LEADING CORPORATE TRANSFORMATION

A BLUEPRINT FOR BUSINESS RENEWAL

ROBERT H. MILES

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Robert H. Miles

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Dedicated to my son, Alexander, and my daughter, Holen

Contents

Corporate Transformation: An Executive Briefing

How can I achieve fundamental transformation without exposing my organization to unacceptable risk?

Corporate transformation challenges come in many forms and confront executive leaders with an array of vexing questions: How can I help my company, which is at the top of its competitive game, sidestep complacency and energize people to redirect their efforts and reposition their organization? How can I lead my company, which has lost its way and greatly depleted its resources, to revitalize itself for competitive excellence? How can our recently merged companies or functions overcome business and cultural differences? Or, more simply, now that I am in a position to do so, how can I effectively take charge of my organization and help people develop a new agenda to lead us through the next phase of its development?

These questions, and more, have found successful resolution through the framework for leading corporate transformation described in this book. The framework is based on my privileged, direct involvement over the past twenty years with the practice and theory of fundamental change in large, complex organizations. It has been successfully field-tested in a variety of situations. With it, corporate leaders have restored financial viability, pursued quantum revenue growth, and successfully integrated merged operations. This approach to transformation has been used in companies with only a few days of cash reserve, and in those earning in excess of a billion dollars in net profits annually. It has been used to integrate the diverse cultures of newly merged companies and to help them leverage elusive synergies and agree on common purpose and direction. This approach has also been used to facilitate top executive succession and the creation of new leadership agendas. It has been successfully adapted for use at the corporate and business-unit levels across a variety of manufacturing, technology, service, and entertainment sectors.

With each use, the framework has been refined. It has evolved alongside the series of conceptual breakthroughs described in the literature on corporate transformation and has been enriched by a long series of practical applications. The framework remains a work in progress, but it has reached a level of comprehensiveness, generalizability, and reliability that warrants broader application to address the central question of corporate leadership in our time: How can we achieve fundamental transformation without exposing the organization to unacceptable risk?

The initial change condition of a corporation, described in Chapter One, imparts a bias at the launch of any corporate transformation. Some transformational leaders need to focus a lot of attention on creating resources to initiate a transformation effort. Others need to tilt the initial focus to elevating the general level of dissatisfaction with the status quo. Once the initial condition has been satisfied, it is possible to apply the steps in the general framework to either situation.

Part One lays out in detail the major elements of the general framework for leading corporate transformation. It reveals specific examples of how leaders have created energy for corporate transformation, built compelling strategic visions and grounded them in business success models, uniquely realigned their organizations to reinforce the new direction, and put in place a process architecture to keep all the parts focused while moving along the critical path of the transformation journey. The chapters of Part One take each of these elements of corporate transformation one at a time and show how leaders in a variety of contemporary settings have applied them to their own challenges. How to conduct such a strategic visioning process is presented in the Appendix.

Part Two demonstrates the generalizability of the framework for leading corporate transformation to four different transformation situations:

- Type I: Repositioning a successful corporation
- Type II: Revitalizing a corporation in crisis
- Type III: Merging different businesses and cultures
- Type IV: Managing the process of leadership succession

Each chapter in the second part of the book provides an in-depth account of how the general framework was adapted to achieve successful transformation, spanning corporation-wide revitalizations, repositionings, mergers, and leadership succession challenges. For instance, Chapter Five deals with the successful repositioning of the largest and (according to *Fortune*) most admired U.S. public utility. Chapter Six shows how the general framework guided the remarkable revitalization of one of Silicon Valley's major high-tech companies during the first half of this decade. Chapter Seven illustrates how the framework was adapted to facilitate the merger of two different but potentially synergistic service businesses. And the last chapter in Part Two reveals how a world-class sports organization, the PGA TOUR, used the framework to create a new corporate agenda as part of the process of leadership succession of a new commissioner.

As we see in the explanatory chapters and in the corporate transformation stories, the impetus for change need not be a crisis. Indeed, relying on crisis—a performance shortfall, the arrival of a new market entrant, the obsolescence of a product line—to create readiness for change is abdicating leadership responsibility. Instead, transformational leaders create incentives for people to engage in the search-and-adaptation process, and to expose them to models of the future that they must move toward.

