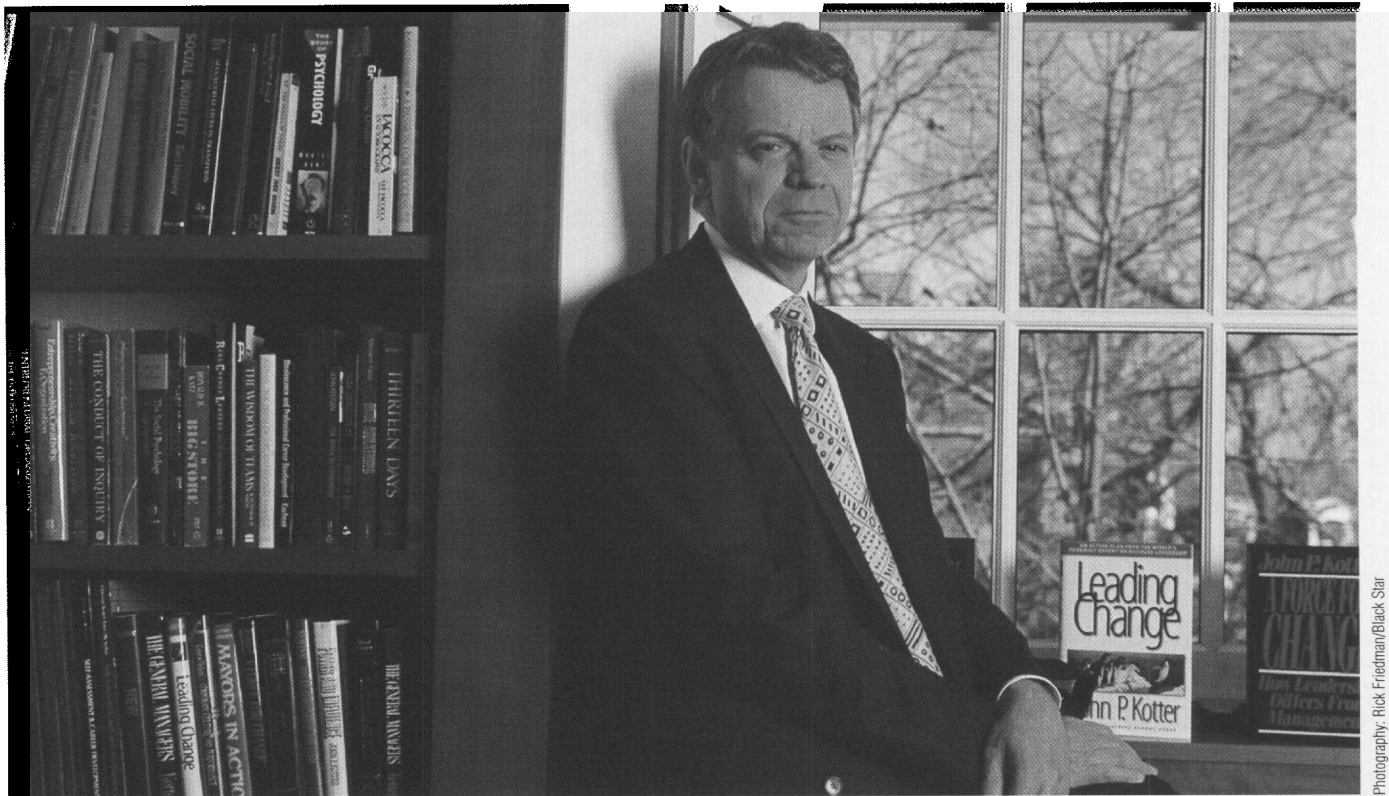




Photography: Rick Friedman/Black Star

S&L: For years we have talked about managing change, now it's leading change. Why the shift?

J.K.: Management is basically a set of processes for keeping a given system functioning well or keeping some activity under control—processes like operational planning and budgeting, organizing, staffing, controlling, and problem solving. Leadership, on the other hand, creates organizations or alters them in some fundamental way by challenging the status quo, creating a vision, communicating that vision widely, getting people to believe in it, and then empowering them to act.

In a slow-moving world, when the changes you need are incremental, the key issue is to make sure that the one-degree adjustments to the left or the right are not disruptive to the entire system.

Organizations successfully change in that kind of environment in a very calculated, controlled way that is

"When it comes to transformation of any significance inside an organization, the process demands that you motivate many people to play a leadership role in their own domain."

mostly a management process. But in a faster moving world, people are forced to take larger leaps—implementing whole new strategies, organization-wide reengineering projects, or major acquisitions. In this environment, successful change demands a process that is 70 to 80 percent leadership and 20 to 30 percent management. As the world moves faster and as firms are being forced to make bigger leaps, it is only natural that we should begin to speak about "leading change."

