The Transformational Leader

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We dedicate this book to our children

Michelle, Nicole and Danielle Tichy and
Eva Marie, Nicole and Joseph Devanna

with the hope that the world they inherit
will be filled with opportunity,
challenge, and the joy of achievement.

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PREFACE UPDATE

When *The Transformational Leader* was published in 1986, we talked about the accelerating pace of change. But in looking back on the past four years, we admit that change took place far more rapidly than even we would have predicted.

Looking first at the American marketplace, we find that 40 percent of the companies that appeared on the *Fortune 500* list a decade ago are no longer there! Mergers and acquisitions, leveraged buyouts, and other financial sleights of hand resulted in a massive redistribution of wealth but did little to produce world class competitive organizations.

If we turn our attention to the global arena, the changes are even more dramatic. No American money center bank is still ranked among the top ten in the world, and among the largest 1000 companies in the world one-third are American and one-third are Japanese, with the balance spread across the rest of the world.

The competitive battles have been fierce. Companies like Canon, Honda, and Kamatsu—ignored in competitive analyses conducted by industry leaders Xerox, General Motors, and Caterpillar as recently as 20 years ago because they lacked the technology and resources to be taken seriously—now set the standards for innovation, productivity, and quality in the marketplace. Looking at these companies, we realize that many of them are Japanese, but the notion that their country of origin was the basis of their success has been largely ignored by serious students of organizations.

Their success more likely lies in their ability to exploit the weaknesses of scale. They discovered the Achilles heel of companies blessed with large amounts of capital and well-entrenched positions in major markets. These weaknesses included

- an indifference to customer needs born of a lack of serious competition
- organizational structures and processes that made it difficult to react swiftly to nontraditional competitive threats
- a set of beliefs about organizational trade-offs that served to blind them to the possibilities of continuous improvement

The new competitors discovered a new source of competitive advantage—the managerial process. They structured themselves to seize the advantage through speed by reducing cycle times, through knowledge creation by learning from both success and failure, and by erasing the hierarchical and functional impediments to information flows. Consequently they were able to respond to customers' requirements more quickly through the introduction of new products, continual improvements in existing products, and greater attention to service. For established, traditionally organized and managed firms, these requirements are difficult to meet without fundamental changes in the design and management of the organization, and that has proved to be a truly daunting task.

More than ever the key to global competitiveness will be the widespread capability of institutions around the world to continously transform. The transformational leadership capabilities of creatively destroying and remaking institutions are of greater import in the 1990s than when we first tackled the topic in the 1980s. Our own thinking has developed since we first considered the phenomenon.

On the one hand, we see a greater applicability of our three-act transformational leader framework at the macro level as we see the challenges of Mikhail Gorbachev attempting to transform the USSR, Salinas in Mexico, Bhutto in Pakistan, the Solidarity-lead government in Poland, and the need for a U.S. transformation. The leadership challenges are clear; whether we have the global macro transformational leaders is a serious question.

On the other hand, we see a much clearer need for transformational leadership at all levels of the organization. Since writing the book, we have worked with thousands of middle managers using the framework. It helps them. It works as guide and framework for leadership throughout an organization. At GE, it has been used to help thousands of new college hires understand the macro GE transformation being led by Chairman Jack Welch, as well as to understand their immediate workplace and their own personal challenges.

If we examine the companies and the leaders we identified four years ago, we see that the struggle for organizational transformation has had mixed results in the group. It has taken a significant toll among the protagonists we identified. Jeffrey Campbell's hopes of revitalizing Burger King ended when Grand Metropolitan succeeded in acquiring Pillsbury, Burger King's parent; Fred Hammer's plans for Meritor were dashed on the rocks of inaccurate interest rate forecasts.

Two leaders in computer company turnarounds, Jim Renier at Honeywell and Michael Blumenthal, also face deteriorating competitive conditions. In 1986 Blumenthal succeeded in pooling the resources of Burroughs Corporation and Sperry to form the world's third largest computer maker and financial analysts, and industry experts were impressed with the progress he made, increasing the company's size to $10 billion by 1989 and continuing to move Unisys from a mainframe company to a UNIX firm. By year-end, however, Unisys was struggling once again as execution of an applauded strategy continued to elude Blumenthal.

