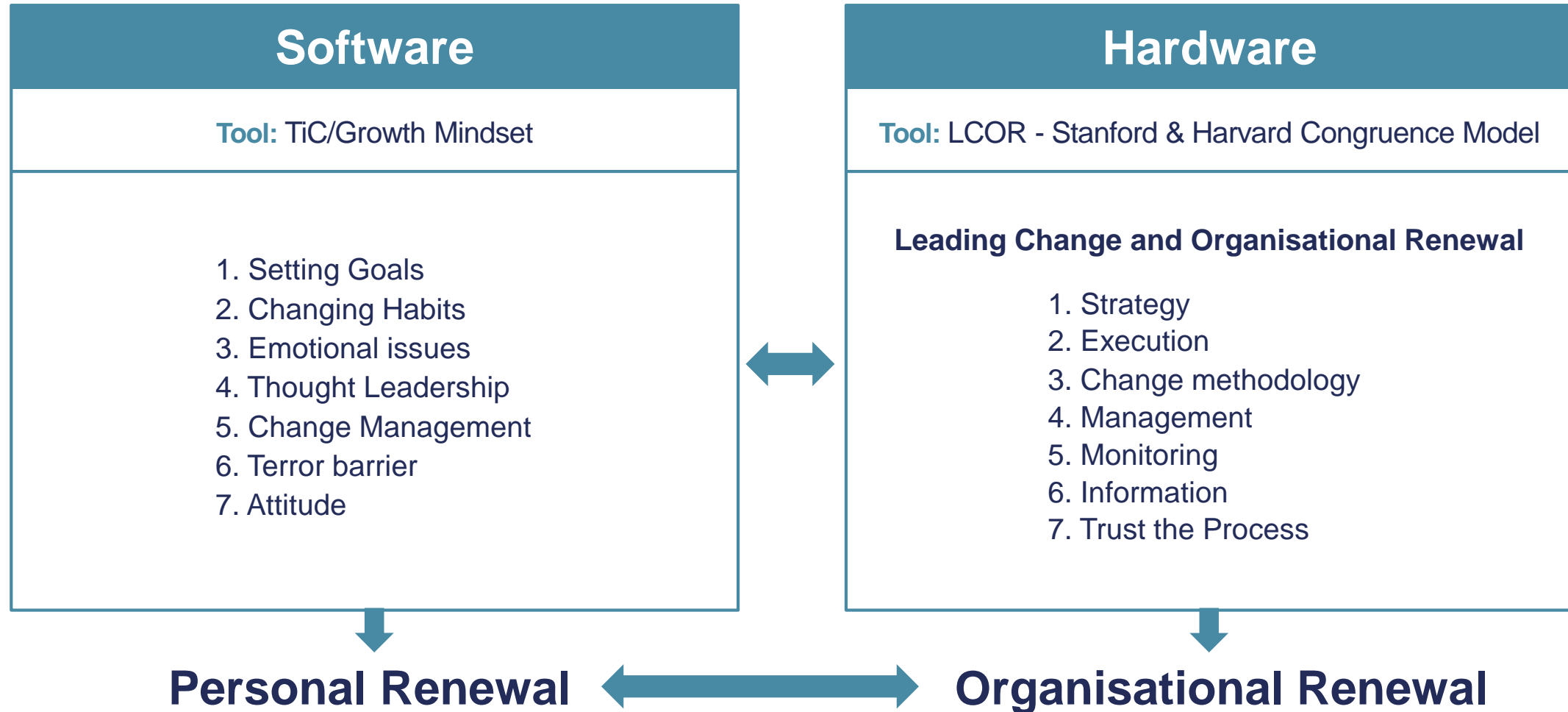# LCOR:
Leading Change and Organizational Renewal
October 27 -- November 1, 2019

Professor Charles O'Reilly
Graduate School of Business
Stanford University

Professor Michael Tushman
Harvard Business School
Harvard University

OHP
Organisational/Human Personal Renewal

Thinking INTO CHARACTER

Software
Tool: TiC/Growth Mindset
1. Setting Goals 2. Changing Habits 3. Emotional issues 4. Thought Leadership 5. Change Management 6. Terror barrier 7. Attitude

Hardware
Tool: LCOR - Stanford & Harvard Congruence Model
Leading Change and Organisational Renewal 1. Strategy 2. Execution 3. Change methodology 4. Management 5. Monitoring 6. Information 7. Trust the Process

Personal Renewal ⟷ **Organisational Renewal**

Fixed Mindset | Growth Mindset

Fixed Mindset	**Growth Mindset**
Abilities are **INNATE**	Abilities are **INCREMENTAL**
I **CAN'T** do this	I can't do this **YET**
AVOID challenge	**SEEK** challenge
PROVE	**IMPROVE**
HIDE mistakes	**EXAMINE** mistakes
EXCUSES	**OPPORTUNITIES**
Feedback is **CRITICISM**	Feedback is **ADVICE**

Thinking
INTO CHARACTER

Success comes from alignment
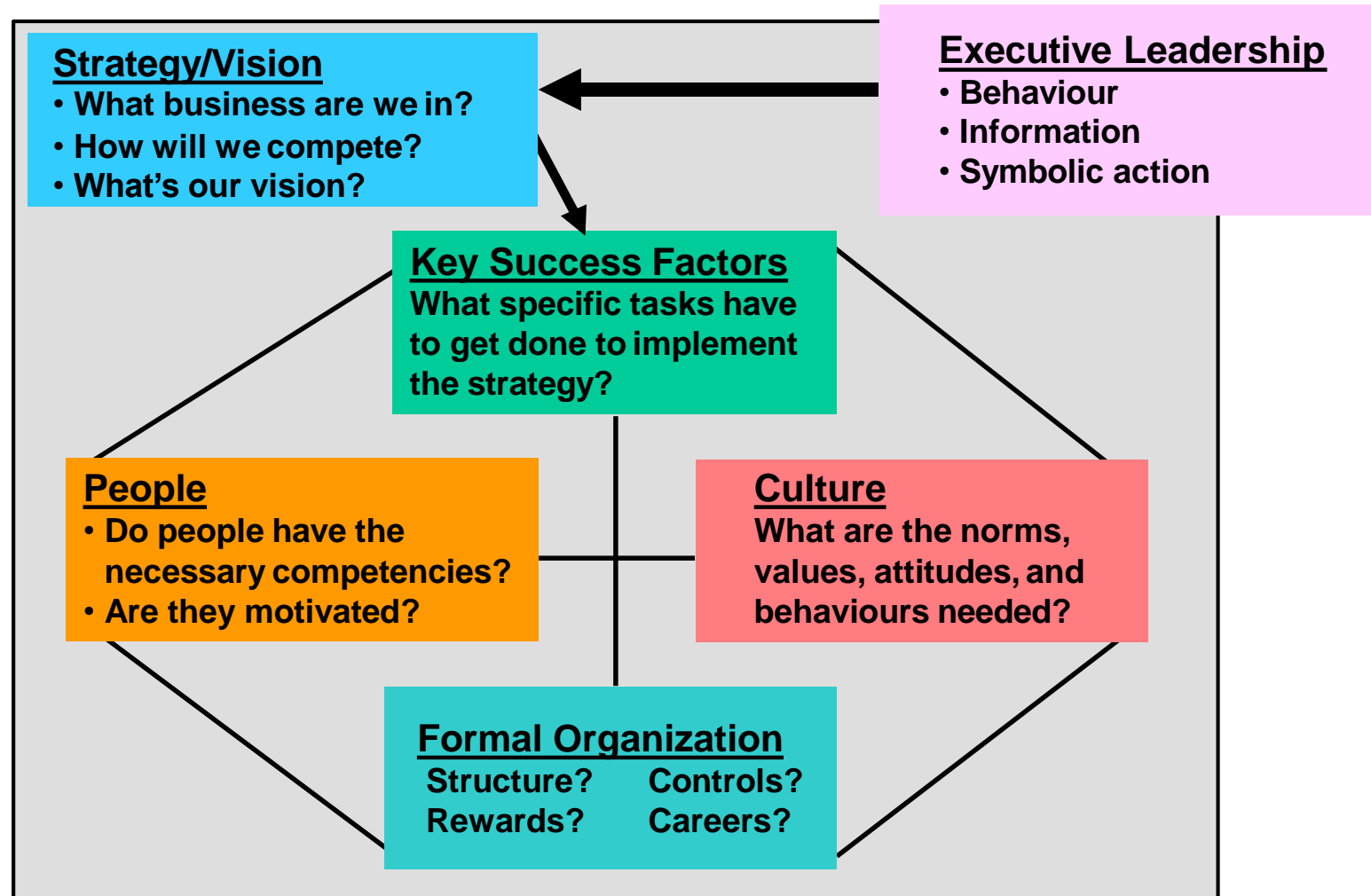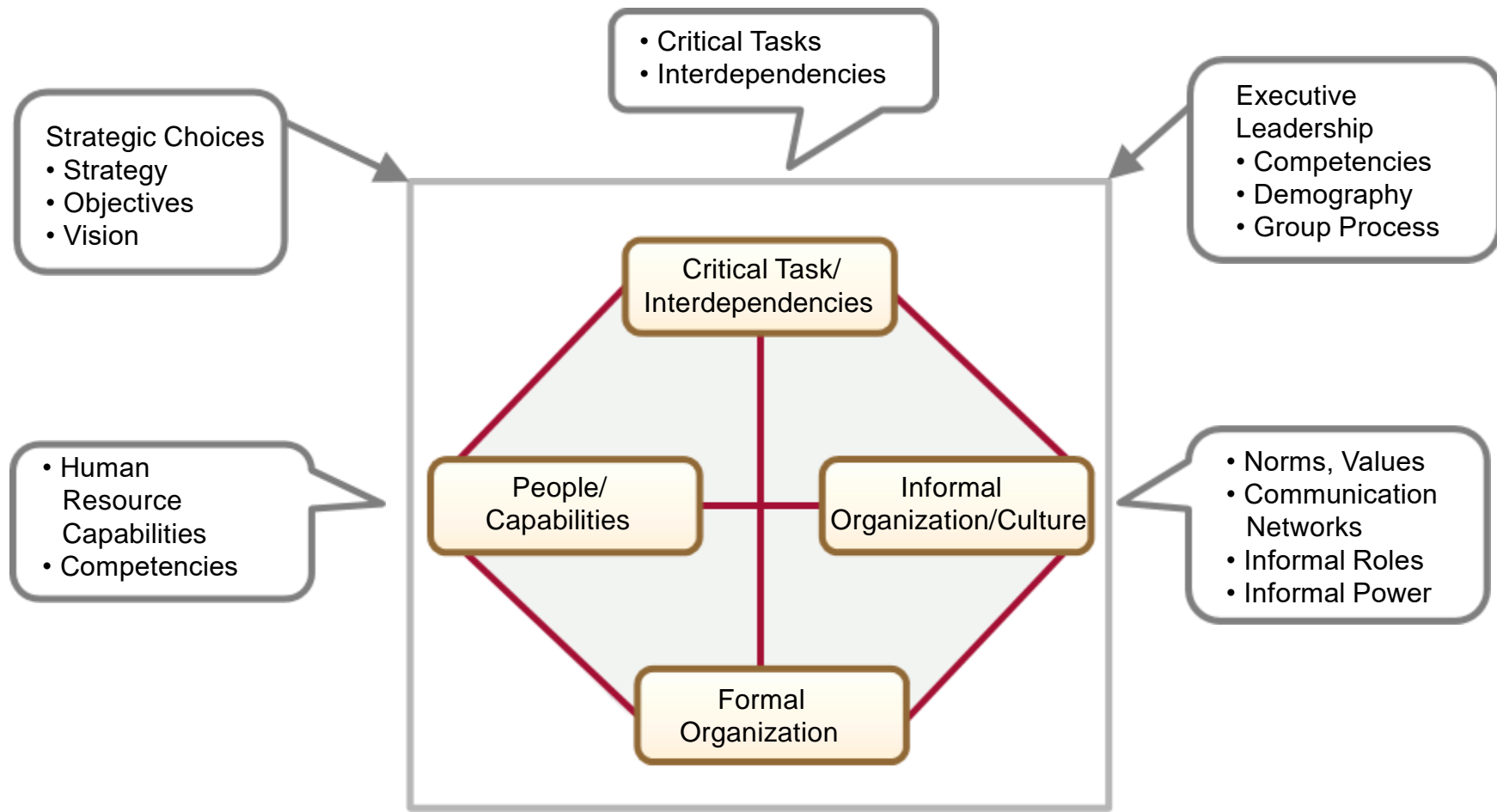
Strategy/Vision
- What business are we in?
- How will we compete?
- What's our vision?

