideas, activities, and actions

6 Planning for and Creating Short-Term Wins
- Planning for visible performance improvements
- Creating those improvements
- Recognizing and rewarding employees involved in the improvements

7 Consolidating Improvements and Producing Still More Change
- Using increased credibility to change systems, structures, and policies that don't fit the vision
- Hiring, promoting, and developing employees who can implement the vision
- Reinvigorating the process with new projects, themes, and change agents

8 Institutionalizing New Approaches
- Articulating the connections between the new behaviors and corporate success
- Developing the means to ensure leadership development and succession

information and expertise, reputations, and relationships.

In both small and large organizations, a successful guiding team may consist of only three to five people during the first year of a renewal effort. But in big companies, the coalition needs to grow to the 20 to 50 range before much progress can be made in phase three and beyond. Senior managers always form the core of the group. But sometimes you find board members, a representative from a key customer, or even a powerful union leader.

Because the guiding coalition includes members who are not part of senior management, it tends to operate outside of the normal hierarchy by definition. This can be awkward, but it is clearly necessary. If the existing hierarchy were working well, there would be no need for a major transformation. But since the current system is not working, reform generally demands activity outside of formal boundaries, expectations, and protocol.

A high sense of urgency within the managerial ranks helps enormously in putting a guiding coalition together. But more is usually required. Someone needs to get these people together, help them develop a shared assessment of their company's problems and opportunities, and create a minimum level of trust and communication. Off-site retreats, for two or three days, are one popular vehicle for accomplishing this task. I have seen many groups of five to 35 executives attend a series of these retreats over a period of months.

If you can't communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not done.

Companies that fail in phase two usually underestimate the difficulties of producing change and thus the importance of a powerful guiding coalition. Sometimes they have no history of teamwork at the top and therefore undervalue the importance of this type of coalition. Sometimes they expect the team to be led by a staff executive from human resources, quality, or strategic planning instead of a key line manager. No matter how capable or dedicated the staff head, groups without strong line leadership never achieve the power that is required.

Efforts that don't have a powerful enough guiding coalition can make apparent progress for a while. But, sooner or later, the opposition gathers itself together and stops the change.

Error 3: Lacking a Vision

In every successful transformation effort that I have seen, the guiding coalition develops a picture of the future that is relatively easy to communicate and appeals to customers, stockholders, and employees. A vision always goes beyond the numbers that are typically found in five-year plans. A vision says something that helps clarify the direction in which an organization needs to move. Sometimes the first draft comes mostly from a single individual. It is usually a bit blurry, at least initially. But after the coalition works at it for three or five or even 12 months, something much better emerges through their tough analytical thinking and a little dreaming. Eventually, a strategy for achieving that vision is also developed.

In one midsize European company, the first pass at a vision contained two-thirds of the basic ideas that were in the final product. The concept of global reach was in the initial version from the beginning. So was the idea of becoming preeminent in certain businesses. But one central idea in the final version—getting out of low value-added activities—came only after a series of discussions over a period of several months.

Without a sensible vision, a transformation effort can easily dissolve into a list of confusing and incompatible projects that can take the organization in the wrong direction or nowhere at all. Without a sound vision, the reengineering project in the accounting department, the new 360-degree performance appraisal from the human resources department, the plant's quality program, the cultural change project in the sales force will not add up in a meaningful way.

In failed transformations, you often find plenty of plans, directives, and programs but no vision. In one case, a company gave out four-inch-thick notebooks describing its change effort. In mind-numbing detail, the books spelled out procedures, goals, methods, and deadlines. But nowhere was there a clear and compelling statement of where all this was leading. Not surprisingly, most of the employees with whom I talked were either confused or alienated. The big, thick books did not rally them together or inspire change. In fact, they probably had just the opposite effect.

In a few of the less successful cases that I have seen, management had a sense of direction, but it was too complicated or blurry to be useful. Recently, I asked an executive in a midsize company to describe his vision and received in return a barely comprehensible 30-

minute lecture. Buried in his answer were the basic elements of a sound vision. But they were buried—deeply.

A useful rule of thumb: If you can't communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not yet done with this phase of the transformation process.

Error 4: Undercommunicating the Vision by a Factor of Ten

I've seen three patterns with respect to communication, all very common. In the first, a group actually does develop a pretty good transformation vision and then proceeds to communicate it by holding a single meeting or sending out a single communication. Having used about 0.0001% of the yearly intracompany communication, the group is startled when few people seem to understand the new approach. In the second pattern, the head of the organization spends a considerable amount of time making speeches to employee groups, but most people still don't get it (not surprising, since vision captures only 0.0005% of the total yearly communication). In the third pattern, much more effort goes into newsletters and speeches, but some very visible senior executives still behave in ways that are antithetical to the vision. The net result is that cynicism among the troops goes up, while belief in the communication goes down.

Transformation is impossible unless hundreds or thousands of people are willing to help, often to the point of making short-term sacrifices. Employees will not make sacrifices, even if they are unhappy with the status quo, unless they believe that useful change is possible. Without credible communication, and a lot of it, the hearts and minds of the troops are never captured.

This fourth phase is particularly challenging if the short-term sacrifices include job losses. Gaining understanding and support is tough when downsizing is a part of the vision. For this reason, successful visions usually include new growth possibilities and the commitment to treat fairly anyone who is laid off.

Executives who communicate well incorporate messages into their hour-by-hour activities. In a routine discussion about a business problem, they talk about how proposed solutions fit (or don't fit) into the bigger picture. In a regular performance appraisal, they talk about how the employee's behavior helps or undermines the vision. In a review of a division's quarterly performance, they talk not only about the numbers but also about how the division's executives are contributing to the transformation. In a routine Q&A with employees at a company facility, they tie their answers back to renewal goals.

In more successful transformation efforts, executives use all existing communication channels to broadcast the vision. They turn boring, unread company newsletters into lively articles about the vision. They take ritualistic, tedious quarterly management meetings and turn them into exciting discussions of the transformation. They throw out much of the company's generic management education and replace it with courses that focus on business problems and the new vision. The guiding principle is simple: Use every possible channel, especially those that are being wasted on nonessential information.

Perhaps even more important, most of the executives I have known in successful cases of major change learn to "walk the talk." They consciously attempt to become a living symbol of the new corporate culture. This is often not easy. A 60-year-old plant manager who has spent precious little time over 40 years thinking about customers will not suddenly behave in a customer-oriented way. But I have witnessed just such a person change, and change a great deal. In that case, a high level of urgency helped. The fact that the man was a part of the guiding coalition and the vision-creation team also helped. So did all the communication, which kept reminding him of the desired behavior, and all the feedback from his peers and subordinates, which helped him see when he was not engaging in that behavior.

Communication comes in both words and deeds, and the latter are often the most powerful form. Nothing undermines change more than behavior by important individuals that is inconsistent with their words.

Error 5: Not Removing Obstacles to the New Vision

Successful transformations begin to involve large numbers of people as the process progresses. Employees are emboldened to try new approaches, to develop new ideas, and to provide leadership. The only constraint is that the actions fit within the broad parameters of

the overall vision. The more people involved, the better the outcome.

To some degree, a guiding coalition empowers others to take action simply by successfully communicating the new direction. But communication is never sufficient by itself. Renewal also requires the removal of obstacles. Too often, an employee understands the new vision and wants to help make it happen, but an elephant appears to be blocking the path. In some cases, the elephant is in the person's head, and the challenge is to convince the individual that no external obstacle exists. But in most cases, the blockers are very real.

Sometimes the obstacle is the organizational structure: Narrow job categories can seriously undermine efforts to increase productivity or make it very difficult even to think about customers. Sometimes compensation or performance-appraisal systems make people choose between the new vision and their own self-interest. Perhaps worst of all are bosses who refuse to change and who make demands that are inconsistent with the overall effort.

One company began its transformation process with much publicity and actually made good progress through the fourth phase. Then the change effort ground to a halt because the officer in charge of the company's largest division was allowed to undermine most of the new initiatives. He paid lip service to the process but did not change his behavior or encourage his managers to change. He did not reward the unconventional ideas called for in the vision. He allowed human resource systems to remain intact even when they were clearly inconsistent with the new ideals. I think the officer's motives were complex. To some degree, he did not believe the company needed major change. To some degree, he felt personally threatened by all the change. To some degree, he was afraid that he could not produce both change and the expected operating profit. But despite the fact that they backed the renewal effort, the other officers did virtually nothing to stop the one blocker. Again, the reasons were complex. The company had no history of confronting problems like this. Some people were afraid of the officer. The CEO was concerned that he might lose a talented executive. The net result was disastrous. Lower-level managers concluded that senior management had lied to them about their commitment to renewal, cynicism grew, and the whole effort collapsed.

In the first half of a transformation, no organization has the momentum, power, or time to get rid of all obstacles. But the big ones must be confronted and removed. If the blocker is a person, it is important that he or she be treated fairly and in a way that is consistent with the new vision. Action is essential, both to empower others and to maintain the credibility of the change effort as a whole.

Error 6: Not Systematically Planning for, and Creating, Short-Term Wins

Real transformation takes time, and a renewal effort risks losing momentum if there are no short-term goals to meet and celebrate. Most people won't go on the long march unless they see compelling evidence in 12 to 24 months that the journey is producing expected results. Without short-term wins, too many people give up or actively join the ranks of those people who have been resisting change.

One to two years into a successful transformation effort, you find quality beginning to go up on certain indices or the decline in net income stopping. You find some successful new product introductions or an upward shift in market share. You find an impressive productivity improvement or a statistically higher customer satisfaction rating. But whatever the case, the win is unambiguous. The result is not just a judgment call that can be discounted by those opposing change.

Creating short-term wins is different from hoping for short-term wins. The latter is passive, the former active. In a successful transformation, managers actively look for ways to obtain clear performance improvements, establish goals in the yearly planning system, achieve the objectives, and reward the people involved with recognition, promotions, and even money. For example, the guiding coalition at a U.S. manufacturing company produced a highly visible and successful new product introduction about 20 months after the start of its renewal effort. The new product was selected about six months into the effort because it met multiple criteria: It could be designed and launched in a relatively short period, it could be handled by a small team of people who were devoted to the new vision, it had upside potential, and the new product-development team could operate outside the established departmental structure without practical problems. Little was left to chance, and the win

boosted the credibility of the renewal process.

Managers often complain about being forced to produce short-term wins, but I've found that pressure can be a useful element in a change effort. When it becomes clear to people that major change will take a long time, urgency levels can drop. Commitments to produce short-term wins help keep the urgency level up and force detailed analytical thinking that can clarify or revise visions.

Error 7: Declaring Victory Too Soon

After a few years of hard work, managers may be tempted to declare victory with the first clear performance improvement. While celebrating a win is fine, declaring the war won can be catastrophic. Until changes sink deeply into a company's culture, a process that can take five to ten years, new approaches are fragile and subject to regression.

In the recent past, I have watched a dozen change efforts operate under the reengineering theme. In all but two cases, victory was declared and the expensive consultants were paid and thanked when the first major project was completed after two to three years. Within two more years, the useful changes that had been introduced slowly disappeared. In two of the ten cases, it's hard to find any trace of the reengineering work today.

After a few years of hard work, managers may be tempted to declare victory with the first clear performance improvement. While celebrating a win is fine, declaring the war won can be catastrophic.

Over the past 20 years, I've seen the same sort of thing happen to huge quality projects, organizational development efforts, and more. Typically, the problems start early in the process: The urgency level is not intense enough, the guiding coalition is not powerful enough, and the vision is not clear enough. But it is the premature victory celebration that kills momentum. And then the powerful forces associated with tradition take over.

Ironically, it is often a combination of change initiators and change resistors that creates the premature victory celebration. In their enthusiasm over a clear sign of progress, the initiators go overboard. They are then joined by resistors, who are quick to spot any opportunity to stop change. After the celebration is over, the resistors point to the victory as a sign that the war has been won and the troops should be sent home. Weary troops allow themselves to be convinced that they won. Once home, the foot soldiers are reluctant to climb back on the ships. Soon thereafter, change comes to a halt, and tradition creeps back in.

Instead of declaring victory, leaders of successful efforts use the credibility afforded by short-term wins to tackle even bigger problems. They go after systems and structures that are not consistent with the transformation vision and have not been confronted before. They pay great attention to who is promoted, who is hired, and how people are developed. They include new reengineering projects that are even bigger in scope than the initial ones. They understand that renewal efforts take not months but years. In fact, in one of the most successful transformations that I have ever seen, we quantified the amount of change that occurred each year over a seven-year period. On a scale of one (low) to ten (high), year one received a two, year two a four, year three a three, year four a seven, year five an eight, year six a four, and year seven a two. The peak came in year five, fully 36 months after the first set of visible wins.

Error 8: Not Anchoring Changes in the Corporation's Culture

In the final analysis, change sticks when it becomes "the way we do things around here," when it seeps into the bloodstream of the corporate body. Until new behaviors are rooted in social norms and shared values, they are subject to degradation as soon as the pressure for change is removed.

Two factors are particularly important in institutionalizing change in corporate culture. The first is a conscious attempt to show people how the new approaches, behaviors, and attitudes have helped improve performance. When people are left on their own to make the connections, they sometimes create very inaccurate links. For example, because results improved while charismatic Harry was boss, the troops link his mostly idiosyncratic style with those results instead of seeing how their own improved customer service and productivity were instrumental. Helping people see the right connections requires communication. Indeed, one company was relentless, and it paid off enormously. Time was spent at every major management meeting to discuss why performance was increasing. The company newspaper ran article after article showing how changes had boosted earnings.

The second factor is taking sufficient time to make sure that the next generation of top management really does personify the new

approach. If the requirements for promotion don't change, renewal rarely lasts. One bad succession decision at the top of an organization can undermine a decade of hard work. Poor succession decisions are possible when boards of directors are not an integral part of the renewal effort. In at least three instances I have seen, the champion for change was the retiring executive, and although his successor was not a resistor, he was not a change champion. Because the boards did not understand the transformations in any detail, they could not see that their choices were not good fits. The retiring executive in one case tried unsuccessfully to talk his board into a less seasoned candidate who better personified the transformation. In the other two cases, the CEOs did not resist the boards' choices, because they felt the transformation could not be undone by their successors. They were wrong. Within two years, signs of renewal began to disappear at both companies.

• • •

There are still more mistakes that people make, but these eight are the big ones. I realize that in a short article everything is made to sound a bit too simplistic. In reality, even successful change efforts are messy and full of surprises. But just as a relatively simple vision is needed to guide people through a major change, so a vision of the change process can reduce the error rate. And fewer errors can spell the difference between success and failure.

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Leading Change

Why Transformation Efforts Fail

Further Reading

ARTICLES

Building Your Company's Vision
by James C. Collins and Jerry I. Porras
Harvard Business Review
September–October 1996
Product no. 96501

Collins and Porras describe the glue that holds a change effort together. Great companies have a clear sense of why they exist—their core ideology—and where they want to go—their envisioned future. The mechanism for getting there is a BHAG (Big, Hairy, Audacious Goal), which typically takes 10 to 30 years to accomplish. The company's business, strategies, and even its culture may change, but its core ideology remains unchanged. At every step in this long process, the leader's key task is to create alignment with the vision of the company's future, so that regardless of the twists and turns in the journey, the organizational commitment to the goal remains strong.

Successful Change Programs Begin with Results
by Robert H. Schaffer and Harvey A. Thomson
Harvard Business Review
January–February 1992
Product no. 92108

Although a change initiative is a process, that doesn't mean process issues should be the primary concern. Most corporate change programs have a negligible impact on operational and financial performance because management focuses on the activities, not the results. By contrast, results-driven improvement programs seek to achieve specific, measurable improvements within a few months.

BOOKS

The Heart of Change: Real-Life Stories of How People Change Their Organizations
by John P. Kotter and Dan S. Cohen
Harvard Business School Press
2002
Product no. 2549

This book is organized around Kotter's eight-stage change process, and reveals the results of his research in over 100 organizations in the midst of large-scale change. Although most organizations believe that change happens by making people think differently, the authors say that the key lies more in making them feel differently. They introduce a new dynamic—"see-feel-change"—that sparks and fuels action by showing people potent reasons for change that charge their emotions. The book offers tips and tools to you apply to your own organization.

Leading Change
by John P. Kotter
Harvard Business School Press
1996
Product no. 7471

This book expands upon the article about why transformation efforts fail. Kotter addresses each of eight major stages of a change initiative in sequence, highlighting the key activities in each, and providing object lessons about where companies often go astray.

MODULE IV: HADRACHAT ACHERIM — MENTORING AND GROWING OTHERS

In preparation for Module IV, read "**Ask What, Not Why**?" by Laura Berman Fortgang, (Fortgang, L. B. (2001) ***Living Your Best Life: Work, Home, Balance, Destiny***. New York: Putnam).