Honeywell has yet to enjoy the respite that Blumenthal earned for Unisys, and the last four years find Renier, who acquired the Sperry aerospace business from Unisys Corporation in late 1986, attempting to stem Honeywell's continued performance problems. In 1988 Honeywell sold all but 20 percent of its computer operations with the result that its aerospace business now accounts for almost half of its sales. This is not good news as defense contractors face the reality of reduced budgets for military hardware.

Automakers face the specter of significant overcapacity on a worldwide basis, and American carmakers, lagging in product innovation, quality, and productivity, enter the 1990s without any marked gains on foreign competitors. Indeed, with Iacocca's approaching retirement, Chrysler finds itself in the unenviable position of slipping behind Honda in domestic auto sales and wondering if the long-awaited replacement of the K-car platform in 1992 will come too late to help eroding market share.

Robert Stempel became the 17th president of General Motors in 1987, and it is expected he will succeed Roger Smith when Smith retires as chairman. Although General Motors's position is less perilous than Chrysler's, the last four years have not been easy for GM. Attempts to gain needed concessions from labor and to forge new, cooperative working relationships between management and organized labor have not been totally successful. Moreover, GM's massive investment in automation has not resulted in hoped for productivity gains.

Dave Whitwam succeeded Jack Sparks as president and chief executive officer of Whirlpool Corporation. While Sparks held the position, Whirlpool grew from $2.3 billion in net sales to over $4 billion and net earnings increased almost 50 percent. Sparks initiated a $1 billion capital expenditure program with the hope of increasing volume-enhancing efficiency. Although the company incurred a short-term penalty, Sparks believed these investments were critical to Whirlpool's future growth. In 1988 Whirlpool entered into a strategic alliance with Dutch giant Philips N. V. that created the world's largest major appliance business. Sparks's legacy has been to successfully position Whirlpool to take advantage of markets outside the United States.

John Harvey-Jones stepped down from the chairmanship at ICI in 1987. His legacy was also impressive. He brought about changes that affected the company's size, its product base, and its markets. To reinforce its global strategy, he added a German, a Japanese, and an American to ICI's board while cutting the size of the board from 12 to 9. His successor, Denys Henderson, will face substantial challenges as will most of the chemical industry from the powerful environmental lobbies in Europe and those emerging in other industrialized countries as well.

Don MacKinnon retired from Ciba Geigy and the Swiss giant continues to prosper, but like ICI its chemical businesses face increasing pressure from environmental groups in Europe and in the United States. The role of the North American subsidiary will grow in importance, however, as CIBA wrestles with the consequences of being housed in a country that has chosen to go it alone as Europe moves toward 1992.

Mary Ann Lawlor is back in the thick of things at Drake Business Schools. Personal decisions by senior operating personnel find her spending more rather than less time directing Drake's future, which looks relatively bright in an industry beset by problems such as reduced government spending in areas like education. And although she expressed a desire to move on to other challenges, she correctly predicted that if she had to lead the organization through another renewal, she felt up to the challenge. The major issue she faces is identifying the next generation of Drake leadership willing to take responsibility for an organization whose survival depends totally on the quality of its people and their commitment to a population in need of skills to manage their future.

Our final protagonist, Jack Welch, announced his leadership agenda for the 1990s and it is corporatewide cultural change. Having emerged from the decade of the 1980s with a portfolio of stronger businesses, GE stands as a model of successful restructuring. While many CEOs would be content with this legacy, Welch continues the drive to become more competitive. He is concerned with GE's productivity record and believes the answer lies in eliminating bureaucracy and developing a workforce who understand that their own dreams and ambitions can be fulfilled in the GE he is trying to build.

The 1990s promise to be in many ways a more interesting decade than the 1980s for those who prefer to watch competitive battles fought by managers heavily invested in securing the future of their businesses than those fought by dealmakers whose interest and investment in an organization frequently lasts for fewer than six months and who are never requried to visit a factory or have a conversation with an employee.

If we look beyond the scope of the companies we considered in 1986, we find some interesting examples of companies that have made a recovery and that bear watching to see if they can sustain a transformation over time. These include U.S. examples like Motorola and Xerox as well as European giants like Siemens and ASEA & Brown Boveri.