Executive Leadership
- Behaviour
- Information
- Symbolic action
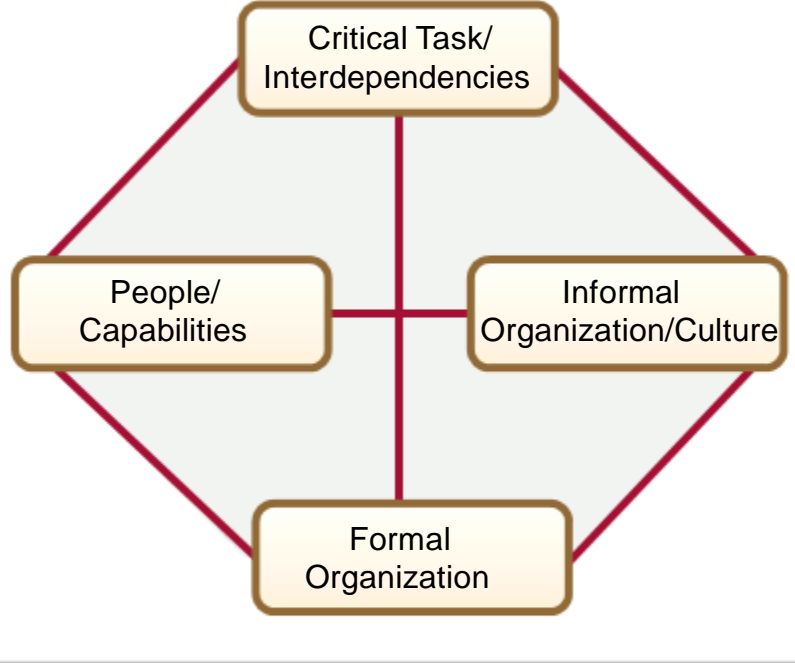
Key Success Factors
What specific tasks have to get done to implement the strategy?

People
- Do people have the necessary competencies?
- Are they motivated?

Culture
What are the norms, values, attitudes, and behaviours needed?

Formal Organization
Structure?   Controls?
Rewards?   Careers?

Fit ➡ Performance

Leadership, Innovation, and Change: Learning Model

Performance/Opportunity Gaps

Organization

Strategy
Objectives
Vision

Performance
Productivity
Innovation
Financial
satisfaction
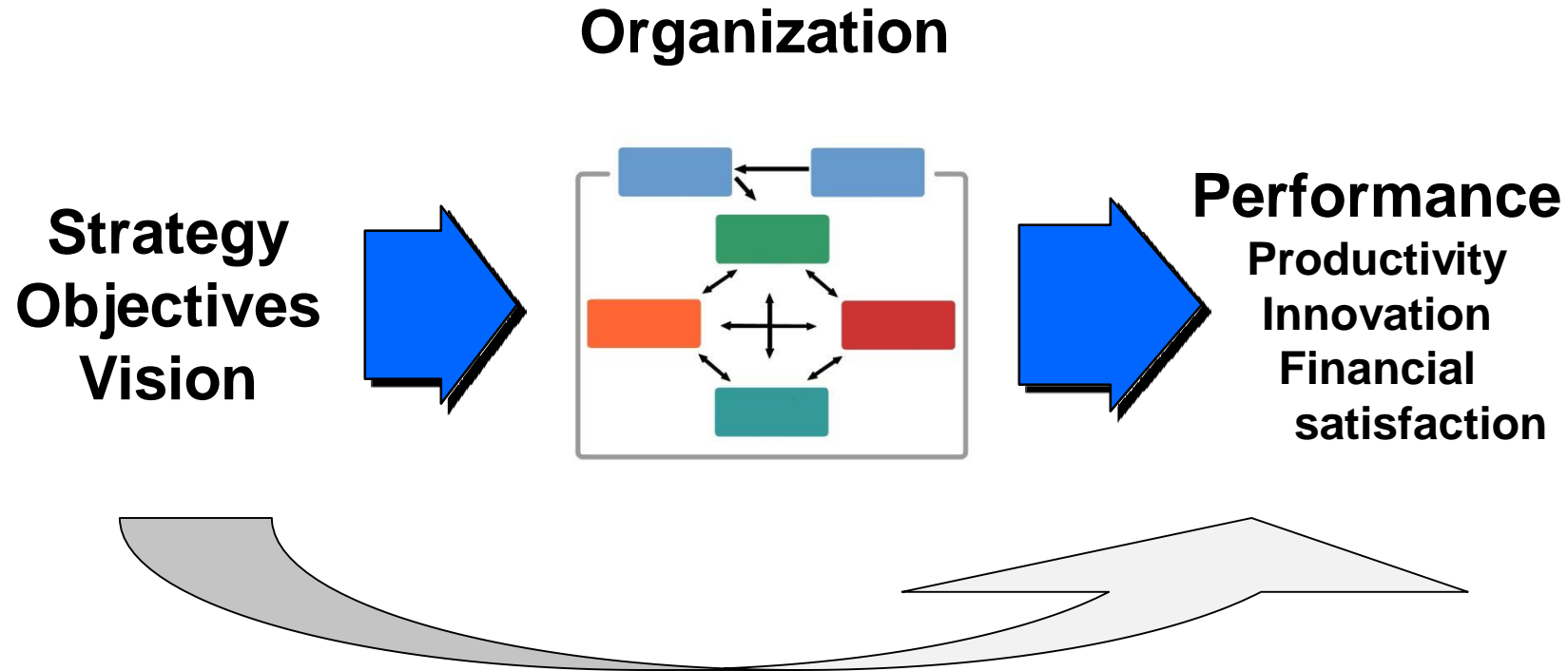
Performance and Opportunity Gaps

- Multiple gaps
- Prioritize

Performance/Opportunity Gaps

Gap = misalignment of outputs and objectives

- **Performance gap is occurring now**

- **Opportunity gap may happen in the future**

Steps

1. Identify gaps
   - Clearly defined
   - Quantifiable

2. Prioritize key gaps
   - Cost, strategic impact

3. Determine business owner

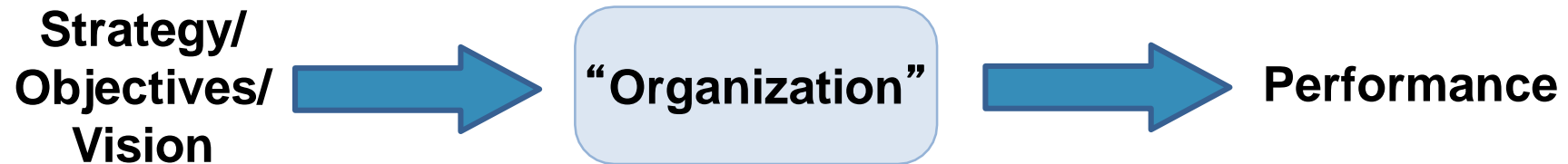# Performance and Opportunity Gaps

- **Performance gap:** Our revenue growth over the past 10 years has lagged the market (4% vs. 8%). Our goal is to break out of this pattern of low growth and achieve 10% profitable revenue growth in the next 24 months. Achieving this will result in an estimated $5 billion in top line growth.

