Fit to Compete

Why Honest Conversations about Your Company's Capabilities Are the Key to a Winning Strategy

MICHAEL BEER

HARVARD BUSINESS REVIEW PRESS

"In *Fit to Compete*, Michael Beer provides leaders with an elegant framework for having unvarnished conversations about their organization's strengths, limitations, and needs. This is required reading for anyone looking to implement new strategic directions."

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"In *Fit to Compete*, Michael Beer provides incredible insights and proven tools for leaders to create a safe and encouraging environment to hear the truth from employees—what they like about the culture, what they dislike, what concerns them about the company's current direction, and how they believe they can help you win. If you want to improve the culture and purpose of your organization, this book should be your foundational text."

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"Speed and adaptability are required in the digital age, and organizational trust is a crucial ingredient for both. In this very practical and timely guide, Michael Beer vividly shows how honest, collective, and public conversations are the best way to build those necessary levels of trust."

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"In *Fit to Compete*, Michael Beer provides leaders with a detailed and instructive approach to conducting honest conversations inside companies. Filled with practical insights, case studies, and great research, this book belongs in every leader's library."

—**LOUIS CARTER,** founder and CEO, Best Practice Institute; author, *In Great Company*

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In memory of Cynthia,
the love of my life

Contents

Author's Note

This book is a product of a deep collaboration with Russell Eisenstat, my colleague at the Harvard Business School in the 1990s and in several professional endeavors that have followed. While I wrote this book alone and am responsible for the ideas in it, Russ was a full partner in the development of the strategic fitness process (SFP), the method for enabling honest, collective, and public conversations in organizations and the subject of this book. Our collaboration gave rise to the insights I present here. We collaborated on the early applications of SFP and on several studies to evaluate its effectiveness. We also had many discussions to make sense of our research findings and observations as we helped managers lead honest conversations. In short, I am deeply grateful to Russ for the many contributions he made to the ideas in this book.

Preface

Every organization faces challenges in executing its strategy. Great companies know how to work through them.

Organizational agility is on everybody's mind these days. But you are much more likely to read about it than to see it. An astonishing number of businesses that try to respond to new circumstances with a new strategy find themselves stuck in neutral. If that sounds familiar, you are the audience I have in mind.

Corning's Electronic Products Division (EPD) was one of those stuck organizations. I was working for the company years ago, following my doctoral studies, as an internal management researcher and consultant and had founded Corning's Organizational Research and Development Department, itself an innovation at the time. Tom MacAvoy, vice president and general manager of EPD, came to me with his frustration and a request for help.

When he had been put in charge of the division two years earlier, it was already underperforming because of dramatic changes in the market and in the competitive landscape. He was expected to turn the division around and had done a good job cutting costs, but that wasn't enough. The market was becoming more competitive, morale was low, and he could not seem to resolve conflict between functional departments. The lack of coordination and mutual confidence was undermining EPD's ability to develop the new products it needed if it were to pull ahead.

MacAvoy knew perfectly well what EPD needed to do to succeed. In my experience, most CEOs and business-unit leaders do. But what they don't know—and often don't realize they don't know until they are stalled in neutral—is how to get the organization and its people to change and adapt to a new strategic vision.

EPD's story ends differently from most. A year later, at a dinner celebrating a glowing business review, MacAvoy presented me, as his consultant, with an oil can—one with a big spout used to oil machinery—labeled "Emotional Oil Can" and filled with good whiskey. The good news was the progress EPD had made on the very issues MacAvoy had outlined for me in our first meeting. As the division's ability to execute its own strategy improved dramatically, so had its health, culture, and performance.

MacAvoy, with my advisory help, had orchestrated a fundamental change in the whole system by which EPD's senior team organized, managed, and led. In short, everything changed, and it did so in a coordinated way so that the whole system would be aligned with—or fit—the strategy of developing new products. How such wide-ranging positive changes in organizational capabilities can be made so rapidly is the topic this book.

Years of research—much of it carried out along with consultation (a combination known as *action research*)—have shown me that systematic organizational change, carried out the way EPD did it, improves the organization's effectiveness and performance and dramatically changes its culture. There is more trust, more coordination and teamwork, and more commitment to executing the leaders' strategic aspirations. The "Emotional Oil Can" MacAvoy gave me reflected the transformation of EPD from a culture of anger and blaming to one of positive and productive relationships—a community of shared purpose with a system of organizing, managing, and leading now fit to compete.

MacAvoy's approach to getting unstuck—to carrying out his strategy—was different from most senior managers' approach. He did not try to lead top-down change by giving inspirational speeches to mobilize improved performance. He did not introduce financial incentives to motivate different behavior. Nor did he take further cost-cutting initiatives or launch a culture or leadership development program. In fact, his predecessor had launched a leadership development program, but it had made little difference.

Instead, MacAvoy led EPD's transformation from the bottom up. He and his senior team commissioned interviews with key people in the division about what was working and not working. Then there was honest dialogue about what those interviews had uncovered—the good, the bad, and the ugly. The senior team conducted a holistic diagnosis of why the organization was ineffective—taking into account the organization's anatomy, physiology, and psychology, so to speak. Just as a doctor or a surgeon needs a confident diagnosis before prescribing a treatment, these top managers wanted to be sure they really understood what was wrong before deciding what to do about it.

Once the team members arrived at a diagnosis and a plan for change, the whole team held one-day meetings in fifteen parts of the organization scattered across the country, including corporate functions. The team members explained their diagnosis and how they planned to reorganize EPD in response to feedback. They asked those below them for yet more reaction to their plan. MacAvoy himself did something quite unusual but powerful in these meetings. He shared publicly the feedback he had received about his own management style. Thus, EDP's surprisingly rapid and successful realignment with its new strategy emerged from open discussion and reflection, not simply from some other organization's or consultant's idea of a best practice.