GUIDED QUESTIONS:

- According to Fortgang, why does "what" work?
- What question do you find you ask most in leadership situation: How? What? Why? Where?

The following excerpt is taken from Chapter One of LIVING YOUR BEST LIFE. Imagine your brain as one big search engine. When you need answers in life, you form questions that serve as your keywords. Your brain then searches its resources and gives out possible answers. The more specific your keyword entry, the more specific the answer. This excerpt, "Ask What, Not Why" discusses which questions access your inner-wisdom and move you toward your goal, and which will return the equivalent of an "Error 404: File not Found" message.

Laura Berman Fortgang is one of America's foremost life and career coaches. She has been featured on the "Oprah Winfrey Show," and profiled in such publications as "The Wall Street Journal," "USA Today," and "Glamour." Her column on Women.com is read by more than five million people every month.

More about the book and author follows the excerpt. You can further wire yourself forwisdom by joining Laura Berman Fortgang for an online chat on Thursday, May 23rd at 10:00 p.m. ET/7:00 p.m. PT at World Without Borders .

ASK WHAT, NOT WHY

Reckoning with your mind in order to free up your capacity for wisdom is the ongoing battle of life. For some, the battle is constant; others are not as affected. Regardless of which category you fall into, this chapter will give you the first tool for accessing the wisdom that can change your life. It's a tool you use every day: the ordinary, common question.

One of the most common questions we ask is "Why?" "Why" is the language of seeking to understand. When we were young children, we used this question to figure out how the world works: "Why is the sky blue?," "Why did Sparky run away?" As we get older, we still use "why" to bring our circumstances into alignment with our ability to understand our world.

Unfortunately, "why" eventually loses its power to move us forward; instead, we get "stuck" by obsessing over questions like "Why did that happen?," "Why am I this way?," and "Why aren't I better-thinner-smarter?"

Even if you're not in the throes of despair, you might still be stuck using despair's questions. When you use "why" to ask a question, you are struggling to come up with information to help you understand a situation or circumstance. I call this asking an information question. Information questions will give you answers that explain the past. They yield answers that fill the coffers of your mind with details, as well as emotion, blame, and perhaps even more problems. While we assume that more information will enable us to be released from our problems, an information question does little to move you forward in life. In fact, sometimes they can't even be answered. In working with clients for almost a decade, I've seen them endure more frustration than necessary because they asked too many information questions. Asking bad questions is a bad habit.

But don't get me wrong: asking "Why?" has been the key to many a brilliant discovery. When it comes to making changes in our lives, however, "why" is not an effective short-term tool. The way to your life blueprint requires asking deeper, more useful questions in order to get better answers and more effective action. The questions that will help you do that are access questions, which I like to call Wisdom Access Questions. These questions access your innate wisdom to create positive, forward motion.

WISDOM ACCESS QUESTIONS

Imagine your brain as one big Yahoo.com. It is a search engine tapping into a data bank of information that you already have available to you and that is made up of acquired experience, knowledge, and intuition. When you need answers in life, you form questions that serve as your keywords. Your brain then searches its resources and gives out possible answers. The more specific your keyword entry, the more specific your

answer -- that's the wisdom of the computer. How did it know you needed exactly that? You told it your question and it found the answer for you. This is what Wisdom Access Questions (WAQs) will do -- help you be specific in your information gathering so you can come up with answers that have the power to move you forward.

Nearly all the questions we ask begin with one of five words: "who,' "what," "why," "when," or "how." Although these words help us gather facts and understand each other in conversation, not all of them yield wisdom. We've already eliminated "why" as a viableWisdom Access Question. " Who," "when," and "how" fall into the information question category. However, using "what" helps the brain behave as an efficient search engine. "What" questions force you to be specific in your query and being specific leads to solution and awareness; on the other hand, asking "Why?" leaves you with only the question.

For example, if I asked you, "Why are you reading this book?," you might tell me a story about some things you are wondering about. Maybe you'd go on to provide a few details about what brought you to this moment of information seeking. Your responses would probably have something to do with your past. But if I asked, "What outcome do you want to reach by reading this book?," the answer you give would be future- oriented. It would also be much more specific, since you would be forced to look forward, rather than backward. This releases energy and moves you from feeling stuck to living in possibility -- you can see opportunities just over the horizon.

So let me ask you again: What outcome do you want to reach by reading this book? Answers like "To get a new life," "To be happier in what I do," or "To find the guts to take a huge risk" have a momentum of their own -- regardless of what the final result ends up being, these responses get you moving toward a goal.

The search engine in our brains is highly sophisticated, but it requires a well-phrased question to take advantage of it. WAQs are designed to do that. Using "what" questions provides the opportunity to start you along the road to accessing your own wisdom.

Take a look at the list of questions below and see how you can make any question a Wisdom Access Question by using "what."

CONVERTING INFORMATION QUESTIONS INTO WISDOM ACCESS QUESTIONS

Instead of Asking Yourself / *Ask*

Why is this happening to me? / What do I need to get through this?

Why am I such a failure? / What will get me what I want?

Why aren't I better at this? / What can I do to improve?

Why can't I get it? / What do I need to know to understand?

Why can't I have a charmed life like ____? / What can I learn from _____ ?

Instead of Asking Others / *Ask*

Why did she say that? / What could have made her say that?

Whose fault was it? / What is the solution?

Who did what? / What would have made a difference?

What happened [seeking details] / What happened? [seeking outcome]

Why would they do that? / What could be learned from this?

How will you do that? / What will you do?

HOW AND WHEN TO USE WAQs

Imagine two friends commiserating over a problem. One is expressing a complaint and the other is taking the supportive role. If the supporter was to ask information questions -- Where were you? Who started it? Why? -- he would be treated to details about who did what to whom in a blow-by-blow reenactment of the drama. However, if the supporter knew how to ask Wisdom Access Questions -- What is upsetting about what happened? -- the friend with the problem would move from problem to solution in record-breaking time.

To find the appropriate "what" question to ask, you must change the focus from details and information to outcomes. Get away from trying to understand a problem and move toward solving it. In the process, you'll see that you don't really need to understand a dilemma to know how to solve it. Using "what" questions will train you to think toward the future, as if you are already ahead of the problem. "What" assumes that a solution is the goal.

Sometimes, we want to be left alone with our problems for a while. Have you ever tried to help a friend who didn't really want help? Remember how frustrated that left you feeling? When you or someone you know wants to mull over a problem, not solve it, all the WAQs in the world are not going to help. You must truly want to stop ruminating and start solving the problem if "what" questions are to be of any use.

Even though you can do this all by yourself, I believe it helps to watch other people gain clarity when you ask them "what" questions. Asking WAQs is a productive and highly generous listening tool for you to use with friends, colleagues, and loved ones. Allowing another person to hear herself is a wonderful gift. This kind of thoughtful communication takes time and patience, but it will improve the quality of the relationship. Whether you use Wisdom Access Questions to move yourself or someone else forward, keep in mind that you have found a great tool.

I use WAQs with my clients, thus enabling them to create more positive circumstances more quickly than they do on their own. My clients predictably begin to experience breakthroughs, both small and large, which I really can't take credit for. I'm just there asking the right question. It's my clients who have the answers -- they just needed a prompt in order to accelerate the discovery.

Nothing makes me happier than to hear a client say, "That's a good question." Or better yet, "I hate you for asking me that!" Those are surefire signs that we have struck gold-wisdom.

Let's get question-asking to work for you. If you are ready to begin using WAQs, it may be hard to phrase them properly at first. The two conversations that follow cover the same subject matter but with dramatically different results. In the first, you'll see a coach speak with a client in a more conventional way, without using Wisdom Access Questions.

client: Something's really bothering me about this decision and I can't quite put my finger on it.

coach: Why do you think that is?

client: I don't know. I've been giving it a lot of thought, but nothing's clear.

coach: Why do you think this is bothering you?

client: It's something about this guy....

coach: Was it something he said to you?

client: Oh, he said he knew these people who could help with the deal and then, when I asked who they were, he avoided giving me names.

coach: How did that make you feel?

client: Annoyed.

coach: Did any one thing annoy you?

client: Just everything.

coach: Do you know what you want to do now?

client: Just drop the whole thing, I think. But I'm just not sure.

The coach's questions asked here focus on information seeking, and in such a nonspecific way that the client isn't prompted to provide dynamic answers that would propel him forward. There is no freedom from the problem, no break from its burden, no movement toward a solution.

Now compare the approach in our next example, where the coach uses WAQs.

client: Something's really been bothering me about this decision and I can't quite put my finger on it.

coach: Take a guess -- *what* is it that's bugging you?

client: I don't know.

coach: If you pretended you knew, *what* would you say?

client: Hmm. I don't trust the guy who brought me the idea.

coach: You don't trust the guy. *What* led you to that conclusion?

client: He has been very vague. He won't commit to anything he has said. I've even asked him about it.

coach: *What* do you need to move ahead?

client: I need to find someone I can trust.

coach: Great. Any ideas as to who?

client: Yes. There's another guy I think could do the job much better.

coach: When will you call him?

client: Today!

Eureka! Clarity, relief, action, forward motion. Here, the client's answers are dynamic and they ring with certainty. Wisdom is attained and, with it, a break from the burden of the problem. This liberating break is the result of using Wisdom Access Questions.

CASE STUDY: USING "WHAT" AS A WAQ

Peggy is a corporate executive who participated in one of my wisdom seminars. She told me about an employee who always saw the glass as half empty, never half full. He found the fault in anything and the negative side of everything. Peggy felt he didn't want to take responsibility for his actions. He justified everything he did by saying it was someone else's fault or someone gave him the wrong information. Peggy struggled with how to get him to see that he was indeed involved and accountable for his own words and actions.

On a recent conference call, Peggy had to deliver some difficult news to her team about significant changes in the company. This employee was on the call and was disruptive and very self-involved. It made her realize she had to address his behavior sooner rather than later.

"What I really wanted to say to him," Peggy told me, "was 'Who do you think you are? Why do you expect me or the company to help you? Why do you always see things in the most negative light? If you spent less time on the phone gossiping, you'd have the time and positive energy to devote to planning and executing for success. And the way to get any positive reinforcement from me, or to get me to embrace the issue as you see it, is not by being passive-aggressive on a conference call, asking me the same question four times, or pushing my hot buttons in an attempt to corner me into a response. Whether you like it or not, I am the manager. You are the representative. This is not a democracy. I will lead and you will follow.'"

Instead, Peggy addressed the issue with her employee in a casual conversation over dinner. She had her notes from my seminar with her, along with a list of WAQs. Here's what she said:

"On our conference call, I picked up on the tension in your voice. Tell me what you found upsetting about the new incentive plan. Let me ask that another way. What emotion was triggered in you as we discussed the plan? What do you want now? What is your goal for this year? What will get you what you want? What can I do to help? What can we do together to make it work?"

The employee was bowled over, but also stymied. He'd been expecting Peggy to go for the jugular, but she didn't buy into his crisis. She consciously decided to pull back and once he realized there would be no fight, he was forced to respond in the same way. The Wisdom Access Questions Peggy asked left no room for excuses, self-justification, or any defensive behaviors. He was left with no one to look at but himself. After this frank, open discussion, he and Peggy were aware of his insecurities, his fears, and his goals.

She was able to learn what he wanted from her as his boss because she used WAQs. They diffused a very difficult situation. You saw the raw emotional reaction in her words to me, which anyone could understand and relate to. However, Peggy made a deliberate choice to seek a solution instead of fishing for more information, and getting mired in emotion, blame, and details. In so doing, she was able to improve a working relationship she long ago decided was beyond repair. This was a challenge for Peggy, but in committing to elevating the exchange, she challenged her employee too, and together they got new, unexpected results. Wisdom Access Questions were essential in making this possible.

WAQs AND RELATIONSHIPS

You've seen how Wisdom Access Questions help in a work- related scenario, but they are equally effective in other areas of your life, such as romantic relationships. My friend Scott recently told me how WAQs led him and his wife to have what she said was "one of the best conversations" they'd had in years. His wife had a problem she wanted to discuss, and what Scott had done was resist his natural urge to jump in with a solution. Instead, he talked through the issues involved, using "what" questions only. His wife was able to

solve her own problem, thanks in no small part to Scott's attentive questions. She felt connected to him and very loved and supported.

Scott understood that he did not have to "do" anything for his wife. Nor did he have to "fix" anything for her. Just asking the right questions was the loving listening and helpful support she needed.

Never underestimate the power of a few access questions to raise the level of intimacy in a relationship. When people feel heard and when they are helped to hear themselves, they often experience a deep connection to the power they have. This is often translated into deep gratitude for the person who helped them get there. Whether they are conscious of it or not, this greater sense of connection to oneself and another makes for the kind of relationships most people are looking for.

A CAVEAT

As you begin to realize the benefit of using WAQs in your home and work life, I need to warn you of an exception to the "It's good to ask 'What?'" rule. There is in fact one "what" question that is not a WAQ, but an "information" question. You've probably used it countless times on yourself and on others. Ready?

"What should I do?"

Oh, yes, that's a very big "what" question but definitely not a WAQ. How many times have you asked friends, "What should I do?," or told yourself you "really should" do x, y or z? The answers to "What should I do?" prevent you from asking the most powerful WAQ you can use. It's very simple and it's the exact opposite: "What do I want?"

That's it. I know it sounds very simple. And very easy. But most people have a really hard time answering this question, because most of us don't know what we want. I see this up close every day. Most smart, sophisticated people, with goals and plans, *think* they know what they want. However, truly having a sense of what would make them happy is a different story. We tend to be much more certain of what we should do, say, wear, or look like than of what will guide us to inner happiness.

It is my experience that seven out of ten people don't really know what they want. They think they do, but they come to discover that much of what drives them is unmet needs or the expectations of others. We will work on making sure you do know what you want in Part Two, but for now just avoid asking the information question "What should I do?"

CASE STUDY: THE POWER OF "WANT" VERSUS "SHOULD"

My phone rang. It was time for Patricia's fourth session with me and, upon picking up the phone, I could instantly hear her agitation. "I've been trying to rewrite my r?um?all week and I just can't decide which direction will make it what I want it to be. Should I be focusing on getting a job in advertising or make it read stronger for work in softwaremarketing?"

Patricia was a singer/songwriter by avocation and a successful communications professional in the "real world." She wanted to solidify her plans to find more fulfilling work in the career that paid the bills and, at the same time, further her artistic endeavors. In our earlier sessions, she had said things like "I just don't know what to do. I have to think more about what I should do. Maybe if I try to do both. What do you think I should do?"

"What I think doesn't matter right now," I'd replied. "What you think does."

Patricia's high level of anxiety and her constant use of the word "should" was a red flag, so I gave her an assignment. "Patricia," I said, "for the next week, I want you to eliminate the word 'should' from your vocabulary."

After a moment of silence, Patricia asked, "Well, what should I say?" She then chuckled, realizing the word had slipped out again.

"Use the word 'want' for one week and see what happens. Ask yourself what you want instead of repeatedly asking what you should do."

When we had our next session on the phone, it was like I was speaking to a new person.

"Hi Patricia."

"Hi, Laura. I want to be in advertising!"

By asking herself Wisdom Access Questions instead of the information-seeking "What should I do?," Patricia was able to discover what she truly wanted. She had carved wisdom out of all her confusion simply by changing the questions she was asking. She was starting to unlock the life that would make her happiest.

IT'S MORE THAN THE WORDS

We have seen that changing a few words in a WAQ can make a world of difference in the quality of the answer you receive, but the truth is that changing the words alone is not enough. Getting good answers to access questions depends not only on what words you use but on where your underlying focus is. To get the best results, your underlying focus should be on solutions and forward motion for your life. When you play with the words, the questions change and their power to change your life multiplies. By committing to monitoring your inner motivation, however, you not only change your life, but begin to transform who you are.

When you can remain above the fray and stay focused on solutions and forward motion during the adversities of your life, you've begun to align with your blueprint. Your life can flow instead of getting stopped behind a dam of blame, criticism, problems, and anxiety. The focus of your inner motivation (intention) makes all the difference. In the reckoning there are really only two choices: Are you someone who intends to stay "stuck," or are you someone who intends to move forward? To use a Wisdom Access Question successfully, you must intend to move forward.

This reminds me of how I learned to drive in Manhattan. For a decade, I refused to drive there because of the terror that consumed me as taxis and buses cut me off. I would continually become exasperated, swearing and wondering, "What's wrong with these people?" One day, as I was complaining about my inability to drive myself into the city, my husband uttered a few simple words that rocked my driving world: "The thing to remember to drive well in Manhattan is to never stop moving forward."

Not only is this a great mantra for driving, it works for life. I'm not talking about motion for motion's sake, but about focusing your efforts on getting out of any potholes as soon as you can, even if you fall back into them later. Although such a shift in focus may require a fundamental change in you, it's the only way to ensure that when you ask WAQs, you're not just mouthing the words.