- **Business owner: vice president of line of business**

- **Performance gap:** The firm has grown dramatically over the past five years. During this period the quality of our products has declined. Our attempts at introducing six sigma have failed and we have lost five points in market share in the past 12 months. Each point lost represents roughly $500 million in revenue.

- **Business owner: vice president, quality**

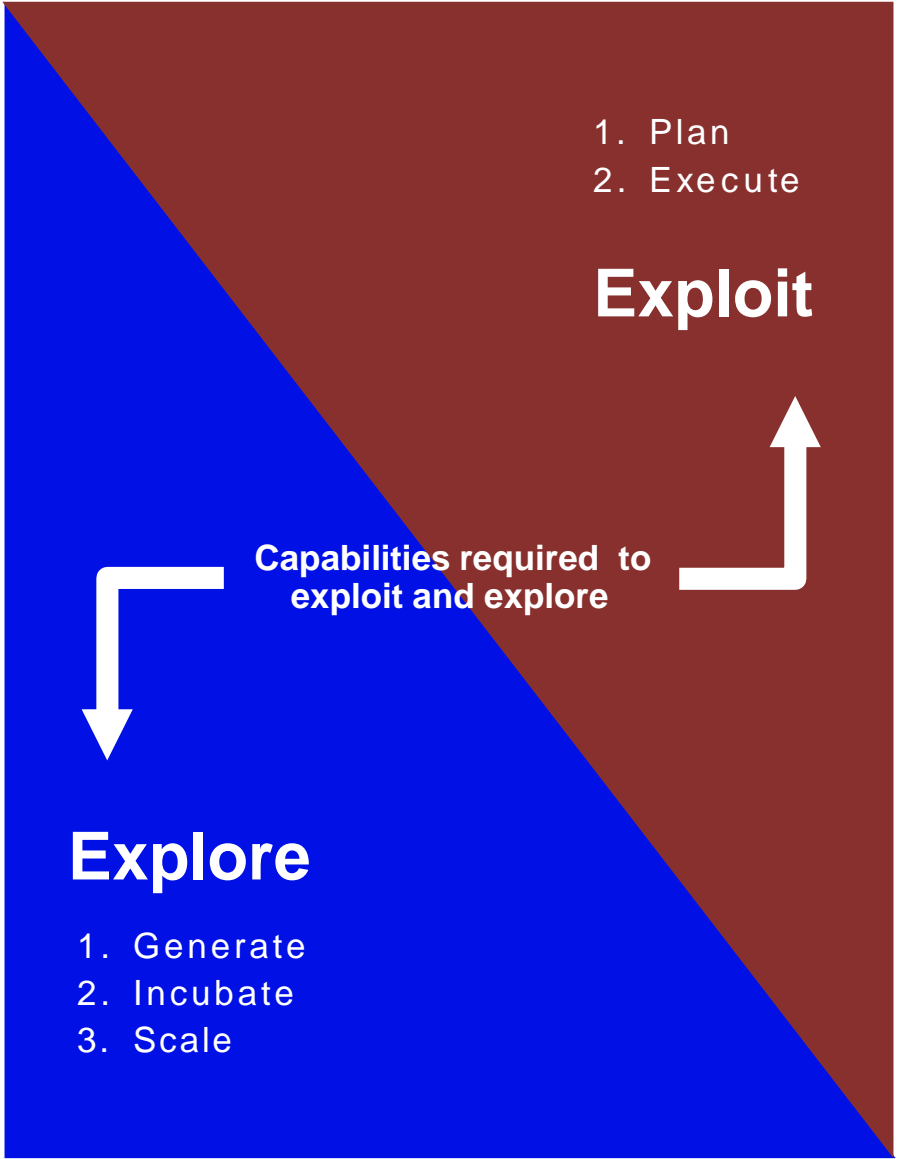# Performance and Opportunity Gaps (cont.)

- **Opportunity gap:** Current revenue growth per customer in our existing markets is growing only slowly (5% per annum) and customer expectations are increasing. If we are able to move up the stack and provide solutions rather than point products, we should be able to increase revenues and profits by 20% over the next three years.

- **Business owner: division general manager**

Performance Gap

- Difference between objective and outputs

- Multiple gaps

- Prioritize performance gaps

Strategy/ Objectives/ Vision → "Organization" → **Performance**

- Reactive problems vs. opportunity gap

1. Plan
2. Execute

Exploit

Capabilities required to exploit and explore

Explore

1. Generate
2. Incubate
3. Scale

O'Reilly, 2019
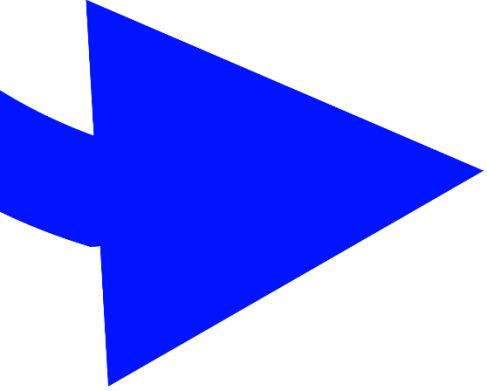
Actual resources dedicated to exploring:

3.2%

Explore

Exploit

O'Reilly, 2019

Generate

Incubate

Scale

Two MBA courses in 10 minutes

"Sustainable competitive advantage" is achieved when a firm or business unit is able to do things that add value for the customer but that are difficult for their competitors to either imitate or replicate.

- ✓ **What business are we in?**
- ✓ **How will we compete?**

The strategy course in 1 slide

Customer Selection — What customer segments do we choose to serve (and not to serve)?

Value Proposition — What will we offer our customers and how will we be differentiated from our competitors?

Value Capture — How will we make money?

Scope of Activities — What activities will we perform, and what activities will we rely on partners?

Strategic Control — How will we defend our profitability?
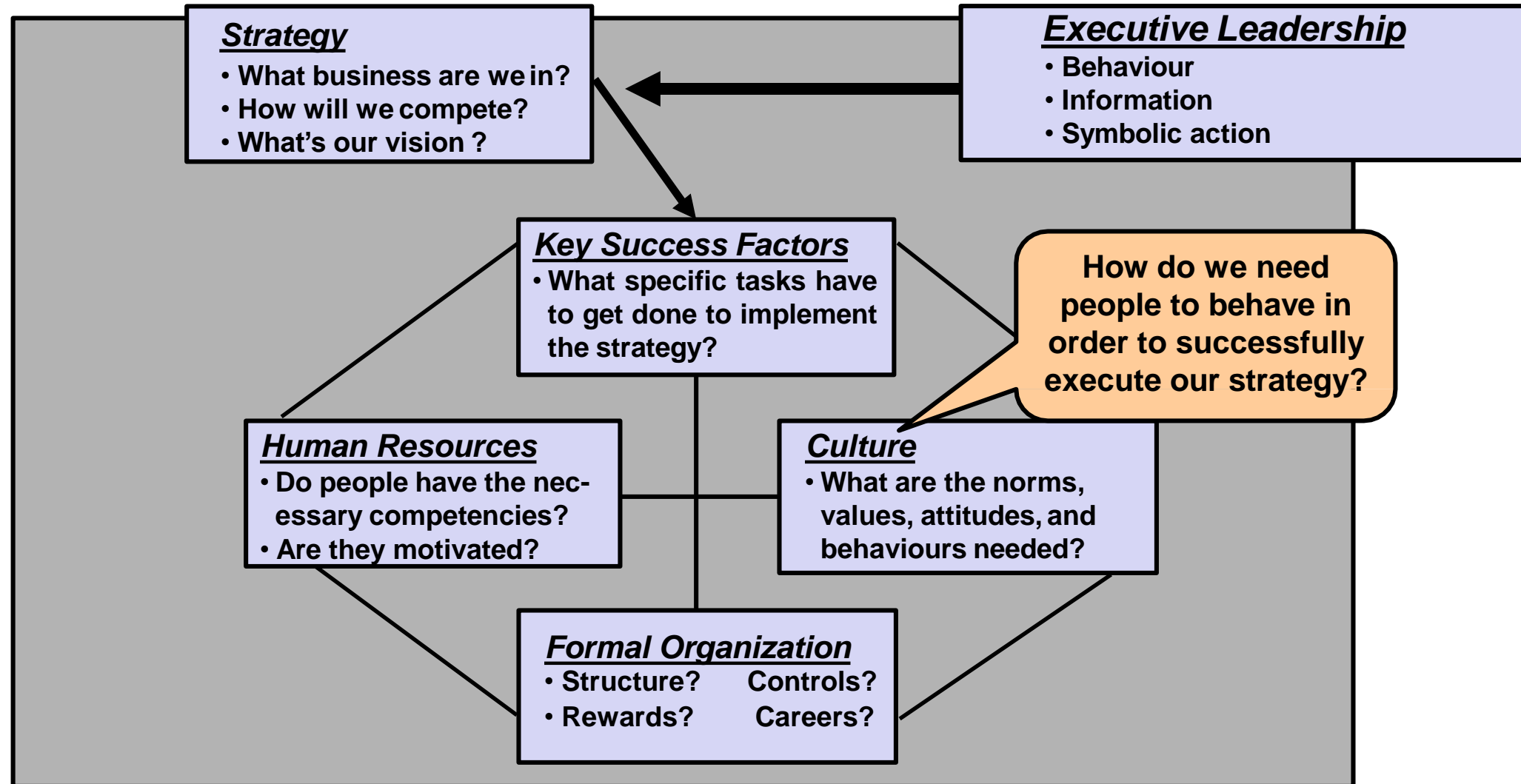
Items for Consideration/Discussion

What does this mean for your customers?

