Leading the Accelerating Organization

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A year ago, in the third quarter 1995 issue of Prism, we wrote about the need for organizations to learn to change and change to learn if they are to survive and thrive in an increasingly unpredictable future. We explored the challenge of integrating the „hard" and the „soft" views of organization in order to engage people's hearts and minds in a coordinated quest for continually improving performance. And we set forth six key facets of organization that make continual change and improvement possible: strategic flexibility, change-readiness, hidden leverage, operational alignment, organizational involvement, and learning acceleration. Together, these six facets comprise a comprehensive model of change. (To remember the model easily, think of the acronym SCHOOL.)

Since that article appeared, we have completed a book, *The Accelerating Organization,*[1] in which we discuss these six facets of organization – and their coordinated implementation – in some detail. In this article, we focus on some practical considerations for leaders of organizations committed to learning to change and changing to learn.

Where to Begin?

Q: „How do I get to Blarney?"

A: „Mmm, if it's going to Blarney you're after, I wouldn't start from here."

 – Old Irish joke

We're often asked: „Where do I begin?" The pragmatic answer is: „You start from wherever you are."

In any change process, development of a vision and strategy come first. If you have a clear strategy in place, the problem becomes how to implement it: how to find the most effective leverage points for putting your strategy into effect. If you already know what those leverage points are, you should be concentrating on achieving operational alignment. You start wherever you are.

In the corporate world, change is hardly ever a green-field operation. Almost invariably, the organization that needs to change is already operating and must continue operating even while it's being improved. Hence the dismay of managers facing a cash crisis, when consultants tell them they must begin with a new corporate vision to revive the firm. In our view, that advice can be dangerously wrong.

The better approach is to focus first on those aspects of change that will bring the greatest short-term benefit *without damaging the prospects for long-term improvement.* In other words, you need to understand the changes – and the organization itself – systemically.

Avoiding Big Bangs

To achieve large-scale transformational change, do you have to work on the whole organization all at once? Emphatically, the answer is „No!"

The wholesale adoption of new management ideas, packaged into universal panaceas and applied in predefined, precise steps, has been a principal reason for the failure of many total quality management (TQM) and reengineering programs. It's likely to be a reason for the failure of prepackaged learning organization programs as well.

Allow us to inject some pragmatism into the frenzy of transformational change: If you view change as six processes that in due course need to be managed, you can select a menu of the right-sized chunks of change to proceed through – rather than risk choking to death by trying to swallow them whole. Although all six change processes need to be improved – and must meanwhile be aligned with each other – they need not be tackled simultaneously. Instead, build up to it.

To steer a boat back onto course, one must pull harder on some oars than on others. Then, when the boat is on course, one must pull on all oars synchronously and steadily. So it is with the six processes in our model of the Accelerating Organization.

So don't attempt to change everything at once at the beginning. And equally important, let your organization itself take responsibility for its change processes and the development of its own abilities. To do otherwise can be, at best, a short-term solution, at worst an invasion that leaves an organization weak and dependent, unable to keep pace with the never-ending demands that will be thrown at it.

Letting Go of Some Control

To maximize your organization's ability to advance as fast as possible on as many fronts as practical, you need to use all the energy of those people who want to make the organization more effective. It is thus essential that you not dampen their enthusiasm by attempting to impose a centralized, mechanical control over the process. One solution is to cultivate a culture that endorses experimentation. PepsiCo, for example, encourages such a culture. The Vice Chairman, Roger Enrico, says employees need the ability to break the rules: „to be able to think outside the box, not to be mesmerized by the limitations of the way things are done."

„Methuselah" firms are companies that have survived hundreds of years by, among other things, allowing the divisions at their fringes to foray into new territory and try new strategies and organizational ideas, while the center maintained a stable core until the experiments proved successful and could be imported to the rest. That strategy provides, in effect, the kind of safe-failing spaces that individuals and teams need for their local experiments. Be sure these spaces for initial organizational experiments have three characteristics:

• They must be sufficiently separated from the rest of the organization to change whatever they need to for their experiment – without the rest of the organization having to change itself in any significant way.

• They must be sufficiently similar to the rest of the organization for the experiment to have learning value for everyone.

• The leaders in the experimental site must have the desire and will to let people experiment and change. They must be change-ready. Early experimenters with new ideas in an organization often have an intrinsic need to be different and out in front. These „self-starters" don't require any extrinsic motivation. If there is a site in the corporation that needs change and could be a valuable learning experience for the rest of the organization, but doesn't have leadership with this self-starting ability, then new leadership of the right type will almost certainly be needed to make the site a valuable organizational learning opportunity.