ARE YOU AN INFORMATION SEEKER OR A WISDOM SEEKER?

Let's take a look at what kinds of intentions you've been working with. The following list describes two very different kinds of motivation in asking questions. Most people are basically information seekers or wisdom seekers, although you may exhibit characteristics of both. Which type are you?

Characteristics of Information Seeker
-- Asks questions that are self-centered (What's wrong with me, the world, the situation in relation to how it affects me?)
-- Digs for evidence to justify point of view
-- Is oriented toward problems
-- Is territorial and assumes everything is scarce
-- Hoards and controls information and knowledge
-- Reacts without thinking to problems and people
-- Must have or give answers as part of identity
-- Holds knowledge as a source of power, something to manipulate and control

Characteristics of Wisdom Seeker
-- Asks questions that are focused outward (What's right about me, the world, the situation? How does it add up to a whole?)

-- Explores as an objective observer to find truth
-- Is oriented toward solutions
-- Assumes ample resources are available
-- Sees information and knowledge as things to be shared
-- Thinks and reflects before taking action
-- Is comfortable with waiting for answers and with appearing to "not know" temporarily
-- Holds knowledge as a source of power, something to inspire and transform

Each list will give you choices as to how you can use questions and help you determine which characteristics you are predisposed to. There is nothing wrong with finding yourself in the information seeker list, but you will see that you could be making better choices, asking different questions and producing less stressful outcomes if you focus on becoming the wisdom seeker.

To experience your life unfolding with ease, the shift from information seeker to wisdom seeker becomes necessary. We will explore how to make the shifts in Parts Two and Three, but let's use the next exercise to learn how your motivation may need to change. Take your time here, in order to absorb how this could transform your life.

ABOUT THE BOOK

LIVING YOUR BEST LIFE: Ten Strategies for Getting from Where You Are to Where You're Meant to Be by Laura Berman Fortgang Published by Jeremy P. Tarcher/Putnam, a member of Penguin Putnam, Inc. (ISBN: 1-58542-092-1, 224 pages, $23.95)

A founding member of the International Coach Federation and the president and owner of InterCoach, Laura Berman Fortgang is at the forefront of one of the fastest-growing consulting disciplines in the world. Teaching advanced communication and living skills, Fortgang has helped thousands of clients find more rewarding careers, make more money, and exchange a stressful daily treadmill of endless goal-seeking for life in which gains come easily.

In this book, Fortgang shares her secrets of personal and professional balance and fulfillment. She presents ten tried- and-true strategies that lead to what she calls a "best life" -- one in which we:

* Have more than enough time for the things that really matter to us.
* Attract opportunities, seemingly without effort.
* Resolve problems and crises with greater ease.

* Take chances that move our lives forward.
* Have deep respect for the individuals we are.

Fortgang suggests that instead of frenetically trying to have it all, we focus on asking ourselves what we really want by posing questions that lead us to positive action. Offering accessible, easy-to-follow techniques, she shows us how to discover our own unique "lucrative purpose" and to design a "magnet" life plan -- perfectly suited to our needs -- that honors our true desires and talents and draws to us the more satisfying existence we deserve.

MODULE V: *HAZON* — NURTURING VISION

In preparation for Module V, read **Building Your Company's Vision**" by James Collins and Jerry Porras (***Harvard Business Review***. September 1996),

Read "**The Six Deadly Sins of Leadership**" by Jack and Suzy Welch (2013). One of the business world's iconic power couples, Jack was the longtime CEO of GE. Suzy was a business journalist and served as editor of the Harvard Business Review.

GUIDED QUESTIONS:

- Out of Welch's six deadly sins of leadership, what is your number one?
- Contrast the two articles. Where do they align and where do they offer conflicting advice?

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Building Your Company's Vision

by James C. Collins and Jerry I. Porras

PRODUCT NUMBER 410X

The Six Deadly Sins of Leadership

Published on March 27, 2013 | Featured in: Leadership & Management

Jack Welch influencer | Follow
Executive Chairman, The Jack Welch Management Institu…

By Jack and Suzy Welch

Being a leader is perhaps the hardest challenge any of us will ever face. No matter how long we work at it, practicing the right behaviors is a never-ending task. Knowing – and avoiding – the wrong ones is too. Thus, we offer the following six common leadership pitfalls:

1. Not Giving Self-Confidence its Due.

Self-confidence is the lifeblood of success. When people have it, they're bold. They try new things, offer ideas, exude positive energy, and cooperate with their colleagues instead of surreptitiously attempting to bring them down. When they lack self-confidence, it's just the opposite. People cower. They plod. And they spread negativity with every word and gesture.

But all too often leaders ignore (or neglect) this very basic fact of the human condition. Why is anyone's guess. Perhaps they just don't understand that it is part of their job to instill self-confidence in their people. It may even be said that it's their first job. You cannot unleash the creative power of individuals who doubt themselves.

never stop pouring self-confidence into their teams. The ways to do so are myriad. Make sure goals are challenging – but achievable. Give effusive positive feedback. Remind your direct reports of what they do right.

We're not saying that leaders should blindly extol and exalt. People know when they're being gamed. But good leaders work relentlessly to find ways to instill self-confidence in those around them. They know it's the gift that never stops giving.

2. Muzzling Voice.

Perhaps the most frustrating way that leaders underperform is by over-talking. That is, they act like know-it-alls. They can tell you how the world works, what corporate is thinking, how it will backfire if you try this or that, and why you can't possibly change the product one iota. Sometimes such blowhards get their swagger from a few positive experiences, but usually they're just victims of their own destructive personalities.

Ultimately, the company ends up being a victim too, because know-it-alls aren't just insufferable, they're dangerous. They don't listen, and that deafness makes it very hard for new ideas to get debated, expanded upon, or improved. No single person, no matter how smart, can take a business to its apex. For that, you need every voice to be heard.

3. Acting Phony.

Can you spot a phony? Of course you can – and so can your people. Indeed, if there is one widespread human capability, it is sniffing out someone who is putting on airs, pretending to be who they're not, or just keeping their real self hidden. Yet too many leaders spend way too much time creating personas that put a wall between them and their employees. What a waste.

Because authenticity is what makes people love you. Visibly grappling with tough problems, sweating the details, laughing, and caring – those are the activities that make people respond and feel engaged with what you're saying. Sure, some people will tell you that being mysterious grants you power as a leader. In reality, all it generates is fear. And who wants to motivate that way?

Now, obviously, authenticity is unattractive if it's coupled with immaturity or an overdose of informality. And organizations generally don't like people who are too emotionally unbounded – i.e. so real that all their feelings are exposed. They tend to tamp that kind of intensity down a bit. And that's not a bad thing, as work is work and, more than at home, allows us to maintain some privacy.

But don't let convention wring all the authenticity out of you, especially as you climb the ladder. In time, humanity always wins. Your team and bosses come to know who

will inspire. You will lead.

4. Lacking the Guts to Differentiate.

You only have to be in business a few weeks to know that not all investment opportunities are created equal. But some leaders can't face that reality, and so they sprinkle their resources like cheese on a pizza, a little bit everywhere.

As a result, promising growth opportunities too often don't get the outsized infusions of cash and people they need. If they did, someone might get offended during the resource allocation process. Someone – as in the manager of a weak business or the sponsor of a dubious investment proposal.

But leaders who don't differentiate do the most damage when it comes to people. Unwilling to deliver candid, rigorous performance reviews, they give every employee the same kind of bland, mushy, "nice job" sign-off. Then, when rewards are doled out, they give star performers little more than the laggards. Now, you can call this egalitarian approach kind, or fair – as these lousy leaders usually do – but it's really just weakness. And when it comes to building a thriving organization where people have the chance to grow and succeed, weakness just doesn't cut it.

5. Fixation on Results at the Expense of Values.

Everyone knows that leaders deliver. Oratory and inspiration without results equal… well, a whole lot of nothing. But leaders are committing a real dereliction of duties if all they care about are the numbers. They also have to care about how those numbers came to be. Were the right behaviors practiced? Was the company's culture of integrity honored? Were people taken care of properly? Was the law obeyed, in both letter and spirit?

Values are a funny thing in business. Companies love to talk about them. They love to hang them up on plaques in the lobby and boast about them to potential hires and customers. But they're meaningless if leaders don't live and breathe them. Sometimes that can take courage. It can mean letting go of a top performer who's a brute to his colleagues, or not promoting a star who doesn't share her best ideas with the team. That's hard.

And yet if you're a leader, this is a sin you cannot squint away. When you nail your results, make sure you can also report back to a crowded room: We did this the right way, according to our values.

6. Skipping the Fun Part

doesn't seem professional, or it makes people worry that they won't look serious to the powers that be, or that, if things get too happy in the office, people will stop working their tails off.

Whatever the reason, too many leaders don't celebrate enough. To be clear here, we do not define celebrating as conducting one of those stilted little company-orchestrated events that everyone hates, in which the whole team is marched out to a local restaurant for an evening of forced merriment when they'd rather be home. We're talking about sending a team to Disney World with their families, or giving each team member tickets to a show or a movie, or handing each member of the team a new iPod.

What a lost opportunity. Celebrating makes people feel like winners and creates an atmosphere of recognition and positive energy. Imagine a team winning the World Series without champagne spraying everywhere. You can't! And yet companies win all the time and let it go without so much as a high-five.

Work is too much a part of life not to recognize the moments of achievement. Grab as many as you can. Make a big deal out of them.

That's part of a leader's job too – the fun part.

This content was originally presented as a lecture at the Jack Welch Management Institute.

Jack Welch is Founder and Distinguished Professor at the Jack Welch Management Institute at Strayer University. Through its executive education and Welch Way management training programs, the Jack Welch Management Institute provides students and organizations with the proven methodologies, immediately actionable practices, and respected credentials needed to win in the most demanding global business environments.

Suzy Welch is a best-selling author, popular television commentator, and noted business journalist. Her New York Times bestselling book, 10-10-10: A Life Transforming Idea, presents a powerful decision-making strategy for success at work and in parenting, love and friendship. Together with her husband Jack Welch, Suzy is also co-author of the #1 international bestseller Winning, and its companion volume, Winning: The Answers. Since 2005, they have written business columns for several publications, including Business Week magazine, Thomson Reuters digital platforms, Fortune magazine, and the New York Times syndicate.

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THE IDEA IN BRIEF

HEWLETT-PACKARD. 3M. Sony. Companies with exceptionally durable visions that are "built to last." What distinguishes their visions from most others, those empty muddles that get revised with every passing business fad, but never prompt anything more than a yawn? Enduring companies have clear plans for how they will advance into an uncertain future. But they are equally clear about how they will remain steadfast, about the values and purposes they will always stand for. This *Harvard Business Review* article describes the two components of any lasting vision: **core ideology** and an **envisioned future**.

THE IDEA AT WORK

A company's practices and strategies should change continually; its core ideology should not. Core ideology defines a company's timeless character. It's the glue that holds the enterprise together even when everything else is up for grabs. Core ideology is something you *discover*—by looking inside. It's not something you can invent, much less fake.

A core ideology has two parts:

1. **Core values are the handful of guiding principles by which a company navigates.** They require no external justification. For example, Disney's core values of imagination and wholesomeness stem from the founder's belief that these should be nurtured for their own sake, not merely to capitalize on a business opportunity. Instead of changing its core values, a great company will change its markets—seek out different customers—in order to remain true to its core values.
2. **Core purpose is an organization's most fundamental reason for being.** It should not be confused with the company's current product lines or customer segments. Rather, it reflects people's idealistic motivations for doing the company's work. Disney's core purpose is to make people happy—not to build theme parks and make cartoons.

An envisioned future, the second component of an effective vision, has two elements:

1. **Big, Hairy, Audacious Goals (BHAGs) are ambitious plans that rev up the entire organization.** They typically require 10 to 30 years' work to complete.
2. **Vivid descriptions paint a picture of what it will be like to achieve the BHAGs.** They make the goals vibrant, engaging—and tangible.

EXAMPLE:
In the 1950s, Sony's goal was to "become the company most known for changing the worldwide poor-quality image of Japanese products." It made this BHAG vivid by adding, "Fifty years from now, our brand name will be as well known as any in the world . . . and will signify innovation and quality. . . . 'Made in Japan' will mean something fine, not something shoddy."

Don't confuse your company's core ideology with its envisioned future—in particular, don't confuse a BHAG with a core purpose. A BHAG is a clearly articulated goal that is reachable within 10 to 30 years. But your core purpose can never be completed.

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Building Your Company's Vision

by James C. Collins and Jerry I. Porras

We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.

T.S. Eliot, *Four Quartets*

Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. The dynamic of preserving the core while stimulating progress is the reason that companies such as Hewlett-Packard, 3M, Johnson & Johnson, Procter & Gamble, Merck, Sony, Motorola, and Nordstrom became elite institutions able to renew themselves and achieve superior long-term performance. Hewlett-Packard employees have long known that radical change in operating practices, cultural norms, and business strategies does not mean losing the spirit of the HP Way – the company's core principles. Johnson & Johnson continually questions its structure and revamps its processes while preserving the ideals embodied in its credo. In 1996, 3M sold off several of its large mature businesses – a dramatic move that surprised the business press – to refocus on its enduring core purpose of solving unsolved problems innovatively. We studied companies such as these in our research for *Built to Last: Successful Habits of Visionary Companies* and found that they have outperformed the general stock market by a factor of 12 since 1925.

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Truly great companies understand the difference between what should never change and what should be open for change, between what is genuinely sacred and what is not. This rare ability to manage continuity and change – requiring a consciously practiced discipline – is closely linked to the ability to develop a vision. Vision provides guidance about what core to preserve and what future to stimulate progress toward. But *vision* has become one of the most overused and least understood words in the language, conjuring up different images for different people: of deeply held values, outstanding achievement, societal bonds, exhilarating goals, motivating forces, or raisons d'être. We recommend a conceptual framework to define vision, add clarity and rigor to the vague and fuzzy concepts swirling around that trendy term, and give practical guidance for articulating a coherent vision within an organization. It is a prescriptive framework rooted in six years of research and refined and tested by our ongoing work with executives from a great variety of organizations around the world.

A well-conceived vision consists of two major components: *core ideology* and *envisioned future*. (See the exhibit "Articulating a Vision.") Core ideology, the yin in our scheme, defines what we stand for and why we exist. Yin is unchanging and complements yang, the envisioned future. The envisioned future is what we aspire to become, to achieve, to create – something that will require significant change and progress to attain.

Core Ideology

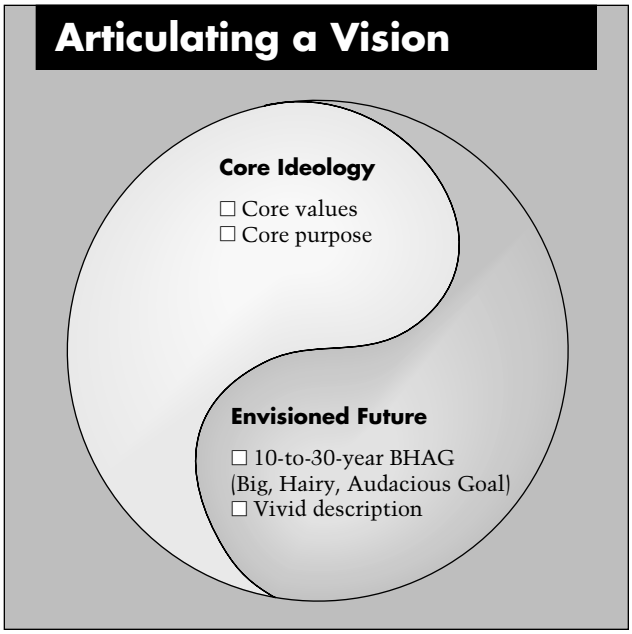
Core ideology defines the enduring character of an organization – a consistent identity that transcends product or market life cycles, technological breakthroughs, management fads, and individual leaders. In fact, the most lasting and significant contribution of those who build visionary companies is the core ideology. As Bill Hewlett said about his longtime friend and business partner David Packard upon Packard's death not long ago, "As far as the company is concerned, the greatest thing he left behind him was a code of ethics known as the HP Way." HP's core ideology, which has guided the company since its inception more than 50 years ago, includes a deep respect for the individual, a dedication to affordable quality and reliability, a commitment to community responsibility (Packard himself bequeathed his $4.3 billion of Hewlett-Packard stock to a charitable foundation), and a view that the company exists to make technical contributions for the advancement and welfare of humanity. Company builders such as David Packard, Masaru Ibuka of Sony, George Merck of Merck, William McKnight of 3M, and Paul Galvin of Motorola understood that it is more important to know who you are than where you are going, for where you are going will change as the world around you changes. Leaders die, products become obsolete, markets change, new technologies emerge, and management fads come and go, but core ideology in a great company endures as a source of guidance and inspiration.

