Managing the Dynamics of Change
The Keys to Leading a Successful Transition

In the summer of 1998, just days after a New York-based firm had concluded its acquisition of a British company, a series of confidential interviews were conducted with key U.K. employees to find out what was on their minds.

Without exception, people were glad their company had been bought. In the months leading up to the acquisition, performance had stalled, morale had sagged, and prospects for growth had dimmed. At the same time, the list of new concerns was long and substantial. People were worried, and with good reason, about a wide range of possibilities: layoffs, relocations, loss of autonomy, new management styles, different performance expectations, shifted priorities, and the termination of favorite projects and products.

All in all, the employees' reactions could best be described as a complicated mixture of relief tinged with terror–terror of the unknown. "I don't mind change," a young department manager bravely asserted. "It's the uncertainty I don't like."

Uncertainty is just one of the many emotions prompted by the onset of large-scale change. Depending upon the nature of the change, the culture of the organization, and the personality of each individual, reactions can range from excitement and enthusiasm to fear and anger. For leaders of change, the critical challenge is to understand and anticipate those reactions, and then to fashion a process that effectively addresses the complex social dynamics that are part and parcel of organizational change.

Fundamental to this process is the active, committed, personal leadership of the CEO. Beyond that, the issues inherent in major transitions present problems and challenges that no CEO can handle without the active support of senior executives and middle managers up and down the line. What's more, the principles of change and the tactics for overcoming opposition and building support that will be discussed in this paper apply to change at every level of the organization, whether it's a team, a department, or a business unit.

To set the stage, we'll describe the important notion of the transition state–the turbulent period that lies between where you are today and where you hope change will take you tomorrow. We will explore the initial responses evoked by change–instability, stress, and uncertainty–and the huge problems they pose to management in terms of power, anxiety, and control. Finally, we'll turn from problems to solutions, and suggest twelve action steps successful leaders have used to manage their way through this perilous period.

Understanding Organizational Change

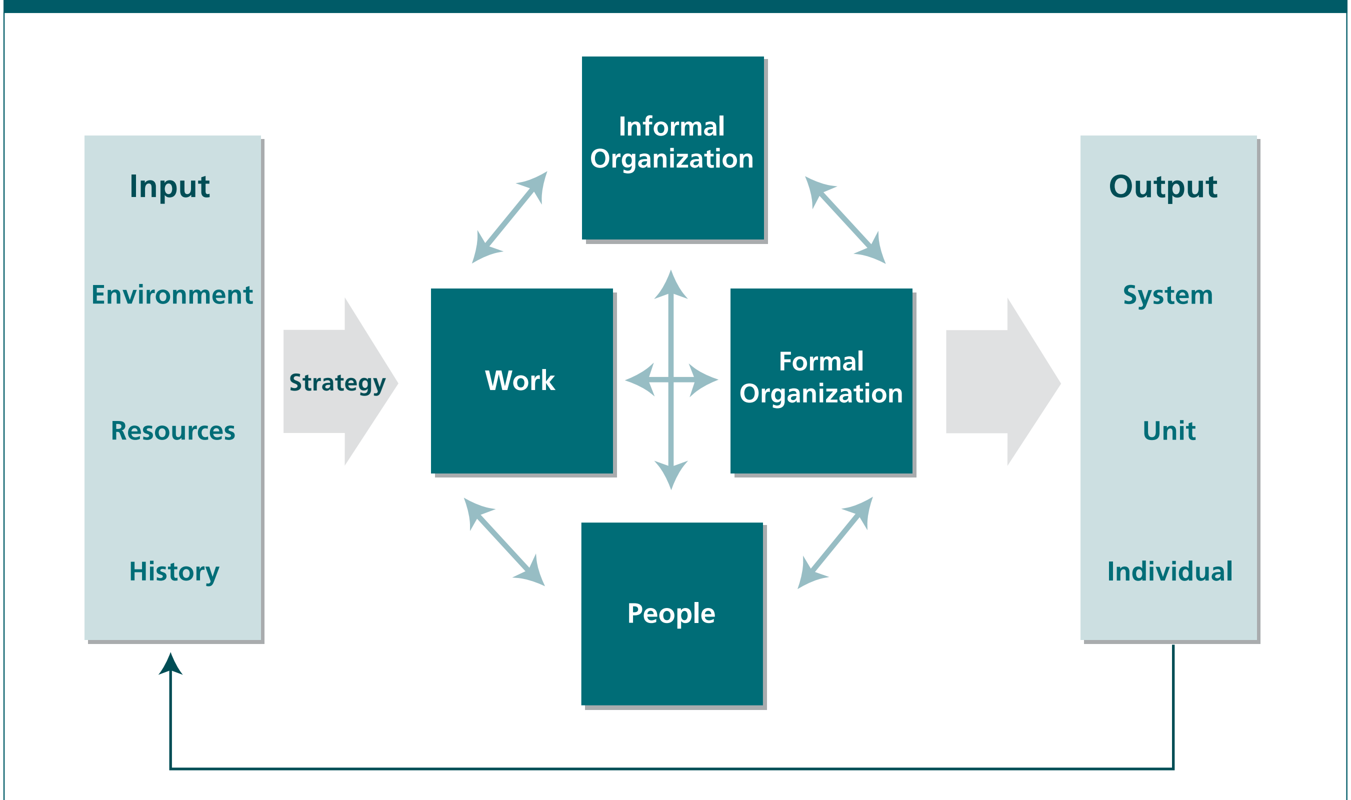
To fully understand the dynamics and dimensions of change, it's helpful to have a conceptual understanding of how organizations work. Our starting point is a construct known as the congruence model of organizational behavior, an approach many organizations have found useful. (A fuller discussion of the model is presented in the Mercer Delta *Insight*, *The Congruence Model: A Roadmap for Understanding Organizational Performance*.) The model views any organization as a system; at its heart is a transformation process whereby the enterprise, in accordance with its articulated strategy, performs work that converts input to output. This core element of the organization consists of four components: the work, or the series of tasks required to perform each function in the value chain; the people who carry out those tasks; the formal organization of structures, processes, and practices that specify how work is assigned and performed; and the informal organization, the patterns of behavior that shape the daily interactions between people and their supervisors, employees, co-workers, and customers (see Figure 1).

