The Spark that Lights the Flame

How leaders imbue their organizations
with an intrinsic and self-sustaining need
for transformation

by Friedrich Kuhn

It's a simple truth that haunts many a corporate leader: "What made us successful in the past will not keep us competitive in the future." Contributing to their restless nights is a growing awareness that, in complex and volatile environments, the future is no longer something that can be planned. So what must the nature of the long-term goals be with which they align the company? Which KPIs are truly relevant to what they are out to achieve? To make matters worse, innovations are barely predictable, because at least in the case of business models or digital services they are no longer the outcome of ring-fenced R&D processes but the product of open networks. And in a world of constant upheaval, even tried-and-tested mechanisms for team management or coordinating company-wide activities no longer fit the bill. Under these conditions, how is a leader to generate a sense of identity and belonging among their team? Also, unless companies can regularly demonstrate an ability to create value for society that goes beyond the purely economic, the very foundations of their business model are at risk.

What makes leadership transformational?

Where could the solution lie? In the past, to keep pace with the competition it was often sufficient to run a market analysis and maybe tweak the business model. Or launch a change initiative, which meant scrutinizing processes and structures before introducing best-practices defined by proven methods, leading to greater efficiency. Today, though, this traditional toolbox no longer sustainably delivers the goods. Time and again we see organizations quickly slipping back into their former ruts. All the signs seem to call for a radical rethink among top management, with leaders needing to abandon their comfort zones to seek out more viable ideas.
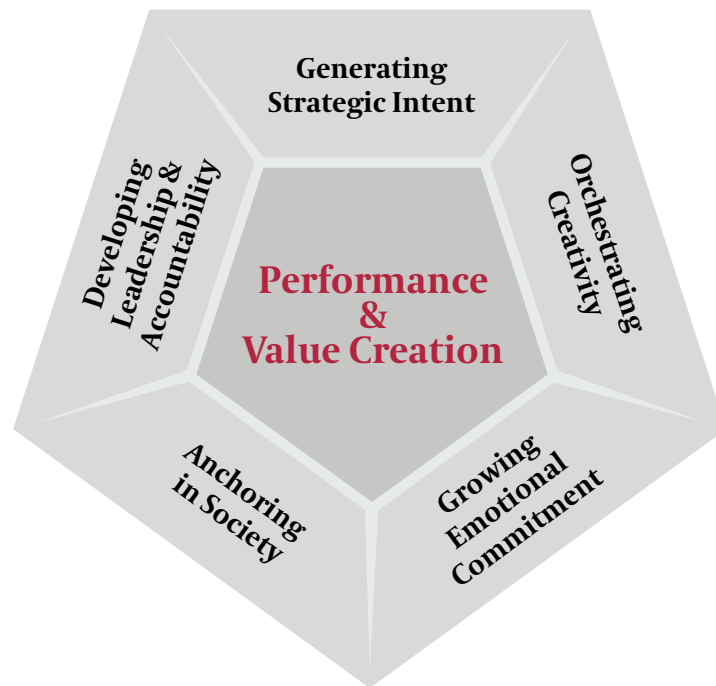
After all, structures, processes, products and external communications are merely the visible signs and drivers of a corporate entity. If these are the only points at which leverage is applied, no one is ever going to transform an average performer into a global champion. To do so predicates accessing the invisible dimensions of a company – informal communications, enshrined rituals and an unspoken collective agreement as to: Why are we here? Who do we want to be? How do we tackle challenges? And how do we relate to one another?

The aim of any genuine transformation is to address precisely these questions. The company needs to embark on a journey and find its very own way of dealing with a volatile world. The scale of the transformation can be as fundamental as a change in the physical state of matter – in the world of chemistry that would be from solid to liquid or gas, for example. Pivotal to this sea change is a new kind of leadership, because it is only through new forms of collective interaction that new relationships to people across the company can arise, shaping their behavior and thus the collective consciousness of the organization. At the heart of a full-blown transformation, leaders need to ask themselves: What do I declare is important? What kind of example do I set? What do I encourage and what do I declare no-go? How do I foster a real sense of responsibility at all levels of the company? How effective are our company-wide "rituals" such as strategic planning, performance management or talent management? Successful transformation calls for an equally transformed set of leadership skills at all levels of the hierarchy; skills that enable the development of new approaches with the capacity to mobilize, promote and strengthen the forces of renewal across the organization. This holistic and systemic ability to drive company-wide change in the modern world is what we mean by transformational leadership.