Core ideology provides the glue that holds an organization together as it grows, decentralizes, diversifies, expands globally, and develops workplace diversity. Think of it as analogous to the principles of Judaism that held the Jewish people together for centuries without a homeland, even as they spread throughout the Diaspora. Or think of the truths held to be self-evident in the Declaration of Independence, or the enduring ideals and principles of the scientific community that bond scientists from every nationality together in the common purpose of advancing human knowledge. Any effective vision must embody the core ideology of the organization, which in turn consists of two distinct parts: core values, a system of guiding principles and tenets; and core purpose, the organization's most fundamental reason for existence.

Core Values. Core values are the essential and enduring tenets of an organization. A small set of timeless guiding principles, core values require no external justification; they have *intrinsic* value and importance to those inside the organization. The Walt Disney Company's core values of imagination and wholesomeness stem not from market requirements but from the founder's inner belief that imagination and wholesomeness should be nurtured for their own sake. William Procter and James Gamble didn't instill in P&G's culture a focus on product excellence merely as a strategy for success but as an almost religious tenet. And that value has been passed down for more than 15 decades by P&G people. Service to the customer – even to the point of subservience – is a way of life at Nordstrom that traces its roots back to 1901, eight decades before

Core ideology provides the glue that holds an organization together through time.

Articulating a Vision



customer service programs became stylish. For Bill Hewlett and David Packard, respect for the individual was first and foremost a deep personal value; they didn't get it from a book or hear it from a management guru. And Ralph S. Larsen, CEO of Johnson & Johnson, puts it this way: "The core values embodied in our credo might be a competitive advantage, but that is not *why* we have them. We have them because they define for us what we stand for, and we would hold them even if they became a competitive *dis*advantage in certain situations."

The point is that a great company decides for itself what values it holds to be core, largely independent of the current environment, competitive requirements, or management fads. Clearly, then, there is no universally right set of core values. A company need not have as its core value customer service (Sony doesn't) or respect for the individual (Disney doesn't) or quality (Wal-Mart Stores doesn't) or market focus (HP doesn't) or teamwork (Nordstrom doesn't). A company might have operating practices and business strategies around those qualities without having them at the essence of its being. Furthermore, great companies need not have likable or humanistic core values, although many do. The key is not *what* core values an organization has but that it has core values at all.

Companies tend to have only a few core values, usually between three and five. In fact, we found that none of the visionary companies we studied in our book had more than five: most had only three or four. (See the insert "Core Values Are a Company's Essential Tenets.") And, indeed, we should expect that. Only a few values can be truly *core*–that is, so fundamental and deeply held that they will change seldom, if ever.

To identify the core values of your own organization, push with relentless honesty to define what values are truly central. If you articulate more than five or six, chances are that you are confusing core values (which do not change) with operating practices, business strategies, or cultural norms (which should be open to change). Remember, the values must stand the test of time. After you've drafted a preliminary list of the core values, ask about each one, If the circumstances changed and *penalized* us for holding this core value, would we still keep it? If you can't honestly answer yes, then the value is not core and should be dropped from consideration.

A high-technology company wondered whether it should put quality on its list of core values. The CEO asked, "Suppose in ten years quality doesn't make a hoot of difference in our markets. Suppose the only thing that matters is sheer speed and horsepower but not quality. Would we still want to put quality on our list of core values?" The members of the management team looked around at one another and finally said no. Quality stayed in the *strategy* of the company, and quality-improvement programs remained in place as a mechanism for stimulating progress; but quality did not make the list of core values.

The same group of executives then wrestled with leading-edge innovation as a core value. The CEO asked, "Would we keep innovation on the list as a core value, no matter how the world around us changed?" This time, the management team gave a resounding yes. The managers' outlook might be summarized as, "We always want to do leading-edge innovation. That's who we are. It's really important to us and always will be. No matter what. And if our current markets don't value it, we will find markets that do." Leading-edge innovation went on the list and will stay there. A company should not change its core values in response to market changes; rather, it should change markets, if necessary, to remain true to its core values.

Who should be involved in articulating the core values varies with the size, age, and geographic dispersion of the company, but in many situations we have recommended what we call a *Mars Group*. It works like this: Imagine that you've been asked to re-create the very best attributes of your organization on another planet but you have seats on the rocket ship for only five to seven people. Whom should you send? Most likely, you'll choose the people who have a gut-level understanding of your core values, the highest level of credibility with their peers, and the highest levels of competence.

Core Values Are a Company's Essential Tenets

Merck
- ☐ Corporate social responsibility
- ☐ Unequivocal excellence in all aspects of the company
- ☐ Science-based innovation
- ☐ Honesty and integrity
- ☐ Profit, but profit from work that benefits humanity

Nordstrom
- ☐ Service to the customer above all else
- ☐ Hard work and individual productivity
- ☐ Never being satisfied
- ☐ Excellence in reputation; being part of something special

Philip Morris
- ☐ The right to freedom of choice
- ☐ Winning – beating others in a good fight
- ☐ Encouraging individual initiative
- ☐ Opportunity based on merit; no one is entitled to anything
- ☐ Hard work and continuous self-improvement

Sony
- ☐ Elevation of the Japanese culture and national status
- ☐ Being a pioneer – not following others; doing the impossible
- ☐ Encouraging individual ability and creativity

Walt Disney
- ☐ No cynicism
- ☐ Nurturing and promulgation of "wholesome American values"
- ☐ Creativity, dreams, and imagination
- ☐ Fanatical attention to consistency and detail
- ☐ Preservation and control of the Disney magic

We'll often ask people brought together to work on core values to nominate a Mars Group of five to seven individuals (not necessarily all from the assembled group). Invariably, they end up selecting highly credible representatives who do a super job of articulating the core values precisely because they are exemplars of those values – a representative slice of the company's genetic code.

Even global organizations composed of people from widely diverse cultures can identify a set of shared core values. The secret is to work from the individual to the organization. People involved in articulating the core values need to answer several questions: What core values do you personally bring to your work? (These should be so fundamental that you would hold them regardless of whether or not they were rewarded.) What would you tell your children are the core values that you hold at work and that you hope *they* will hold when they become working adults? If you awoke tomorrow morning with enough money to retire for the rest of your life, would you continue to live those core values? Can you envision them being as valid for you 100 years from now as they are today? Would you want to hold those core values, even if at some point one or more of them became a competitive *dis*advantage? If you were to start a new organization tomorrow in a different line of work, what core values would you build into the new organization regardless of its industry? The last three questions are particularly important because they make the crucial distinction between enduring core values that should not change and practices and strategies that should be changing all the time.

Core Purpose. Core purpose, the second part of core ideology, is the organization's reason for being. An effective purpose reflects people's idealistic motivations for doing the company's work. It doesn't just describe the organization's output or target customers; it captures the soul of the organization. (See the insert "Core Purpose Is a Company's Reason for Being.") Purpose, as illustrated by a speech David Packard gave to HP employees in 1960, gets at the deeper reasons for an organization's existence beyond just making money. Packard said,

> I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society, a phrase which sounds trite but is fundamental.... You can look around [in the general business world and] see people who are interested in money and nothing else, but the underlying drives come largely from a desire to do something else: to make a product, to give a service – generally to do something which is of value.[1]

Purpose (which should last at least 100 years) should not be confused with specific goals or busi-

ness strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it is like a guiding star on the horizon – forever pursued but never reached. Yet although purpose itself does not change, it does inspire change. The very fact that purpose can never be fully realized means that an organization can never stop stimulating change and progress.

In identifying purpose, some companies make the mistake of simply describing their current product lines or customer segments. We do not consider the following statement to reflect an effective purpose: "We exist to fulfill our government charter and participate in the secondary mortgage market by packaging mortgages into investment securities." The statement is merely descriptive. A far more effective statement of purpose would be that expressed by the executives of the Federal National Mortgage Association, Fannie Mae: "To strengthen the social fabric by continually democratizing home ownership." The secondary mortgage market as we know it might not even exist in 100 years, but strengthening the social fabric by continually democratizing home ownership can be an enduring purpose, no matter how much the world changes. Guided and inspired by this purpose, Fannie Mae launched in the early 1990s a series of bold initiatives, including a program to develop new systems for reducing mortgage underwriting costs by 40% in five years; programs to eliminate discrimination in the lending process (backed by $5 billion in underwriting experiments); and an audacious goal to provide, by the year 2000, $1 trillion targeted at 10 million families that had traditionally been shut out of home ownership – minorities, immigrants, and low-income groups.

Similarly, 3M defines its purpose not in terms of adhesives and abrasives but as the perpetual quest to solve unsolved problems innovatively – a purpose that is always leading 3M into new fields. McKinsey & Company's purpose is not to do management consulting but to help corporations and governments be more successful: in 100 years, it might involve methods other than consulting. Hewlett-Packard doesn't exist to make electronic test and measurement equipment but to make technical contributions that improve people's lives – a purpose that has led the company far afield from its origins in electronic instruments. Imagine if Walt

> Core ideology consists of core values and core purpose. Core purpose is a raison d'être, not a goal or business strategy.

Core Purpose Is a Company's Reason for Being

3M: To solve unsolved problems innovatively

Cargill: To improve the standard of living around the world

Fannie Mae: To strengthen the social fabric by continually democratizing home ownership

Hewlett-Packard: To make technical contributions for the advancement and welfare of humanity

Lost Arrow Corporation: To be a role model and a tool for social change

Pacific Theatres: To provide a place for people to flourish and to enhance the community

Mary Kay Cosmetics: To give unlimited opportunity to women

McKinsey & Company: To help leading corporations and governments be more successful

Merck: To preserve and improve human life

Nike: To experience the emotion of competition, winning, and crushing competitors

Sony: To experience the joy of advancing and applying technology for the benefit of the public

Telecare Corporation: To help people with mental impairments realize their full potential

Wal-Mart: To give ordinary folk the chance to buy the same things as rich people

Walt Disney: To make people happy

Disney had conceived of his company's purpose as to make cartoons, rather than to make people happy; we probably wouldn't have Mickey Mouse, Disneyland, EPCOT Center, or the Anaheim Mighty Ducks Hockey Team.

One powerful method for getting at purpose is the *five whys*. Start with the descriptive statement We make X products or We deliver X services, and then ask, Why is that important? five times. After a few whys, you'll find that you're getting down to the fundamental purpose of the organization.

We used this method to deepen and enrich a discussion about purpose when we worked with a certain market-research company. The executive team first met for several hours and generated the following statement of purpose for their organization: To provide the best market-research data available. We then asked the following question: Why is it important to provide the best market-research data available? After some discussion, the executives answered in a way that reflected a deeper sense of their organization's purpose: To provide the best market-research data available so that our customers will understand their markets better than they could otherwise. A further discussion let team members realize that their sense of self-worth came not just from helping customers understand their markets better but also from making a *contribution* to their customers' success. This introspection eventually led the company to identify its purpose as: To contribute to our customers' success by helping them understand their markets. With this purpose in mind, the company now frames its product decisions not with the question Will it sell? but with the question Will it make a contribution to our customers' success?

The five whys can help companies in any industry frame their work in a more meaningful way. An asphalt and gravel company might begin by saying, We make gravel and asphalt products. After a few whys, it could conclude that making asphalt and gravel is important because the quality of the infrastructure plays a vital role in people's safety and experience; because driving on a pitted road is annoying and dangerous; because 747s cannot land safely on runways built with poor workmanship or inferior concrete; because buildings with substandard materials weaken with time and crumble in earthquakes. From such introspection may emerge this purpose: To make people's lives better by improving the quality of man-made structures. With a sense of purpose very much along those lines, Granite Rock Company of Watsonville, California, won the Malcolm Baldrige National Quality Award–not an easy feat for a small rock quarry and asphalt company. And Granite Rock has gone on to be one of the most progressive and exciting companies we've encountered in *any* industry.

Notice that none of the core purposes fall into the category "maximize shareholder wealth." A primary role of core purpose is to guide and inspire.

> Listen to people in truly great companies talk about their achievements – you will hear little about earnings per share.

Maximizing shareholder wealth does not inspire people at all levels of an organization, and it provides precious little guidance. Maximizing shareholder wealth is the standard off-the-shelf purpose for those organizations that have not yet identified their true core purpose. It is a substitute – and a weak one at that.

When people in great organizations talk about their achievements, they say very little about earnings per share. Motorola people talk about impressive quality improvements and the effect of the products they create on the world. Hewlett-Packard people talk about their technical contributions to the marketplace. Nordstrom people talk about heroic customer service and remarkable individual performance by star salespeople. When a Boeing engineer talks about launching an exciting and revolutionary new aircraft, she does not say, "I put my heart and soul into this project because it would add 37 cents to our earnings per share."

One way to get at the purpose that lies beyond merely maximizing shareholder wealth is to play the "Random Corporate Serial Killer" game. It works like this: Suppose you could sell the company to someone who would pay a price that everyone inside and outside the company agrees is more than fair (even with a very generous set of assumptions about the expected future cash flows of the company). Suppose further that this buyer would guarantee stable employment for all employees at the same pay scale after the purchase but with no guarantee that those jobs would be in the same industry. Finally, suppose the buyer plans to kill the company after the purchase – its products or services would be discontinued, its operations would

be shut down, its brand names would be shelved forever, and so on. The company would utterly and completely cease to exist. Would you accept the offer? Why or why not? What would be lost if the company ceased to exist? Why is it important that the company continue to exist? We've found this exercise to be very powerful for helping hard-nosed, financially focused executives reflect on their organization's deeper reasons for being.

Another approach is to ask each member of the Mars Group, How could we frame the purpose of this organization so that if you woke up tomorrow morning with enough money in the bank to retire, you would nevertheless keep working here? What deeper sense of purpose would motivate you to continue to dedicate your precious creative energies to this company's efforts?

As they move into the twenty-first century, companies will need to draw on the full creative energy and talent of their people. But why should people give full measure? As Peter Drucker has pointed out, the best and most dedicated people are ultimately volunteers, for they have the opportunity to do something else with their lives. Confronted with an increasingly mobile society, cynicism about corporate life, and an expanding entrepreneurial segment of the economy, companies more than ever need to have a clear understanding of their purpose in order to make work meaningful and thereby attract, motivate, and retain outstanding people.

Discovering Core Ideology

You do not create or set core ideology. You *discover* core ideology. You do not deduce it by looking at the external environment. You understand it by looking inside. Ideology has to be authentic. You cannot fake it. Discovering core ideology is not an intellectual exercise. Do not ask, What core values should we hold? Ask instead, What core values do we truly and passionately hold? You should not confuse values that you think the organization ought to have – but does not – with authentic core values. To do so would create cynicism throughout the organization. ("Who're they trying to kid? We all know that isn't a core value around here!") Aspirations are more appropriate as part of your envisioned future or as part of your strategy, not as part of the core ideology. However, authentic core values that have weakened over time can be considered a legitimate part of the core ideology – as long as you acknowledge to the organization that you must work hard to revive them.

Also be clear that the role of core ideology is to guide and inspire, not to differentiate. Two companies can have the same core values or purpose. Many companies could have the purpose to make technical contributions, but few live it as passionately as Hewlett-Packard. Many companies could have the purpose to preserve and improve human life, but few hold it as deeply as Merck. Many companies could have the core value of heroic customer service, but few create as intense a culture around that value as Nordstrom. Many companies could have the core value of innovation, but few create the powerful alignment mechanisms that stimulate the innovation we see at 3M. The authenticity, the discipline, and the consistency with which the ideology is lived – not the content of the ideology – differentiate visionary companies from the rest of the pack.

Core ideology needs to be meaningful and inspirational only to people inside the organization; it need not be exciting to outsiders. Why not? Because it is the people inside the organization who need to commit to the organizational ideology over the long term. Core ideology can also play a role in determining who *is* inside and who is not. A clear and well-articulated ideology attracts to the company people whose personal values are compatible with the company's core values; conversely, it repels those whose personal values are incompatible. You cannot impose new core values or purpose on people. Nor are core values and purpose things people can buy into. Executives often ask, How do we get people to share our core ideology? You don't. You can't. Instead, find people who are predisposed to share your core values and purpose; attract and retain those people; and let those who do not share your core values go elsewhere. Indeed, the very process of articulating core ideology may cause some people to leave when they realize that they are not personally compatible with the organization's core. Welcome that outcome. It is certainly desirable to retain within the core ideology a diversity of people and viewpoints. People who share the same core values and purpose do not necessarily all think or look the same.

You discover core ideology by looking inside. It has to be authentic. You can't fake it.