MacAvoy and his team carried out an example of what I call an *honest, collective, and public* conversation, In everyday life, a conversation is often unstructured but often fails to be truly open. But the honest conversations I am talking about are quite structured and are based on years of research and experience by me, Russ Eisenstat, and our colleagues at TruePoint Partners, a research-based consultancy I cofounded with Russ. These open conversations work, despite the obvious concerns you probably had while reading the brief description above. In this book, you will learn much more about how to lead effective conversations to accelerate change and why these conversations work better than most conventional approaches to leading change.

In my experience, this collaborative, open approach transformed not only the company or business unit but sometimes also the careers of executives who led it. MacAvoy became president of Corning just four years later; he attributed his promotion partly to the dramatic turnaround he had initiated. As he well appreciated, one cause of the turnaround was the honest conversations he had led.

For years, I have had the privilege of sitting on the front line of transformations in many organizations and industries. Often, I function as an action researcher. While facilitating and advising, I also document cases and conduct rigorous research on why some transformations are more successful than others. My work has led me to an actionable theory of how to rapidly develop an organization *fit to compete*, that is, an organization able to realign itself rapidly with ever-changing competitive demands. The approach I and my colleagues have developed—honest, collective, and public conversation—is, I freely admit, unconventional and counterintuitive. But it is successful. It asks much of everyone involved but delivers even more.

Introduction

Why Your Strategy Needs an Honest Conversation

Management systems require knowledge of the interrelationships between all components within the system and of everybody that works in it.

—W. Edwards Deming, presentation at Western Connecticut University, February 1990

"Courage is the most important of all the virtues, because without courage you can't practice any other virtue consistently. You can practice any virtue erratically, but nothing consistently without courage."

—Maya Angelou, as quoted in *Diversity: Leaders Not Labels*, by Stedman Graham

In 2010, Ed Ludwig, CEO of global medical technology maker Becton Dickinson (BD), was a year away from his planned retirement but was by no means ready to coast. In fact, he and his designated successor, Vince Forlenza, intended to give their company a new strategic direction—and they had decided to do it the hard way.

BD had already been outperforming its competitors for a decade. Nevertheless, after many discussions, the senior team concluded that with the changing competitive landscape, the company's good performance wouldn't be good enough. BD had to transform itself from an excellent operating company that had succeeded through trustful customer relationships, ethical behavior, and incremental product improvement into a much more innovative company capable of delivering value-added solutions outside its "home court." As Gary Cohen, a member of the senior team, put it, BD was already a fine athlete, but now it had to become an "Olympian."[1]

Ludwig and Forlenza knew that company cultures don't change just because someone at the top wants them to. Instead, they knew that they would need to obtain commitment from BD's managers around the globe. Their new strategy would require the transformation of BD's entire system of organizing, managing, and leading.

For these reasons, the transformation they had in mind would depart dramatically from the conventional top-down change practiced by most top managements. Ludwig and Forlenza did not hire a consulting firm to recommend changes in BD's organization and processes so that top management would then sell these changes to lower levels to execute. Instead, they launched an organization-wide honest, collective, and public conversation about two things: which of BD's strengths had to be preserved for the new strategy to work and which barriers within the company would sabotage that strategy.

Honest, collective, and public conversation can take several forms, but in BD's case, it involved about 150 people. Most were the company's key employees in all its various units and functions. They were given a chance to safely express—to a chosen group of twelve managers trusted by both the senior team and the lower levels—their opinions about BD's capability to execute the new strategy. The other participants in the conversation were external stakeholders—investors, customers, thought leaders, and a few CEOs in the industry and partners—who offered their views of the company's strengths and barriers to executing the new strategy. The twelve managers then presented to the senior team—in person—what they had heard. The senior team members, in turn, shared with the rest of the company exactly what they had heard from the lower levels—however uncomplimentary some of it was to themselves—and what they planned to do about it. Nothing was hidden in a consultant's report or the minutes of a board meeting.

Let's consider how unusual a step Ludwig and Forlenza had taken. They already knew the strategy they wanted to pursue. Why, then, would they commit themselves to listen to, and act on, unvarnished opinions about barriers to the transformation from people over whom they had authority? Why not just tell people what was expected of them? Why would they commit themselves to communicate honestly to hundreds of people around the world the uncensored truths they had heard about those barriers to innovation and their plans for change? Wouldn't this signal to everyone that they were weak and indecisive? Wouldn't it slow down the transformation they so urgently wanted to make? Wouldn't it lead to a culture of complaints, endless debate, and inaction? And in any case, would people below the top have that much to contribute to high-level strategy?

In short, why go asking for trouble? Why not just lead?

Ludwig and Forlenza understood that "poor implementation will eat a good strategy for lunch." They had learned how hard it is to get their organization and their people to understand the new strategic direction and work together to transform the organization's capability to execute this change. And the challenge is growing for most companies because the competitive environment is becoming more brutal and changing ever more quickly. Your organization and you, its leader, may not survive and will certainly not prosper in the long run unless your organization learns to adapt and change continuously.

Why Most Transformations Fail

Nearly every organization—whether private, social, or governmental—is grappling with huge strategic challenges, often with a need to reimagine its very purpose, identity, strategy, business model, and structure. Most of these efforts to transform will fail.[2] And in most cases, they miss the mark not because the new strategy is flawed, but because the organization can't carry it out. Let's consider several examples.