Before any transformation can begin, we must first determine the status quo. It is vital that – like the entire transformational journey – this first step be steeped in a positive spirit that reflects that of the ultimate goal. So as we set about this initial diagnosis, we are searching explicitly for the seeds of the future in our current behavioral patterns, not seeking to identify past errors. This is what we call "appreciative inquiry" and it holds the key to a flying start, because focusing on past mistakes leads to a defensive state of mind which is not conducive to a constructive start to our transformation initiative. The task here, then, is to appreciate the current capabilities of the company and use them to launch it into the future. It must be made perfectly clear that the primary reason for transformation is that the frame of reference and the criteria for success have changed, and not that our past was paved with errors.

As consultants, we embark on this diagnosis hand in hand with our client's management team – although it is actually more of a self-awareness exercise than an external diagnosis. The aim, through dialogue, is to reach genuine agreement on the scale of the impending change and on the precise point of departure for the company and its management team.

The Five Dimensions of Transformational Leadership

Diagram: A pentagon with "Performance & Value Creation" at the center, surrounded by five dimensions: Generating Strategic Intent, Orchestrating Creativity, Growing Emotional Commitment, Anchoring in Society, Developing Leadership & Accountability.

Infographic

By way of structure for our diagnosis, we take the five key dimensions that determine the success or failure of any transformation and examine them. As the transformation affects the entire system, the diagnosis invariably looks at three levels from the same perspective: the CEO, the management team and the organization as a whole.

1. Generating Strategic Intent

Arriving at a shared picture of what transformation is going to mean for the company is a first step. This will often produce a list a challenges, driven by unpredictable changes in the external environment; changes that defy conventional strategic planning. But if a shared goal can no longer be described in terms of predictable tasks spread over the next five years, how to get a handle on it? How can the unifying force of "We all know where we're heading" take effect if, in actual fact, we don't know? This demands a new set of skills from corporate leaders. If the goal can no longer be determined at the level of "**What** are we going to do?" then management must proactively shift to the next level and locate the unifying force at the level of institutional capabilities, i.e. by asking "**How** are we going to square up to the future?" If the uncertainties are so great that this question too cannot be answered, all that remains is the ultimate level of commonality, captured in the question "**Why** do we exist as a company? What would the world lack if we didn't exist?" Deciding which of these questions will point the way forward is one of the key tasks of leadership. Not for nothing do so many players in the new economy spend so much time considering their own raison d'être, their purpose. But this kind of unifying goal can only take full effect if it is defined in the course of a shared process

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and then, in a cascade of self-appropriation, taken on board by the entire company. Our diagnosis will reveal not only the repertoire of skills applied here by leadership but also the extent to which the process succeeds.

2. Orchestrating Creativity

Leaders must task themselves with turning the entire company into a sounding board for the dynamics of innovation. How close does the company get to this aspiration? What leadership skills can be drawn upon to propagate behaviors that are not prescribed top-down? (Because curiosity, courage, unconventionality and perseverance cannot be turned up to full volume by applying KPIs.) What needs to happen for all levels of the company to see themselves as part of an ecosystem of ideas that must be fostered and implemented? Together with our clients we strive to make best use of those projects that could enable the whole company to navigate this sea change successfully. Today these will often be themed around digitalization, such as ensuring a company-wide focus on the customer experience and customer journey. Whether or not they will have the power to drive holistic transformation also is revealed by our shared diagnosis of the organization, its management team and the CEO.

3. Growing Emotional Commitment

Emotion is the flywheel of change. It generates the momentum that leads more and more employees to take the initiative, providing the catalyst for a movement that sweeps across the entire organization. So we help leaders to become aware, initially at a personal level, of what it is that makes the company an inspiring and meaningful environment for them. Which parts of the corporate culture and the shared goals for the future do they find energizing? What sets the company apart and will continue to do so in the future? Which parts of the shared identity need reshaping and which should and indeed must be abandoned? It is only by cross-linking the desired transformation with the meaningful elements at the personal, emotional level that each individual finds their answer to: "Why do I get out of bed in the morning for this?" In this context, authenticity in dealing with the positive and negative consequences of change is absolutely crucial, while false enthusiasm or cynicism represent the greatest danger owing to the widening gap between aspiration and reality. This dimension too calls for a set of leadership skills that can be defined through diagnosis and, if necessary, acquired.

