

**Incorporation: Enrolling Employees for Change
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by
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In late 1993, employees at the Fleischmann's Company watched as market share in its primary product category, margarine, plummeted. Despite a desirable brand image, solid technical skills and marketing know-how, the company was paralyzed; employees were fearful of conflict, unwilling to voice dissent and stuck in work habits that stifled innovation. Ken Romanzi, Fleischmann's newly appointed general manager, recognized that without fast intervention, the company's future viability would be in doubt.

Today, thanks to a far-reaching program aimed at providing employees at all levels of the organization with a sense of ownership of and involvement in the company's future, Fleischmann's product pipeline is stocked, earnings have increased dramatically, and the work force is rejuvenated and hopeful about the future. The Fleischmann's Renewal successfully incorporated employees in the company's future, gaining widespread commitment to growth and change.

This deceptively simple technique has been put to good use in numerous organizations. We often find that employees experience pervasive discontent with the status quo – deeply held concerns about the company's ability to compete in the future, frequently touching a wide range of issues: strategy, culture, work processes and technology.

Moreover, people often feel powerless to change the flow of events or to influence the direction of the company. Longstanding assumptions about how the company works get in the way. Based on their experience, people draw conclusions about what it takes to survive and win – especially at large organizations, which tend to breed both complacency and a blind adherence to processes that have outlived their usefulness. These assumptions are rarely examined, yet they continue to shape the present and future of the organization.

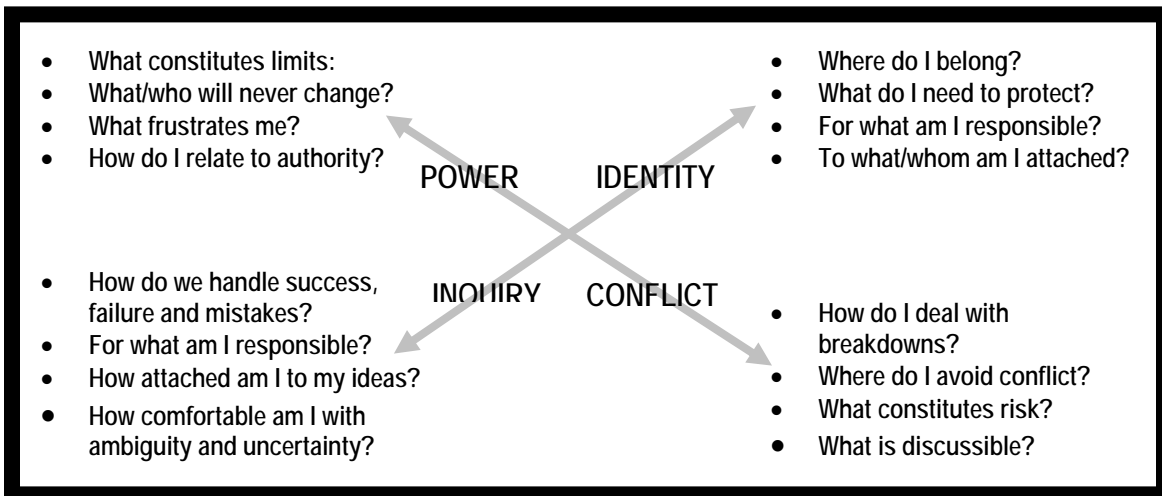
Even when employees know that change is necessary, they tend to approach such efforts with fear and reluctance. As one executive explained: "Some of our employees prefer the predictability of what is wrong to the uncertainty of change."

The incorporation process brings employees into the process of defining the future of the organization and devising ways to reach an elevated set of goals.

Defining Moments

Incorporation is closely tied to an organization's culture. For most people, culture is a catchall term for intangible factors about which the only agreement is that they are difficult to change. We, however, have identified a particular view of culture that is both accessible and manageable. That view, which we call a company's *operating state*, concerns an organization's relationship to four key facts: power, identity, conflict and inquiry. (See sidebar and Exhibit 1.)