Nokia: Poor collaboration and coordination

As the first company in the mobile phone industry to achieve commercial success, Nokia enjoyed a huge share of the global market.[3] But by 2010, its share was declining, with Apple's introduction of the iPhone. Surprisingly, years before the iPhone was introduced, Nokia leaders understood where the industry was going. The company had developed an early version of an internet-ready touchscreen handset with a large display and was working on improving it. How then can we account for this failure?

The story is complex. Nokia clearly faced huge headwinds—dramatic changes in the industry and in mobile technology. Senior management understood that it had to improve its proprietary operating system, Symbian. But several things kept getting in the way. One was an organizational context—a system of organizing, managing, and leading that did not fit the new strategy. Such an environment would enable not only differentiation (strong functional capabilities) but also integration, coordination, and cooperation within and between business segments.

The inadequacy of Nokia's matrix organization and the company's subsequent decision to decentralize complicated the coordination across departments or managerial levels required for rapid innovation. The design of the organization prompted infighting among managers with competing objectives and views. Moreover, those at the top never dealt with these tensions properly, because they never fully knew the depth of these problems. Nor did managers see how their own leadership contributed to the problems or realize that developing an organizational structure for effective decision making was their principal task. As a result, the organization failed to change and coordination remained stagnant.

British Petroleum: A failure to organize and lead effectively

The gigantic oil spill after the failure of a British Petroleum oil platform in the Gulf of Mexico in 2010 was, according to HR consultant Richard Lepsiger, an enormous execution failure: "Leading up to and after the oil spill BP violated almost all the guidelines of effective execution, including lacking an effective structure and lacking clear accountability." Moreover, "following the spill, BP was unable to get input from those who had the knowledge and experience to make the best decisions about how to handle it."[4] BP had failed to develop the leaders it needed in an emergency like that and had failed to develop a culture that empowered its people to use their best judgment and take appropriate action.

Johnson & Johnson: An erosion of values

Johnson & Johnson's McNeil Consumer Healthcare, a maker of over-the-counter drugs, has had eight product recalls since 2009. But as far back as 2005, employees were reporting a lack of alignment between managers' behavior and J&J's historical values of integrity, honesty, quality, and doing the right thing. CEO James Burke had exemplified and institutionalized these values in the 1980s, when, at great company expense, he pulled all Tylenol products off retail shelves and launched a costly initiative to develop tamper-proof bottle caps. The move was in response to the deaths of seven people after they took medication that had been tampered with after the bottles were on the retail shelf. The company's failure to sustain this culture of integrity demonstrates the importance of alignment between strategy and culture.

Toyota: Poor organization design

In 2010, millions of Toyota vehicles were recalled because of numerous defects, a surprising outcome for a company that had long been recognized for reliable quality. A decentralized structure that had worked in earlier years turned into a liability as the company grew exponentially and became the dominant player in the industry. Senior executives believed that Toyota's worldwide functional structure required all customer complaints to go to Japan, rather than being dealt with in each region, thereby undermining local responsibility, accountability, and rapid response.

General Electric: Failure to listen

General Electric had prospered for over a hundred years when its celebrated CEO, Jack Welch, retired in 2002, the year GE stock hit a high of $55. But by January 2019, the stock had fallen to $8. Welch's successor, Jeff Immelt, was an equally celebrated CEO with a magnetic and optimistic personality, but he ran into strong headwinds in the business environment, including a depressed energy sector—one of GE's biggest markets—and the financial crisis of 2008–2009.

Immelt tried to rescue the company and his legacy by acquiring Alstom, GE's chief competitor in the energy sector, despite wariness by some board directors, senior executives, and advisers. Knowing that Alstom had made bad deals, followed bad practices, and performed poorly, executives in GE's energy and power sector cheered every time the deal seemed about to collapse. But it was difficult for them to challenge what they considered Immelt's overoptimism; when executives presented what they considered realistic plans, he was known to quip, "Where is the guy I used to know?" They believed that he overrated GE's capabilities and that he did not listen to subordinates who tried to tell him so. The deal went through, but Alstom has not performed and is one of the main reasons GE's stock price has collapsed and investors have lost faith in the company.[5]

As a group, these failures illustrate the common root cause of organizational ineffectiveness: a flawed strategy or failure to align the organization and management processes with the strategy and values. Misalignment tends to produce the very symptoms we see in these five stories: unclear or flawed strategy (GE); unclear values (J&J); poor coordination (Nokia, BP, Toyota); inadequate capacity for honest communication

(GE); inadequate leadership development (BP); and failure by leaders to listen and learn (GE). We will examine these and other common manifestations of misalignment—which I call the silent killers—in chapter 4, and trace them back to the failure of leaders to have an honest and productive organization-wide conversation.

Employees below senior management collectively know a lot about why their strategy or organization is not effective. They cannot, however, convey their understanding to senior management. Sometimes, it is clearly unsafe, careerwise, to be the bearer of bad news. Other times, management lets people complain but doesn't take the complaints seriously.

Organizationally lifesaving information cannot get where it needs to go when management has not institutionalized a disciplined way to receive it. This information needs to be delivered to leaders regularly, not only in sufficient detail but also with enough urgency and coherence to provoke action.

Ironically, these companies had established a disciplined total quality management process in their operations. Toyota had pioneered such methods, and the others had learned their lesson from Toyota and other Japanese companies: enabling frontline employees to communicate safely about quality problems and involving them in improving production can continually improve quality and reduce costs. Yet none of these companies had thought to apply such a process to continuously improve the quality of their own organizations, that is, the effectiveness of their own leadership. As I hope this book will convince you, honest, collective, and public conversation is total quality management for the organization as a whole.