S&L: When did this shift in our thinking occur?

J.K.: The shift has been happening over a few decades. If I had to pick a single date that would seem to separate the old era from the new, it would be somewhere in '73 or '74—around the time of the first oil shock.

Today, however, we have reached a point where it's not possible in most industries to succeed by using a "managing change" process. This will be even more true in the next decade. The world is not going to slide back into a comfortable, oligopolistic, regional economic mode similar

EDITOR'S NOTE: THIS ARTICLE IS BASED ON A CONVERSATION BETWEEN PROFESSOR JOHN P. KOTTER AND *STRATEGY & LEADERSHIP*'S CONTRIBUTING EDITOR BILL FINNIE AND EDITOR MARILYN NORRIS. JOHN KOTTER IS THE KONOSUKE MATSUSHITA PROFESSOR OF LEADERSHIP AT THE HARVARD BUSINESS SCHOOL. HE IS A FREQUENT SPEAKER AT TOP MANAGEMENT MEETINGS AROUND THE WORLD AND IS THE AUTHOR OF SEVEN BEST-SELLING BOOKS, THE LATEST OF WHICH IS *LEADING CHANGE* (HARVARD BUSINESS SCHOOL PRESS, 1996).

leading change:

a conversation with John P. Kotter

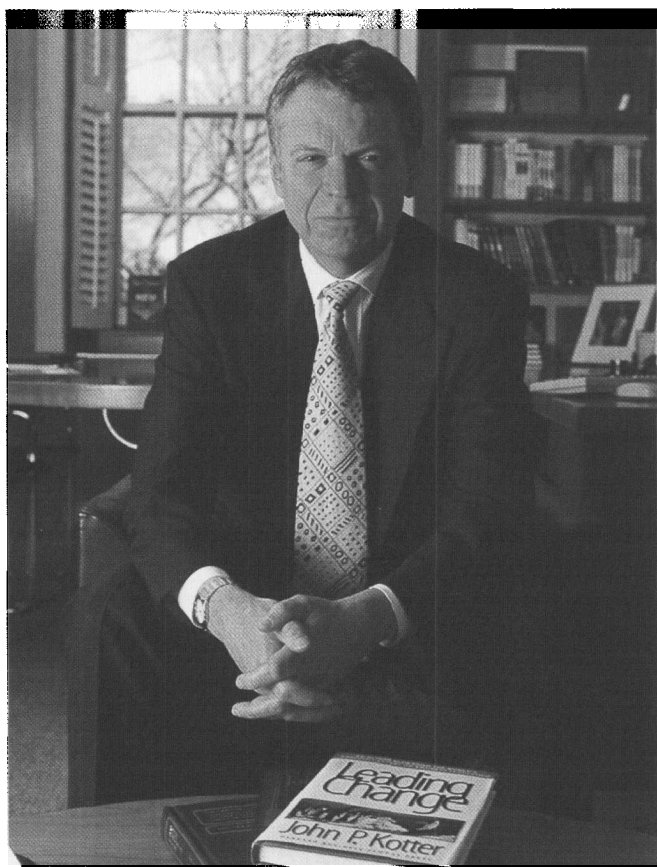
to the mid-20th century. If anything, with the globalization of the economy and the accompanying technological shifts, the business environment is going to speed up even more. If that is true, the "change problem" will get bigger, and those who try to handle it in the old-fashioned, managing-change way are going to be left behind in the dust.

S&L: In your new book, *Leading Change*, you describe eight steps that must be part of a successful change initiative. (See sidebar on page 21.) Are any of these elements more critical than others?

J.K.: They are all essential. I find it interesting that there are eight steps, not just two or three. Implementing change today is a very complicated process. The first three or four steps don't even make any big changes, they're more involved with setting the stage, loosening up the system, establishing the platform from which something new can be created. It is very tempting to race quickly through those steps in order to get on with the "real work" of change, but hasty moves almost inevitably get you in trouble in the long term, because you haven't built the base you will need to produce transformation of any significance.

There is also a definite sequence to the process. Not a sequence in the sense that you start and finish step one, then you start and finish step two, because you always end up in multiple stages at the same time. But if you leap ahead, or start anywhere except with step number one, the process never works well. For example, step number eight is making sure new approaches are firmly rooted in the organization's culture. We went through a period in the 1980s when it was popular to begin projects with a "cultural change effort." Because culture gets in the way so easily, the belief was that if you changed the culture first, the other changes would be easier. There is no evidence now that this works. As a matter of fact, most of those transformational processes that began with a "cultural change effort" fell flat.