What other startups might want to offer these services to your customers?

What products and services do you need to deliver that you do not currently?

How can your company's core technology and relationships provide unfair advantage
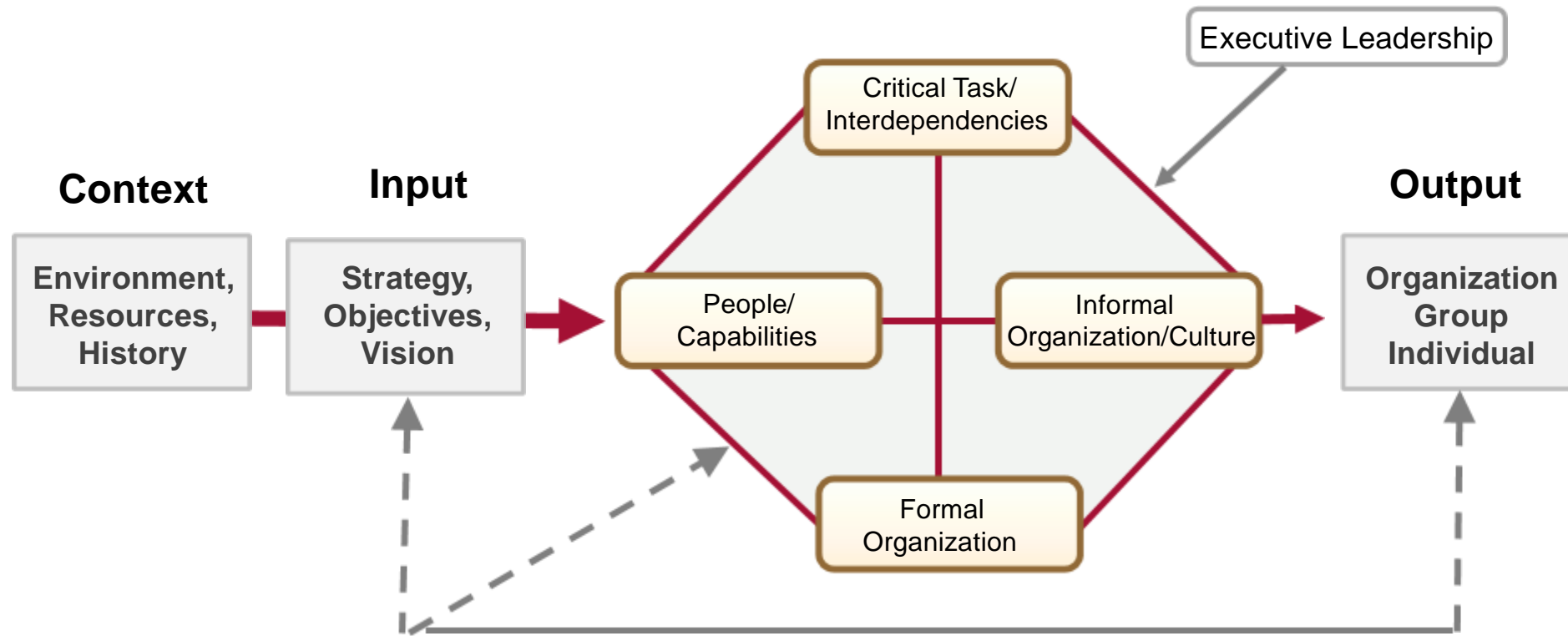
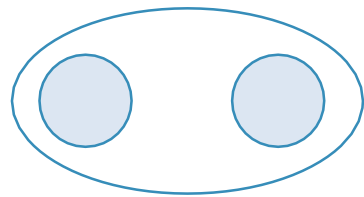# The management course in 1 slide

Inputs, Throughputs, Outputs

Critical Tasks: Work to Be Done

- Characteristics of component tasks
  - Task uncertainty/complexity
  - Knowledge and skill requirements, e.g.,
    - Research vs. technical services
    - Job shop vs. assembly line
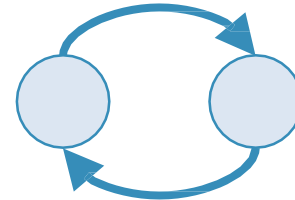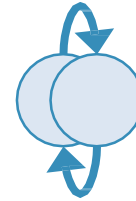- Interdependencies: how pieces of work flow together