EXHIBIT 1: An Operating State Has Four Key Factors



Countering Cultural Drift

Most organizations – as a result of age, size and competitive intensity – are encumbered with an operating state inconsistent with their ambitions and purposes. Much like people as they progress through the life cycle and its developmental patterns, organizations evolve through predictable stages.

In a start-up company, employees experience a powerful sense of possibility, and they share beliefs about the future. A sense of aligned purpose and informal teamwork is commonplace; everyone identifies with the enterprise as a whole. When conflicts occur, they rarely get in the way of pressing business. People are keen to learn, often by fearless trial and error.

But as organizations grow older and larger, the unattended operating state tends – through a condition we call *drift* – to lose its vitality and capacity to change. (See Exhibit 2.) An entrepreneurial operating state that encourages people to excel and to use their initiative shifts state to a more bureaucratic environment that favors increased predictability and regulation of employee behavior. When people try to make changes, they often encounter resistance in the form of statements such as, “You can’t do that here; we’ve tried it and it doesn’t work.” In

particular, the operating state manifests itself in an employee's relationship to:

Power. Do employees believe they can affect the organization's marketplace success? Today, for instance, Fleischmann's employees feel a sense of *possibility* and the power to act on it. But in most organizations, a sense of powerlessness and *resignation* to the status quo is the prevailing attitude among employees.

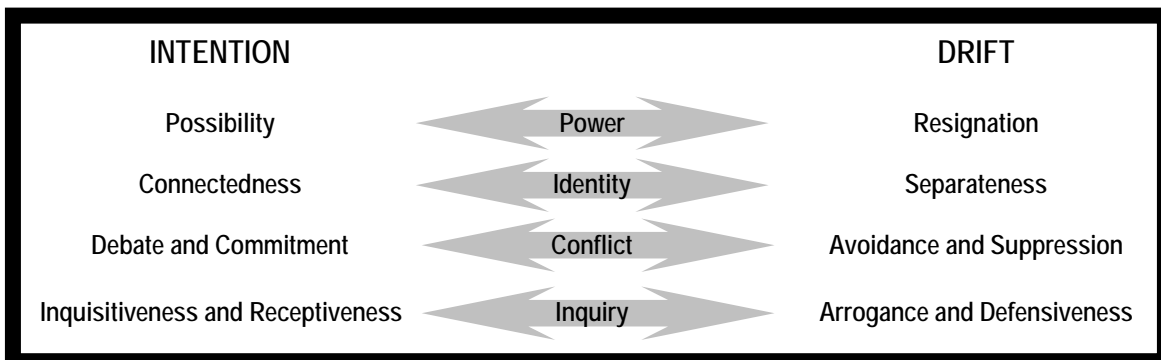
Identity. Do employees identify with a certain organizational entity – team, division, professional group, company? At start-ups, employees tend to work in cross-functional teams, are aligned with corporate goals and share an enterprisewide identity. A sense of *connectedness* drives behavior. But as organizations age, people form tight circles around their professions, work units or functional silos. *Separateness* is tolerated, even encouraged, providing a sense of control and belonging but at the same time creating divisiveness.

Conflict. How do employees in an organization handle contention? When conflict is *safe*, people can bring it to the surface and find ways to deal with it. Then real *resolution* becomes possible. But companies tend to drift toward *fear* of conflict, which leads to its *suppression*.

Inquiry. How do employees in an organization deal with new ideas? *Inquisitiveness* and *receptiveness* form the foundation for rapid learning. But large organizations tend to lose their receptivity to new ideas. Instead of experimentation and investigation, people tend to study ideas to death, hoping to ferret out weaknesses before they risk commitment. Ultimately, *arrogance* and *defensiveness* reinforce each other, making learning impossible.