At any given time, each of the four components exists in some relative degree of fit, or congruence, with the other three. The tighter the fit, the smaller the gap between strategic objectives and actual performance. Total congruence is the ideal goal, but in reality, organizational systems are in a constant state of flux. In most organizations, the job of managers is to constantly make decisions that will realign the fit between work, people, formal structures, and the informal operating environment.

The congruence model involves several important implications for leaders of change. The first is that major change nearly always originates in the external environment. The nature of that change will, in turn, influence the scope, intensity, and sequence of changes involving the internal components. Second, the model suggests that changes in any of the internal components will have a ripple effect, altering the pattern of relationships among multiple components. Finally, it serves as a reminder that change does not occur in a vacuum; it requires that top executives demonstrate ambidextrous leadership as they simultaneously implement change while continuing to meet the ongoing demands of the business.

The notion of multiple, concurrent changes is particularly noteworthy in today's business

Figure 1: The Congruence Model



environment. Consider the forms of change experienced by most organizations at one time or another:

- Replacing or redefining strategy
- Designing new organizational structures
- Reshaping the culture/operating environment
- Incorporating new technology in products, production, or businesses processes
- Strategic combinations–mergers, acquisitions, joint ventures
- Breakups, spin-offs, and divestitures
- Downsizing
- Expansion into new geographies, markets, technologies, offerings
- New leadership

Each of these changes holds the potential for major disruption. You might ask yourself how many apply to your organization at this moment. When we put that question to managers, the majority tell us that four or more of these types of changes are occurring at their companies at the same time. For any modern organization, the capacity to effectively manage numerous, concurrent changes is a clear and compelling requirement.

The Transition State

In a sense, the easy part of managing change is figuring out where you want to go. The hard part is getting from here to there–and persuading sufficient numbers of the right people to overcome their fears, skepticism, and resistance and join you on that journey.

In 1993, after becoming CEO of Eli Lilly and Company, Randall Tobias held countless meetings with employees to explain the major changes he was initiating in the company's business strategy and operating culture. He would start by talking about "the old Lilly." He would draw an organizational model–the congruence model, to be more specific–illustrating the company in terms of its strategy, work, people, structure, and culture. In change management terminology, he was describing the current state.

Then he would talk about the remarkable changes washing over the health-care industry, and he would describe "the new Lilly" he believed would be required to meet the new threats and opportunities. He would explain every component of the new Lilly–the new strategy, the new culture and values, and the new skills and attitudes that would be required of its people. To Tobias, that picture was crystal clear, and he could easily describe it to others. It was his vision of Lilly's future state.

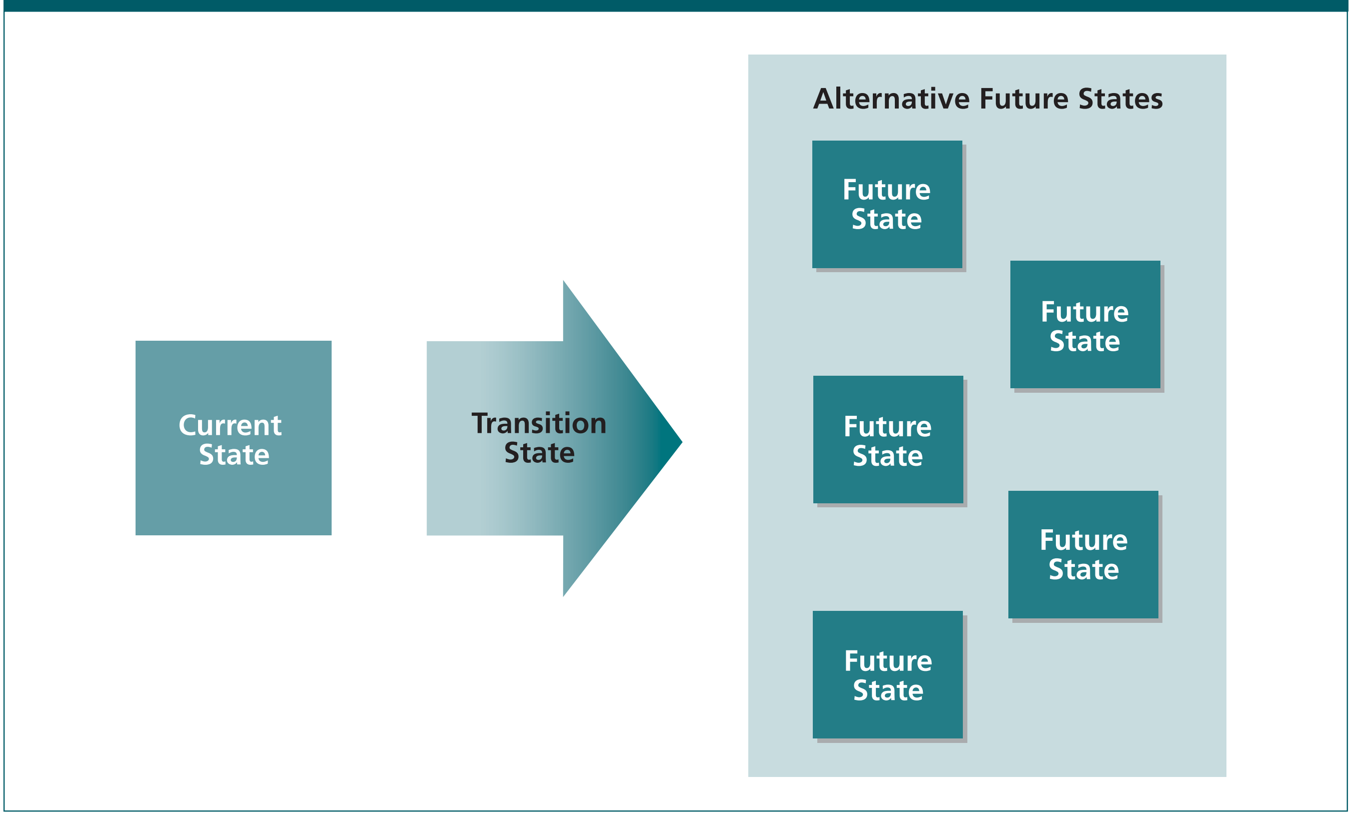
The problem for every company undergoing major change comes when it reaches the point Eli Lilly was at in 1993–when it is no longer in the current state but hasn't yet fully entered the future state. It is a condition first described in the late 1970s by Richard Beckhard of MIT (Beckhard and Harris, 1977) as the transition state. It is that transformational gray area David Kearns, the former CEO of Xerox Corp., was describing to his colleagues in the mid-1980s when he told them, "We are no longer the company we were, but we are not yet the company we need to be."

