

Leading Change

Adapting and Innovating in an Uncertain World

In today's turbulent business environment, being able to respond in a timely way to emerging threats and opportunities is crucial to an organization's survival and prosperity. An organization's effectiveness can be improved by leader decisions that facilitate innovation and adaptation.

Why do some companies consistently outperform their peers? It could be an innovative business strategy, a unique business model, favorable economic conditions, or any of a number of other factors. But when companies that face identical circumstances are compared, one variable stands out among the winners—leadership quality. The best leaders are able to effectively influence three determinants of organizational performance—adaptation, efficiency, and human resources. In this article we will focus on adaptation.

Adaptation involves changes made to cope with external threats and to exploit opportunities created by new technology, changing markets, and the shifting needs and expectations of customers.

The ability to adapt becomes even more important when the external environment is turbulent and uncertain. Uncertainty is greater in times of rapid technological change, political and economic turmoil, or new threats from competitors. In these situations, innovation is usually necessary to develop an appropriate response to emerging threats and opportunities. Examples of organizations that face uncertain environments include telecommunications and computer products companies, research laboratories, military combat units, and companies in recently deregulated industries, such as financial services and energy utilities.

Another condition that increases the importance of adaptation is a



by Gary Yukl and Richard Lepsinger

competitive strategy that emphasizes unique, leading-edge products or services. For such a strategy to be effective there must be frequent innovation and rapid response to threats and opportunities. Examples of industries in which organizations need to be very responsive to changing customer preferences, new technology, and new initiatives by competitors include fashion clothing, pharmaceuticals, medical equipment, computer products, advertising, and entertainment.

HOW TO LEAD CHANGE

The many difficulties involved in fostering adaptation in large organizations make it essential to have a culture with firmly embedded values and beliefs that support innovation and

change. Relevant values include flexibility, continuous improvement, initiative, and a quest for excellence. Instead of viewing adaptation as an infrequent reaction to dramatic, one-time events, it is better to view it as a continuous process that involves a combination of many and frequent incremental improvements and occasional major changes. In organizations with this type of culture, new

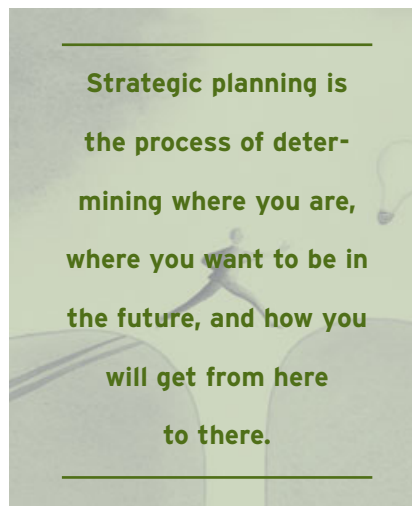
business performance. The focus of external monitoring should be the sectors of the environment on which the work unit is highly dependent (such as clients and customers, suppliers, competitors, or governmental agencies).

External monitoring is often assumed to be the province of senior leaders, but it is the people in direct contact with customers, such as sales and service representatives, who often first get wind of changes in customer needs or competitor actions. Thus environmental scanning and interpretation of events should not be left entirely to the CEO and other top executives. External monitoring in organizations is more effective when people at all levels are involved and relevant information is recognized and used to improve strategic decisions.

Strategic Planning

Strategic planning is the process of determining where you are, where you want to be in the future, and how you will get from here to there. The process includes setting strategic objectives, identifying tactics and actions for attaining them, and determining the resources and actions needed to implement the strategies. Although senior management has the ultimate responsibility for strategic decisions, the most successful leaders find ways to involve people throughout the organization in the strategic planning process.

A strategy will not improve organizational performance unless it is relevant and feasible. The likelihood that an organization will be able to achieve a competitive advantage is determined, in part, by its ability to identify and leverage its core competencies—its knowledge about particular activities and its ability to carry out those activities. Core competencies can be the key to the future success of an organization; they help it remain competitive in its current



ideas are nurtured and promoted, information is widely and freely shared, and people and systems are flexible and ready to respond to changes when they occur. Over an extended period of time the leaders of an organization can strengthen cultural values that encourage innovation and flexibility.