4. Anchoring in Society

As many examples have recently shown, a company is not a universe in its own right that can create its own reality regardless of the approval or disapproval of society at large. Quite the opposite, in fact: It is only with the positive legitimation of society that value can be sustainably created – and investors kept happy. The ability of the CEO, the management team and the organization as a whole to give due consid-
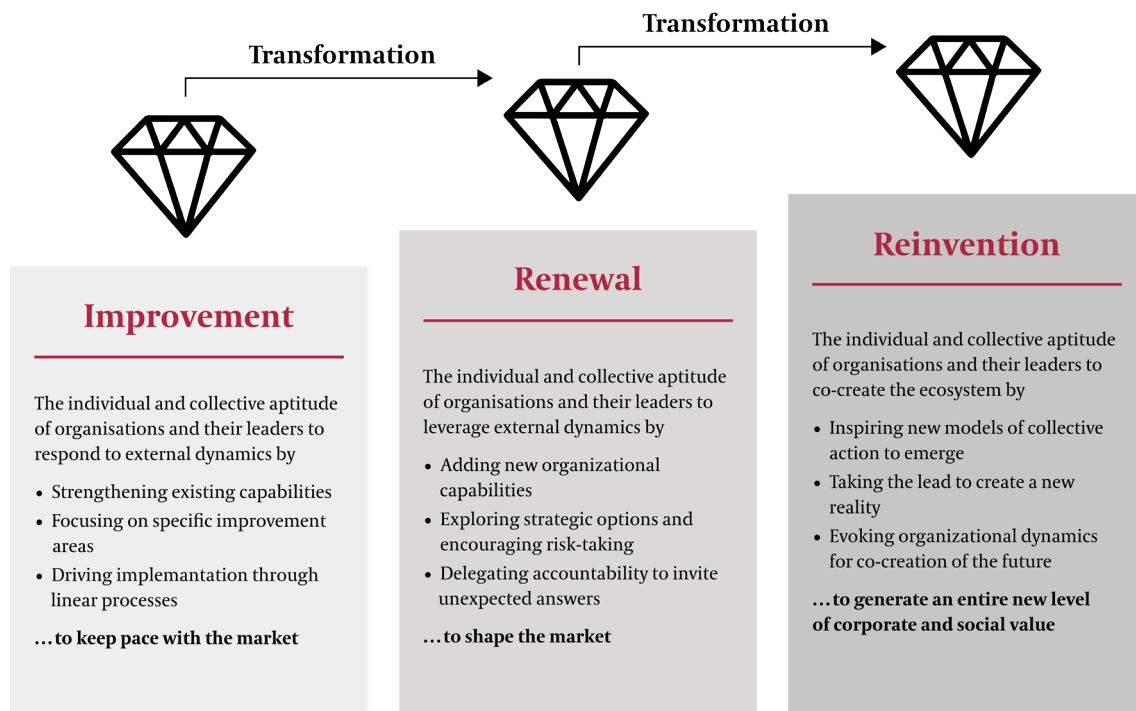
eration to the societal impacts of all their decisions and actions is crucial to their capacity for transformation. Only those who, in a process of active dialogue, regularly rehearse the difficult business of weighing up the different interests against one another and communicating their decisions in a credible manner will be able to rely on the organization responding correctly in the event of a crisis. And those who succeed in anchoring their social responsibility so firmly in their corporate goals that a positive drive for change ensues, which in turn unleashes creativity, are well on the way to successful transformation.

5. Developing Leadership and Accountability

The dimensions of transformation described above impose huge demands in terms of the kind of leadership required. Clearly, these demands will not be met with either the structures or the mindset of the prevalent functional and fragmented distribution of responsibility. In this respect, our diagnosis rapidly reveals whether or not a rethink is in progress. Which groups of managers can be jointly entrusted with tasks that they can only master through collaboration? What is the nature of the dialogues that take place, and do they lead to new solutions? Which behaviors are lived out in credible fashion? And how is all of this channeled into the structure of the organization and its core processes? Here our shared and structured diagnosis enables the distance between point of departure and goal to be determined.

Together with our clients we consider each dimension and determine the scale of change that is necessary in order to master the challenges: Where it is sufficient to reinforce existing skills or enhance specific fields in a targeted way, we speak of continuous improvement. The aim here is to help the company reach a state in which it can readily keep pace with the market. If, however, new competencies must be acquired to master the challenges of the future, we talk about renewal. In this case the company aspires to have old and new co-existing side by side and in this way to proactively help shape the market. At the third level of transformation the external dynamics call for the genuine reinvention of the business model. In this case new patterns of collective behavior need to crystallize that put the company in a position to take a leading role on the road to a radically revised market reality, or even recreate the market and divide it up.