Four Types of Interdependence
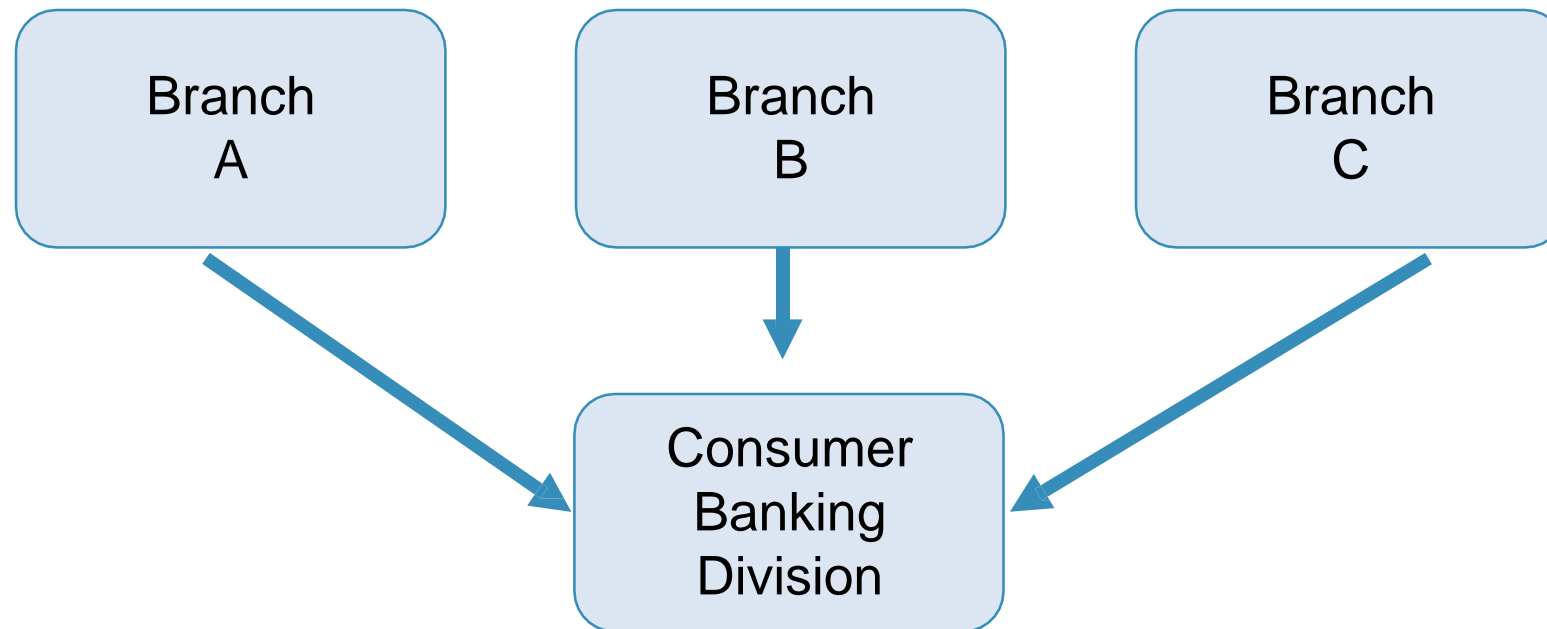

Pooled/Modular

Sequential

Reciprocal

Collaborative

Interdependence: Pooled

Simplest: work done independently by different entities

Interdependence: Sequential

Linear work flows

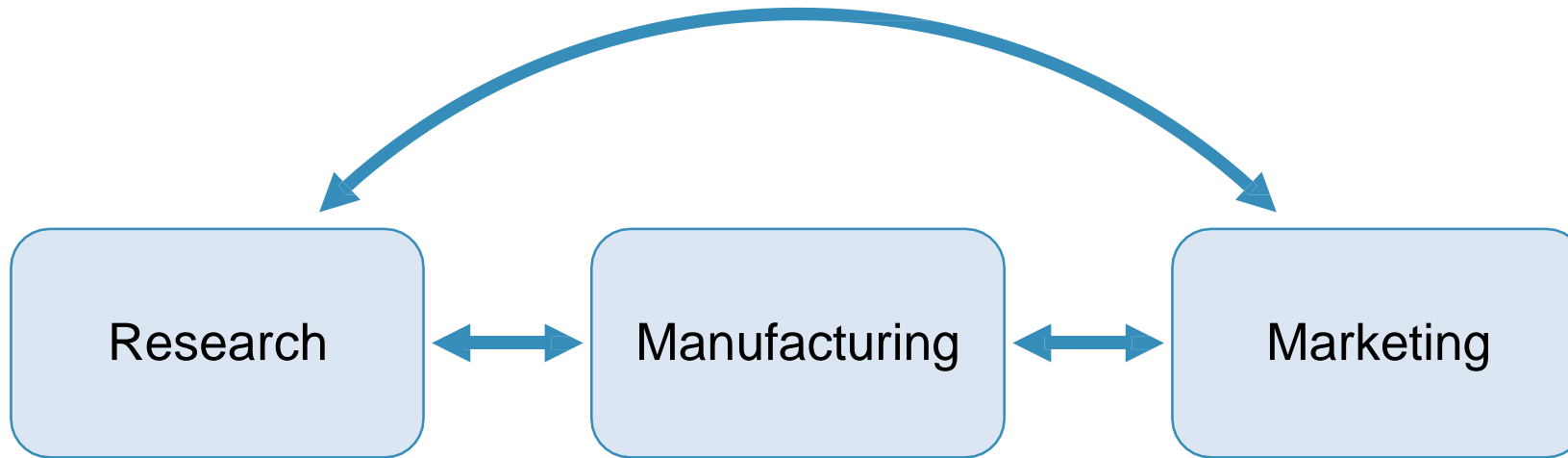| Petroleum Products	→	Polymer Chemistry	→	Construction Products
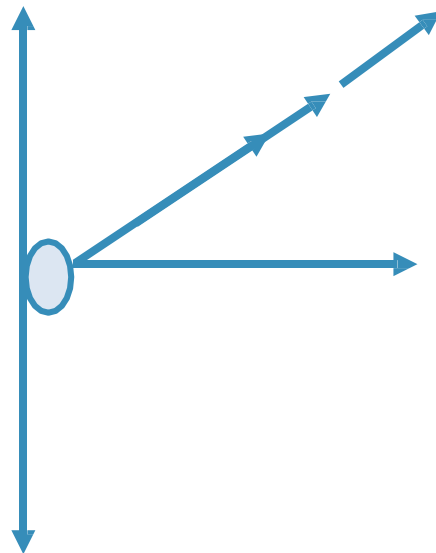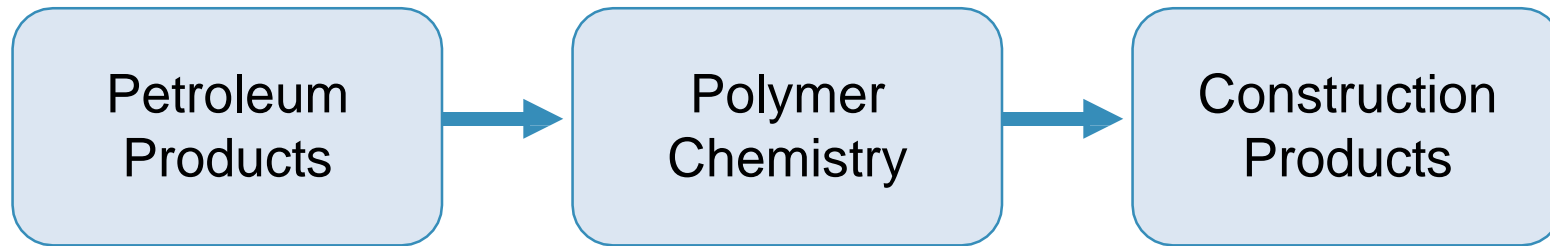
Diagnose interdependencies down, across, up, and down

Interdependence: Reciprocal

Complex, interlinked feedback loops

Diagnose interdependencies down, across, up, and out

STANFORD
GRADUATE SCHOOL OF BUSINESS

1. Problem Identification

- *A short, 2-3 sentence description of the problem--performance gap or opportunity gap* (**Monday**)

2. Root Cause Analysis

- **A congruence analysis of all the likely causes of the problem (Tuesday-Wednesday)**

3. Solution Identification

- **A ranking of the actions needed to address the root causes and solve the problem (Thursday)**

4. Implementation (Action Planning)

- **A plan describing <u>how</u> to implement the actions identified in Phase 3 (Friday)**

strategy + execution

" A well-conceived strategy is important, but I could give our strategic plan to our competitors and not worry about it— because it's all about execution. A second rate strategy perfectly executed will beat a first-rate strategy poorly executed. "

Dick Kovacevich
Former CEO, Wells Fargo

VS
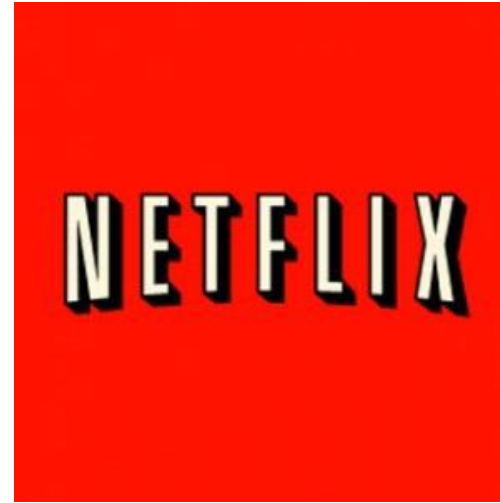
➢ **In 2002, Blockbuster was a $5B firm with more than 8000 stores. Netflix went public with $78M in revenue.**

➢ **Blockbuster executives watched Netflix revenues grow for 58 straight months before responding.**

➢ **In 2010, Blockbuster filed for bankruptcy and has been liquidated.**

➢ **Netflix is closing distribution centers and today more than 98% of their revenue comes from video streaming.**

Netflix's Content Budget for 2018 Balloons to $13 Billion — Report

" I was obsessed with not getting trapped by DVDs the way AOL got trapped, the way Kodak did, the way Blockbuster did…Every business we could think of died because they got too cautious. "