In addition to applying their influence on organizational culture, leaders can use specific behaviors and take specific actions to facilitate innovation and adaptation.

Monitoring the Environment

Monitoring the environment involves collecting and analyzing information about opportunities and threats in the external environment and identifying trends and opportunities to enhance

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business and enable it to diversify into new businesses.

Envisioning Change

Painting a vivid, appealing picture of what your organization wants to accomplish or become helps to communicate the desired outcomes of a change initiative in a way that is understandable, meaningful, and inspiring. Envisioning change is about putting opportunities and threats in context and clarifying how the organization needs to respond. A variety of elements may be included in the vision, such as strategic objectives, key values for the company, general approaches for attaining the vision, slogans and symbols, and a description of what the vision will mean to people when it is attained.

In times of great change, people look to their leaders for direction and signs that the organization has selected the right course of action. Therefore it is essential to communicate personal confidence that the vision can be achieved and that the benefits will be worth the short-term sacrifices. Leaders can convey a message of confidence and optimism through the type of language they use and by consistent actions that demonstrate their conviction and support of the vision.

Building Support for Change

Although most people would agree that change is essential if an organization is to adapt, grow, and remain competitive, change often produces anxiety and resistance. For people to support change, they must see it as necessary and feasible. Leaders can build such support by explaining the urgent need for change, building a broad coalition of supporters, identifying likely opponents and reasons for their resistance, and taking action to deal with resistance.

The complex task of persuading people to support major change in an

organization is too big a job for a single leader. It is essential to build a coalition of supporters inside and outside the organization. These external members could include labor union leaders, important clients, government officials, or executives of financial institutions. To succeed in gaining the approval and support of a proposed change from key people, a leader needs to understand how people feel about the change and whether they are likely to be supporters or opponents.

Implementing Change

It is impossible to anticipate all the potential problems created by a major change or to prepare detailed plans for carrying out every aspect of the change. A change program is less likely to be successful if a top-level leader tries to dictate in detail how it will be implemented in each part of the organization. Authority to make decisions and deal with problems should be delegated to the leaders who are responsible for implementing change in their subunits.

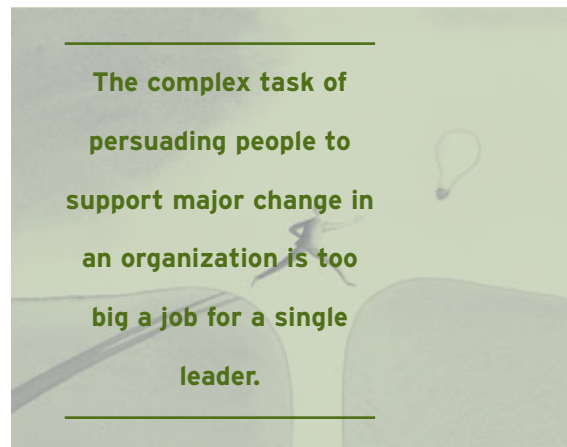
After the process of change is under way, the primary leadership roles for top management are to provide encouragement, support, and necessary resources to those leaders who are serving as change agents, and to guide and coordinate change efforts across different subunits of the organization. Leadership behaviors that facilitate implementation of change include filling key positions with competent change agents, preparing people to adjust to change and cope with the pain of making a transition, providing opportunities to celebrate early successes, keeping people informed about the progress of the change, and ensuring that leaders demonstrate continued commitment to the change.

Although responsibility for guiding various aspects of the change can be delegated to additional

change agents, the leader who is identified as the primary proponent or sponsor of the change must continue to provide the attention and endorsement that signal a commitment to seeing the change through to the end.