To be sure, the current state-transition state-future state model that looks so simple on paper is never that neat in practice. In reality, there are few stationary targets. For one thing, as the congruence model makes clear, major changes in any component of the organization will create changes elsewhere. Beyond that, you can't assume your competitors are sitting still while you change, or that markets and technologies are frozen in place while you catch up. In real life, the organization is dealing with a range of alternative future states that must be adapted to changing internal and external requirements. So, it's important to think of the transition state model as an artifact, a somewhat artificial but nevertheless useful concept that helps change leaders and their people focus on the necessity of planning and managing each step along the path, even when the ultimate destination may be unclear (see Figure 2).

The importance of focusing on the transition cannot be overstated. In most cases, you can get people to continue managing the current state–that just means doing things the same way. You can generally count on finding people to plan for the future state–in fact, many find that exciting and challenging. It's the transition state where so many organizations stumble and fall, simply because they didn't think it through in advance. All too often, managers labor under the mistaken notion that once they've come up with a design and strategy for change, the heavy lifting is done. Nothing could be further from the truth: implementation is always the key. As Sun Microsystems CEO Scott McNealy says: "A bad strategy, well executed, will win every time. And a good strategy, poorly executed, will fail every time."

Given enough time, CEOs can fix bad strategies. But the most brilliant strategy won't work without a well-planned and purposefully managed transition. Typically, transition states feature three characteristics that, if ignored, can destroy any change initiative. Their intensity will vary, depending upon the nature of the change and the culture of the organization. But in one form or another, all three will be present.

Figure 2: Current State, Transition State, Future State



Instability. The transition state begins the moment the first rumor of change starts making the rounds. At that point, all of the formal and informal organizational controls start to disintegrate. If you think there's a good chance you'll be in a different job next year, or the unit you lead might be merged or wiped out, then how are your bosses going to measure your performance? The result is transition paralysis, the behavior people exhibit when they are so staggered by instability that they burrow into their foxholes and keep their heads down. It's a common phenomenon; people start to think there's no guarantee of reward for doing "the right thing," and too many risks associated with doing "the wrong thing." So they play it safe and do nothing.

Uncertainty. In the absence of concrete information about the future, uncertainty runs rampant. All of a sudden people haven't a clue as to which of their assumptions about their future–or that of the company–have any validity.

Stress. The result of all this uncertainty and instability is stress, both for the leaders of change and those they're trying to lead. Looking back at KPMG-Peat Marwick's turbulent period in the mid-1990s, former CEO Jon Madonna believes much of the strenuous opposition he encountered resulted not so much from his new strategic direction as from the instability and uncertainty involved in getting there. Says Madonna: "People were thinking, 'There's got to be an easier way. Isn't there a pill I can take to get through this?'"

Initial Responses

Fortunately, there's a flip side to all of this. Just as a poorly planned and badly managed transition state can be disastrous, one that's handled well can generate enormous excitement. People see new opportunities for the organization and feel personally challenged; they see new prospects for growth and advancement, and they enjoy being part of a reinvigorated organization.

Nevertheless, the prevalence of instability, uncertainty, and stress during times of significant change necessitate the deliberate management of three sets of issues during the transition period: power, anxiety, and control.

Power

Every organization is a political system with identifiable groups, cliques, and coalitions that hold fast to their own values and beliefs. Each faction works to accumulate and exercise power in pursuit of its own vision–and not incidentally, in pursuit of power for the leaders of those groups. At any given time there is a relative distribution of power; some groups have more, others have less.

Radical changes raise the specter of major shifts in the distribution of power. The result is an upsurge in political activity. Those with significant power worry about losing it and work to tighten their control; those with less power see new openings and begin maneuvering for a bigger share of the pie.

Consequently, the early stages of major change are always characterized by intense, counterproductive political activity. It consumes enormous amounts of energy, most of which would otherwise be channeled into work. You can easily tell when you're at an organization going through this phase. You can see it in the hallways and hear it in the cafeteria. People are griping. They huddle furtively when they think no one is watching. They whisper into their phones, making lunch dates with former colleagues. Few are thinking about their work or their customers.

Political activity is most intense when the impending changes strike at core values. As Kaiser Permanente, the nation's largest provider of managed care, tried to reshape itself in the early and mid-1990s, many in the organization feared the national leaders were abandoning Kaiser's lofty ideals and social mission as a not-for-profit health-care provider. Some felt the organization's traditions and values were at stake, and political resistance was immense.

Similarly, political resistance is common when reorganizations significantly alter established patterns of control. Jon Madonna ran into that when he shifted power from KPMG's 100 local offices to corporate headquarters in New York; conversely, so did Scott McNealy when he decentralized corporate power through the creation of Sun's independent business units. "I got every reaction in the book," McNealy says. "I even had a lot of people subvert it for many years, and fight it–in fact, some of them still are fighting it."

