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The Invisible Organization

*How Informal Networks Can Lead
Organizational Change*

NEIL FARMER

GOWER

The Failure of Business Leadership

CHAPTER

1

Over the last three decades, the rule of thumb figure for successful change programmes that involve fundamentally changing the way that people work has stubbornly averaged about 30 per cent. In other words, about 70 per cent of change programmes fail to meet most (or any) of the original business objectives. This basic failure is often compounded by time and cost overruns, some of which are so large as to swamp the initial, often naïve or politically-wishful, estimates.

The yawning gap between strategy and implementation

The change programme failure rates shown in Figure 1.1 have been used by the author as key slides in senior management presentations for over a decade. Over that long period, the latest research updates have oscillated up and down but

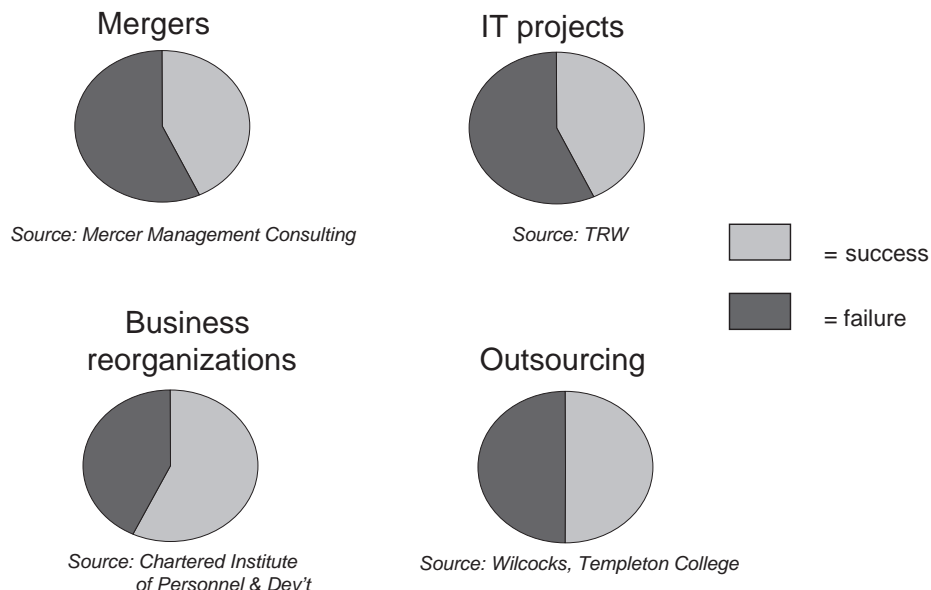


Figure 1.1 High failure rates in organizational change

the underlying trend has been constant. Putting it bluntly, there is something very wrong with the way that almost all senior executives (and their internal – or contracted external – programme managers) are dealing with profound business change.

Although technical problems are sometimes the root cause of failures in major organizational change, they tend to be symptomatic of the wider problems associated with the programme and are rarely the sole or main cause. The biggest single cause of business change failure by far is ‘people problems’.

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If, as one (hospital) consultant put it, gaining these benefits for the NHS is ‘about putting together the broken processes’, why is government policy so intent on fragmenting them? Isn’t separating out activities and hiving them off to the private sector (what the Keep Our NHS Public campaign, www.KeepOurNHSpublic.com, calls ‘patchwork privatisation’) the very antithesis of Toyota-like flow? Yep, that’s exactly what it is. Since the government is obsessed with traditional economies of scale, most private-sector providers are engaged to optimize activities (building hospitals, offshoring medical secretaries) rather than to create economies of flow. Worse, under the profit motive, they have no incentive to streamline the activity or, God forbid, get rid of it altogether, as Toyota would.

Source: *In the drive to save the NHS, I’m choosing a Toyota*, *The Observer*, 14 January 2007

Private equity funds last year went on an unprecedented \$725bn (£367bn) global buying spree

– a figure outstripping the entire economy of the Netherlands. Figures out next week estimate that buyout funds, which have cut a swathe through global businesses and now employ over a fifth of employees in Britain’s private sector, can draw on a war chest of \$2 trillion to fund acquisitions – enough to buy McDonald’s 38 times.