Encouraging Innovative Thinking

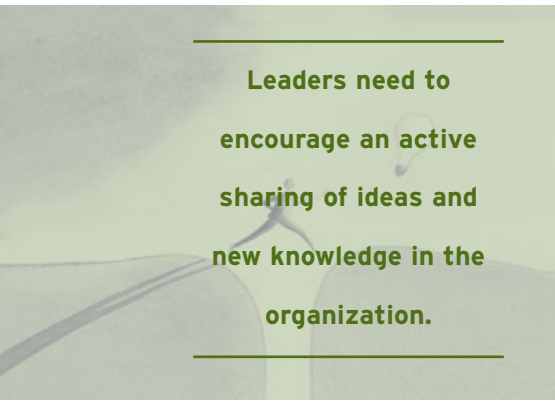
Identifying innovative ways to improve strategies, processes, prod-



ucts, or services is one requirement for successful adaptation, and there are many ways a leader can promote more innovative thinking by employees. The leader can encourage people to look at problems from multiple perspectives, to question implicit assumptions about the work, and to brainstorm better ways to do things. Another approach for encouraging innovative thinking is to set innovation goals for units or individuals. When there is a specific innovation goal for which people will be held accountable, this mental activity is more likely to get the attention and effort it deserves.

Innovative thinking is also increased by getting people to look at problems from a different perspective. For example, engineers have been trying for years to improve the battery life of laptop computers by

focusing on longer-lasting batteries and software solutions that dim or shut off the display. The engineers at 3M's Microreplication Technology Center reframed the problem—by asking how they could make a display that used less power. With this frame of reference they turned to a technology used in the 1950s to increase the brightness of overhead projectors and adapted it to magnify the brightness of backlit flat-panel displays. Their *brightness enhancement film* signifi-



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cantly extends battery life and is now being used by numerous laptop manufacturers.

Facilitating Collective Learning

It is important for leaders to create an appreciation for flexibility and learning among people at all levels of the organization. Major change will be more acceptable and less disruptive once people develop pride and confidence in their capacity to adapt and learn. To encourage an appreciation for learning, all practices should be considered temporary and examined regularly to see if they can be improved or eliminated. Leaders should also encourage people to use learning practices such as after-action reviews (also called after-activity reviews or postmortems), experiments, and benchmarking against other organizations.

Leaders also need to encourage an active sharing of ideas and new knowledge in the organization. To maximize the benefits, new knowledge should be widely diffused and applied in the organization. Secrecy is the enemy of learning, whereas easy access to information about the organization's operations—including problems and failures—facilitates learning. Leaders should encourage employees who are facing difficult problems to reach out to other people in the organization to find out how they might have handled similar challenges in the past.

When innovations are developed in one part of the organization, leaders can facilitate diffusion of this knowledge to other parts of the organization in several ways. After an innovative change has been implemented successfully in one unit, some members of that unit can be transferred to other units to help implement the same type of change. Seminars and workshops can be conducted by internal experts or outside consultants to teach people how to perform new activities or use new technology. When it is not feasible for people to attend formal training, a team of experts can be dispatched to different sites to demonstrate how to use new procedures. Video and Internet-based conferencing capabilities can also be used to promote broad idea sharing in a cost- and time-efficient manner.

BUILDING SYNERGY

The leadership behaviors and actions that facilitate adaptation should be used together in a consistent way to enhance their positive effects and to avoid adverse side effects. For example, monitoring the environment, envisioning change, and strategic planning are frequently used as a set of interrelated leadership behaviors. The discovery of emerging problems

or opportunities as a result of external monitoring is of little consequence unless you plan how to deal with them. By applying information gathered from external monitoring, leaders can develop or alter strategic plans to help make the envisioned change a reality. Likewise, monitoring the environment and strategic planning provide much of the context that drives innovation.

Also closely linked are behaviors such as envisioning change, building support for change, and implementing change. It is not enough to explain the need for change or to articulate an appealing vision. To be successful, leaders must build broad support for a proposed change, then guide the processes required to implement the change, which often takes several years of concerted effort.

PROGRAMS AND SYSTEMS

Leaders also use programs, management systems, and structural features to determine what types of changes are desirable and to facilitate innovation and collective learning:

Intrapreneurship programs. New ideas are fragile and do not have a long life expectancy once exposed to a hostile environment (one featuring, for example, the “not invented here” syndrome, a lack of resources and support, or bureaucratic red tape). An intrapreneurship program provides an opportunity to develop new ideas to the point where they can be fairly evaluated.