The Strategic Fitness Process

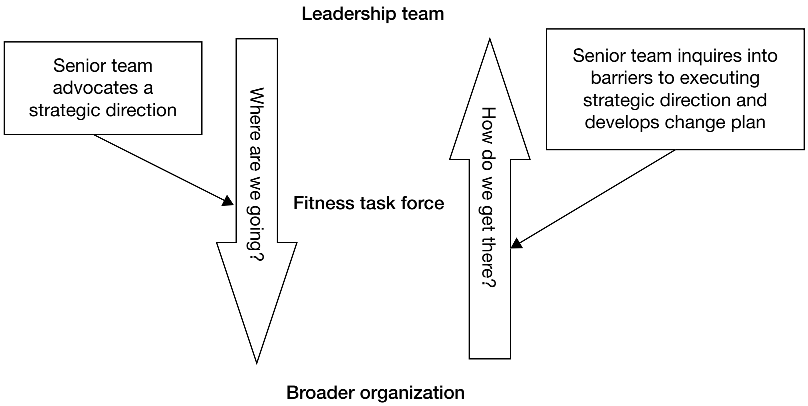
If a company's organization, management, and leadership are to improve, the people affected by these elements have to feel involved. They must be encouraged to discover problems and to correct them. This sense of ownership can only come about if the people involved in the system feel involved in the process of improving it; that is, involved in discovering problems and correcting them. That can only come about if they trust both the intentions and the competence of their leaders. In such an open environment, honest conversations can thrive and the needed changes can take place. These conversations require senior leaders to have the courage to temporarily suspend their convictions and to cancel, as it were, their immunity to challenge so that less powerful people can speak truth to power.[6] In many organizations, people sense that none of this is possible.

A few decades ago, my colleague Russ Eisenstat and I joined forces with Ray Gilmartin, then CEO of Becton Dickinson, and his leadership team to pioneer a technique of rapidly improving the quality of BD's management. We jointly invented the strategic fitness process (SFP). This process enabled Gilmartin to learn about barriers to execution and to change how BD was organized, managed, and led. With those changes, BD became an organization that could—and did—carry out Gilmartin's strategy to grow BD's business in Europe.

SFP is a carefully designed platform that has proven successful in fostering otherwise difficult, honest, collective, and public conversations about an organization's effectiveness. It begins with the senior team's developing and writing down on two pages the business's strategic direction and then appointing a task force of eight of their best leaders below the top to interview a hundred people who have intimate knowledge of the challenges at hand. Task forces sometimes need to be larger than eight people, depending on circumstances, but eight has proven to work well. The leader describes the strategy to the task force members so that the members can explain it to the interviewees. The task force asks them for their frank feedback about the organizational strengths and weaknesses that will affect the execution of the strategy. In a face-to-face meeting, the task force presents the senior team with what they have learned. The senior team then develops an action plan for change. Next, they discuss the plan with the task force members: is it responsive

FIGURE I-1

Overview of the strategic fitness process



to the feedback, and do the members see barriers to executing it? The senior team then shares their findings with the larger organization: here's what we heard, and here's what we plan to change. Figure I-1 provides an overview of how SFP works. Chapter 1 will show you how to lead this process.

The process usually takes six to eight weeks. SFP is not a special program; it should not be presented as a program. It is essential management work to improve organization and leadership effectiveness. If SFP seems like something extra, then the process has probably never been done when it should have been.

Thirty years of facilitating and studying honest organization-wide conversations in culturally different regions around the world has provided my colleagues and me with many useful insights. We have seen the power of such conversations and the conditions that moderate this power.

SFP is not, however, a magic bullet. It does not always transform an organization rapidly or completely. The result depends on the leadership and the organizational context. Most important is the leadership's will to close a performance gap and the extent to which the leaders' values align with SFP's underlying values, namely, openness to learning and acting on the unvarnished truth. My research shows that implementation of SFP also transforms the environment. The process changes the nature of a system and how senior management leads—the leaders' effectiveness, human sensibilities, and willingness to continue learning through honest conversations. (Appendix B summarizes the research my colleagues and I have conducted to evaluate SFP.)

At first, SFP seemed somewhat risky to the leaders with whom we worked. Yet they instinctively knew that honest conversations would result in higher commitment and better performance. The leaders include the CEOs and business-unit leaders whose stories are told in this book as well as many others whose stories are not included here. We have worked with Ray Gilmartin at Becton Dickinson and later at Merck; Robert Grossman, dean and CEO of New York University Langone Medical Center; Ravi Venkatesan, chairman of Microsoft India; Patrick Decker, president and CEO of Xylem; and Fred Lynch, president and CEO of Masonite International; and many others who have implemented SFP.

The thirty-year journey in developing, applying, and researching SFP reflected in this book provides insights into what is possible when leaders have the courage and innovative spirt to apply an unconventional approach to strategic change. The most courageous people transformed not only their organizations but also themselves as leaders.

My and my colleagues' research demonstrates that SFP works, though there are many variations that can also do so.[7] Leaders need a disciplined and repeatable route toward honest conversations to transform their companies into high-quality systems of organizing, managing, and leading. SFP, a prototype of the missing strategic learning and governance process described later in the book, awaits further development by others.

However you conduct them, honest conversations must involve the exchange of two truths. First, senior management shares with lower levels the hard and sometimes inconvenient truths about what the firm must do to compete. These observations do not always go over well with those at lower levels. They may see themselves at the losing end or feel they are being made to pay for top management's mistakes. Or they may not trust senior management to even do what it says is necessary. Nor is the conversation likely to be pleasant for leaders; whatever trouble the company is in is bound to reflect on their own management.

Second, those below the top share their own experience of the organization's strengths and weaknesses in these conversations This assessment does not always go over well with senior management, which is often identified as one of the problems. And again, even if the managers are not the problem, any serious issue with how the company is run has to be a reflection on them. Consequently, outright critical honesty presents a challenge for the lower ranks; they can't help but wonder if there will be a price to pay for telling senior management its house is not entirely in order.