Cultures aren't altered because you focus on them and twist them into a new shape. Culture is almost a residue. Before you can get change into the bloodstream of an organization, you must transform behavior patterns and help people understand how the new behaviors relate to performance improvements—which is what happens in the first seven steps. If you do that well, over



time changes will seep into the organization's unconscious and into group norms.

Sometimes managers get the sequence right, but they only complete about half the work in the early steps. In these cases, almost inevitably the platform for change collapses sooner or later. It takes a lot of fortitude, commitment, and energy to work through the entire process and to complete each of the stages. But if you do it right, the payoff can be extraordinary.

S&L: We usually think of vision and strategy as two separate activities. Why did you combine them in step three?

J.K.: You could separate the two. I put them together because they are interdependent.

One of the mistakes I have seen people make over the last decade is to start working on the strategies without a sense of vision. The assumption is that if you just get enough data about customers and competition and apply it in your analytic formulas, the ideal strategy will emerge. This is a bad assumption. Without some sense of vision to point you in a certain direction, the data and analysis themselves will never result in an optimum approach. You may come up with alternative strategies, but you won't have any real basis for making choices.

"The more the culture is externally oriented, is non-bureaucratic, and encourages leadership at all levels, the easier it will be to succeed with the eight-step process [for creating change]."

Without vision, strategic analysis can go only so far, and then it becomes stymied or the choices become arbitrary. Likewise, vision alone doesn't do it. A vision without some strategic sense of how you are going to make it happen translates too easily into hope without any practical reality. So the two factors—vision and strategy—are very closely interdependent.

S&L: In your research on successful and unsuccessful change efforts, you have identified some of the pitfalls that organizations often succumb to. What advice would you give today's leaders that might help them avoid these problems?

J.K.: Most fundamentally, a leader should examine the way his or her organization tends to go about making change. If it's basically a managing-change process, the organization's efforts are ultimately going to be disappointing. The challenge then is to figure out how to adopt a leading-change process, i.e., the eight steps.

Within the framework of a leadership process, there are potholes associated with each of the eight steps. Probably the most common error is with step number one: Establishing a sense of urgency. Far too often, people move through this stage too quickly, even though the complacency level in the organization is still too high and the urgency level is too low. This happens all the time for any number of reasons, and it always causes trouble. I don't mean complacency among three or four senior executives, but complacency among the entire management team and employee base.

In most organizations today, the sense of urgency is much too low. Ironically, this can even happen in an organization where anxiety and anger are high. It is amazing how people can maintain a relatively high degree of complacency while they are either furious about the way things are going or they're scared to death. They think the problems are "out there," not within the organization or themselves. Angry or scared employees aren't going to try to figure out how to make major improvements.

S&L: Clearly, major change requires leadership, but is there a role for management today?

J.K.: Management—running the current system or keeping activities under control—is essential. One of the ways some companies have gained a competitive

advantage recently is by improving the quality of their management process. They have become more reliable than their competitors in producing products/services on time, on budget, and on quality, which is good for them and good for their customers. Typically, they create this superior management by (1) delegating managerial responsibilities to lower levels in the organization, and (2) encouraging people to reexamine how best to accomplish those responsibilities, often using new information technologies. When this is done well, it frees senior managers to focus on leadership, which is what they ought to be doing now.

Twenty or thirty years ago, leadership and management tended to be used as synonyms. If there was any differentiation, it was that the further up you went in the hierarchy, the greater was the tendency to use the word "leadership," regardless of what the "leaders" actually did. About 15 years ago, some people began differentiating between the two concepts. Initially, we tended to put leadership and management at opposite ends of a continuum—at one extreme, the organization is led; at the other extreme, the organization is managed; in between, a little bit of each. But it was a trade-off: leadership, management, or less of each. In the last decade we have found that well-performing firms have a high degree of both. That is, they don't treat management and leadership as a trade-off, but as two separate dimensions, both of which are very important.

You often see this starting at the top. One of the players serves as 80 percent leader and 20 percent manager, while another of the key players functions in the reverse—70 percent manager, 30 percent leader. The net result is that you have a lot of both, which is what you need to excel nowadays. Organizations have to handle daily commitments in a high-quality way, and they have to constantly launch themselves into the future, which involves increasing amounts of change. So the firm must be well-managed and well-led. The cultures of high-performance organizations tend to have both leadership and management.