External benchmarking. Benchmarking is the process of measuring one's own products, services, and practices against those of competitors and companies recognized as industry leaders. By establishing systematic processes of searching for and importing best practices and innovative ideas, a firm can identify ways to improve products, services, and processes.

Understanding customers.

Successful adaptation requires a good understanding of customer and client needs and expectations. Knowledge about the attitudes, values, needs, and perceptions of current and potential customers can be used to determine how the company's products or services can be made more appealing. Many companies use market survey techniques, customer panels, and focus groups to assess the reactions of current customers or the preferences of potential customers.

Reward and recognition programs. Many companies use formal programs to identify and recognize innovation by individuals and teams. The successful application of innovative ideas can be showcased through internal media and at special innovation-themed conferences. It is also important to recognize successful efforts to improve sales and customer service, even if no major innovation was involved. Some companies use special ceremonies to celebrate major successes and emphasize the importance of sales and service.

Collective learning practices. Two examples of practices used to discover new knowledge and learn from experience are after-action reviews and controlled experiments. After-action reviews are an effective way to learn from important, recurring initiatives and projects. Members of the organization who participate in the project meet to review what was done correctly, what mistakes were made, and what can be done better next time.

Controlled experiments make it possible to evaluate innovative processes or procedures to assess their consequences and determine how well they work. The amount of learning that results from an experiment depends on how well it is designed and executed. Even a simple experiment can provide useful information.

Knowledge management programs. Some organizations are successful at discovering new knowledge but fail to use it effectively. Knowledge management systems are used to ensure that new knowledge and learning is retained and disseminated to people who need it in different parts of the organization. Knowledge management is the process of taking information and putting it into a format that can be reused for future work, as well as reviewing the information later to determine how it needs to be changed so it can continue to be useful. These systems also serve as places to store ideas that are a bit ahead of their time but may be useful later or for a purpose other than initially intended.

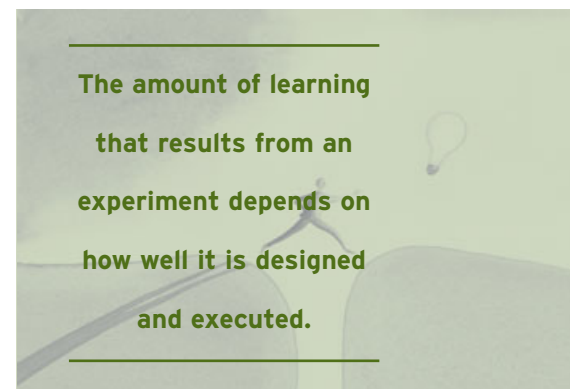
Structural forms. How the work is structured and the physical proximity of team members can dramatically influence the opportunities people have to discuss ideas and exchange information. Innovative activities such as new product development can also be facilitated by the use of temporary structural arrangements such as cross-functional teams, which include representatives from each functional subunit involved in the project and in some cases representatives from suppliers, clients, and joint-venture partners. Cross-functional teams allow flexible, rapid deployment of personnel and resources to solve problems as they are discovered and help members learn to view a problem or challenge from various perspectives rather than from a single functional viewpoint.

PUTTING IT TOGETHER

Rapid adaptation is relatively more important when the external environment is turbulent and uncertain and when the organization's strategy emphasizes unique, leading-edge products and services. Adaptation may require small incremental improvements or major changes in

products, services, operational processes, and the organization's competitive strategy.

Effective leaders assess the external environment to identify threats and opportunities. They help people interpret events and determine the implications for the organization. Such leaders recognize when major change is needed and know how to develop support from the people who can make change happen. Because many innovations in large organiza-



tions result from a bottom-up process, effective leaders understand how important it is to inspire and empower all members of the organization to learn from experience, develop creative ideas, and share new knowledge across subunit boundaries. They understand that implementation of major change is a slow and difficult process that requires their consistent attention to succeed. And they use programs, systems, and structural arrangements that are designed to encourage and facilitate innovation and collective learning. ✍

Editor's note: A more detailed description of the ideas discussed in this article, along with examples from many companies, can be found in Flexible Leadership: Creating Value by Balancing Multiple Challenges and Choices (Pfeiffer, 2004), by Gary Yukl and Richard Lepsinger.