Don't confuse core ideology itself with core-ideology statements. A company can have a very strong core ideology without a formal statement. For example, Nike has not (to our knowledge) formally articulated a statement of its core purpose. Yet, according to our observations, Nike has a powerful core purpose that permeates the entire organization: to experience the emotion of competition, winning, and crushing competitors. Nike has a campus that seems more like a shrine to the competitive spirit than a corporate office complex. Giant photos of Nike heroes cover the walls, bronze plaques of Nike athletes hang along the Nike Walk of Fame, statues of Nike athletes stand alongside the running track that rings the campus, and buildings honor champions such as Olympic marathoner Joan Benoit, basketball superstar Michael Jordan, and tennis pro John McEnroe. Nike people who do not feel stimulated by the competitive spirit and the urge to be ferocious simply do not last long in the culture. Even the company's name reflects a sense of competition: Nike is the Greek goddess of victory. Thus, although Nike has not formally articulated its purpose, it clearly has a strong one.

Identifying core values and purpose is therefore not an exercise in wordsmithery. Indeed, an organization will generate a variety of statements over time to describe the core ideology. In Hewlett-Packard's archives, we found more than half a dozen distinct versions of the HP Way, drafted by David Packard between 1956 and 1972. All versions stated the same principles, but the words used varied depending on the era and the circumstances. Similarly, Sony's core ideology has been stated many different ways over the company's history. At its founding, Masaru Ibuka described two key elements of Sony's ideology: "We shall welcome technical difficulties and focus on highly sophisticated technical products that have great usefulness for society regardless of the quantity involved; we shall place our main emphasis on ability, performance, and personal character so that each individual can show the best in ability and skill."[2] Four decades later, this same concept appeared in a statement of core ideology called Sony Pioneer Spirit: "Sony is a pioneer and never intends to follow others. Through progress, Sony wants to serve the whole world. It shall be always a seeker of the un-

Big, Hairy, Audacious Goals Aid Long-Term Vision

Target BHAGs can be quantitative or qualitative

- ☐ Become a $125 billion company by the year 2000 (Wal-Mart, 1990)
- ☐ Democratize the automobile (Ford Motor Company, early 1900s)
- ☐ Become the company most known for changing the worldwide poor-quality image of Japanese products (Sony, early 1950s)
- ☐ Become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been (City Bank, predecessor to Citicorp, 1915)
- ☐ Become the dominant player in commercial aircraft and bring the world into the jet age (Boeing, 1950)

Common-enemy BHAGs involve David-versus-Goliath thinking

- ☐ Knock off RJR as the number one tobacco company in the world (Philip Morris, 1950s)
- ☐ Crush Adidas (Nike, 1960s)
- ☐ *Yamaha wo tsubusu!* We will destroy Yamaha! (Honda, 1970s)

Role-model BHAGs suit up-and-coming organizations

- ☐ Become the Nike of the cycling industry (Giro Sport Design, 1986)
- ☐ Become as respected in 20 years as Hewlett-Packard is today (Watkins-Johnson, 1996)
- ☐ Become the Harvard of the West (Stanford University, 1940s)

Internal-transformation BHAGs suit large, established organizations

- ☐ Become number one or number two in every market we serve and revolutionize this company to have the strengths of a big company combined with the leanness and agility of a small company (General Electric Company, 1980s)
- ☐ Transform this company from a defense contractor into the best diversified high-technology company in the world (Rockwell, 1995)
- ☐ Transform this division from a poorly respected internal products supplier to one of the most respected, exciting, and sought-after divisions in the company (Components Support Division of a computer products company, 1989)

known.... Sony has a principle of respecting and encouraging one's ability...and always tries to bring out the best in a person. This is the vital force of Sony."[3] Same core values, different words.

You should therefore focus on getting the content right – on capturing the essence of the core values and purpose. The point is not to create a perfect statement but to gain a deep understanding of your organization's core values and purpose, which can then be expressed in a multitude of ways. In fact, we often suggest that once the core has been identified, managers should generate their own statements of the core values and purpose to share with their groups.

Finally, don't confuse core ideology with the concept of core competence. Core competence is a strategic concept that defines your organization's capabilities – what you are particularly good at – whereas core ideology captures what you stand for and why you exist. Core competencies should be well aligned with a company's core ideology and are often rooted in it; but they are not the same thing. For example, Sony has a core competence of miniaturization – a strength that can be strategically applied to a wide array of products and markets. But it does not have a core *ideology* of miniaturization. Sony might not even have miniaturization as part of its strategy in 100 years, but to remain a great company, it will still have the same core values described in the Sony Pioneer Spirit and the same fundamental reason for being – namely, to advance technology for the benefit of the general public. In a visionary company like Sony, core competencies change over the decades, whereas core ideology does not.

Once you are clear about the core ideology, you should feel free to change absolutely *anything* that is not part of it. From then on, whenever someone says something should not change because "it's part of our culture" or "we've always done it that way" or any such excuse, mention this simple rule: If it's not core, it's up for change. The strong version of the rule is, *If it's not core, change it!* Articulating core ideology is just a starting point, however. You also must determine what type of progress you want to stimulate.

Envisioned Future

The second primary component of the vision framework is *envisioned future*. It consists of two parts: a 10-to-30-year audacious goal plus vivid descriptions of what it will be like to achieve the goal. We recognize that the phrase *envisioned future* is somewhat paradoxical. On the one hand, it conveys concreteness – something visible, vivid, and real. On the other hand, it involves a time yet unrealized – with its dreams, hopes, and aspirations.

Vision-level BHAG. We found in our research that visionary companies often use bold missions – or what we prefer to call *BHAGs* (pronounced BEE-hags and shorthand for Big, Hairy, Audacious Goals) – as a powerful way to stimulate progress. All companies have goals. But there is a difference between merely having a goal and becoming committed to a huge, daunting challenge – such as climbing Mount Everest. A true BHAG is clear and compelling, serves as a unifying focal point of effort, and acts as a catalyst for team spirit. It has a clear finish line, so the organization can know when it has achieved the goal; people like to shoot for finish lines. A BHAG engages people – it reaches out and grabs them. It is tangible, energizing, highly focused. People get it right away; it takes little or no explanation. For example, NASA's 1960s moon mission didn't need a committee of wordsmiths to spend endless hours turning the goal into a verbose, impossible-to-remember mission statement. The goal itself was so easy to grasp – so compelling in its own right – that it could be said 100 different ways yet be easily understood by everyone. Most corporate statements we've seen do little to spur forward movement because they do not contain the powerful mechanism of a BHAG.

> Companies need an audacious 10-to-30-year goal to progress toward an envisioned future.

Although organizations may have many BHAGs at different levels operating at the same time, vision requires a special type of BHAG – a vision-level BHAG that applies to the entire organization and requires 10 to 30 years of effort to complete. Setting the BHAG that far into the future requires thinking beyond the current capabilities of the organization and the current environment. Indeed, inventing such a goal forces an executive team to be visionary, rather than just strategic or tactical. A BHAG should not be a sure bet – it will have perhaps only a 50% to 70% probability of success – but the organization must believe that it can reach the goal anyway. A BHAG should require extraordinary effort and perhaps a little luck. We have helped companies create a vision-level BHAG by advising them

to think in terms of four broad categories: target BHAGs, common-enemy BHAGs, role-model BHAGs, and internal-transformation BHAGs. (See the insert "Big, Hairy, Audacious Goals Aid Long-Term Vision.")

Vivid Description. In addition to vision-level BHAGs, an envisioned future needs what we call *vivid description* – that is, a vibrant, engaging, and specific description of what it will be like to achieve the BHAG. Think of it as translating the vision from words into pictures, of creating an image that people can carry around in their heads. It is a question of painting a picture with your words. Picture painting is essential for making the 10-to-30-year BHAG tangible in people's minds.

For example, Henry Ford brought to life the goal of democratizing the automobile with this vivid description: "I will build a motor car for the great multitude.... It will be so low in price that no man making a good salary will be unable to own one and enjoy with his family the blessing of hours of pleasure in God's great open spaces.... When I'm through, everybody will be able to afford one, and everyone will have one. The horse will have disappeared from our highways, the automobile will be taken for granted...[and we will] give a large number of men employment at good wages."

The components-support division of a computer-products company had a general manager who was able to describe vividly the goal of becoming one of the most sought-after divisions in the company: "We will be respected and admired by our peers.... Our solutions will be actively sought by the end-product divisions, who will achieve significant product 'hits' in the marketplace largely because of our technical contribution.... We will have pride in ourselves.... The best up-and-coming people in the company will seek to work in our division.... People will give unsolicited feedback that they love what they are doing.... [Our own] people will walk on the balls of their feet.... [They] will willingly work hard because they want to.... Both employees and customers will feel that our division has contributed to their life in a positive way."

In the 1930s, Merck had the BHAG to transform itself from a chemical manufacturer into one of the preeminent drug-making companies in the world, with a research capability to rival any major university. In describing this envisioned future, George Merck said at the opening of Merck's research facility in 1933, "We believe that research work carried on with patience and persistence will bring to industry and commerce new life; and we have faith that in this new laboratory, with the tools we have supplied, science will be advanced, knowledge increased, and human life win ever a greater freedom from suffering and disease.... We pledge our every aid that this enterprise shall merit the faith we have in it. Let your light so shine – that those who seek the Truth, that those who toil that this world may be a better place to live in, that those who hold aloft that torch of science and knowledge through these social and economic dark ages, shall take new courage and feel their hands supported."

Passion, emotion, and conviction are essential parts of the vivid description. Some managers are uncomfortable expressing emotion about their dreams, but that's what motivates others. Churchill understood that when he described the BHAG facing Great Britain in 1940. He did not just say, "Beat Hitler." He said, "Hitler knows he will have to break us on this island or lose the war. If we can stand up to him, all Europe may be free, and the life of the world may move forward into broad, sunlit uplands. But if we fail, the whole world, including the United States, including all we have known and cared for, will sink into the abyss of a new Dark Age, made more sinister and perhaps more protracted by the lights of perverted science. Let us therefore brace ourselves to our duties and so bear ourselves that if the British Empire and its Commonwealth last for a thousand years, men will still say, 'This was their finest hour.'"

A Few Key Points. Don't confuse core ideology and envisioned future. In particular, don't confuse core purpose and BHAGs. Managers often exchange one for the other, mixing the two together or failing to articulate both as distinct items. Core purpose – not some specific goal – is the reason why the organization exists. A BHAG is a clearly articulated goal. Core purpose can never be completed, whereas the BHAG is reachable in 10 to 30 years. Think of the core purpose as the star on the horizon to be chased forever; the BHAG is the mountain to be climbed. Once you have reached its summit, you move on to other mountains.

You must translate the vision from words to pictures with a vivid description of what it will be like to achieve your goal.

Identifying core ideology is a discovery process, but setting the envisioned future is a creative process. We find that executives often have a great deal of difficulty coming up with an exciting BHAG. They want to analyze their way into the future. We have found, therefore, that some executives make more progress by starting first with the vivid description and backing from there into the BHAG. This approach involves starting with questions such as, We're sitting here in 20 years; what would we love to see? What should this company look like? What should it feel like to employees? What should it have achieved? If someone writes an article for a major business magazine about this company in 20 years, what will it say? One biotechnology company we worked with had trouble envisioning its future. Said one member of the executive team, "Every time we come up with something for the entire company, it is just too generic to be exciting – something banal like 'advance biotechnology worldwide.'" Asked to paint a picture of the company in 20 years, the executives mentioned such things as "on the cover of *Business Week* as a model success story…the *Fortune* most admired top-ten list…the best science and business graduates want to work here…people on airplanes rave about one of our products to seatmates…20 consecutive years of profitable growth…an entrepreneurial culture that has spawned half a dozen new divisions from within…management gurus use us as an example of excellent management and progressive thinking," and so on. From this, they were able to set the goal of becoming as well respected as Merck or as Johnson & Johnson in biotechnology.

It makes no sense to analyze whether an envisioned future is the right one. With a creation – and the task is creation of a future, not prediction – there can be no right answer. Did Beethoven create the right Ninth Symphony? Did Shakespeare create the right *Hamlet*? We can't answer these questions; they're nonsense. The envisioned future involves such essential questions as Does it get our juices flowing? Do we find it stimulating? Does it spur forward momentum? Does it get people going? The envisioned future should be so exciting in its own right that it would continue to keep the organization motivated even if the leaders who set the goal disappeared. City Bank, the predecessor of Citicorp, had the BHAG "to become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been" – a goal that generated excitement through multiple generations until it was achieved. Similarly, the NASA moon mission continued to galvanize people even though President John F. Kennedy (the leader associated with setting the goal) died years before its completion.

What's needed is such a big commitment that when people see what the goal will take, there's an almost audible gulp.

To create an effective envisioned future requires a certain level of unreasonable confidence and commitment. Keep in mind that a BHAG is not just a goal; it is a Big, Hairy, Audacious Goal. It's not reasonable for a small regional bank to set the goal of becoming "the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been," as City Bank did in 1915. It's not a tepid claim that "we will democratize the automobile," as Henry Ford said. It was almost laughable for Philip Morris – as the sixth-place player with 9% market share in the 1950s – to take on the goal of defeating Goliath RJ Reynolds Tobacco Company and becoming number one. It was hardly modest for Sony, as a small, cash-strapped venture, to proclaim the goal of changing the poor-quality image of Japanese products around the world. (See the insert "Putting It All Together: Sony in the 1950s.") Of course, it's not only the audacity of the goal but also the level of commitment to the goal that counts. Boeing didn't just envision a future dominated by its commercial jets; it bet the company on the 707 and, later, on the 747. Nike's people didn't just talk about the idea of crushing Adidas; they went on a crusade to fulfill the dream. Indeed, the envisioned future should produce a bit of the "gulp factor": when it dawns on people what it will take to achieve the goal, there should be an almost audible gulp.

But what about failure to realize the envisioned future? In our research, we found that the visionary companies displayed a remarkable ability to achieve even their most audacious goals. Ford did democratize the automobile; Citicorp did become the most far-reaching bank in the world; Philip Morris did rise from sixth to first and beat RJ Reynolds worldwide; Boeing did become the dominant commercial aircraft company; and it looks like Wal-Mart will achieve its $125 billion goal, even without Sam Walton. In contrast, the comparison com-

Putting It All Together: Sony in the 1950s

Core Ideology

Core Values
- ☐ Elevation of the Japanese culture and national status
- ☐ Being a pioneer – not following others; doing the impossible
- ☐ Encouraging individual ability and creativity

Purpose
To experience the sheer joy of innovation and the application of technology for the benefit and pleasure of the general public

Envisioned Future

BHAG
Become the company most known for changing the worldwide poor-quality image of Japanese products

Vivid Description
We will create products that become pervasive around the world.… We will be the first Japanese company to go into the U.S. market and distribute directly.… We will succeed with innovations that U.S. companies have failed at – such as the transistor radio.… Fifty years from now, our brand name will be as well known as any in the world…and will signify innovation and quality that rival the most innovative companies anywhere.… "Made in Japan" will mean something fine, not something shoddy.

panies in our research frequently did not achieve their BHAGs, if they set them at all. The difference does not lie in setting easier goals: the visionary companies tended to have even more audacious ambitions. The difference does not lie in charismatic, visionary leadership: the visionary companies often achieved their BHAGs without such larger-than-life leaders at the helm. Nor does the difference lie in better strategy: the visionary companies often realized their goals more by an organic process of "let's try a lot of stuff and keep what works" than by well-laid strategic plans. Rather, their success lies in building the strength of their organization as their primary way of creating the future.

Why did Merck become the preeminent drugmaker in the world? Because Merck's architects built the best pharmaceutical research and development organization in the world. Why did Boeing become the dominant commercial aircraft company in the world? Because of its superb engineering and marketing organization, which had the ability to make projects like the 747 a reality. When asked to name the most important decisions that have contributed to the growth and success of Hewlett-Packard, David Packard answered entirely in terms of decisions to build the strength of the organization and its people.

Finally, in thinking about the envisioned future, beware of the We've Arrived Syndrome – a complacent lethargy that arises once an organization has achieved one BHAG and fails to replace it with another. NASA suffered from that syndrome after the successful moon landings. After you've landed on the moon, what do you do for an encore? Ford suffered from the syndrome when, after it succeeded in democratizing the automobile, it failed to set a new goal of equal significance and gave General Motors the opportunity to jump ahead in the 1930s. Apple Computer suffered from the syndrome after achieving the goal of creating a computer that nontechies could use. Start-up companies frequently suffer from the We've Arrived Syndrome after going public or after reaching a stage in which survival no longer seems in question. An envisioned future helps an organization only as long as it hasn't yet been achieved. In our work with companies, we frequently hear executives say, "It's just not as exciting around here as it used to be; we seem to have lost our momentum." Usually, that kind of remark signals that the organization has climbed one mountain and not yet picked a new one to climb.

> The basic dynamic of visionary companies is to preserve the core and stimulate progress. It is vision that provides the context.