Atlanta, Georgia
Chatham, Massachusetts
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Part One

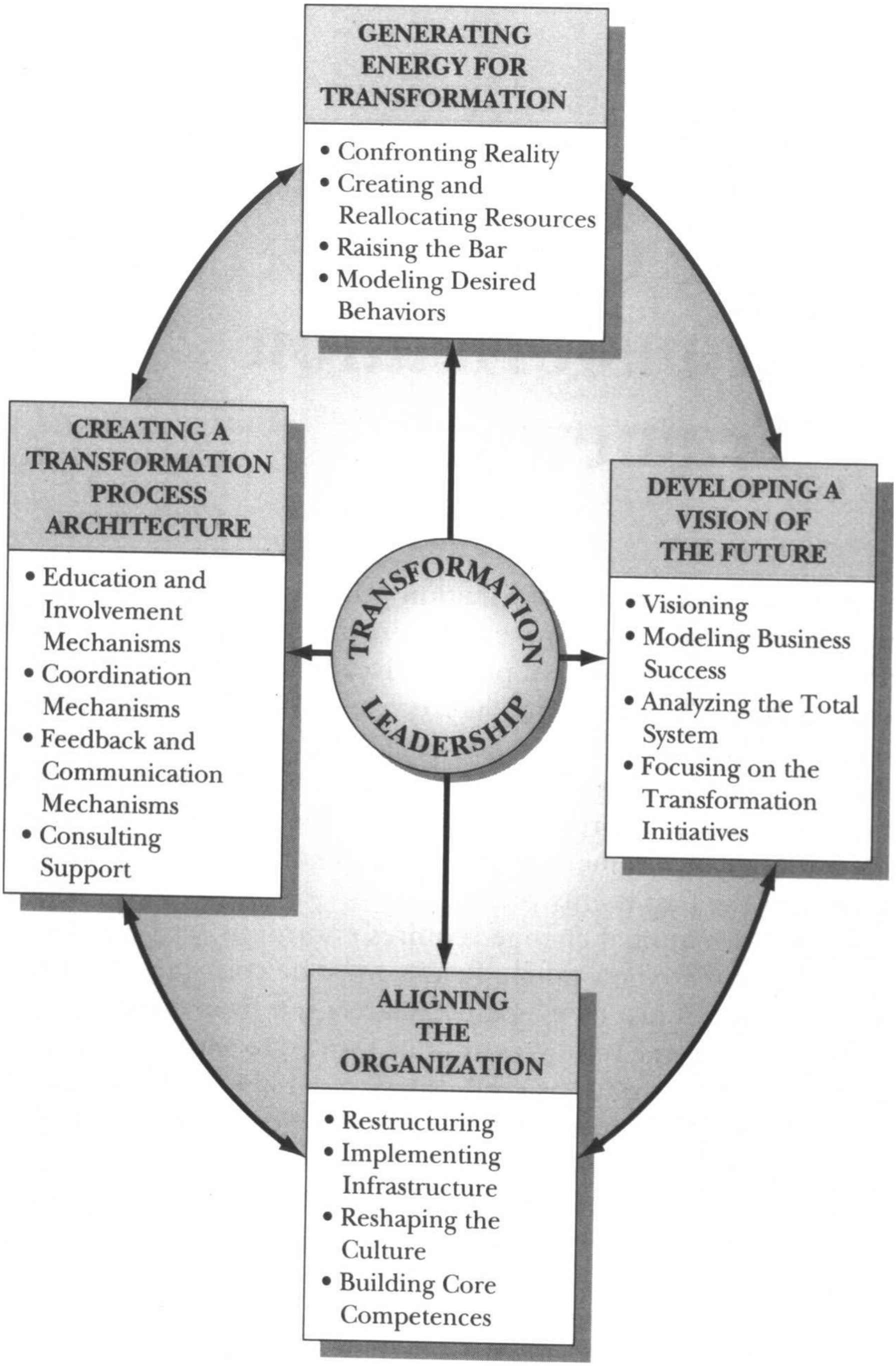
The Corporate Transformation Framework

Successful corporate transformation processes share a few fundamental attributes: they thrive on energy, they are vision led, they are based on a total-system perspective, they are embedded in a comprehensive implementation process, and they demand a transformational leader. The importance of having such a leader is shown in Exhibit I.1, a summary of the general framework for leading corporate transformation that I have been refining, based on my intensive involvement in practice and knowledge of the literature, over the past twenty years.

Transformational change requires enormous *energy;* it is easy to underestimate how much. Reality must be confronted as early as possible, not just by executive leaders but by everyone in the organization. Some resources must be created to support the transformation; others must be reallocated to signal intent and conviction regarding fundamental change. Stretch goals must be installed to underscore the departure from business as usual. And leaders at all levels, starting at the top, must visibly and consistently model the new performance expectations and required behaviors. All of these levers must be thrown early in the process to jump the gap from the current state of the organization to its critical path of corporate transformation.

Second, as contrasted with incremental change, transformational change is *vision led.* It requires projection into a dimly outlined

Exhibit I.1. Framework for leading corporate transformation.



future. It involves the creation of goals that stretch the organization beyond its current comprehension and capabilities. Therefore, launching a corporate transformation process necessitates development of the business case for transformation as opposed to incremental change. It also imposes upon the leader the task of creating a clear and compelling vision of a desirable future state, one that can be fully defined only as the organization sustains movement into it. This feature of corporate transformation is difficult to understand for individuals who are accustomed to incremental change as a way of life. But visionary leadership is the essence of successful corporate transformation.