S&L: Are there particular leadership styles that either hinder or support implementing successful change in an organization?

J.K.: The important thing is that the leadership style has to fit the audience. Since audiences can differ across industries and, more importantly, across geographic areas, there is no one optimum style—it will vary depending on the employees. That's not to say there aren't bad styles. For example, increasingly, an approach that is condescending does not work well anywhere—at least in the developed world. But in general, the nuances are important. In a sense, style is just taking the basic leadership process or the basic management process and bringing it alive in the details. Style must fit the context, and people are the most important part of the context.

JOHN KOTTER'S ACTION PLAN FOR CHANGE

1. Establish a Sense of Urgency

Examine the market and competitive realities. Identify and discuss crises, potential crises, or major opportunities. Eliminate obvious examples of corporate excess (i.e., company planes, catered lunches). Change won't occur where there is complacency.

2. Create the Guiding Coalition

Pull together a group with enough power to lead the change, and urge them to work together as a team. No one person has the credibility, expertise, or skills to provide the necessary leadership alone.

3. Develop a Vision and Strategy

Provide a vision that gives the change effort direction and motivates people. Set stretch goals achievable through great effort. Give clearly focused goals, yet be vague enough to allow for individual initiative and flexibility. Develop strategies for achieving that vision.

4. Communicate the Change Vision

Use every vehicle possible to get the message out—big or small meetings, memos, company newsletters, formal and informal interactions. Communicate the vision in terms that will be understood in a five-minute discussion. Make sure the behavior of key players in the change program consistently and constantly reinforces the vision.

5. Empower Broad-Based Action

Get rid of obstacles to change. Change those systems or structures that seriously undermine the vision. Emphatically encourage risk-taking and non-traditional ideas, activities, and actions.

6. Generate Short-Term Wins

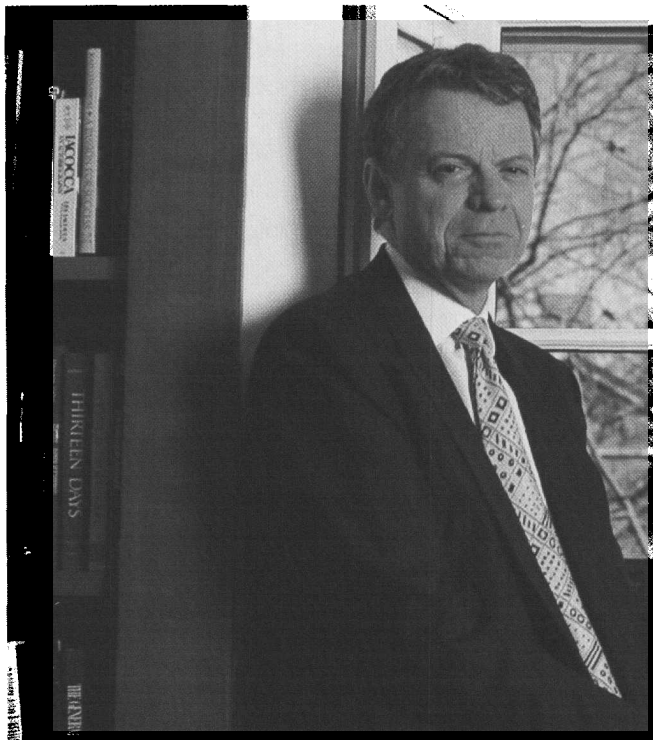
Plan for visible improvements and early evidence that sacrifices are worth it. Recognize and reward people who made wins possible.

7. Consolidate Gains and Produce More Change

Use increased credibility to change all systems, structures, and policies that don't fit together and don't fit the transformation vision. Hire, promote, and develop employees who can implement the vision. Reinvigorate the process with new projects, themes, and change agents.

8. Anchor New Approaches in the Corporate Culture

Firmly anchor changes into the culture by making sure that employees see how approaches to satisfying customers, improving productivity, etc., are linked to improved results. Also, be sure to alter promotion and succession to reflect the new vision.



"In some cases nowadays, strategy formulation accounts for 10 percent of the work. The other 90 percent has to do with making all the changes necessary to bring the new strategy alive. And making those changes requires the eight-step process, driven by leadership."

S&L: Traditional thinking indicates that top management has the responsibility to develop a vision and the strategies for achieving that vision, and strategy implementation is the responsibility of everyone below top management. Is that consistent with your change process?