Reed Hastings
Founder & CEO Netflix

amazon
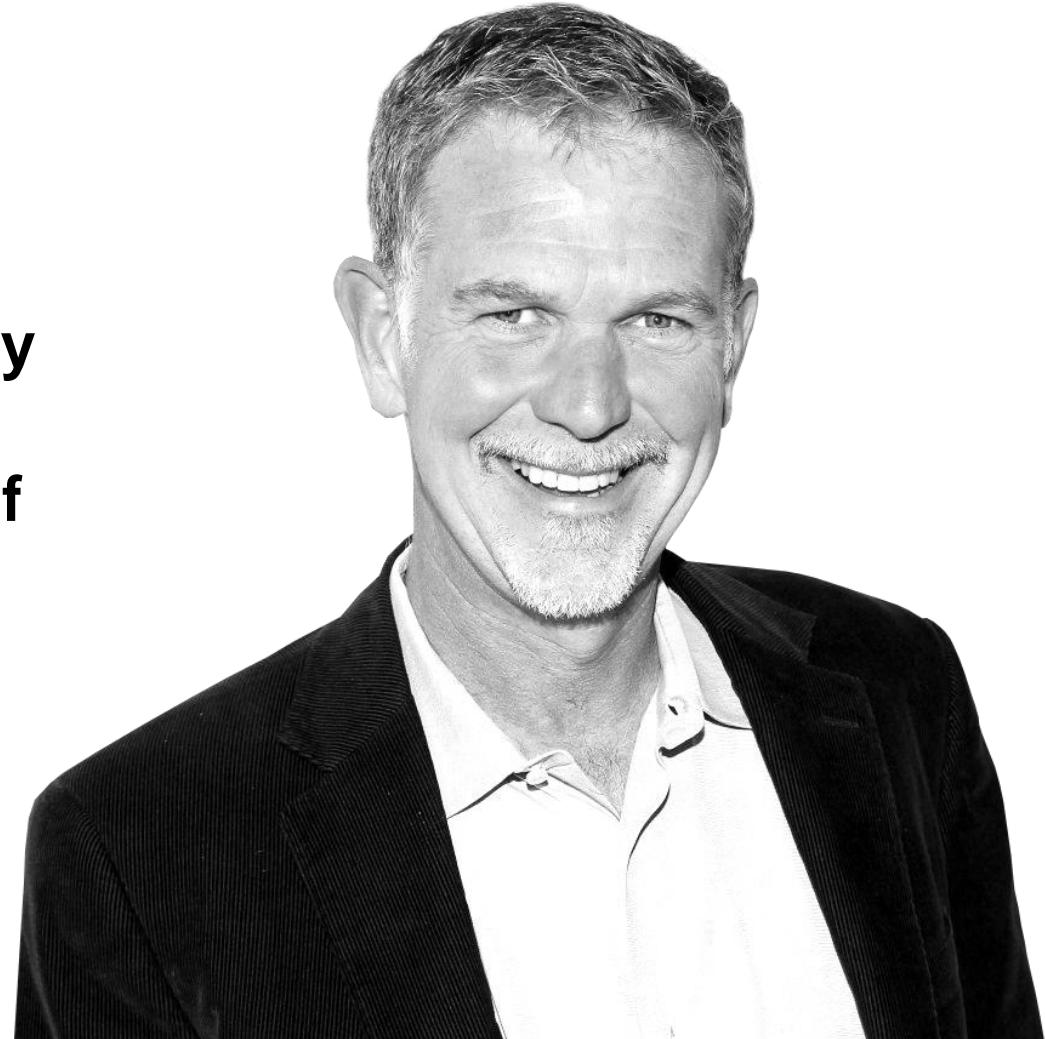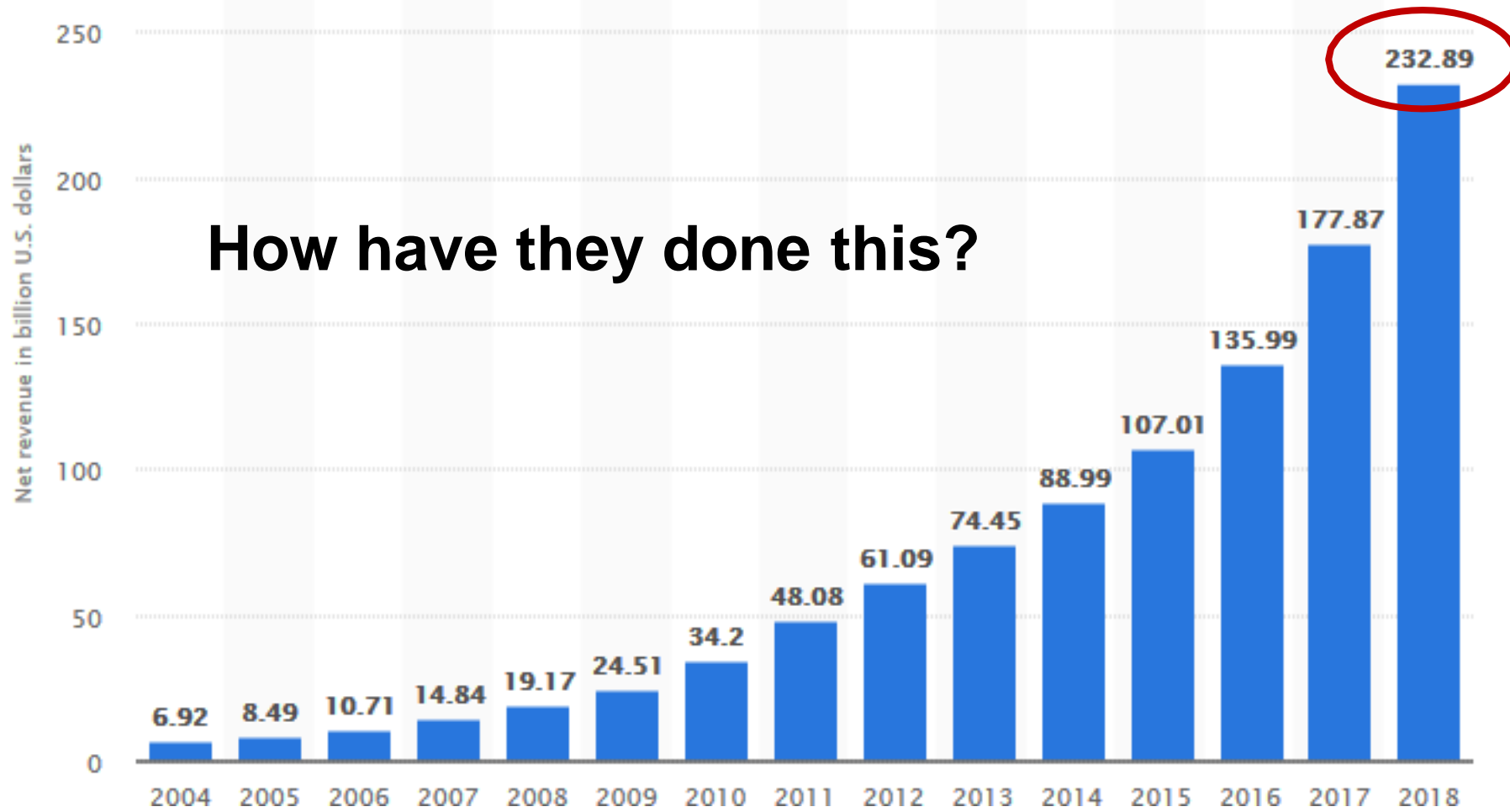
How have they done this?

647,000 employees

1994 – Founded as an on-line bookstore

1996 – Develops ~~own~~ ~~warehouse~~ ~~and~~ ~~fulfill~~**t technology**

1997 – Expands ~~to~~ **DVDs, etc.**

1998 – Begins s~~elling~~ **unning websites**

2001 – Decides t~~o~~ **ability; investment.**

2002 – Begins id~~entifying~~ **es (cloud computing)**

2003 – Opens la~~rge~~ **)**

2005 – Amazon ~~Prime~~ **9); AWS**

2006 – Amazon l~~aunches~~ **ing); Kindle**

2007 – Amazon ~~Prime~~

2010 – Amazon S~~tudios~~

2015 – Amazon ~~Prime~~ **cho Prime Air**

2017 – Amazon Go; Whole Foods; Finance; Health (pharma)

EXPLOIT

EXPLORE
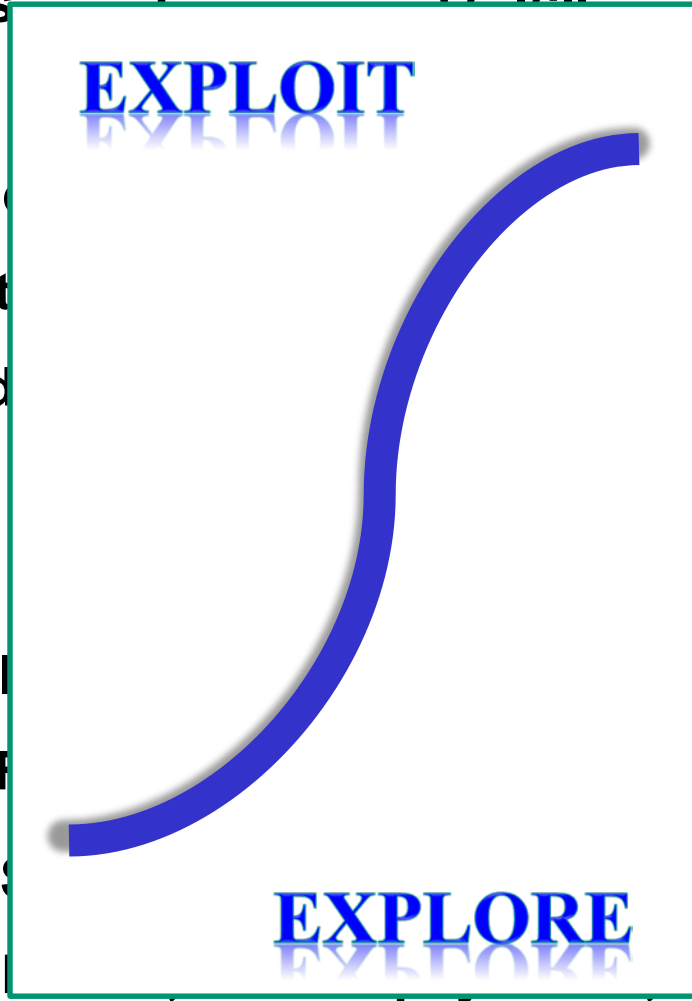
" Big winners pay for many failed experiments "

Jeff Bezos
Founder & CEO Amazon

The Management Challenge

> " The problem is never how to get new innovative thoughts into your mind, but how to get the old ones out. "

Dee Hock
Founder and Former CEO, Visa

Contrasting Heroes

Culture is a social construction

- Much of what we accept as "true" or "important" in organizations comes only from a consensus of others.

- To "know" what is important we often rely upon information from:
  - our own past behaviour (what we are vested in)
  - our peers and other group members (their approval and disapproval)
  - signals from those of higher rank or status (e.g. what's rewarded or punished)

Information is the key!

Culture as Social Control
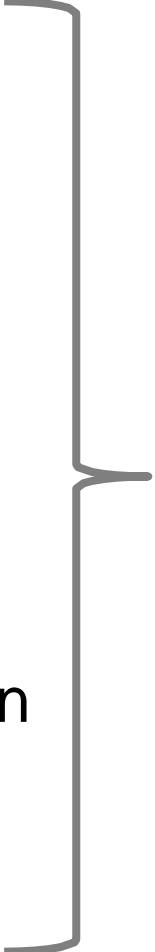
Informal Organization (Culture)