Many executives thrash about with mission statements and vision statements. Unfortunately,

most of those statements turn out to be a muddled stew of values, goals, purposes, philosophies, beliefs, aspirations, norms, strategies, practices, and descriptions. They are usually a boring, confusing, structurally unsound stream of words that evoke the response "True, but who cares?" Even more problematic, seldom do these statements have a direct link to the fundamental dynamic of visionary companies: preserve the core and stimulate progress. That dynamic, not vision or mission statements, is the primary engine of enduring companies. Vision simply provides the context for bringing this dynamic to life. Building a visionary company requires 1% vision and 99% alignment. When you have superb alignment, a visitor could drop in from outer space and infer your vision from the operations and activities of the company without ever reading it on paper or meeting a single senior executive.

Creating alignment may be your most important work. But the first step will always be to recast your vision or mission into an effective context for building a visionary company. If you do it right, you shouldn't have to do it again for at least a decade.

1. David Packard, speech given to Hewlett-Packard's training group on March 8, 1960; courtesy of Hewlett-Packard Archives.

2. See Nick Lyons, *The Sony Vision* (New York: Crown Publishers, 1976). We also used a translation by our Japanese student Tsuneto Ikeda.

3. Akio Morita, *Made in Japan* (New York: E.P. Dutton, 1986), p. 147.

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ARTICLES

"What Leaders Really Do" by John P. Kotter (*Harvard Business Review*, May–June 1990, Product no. 3820)
This article sets the work of vision building within the larger context of leadership. Effective management and leadership are both necessary in order for a company to prosper—but they involve different tasks. Management copes with complexity; leadership deals with change. The leader's job is to set the direction of change by communicating a vibrant vision of the company's future—and the strategies to achieve it—in ways that will inspire and energize employees.

"Successful Change Programs Begin with Results" by Robert H. Schaffer and Harvey A. Thomson (*Harvard Business Review*, January–February 1992, Product no. 92108)
A compelling vision is not enough: senior management must identify the crucial business challenges that change programs will meet and then link them to the vision. Most corporate change programs have a negligible impact on operational and financial performance because management focuses on the activities, not the results. By contrast, results-driven improvement programs focus on achieving specific, measurable improvements within a few months.

"Managing Change: The Art of Balancing" by Jeanie Daniel Duck (*Harvard Business Review*, November–December 1993, Product no. 5416)
This article maintains that people issues are at the heart of realizing a vision. Managing change is like balancing a mobile. You have to keep two conversations in balance: the one between the people leading the change effort and the one between those who are expected to implement the new strategies. You also have to manage emotional connections—even though they have traditionally been banned from the workplace, they are essential for a successful transformation. By encouraging this activity, management communicates its understanding that transformation is difficult for everyone involved, and that people issues are at the heart of change.

BOOK

***Leading Change* by John P. Kotter (Harvard Business School Press, 1996, Product no. 7471)**
A Big, Hairy, Audacious Goal (BHAG) isn't realized overnight—you have to carefully lay the groundwork, and that can sometimes take years. Kotter identifies eight errors common to transformation efforts and offers an eight-step process for overcoming them: establishing a greater sense of urgency; creating the guiding coalition; developing a vision and strategy; communicating the change vision; empowering others to act; creating short-term wins; consolidating gains and producing even more change; and institutionalizing new approaches in the future.

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MODULE VI: *SHINUI* — EFFECTIVE CHANGE MANAGEMENT

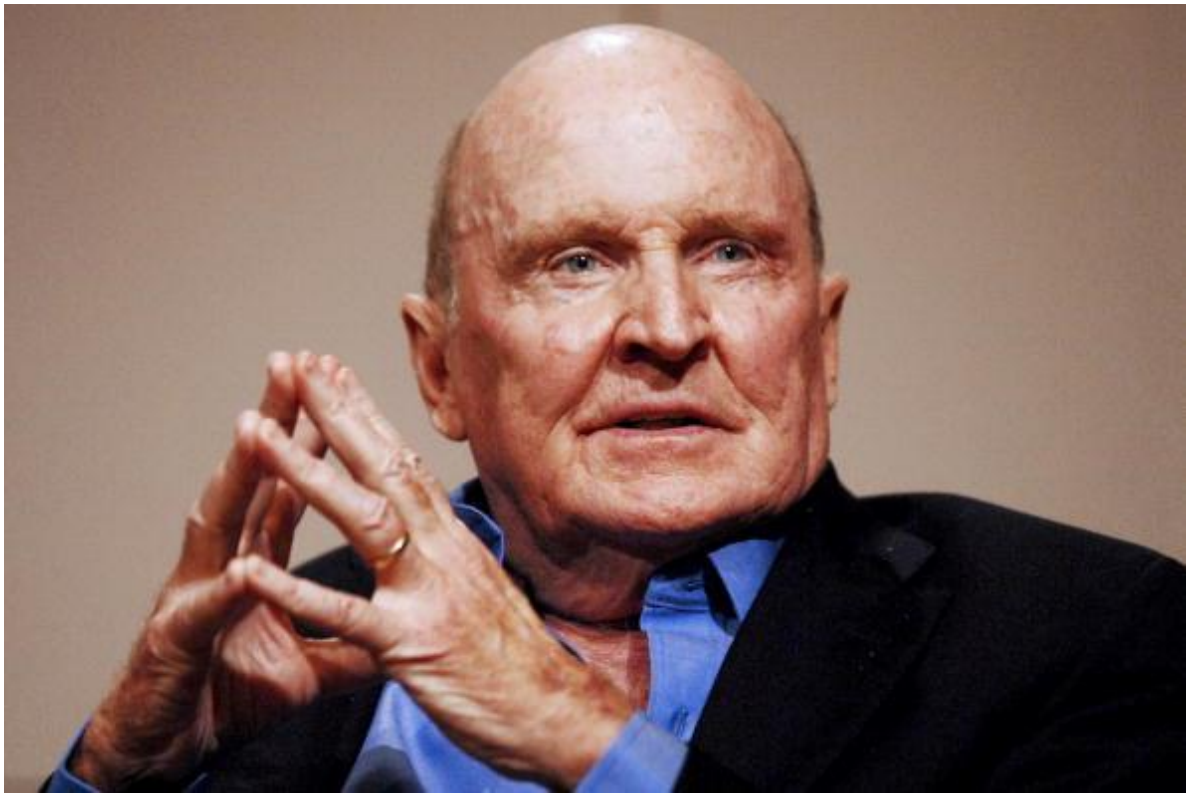
In preparation for Module VI, read "**Best Advice: What I learned from Jack Welch Hanging Up on Me**" by Beth Comstock, Vice President at GE (2014).

GUIDED QUESTIONS:

- Why did Comstock see this as a transitional moment in her leadership?
- What do you think of Welch's attitude as conveyed in the article?

Best Advice: What I Learned From Jack Welch Hanging Up on Me

February 26, 2013



One afternoon over ten years ago, I was talking on the phone to my boss, former GE Chairman and CEO Jack Welch, when the line went dead. I called his assistant Rosanne Badowski to say we had been disconnected.

“No you weren’t,” she said. “Jack hung up on you.”

"Huh?"

"He wants you to know that's what it's like to be in a meeting with you, " Rosanne said. "You're too abrupt."

We both got a good chuckle out of that. Point well made, and with humor as the tutor. Jack himself had been pretty abrupt a few months previously, when he called me into his office.

“You have to wallow in it.”

That’s what he said. I had just left a decade-long run in media to hop to the corporate side of things at GE, working with Welch on communications strategy.

My life in media—especially network news—had been an adrenaline rush, racing from deadline to deadline. If you don't make it to air, there is nothingness. You're dead. And making it to air

first brings an added sense of accomplishment. Not to mention bragging rights. For me, it was a constant whirl: making sense of the constant stream of information coming in, calling reporters covering us to tell them what was happening and why we were doing it best. I'd think sometimes, if only I could field phone calls with both hands and both feet, all would be good (we didn't have email yet, but the newsroom did have an archaic forerunner of instant messaging that satisfied my need to multitask).

Moving fast and being organized were my strong suits. The more there was to do, the more I felt alive. Productive. Efficient. Every to-do list item was checked, with urgency as my soundtrack. I loved the thrill, and I was good at keeping up with it.

Who better than me, then, to land a plum assignment working for Jack Welch, Mr. Speed and Simplicity.

Imagine my surprise when he called me into his office that day and admonished me for being *too* efficient. My zeal to do everything on my to-do list—along with my reserved, even shy nature—made me come across as abrupt and cold. I started every meeting by jumping right in and left with every action under control.

"You have to wallow in it," he said. "Take time to get to know people. Understand where they are coming from, what is important to them. Make sure they are with you."

At best, my colleagues didn't know what to make of me—and I certainly didn't give them time to find out.

I heard Jack loud and clear. But honestly, it took a long time for the impact of his words to sink in, and even longer to change my behavior. After all, those same attributes had led to my being in the role in the first place.

I cringe sometimes when I think of how I must have come across at times, and how long it took me to change my ways. And even now there are times when I forget Jack's advice (it is a decade old). But yes, I've learned to not only wallow in it, but to enjoy it. Time to think and time to connect with people are as important as getting everything done. Sometimes you have to go slow before you go fast.

I will be forever grateful for the time and humor Jack invested to teach me these important work and life lessons. Many happy returns.

Photo: Bloomberg via Getty Images

MODULE VII: *TIKSHORET* — INSPIRED COMMUNICATION

In preparation for Module VII, read "**How Great Leaders Communicate**" by George Anders (2013).

GUIDED QUESTIONS:

- What did you learn from Anders about an area of communication that you need to work on?
- What are some smart questions that you could ask in your leadership role?

How Great Leaders Communicate

By George Anders, Contributing Writer at Forbes Magazine

You've just been promoted into one of your organization's Big Jobs. Now you've got an impressive office, a hefty budget and vast expectations about how you will lead dozens or even thousands of people. Can you stick with the leadership style that brought you this far? Or do you need to recalibrate your approach, starting with the way you communicate?

Some fascinating rethinking is under way on exactly that topic. Scholars such as Harvard Business School's Boris Groysberg argue that effective leadership no longer revolves around brilliant speeches and heroic exhortations. (We can call that the Fidel Castro approach – and it doesn't work especially well in either government or mainstream business.) Instead, Groysberg and co-author Michael Slind argue in their 2012 book "Talk Inc." that the higher you go in an organization, the more you must engage other people in conversations, rather than trying to shout them into submission.

I'm in favor of traveling 70% of the way down that road with Groysberg and Slind, without becoming so chatty that you lose the ability to stretch people's horizons. Over the past 25 years, as a business-book author and writer for the likes of Forbes, Fast Company and The Wall Street Journal, I've seen a lot of corporate leaders in action. Here are seven ways that the best leaders increase their effectiveness by the ways they communicate.

1. Bring the vision to life. Anyone can write a mission statement, full of lofty words that sound good. But you aren't communicating that vision unless you repeatedly signal how those values translate into concrete actions. What people learn from your routine decision-making matters far more than what you pack into your speeches.

A case in point: Jeff Bezos's insistence that Amazon.com is "the most customer-centric company in the world." Nice slogan. What does it really mean? Hang around the Amazon CEO for a while, and you will notice that he vetoes sassy ads that mock customers. He insists that mid-level meetings include one person serving solely as the customer advocate – with the power to veto actions that undermine customers' interests. And when Amazon reorganizes departments, which it does fairly often, each regrouping is justified as a way of serving the customer better.

In the same spirit, bring your bedrock values into the daily workplace. Salute other people's actions that reinforce what you prize. Call out conduct that doesn't. And infuse these principles into other people's thought patterns by referencing key values as decisions are being made.

2. Ask smart questions. In his new book, "To Sell Is Human," best-selling author Daniel H. Pink cites studies showing that when you want to persuade someone, questions can be more powerful than statements. The reason: you engage another person's heart and mind more strongly. You get him or her thinking about the ideal answer – and then all the

continued page 2

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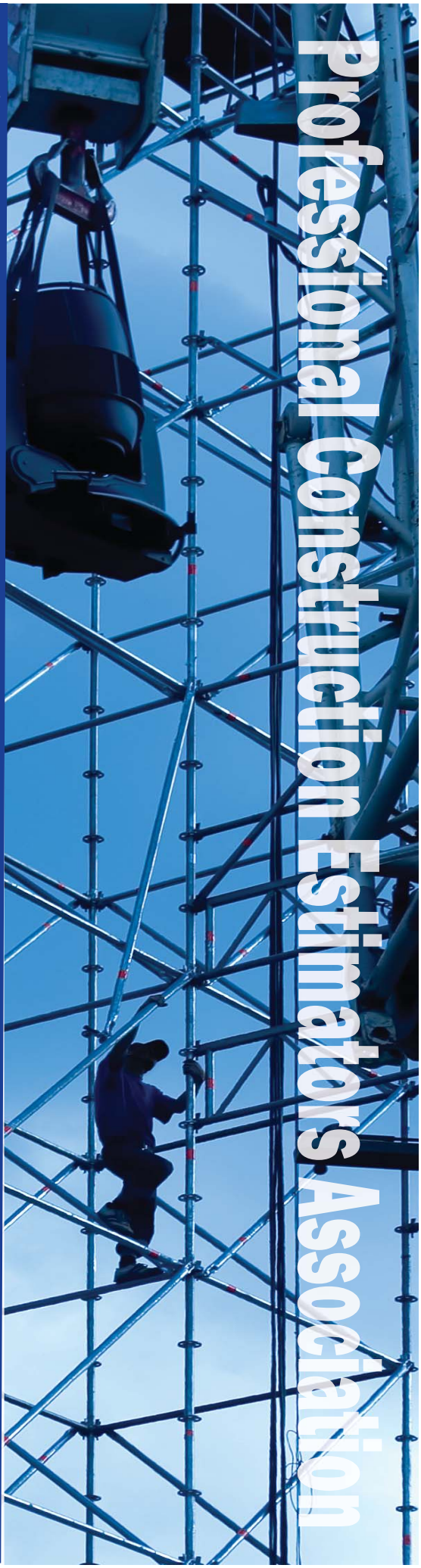
Student Member Scholarships	$ 4,600.00
Jim Crabtree Memorial Fund	$ 300.00
Total	**$11,850.00**

January 29, 2013

Participate, Contribute, Educate, Achieve

Volume 11 - Issue 8



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steps necessary to get there. By being less dogmatic, you let people on your team build game plans that they believe in, rather than trapping them in a helpless state until you issue your next command.

While developing my most recent book, "The Rare Find," I was impressed with the way that David Evans, the former head of the computer science department at the University of Utah, got great work out of his graduate students by asking simple but profound questions that pointed the way to revolutionary advances. He inspired the engineers who later built Pixar, Adobe and Netscape. Often that could be done simply by pointing at a big goal on the horizon and saying: "How would you get there?"

3. Take time to read the room. Once you're in senior leadership, you will meet a lot of outsiders that you hardly know ... but whose support or forbearance is crucial to your company's success. Do 90% of the talking, and it's tempting to think that you carried the day with Washington regulators, Chinese suppliers, that big customer in Dallas or the investigative reporter from New York. Guess what? If you don't know what the other party really wanted, all that bluster was in vain.

Take a tip from Silicon Valley executive Meg Whitman, early in her career, when she was building eBay into a global e-commerce powerhouse. Some of her most important meetings were with eBay's Power Sellers. These merchants booked huge amounts of business on the site, yet for a time they felt the company didn't understand their frustrations with fees and service issues. Every few months, she would visit Power Sellers on their turf, looking for ways to fix their problems or at least offer sympathy. Her keen ear helped eBay stay ahead of its competitors.

Don't fall prey to the belief that careful listening is only for the little people in the room. When you listen carefully, you win people's trust – and that's crucial to everything else you want to accomplish. There's a maxim in the public speaking business: "The more your audience talks, the more they think they have learned from you." Use that sly insight to your advantage.

4. Create a climate where things get done. In any organization, there's a huge gap between projects that are headed to the finish line, right now -- and ones that live indefinitely in limbo, hardly moving forward. Which do you prefer? If you're looking for results, make sure your employees and front-line managers are repeatedly aware of your top priorities. Help set interim mileposts. Get roadblocks out of the way. Walk through the areas where specific tasks are being done. Even a 10-minute visit by the boss conveys the clear and uplifting message: "This is important."

Be mindful of how many "top priorities" your organization can handle successfully. Better to win two big campaigns a year than to stumble in the midst of 20. I've seen ambitious but unfocused organizations end up with overcrowded agendas that create internal strife -- with the unpleasant consequences of missed deadlines, constant changes of directions and ugly battles for resources and recognition. The higher up you go in an organization, the more important it is for you to communicate key goals with clarity and brevity.

Tim Boyle, the CEO of Columbia Sportswear, is remarkably good at peeling away the clutter. I've chatted with him since 2005, and he keeps his business centered on three simple concepts: innovation, enhanced design and compelling marketing. Zoom in on each idea, and details abound. He's a remarkably hard-working and well-read boss. Those core concepts, however, help ensure that Columbia's 4,000 employees are pulling in the right direction.