Anxiety

Consider these two incidents that illustrate how anxiety comes into play during transitions.

The first concerns a major change initiative at a well-known oil company. After months of planning and preparation, the president met with his 30 top executives and unveiled his comprehensive blueprint for changing the company's strategy, structure, and portfolio. At the end of his presentation he asked for questions, and one of the most senior executives rose to his feet. "Sir," he said. "I want you to know there are nine questions on everybody's mind."

"Nine questions?" asked the president, somewhat taken aback.

"Yes, sir, nine questions," the executive repeated. "The first question is this: What's going to happen to me? The second question is what's going to happen to me? The third question is what's going to happen to me?" (The other six questions were why? why? why? and when? when? when?)

The second incident involved the CEO of a large health-care organization who carefully put together a team, including members from the top three levels of the company, to help plan a major change initiative. At the team's first meeting, the CEO gave a formal presentation explaining the context for change, including history, challenges, priorities, and implications. When he had finished, one of the brightest young members of the team told him his speech offered such a powerful perspective on change that every manager, and possibly all the employees, should have a chance to hear it.

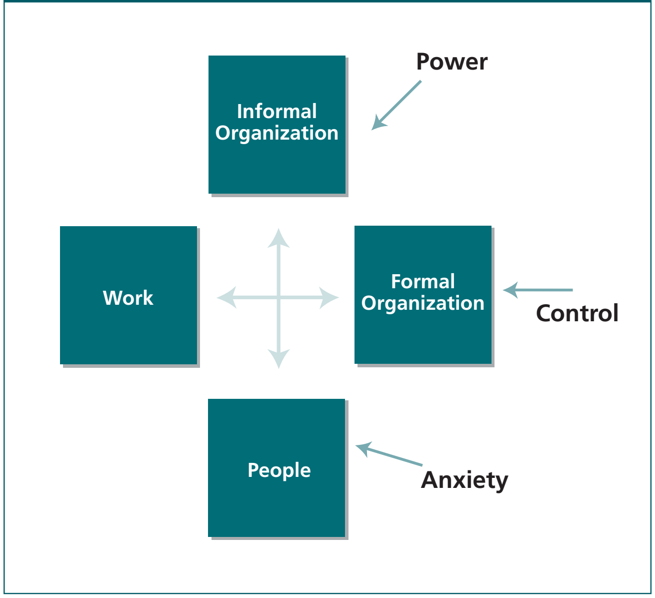
"I'm surprised to hear you say that," the CEO responded. "I gave this same speech, word for word, three months ago at a management meeting, and you were in the room."

"That may be," she answered. "But it didn't click the first time I heard it. This time it did."

Later, reflecting on the episode, the CEO came to the realization that, "I thought I could just stand up and say something once, and everyone would get it. Obviously, that's not the case." In fact, experience suggests that in major change situations, few people can hear and fully integrate a major message until they've heard it on at least three separate occasions.

What do these two episodes have in common? Anxiety and stress. The moment someone stands up, starts talking about change, and can't answer the question, "What does this mean to me?" (and odds are the speaker doesn't know) people stop hearing. After a certain point, anxiety and stress can dramatically diminish performance, starting with the ability to process

Figure 3: Power, Anxiety, Control, and the Congruence Model



information. Employees caught in the throes of change-induced anxiety just can't hear you. They can't figure out what's going to happen. They have no idea how to act or what to do.

Control

With all the talk of change, people start to detach themselves from the current state long before its formal structures have disappeared and been replaced by something new. The moment people suspect that a major change is in the offing, they start to believe all bets are off. At that point, management begins to lose control.

That's particularly disastrous where people deal directly with customers. The classic control problem–at AT&T, IBM, Xerox, and just about every enterprise that's undergone major change–is that almost any time the sales force is reorganized, the company loses customers. There are just too many non-customer related questions employees are focusing on: What's happening to the compensation plan? Will I keep my coverage area? Am I going to have to start selling products I've never heard of?

Managers soon find that pushing the usual buttons doesn't accomplish anything; rampant uncertainty has dulled both the fear of punishment and the hope of reward.

Keep in mind the connection between the problems of power, anxiety, control, and the congruence model (see Figure 3). Given major changes in either the strategy or the work processes, or both, the redistribution of power shakes the informal organization. Anxiety warps individual behavior. And the formal organization suffers from a breakdown in the normal structures, processes, and systems.

More specifically, if ignored, the problems of power, anxiety, and control can cripple the organization. They bog people down in dysfunctional office politics, divert focus from competitive demands, and seriously damage relationships with customers and suppliers. The good news is that it's possible to design a coordinated plan of attack that addresses all these issues and paves the way to successful change.

Managing the Transition: Twelve Action Steps

Based on our experience with scores of organizations, we have distilled a wide range of approaches into twelve action steps for overcoming resistance to change and managing the challenging dynamics of transition periods. These twelve steps can be subdivided according to the organizational and leadership needs they imply: the need to shape the political dynamics of change, the need to motivate change, and the need to manage the transition.

There are also two reminders that apply to every step on this list.

First, as suggested earlier, these actions aren't the exclusive responsibility of top management. They have applications for managers throughout the organization. They apply to the reorganization of a single plant or business unit as much as to the reshaping of an entire corporation.

Second, think of this as a master list. In any given situation, some actions will be more important and applicable than others. As we explain elsewhere (Nadler, 1998), one of the early steps in any complex change process should be an in-depth diagnosis of the root problems and possible solutions, including decisions about which action steps are most important and in what order they should occur.

With those caveats, let's turn to ways to address the problems created by the transition stage and its attendant power, anxiety, and control issues (see Figure 4).

