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Transforming an Organization—The Human Element

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A business enterprise only occurs when financial resources are put into the hands of humans who make decisions on their use—choosing assets to acquire or hold and executing strategies intended to create returns on the financial resources invested. An organization in transition is one where the prospect of adequate returns diminishes, either because the humans entrusted with investment decisions have made bad choices, the business environment has changed, unexpected events, such as hurricanes, have occurred, or management's analysis was flawed. Anticipated future cash flows define the boundaries of the existing state of affairs. Delay in dealing with a failing strategy simply consumes cash, thereby limiting the choices of alternative corrective actions. The financial objective of transition management is simply to increase projected cash flow, either by increasing revenues or reducing expenses. Both of these happen because humans are engaged to make them happen. Yet the starting point is the very group of individuals—existing employees, contractors and board members—who put the enterprise in the position of requiring a change away from what they have been doing in the recent past.

Transition thus implies some degree of management failure, and implementing transition management is a clear statement that leadership and direction are being changed. Such change disrupts many pre-existing working relationships within the organization and introduces widespread uncertainty about job continuity, income, and status. The full array of human responses to imposed uncertainty can be expected: some will embrace the change as the correct response to failed strategies; others will see opportunities for personal growth or advancement; yet others will actively resist change, while some will work tirelessly to undermine it; and others will passively observe what happens.

Moving forward in this superheated work environment can be difficult. In this situation, boards have three choices. A board can leave management as-is, hoping for the best. This is the easiest alternative in the short run. Or it can strengthen the CEO by engaging a strategic consultant who assesses and advises on new strategies and their implementation. Or, thirdly, it can replace the CEO with an interim CEO to whom the board delegates the full array of authority and responsibility to lead the organization in a new direction.

Any choice will cause uncertainty among the employees. While some may hide ostrich-like from reality, most staff will observe and worry about continuing a failing strategy. Engaging consultants inevitably creates a dilemma for the staff: who is really making the decisions? For employees, is the best long term survival strategy to cleave to the CEO, who, theoretically, will remain for the long term or should they jump on the consultant's band wagon, with the expectation that he/she really represents where the board wants to go?

While that dilemma is solved by the engagement of an interim CEO, uncertainty about the duration of the interim period remains—there will always be some employees who think they can outlast whoever is in charge—but, with clear board support, a new single leader eliminates the major ambiguity that can stand in the way of change.

Thus, for an underperforming organization requiring major change, no matter what leadership choice the board makes, it cannot eliminate staff uncertainty. The exact choice of how to reduce that uncertainty, whether to continue as is or to strengthen leadership, is a function of the board's perception of the challenges—opportunities and costs—that lay ahead.

IDENTIFYING CURRENT RESOURCES

The first managerial responsibility of transition leadership is to freshly assess the current, as-is condition of the enterprise. This has three defining and scaling components: the financial resources available; the human resources applied to implementing the strategy; and the market opportunity being developed or served. The financial capability—cash flow—of the enterprise determines its scale and time boundaries. Within those limits of cash generation, financing, and burn rate, the strategies and human resources can be evaluated. An inventory of the existing human resources—understanding their capabilities and relationships, both internal and external to the organization—is the starting point to mapping them to the capabilities and relationships necessary for the implementation of the transition.

STEP 1: Structural Analysis

Most businesses create at least some form of structure for their management of human resources. Depending upon the degree of formality, firms employ the following types of structures:

- Organization charts
- Position descriptions

- Employment contracts
- Pay grade assignment tools
- Performance evaluations
- Incentive programs
- Policies regarding poor performance

To the degree that these structures exist, they must be analyzed for:

- Clarity—do they make sense?
- Coherence—do they work together?
- Applicability—are they really used?
- Fairness—are they used consistently?

STEP 2: Determining What Really Goes On

The formal documents serve as a framework for the critical step of interviewing each individual who is important to the organization. Some of these interviews will be dictated by official status, but many of the most important interviewees are those with informal power—of observation, of implementation, of trust, or of influence.

The interview process itself should identify those individuals who possess such power.

Each interview is intended to gain insight into an individual's assessment of his own and others' contributions to the organization. Called 360 degree assessments by some consultants, these interviews result in a description of the internal view of how the enterprise works, who leads, who performs, who is reliable, who has the imagination and flexibility to change, and who doesn't.