Their recovery and drive for excellence show their recognition of the need for total employee involvement and the role that training and development play in achieving results that a decade ago would have been considered unreasonable. For example, Motorola refused to lay off large numbers of employees and close U.S. plants. Instead, starting in 1982 their chairman said that 1.5 percent of every manager's budget must go to training. In 1989 they spent $50 million on training everyone from Robert Galvin down to the factory floor. Almost half of that training focused on skills needed to improve quality. Galvin's goal is to make all Motorola departments—not just those involved in manufacturing—capable of achieving

Six Sigma quality by 1992. This means that they expect to have no more than 3.4 defects per million parts or transactions!

The focus on quality has gone hand in hand with an effort to speed products to the marketplace. It used to take Motorola three to five years to bring a new electronic product to market. It now takes 18 months. Engineering excellence has enabled Motorola to manufacture cellular phones with 70 percent fewer parts, and this has reduced assembly time to 4 hours from 40.

Using similar programs, Xerox, which had seen its share of the small copier market shrink to 8 percent, has more than doubled its market share and now commands a 17 percent share.

These organizations see their accomplishments and current goals not as final destinations but as milestones in a process of continuous improvement. They present a formidable challenge to competitors whose goal is to catch up, because they represent a moving target determined to push the frontiers of excellence in both the product and process arenas.

In reflecting on the last four years, we see the pace of change accelerating at a faster rate than we predicted; as a consequence the window of opportunity that represents the organization's ability not simply to survive but also to prosper continues to narrow. Organizational growth increasingly depends on taking market share from competitors in markets that are not growing instead of maintaining share in an expanding market. This forces companies to learn to compete instead of looking for pristine marketplaces not yet bloodied by the competitive struggle for excellence. And increasingly, excellence is the condition not just for dominance but for survival.

In 1986 we talked about companies whose competitive environment had changed gradually enough to make them unaware of the need to change. We used the metaphor of the boiled frog to describe these victims of increased competition. Today the water heats up more rapidly, and if the frog is not always prepared to jump it may still become a casualty.

Many people also took an unintended message from the book. They believed that organizational transformations simply require a transformational leader at the top. We did not believe this in 1986, and our belief in the importance of gaining commitment from all levels of the organization to continuous improvement remains strong.

Personally, we continue to grapple with understanding the dynamics of successful transformations and the process and structural rquirements for self-renewal in large, complex organizations. The last four years have been both enlightening and humbling. We have a much better understanding of what organizations must be if they wish to be competitive, and we can cite examples of organizations that are able to achieve these conditions at least temporarily.

The transformational leaders of the 1990s are the ones who will determine the quality of life inside and outside of the workplace in the 21st century. We continue to admire those with the strength and will to take on these challenges. We continue our journey to understand the phenomenon and hopefully to add to our collective abilities to productively lead continuous transformations.

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PREFACE

This book is about corporate leadership, America's scarcest natural resource. At a time when our economy, as well as that of the entire industrialized world, is in the midst of major upheaval and transformation, a new type of leadership at the middle and senior levels of our corporations is desperately needed. It's now a well-known story that the "emperor's clothes" from the end of World War II until the first shocks of the Organization of Petroleum Exporting Countries were provided by rapidly growing domestic markets and a less than tough network of foreign competitors. Since that time the American position in the world economic structure has changed. From undisputed leadership we have at best become *primus inter pares*. Many are concerned that we may fall further behind. The Japanese have certainly led the way in product excellence and the South Koreans and other former third world nations are trying hard. A resurgent Western Europe is gaining fast.

This fall from supremacy has been painful. Many people are clearly angry and looking for scapegoats. The Japanese have been a frequent target. Theodore S. White, writing in a recent issue of *The New York Times Magazine*, warned them:

The superlative execution of their trade tactics may provide an incalculable reaction, as the Japanese might well remember of the course that ran from Pearl Harbor to the deck of the U.S.S. Missouri in Tokyo Bay just 40 years ago.

Our government may respond to building pressure from special interest groups to address the real or perceived advantages of the Japanese and other nations in international markets. But any action along these lines will be a short-term solution to a problem that has been germinating for many years: the increasing inability of many companies and industries to be effective competitors in international markets. Anger and putting the blame on others for our problems will, in the long run, only hasten our decline.

The time has come to talk about how corporations, our wealth-producing institutions, can develop the type of leadership with the courage and imagination to change our corporate lifestyles. What's needed, in historian James MacGregor Burns's terms, is not the old style transactional leadership but a new *transformational* leadership. Transactional leaders were fine for the earlier era of expanding markets and nonexistent competition. In return for compliance they issued rewards. For all intents and purposes these managers changed little. They managed what they found and left things pretty much as they found them when they moved on.