5. Use stories to get your points across. When you're at the top of an organization, you can seem pretty distant from the people on the front lines. Now you're in a job where it may be impossible to schedule enough face time with everyone you'd like to influence. One of your best ways to compensate: sharing teaching anecdotes, so that even people who hardly know you will still feel they know your human, authentic side.

Nobody does this better than Warren Buffett, the 82-year-old chairman and CEO of Berkshire Hathaway. His conglomerate has $143 billion in annual revenue, with interests that range from insurance to energy, furniture and chocolate. But when you read Buffett's annual letters to shareholders, his dry wit and wise-uncle judgment come through on every page. Countless investors and managers who have never met him still feel that they know him – and like him.

You don't need to be nearly as polished as Buffett to succeed in this domain. Just think how you would explain your week's battles and goals to a neighbor, a spouse or a college roommate, and you'll find the right tone.

6. Be mindful of what you don't know. If your subordinates are any good at all, you often won't know the fine-grain details as well as they do. Expect to be learning constantly on the job. Find ways that your in-house experts can quietly bring you up to speed on emerging issues that are catching your eye. You've got vital strengths that other people don't, particularly in terms of experience, broad perspectives and judgment. As you work toward important decisions, make sure your remarks and conversations are opening the way for other people to keep augmenting your knowledge base.

Two of the most skillful learners I ever encountered are Sheryl Sandberg (the chief operating officer of Facebook), and Lou Gerstner, the former CEO of RJR Nabisco and then IBM. I traveled with Gerstner during his RJR era as part of a Wall Street Journal front-page profile. He was still mastering the company's endless product line, but he got up to speed shrewdly, calling some meetings on a supermarket floor so he could walk the aisles as people talked, looking around to see whose brands dominated each category.

7. Make people feel they work for a winner. Can you single-handedly improve your organization's morale – in ways that genuinely translate into better performance and innovation? That's one of the great mysteries of leadership. Some executives try smothering their employees in perks. Others praise good work, hoping that it will lead to greater doings in the future. Still others scold slackers and kick out the weakest performers, believing that some situations call for toughness.

Any of those approaches can work; yet I've seen executives try all three and still come up short. A memorable insight here came from John Young, who was CEO of Hewlett Packard for many years during its prime. We chatted after his retirement, and he contended that what shapes morale the most is employees' conviction that they are working for the best company in their field. Earn that honor, he said, and you gain a level of employee commitment that cash and perks alone can't buy.

All the other six techniques in this article point toward this final priority. If you're conveying a clear vision, asking good questions, setting the right priorities and so on, you're creating that winners' aura that is the ultimate reward for great leadership communication.

MODULE VIII: TZINOR LE-MANHIGUT — CREATING A LEADERSHIP PIPELINE WITH BETTER SUCCESSION PLANNING

In preparation for Module VIII, read "**Ending the CEO Succession Crisis**" by Ram Charan (J. A. Conger [Ed.]. (2009). ***Boardroom Realities: Building Leaders Across Your Board***. San Francisco: Jossey-Bass).

GUIDED QUESTIONS:

- What does Charan identify as the crisis in CEO succession?
- Reading the article, how would you translate its understanding of succession pitfalls in a Jewish non-profit?

Harvard Business Review

DECISION MAKING

Ending the CEO Succession Crisis

by Ram Charan

FROM THE FEBRUARY 2005 ISSUE

We talk about leadership as though leaders—like Tolstoy's happy families—are all alike. But CEO leadership should be a subject apart because it is unique in scope and substance and of incomparable importance. CEOs' performance determines the fates of corporations, which collectively influence whole economies. Our standard of living depends upon excellence at the very top.

Who, then, would dispute that CEO selection deserves perpetual front-burner attention from the custodians of a company's welfare? Surely, when time or trauma ushers in change, organizations should be ready with a clear view of current and future needs and with carefully tended pools of candidates.

But they're not. The CEO succession process is broken in North America and is no better in many other parts of the world. Almost half of companies with revenue greater than $500 million have no meaningful CEO succession plan, according to the National Association of Corporate Directors. Even those that have plans aren't happy with them. The Corporate Leadership Council (CLC), a human-resource research organization, surveyed 276 large companies last year and found that only 20% of responding HR executives were satisfied with their top-management succession processes.

That deficiency is simply inexcusable. A CEO or board that has been in place for six or seven years and has not yet provided a pool of qualified candidates, and a robust process for selecting the next leader, is a failure. Everyone talks about emulating such best practitioners as General Electric, but few work very hard at it.

The Secret of Session C

Lots of people know about Session C, General Electric's annual, dialogue-intensive review of how its leadership resources match up with its business direction. But inside Session C is a process that almost no one knows about. It's called "tandem assessment," and it is among GE's most potent tools for evaluating CEO candidates—and for helping those rising stars evaluate themselves.

Every year, GE selects a different set of 20 to 25 leaders who might grow into CEOs or top functional leaders and sits each one down for a three- to four-hour session with two human resource heads from outside the person's own business unit. The HR executives trace the budding leader's progression from early childhood (where he grew up, how his parents influenced his style of thinking, what his early values were) through recent accomplishments. They then conduct an exhaustive fact-finding mission both inside and outside the organization, including 360-degree reviews, massive reference checks, and interviews with bosses, direct reports, customers, and peers. Largely eschewing psychology, tandem

The result of poor succession planning is often poor performance, which translates into higher turnover and corporate instability. As increased transparency, more vocal institutional investors, and more active boards make greater demands, CEO tenures continue to shrink. Booz Allen Hamilton reports that the global average is now just 7.6 years, down from 9.5 years in 1995. And two out of every five new CEOs fail in the first 18 months, as Dan Ciampa cites in his article "Almost Ready" in last month's HBR.

The problem isn't just that more CEOs are being replaced. The problem is that, in many cases, CEOs are being replaced *badly*. Too often, new leaders are plucked from the well-worn Rolodexes of a small recruiting oligarchy and appointed by directors who have little experience hiring anyone for a position higher than COO, vice chairman, CFO, or president of a large business unit. Hiring a CEO is simply different.

assessment concentrates instead on observed, measurable performance within the business.

The product of all this effort is a 15- to 20-page document that charts the high potential's work and development over decades. The report—brimming with accolades but also detailing areas for improvement—goes to the nascent leader, who uses it to improve his or her game. It also goes to the individual's business head, the senior human-resource executive in the person's unit, and to corporate headquarters, where it is avidly perused by GE's chairman, the three vice chairmen, and Bill Conaty, senior vice president for corporate human resources. "I usually wait until the end of the workday to read one of these because it takes an hour or so," says Conaty. "You find out incredibly interesting things about people in this process."

Tandem assessment is so intensive that only those swimming closest to the C-suite headwaters undergo it. But GE also encourages business units to conduct their own miniversions of the exercise.

The process not only hands rising leaders a mirror but also broadens their support network. Using HR executives from outside the subject's business unit ensures objectivity and gives the promising star two new mentors and two new reality checks. "If something pops up during your career that doesn't feel quite right and you want outside calibration," Conaty

Coaxing former leaders out of retirement is another popular way to fill the void. Celebrated examples include Harry Stonecipher at Boeing, Bill Stavropoulos of Dow Chemical, and Jamie Houghton at Corning. But most "boomerang CEOs" return for just a couple of years, long enough to restore credibility and put a real succession candidate in place. They are not the long-term solution.

To increase their chances of finding a leader who will serve long and well, companies must do three things. First, they should have available a deep pool of internal candidates kept well stocked by a leadership development process that reaches from the bottom to the top. Second, boards should create, then continually update and refine, a succession plan and have in place a thoughtful process for making decisions about candidates. Finally, directors considering outside candidates should be exacting, informed drivers of the executive search process, leading recruiters rather than being led by them.

In my 35 years advising corporations, I have participated in dozens of CEO selections and have closely monitored numerous executive pipelines. Drawing on that experience, I will in these pages first explain why companies make

explains, “you might call one of these individuals and say, ‘Hey, look, everybody is telling me great things here, but this just happened. Would you read anything into it?’”

poor appointments and then suggest what they can instead do to make good ones. Using these guidelines, organizations can ensure that all participants—directors, executive recruiters, and sitting CEOs—perform wisely and appropriately when it comes time to choose their next leader.

The Trouble with Outsiders

When companies lack the culture or the processes to grow their own heirs apparent, they have no choice but to look outside. More than a third (37%) of the *Fortune* 1,000 companies are run by external recruits, according to the public affairs firm Burson-Marsteller. Although global data are harder to come by, the worldwide trend appears to be similar. But external candidates are in most cases a greater risk because directors and top management cannot know them as well as they know their own people.

Outsiders are generally chosen because they can do *a* job—turn around the company or restructure the portfolio. But *the* job is to lead a hugely complex organization over many years through an unpredictable progression of shifting markets and competitive terrains. Unfortunately, the requirements for that larger job are often not well defined by the board, which may be focused on finding a savior.

The results are not surprising. In North America, 55% of outside CEOs who departed in 2003 were forced to resign by their boards, compared with 34% of insiders, Booz Allen reports. In Europe, 70% of departing outsiders got the boot, compared with 55% of insiders. Some outside CEOs are barely around long enough to see their photographs hung in the headquarters lobby. Gil Amelio left Apple 17 months after he arrived from National Semiconductor. Ex-IBMer Richard Thoman was out of the top spot at Xerox after 13 months. David Siegel gave up the wheel at Avis Rent A Car for US Airways but departed two years later.

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Even under the best circumstances, CEO selection is something of a batting average: Companies will not hit successfully every time. But two or more consecutive outsider outs can have a devastating effect on employees, partners, and strategic position. New leaders import new teams and management styles. Continuity and momentum collapse, the energy to execute dwindles, and morale plummets as employees obsess about who will get the next pink slip. Rather than focus on the competition, companies starts to look inward. Bad external appointments are also expensive, since even poor performance is rewarded with rich severance packages.

The Trouble with Insiders

On the other hand, sometimes an external candidate exists who is, very simply, the best available choice. A skillful, diligent board may discover an outstanding fit between an outsider and the job at hand. Lou Gerstner and IBM spring to mind. And boards must remember that just as outsiders are not uniformly bad choices, insiders are not uniformly good ones. In certain situations, internal candidates actually present the greater risk.

Some concerns about insiders, ironically, emerge from their very closeness to the company. For example, as “known quantities,” they may sail through a lax due-diligence process. Or their social networks and psychological ties may complicate efforts to change the culture. Some will not have had the right experience or been tested in the right ways. Individuals from functional areas may not be up to the task of leading the entire business. Or a shift in the industry or market landscape may render carefully nurtured skills irrelevant. In some cases, the credibility of the outgoing CEO or management team may be so sullied that only a new broom can sweep the company clean.

What's more, companies that have no ongoing senior management development program (currently more the rule than the exception) will in all probability need to look outside, maybe for as long as the next ten to 20 years. Outside candidates, in other words, should always be an option. But so long as they remain the only option, and boards lack rigor in identifying and assessing them, succession is imperiled.

The Trouble with CEO Development

Many organizations do a decent job nurturing middle managers, but meaningful leadership development stops well below the apex. The problem manifests itself as a dearth of senior managers, for which companies must increasingly shop in other neighborhoods. Almost half of respondents to the CLC survey had hired a third or more of their senior executive teams from outside, but only 22% of those did so because they considered external candidates irresistibly appealing. Rather, 45% of all respondents judged that it would take too long or be too expensive to develop successors internally.

It's easy to understand why they feel that way. Even where strong development programs exist, very few leaders will ever be qualified to run the company. *Very few*. A $25 billion corporation with 70,000 employees, for instance, may have 3,000 leaders, perhaps 50 to 100 of whom would qualify for one of the ten jobs just below the top. That same company would be fortunate to field five strong internal candidates for CEO—and two or three is a more realistic number. General Electric had around 225,000 workers in 1993 when Jack Welch identified 20 potential successors; over seven years, he winnowed the number to three. In CEO succession, it takes a ton of ore to produce an ounce of gold.

Furthermore, the window in which to spot CEO talent is narrow. Companies require sufficiently seasoned candidates who can be counted on to hold the top job for ten years or more. That puts the age of accession at between 46 and 52. In my experience, for a candidate to be ready by 46, serious development should start by age 30. Recognizing which five saplings in a 3,000-tree forest are the ones to nurture requires a degree of discernment that most line managers and HR departments lack and few are developing.

Some companies do identify candidates early but then fail to evaluate them properly. Such organizations often turn evaluation over to HR, which may rely excessively on packaged databases of leadership traits developed by researchers in the human behavior field. Those programs compare internal high potentials with generic benchmarks along many dimensions, a process that creates fragmented profiles of some cookie-cutter ideal rather than nuanced, individualized portraits. What's more, most of those dimensions reflect only the personality traits and not the skills required of a CEO.

Nor do many companies properly nurture the candidates they identify. Some misjudge the business's needs and consequently emphasize the wrong talents. Only 24% of organizations the CLC surveyed believe their leadership development efforts are aligned with their strategic goals. And those goals can be a moving target, changing in response to sometimes tectonic shifts in the external environment. The marketplace changes. Technology changes. Employees' skills become obsolete even as they develop. What's more, very few in-house executive education programs are designed to impart the skills and know-how that a CEO needs.

But the larger issue is that true development happens on the job, not in a classroom. Few companies know how to get their best people the experiences that would prepare them for the CEO role or to rigorously evaluate them in the jobs they do perform. Many companies, for example, still equate leadership development with circulating candidates through multiple functions. In the 1970s, that was the rule at AT&T, IBM, and Xerox, companies that produced leaders who went on to become CEOs elsewhere—and in some cases failed.

The problem with that approach is that potential candidates don't stay long enough in one position to live with the consequences of their decisions. In addition, functional leaders learn to lead functions, not whole companies. Faced with external competition, they fall back on their functional expertise. You can mine all possible lessons from a turn as VP of marketing and still be blindsided by a P&L.

The Trouble with Boards

Bob Stemple's short stint as the head of General Motors ended ingloriously in 1992—and so did the accepted wisdom that boards should automatically bless the departing CEO's handpicked successor.

Yet while directors describe CEO succession as one of their most consuming issues, they don't appear consumed by it. In a survey by Mercer Delta and the University of Southern California, 40% of corporate directors called their involvement in CEO succession planning less than optimal. (I would hazard to add that far fewer are satisfied with the *outcome* of their involvement.) Only 21% responded that they were satisfied with their level of participation in developing internal candidates for senior management.

A packed agenda is the chief culprit: Governance and fiduciary duties, in particular, command an outsize share of boards' attention. Mercer Delta asked directors to compare the amount of time they spend now with the amount they spent a year earlier on nine key activities. Large majorities reported devoting more or many more hours to monitoring accounting, Sarbanes-Oxley, risk, and financial performance. They also reported spending less time interacting with and preparing potential CEO successors than on any other activity. Yet boards' work on succession represents probably 80% of the value they deliver. If the choice of CEO successor is superb, all subsequent decisions become easier.

Another huge problem is that the vast majority of search committee members have had no experience working together on a CEO succession. As a result, they seldom coalesce into deep-delving bodies that get to the pith of their companies' fundamental needs. So they end up approaching their search with only the demands of the moment or—worse—the broadest of requirements.

As they audition candidates, directors may be seduced by reputation, particularly if they're considering a Wall Street or media darling. A few aspiring CEOs employ publicists who flog rosy stories to journalists; when those leaders are up for other jobs, their press-bestowed halos follow them. Board members can also be blinded by charisma, by the sheer leaderishness of a candidate. There is nothing intrinsically wrong with charisma, though

some criticize it as the sheep's clothing in which hubris lurks. But too often directors become so focused on what candidates are *like* that they don't press hard enough to discover what candidates can and cannot *do*.

For example, one board looking for a new CEO after firing the old one asked for someone who could build a great team and get things done. The recruiter presented such a person—an energetic, focused candidate whose personal qualities quickly won over directors. What the organization really needed was someone who could create a stream of new products and win shelf space from powerful retailers in a volatile marketplace. Unfortunately, the directors never specified those requirements or raised them either during interviews or the background check.

The candidate's upstream-marketing skills were poor to nonexistent. The company's market share declined precipitously, and three years later the CEO was out on his ear. On its second try, the board concentrated so hard on marketing that it ignored execution. The next CEO was a visionary and a marketing genius but was unable to get things done. The company, once first in its market, will probably be sold or stumble into Chapter 11.

Finally, directors too often shunt due diligence onto recruiters. As a result, that process can be quite superficial. One company that left vetting to its recruiter and its investment banker found itself saddled with a leader who botched critical people issues. At a postmortem three years later, directors discovered that at his former company the CEO had routinely punted people problems to the chairman, who had been CEO before him and occupied the office next to his. That would have been nice to know before the pen touched the contract.