Redirection the operating state so that it is consistent with building an agile future starts at the top. To combat resistance from a cynical work force, leaders must tirelessly demonstrate that the change is for real, that it can't be stopped, and that the repercussions of failure to change are substantial. Once the leader has set a context in which change seems possible, certain "defining moments" may occur, helping to usher the organization into the future more quickly.

EXHIBIT 2: Operating Statement; Intention vs. Drift



While shifting a culture is a long-term process, the process is generally punctuated by a series of “defining moments” – transformative events that create a quantum change in a company’s operative state. These defining moments arise spontaneously, but they’re more likely to happen if the executive team has taken steps to create an organizational climate conducive to such events.

For instance, at Midwest utility Illinova, a defining moment occurred at an important meeting of key managers, where CEO Larry Haab was presenting his vision to be the “Best by 2000.” The meeting quickly descended into an uproar when a junior manager strongly challenged one of Haab’s assertions, inviting her colleagues to join her in dissent.

Rather than insist on blind adherence to his vision, Haab seized the opportunity to break years-old patterns of deference and resignation. As the group calmed down and began to discuss the future – a conversation unprecedented in its candor and mood of possibility – they worked out a new, shared understanding of their vision. The breakdown of the meeting became a milestone in their newfound ability to challenge each other and the CEO. This defining moment, however, never would have occurred if Haab and his executive team had not laid the foundation for it prior to the meeting; in fact, they were committed to the occurrence of such a moment and others. Haab could have reacted in a predictable way; instead, he chose to be the new operating state, thus creating the environment for others also to be it.

These moments can’t be planned or predicted, so they have a seemingly magical quality. But there’s no mystery to creating an environment conducive to the healthy contention and exploration that produces a defining moment. Indeed, we have found that applying four principles can create the conditions that enable defining moments to occur:

1. *A new way of leading becomes evident.* People won’t change their behavior until their leaders do – and even then, it takes time to trust that the change is for real. Especially if they’ve been through many change initiatives before, people will observe their leaders for some time before accepting the change and modifying their own behavior accordingly.
2. *Find opportunities to interrupt.* Every organization has stories that support the current way of operating. These stories, whether accurate or not, are used to justify attitudes and behaviors. We use creative ways to “interrupt” the stories and create new ones that support change. For example, Illinova employees had spoken widely of an earlier incident when a manager challenged the CEO and was instantly silenced. While the manager himself didn’t recall the incident, the story was enough to stifle further contention.

To interrupt the story, the change team created a trophy named after the silenced manager; during the aforementioned “Best by 2000” meeting, it was presented to any participant who stopped the action to point out that someone had not been listened to. In addition to affirming a new way of operating, the ceremony of awarding the trophy generated good humor and allowed people to laugh at a story that formerly had invoked fear.

3. *Reveal the truth about today.* While most people know the current condition of the organization, it is rarely discussed in open forums. But to get to a new way of operating, it is critical to put the “undiscussibles” on the table – both cultural roadblocks and business shortcomings. Then, when people begin to think about where the organization hopes to be in the future, the gap becomes very clear and they can begin to explore new ways of working. Also, the release of the energy “shackled” in undiscussibles creates a more positive focus on designing a new future for the organization.
4. *Listen for and recognize leadership.* Defining moments aren’t initiated by groups; they are often initiated by individuals within groups; they are often initiated by individuals within groups, once their dissatisfaction overwhelms their fear of conflict. This requires a type of leadership that should be sought and encouraged. Remember, it was a junior leader who challenged the CEO in our example – and she has since been promoted to vice president.