The Need to Shape the Political Dynamics of Change

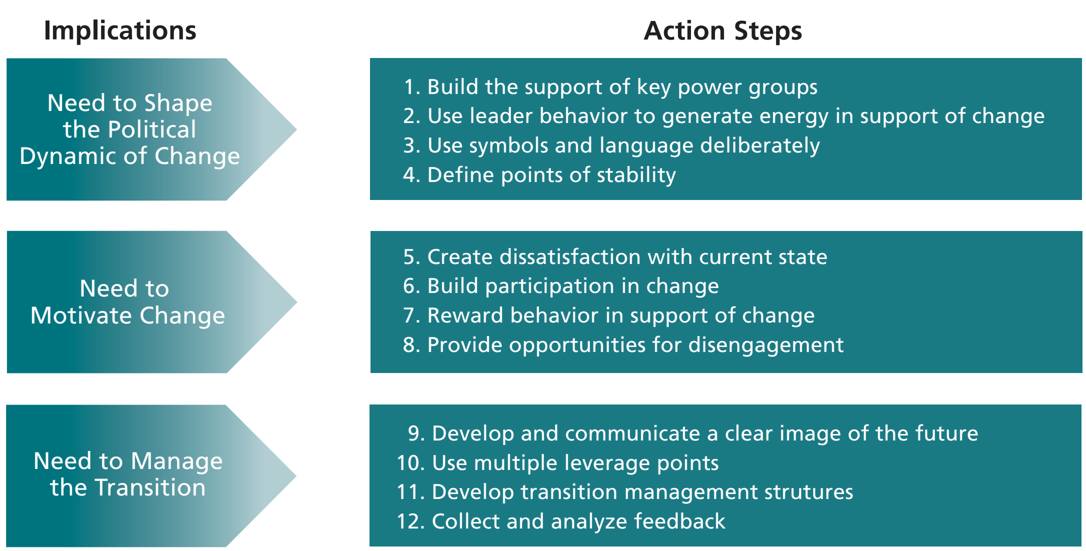
In the face of debilitating political activity, it's up to managers to seize the initiative and move aggressively to win support for change. Dr. David M. Lawrence, Kaiser Permanente's former Chairman and CEO, has likened this aspect of change to a political campaign, an all-out effort to win people's hearts and minds. At Kaiser Permanente, he said, "We made numerous errors because we failed to invest heavily enough in planning the campaign aspects of our change. We started out with the assumption that once we had the mission, values, strategies, and some tactics, that our work was done. All we would have to do is implement. We were wrong." (Hambrick, Nadler, Tushman, 1998).

Let's look at four ways to plan a campaign that effectively addresses the issues of power.

Action Step 1: Build the Support of Key Power Groups

Assuring support for change among key power groups should begin well before the change is announced. In early 1983, when Xerox executives

Figure 4: Responses to Power, Anxiety, and Control



finally agreed to initiate a massive quality-based change effort, one vice chairman urged that the decision be announced immediately, while others in the senior grouped urged a delay. In the end, the announcement was postponed for nine months, which proved enormously beneficial. During that period, key executives enlisted the aid of unions. They lobbied the heads of major business units. They identified key opinion leaders and signed them up as supporters long before the change was publicly announced.

Of course, it's impossible to win everyone over, no matter how hard you try. And the ones you do win over will join you with varying degrees of enthusiasm. Beckhard (1969) uses these four categories to describe the range of response people have toward change:

- Those who make it happen
- Those who help it happen
- Those who let it happen
- Those who get in the way

In any situation, there are only a few people whose active participation is absolutely essential. There are others who could be extremely helpful but aren't crucial. Successful managers target the essential people at the outset, and then employ a range of techniques either to engage those who can be helpful, or lessen the impact of those who could hurt the effort. In descending order of importance, these techniques are:

- Participation
- Persuasion
- Incentives
- Isolation
- "Ventilation"

Participation is far and away the most important technique; the key to success is getting crucial people involved and winning their enthusiastic support. "It's better to take more time at the beginning to make sure everybody's on board than to rush it," says Henry Schacht, who, as CEO, led highly successful change at Lucent Technologies and, before that, at Cummins Engine. "I'm a great believer that if you don't have everybody on board, you're not going to get there. You're pushing a boat through the water sideways. You're far better off to get the boat turned around, get everybody pulling the oars, and then go like hell."

It's helpful to think about participation in terms of concentric rings. The way to build participation at any level is to start with a small, trusted, cohesive group, get the people in that group totally committed to the vision and objectives of the change strategy, and then let them gradually engage successive groups of people, constantly pushing the participation out into the organization.

The technique of persuasion can sometimes be used to win the support of people whom you might not want to involve directly in the initial, sensitive stages of designing the change. These people might be won over through persuasive appeals to a shared sense of the organization's core values.

Both formal and informal incentives–an opportunity for a new assignment, opening of a new career path, perception of increased status–are often used to win support. Keep in mind, however, that the support you engender with rewards tends to be less intense than the support you get from people who feel personally involved and ideologically committed to the change.

Isolation is a technique sometimes used with people who are important to the organization but unlikely to support the change, no matter what. The idea is to keep them on board but reassign them somewhere far from the initial change activity during its fragile stage.

"Ventilation" is a euphemism used by the human resources chief at a major company. His actual statement was, "We're opening a retirement window and we think we're going to ventilate about 2,000 people." (It's hard to find a euphemism for getting rid of people that isn't distasteful.) In this context, we're referring not to massive layoffs but to the replacement of small numbers of very senior people. With very few exceptions–the start-up of Lucent Technologies after its spin-off from AT&T being the most notable in recent times–some alteration in the cast of senior characters is unavoidable if a major change in direction is to be effective.

As David Lawrence has said, "It is inevitable in most change situations that some people just are not going to make it. Perhaps it is just not in their nature to handle change well. Or, because of their background, attitudes, ideology, or style, they are not going to be a good match with the new structures, processes, or culture. There are lots of reasons why very smart, able, and well-meaning people cannot succeed in their old job in a new era."