Leaders of change need to look for these three conditions and encourage experimentation with new strategies and ideas at such sites. Sometimes when a whole organization needs change and a sufficiently disconnected yet sufficiently similar site is not available, it may even need to buy a suitable company that offers the opportunity for the organization to observe closely and to experience an idea different from its own. After the acquisition, the CEO's task is to prevent the rest of the organization from smothering the differences in the name of standardization. The organization has to be made to see the acquisition as an opportunity to experiment with new ideas – and so to accelerate learning.

Three Precepts for Leaders

Three precepts must guide the leaders of modern organizations:

• Create a culture of high involvement within your organization.

• Guard the core values of your organization.

• Focus above all else on people, not numbers or things.

Create a culture of high involvement. Leaders recognize that high involvement comes from having a say in the way the business is run, very much more than through ownership of stock in the firm. So true leaders invite the involvement of everyone in improving the firm. According to Gordon Forward, head of Chaparral Steel, whose workers need only 1.6 hours of labor to produce a ton of steel, compared with 2.4 hours in mini-mills and 4.4 hours at integrated plants, „Real ownership is more than a piece of the action. It's a say in the way things are done."

Successful multinational firms such as Nestlé and Asea Brown Boveri have developed networking mechanisms by which employees from different parts of the organization are constantly thrown together. This enables cross-fertilizing of knowledge while reinforcing values and trust among people in the firm. These meetings of people from different parts of the world cost money and time, but these firms don't begrudge it. Rather, they consider it an essential part of their management process.

As Wal-Mart grew into an $80 billion retailing giant in less than 50 years, one of the many retailers it overtook was Kmart. The two firms dated from the same period, looked alike, sold the same products, and sought each other's customers. Now Kmart is in some difficulty, while Wal-Mart has had the second-highest-performing stock in the United States (behind Southwest Airlines) from 1962 to 1992, with an appreciation of 19,807 percent.

„In the end, attitude may have made a bigger difference than strategy," wrote Christina Duff and Bob Onega in *The Wall Street Journal* (March 24, 1995). „Mr. Walton and Mr. Glass [Mr. Walton's successor] asked their employees what wasn't working and chided them for failing to deliver any bad news. Even publicly, he and Mr. Glass were likelier to discuss Wal-Mart's weaknesses than its strengths. By contrast, Mr. Antonini [CEO of

Kmart] didn't think others could tell him much about the business. He bristled at criticism and was known as a Teflon Boss because suggestions for change slid right off."

Guard the core values. Providing some security is essential in organizations that are changing and adapting. Almost everyone, you hope, is acting like a trapeze artist, letting go from one swing and trusting someone on the other swing to catch them. Often in networked organizations, they can't even see the other person. So trust is vital – but so is some form of safety net, and core values fill that role.

Networked organizations will be built fundamentally on the knowledge of the values by which people will act under all circumstances. Top managers must ensure cohesion but cannot control from the center, so they must nurture and enforce core values. And those values are strongest when they allow no exception.

So, though „values" sounds soft, in practice it makes for tough talk. Often it means trading something tangible, measurable, and financial for something nebulous – as Johnson & Johnson quickly did in the Tylenol crisis. These are the calls that leaders have to make, and often they must be truly courageous to make them.

Focus on people. Leadership has to be about people. You can manage machines, money, even complex work processes without having to manage or lead another person. You can cope with change in the machine or work process, or set a direction for that change, without having to lead anyone else. But leadership, at its heart, is a relationship with other people.

Toyota, the benchmark for the automobile industry in terms of quality and productivity, has achieved pre-eminence by focusing on the process of learning and improvement. Indeed, Toyota recently created a production line in an old factory in Japan that achieved even higher levels of quality – 12 percent fewer defects and 20 percent higher productivity – than the company's previous best line. How did they do it?

They reduced the level of automation by two-thirds, putting more people back on the line. Toyota had learned that the machines and robots couldn't themselves learn and make further improvements. Only people could do that, provided they were given the right conditions and tools for learning. Toyota is confirming that rapid organizational learning is the ultimate competitive advantage – and that people are the critical core to that learning.