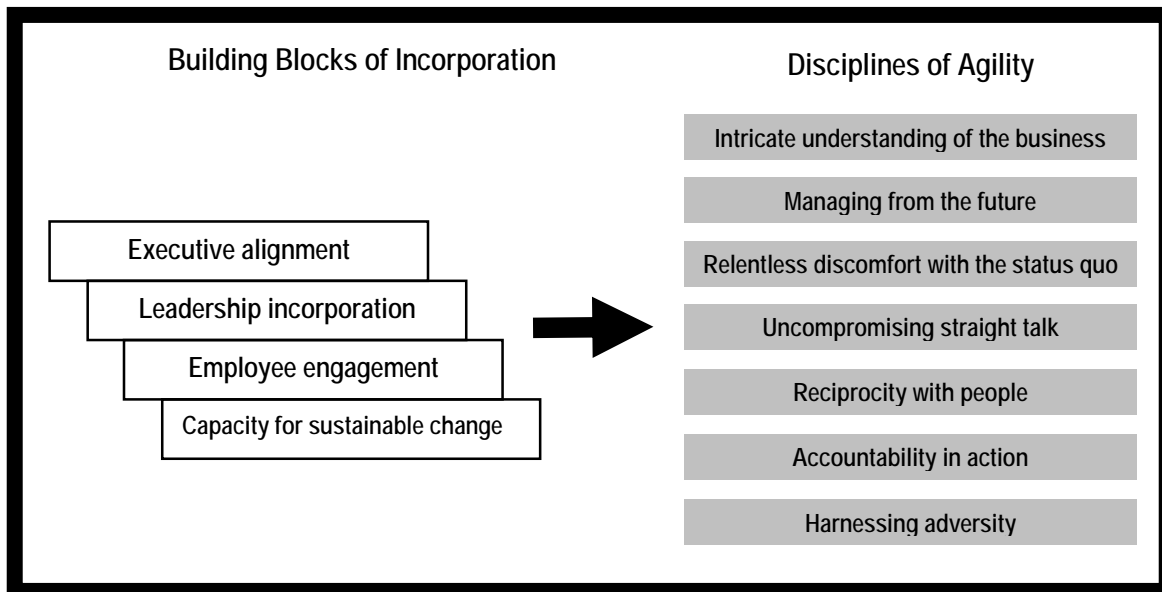
While it’s not easy to adhere to the four principles – and the effort requires constant attention and fine-tuning – the defining moments that can result from this environment can play key roles in engendering agility. Suddenly, barriers fall, the impossible becomes possible and people work together in heretofore unimaginable ways.

The Building Blocks of Incorporation

To incorporate the work force, companies must address four “building blocks”: executive alignment, leadership incorporation, employee engagement and the capacity for sustainable change in a high-performance environment. Each of these is essential to developing the disciplines of agility. (See sidebar.)

These building blocks represent cascading and iterative series of processes rather than discrete events – with ongoing activities designed to prevent people from drifting back into old patterns of work and relationships. Each step both feeds and is in turn strengthened by the next step. (See Exhibit 3.)

EXHIBIT 3: The Building Blocks of Incorporation



Executive alignment is the process by which the CEO and his or her direct reports come to terms with the current condition of the organization and where and how they are committed to leading the organization in the future. Failure to begin this process early can delay implementation of a change program by at least six months – and perhaps indefinitely. It is critical to forwarding the disciplines of uncompromising straight talk and managing from the future.

The process usually begins with a one- to three-day off-site meeting, where executives can dedicate their time to assessing the organization's current condition and to determining what is needed for future success. What results is the executive team working effectively to identify what shifts in operating state will be needed if the company is to survive for the long term. The team leaves the meeting committed to actions aimed at transforming the corporate environment. The meeting provides the opportunity for the executives collectively and individually to assess his or her personal commitment to leading the process of change.

The Disciplines of Agility

The disciplines of agility provide the means for keeping an organization running smoothly while maintaining the flexibility needed for the future.