J.K.: Whatever the unit of analysis—the whole company, a division, or department—the people on top are uniquely important in getting the change process rolling and pushing it along. But when it comes to transformation of any significance inside an organization, the process demands that you motivate many people to play

a leadership role in their own domain—and that includes creating a vision and strategy for that domain, one that is consistent with the overall effort. If you don't have both the leadership from the top and leadership from below, you will never get the magnitude of change you want within a reasonable time frame. Those who try to do it all from the top and don't empower others discover that after a while the effort stalls. If you ask middle management to only implement their bosses' ideas, you will find that the people in the middle have an incredible capacity to block, misdirect, or frustrate change from above.

S&L: How does corporate culture affect the success of change initiatives?

J.K.: Corporate culture can make transformation a lot harder or a lot easier. The more the culture is internally focused, bureaucratic, and disempowering of initiative issues anywhere, the more you are going to have trouble producing change. Conversely, the more the culture is externally oriented, is non-bureaucratic, and encourages leadership at all levels, the easier it will be to succeed with the eight-step process. Having an internally focused, bureaucratic, disempowering culture, doesn't mean that you can't produce major change. It is simply more difficult. In that kind of situation, you need an extraordinary person or group of people on top. Because the culture itself is such an impediment to change, you need a center of power—a nuclear blast—to break through the barriers. Even extraordinary people in the middle of the hierarchy rarely have the firepower to overcome cultural resistance. It takes someone on top.

S&L: The last few years have seen the strategy literature shift from "hard strategy" concepts—Michael Porter's generic strategies, value chain, and so forth—toward leadership, strategy implementation, and the learning organization—a shift from a static framework to a dynamic framework. How do you see the evolution of strategy?

J.K.: If you go back to just after World War II, you don't even see the word "strategy" being used much, probably because the rate of change was relatively slow and thus, strategic decisions were rare. That was no longer the case in the early 1970s, and "hard strategy" concepts were invented then to help companies think about economic choices and business direction in a faster moving and more competitive environment. But after a decade or so, we began to discover that making strategic choices with the aid of those new concepts did not assure success unless the choices were implemented well. And we discovered that implementing new strategies often required a lot of change. As a result, increasing numbers of people are concluding that we don't need more hard analysis of strategy, we need to better understand how to produce behavior change inside organizations. They have found that the greatest strategy will get

you nowhere unless people act on it. Getting employees to implement a new strategy is a far more complicated proposition than most of us thought 10 or 20 years ago.

S&L: Share with us some of your thoughts on strategy implementation.

J.K.: In many ways, that is what my new book is about. It argues that developing a good strategy is a necessary, but insufficient, condition. In some cases nowadays, strategy formulation accounts for 10 percent of the work. The other 90 percent has to do with making all the changes necessary to bring the new strategy alive. And making those changes requires the eight-step process, driven by leadership.

As an aside: I worry that talking about "strategy formulation" and "strategy implementation" is misleading because it implies that one group of people makes important choices while another group implements those choices. That's not the way it tends to work in the best companies I've seen. The processes of creating and implementing are much more tightly interconnected. It is tough to divide my eight steps into those categories. If you try, you find that most of the process is implementation, not formulation.

S&L: So often we think about strategy implementation in terms of what we are going to do "out there"—what we are going to do in the marketplace, what we are going to do to our competitors. But you speak about implementation as a whole step ahead of that—what we need to do inside the organization so that eventually we will be able to do something different out there. That is a very different perspective.

J.K.: Much of the initial work on strategy was applied microeconomics, which tends to treat the firm as a "black box." That way of thinking exacerbates the very tendency you mention. If the firm is a little black box operating in a sea of competitors, and you don't talk about what's inside the box, it's not surprising that you would devise a set of concepts and ways of thinking that ignore the internal implementation problems. This may have few consequences if you are dealing with small firms of 10 or 20 employees. But, if you are dealing with firms of 1,000, or 10,000, or 100,000

employees, the internal complexity can be horrendous, especially if you consider the cultural problems we discussed earlier. Getting the organization to do what you want it to do, so as to have whatever effect you want to have on competitors and customers, is a very large and difficult challenge.

If you look at my eight steps, you'll see that successful change tends to work from the inside out. That probably applies to individuals, too. Successful leaders usually start by changing themselves, not others, which gives them more credibility when they begin to talk to their employees.

S&L: Do you think we are entering a period where strategy will become more important as a business tool?

J.K.: Yes and no. Strategy as it was conceived in the 1970s and 1980s will become less important, I think, because it often ignored the huge implementation issues. But strategy in a broader sense can only become a bigger issue. Remember, a faster moving business environment means more strategic change. And, at this point, it is inconceivable that a globalizing economy will not bring us even faster change. ■

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—Philip Kotler, Northwestern University



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