The purpose of SFP and other such methods of honest conversation is to make all honest conversations possible despite everyone's natural fear, reluctance, and embarrassment. Chapter 1 will describe how you can lead these conversations. When they do take place, they develop something priceless—the partnership needed between top management and their people to transform a company into a high-performance, high-commitment community of shared purpose.[8] These interchanges—not only what is said but the very fact that it *can* be said and that senior management wants it said—demonstrate senior leadership's authenticity, caring, humanity, and commitment to drive change. This mindset energizes stakeholders and accelerates organizational transformation as nothing else can.

The work that my colleagues and I have done with leaders who have taken this counterintuitive and unconventional approach to corporate transformation has demonstrated that honest conversations can simultaneously improve several areas of an organization. They develop a more effective and high-performing organization, increase its internal trust and commitment, and build its capacity to learn and change continuously—and keep making these improvements.

In too many transformations, rapid top-down change enhances performance in the short term but seriously undermines people's trust and commitment. Consequently, they neither take the initiative to speak up about barriers to strategy execution nor feel a commitment to help their leaders make necessary, immediate changes or help in the future. The organization's capability to adapt is seriously damaged, so that what it gains in the short run it more than loses in the long run.

The companies we have worked with and studied are part of an ever-larger circle of leading-edge, higher-ambition enterprises.[9] Paul Adler and Charles Heckscher call them collaborative communities: "By marrying a sense of common purpose to a supportive structure, these organizations are mobilizing knowledge workers' talents and expertise in flexible, highly manageable group-work efforts. The approach fosters not only innovation and agility but also efficiency and scalability."[10] Keep in mind that the knowledge production to which Adler and Heckscher refer is not just knowledge about new products or processes; it is inside knowledge about the company itself and how its management system is working. Honest conversation is therefore a way to take your organization to the next level, not just once but over and over again. My experience, and that of my colleagues, confirms that this is exactly what happens.

The Promise of Honest Dialogue

A disciplined and repeatable process for having honest conversations has several benefits. These conversations overcome, as I will explain, the distance, low trust, and low commitment created by differences in power. They reveal the whole truth; nothing is left out about organizational and management barriers to strategy execution. In this way, the whole system is thoroughly evaluated and can be transformed. And if the conversations are structured and made safe through a transformational leadership platform like SFP, they overcome people's reluctance to speak up about ineffectiveness found in most institutions.

Overcoming hierarchy

By this point, you might think that honest conversations would be anathema to a hierarchy. That's not at all true. Rather, these conversations recognize that a hierarchy, though essential for any organization, can sometimes be counterproductive. Through honest conversation, hierarchical organizations can overcome the weaknesses to which they are inherently vulnerable.

In particular, a top-down, command-and-control form of organization can cause as many problems as it solves in an environment of rapid and continuous change—and that's the environment we're all in now. It's not that top executives can't figure out what to do quickly enough. It's that they can't get the organization to change itself quickly enough—if at all. You can see the iceberg and give the command, but that doesn't mean a huge ocean liner loaded with passengers can change course in time. Honest conversation—and SFP in particular—makes transformation much more achievable because it releases the energy, innovation, commitment, and collaboration that the competitive situation requires. SFP is also much faster than the typical successive and unconnected initiatives, each targeting a specific barrier that top management thinks is important for strategy execution. In fact, honest conversation is arguably the best method of organizational transformation that can keep pace with today's competitive environment.

How exactly do differences in power thwart strategy execution? First, they promote self-interest and politics, which undermine teamwork. Second, the differences demand deference, which inhibits honest conversations about what is working and not working and consequently prevents the learning required to adapt to continual change. Lack of openness, in turn, produces cynicism and anemic levels of trust, engagement, and commitment below the top. People know there are problems, but management doesn't fix them. So why should management be trusted? Is it any surprise, then, that multiple studies have shown decades of decline in employee engagement and satisfaction and low trust in corporations and their CEOs?[11] Without trust, it's going to be hard to stimulate innovation and change, because these involve risk. All told, hierarchy can block its own arteries by erecting barriers to strategic alignment and change.

These drawbacks of hierarchy undoubtedly undermine organizational agility. The lack of agility is evident in the inability of most business organizations to sustain high performance levels over a long period. One study found that only 20 percent of the businesses in the sample consistently performed well. Some 60 percent swung between high and low performance. Of the businesses studied, 20 percent never broke out of the low-performance zone. The same study found that high-performing firms that avoided these swings were less hierarchical, more collaborative, and more open to the truth about their competitive and internal weaknesses.[12]

Transforming the whole system

Honest, collective, and public conversations enable leaders to change the whole system of organizing, managing, and leading.[13] For a transformation, whole-system change is a necessity, not an option. A transformation that isn't systemic will simply replace one imbalance with another. Whole-system change requires a collective effort to change multiple facets of the organization. People from different parts of the organization who know what is or is not working must be brought into the conversation. Making it public internally—that is, telling employees that the leadership team is launching an honest conversation to improve effectiveness and has committed to telling everyone in the organization honestly what was learned and will be changed—energizes the organization and legitimizes management's efforts to lead change. When, earlier in his career at Becton Dickinson, Ed Ludwig led an honest conversation about what was holding his unit back, he noted that "people were relieved to learn that we [the senior team] actually thought there was a problem."

Because most leaders fail to take on this type of holistic change, organizational transformations fail to achieve what was hoped for. Or if they do, it takes far too long. Partial transformations fail because when you change one facet of the organization without changing the others to reinforce it, the change you want won't last—if it even occurs at all. Honest conversation lays a foundation for systemic transformation because the partnership it creates enables senior leaders to change how the whole place is organized. Normally, such multifaceted change would be resisted because it would present too many threats to too many people's status, competence, comfort, and power and they would have little faith that management would support or protect them.