What is a discipline? At one level, it is more or less a habitual social pattern. But disciplines are not simply habits. Habits are mindless; disciplines are mindful. To build the backbone of an

agile operating state, companies must carefully cultivate and practice the seven disciplines of agility:

- *Intricate understanding of the business.* Employees contribute most effectively and efficiently when management assures and delivers complete, undistorted information and when employees see clear correlation between what they do each day and positive business results.
- *Managing from the future.* Managing from the future is how an organization draws itself out of the seductive grasp of the past and present. Accomplishing this demands much more than mission statements, visions or strategic intent. Employees must have a clear, visually imaginable sense of what the company is trying to accomplish.
- *Relentless discomfort with the status quo.* When they are never completely satisfied with the ways they are working, employees are always trying to reinvent themselves and the organization for a better future.
- *Uncompromising straight talk.* Straight talk happens when employees feel sufficient mutual trust and self-respect to lay their cards on the table – a key discipline, given that agile organizations need valid information and thoughtful discussion to make timely, intelligent choices.
- *Reciprocity with people.* In a business environment where people understand that no job is truly secure, employees demand new forms of reciprocity. For example, employees can expect the company to provide the tools and resources they need to succeed, while the company can expect employees to capitalize on every opportunity to improve the business.
- *Accountability in action.* This discipline cultivates employees' ability to improvise, to act with their best judgment in the moment and even to renegotiate what has been agreed upon in order to accomplish the larger task. In an agile environment, people are accountable both for what is expected of them and for improvising to fulfill what can never be prescribed.
- *Harnessing adversity.* Perhaps the most stressful of the seen, this is the discipline to recontextualize all sorts of difficulties, from minor setbacks to disasters, as sources of learning and progress.
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Through the process of executive alignment, the CEO and the executive team become the exemplars of transformational change. Indeed, many CEOs who have lead successful transformational change efforts have concluded that their own capacity to change is inextricably linked to the degree of transformation possible in the organization. In the words of a CEO of a manufacturing company:

“I looked in the mirror and realized that the company had to change – and I had to change.”

Leadership incorporation focuses on the level of management just below the senior executive team. It usually involves 20 to 120 people, depending on the size of the organization. The expectation of resistance from middle management has led many CEOs to bypass this group in their change processes over the past few years. Yet many of these executives later expressed regret, because at some point the middle managers must be incorporated in the change process, just as the rest of the organization must be. And in fact, when middle managers are kept out of the loop, resistance tends to become a self-fulfilling prophecy.

During this phase, managers go through a process similar to what the top team goes through in achieving executive alignment. Usually launched by a three- to five-day off-site meeting, these managers develop a deep understanding of the current business condition, ultimately creating their ownership of the business case for action. Together with the executive team, the managers align on the current condition, the desired future, the internal conditions that are needed for success, and a path forward. This does not mean they create a complete plan for future action; often, only the next immediate steps are designed.

Leadership incorporation is often the part of the process in which command-and-control managing begins to be interrupted. By showing their willingness to engage in straight talk and to share ownership for decisions, top executives relinquish absolute control, and managers at the next level realize that they are intimately involved in creating the future, not just following executive dictates.

For some leaders, giving up absolute control feels like abdicating their responsibility to lead. Some have to reorient themselves to become leaders who can facilitate and guide, not simply dictate to, their subordinates.

This process can't be accomplished in a single meeting. At one company, we thought we had succeeded in incorporating the top 55 managers. We subsequently sent 10 of the participants into a separate set of meetings to develop a plan for engaging the rest of the organization. When the subset returned, the energy of the larger group had dissipated, and they saw the smaller group as unrealistic and naïve. It took several weeks to get the whole group realigned. Through this type of experience, we have come to appreciate incorporation as a journey, not a program; it should touch every aspect of how companies operate. In this case, we realized we needed to have all 55 managers ironing out an approach for engaging the rest of the company and then meeting with the 500 employees at the next level.

Employee engagement is an outgrowth of leadership incorporation. It begins with a commitment and initial plan to engage the rest of the organization. While the size of the employee population and its geographic distribution profoundly affect the design of employee engagement, they are not determinants of the effectiveness of the engagement process. We have seen this process succeed at companies with as few as 200 employees and as many as 300,000. A number of approaches to and techniques of large-scale transformation are available; which ones are used depends on the strategic objectives, size and culture of the company.