Source: *No firm is safe from private equity*, *The Observer*, 20 May 2007

The leaders of 130 000 police officers have drawn up a dossier of ‘lunacy’ on Britain’s streets. They say that children are being arrested for throwing cream buns and bits of cucumber while adults are getting criminal records for offences that merit nothing more than a ticking-off. The pressure to get results (to meet targets) is so bad, they say, that officers are criminalising and alienating their traditional supporters in Middle England and many are so disillusioned that they are considering quitting.

Source: *We are making ludicrous arrests just to meet our targets*, *The Times*, 15 May 2007

IT project failures have been the subject of analysis over recent decades and research has shown that direct or indirect 'people problems' are the dominant cause of IT project failure. A 2004 CHAOS survey by The Standish Group, outlined below, is reasonably typical. The survey analyzed the top three reasons for success and failure across three IT project outcomes – successful projects, 'challenged projects' (where the end result was achieved but problems were experienced, such as time or cost overruns) and failed projects.

Top three reasons for IT project success/failure from the CHAOS survey were:

- *Successful projects*
 1. User involvement
 2. Executive management support
 3. Clear statement of requirements
- *Challenged projects (cost/timescale overruns, and so on)*
 1. Lack of user input
 2. Incomplete requirements and specifications
 3. Changing requirements and specifications
- *Failed projects*
 1. Incomplete requirements
 2. Lack of user involvement
 3. Lack of resources

Research into the underlying causes of failure in other types of major business change initiatives (such as mergers, transformations, outsourcing, and so on) also highlight the dominance of 'people problems'.

Managers are not good at implementing business change

Despite professional adherence to change methods and a proliferation of increasingly sophisticated technology and process design tools, the success rates for ambitious business change programmes that impact on how people work day-to-day remains depressingly low. One of the most recent surveys, conducted online by McKinsey Quarterly in 2006, showed only 38 per cent

of global executives reported recent business transformations with which they were most familiar had a 'completely' or 'mostly' successful impact on performance.

(There are many different 'change programme' models out there that are commonly applied. They all underline the critical importance of 'communications', which in practice usually means 'exhortation'. If this is common to all change programme designs, could that be one of the reasons why so many fail? Exhortation is a classic aspect of top-down-driven change programmes.)

INCREASING PRESSURE TO ACHIEVE SUCCESSFUL, FUNDAMENTAL CHANGE

Given the poor experiences of most senior managers with profound business change initiatives and the growth of IT outsourcing and (more recently) business process outsourcing, many must be tempted to become cynical and concentrate on what they know they can do well.

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The study quashes the myth that those in the most senior positions in the workplace are more likely to suffer from stress and other illnesses. Though there was shown to be a strong relationship between health and employment status, it is those in the lower grades of employment who are at far more risk of both physical and mental illness. The more senior you are in the employment hierarchy, the longer you are likely to live. In particular danger are workers who face high demands but have little control over their work, regardless of the 'type' of person they are. The study highlights employer and manager support as one way to reduce sickness absence.

Source: *Whitehall II study*, September 2004

(Author's Note: A police study demonstrated the absolute truth of this. The only change made in two police divisions (which were broadly similar, apart from high rates of sickness and absenteeism in one and low rates in the other) was to swap the two divisional commanders. The high rate went low and the low rate went high!)

In theory and in practice, hierarchy doesn't work, and no one put the reason better than GE's Jack Welch, himself an iconic manager. Hierarchy, he said, defines an organisation in which people have 'their face towards the CEO and their ass towards the customer'. The more charismatic the executive, and the more centralized the power, the more perverse the effect.

Source: *Why fearless leaders are something to dread*, *The Observer*, 6 May 2007

Increasingly though, this 'easy life' is not an option. As well as the expected pressures from competitors and from new government directives/initiatives, senior managers – at least in the private sector – are becoming increasingly wary of the growth of private equity funds. Despite the complications intrinsic in tax breaks, credit crunches and leveraging high levels of debt, the real message to established senior executives is simply, 'We can run your business better than you can ... or better than you *dare!*'

Similarly, as the track record of failure with public sector reform grows, so will the temptation to replace failing public sector managers with managers from the private sector. In all likelihood, however, these new brooms from a faster-moving, more innovative culture will still not have the key capabilities to bring effective change to the workplace. New ideas certainly ... new enthusiasm and energy probably ... but really new change implementation skills? Unlikely!