Action Step 2: Use Leader Behavior to Generate Support

The second technique for designing the campaign for change is to employ leader behavior to create support. The visible actions of respected leaders are crucial to creating widespread support. This includes the ways in which leaders use rewards and punishment, how they employ language and symbols, and how they act in public.

"Everything counts," says Henry Schacht. "Every signal counts–little signals, big signals, intentional signals, unintentional signals." Managers have to be keenly sensitive to the possible ramifications of everything they do and say because people will try to read signals even when no signals are being sent. Inadvertent grunts, grimaces, and even symptoms of indigestion have been misread and widely misreported as opposition to change.

Conversely, during this period of intense leader-watching, simple acts can send similarly powerful messages in support of change. Consider, for example, the CEO who was hired to overhaul a traditional manufacturing firm. In the past, key company decisions had always been made in secret, quite literally behind the closed doors of executive offices that extended down a series of long, empty corridors. Two weeks after taking over, the new CEO brought in a construction crew one weekend and had them rip out all the office doors. Nothing he might have said could have sent as clear a signal and engendered as much support among the rank and file.

During the transition, more than at any other time, every leader has to "walk the talk." People are searching for cracks in the hierarchy, grasping at any indication of high-level resistance to change. They seize upon every shred of rumor and gossip, every anecdote from supposed "insiders" who claim to have well-placed sources. In this environment, managers have to be sure that every action, every utterance, is consistent with the change agenda.

Action Step 3: Use Symbols and Language Deliberately

The third technique for building support lies in the deliberate use of symbols and language. Think of mass political movements; throughout history, the most successful ones have skillfully employed symbols and language systems to build support. Consider the emotional responses evoked by national flags, patriotic songs, and value-packed slogans.

Similarly, organizations involved in change can create new symbols and language systems that encapsulate primary themes and then find creative ways to insinuate those new words and symbols into the workplace. Sometimes, successful organizations make it impossible to function in the workplace without using the new vocabulary. In time, widespread use of the new terms conveys implicit support for the change; the more people hear the supportive language all around them, the more they believe in the reality and the legitimacy of the change.

Slogans, used wisely, can also have a tremendous energizing effect. During the early days of Lucent's spin-off, there was widespread anxiety about how the company would survive once it was cut loose from AT&T. Then, at a company gathering, one executive urged people to think of their new start-up as "the opportunity of a lifetime," the chance to build something new and become a powerhouse in the marketplace. The slogan caught on, resonating at a deeply emotional level with people's hunger for an exciting and optimistic view of the future.

Symbols likewise can effectively convey a sense of widespread acceptance of a change. When Corning Inc. launched a major quality management effort in the 1980s, executives searched for a symbol that would clearly say "quality" but also incorporate some characteristic unique to their company. They came up with the Quapple, a stylized letter Q that not only stood for quality but also resembled an apple, in recognition of Corning's roots in rural Steuben County, New York. Before long, Quapples were showing up as lapel pins, factory banners, and quality control stamps on assembly lines. Over time, the Quapple worked because it meant something; it represented a clearly visible change in the way the company operated.

Action Step 4: Define Points of Stability

The fourth technique for shaping the political dynamics and building support is to define points of stability. People need to know that those in charge–some of whom might be newcomers–aren't discounting the value of everything and everyone connected with the past. By maintaining some sense of continuity, leaders can reduce concern about wholesale changes in power relationships and core values.

Maintaining important links to the past is particularly important in merger and acquisition situations. "It's like your grandparents died at the time of the merger," says former Chase Manhattan Chairman and CEO Walter Shipley, who had the experience of being both a junior manager at a small bank swallowed by a larger one and then a top executive managing mergers with other banks. He talked extensively about "the wonderful heritage of the old Chase and the old Chemical and the old Manufacturers Hanover, and that it's very important to honor and respect and revere those histories, but not to dwell on them, not to hang onto them."

The Need to Motivate Change

In the face of the widespread anxiety that accompanies major change, managers must constantly emphasize that change is necessary and that constructive behavior in support of change will ultimately result in a better organization. Here are four ways to do that.

Action Step 5: Create Dissatisfaction With the Current State

Change runs directly counter to our normal desire for stability. In recent years, business leaders such as AlliedSignal CEO Larry Bossidy have come to embrace the concept of "the burning platform"–the notion that most people are unwilling to take the leap to something new unless leaders have made them aware of the flames licking at their heels. Stuart Blinder, when Chief Financial Officer at Lever Brothers, used the metaphor to impress upon people the dire need for change, based on his observation that "imminent death will catalyze the organization."

Yet in the absence of imminent disaster, few people are willing to abandon what they have, no matter how bad it is. So an essential job of change leaders is to make people understand the necessity of letting go of the current state. This understanding must be addressed both intellectually and emotionally.

On the intellectual level, one strategy is disconfirmation, giving people information that makes it clear the current situation either isn't what it should be or isn't what they thought it was. Benchmarking is essential. Most people tend to assume their performance is acceptable until they're hit with comparable numbers from elsewhere–the cycle time for a new product, customer satisfaction percentages, total sales per employee–and realize they've been deluding themselves.

At Kaiser Permanente, says David Lawrence, "The lesson we learned was that real change cannot possibly begin until the organization as a whole has developed a readiness to move forward and a common understanding of what kinds of change are required. That readiness comes through a process of education; people have to be guided to their own conclusion that change is essential. You cannot dictate readiness from the executive offices."

Frequently, facts and figures won't get the job done; it's often necessary to drive home the need for change on an emotional level too. One common technique is the disaster scenario–presenting people with the likely result of business as usual. After losing alarming market share to Japanese competitors in the early 1980s, Xerox finally gathered its people and showed them charts depicting the fate of the U.S. television industry, the U.S. motorcycle industry, and other sectors decimated by Japanese competition. Then they displayed a chart showing similar trends for the U.S. copier industry–a depressing scenario but an effective wake-up call.