Three forms of fitness. Leaders who want an organization that can realign itself rapidly with ever-changing competitive demands—one that is fit to compete—must make sure the organization is fit in three areas:

- **Fit to perform:** How the firm is organized and managed—its structure, leadership, processes, measurement system, IT system, and management policies and practices—has to align with the firm's strategy and values.[14] Alignment does not mean the elimination of tensions required to innovate. An organization aligned to innovate will be designed to promote ambidexterity— the capability to exploit existing opportunities while also exploring radically new ones.

  A firm that is not fit to perform cannot carry out its strategy or live up to its values, even if the strategy or values are great. In an unaligned system, the components will just get in each other's way.

- **Fit for trust and commitment:** Management policies and practices must be consciously designed to enable employees to satisfy their enduring needs for meaning, bonding, learning, justice, and voice.[15] For example, performance evaluation of leaders must consider not only their results but also their capacity to engage their people. Practices that allow lower levels to speak up must be embedded in the company culture, and jobs must be designed to be meaningful. A firm that is not fit for trust and commitment cannot take a new direction in strategy, values, or cultural aspirations, because people will mistrust management's motives and protect themselves rather than take the risks required to change successfully.

- **Fitness to adapt:** The organization must have the capabilities and culture that support honest, collective, and public conversations about how well it is adapting to changing competitive or social realities and how well it upholds the values espoused by senior management. A firm that is not fit to adapt will be left behind—dead or alive.

A firm must reach all three levels of fitness to survive and prosper in the long run. Such an organization is fit to compete. Honest and collective conversations are uniquely suited to achieve all three outcomes simultaneously.

The fallacy of programmatic change. Research my colleagues and I conducted in the late 1980s showed the importance of the systems approach to change.[16] At that time, companies were trying to transform their capability to develop high-quality products in response to Japanese competitors. Many companies launched top-down programs to teach people by the thousands about Japanese methods and teamwork. Some firms introduced matrix structures to facilitate coordination. Others introduced training and education programs. Seeing that these top-down programs generally failed, Russ Eisenstat, Bert Spector, and I wrote a *Harvard Business Review* article on the topic: "Why Change Programs Do Not Produce Change."[17]

Those programs targeted only one facet of an entire system. They were driven by functional staff groups such as HR or Quality; top management failed to assign unit leaders the task of deciding when and how to use the new ideas in their own strategic agendas and priorities. Unit leaders passively complied but failed to actively lead change. Successive initiatives thus became notorious as passing fads. With regard to training—the most frequent initiative—we found that regardless of how well trained and motivated individuals were, they could not overcome a system that wasn't comprehensively aligned with the desired changes. And when it comes to systems, if they're not for you, they're against you.[18]

The most successful transformations in those studies used a unit-by-unit approach.[19] The implication is clear: to change a large and complex company, an honest conversation and the learning process it enables ideally occur within each major unit (whether corporate, business, functional, regional, or operating), and each unit is a system with its own culture. The unit's collective behavior—collaborative or uncooperative—is shaped by how well the leadership team organizes and manages the unit.[20] Thus, each unit faces as many potential leadership and organization barriers as corporate level. Recall that Johnson & Johnson's product recalls began four years after employees reported in a corporate survey that their operating units and leaders were not aligned with the firm's historic values of integrity and quality. What if an honest conversation had occurred in the first year?

Emotions matter. To understand transformation failures—which are much more common than transformation successes—we must also recognize that organizations are *socioemotional systems*. What happens inside them—or fails to happen—is very much the product of how people feel and how they behave with each other. Both these factors depend not just on the individuals but also on the culture and other circumstances.

By definition, change involves loss by some (others may feel they have won). This win-lose element of change brings to the fore the emotions of employees at every level.[21] My colleagues and I have observed both positive and negative emotions in the honest conversations we have facilitated. For example, people felt pride in their company and its ethical standards at the same time that they felt frustration and anger at its shortcomings. These conversations revealed the leadership's deeply held assumptions about how the business should be led. Sometimes those assumptions were no longer valid because of new competitive and social realities and were therefore explicitly threatened by the changes being discussed. The conversations also revealed emotions normally not shared, such as frustration with the organization's ineffectiveness, disillusionment with its values, lack of confidence in its leadership, pessimism about whether improvement was even possible, and—hovering over everything—considerable fear of speaking truth to power about these matters.

Senior management was often just as frustrated with the employees. It blamed performance problems on their lack of ability and commitment. Blaming people rather than the situation in which people find themselves—the organizational context or system—is an established principle in psychology. Called the *fundamental attribution error*, it is supported by many studies.[22] Senior managers that were worried about arousing defensiveness and anger were reluctant to have honest conversations about the system, because they feared that the open discussion would make things worse. The result was less trust and commitment and therefore less chance of fixing whatever needed to be fixed. Their response to these problems was more top-down command and control, which accomplished exactly what they were so worried about: even more defensiveness and less trust and effectiveness. But the successful leaders I describe in this book had the courage to go in the opposite direction. They opened up a safe, honest conversation that would eventually change the system and at the same time replace the fear of speaking up. This fear would be supplanted with both hope that the company could actually change and with commitment, the desire to help with the transformation by saying what needed to be said.