The third vital ingredient of all successful corporate transformations is that they be based on a *total-system perspective.* They seek to move the organization boldly from an initial state to a vision state, not piecemeal but by simultaneously articulating all the major elements of the whole organization.

This need for holism leads to the fourth critical attribute of successful corporate transformations: they are *embedded in a comprehensive implementation process.* The total-system approach to change and the large magnitude of change implied by a visionary aspiration require a sustained process of organizational learning and orderly orchestration of all of the pieces in order to make a safe passage to the vision state.

The framework offered in Exhibit I.1 identifies the major tasks that a leader—indeed, that leaders at all levels in the organization—must perform to achieve successful transformation without exposing the corporation to unacceptable risk. The leader must

1. Generate energy to launch and sustain the process of corporate transformation
2. Develop a vision of the future
3. Align the organization to the vision
4. Create a transformation process architecture to orchestrate a swift but safe passage from current to vision state

If a corporate transformation falls short on one or more of these leadership tasks, the attempt will fail. In addition, the framework's effectiveness depends on two more factors: the extent to which the requirements of the initial change condition are met and the presence of a transformational leader.

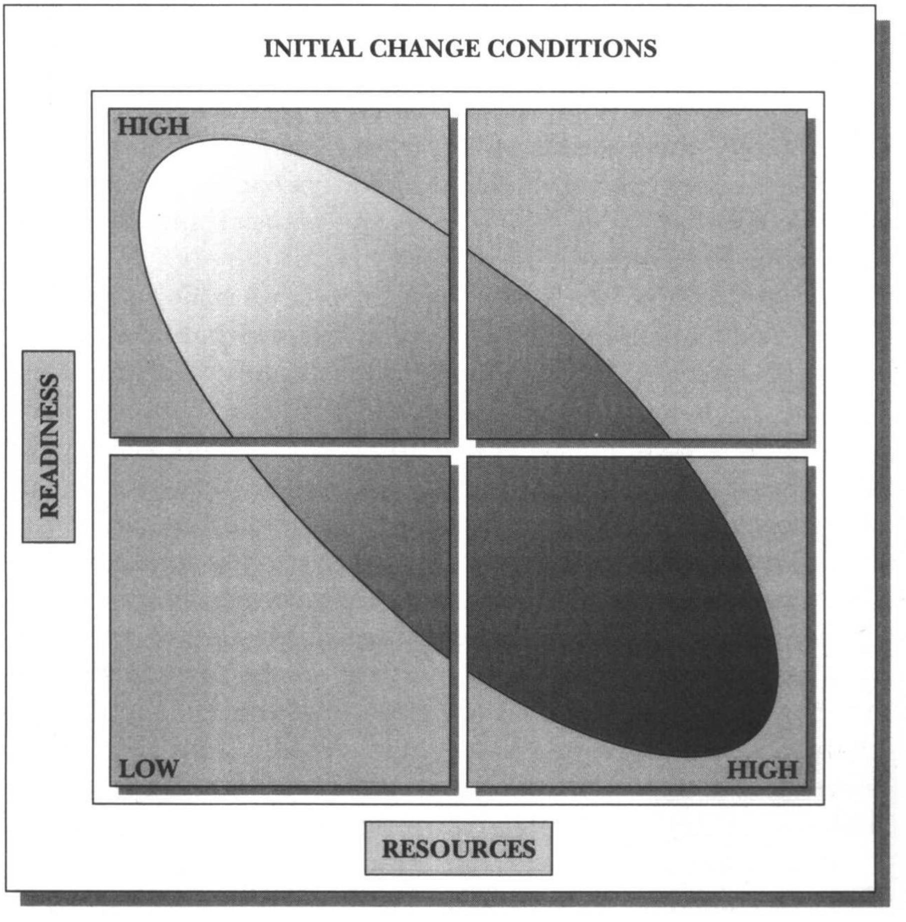
Initial Change Condition

The first step in planning a corporate transformation involves assessing the initial change condition. This initial condition may be described along two dimensions: readiness and resources (Exhibit I.2). *Readiness* is the extent to which employees recognize the need for change or, conversely, the extent to which they are dissatisfied with the status quo. The other dimension is *resources*, the extent to which the organization has the ability to support a transformation process. There can be no major change in a complex organization unless there are both sufficient resources and substantial readiness.