It's important, however, not to oversell the disaster scenario to the point of creating widespread panic. At Eli Lilly, Randy Tobias says he felt he had to keep giving out "a simultaneous dose of optimism and a real sense of urgency about what had to be done."

Frequently–and the more senior the people, the truer this is–it takes more than a disaster scenario to sell the need for change. Front-line employees have a front-row seat on disaster. Senior executives rarely smell the smoke from the trenches. That was certainly true at Xerox in the 1980s. Despite steadily declining performance, life went on as usual at corporate headquarters. Searching for a way to expose the insulated managers to the grim reality most employees were experiencing each day, top executives turned to the customer service desk. For one day each month, each executive was responsible for taking the calls to the "complaint desk." That didn't mean just listening to the complaint; it meant solving the problem.

That grabbed everyone's attention in a very personal way. At debriefing sessions, chastened managers made comments such as, "I don't understand why these people do business with us. Some of them are just determined to deal with us despite all the things we do to them."

Action Step 6: Build Participation in Planning and Implementing Change

The more you can engage people in a process, the more successful it will be. There are three reasons why participation breeds success.

First, participation fuels a sense of ownership. Rather than perceiving change as something that someone else is doing to them, people see it as something they have a hand in creating. If someone is imposing the change upon them, they derive a sense of power from derailing it; if they feel ownership, they get a sense of accomplishment from making it work.

Second, participation builds understanding. People working through the process are much more likely to digest important messages. And few activities boost understanding more than working on a script that will be used to explain the change to others who weren't involved.

Third, participants may have some good ideas. Unlikely as it might seem to the original crafters of the change initiative, others in the organization have different perspectives and insightful ideas that can actually improve upon the original plan.

Of course, someone has to make decisions about who should participate and when. It's literally impossible for everyone to participate, and it's important to figure out which people have the information and capability to make a significant contribution. Moreover, certain matters can't just be turned over to large groups.

The issue underscores the difference between using participation to build consensus and support, versus relying on consensus for decision-making. "Consensus building is very important," says Randy Tobias. "Consensus decision-making is awful."

Action Step 7: Reward Behavior in Support of Change

The third technique for overcoming anxiety is to reward behavior that supports the change. Research and common sense both suggest that people are motivated to do those things they believe will lead to desired outcomes. These can be internal outcomes, such as comfort and security. They can also be external outcomes in the form of pay, promotion, and recognition.

Motivation presents unusual challenges during transition periods. People often develop anxiety or feel uncertain about their actions because they are told to start doing their jobs differently, yet the reward system lags behind and remains pegged to old standards and objectives.

We referred earlier to Corning Inc.'s quality initiative in the early 1980s. Everybody was talking quality, everybody was learning quality, everyone agreed that quality guided everything that happened there–except during the last few days of the month.

Why? Because at the end of the month everybody was focused on meeting targets. And even though the talk was quality, the targets were volume–sheer volume of Corning Ware leaving the plant. So the rule of thumb at the end of the month was "ship the Ware"–defects and all. It was a clear example of a transition state in which the new objectives were being undermined by the old reward systems.

Action Step 8: Provide Opportunities for Disengagement

Finally, in motivating change it's essential to provide the time and opportunity for people to disengage from the current state. Early in the process, it's imperative to pry people loose from their familiar organizational surroundings.

But it's equally important to give people the opportunity to mourn and let go–a situation not unlike the loss of a loved one.

In the 1980s, Mountain Bell underwent a radical restructuring as the region's state phone companies were combined and reorganized into three operating units based on market segments–business, residential, and network–rather than on geography. The changes were broad, profound and, for many of those involved, highly emotional.

As the process concluded, Mountain Bell President Bob Timothy hosted a luncheon at the corporate headquarters in downtown Denver. Seated in the dining room were Mountain Bell's board of directors, the company's senior executives, and the directors of the state companies. Timothy welcomed everyone, and then a few people were asked to make some brief remarks.

One by one, executives began recounting stories. One recalled the hazards of running a toll line over the Continental Divide during a blizzard back in the 1950s. Similar stories followed. And then Timothy began handing out mementos–framed collages made up of fragments of stock certificates from the old companies like the Rocky Mountain Telephone and Telegraph Company that had eventually become Mountain Bell. Suddenly, it became clear what was happening: Timothy was holding a funeral for the old Mountain Bell. People were saying a fond good-bye to a company they'd been part of for years. They had the chance to say good-bye without guilt, without remorse, without unsurfaced grief. From that point forward, there was little talk of the good old days.

The Need to Manage the Transition

As formal and informal structures buckle under the pressure of anxiety and uncertainty, the organization has to focus on maintaining effective management throughout the transition state. Again, there are four basic things for leaders to keep in mind during this turbulent period.

Action Step 9: Develop and Communicate a Clear Image of the Future State

It's up to the leaders to develop and communicate a clear image of the future state. It's almost impossible to manage the transition if people have no sense of where changes are headed. Yet painting a clear picture for them can be terribly difficult; the truth is that many organizations head into the transition state with nothing more than some basic goals and cherished values to guide them on their journey. That gives leaders the flexibility they need to be truly creative and open-minded in selecting a future path; but for the followers it can be frightening. So it's important to describe the future state as fully as you can.

During this stage, communications continue to be absolutely critical. Successful CEOs and their top managers spend incredible amounts of time meeting with people one-on-one, in small sessions, and in massive group meetings with literally thousands of people. They regularly produce videotaped messages that are played at staff meetings at locations across the country and around the world.

Increasing numbers of leaders–for example, Scott McNealy at Sun Microsystems–encourage employees to communicate directly with them; McNealy says he gets more than 200 internal e-mails each day. He posts information on company websites, and employees can listen on the company intranet at their convenience to "The McNealy Reports," his twice-monthly in-house radio show in which he personally interviews researchers, customers, and his own managers about new programs or developments of interest. Obviously, these and other communications techniques aren't limited to change situations–but every one of them should be used in a coordinated effort to describe where the organization is headed.