But without honest conversation, fear can undermine this commitment, even among people who had trusted each other before new competitive challenges made their system ineffective. Consider how a member of Hewlett-Packard's Santa Rosa Systems Division described the impediments to change in his business unit: "I think people did not know how to break through to it . . . You read about these bad marriages, where the wife and the husband both know what's wrong. They just can't find a way to talk to each other about it. And I think that's what was going on. We all knew the problems were there, and I think we could not find a way to discuss it with each other in a constructive way" (see chapter 4).[23]

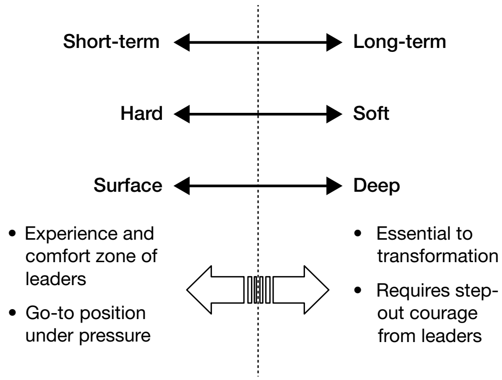
Consider, too, how failure to have an honest conversation about deeper emotional issues contributed to Nokia's failure to execute its strategy and sabotaged its transformation, as described earlier. Top managers' fears of failure led them to exert pressure on middle managers, making those managers too afraid to let top management know how little progress was actually being made. This omission misled senior management into being overly optimistic, so they underresourced change initiatives and promised too much to investors. The executives failed to properly manage these strategic initiatives by prioritizing better or making the long-term investment needed to compete with Apple.[24]

This and similar unhealthy organizational dynamics were frequently reported in the many honest conversations I have observed. They reflect leaders' failure to create the right balance between: (1) short-term pressures for immediate nonsystemic improvements and longer-term systemic strategic change and (2) "harder" tangible issues (e.g., structure, processes, IT, and incentives) and "deeper socioemotional issues (figure I-2).[25] Emphasis on the short-term, tangible, and surface issues is in the comfort zone of most managers and becomes their go-to position under pressure. It prevents people from looking at the long-term, deeper, and less tangible changes required for sustained change. As you will see, honest conversations help leaders achieve the right balance.

Confronting the softer and deeper socioemotional issues is well outside the comfort zone of most people, but corporate leaders *should* be an exception—it is more and more a requirement of the job. In this regard, executives shouldn't have ordinary personalities any more than pro football players should have ordinary physiques. The stakes are simply too high. Unfortunately, short-term pressure for fast improvement causes many leaders to go straight for their comfort zones and focus on the numbers, the equipment, the supply chain, the org chart. Fundamental transformations require the step-out courage that the leaders at Becton Dickinson demonstrated when they decided to use SFP to hold

FIGURE I-2

Why transformations fail to change the system



Source: Courtesy of Malcolm Wolf

an honest, collective, and public conversation about BD's strengths and about its barriers to innovation and faster growth. Because such a conversation is wide open (though not without boundaries), it can address *all* the elements of the system that need to be changed. The leadership platform of SFP also helps leaders move safely and productively through a conversation they see as risky, thereby learning that open discussion isn't as uncomfortable as they thought.

Banishing silence

Hierarchy leads to organizational defensive routines, as management scholar Chris Argyris called them, and they preserve the status quo.[26] People at the top do not seek feedback from lower levels, and the deference of those at lower levels prevents them from giving it. But there is a way around this impasse. Suspending the hierarchy temporarily—so a safe, productive, and honest conversation about the state of the enterprise can take place—overcomes these defensive routines. It is a way to avoid being stuck in a pattern of management that once produced superior performance but no longer does. That is what Becton Dickinson and the other organizations described in this book were able to do.

Even senior leaders who embraced honest conversations enthusiastically did not fully understand how their management conspired to create emotions and collective behavior that blocked success. In effect, organizations are like icebergs. Only the tip of the iceberg is visible to all; the rest is underwater and not fully known or understood. As management scholar Barry Oshry has shown, no one in the organization, including senior leaders, can see the whole system and act to change it.[27] Too often we blame others—top management blames the bottom, and the bottom blames the top or one function blames another—instead of engaging in a fact-based conversation that reveals the truth about what is going on and why. To develop a healthy, collaborative system that spurs high performance and commitment, leaders need valid data—the whole truth about the system.[28] The "whole truth" very much includes people's feelings; these, too, have consequences.

Leaders can usually sense when something is wrong in their organization. But that's not the same as knowing *what* is wrong any more than feeling unwell tells you what is wrong with your body. Even leaders who think they know what the problem is don't know what is really going on underneath the surface. Nor do they even have a way to discover that they don't. They lack the tools to create an honest conversation about a problem, as in the bad marriage mentioned earlier. This book shows you how to make the truth discussable—safely and constructively. This *dynamic capability* enables organizations to adapt to the ever-changing competitive landscape and the new strategies it requires.[29]

The absence of this capability has a name, too—*organizational silence*—and has been identified as a major barrier to organizational transformation.[30] Organizational silence is not just a problem in bad companies with bad leaders. Consider the comment from a manager in an innovative and high-performing global company led by a CEO who wanted to learn the truth but never could: "People don't go to management with the options because they are afraid. They try to second-guess what management wants instead of what management really needs to know, and so problems build up."[31]

Organizational silence is a pervasive condition because, as discussed above, organizations are hierarchical and the people in them are human. It's human to avoid troublesome truths about ourselves or the organization we are leading. At lower levels, people feel a combination of courtesy and fear. They know how painful it can be to hear disconfirming information and don't want to hurt their leaders. But they are also afraid to speak truth to power because they know they might be repaid with defensiveness, resentment, and even anger—or worse.