THE 'COVER YOUR BACK' STRAITJACKET

It is not at all surprising that many senior executives seek to cover their perceived inadequacies with 'tokens of success' as well as with more objective performance achievements through higher profits or improved, measurable service levels.

These tokens of success take the form of many acronyms and phrases, ranging from ISO 9000 through EFQM-type awards to customer service excellence charter marks and Investor in People awards. Each of these worthy initiatives doubtless has merit, but the temptation for beleaguered executives to invest them with a greater significance is obvious.

Equally, senior managers experience pressure to 'have an answer to potential criticisms'. They, in turn, pressurize their subordinates to meet imposed targets of performance, which may lead to false reporting upwards – as the pressure increases so does the temptation to tell your bosses what they want to hear, rather than what is really going on.

Most significantly, the combined pressures to succeed lead to decision inertia – 'If I can't be sure of succeeding, it's not worth attempting the change – I could be vulnerable.'

One of the most profound comments overheard during a discussion between outsourcing professionals was, 'They would never have got this far without outsourcing – they just do not have the nerve to go through the pain barrier themselves.'

Outsourcing was once seen by executives under pressure as a magic bullet for many of their woes. 'Let the professional service providers solve our most difficult operational problems, so that we can really focus on running the business and planning for an even more successful future.' But as questions are raised about the value of the whole outsourcing experience and management publications report a growing trend towards in-sourcing – there are now few hiding places for managers leading failed change programmes.

THE NEED FOR A NEW SOLUTION TO THE CHANGE QUAGMIRE

As the gloss comes off IT and business process outsourcing, the old pressures return once again to haunt senior managers in both public and private sectors. 'In our heart of hearts we know that we are not good at making fundamental day-to-day changes in the way that our organizations operate – but if outsourcing is more and more problematic, and the pressures on us to deliver results are growing ever stronger, what do we do now?'

Is it possible to improve the outsourcing experience in the future or are we only putting 'sticking plaster' over the gaping wounds that will never go away?

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'You can get a lot more done with a kind word and a gun, than with a kind word alone.'

Al Capone

Rob Goffee, Professor of Organizational Behaviour at London Business School, advocates authentic leadership in his book 'Why Should Anyone Want to be Led by You?' He says that workplaces are full of cynical, disaffected followers who want leaders who inspire and excite. 'People are fed up with being worked, they are fed up of management fads and want to be led by real people they can trust.'

Source: *How leaders manage, The Times*, 31 May 2007

Employee resistance was ranked as the No. 1 obstacle to change initiatives in a recent survey by the Society for Human Resource Management, which received 403 responses from human resources professionals.

Yet the very people leading the change are not always effective at bringing it about. Leadership assessment research has found that executives at the vice president level and above are lacking in the skills necessary to oversee major shifts. Just 38 per cent of 2180 respondents in research by BlessingWhite say those executives are effective at managing change.

Source: *Employees react differently to company change, Newsday*, 13 May 2007

Perhaps we need a new solution to this change quagmire? Perhaps even a new model of how we can make effective business and organizational change in future? We definitely need to improve 'leadership'.

Managers are even worse at changing business 'culture'

Culture change is all about changing the way that people behave in the work environment – not just what they do but the way that they do it – and it is not easy. Identical processes and systems can be used by different groups across organizations to deliver very different levels of service to their stakeholders. A stakeholder (say a person from another part of the organization or a member of the public) knows very rapidly whether your organizational culture is essentially pleasant, helpful and efficient or just a hassle to deal with. And this depends primarily on your culture, rather than on your processes, systems and levels of formal staff training.

Traditionally, cultural change initiatives have been based on cultural measurements, gap analysis, 'training' presentations/facilitated workshops, annual assessment feedback and some managers leading by example – plus, of course, the old exhortation routine. Over time, more comprehensive approaches have been tried that link real rewards/promotions to appropriate 'new culture' behaviours. These are sometimes combined with an ongoing positive reinforcement of desired behaviours using a variety of guides/mentors in the work environment.