What is vital here is to arrive at the correct assessment of the requirements. Overestimating them, and triggering reinvention in response to what was a moderate need for change, is just as fatal as failing to realize the need for reinvention when it is actually called for. And in the everyday working life of a CEO, all three levels will be encountered simultaneously, albeit in relation to different business fields and functions. At this point it is important to be precise and arrive at a shared understanding of exactly where which form of leadership will lead to a successful outcome. Our analytical toolbox enables us to counter the call for sweeping (digital) transformation with a differentiated evaluation of "how much" is necessary and "where" it is best applied.

Improvement

The individual and collective aptitude of organisations and their leaders to respond to external dynamics by

- Strengthening existing capabilities
- Focusing on specific improvement areas
- Driving implemantation through linear processes

…to keep pace with the market

Renewal

The individual and collective aptitude of organisations and their leaders to leverage external dynamics by

- Adding new organizational capabilities
- Exploring strategic options and encouraging risk-taking
- Delegating accountability to invite unexpected answers

…to shape the market

Reinvention

The individual and collective aptitude of organisations and their leaders to co-create the ecosystem by

- Inspiring new models of collective action to emerge
- Taking the lead to create a new reality
- Evoking organizational dynamics for co-creation of the future

…to generate an entire new level of corporate and social value

Triggering the transformation

By this point, together with our client we have determined what degree of transformation is necessary in various dimensions and at different points within the company. A shared view among the management team of the level of transformation required (improvement, renewal or reinvention) and of the current state of the company at the start of the transformation is a fundamental prerequisite before setting the ball rolling. The shared process of diagnosis here takes the shape of a "map" on which everyone can see the start and finish and can discuss the route that the journey should take. At this point, a pragmatic approach is crucial: Where is the need most urgent? Where can we apply the greatest leverage? What will happen if we make simultaneous changes in multiple dimensions? And above all, at what level do we trigger the transformation – through a widespread approach reaching out to the whole organization; through a change of mindset in the management team; or at the level of individual leaders? All of these considerations appear on the map and can be assigned due priority.

Three examples will illustrate the potential issues here: If the capacity for collective innovation is particularly weak, with the management team barely ahead of the remainder of the organization in terms of mindset, then before going any further, development activities at the individual level are called for. If the CEO is two steps ahead of the organization in terms of emotional commitment, there is a risk that the organization will fail to understand them and they must then pay particular attention to the nature of their communi-cations to prevent a communication breakdown. And if the company is at

risk of losing its societal legitimation and the members of the management team are at odds with one another, the lever must be applied at the level of the dysfunctional team dynamics.

Once the route has been decided, the next step is to rapidly acquire shared experiences going forward and implement changes in the visible and invisible dimensions of the company. Because visible changes alone – a new organizational structure, revised processes or responsibilities – merely engender the hope that there will be a lasting change in behaviors. It is the invisible dimensions of the transformation – the changes in the corporate culture, the implicit assumptions, the informal communications – that actually drive the desired change in behaviors. So it is vital to rapidly demonstrate the success of new behavioral patterns. The easiest way to do this is through high-visibility projects in which employees can witness the new kind of leadership in action and see how it leads to unexpected successes. They get to experience how much energy is unleashed by being part of such projects and begin to imagine what such behaviors could achieve if applied across the company as a whole.

Of course, such projects need close attention from top management along with an absolute will to succeed. And above all they call for change leaders; pioneers who take responsibility for implementing radical change and assuring rapid successes. Preparing these projects demands a highly sensitive approach, particularly in the selection of the topics. These must be of vital importance to the future of the company and must necessitate behaviors that will be typical going forward. No less critical is the selection of the change leaders, who need to be people that the organization can readily identify with. Suitable project content could include both innovation topics that span the entire company (e.g. along the customer journey) or radical reform of the grand annual "rituals" that shape the corporate culture. In this respect we have witnessed far-reaching changes in the way a company sets itself objectives (next-generation strategic planning); in the way leadership defines performance and addresses the issue of underperformance (next-generation performance management); and in the way management potential is identified and developed (next-generation talent management). Wherever a company finds to its surprise that these rituals are being reshaped in the form of a genuine dialogue, we see the onset of a change in mindset – and the door opens to full-blown transformation.

When the change in mindset reaches a critical mass and sweeps sufficient open-minded abstainers off the fence, almost any organization is in a position to adapt its visible structures (organizational changes, new processes, etc.) to the revised environment under its own steam. The pride inherent in having set its own house in order is greater than any benefits supposedly achieved through a faster external solution. Transformations take time, even

– or maybe particularly – in a fast-moving world. But anyone who now fails to embark on this carefully planned journey of change, and instead simply stands still or rushes off with neither map nor compass, will never make it to their goal.