The Trouble with Recruiters

Executive recruiters are honest and highly professional. Still, they can wield disproportionate influence in CEO succession decisions. One reason is concentration. Just three recruiters control some 80% of the *Fortune* 100 CEO search market (a single firm claims fully 60% of it),

and one or two people within those companies direct the most important searches. These firms' social networks are vast and powerful. Anyone with a smidgen of ambition in the corporate world knows whom they have to know to get ahead.

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At the same time, board members' inexperience and consequent inability to precisely define their needs makes recruiters' task difficult. Recruiters must satisfy their clients yet also manage them, helping the search committee to gel so they can extract the criteria they need while keeping requirements broad enough to cast the widest talent net possible.

When committees don't gel, recruiters may step into the vacuum with their own criteria, and directors too often let them. Unfortunately, no executive recruiter can grasp the subtleties of a client's business as well as the client can. In the absence of effective direction, recruiters generally approach each search with a boilerplate of the 20 or so attributes they consider most desirable for any CEO. That formula tends to overemphasize generic qualities like character and vision, as well as team-building, change-management, and relationship skills. Psychology and chemistry are also very important to executive recruiters: Like directors, they may let a personality surplus overshadow a skills deficit.

In one—granted, extreme—case, the longtime CEO of a company with four highly successful businesses and a huge debt level was retiring. The recruiter produced a list of six candidates, pressing one—the head of a very large division at a multinational company—hard on the board. Yet all the recruiter gave the directors was a page-and-a-half description of this candidate's leadership skills; a list of his extensive connections with unions, customers, and government bodies; and an outline of his swift rise through the organization.

A financial performance history for the candidate's division was not included and not publicly available, so a member of the search committee began to dig. He discovered that return on assets under the candidate's supervision was miniscule over the previous five years, even though his division was four times larger than the entire company considering him for CEO. Furthermore, this man had never earned cost of capital in his life. Even so, the recruiter wanted to put him in charge of a business that had certainly done so—and that hoped to rise to the next level.

Fortunately, after much debate, the committee vetoed the recommendation, opting instead for number three on the recruiter's list—the president of another company, who had consistently improved performance and delivered a 20% return on equity. In his first three years, this new CEO took the stock from 24 to 108 in a slow-moving industry. The board was happy. Management was happy. The recruiter's preferred candidate was happy when he was placed at another, larger company—but then he was fired in six months.

Executive recruiters also succumb to the usual-suspects bias, primarily looking for new heads above other companies' necks. It is just plain easier to compile a list of sitting CEOs than to make a case for—or take a risk on—a COO or an executive VP. Some recruiters go so far as to approach sitting CEOs, even with no specific jobs to dangle, and urge them to consider looking elsewhere. The recruiters' goal is to loosen a prized gem from its setting and thereby beat a fellow recruiter to the punch.

Sometimes, the board's selection of recruiter is flawed from the start. A director may jump the gun, recommending a recruiter he has worked well with even before the search committee is formed. Nor do most boards examine search firms' track records—that is, how many of the CEOs the firm has placed have succeeded and how many have failed. Even if directors did ask that question, they're not likely to get the answer because it appears no one is monitoring recruiters' performance. The stock-buying public, by contrast, knows exactly how well directors score on their CEO choices.

How to Succeed at Succession

Charlie Bell's ascension to the top spot at McDonald's within hours of Jim Cantalupo's death reflected well on a company that had its house in order, particularly when compared—as it inevitably was—with Coca-Cola's simultaneous travails. Similarly, NBC's early, orderly announcement that Brian Williams would replace network news anchor Tom Brokaw stands in stark relief to CBS's public uncertainty over Dan Rather's successor. (Anchors are not CEOs, of course, but they are even more visible and arguably as consequential to their organizations' fortunes.)

By now it should be clear that the most important thing companies can do to improve succession is to bolster their leadership development and focus on those very rare people in their ranks who might one day be CEO. Organizations must identify high-potential candidates early in their careers, and global companies must look in all the countries where they operate. As candidates enter the development pipeline, managers must constantly align their charges' education and on-the-job experience with the emerging landscape. And they must rigorously assess the candidates' performance at each developmental stage.

The very best preparation for CEOs is progression through positions with responsibility for steadily larger and more complex P&L centers. A candidate might start by managing a single product, then a customer segment, then a country, then several product lines, then a business unit, and then a division. Whatever the progression, P&L responsibility at every level is key. The Thomson Corporation, a global provider of information solutions, comprises more than 100 P&Ls, so its top people have abundant opportunity to run a $50 million to $100 million business. "That's the best crucible for formulating leaders that I know of," says Jim Smith, executive vice president of human resources and administration.

Companies not set up to provide such opportunities should create jobs—large projects or small internal organizations—that exercise the P&L muscle. Otherwise, they risk elevating an internal candidate who is not prepared. For example, one $10 billion company in a highly capital-intensive and unionized industry has targeted as CEO successor the head of its smallest division. The candidate is a brilliant, articulate young man but has no experience running a big business in general or this type of business in particular (his own division is

knowledge intensive, and unionized labor has no presence). The board is considering creating a deputy position within its largest division for this person and making the 59-year-old current division head (who will retire in three years) his coach, granting that coach a bonus if he ensures his successor's success.

Companies with inflexible functional structures will probably be forced to import P&L-tested leaders from outside and place them in very high positions. To reduce the risk, they should bring in such executives three or four years before the expected succession. That can be challenging, however, because many will demand appointment to the top spot in less than a year.

But leadership development is just part of the solution. Boards, too, can greatly improve the chances of finding a strong successor by acting vigilantly before and during the search. Senior executive development should be overseen by the board's compensation and organization committee, which needs to receive periodic reports on the entire pool of potential CEOs and regular updates on those bobbing near the top of it. The committee should spend a third of its time examining lists of the top 20 candidates in the leadership pipeline. In addition, at least 15% of the 60 or so hours that members meet as a full board should be devoted to succession. At minimum, the board ought to dedicate two sessions a year to hashing over at least five CEO candidates, both internal and external.

And directors should personally get to know the company's rising stars. Promising leaders should be invited to board meetings and to the dinners that precede board meetings, and members should talk with them informally whenever possible. Directors should also meet with and observe candidates within the natural habitats of their business operations. In this way, when it comes time to single out CEO candidates, directors will be considering a set of very well-known quantities.

The "Fit" Imperative

The goal of all these interactions and deliberations is for board members to reach a highly refined but dynamic understanding of the CEO position and their options for it long before appointing a successor. Company leaders should be as well defined as puzzle pieces; their strengths and experiences must match the shape of their organizations' needs. That is, they simply must *fit*. Boards achieve fit by specifying, in terms as precise as possible, three or four aspects of talent, know-how, and experience that are nonnegotiable.

Ideally, these attributes pertain to the organization's dominant needs for the next several years, but they should also relate to future growth. In one recent CEO succession, the company, in conjunction with a boutique recruiting firm, began with impossibly broad criteria that included everything from industry leader to change agent. The process floundered until the search committee narrowed its focus to three qualities: experience in segmenting markets according to customer needs; the talent to grow the business organically; and a track record of building strong executive teams. Those three skills, in addition to general leadership traits, delineated the pond in which this company fished.

The job of defining such qualities belongs to the search committee, which should form well before succession is scheduled to take place. As they wrestle with requirements, committee members must constantly keep in mind the company's changing circumstances, so that an understanding of what currently works doesn't congeal into what works, period.

For example, Bank of America flourished under deal maker par excellence Hugh McColl, Jr., for years. But by the time he stepped down in 2001, integration, rather than acquisition, had become the dominant challenge. Having recognized the altered environment several years before, BOA's board chose not a leader in McColl's image but instead Ken Lewis, a company veteran proficient at integration of acquisitions and organic growth. (For an example of how a company integrates its leadership development with its strategy, see the sidebar "The Living Succession Tree.")

The Living Succession Tree

Four years ago, top management at the Thomson Corporation realized that its CEO succession process had passed out of life and into a stagnant existence on paper. Leadership development chugged along separately from business planning. Human resource groups produced reams of documents and charts dense with the branches of succession trees. "We never used them," says Jim Smith, executive vice president of human resources and administration at the $7 billion global company. "I never saw anybody go to a chart and say, 'Let's look at this.'"

So the company decided to rethink talent management in order to field leaders who could run Thomson under whatever conditions might exist. The new process is built on two principles: Succession planning should happen in lockstep with strategy making, and the current CEO should be intimately and visibly involved.

Each February, Thomson's 200 top managers gather to review corporate initiatives. Then in April, CEO Richard Harrington, CFO Robert Daleo, and Smith conduct strategy reviews with emerging leaders in every business unit. Goals coming out of those talks—related to markets, customers, products, and growth areas—accompany the trio into the next round of discussions, which takes place in June and focuses on management development.

At that point, Harrington, Daleo, and Smith devote eight full days to listening to senior executives (including CEO

Specific, nonnegotiable criteria also let directors keep control when they work with executive recruiters. With good direction, search firms can be a valuable source of objectivity—benchmarking internal candidates against outsiders and making sure that board members consider all possibilities, even if they prefer an insider. Some companies even bring in recruiters to do independent assessments of insider candidates. Their concurrence with a board's judgment carries weight with shareholders and potential critics.

Search firms ask boards to recommend candidates, and they take those recommendations seriously. But, ultimately, it is the recruiter who compiles the list, and the compiler of the list wields considerable influence. Directors must require from recruiters detailed explanations of how the candidates fulfill their criteria. A ten-page report on each is reasonable.

When the time comes to select the new CEO, directors—ordinarily a polite breed, unaccustomed to challenging one another or asking discomforting questions—must engage in a vigorous discussion of the candidates' comparative merits. One search committee that did an outstanding job making the final decision invited five candidates (two internal

candidates) report on *their* highest potentials. The trio insists on concrete examples throughout. "It's so easy to generalize on how somebody's doing: 'He's a good guy' and 'She's terrific with people,'" says Smith. "We want to pin down the facts beneath that. 'You say she's good with people. Give me some examples of who she's developed. How many have been promoted?'"

The same people who attended the strategy meetings attend the leadership development meetings, so everyone in the room understands what talent the business requires. And when those same people reconvene again a few months later to discuss budgets, conclusions from the strategy and leadership development rounds inform their decisions. By year's end, Thomson has tightly integrated strategy, leadership, and budget plans. And Harrington and his senior team have spent many, many hours getting to know the company's most-promising CEO candidates.

Smith has three recommendations for companies interested in crafting a similar system, which has proved constructive to managers and the board alike. First, make sure the CEO devotes considerable personal time to identifying, getting to know, and

and three external) to a hotel for a couple of days. The two internal candidates were favorites of two different directors. On the first day, the committee interviewed three candidates, two external and one internal. The directors split into two groups of three, and each group spoke with one candidate for 90 minutes. After these interviews, the directors broke for 45 minutes to share impressions, then switched candidates. Then the two groups of directors took turns interviewing the third candidate, similarly sharing impressions informally. At the end of the first day, the committee members debated over dinner, and the director who had originally advocated for the internal candidate volunteered that he was indeed not the strongest choice. The next day, they repeated the process with the two other candidates, and the results were remarkably the same, with the director who had originally advocated for the internal candidate changing his mind. In the course of these discussions, all hidden agendas fell away, requirements were honed, and directors were able to reach consensus.

Finally, board members must do due diligence on outside candidates—and do it well. Directors must seek reliable external sources and demand candor from them. Board members should ask first about the candidate's natural

talents. If those gifts—admirable as they may be—do not match the position's specific profile, that candidate is not worth pursuing. Needless to say, due diligence is also the time to root out any fatal character flaws.

At this point, the role of the outgoing CEO is chiefly consultative. He or she must be active in spotting and grooming talent, help define the job's requirements, provide accurate information about both internal and external candidates, and facilitate discussions between candidates and directors. But when the choice of successor is imminent, make no mistake: That decision belongs to the board.

Inside a Development Engine

Despite the current crisis, we know it is possible to build organizations that reliably produce great CEOs. Starting after World War II, a few corporations emerged as veritable leadership factories. Companies like General Electric, Emerson Electric, Sherwin-Williams, Procter & Gamble, and Johnson & Johnson managed to stock not only their own corner offices but also many others. (Of course even great companies sometimes stumble: Procter & Gamble had a failure from within when it promoted Durk Jager to the top spot. But it is going great guns under the stewardship of company veteran A.G. Lafley.)

Reuben Mark has sat atop Colgate-Palmolive for 20 years, so the company's CEO succession chops have not been recently proven. But I believe the consumer products giant has a first-rate process for identifying and developing CEO talent. At the very least it produced three internal candidates who are excellent prospects for the job.

Colgate-Palmolive does business in more than 200 countries, and its emerging leaders are correspondingly international and diverse. Leadership evaluation begins during the first year of employment. "It may seem strange to talk about someone who's been here just a year when discussing the pipeline to the CEO," says Bob Joy, senior vice president of global human resources. "But the earlier you start to identify talent, the earlier you can provide the job assignments and develop the broad business experience needed by a CEO candidate."

Each subsidiary identifies its own high potentials and submits that list to local general managers, who add and subtract names and then hand the list off to the division heads. These lists wend their way up the chain until they reach the Colgate-Palmolive Human Resource (CPHR) committee, composed of Colgate's CEO, president, COO, the senior VP of HR, and the senior candidates up for the top job. CPHR modifies and consolidates the lists into a single master list, dispatching it back down the ranks where managers can contest decisions made by those above them. The process takes place once a year.

Those who make the cut are deployed in one of three tracks. The first track, local talent, is for relatively junior staff who might become the direct reports of a general manager. Someone more advanced would be designated regional talent, and given, for example, a significant position in Asia. The most elevated track—global talent—is the reservoir from which the most senior jobs are filled.

Throughout their careers, all these high potentials receive assignments that stretch their abilities and expand their knowledge, exposing them to a variety of markets, cultures, consumers, and business circumstances. CPHR itself designs career paths for general managers and higher positions because the committee is at the same time dynamically developing the profile of Colgate's future leadership team. (Also, says Joy, "you can imagine the kind of resistance you'd get from a division president who would like to keep his high-potential people in his own area.") The thousand or so highest high potentials (out of a total pool of about 2,000) receive outside executive coaching, which includes 360-degree feedback on current and past assignments.

Having identified its high potentials, Colgate strives to bolster their connection to the company. One tactic is recognition: "If you're talking about the future leaders of your company, you want them to feel special," says Joy. "You want them to have Colgate in their veins." Toward that end, the company sponsors a series of "visibility programs." One, for example, gathers high potentials from all over the world at Colgate's New York headquarters

for weeklong sessions during which they meet with every senior leader in the company. In addition, each high potential receives a special stock grant, which arrives with a personal letter from the CEO.

Colgate's global growth program mandates that all senior managers retain 90% of their high potentials or lose some compensation. If a high potential at any level, anywhere in the world, does resign, the CEO, the COO, the president, and Joy are alerted within 24 hours and move immediately to retain that person.

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Perhaps most important, Joy collaborates with the office of the chairman to connect directors early and often with high potentials in all areas. At the most senior level, functional leaders introduce the board to the top two or three most-promising heirs for their own positions, adding detailed analyses of those candidates' strengths and weaknesses. Emerging leaders routinely take part in presentations to the board and meet informally with directors over lunch. Board members closely track the progress not of one or two people but of the top 200, frequently discussing how each piece fits into the puzzle and what experiences or skills might improve that fit.

As a result, when CEO succession looms, the board and top management will be able to select from candidates they have spent many, many years observing and evaluating. "If you start five years or even ten years before the CEO is going to retire," says Joy, "it may be too late."

Of course Colgate-Palmolive—like General Electric—tackles succession from a position of strength. Its CEO has been two decades in the saddle, and he is passionate on the subject of an heir. Companies with less-veteran chiefs—and whose boards have been negligent in this area—

will probably need to line up candidates quickly, while laying a deeper pipeline. They will in all likelihood have to bring in outsiders and position them to gain the requisite business and industry experience. That may mean shaking up the leadership team and reporting structures to free up slots in which outsiders can be tested. This restructuring will probably be resented, but it is necessary pain.

A quick infusion of talent may be a company's only course, but it is no way to run a railroad. Organizations without meaningful pipelines must start now to put them in place. Young companies should create the processes that will come to fruition in five or ten years' time. Choosing the CEO's successor is not one decision but the amalgam of thousands of decisions made by many people every day over years and years. Such meticulous, steady attention to defining needs and evaluating candidates produces strong leaders and inspires succession planners at lower levels to exercise the same discipline.

The trend of CEO failures must be reversed. CEO succession is all boards' paramount responsibility; nothing else so profoundly affects their companies' futures. Directors must start investing their time and energy today. The call for a new leader could come tomorrow.

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