However, the end results of all these efforts are usually unsatisfactory to a greater or lesser degree, with even the most successful transitions taking several years to become established. Old habits and behaviours tend to persist despite changes in organization, processes, systems and 'new culture' support/rewards. Organizations that have been built up through mergers and acquisitions often have multiple cultures operating in parallel. These cultures reflect the cultures of the original component parts from which the current organization has been built.

If senior managers are poor at driving effective business change, they are even worse at implementing real day-to-day culture change. Most studies show failure rates for culture change initiatives running at about 90 per cent.

The change battleground is 'local'

Change failure is not usually due to *overt* 'change blockers' in the organization, although most change professionals have come across them from time to time. The causes of failure are much more insidious and can be best described as 'death by a thousand cuts' where opposition or indifference is experienced in small ways in many parts of the organization. Bit by bit, the proposed changes

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There are three important things to remember about the life of French General Jean Martinet.

1. *He was a strict disciplinarian. He drilled his men brutally and demanded rigid adherence to the rules. He was so severe and exacting, he earned a place in the dictionary. Today, anyone displaying this style of leadership is branded 'a martinet'.*
2. *At the battle of Duisberg in 1776, General Martinet was shot dead by his own men.*
3. *What General Martinet failed to realize, and what we can all learn from his experience, is that leadership is a two-way street. Effective leadership depends on other people. It is their willingness to accept leaders and support them that makes effective leadership possible.*

Source: *Leadership is a two-way street*, Denis Bourne, Magus Toolbox, January 2000

The problem is that command and control seems to work, after a fashion. Because we are inside it, we do not see the enormous waste of time, effort and money

that it imposes. We shrug off its obvious imperfections as normal – 'that's just the way it is'. There is therefore little cause to question whether it could be bettered. Moreover, command and control is ubiquitous. Its associated norms are rarely, if ever, challenged.

Source: John Seddon, *Freedom from Command and Control*, Vanguard Press, 2003

Poor management is rife in the UK workplace, with more than nine in 10 employees reporting that they have worked for a bad manager, research reveals.

The survey of 1500 UK staff, by law firm Eversheds, also shows that more than a quarter of workers believe management styles have become too harsh during the past year, with almost 50 per cent admitting that they have worked for a bully.

The study shows a lack of communication skills among UK managers. The overwhelming majority of workers (97 per cent) would like their bosses to communicate more clearly and directly.

Source: *Bad management is widespread in the UK*, Personneltoday, 10 May 2006

get delayed and diluted. Traditional top-down programme and project management almost always fails to address this type of insidious erosion.

The only effective way to address this dispersed, erosive threat is to engage significant numbers of leaders (influencers) selectively and use them to enhance rather than dilute proposed changes: winning hearts and minds of colleagues along the way. This principle applies to all continuous improvement programmes as well as major change initiatives. The trouble is that very few organizations (or consultants!) know how to identify dispersed informal leaders accurately.

Command and control is really just 'shallow' leadership

The vast majority of organizations, even today, are driven by command and control thinking. We have got used to top-down hierarchies; we separate decision making from work activities; we require managers to make decisions with tools such as budgets, targets, activity measures and so on. We tell people what to do, how to behave, and then check up often to ensure compliance. In particular, managers are 'taught' how to manage people, as well as budgets and targets. These are the fundamentals that make up 'command and control' management.

Research over the years has shown that command and control management is both very expensive – think of all the time, energy, political infighting and numerous tedious meetings associated with the whole budgeting process – and it inhibits the inherent talent and innovation potential that is buried beneath the surface within most organizations.

The overall impact of command and control management, however, is not easy to assess. Many structural changes are within the exclusive gift of the senior executive team. Takeovers/mergers, high-level changes in organization structure, new product development through established processes, geographic relocations, and quite extensive staff reductions can all usually be implemented with apparent success by management decree. It is only when staff behaviours and ways of working need to change significantly as part of a broader business change that the limits of executive power become very apparent. Often, the strategic decisions made by senior managers are very logical and compelling – the devil is in the detail. There is almost always a yawning gap between strategy and practical workplace implementation.