Transformational leadership is about change, innovation, and entrepreneurship. We agree with Peter Drucker that these are not the provinces of lonely, half-mad individuals with flashes of genius. Rather, this brand of leadership is a behavioral process capable of being learned and managed. It's a leadership process that is systematic, consisting of purposeful and organized search for changes, systematic analysis, and the capacity to move resources from areas of lesser to greater productivity. This strategic transformation of organizations is not something that occurs solely through the idiosyncratic behavior of charismatic geniuses. It is a discipline with a set of predictable steps. Transforming an organization to make it strategically competitive is a complex task. However, the evidence we've accumulated and present in this book shows that transformation can be thought about and acted on within a framework that's easy to understand. We see corporate transformation as a drama that can be thought about in terms of a three act play:

Act I: Revitalization—Recognizing the need for change
Act II: Creating a new vision
Act III: Institutionalizing change

Within the context of our framework, we use examples of real leaders involved in the tough, grueling, gut-wrenching challenge of trying to transform companies, save employee jobs, and strengthen the fabric of society. Many of the people we profile are in a race against time and it's not entirely clear if all will be successful. Whatever the outcome, it's clear that the old style of leadership was inappropriate for the situations in which they found their companies. The ultimate purpose of this book is not for other managers to imitate the actions taken by the people in this book. Rather, it's to spread a new way of thinking about corporate transformation, to make *true* leadership an everyday way of acting rather than a talent limited to a few select individuals. Transformation can be accomplished and the new leadership style can be learned. Rather than a scarce resource we hope that it will soon be found in abundance.

Our thinking was affected by the earlier work of Abraham Zaleznik, who contrasted leaders and managers in a 1977 *Harvard Business Review* article. Managers were characterized as individuals who maintain the balance of operations in an organization, relate to others according to their role, are detached, impersonal, seek solutions acceptable as a compromise among conflicting values, and identify totally with the organization. The leaders on the other hand were characterized as individuals out to create new approaches and imagine new areas to explore; they relate to people in more intuitive and empathetic ways, seek risk where opportunity and reward are high, and project ideas into images to excite people.

An encouraging sign in the United States is the growing intellectual and executive interest in the whole topic of leadership. We are happy to join our colleagues who are trying to map out this important terrain. The number of thoughtful treatises on the topic is increasing. They include Levinson and Rosenthal's *CEO;* Bass's *Leadership and Performance Beyond Expectations;* and Bennis and Nanus's *Leaders.* These books as well as the popularity of Iacocca's autobiography reveal a yearning to understand the phenomenon of leadership.

Michael Maccoby's book *The Leaders* specifically shifted our attention to the important bridge between Burns's work on transforming leadership and industrial settings. Maccoby, who made the "Gamesman" popular in the 1970s, argued in the 1980s:

> The gamesman's daring, the willingness to innovate and take risks are still needed. Companies that rely on conservative company men in finance to run technically based organizations lose the competitive edge. But unless their [the gamesmen's] negative traits are transformed or controlled even gifted gamesmen become liabilities as leaders in a new economic reality, a period of limited resources cutbacks, when the team can no longer always be controlled by promises of more, and one person's gain may be another's loss. Leadership with values of caring and trust that no one will be penalized for cooperation and that sacrifice as well as rewards will be equitable.

Even though most of what is written about transformational leadership focuses at the top of the organization, we feel that the challenge is for transformational leadership at all levels in an organization. Rosabeth Kanter's *Change Masters* focused our attention on such leaders in the middle of the organization. She provided new insights into the role of middle level leaders in transforming organizations.

Finally, we want this book to be a challenge to our academic colleagues interested in leadership and change. We have taken positions in this book that are really hypotheses. We do not have a large systematic sample that we have followed over a long period of time with data from multiple sources; instead we have a small number of clinical cases based on individual interviews with limited data from others in their organizations. Our hypotheses therefore need to be tested empirically, they need to be tightened and strengthened conceptually or challenged and discarded. Our belief that it is time for action with reflection has led us to be more prescriptive than strict science would justify. We hope you will join the growing number of academics and practitioners who are struggling for solutions to difficult problems.

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