- Norms… dress, working late, conflict resolution
- Values
- Communication and influence patterns
- Climate… collaborative, teamwork, standards
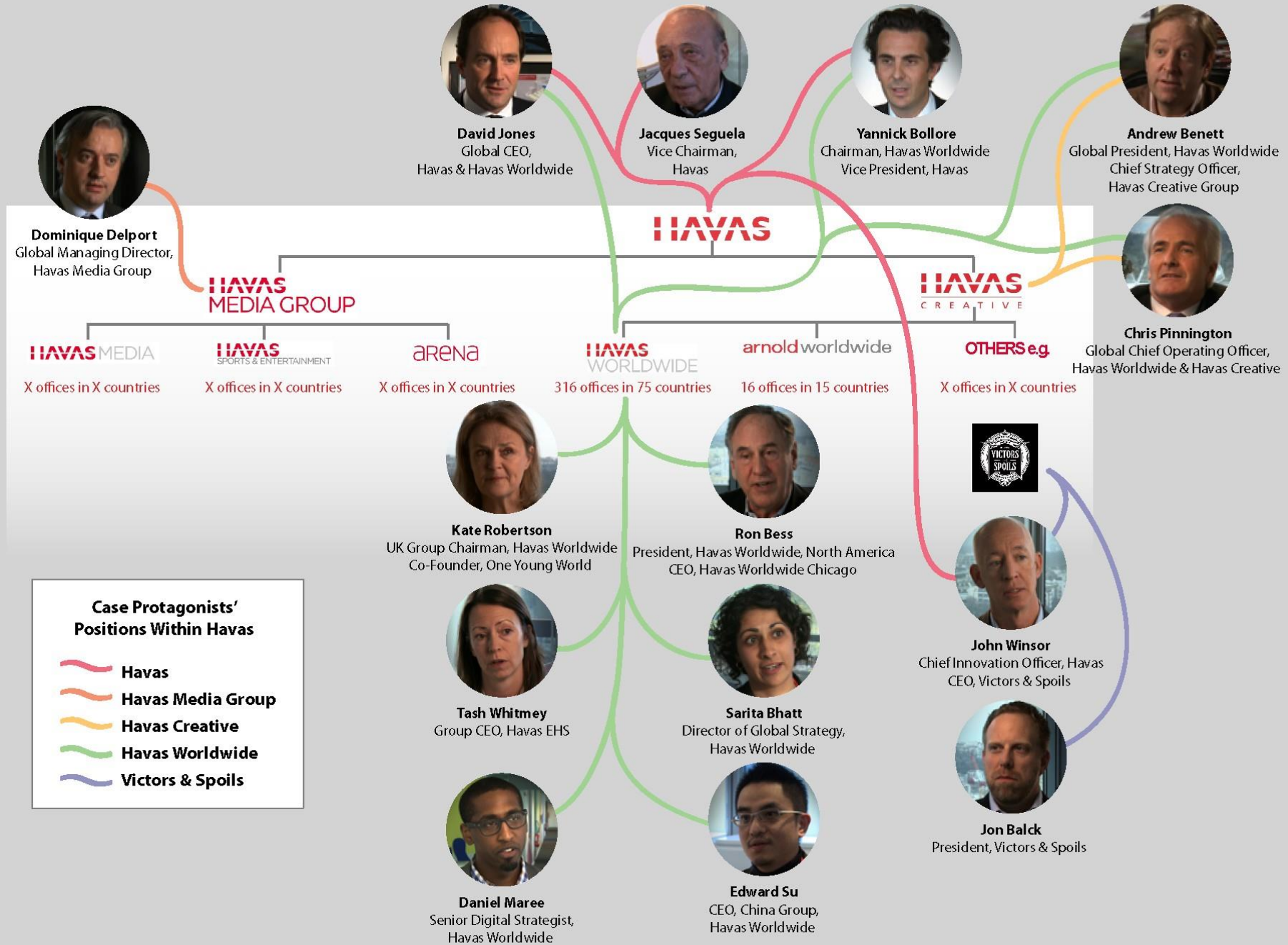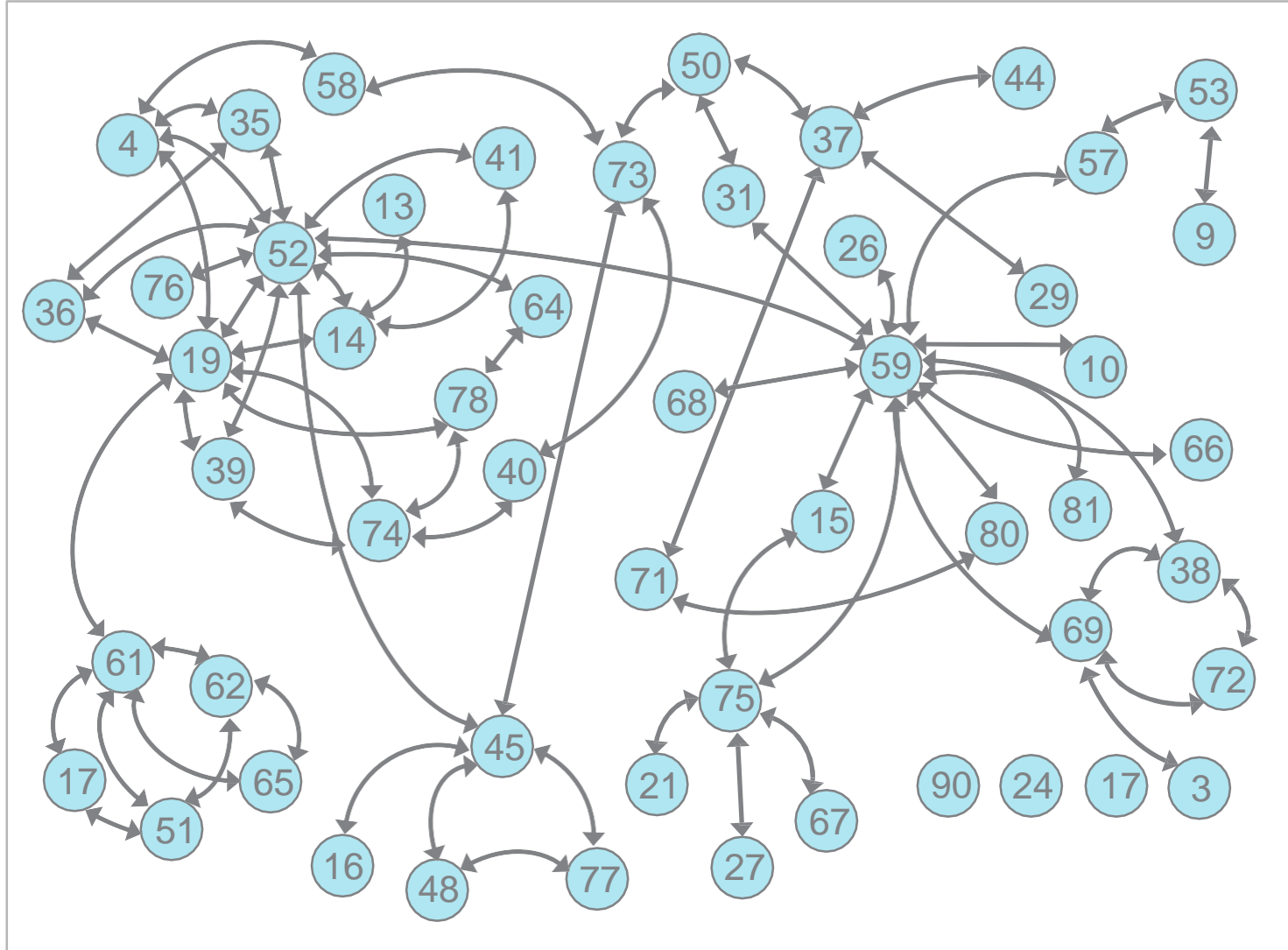- Core beliefs… what we believe in
- Power/politics
- Key roles

Conduct multiple levels of analysis, e.g., unit, inter-unit, organization

David Jones
Global CEO,
Havas & Havas Worldwide

Jacques Seguela
Vice Chairman,
Havas

Yannick Bollore
Chairman, Havas Worldwide
Vice President, Havas

Andrew Benett
Global President, Havas Worldwide
Chief Strategy Officer,
Havas Creative Group

Dominique Delport
Global Managing Director,
Havas Media Group

HAVAS

HAVAS MEDIA GROUP

HAVAS CREATIVE

Chris Pinnington
Global Chief Operating Officer,
Havas Worldwide & Havas Creative

HAVAS MEDIA

HAVAS SPORTS & ENTERTAINMENT

arena

HAVAS WORLDWIDE

arnold worldwide

OTHERS e.g.

X offices in X countries   X offices in X countries   X offices in X countries   316 offices in 75 countries   16 offices in 15 countries   X offices in X countries

Kate Robertson
UK Group Chairman, Havas Worldwide
Co-Founder, One Young World

Ron Bess
President, Havas Worldwide, North America
CEO, Havas Worldwide Chicago

VICTORS SPOILS

**Case Protagonists'
Positions Within Havas**

〜 **Havas**
〜 **Havas Media Group**
〜 **Havas Creative**
〜 **Havas Worldwide**
〜 **Victors & Spoils**

Tash Whitmey
Group CEO, Havas EHS

Sarita Bhatt
Director of Global Strategy,
Havas Worldwide

John Winsor
Chief Innovation Officer, Havas
CEO, Victors & Spoils

Daniel Maree
Senior Digital Strategist,
Havas Worldwide

Edward Su
CEO, China Group,
Havas Worldwide

Jon Balck
President, Victors & Spoils

Informal Communication Networks

Lessons Learned

Culture can be changed—even in a large organization.

But it requires:

- **Clarity** on the part of senior management about what the new cultural norms are–and why they are important

- Clear, consistent, **relentless communication** from the **entire** senior team

- A **few simple metrics** against which progress toward the new culture is assessed

- **Involvement** of people throughout the firm, typically cascading into the organization

- **Vivid examples** of how the new culture is rewarded and the old is not

Leadership Teams: Four Ironies
(from Wageman and Hackman, 2010)

Irony I: Leadership teams are composed of powerful people—yet they tend to be under-designed, under-led, and under-resourced.

Irony II: Membership is important and coveted—but members often don't know who is on the team, and they do not really want to come to team meetings.

Irony III: Members are overloaded—but they tend to waste enormous amounts of time in team meetings

Irony IV: Authority dynamics pervade leadership teams and complicate team processes—but members won't talk about them.

Irony V: These dynamics are accentuated the more senior the team….

Talent: Characteristics of Human Resources

- Demography (age, education, years in service)

- Level of knowledge and skills

- Differences in needs or wants… preferences, e.g.,

  - Achievement

  - Power

  - Affiliation

- Perceptions

Most detailed at team level

Aligning the HR Levers

- *__Hiring__* – What kinds of people do you look for? Are you looking for "fit"?

- *__Socialization and Development__* – Do you signal early to new recruits what behaviours you need from them? Does your training emphasize the values and behaviours required by the culture?