A number of consultancies and advanced organizations have made some progress in addressing the strategy/implementation divide by seeking to develop new leadership styles in management teams. These approaches take different forms but all aim to retain command and control capabilities for when these are needed – for example, to make strong, rapid decisions in a crisis – while also enabling a more inclusive style that encourages employee engagement, flexibility and innovation. The essence of this form of leadership training is to encourage managers at all levels to exhibit the behaviours associated with different management styles in appropriate situations. For example, in the set of management styles shown in Figure 1.2 in the two-by-two matrix, managers are encouraged to adopt a collaborative style most of the

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'It has taken us years, and I think we are still not sure if we are getting things right even after substantial reengineering projects, a move to teams, new HR practices, two acquisitions, and a ton invested in technology. By now we should have reduced costs and created a more nimble company without a focus on hierarchy or fiefdoms. But it's tough to ensure that this is really happening. Most of us in this room have thousands of people we are accountable for stretched across the globe. It's impossible to manage or even know what's going on in the depths of the organisation. I mean, each of us can fool ourselves into thinking we're smart and running a tight ship. But really the best we can do is create a context and hope that things emerge in a positive way, and this is tough because you can't really see the impact your decisions have on people. So you just kind of hope what you want to happen is happening and then sound confident when telling others.'

Executive vice president, commercial lending

Source: *The Hidden Power of Social Networks*, Harvard Business School Press, 2004

'While the informal structure was undoubtedly important in the traditional organization, today it dominates.'

Source: J Champy, N Nohria, *Fast Forward*, Harvard Business School Press, 1996

In a recent survey conducted for Katzenbach, a third of the 390 respondents – all of them working at large US companies – admitted ignoring the rules when they found a better way to get things done. And in companies where managers worked closely with informal employee networks, respondents were three times more likely to describe their job environment as positive. The upshot: going by the book is not always the way to get results.

Source: *The hidden workplace*, *Fortune*, 18 July 2007.

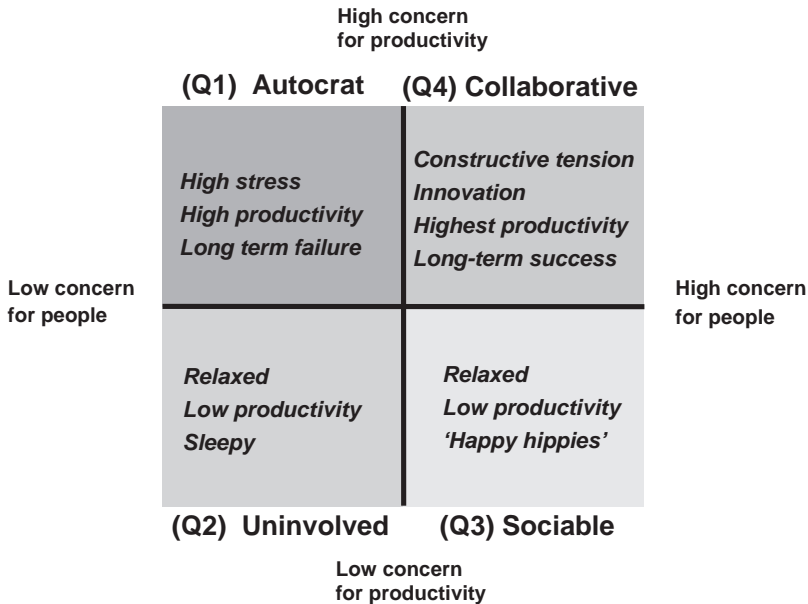


Figure 1.2 Examples of leadership styles

time, with an autocratic style (say) for crises, and the other styles only (if at all) on more social occasions.

As with many management techniques, however, adopting appropriate leadership styles for relevant situations within your organization is only part of the solution. Certainly, there is little evidence that enhanced leadership styles by themselves can impact on profound business change success rates. Nevertheless, appropriate leadership styles are a positive ingredient in collaborative working and an important move away from rigid, inflexible command and control.

Very few organizations have yet moved on to recognize and respond to the realities of human behaviour in work environments. In the real world, there is an entire spectrum of leaders spread across every organization.