Consider what cadets at West Point are taught about leadership. Col. Larry R. Donnithorne (Ret.), who wrote *The West Point Way of Leadership* (Currency Doubleday, 1993), made his first and most important lesson this: the job of the leader is to be absolutely trustworthy and to put the needs of others first, most particularly ahead of personal considerations. Charismatic leadership is, in his book, an oxymoron, ego-driven and self-inflated, putting the self ahead of the organization's values.

West Point's second lesson about leadership is that it is not about giving orders and knowing that they will be followed. Rather, it's about honoring feelings – most particularly the feelings of subordinates. It's about the „soft stuff": values and morals.

So organizational involvement requires more than just an understanding of network architectures and teams. It needs more than just alignment of all the policies, procedures, information systems, and training courses. It demands trust. And that trust must be nurtured by leadership throughout the organization – leadership focused on people. That will be an exhilarating challenge for many, a disturbing one for others.

A large number of top managers are not very good people-persons. Usually they are excellent at delivering performance, which is how they climbed to the top. And when such managers retire, they are often replaced by others who focus only on the bottom line and who manage rather than lead. That approach, however, is no longer sustainable.

Leaders as Learners

Effective leaders must learn as their organizations learn. They can't stand apart and impart their wisdom and thereby hope to create a learning organization. Change is a risk for everyone, including an organization's leaders. Most top executives are loath to replace what has worked with something not yet tried or proven, even if there are good arguments for it. Just like everyone else, they need to be satisfied with answers to each of the five change-readiness criteria:

• Change is necessary.

• The proposed change is appropriate.

• They have been acknowledged as individuals.

• They have the skills to achieve the goals.

• The „system" supports the required behavior.

Another requirement is attitude. A leader's desire to help create an accelerating organization needs to run far deeper than just a desire to sustain high performance. When we talk to leaders with a passion for creating accelerated learning, we sense a common view: that what unlocks the potential of an organization is its people.

At Tata, the Indian truck maker, former chairman Sumant Moolgaokar was very people-oriented, with great respect for the capacity of everyone in the organization to learn and master their disciplines. That came across in every encounter he had with people anywhere in his 40,000-person organization; he was a master of the art of Managing by Walking Around.

He would chat with operators of machines on the factory floor, with mechanics in the field, with gardeners on the company's grounds. He expressed an interest in their lives and families – and he was always particularly curious about what people were learning about the work they were doing. He wanted to know what was new, what was better. He made people feel that their work was worthy, and that he was interested in their development and growth.

Yet Moolgaokar and his managers and advisers had been taught to create boundaries and tight contracts and to provide incentives linked to those contracts. Tata was doing well – an endorsement for that approach. But Moolgaokar was uneasy with the contradiction: Giving individuals the freedom to learn and explore, as he did naturally in every one-on-one conversation, ran counter to the mechanistic way of managing them that underlay the management systems, which made him appear hard and impersonal. He began searching for management techniques consonant with his personal values.

The solution came when a general manager began to explore new ways of managing people – forming cross-functional teams, abolishing individual incentives, and encouraging teams to set their own goals in line with the organization's objectives. Moolgaokar provided him protective cover from the corporate staff, which felt threatened by the innovations; the chairman saw the emergence of a learning space for the organization, and for himself, too.

Within a couple of years, the part of the company experimenting with teamwork turned in dramatically better results than did other parts of the already successful organization. So other managers began to look for the lessons, in order to begin a process of change themselves. Moolgaokar reinforced this with his acknowledgment of what he had learned from the experiment about managing a large organization of people:

„People will believe in worthwhile goals. Times without number have I seen people, fired by some such ideal, going far beyond the call of duty to make things happen. If what the organization stands for can evoke this spark in its people, it is on the way to achieving industrial progress. When people take pride in their skill or craft and strive to perfect it, they give scope to their 'creative' impulses, where one person's gain is not another's loss. It has long been established that people enjoy exercising their innate and trained abilities and that this enjoyment increases as the abilities become more complex. We can add nothing to this principle, but we can certainly give it shape and make it come to life in the industrial setting."

 – *Sumant Moolgaokar, former chairman of the Tata Engineering and Locomotive Company, Ltd.*

Managing for organizational involvement is explicitly rooted in people and in humanity. It is also the way of managing that is of most immediate importance to the leaders of tomorrow.

[1]*Arun N. Maim and Peter B. Scott-Morgan,* The Accelerating Organization: Embracing the Human Face of Change*, McGraw-Hill, New York, 1997 [available in September 1996].*

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