The general state of the conditions of contemporary corporations is expressed along an axis running from the upper left-hand quadrant to the lower right-hand quadrant. In the top-left quadrant reside those companies that may be characterized as high-readiness, low-resources companies—that is, companies in crisis and in need of *revitalization*. These troubled companies have experienced a substantial performance shortfall and have been consuming resources to no avail in attempts to return to former performance levels. At the extreme, these companies have depleted the resources needed to transform themselves and have cannibalized their core operating resources simply to continue existing as independent entities. Their cash reserves are gone, their banking facilities under tremendous strain, and their ability to raise equity in the open market greatly diminished. Just as damaging, their nonfinancial resources, such as customer goodwill, employee commitment, and management loyalty, have become greatly eroded. At the extreme, these high-readiness, low-resources companies are often described as being "in the ditch."

In these companies, readiness at the collective level couldn't be higher; everyone recognizes the need to change. The profound need is for resources. Without resources, the highly motivated people in the crisis-bound company do not have the ability to do what is needed. Thus the first priority for companies in an initial change condition of high-readiness, low-resources is to find and deploy the resources needed to support a transformation effort. They must do this before they can successfully embark on a corporate transfor-

Exhibit I.2. The initial condition of corporate transformation ranges from a state of high readiness but low resources to a state of low readiness but high resources.



mation journey. Often this step involves closing and consolidating peripheral or underperforming operations, trimming employee payrolls, reducing corporate staff overhead expenses, and suspending or deferring programs so that current operations can generate more cash to be redeployed to the launch. Invariably, such decisions involve reallocation of resources not only away from current operations toward transformation activities but also away from activities residing off the critical path of the transformation effort, toward those that are both immediate in transformation priority and critical to the realization of the new institutional vision and direction.

Companies in the high-readiness, low-resources condition also tend to create new resources as they launch their transformation process. Typically, they attempt to do this by increasing their debt burden or placing additional stock in the market, often on unfavorable terms because of their strained performance condition. For example, when Lee Iacocca took over Chrysler Corporation in 1978 he sought government bailout to avert bankruptcy and provide the company with new resources to launch the corporate transformation process.

At the other extreme initial change condition is the company in the low-readiness, high-resources situation, one that needs *repositioning*. As a result of successful past performance, companies at this extreme have accumulated a surplus of resources. However, their people have become satisfied with current performance and are not actively searching for new ways of doing things. Readiness for change is very low; the order of the day is to extend and refine business as usual. These companies are fully susceptible to the so-called paradox of success, where ultimate failure is associated with current success because the latter blindfolds the organization to new developments in the competitive environment that can eventually overtake the company. Examples of colossal failures, during the late 1970s and early 1980s, of once highly successful companies in the low-readiness, high-resources condition are General Motors in the automotive industry and IBM in the information-processing industry.

Paramount in the launch of transformation efforts in the low-readiness, high-resources condition is the need to legitimately elevate the level of dissatisfaction with the status quo. To be effective, transformational leaders faced with this condition must confront organizational members with data and experiences that catalyze readiness for change. Such leaders must ignite the "burning platform," a shorthand phrase that recalls the incident in which offshore riggers jumped to likely death in the icy North Sea rather than certainly perish in the fire raging on their oil platform.

When companies in the low-readiness, high-resources initial condition put significant and visible investments into the launch of their corporate transformation process, they powerfully signal that something new is about to happen in the company. By beginning to reallocate substantial amounts of resources away from businesses and activities that are not compliant with the new vision and direction toward those that are on the new critical path, the company further reinforces the sense of commitment to major change and clarifies its meaning and direction.

An example is the initial condition when Jack Welch began the transformation of General Electric in 1981. At the time, many of the company's resources were being allocated to businesses that were not financially attractive and that did not fit Welch's vision for the future of the company. Despite GE's $2 billion cash balance, businesses that did not fit the vision had to "fix, sell, or close" themselves. Resources that would otherwise be consumed by these ill-fitting businesses were reallocated to enhance productivity and automation initiatives, and to fuel capital investments in businesses that offered greater promise for becoming number one or number two in their chosen global markets.[1] Long-term GE employees certainly did not like seeing large, traditionally prominent businesses within the GE portfolio closed or sold off. But the new resources they received provided some assurance that the businesses remaining in General Electric's portfolio would be better positioned to achieve the stretch goals that were part of the transformation initiative.

The other two windows in the initial change condition diagram of Exhibit I.2 are generally unstable conditions for most companies. In today's information-rich global economy, it is difficult to find an industry that is not undergoing significant change. Companies described by the low-readiness, low-resources box won't last long in a performance situation that is substantially in flux. Such companies are likely to cease to exist or be taken over by companies with higher levels of readiness and resources.

At the other unstable extreme is a largely vacant space where only a few notable companies manage to reside for long. These companies achieve and sustain a leadership state that combines abundant resources with high readiness for change. Hewlett-Packard and GE have been able to avoid the paradox of success and use their resources to continue to reinvent themselves and thereby maintain global leadership positions. Indeed, a primary goal of this book's approach to leading corporate transformation is to create a process architecture within companies that can enable them to move into and remain in a high-readiness, high-resources mode.