One technique we have used to build employee engagement is to distinguish among different types of conversations. Employees know up front what kind of conversation is occurring, and they participate appropriately while feeling safe. For instance, in a “test” conversation, executives share what they think should happen, giving employees a chance to offer feedback. In a “co-create” conversation, all participants jointly create the next steps. And there is still the occasional need for “tell” conversations, in which the leader stands up and gives the facts of informs people about a decision he or she has made. When a meeting that was billed as a test conversation reverts to tell mode, participants will redirect the conversation back to its appropriate mode.

Employee engagement is a critical aspect of the incorporation process because so many companies are characterized by a mixture of cynicism, resignation and resistance. Employees will judge the authenticity of management’s commitment to change almost solely on the actions they take, not on what one employee described as “more glad words from management.” Company leaders must show a willingness to listen to employees and, even more important, to take actions based on employee input. The Fleischmann’s Renewal was effective in part because employees at all levels truly had input into defining the future and deciding how the organization would get there.

These three phases of incorporation – executive alignment, leadership incorporation and employee engagement – are characterized by a tension that both threatens and solidifies the bond being created. As each level of the organization embraces a new future, participants experience passionate commitment for what they have created, yet they must be prepared to let it go and allow the next group to create a version of it that they can own. A senior-management dictate directly contradicts the principles and goals of incorporation. The discomfort for some managers of letting go of traditional means of control can be great; indeed, some may not be able to do so. We have seen the benefits, however, outweigh this discomfort. When employees at every level have been involved in creating their future – and when the future they have created is shared – organizationwide commitment to change is much greater and results are better than if it had been dictated from the top.

Capacity for sustainable change. Executive alignment, leadership and employee engagement can put the company on a new footing and begin the process of shifting a company's operating state. But the pull of old habits is so strong, and employees at all levels are so accustomed to them, that to shift the operating state to produce the kind of sustainable results to which the company is committed requires far more. To that end, companies must develop the capacity for sustainable change. This is a continuing journey that requires constant attention to all components of a company's operating model – business processes, organizational structure, management systems, information technology, and values and beliefs. For instance, management systems such as appraisal and compensation systems may need to be revised to match the desired operating state. In other words, reward behaviors that you want to encourage. Clear parameters for hiring, firing, promotion and retention should also be in place. Commonly, the new way of operating calls for greater collaboration within and across processes and business units. A focus on high-performance teaming provides a framework for producing results through a new operating state.

And information technology such as groupware and the Internet vastly improve access to information, enabling people to work together in new ways and encouraging collaboration.

It is important, too, that leaders change their own behaviors, resisting the urge to control employees and instead finding ways to coach and enable them. Changing leadership behavior may in some cases require putting new people in key management positions. In short, the company's leaders need to commit to the disciplines of agility, walking the talk by translating their words into observable, everyday actions rather than dictating them from above.

Finally, leaders must be prepared to commit significant resources over time. This is a lengthy, time-consuming process. It's critical to recognize that employees may initially see the change effort as the "flavor of the month," and disappointing them yet again will only heighten their suspicion next time. Beginning the incorporation process without a clear, long-term commitment is more dangerous than taking no action at all – the damage to employees when they hit the limits of the program will be severe and long-lasting. The organization will in fact have taken a giant step backward.

But when the work force is successfully incorporated, the work gets done in a more energized, responsive fashion, and new ways of working are continually invented. That's exactly what happened at Fleischmann's – in the course of less than a year it went from the doldrums to an atmosphere of entrepreneurial zeal, in which people actually love coming to work. More important, it was transformed into a healthy, profitable organization with a stocked product pipeline. Employees' sense of possibility is renewed, they work

more effectively in teams, and they feel free to explore new avenues of growth – laying the foundation for success into the 21st century.