Action Step 10: Use Multiple Leverage Points

Use multiple leverage points to achieve change. In other words, remember the congruence model of the organization and the overall concept of integrated change. In terms of the congruence model, every component of the organization should be involved, and should be seen as an opportunity and a leverage point for influencing and advancing change. Too often, managers address only a single component–strategy or structure, for instance, or address only one of a pair of concerns. They deal either with the hardware–the work and formal structures–or with the software–the people and informal arrangements.

Focusing on hardware to the exclusion of software typically produces change–but change plagued by enormous resistance and poor performance because people lack the skills to handle new jobs and the cultural framework for operating in new ways. At organizations that focus exclusively on software, people go off for a week to iron out their social problems, but the work, the structure, and the rewards systems haven't changed. So a week or two later, everything is back to normal.

Action Step 11: Develop Transition Management Structures

Be prepared to employ transition management structures. What frequently happens is that top management is fully engaged in managing the current state and planning the future state. So who is figuring out how to get from here to there? Too often, the answer is nobody. Successful organizations create transition management programs that include most or all of these four elements:

- *A transition plan.* Surprising numbers of organizations begin stumbling toward the future state without a step-by-step transition plan. Before anxiety and uncertainty begin paralyzing the organization, you have to be ready with concrete plans explaining who's in charge, who's involved, who's doing what, and by when.

- *A transition manager.* Unless one person is handed the responsibility for managing the transition, it just won't succeed. The transition manager has to be a senior manager, preferably one with close ties to the CEO, and someone who has demonstrated the ability to manage stress and ambiguity.

- *Transition resources.* Effective transitions are expensive. They require time, training, often the use of outside consultants, the diversion of key people from important day-to-day responsibilities, offsite meetings–the list goes on. The long-term costs of mishandling the transition easily dwarf the price tag for doing it right the first time.

- *Transition structures.* No transition manager can do the job without help. And it's unrealistic to expect an entrenched bureaucracy, which has spent years protecting the status quo, to go out of its way to help someone turn its world upside-down. So the transition manager needs the support of a designated transition team. It's also essential to create mechanisms outside the formal structure–special task forces, design teams, and experimental units, for example–to focus on specific objectives during the transition period.

Action Step 12: Collect and Analyze Feedback

One of the normal processes that frequently runs aground amid the confusion of the transition state is the routine collection of data and feedback. Managers should develop an array of sensing devices that constantly take the temperature of the organization and help them figure out what's working and what isn't–both in the day-to-day operations and the change activities.

Some of these feedback techniques can be formal and fairly structured: surveys, focus groups, formal interviews. Others can be less formal, more personal. After becoming CEO of The New York Times Company in 1997, Russ Lewis embarked on a rugged schedule of visits to the company's newspapers and TV stations across the country. At each stop, he would combine formal group meetings with informal visits with individuals, stopping in alone and unannounced to chat with people and find out what they were thinking about the newly announced mission, vision, and values. Apart from gaining valuable feedback, Lewis also sent a strong symbolic message by traveling without the large retinue that had always accompanied his predecessor on trips to "the provinces."

Summary

One final reminder: the twelve action steps we've just described are not intended as a recipe for transition management. They're a template to be overlaid on each organization and adjusted to its unique set of circumstances. If implemented in conjunction with a thorough diagnosis of the organization, its current circumstances, and the nature of the change to be achieved, they can provide powerful tools for managing the crucial transition period.

What we've presented here are some tactical approaches to managing the social dynamics that typically stand in the way of profound organizational change. Managing the transition and the related issues involving power, anxiety, and control is vital to success, but it represents just one piece of a larger mosaic.

Successful integrated change demands that leaders understand the implications of their actions within a larger context, as implied by the congruence model. They need to remember that changes anywhere in the organization–the strategy, structure, work, people, or culture–will have implications everywhere. They need to keep in mind that, when the dust settles, all of the components must be in relative alignment. It does no good to win people's hearts and minds, to convince them to work in new ways, if at the end of the day they're reporting to the wrong people, using their old skills, and trying to meet obsolete performance goals. Everything has to fit.

That's no easy task when organizational changes are taking place in the larger context of an unstable competitive environment. External forces remain at work even as internal change proceeds. That's why change, in real life, tends to be an uneasy trip down an uncharted path to an uncertain future.

But it can be done. In part, successful leadership demands a thorough appreciation of the varied and distinctly different types of organizational change, each with its own implications for senior leaders. (For a full discussion, see the Mercer Delta *Insight Reshaping the Enterprise: Understanding the Dimensions of Organizational Change*.) It requires a vision of where the organization needs to go, and a deliberate process for getting there. With proper planning, widespread participation, and active, committed leadership, organizations can, indeed, successfully manage the complex dynamics of large-scale change.

About Mercer Delta

Mercer Delta Consulting, LLC works with CEOs and senior executives on the design and leadership of large-scale change. In our work with the leaders of major enterprises around the world, we support successful change through our expertise in:

Organizational Architecture
Executive Leadership
Executive Team Development
Leadership Assessment and Development
Executive Succession
Change Management
Strategic Communication
Organizational Research
Corporate Governance
Collaborative Strategy Development
Merger and Acquisition Integration
Culture Change

To obtain further information about Mercer Delta or to request additional publications, please contact us at the telephone numbers below or at change@mercerdelta.com.

Visit our website at **www.mercerdelta.com**

Boston	**617.424.3930**
Chicago	**312.902.7576**
Frankfurt	**49.69.96130.280**
Hamburg	**49.40.37692.500**
London	**44.20.7343.9500**
Munich	**49.89.93949.0**
New York	**212.345.0500**
Paris	**33.1.70.75.01.20**
Philadelphia	**215.982.4500**
Portland	**503.223.5678**
San Francisco	**415.273.1200**
Toronto	**416.868.2800**