My colleagues and I, along with many other researchers, have found that with few exceptions, employees at lower levels feel that the risk of speaking truth to power is too great. They have often heard individuals labeled as poor team players or seen them passed over for promotion or even fired after challenging senior executives. On the rare occasions when people do speak up, even if it is directly to senior management, they seldom learn whether their feedback resulted in meaningful change, so they are little inclined to risk it again. As Jim Detert and Amy Edmondson have shown, employees at all levels develop an "implicit theory"—a deeply rooted assumption—that speaking truth to power is both dangerous and useless, even when their leaders have explicitly asked for it.[32] When the pervasive belief that "this organization cannot change" takes hold, transformation, of course, becomes all that much harder.

Problems become taboo for discussion, and this taboo is itself taboo, since that would reveal that the organization is not as open to frank dialogue as management proclaims. This unintended cover-up, as Argyris called it, prevents the continuous improvement that an always-changing competitive environment demands.[33]

Pervasive silence prevents senior teams from learning about the silent killers. (Earlier in the introduction, we saw examples of silent killers at Nokia, British Petroleum, Johnson & Johnson, Toyota, and General Electric.) Like cholesterol in the human body, they clog organizational arteries. As I will show later in the book, these barriers create the organizational friction that impedes realignment and sustained improvement within organizations. But I will also show that honest conversations can transform these silent barriers into the organizational strengths needed to respond to the brutal competitive environment you face as a leader.

The exceptional leaders with whom we worked broke the spell of silence. They saw the value of honest conversation about the fitness of their organizations to respond to unforgiving competitive realities.

Successful transformations have to engage leaders and their people emotionally through constructive dialogue. In the chapters that follow, I will show the power of this engagement. Leaders and employees must discover truths about their enterprise and themselves *together* so they can change individually and collectively. Dan Heath and Chip Heath call this "tripping over the truth."[34] The truth about what is and is not working in an organization cannot be fully revealed or made believable through speeches, training, or consultants. It must be personally discovered. That is what honest, collective, and public conversations made possible at Becton Dickinson and in hundreds of other organizations around the globe.

In movies and plays, the truth strikes like lightning. One moment, Luke Skywalker has no idea who his father is; the next moment, he knows it's Darth Vader. But in the complicated real life of an organization, the truth reveals itself over time and is absorbed and believed over time. The evidence isn't available all at once. People know parts of the truth, and the parts don't fit together instantaneously. Most importantly, people who think they have been doing something right for years don't suddenly just change their minds. One aspect of the wisdom of the leaders of the 1960s civil rights movement is that, although they believed that white America could change, they understood that it would take time and devised their strategy accordingly. Honest, collective, public conversation is a bit like nonviolent resistance. It is a way of confronting what is wrong and setting a systemic agenda for change over time without poisoning the well with too much anger and defensiveness so that the people who need to change their ideas and attitudes have the psychological leeway to do so.

The best leaders we worked with were inclined to engage people in honest conversation but did not know how to orchestrate it so that those at lower levels could do so safely. Even in the healthiest and most effective organizations we studied, key people below the senior management typically displayed anxiety about putting the truth on the table for discussion. Everyone needed a structured process that reduced their anxiety, particularly if the organization had never done anything like this before.

Leaders can be as defensive as the rest of us—sometimes verbally and sometimes in their body language. One business-unit leader, presented by an employee task force with feedback he didn't agree with, responded, "That's not true." Possibly it wasn't as he saw it, but the truth was less likely to come out, thanks to a response like that. We improved the SFP to discourage this sort of defensive behavior, precisely because it cuts the truth-finding process off prematurely. Because honest conversation is difficult—in a sense, an unnatural act in most organizations—it requires a disciplined platform, a structured guided process, such as SFP, that guarantees a safe and constructive dialogue for both the top and the lower levels. From this platform, people can learn together about the causes of their company's ineffectiveness and become committed to change.

Most importantly, the capacity to talk honestly about what is really going on in the organization demonstrates leadership's authenticity. It is the only way all the stakeholders inside and outside the company can believe that its leaders will truly implement the values that appear in company marketing pieces, be they documents or speeches or material displayed at headquarters or on the corporate website. Honest dialogue is the best way to develop the collaborative community needed to implement strategy and values. Without the truth, cynicism and mistrust begin to erode commitment. Bill George, former CEO of Medtronic and now my colleague at Harvard Business School, put it best in describing why he made transparency and truth the cornerstone of his successful run as CEO:

> Values begin with telling the truth, internally and externally. Integrity must run deep in the fabric of an organization's culture. It

guides the everyday actions of employees and is central to its business conduct. Transparency is an integral part of integrity. The truth, both successes and failures, must be shared openly with the outside world . . . Such organizations are characterized by a spirit of inquiry, the constant desire to understand the issues in their fullest breadth—and to use it on the job every day.[35]

Summing Up

Organizations in all spheres—business, nonprofit, government, and nongovernment organizations—face major challenges in executing their evolving strategies in response to ever-changing markets, technology, customer preferences, and social norms. Many top managers are failing to transform their organizations *effectively* and rapidly, incurring significant economic, social, and human cost.

Two interrelated reasons explain these well-documented failures. First, the whole system of organizing, managing, and leading has to be transformed if organizational behaviors and underlying mindsets are to be changed. But—the second reason—hierarchy discourages knowledgeable people at lower levels from sharing their vital information with senior leaders So leadership is left unaware of critical aspects of the systemic change it needs to make.

Honest organization-wide conversations between top management teams and employees who know why their organization is foundering have proven to be a powerful way to transform an organization. But these conversations are difficult to lead, given people's fears about revealing the truth.

The strategic fitness process, or SFP—one of several possible forms of honest conversation—is a safe, respectful, and powerful leadership platform that courageous leaders in many organizations have used to accelerate change. The remainder of the book will show you why and how to use the strategic fitness process or a method of your own choosing that conforms to its underlying principles in your organization.