- *__Incentives__* – Do your incentive systems reinforce the values and behaviours that characterize the culture? Are there informal rewards for those who live the culture?

- *__Promotions__* – Are the people who are promoted seen as exemplars of the culture?

Align the Reward Systems

1. **What do people in your organization really want as rewards for their efforts?**

2. **Who controls these?**

3. **What do people have to do to:**
    - **Get senior management's attention?**
    - **Get approval from their colleagues ?**
    - **Get promoted?**

4. **Are these consistent with the critical tasks and the norms needed for execution?**

[What is *really* rewarded within your organization?]

Amazon's Three Disciplines

Amazon begins with three major principles:

1. Start with the customer and work backwards. Listen and invent on their behalf.

2. Focus on the long term (not profits or competitors) and think big.

3. Encourage a passion for invention (failure and invention are inseparable twins).

"The Institutional yes" (Why not?)
- **Differentiated customer experience?**
- **Can it grow into a large business?**
- **Can it provide great returns on invested capital?**

# Headline 2: Leading Change is not just an air war, but also a ground war

Leading change is not just changing the beliefs of people but also their behaviour.

Leading change is not just a matter of planting a flag but also building the road. So a mix of persuasion and energizing. Energizing is about scaling people first !!
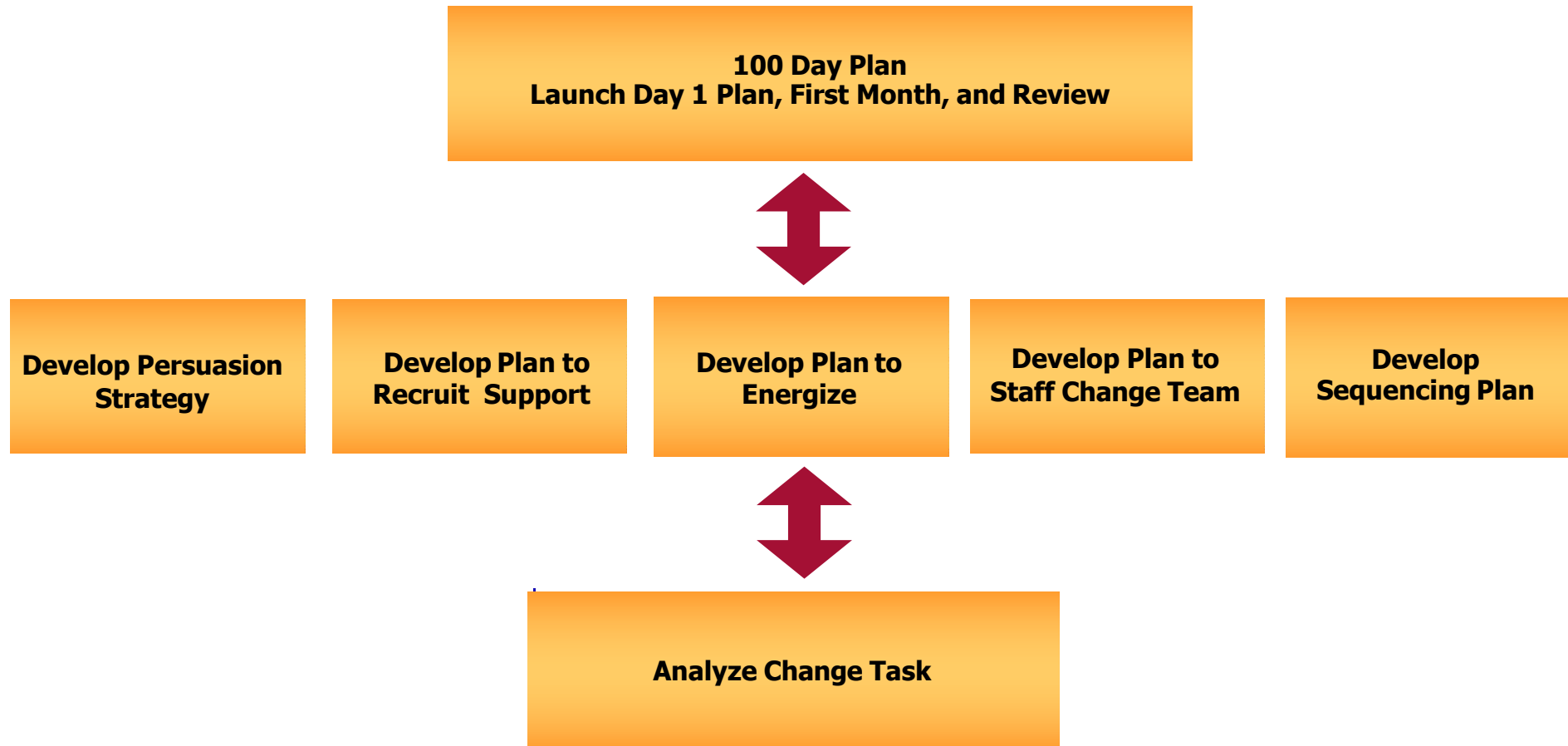
It is important not to just plan the wedding (Day 1) but also plan the marriage !!

Who does what when is key. Hence, our PRESS framework that results in a 100 day project plan

Campaigning for Change: PRESS
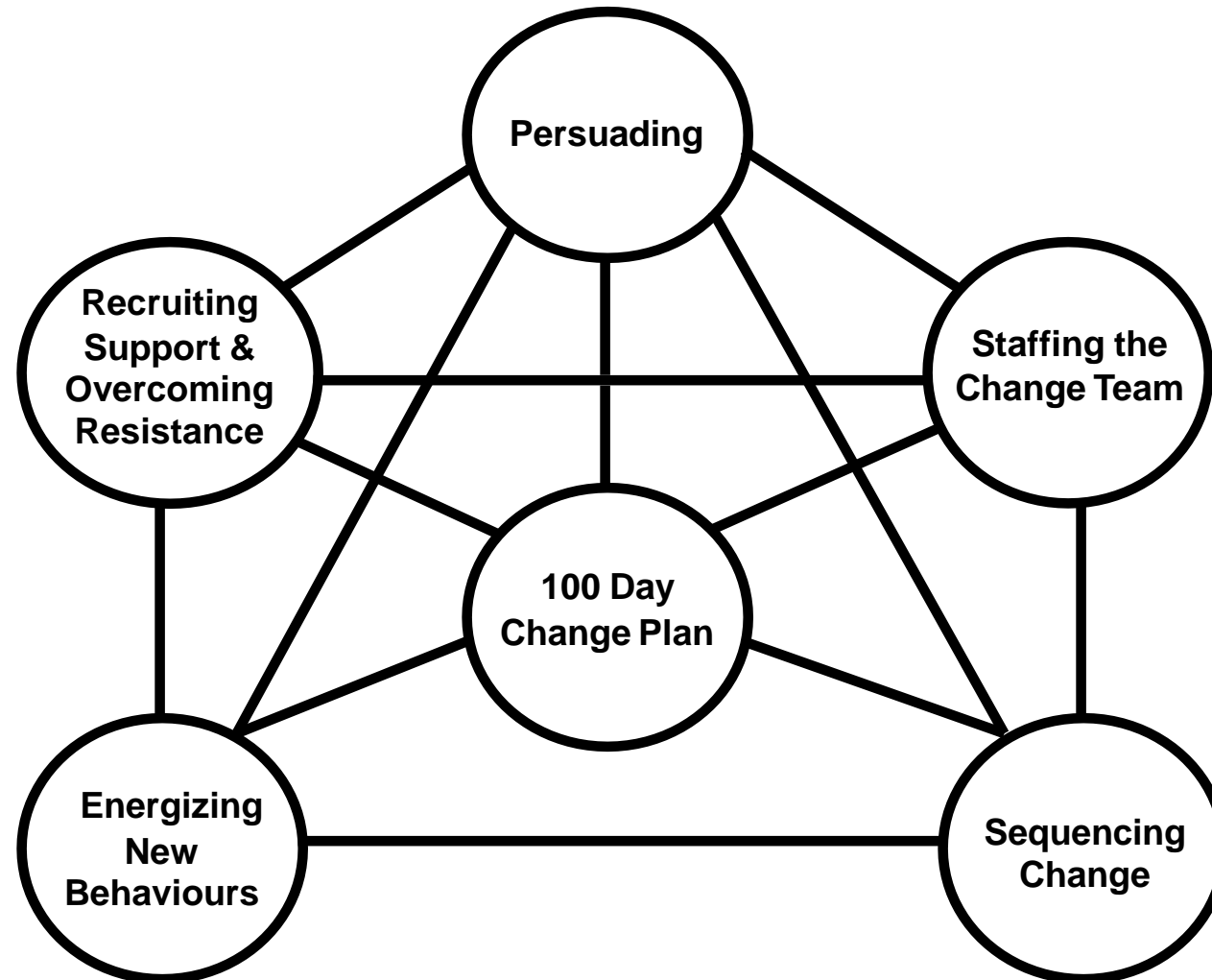
Leading the Change Process

Leaders Need Support From…

- Their subordinates/employees

- Customers

- Investors

- Most importantly, their bosses (e.g., supervisor or board of directors)

- With support, leaders stay; without it, they are replaced

- In many instances those around leaders believe that they are more qualified for the leader's position; sometimes they will wait, sometimes they won't

- Therefore, it is fundamentally important for leaders to master power dynamics

Microsoft

" **We need a culture that allows you to constantly renew yourself…the key is to keep learning and improving** "

Satya Nadella
CEO Microsoft