Some informal leaders influence the views of many people and some of just one or two, influencing and 'leading' at all levels across your organization. The CEO, senior management team and all of the formal management hierarchy put together can identify less than a third of these 'leaders' and the management team's combined power to influence represents less than 20 per cent of the total potential influencing capability across all employees. Experience shows that this is pretty close to 'the real world' in most organizations.

From this perspective, it becomes possible to design the ways that people work in organizations very differently. It is even possible to achieve very high levels of effective change in both major change programmes and continuous improvement initiatives. There will be much more collaborative working between managers, influencers and those with key personal networks in this

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Most large corporations have dozens if not hundreds of informal networks, which go by the name of peer groups, communities of practice, or functional councils – or have no title at all. These networks organize and reorganize themselves and extend their reach via cell phones, Blackberries, community Web sites, and other accessories of the digital age. As networks widen and deepen, they can mobilize talent and knowledge across the enterprise. They also help to explain why some intangible-rich companies, such as ExxonMobil and GE, have increased in scale and scope and boast superior performance.

Source: *Harnessing the power of informal employee networks*, The McKinsey Quarterly 2007, Number 4

According to the Chartered Management Institute, which published its 2007 Quality of Working Life report last week, the most commonly experienced management styles in the UK are bureaucratic (the experience of 40 per cent of respondents), reactive (37 per cent) and authoritarian (30 per cent), while just 17 per cent of the 1500 managers polled experienced management as innovative, 15 per cent as

trusting and 13 per cent as entrepreneurial.

These averages hide huge differences in perception: what directors and senior managers saw as accessible, empowering and consensual, junior ranks judged bureaucratic (half the sample), reactive (38 per cent) and authoritarian (40 per cent).

Source: *Command, control...and you ultimately fail*, The Observer, 16 December 2007

In his book 'Good to Great' Jim Collins headed a research team to look at what drives average organizations to take a great leap and become great. The research concluded that a crucial component of greatness is a group of leaders with a paradoxical blend of personal humility and professional will. These leaders who Collins describes as Level 5 leaders channel their ambition away from themselves into the larger goal of building a great company. All of the companies in the study that went from good to great had Level 5 leadership in key positions, including the CEO, at the pivotal time of transition.

Source: *Leadership formation and Level 5 Leadership*, Bob Calkin, amazins.com, 4 November 2007

new organizational world. The collaboration will not be universal – it's just impractical for managers to collaborate with everyone. Once we know who the key players are across informal networks it becomes possible to implement practical, effective 'deep' leadership – the fruitless search to develop 'super managers' is replaced by practical leadership through 'super networks'. The real super managers are then those who can best engage and focus key individuals across the leadership super network.

In the meantime, you are stuck with tweaking your command and control organization. Effective leadership through 'super networks' is almost within your grasp. But for now, you must start by recognizing that command and control is really just 'shallow' leadership – it's achieving less than 20 per cent of your organization's leadership potential.

Chapter summary

Across both the private and public sectors there is a consistent, endemic failure of business leadership. This failure is highlighted by low (typically about 30 per cent) success rates for significant business change initiatives. Culture change initiatives perform even more poorly – with typical 10 per cent success levels. There is a yawning gap between business strategy and effective implementation. The dominant reason for these failures is the very real difficulty experienced in engaging key employees to drive change in a consistent and effective way across the organization and through to key external stakeholders.

Paradoxically, leadership failure is strongly associated with command and control management. Although 'strong' command and control management can be very effective in rapid decision making or dealing with a short-term crisis, 'deep' leadership – engaging natural leaders across an organization – is usually essential for effective implementation of profound business change that impacts on day-to-day work practices. Managers are typically very poor at identifying these natural leaders at all levels in an organization.

Although enhanced leadership styles for managers are an important enabling step towards deep leadership, these techniques will not by themselves solve the fundamental failures of traditional top-down business leadership.

Until natural local leaders (influencers and those with extensive personal networks) across an organization are harnessed to drive and implement profound changes, even restyled command and control managers will struggle to make a real leadership impact in changing times. Practical, effective 'deep'

leadership through 'super networks' of central and local leaders is almost within your grasp. Currently, command and control management is really just 'shallow' leadership – it's achieving less than 20 per cent of your organization's full leadership potential.