GATHERING CONSTITUENT INSIGHTS

STEP 3: Learning the Clients' Views

The fundamental truth that no business exists without paying customers requires that transition leadership understands current clients' views of the company, its products, strategies, and personnel. Using the same buying channels the customers use—face to face meetings and presentations, retail locations, internet or phone purchases—management can learn what works, what doesn't, and who is effective in the key discipline of selling the company's wares and services.

STEP 4: Obtaining Key Vendors' Input

In a world of just-in-time inventories and knowledge workers who are free agents, assessing the effectiveness of the purchasing and supply processes is critical for the success of any enterprise. Some years ago, a group of sophisticated private capital investors put together a complex transaction involving the roll up of seven companies engaged in analogous businesses. They hired an esteemed CEO who built an outstanding management team. Shortly before the completion of the acquisitions, a dispute arose between the CEO and the lowest status member of the management team—the purchasing vice president—resulting in the purchasing VP's departure. Only later, when the costs of raw materials skyrocketed, did the investor group realize the importance of this manager to the success of the consolidated business. The consolidation failed and tens of millions of dollars were lost because the investors undervalued a critical resource.

IDENTIFYING NEEDS

STEP 5: Redefined Staffing Requirements

The market analysis and strategy definition being developed as part of the transition management will define the directions of the refocused company. From these, a new chart of organization can be created, in which new roles and responsibilities reflecting the new goals are identified. For example, if the new strategy requires entry into a new distribution channel, entirely new roles, such as additional channel managers, may arise.

STEP 6: Gap Analysis

Steps 1-4 identify, with a sufficient degree of accuracy, the current staffing capability. This can be mapped to the new needs structure developed in Step 5, and the differences—the gaps to be filled and any redundant resources—specified. For example, when Encyclopaedia Britannica decided to offer digital forms of its world famous content, it recognized the importance of non-textual content—"multimedia"—to its potential digital offerings. Other than a highly regarded cartography department, it had virtually no pre-existing staff skilled in the delivery of animation, video and audio streams, or interactive graphics. These major gaps had to be filled from the outside.

Other gaps may be defined as vacuums: certain skill sets may not be exactly present in the pre-existing staffing structure, but there is significant potential for individual staff members to rise to the occasion and fill the vacuum.

A third type of gap can arise during the implementation of the transition: the attitude gap. Some

staff who possess skill sets may simply resist or actively undermine the transition. They are the classic "part of the problem, not part of the solution" staff.

STEP 7: Identifying the Financial and Human Costs of Staffing Change
A transition plan is one of the key elements of a successful transition. It identifies:

- The roles to be eliminated, those changed, and those added
- The incumbents in eliminated roles and potential alternative roles for them, if any
- Census factors
- Legal considerations
- Severance costs
- The sources to fill the new roles (employees or consultants)
- Lead times to fill the roles
- Costs of filling roles

as well as addresses the public relations and political components of such actions.

STEP 8: Identifying the Costs of Disruption
Staffing change disrupts the established process of accomplishing business. Described in Little's Law, this disruption is comprised of:

- The work that is not done at the standard current operating level by the persons who depart.
- The consequential unhappiness of customers.
- The ripple effect on the productivity of others.
- The arc of productivity of replacement resources.

The scale of these costs can be considerable. Bringing staff into the analysis and process redefinition can significantly reduce their amplitude and duration.

THE LEADERSHIP FACTOR

Transition of any form—redirection, transformation, or turn around—is, by definition, disruptive of the status quo. Pre-existing patterns of work, status, and reward have to be changed to meet the new requirements for success. To achieve the necessary change of behavior among the "keepers" in the staff, the application of fundamentals of successful leadership is necessary.

But because implementing the transition has to happen within a short time period (cash flow, after all, is drying up), leadership must occur in concentrated form.

The hallmarks are:

- Strong and evident board support for the transformation
- Communication by the CEO at every opportunity
- Future, not retrospective, focus
- Participatory decision making and strategy formulation
- Sense of urgency

Buy-in by the staff has to happen fast. Yet there will be nay-sayers and side-sitters, some of whom possess skills and relationships critical to the future success of the business, working to undermine the transition. A successful transformation is neither assured nor easy. But leadership by executives with the required skills and experience, support by the board, and commitment by a capable staff can turn an underperformer into a winner.

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