

1 NEW REALITIES AS THE FORCE OF CHANGE

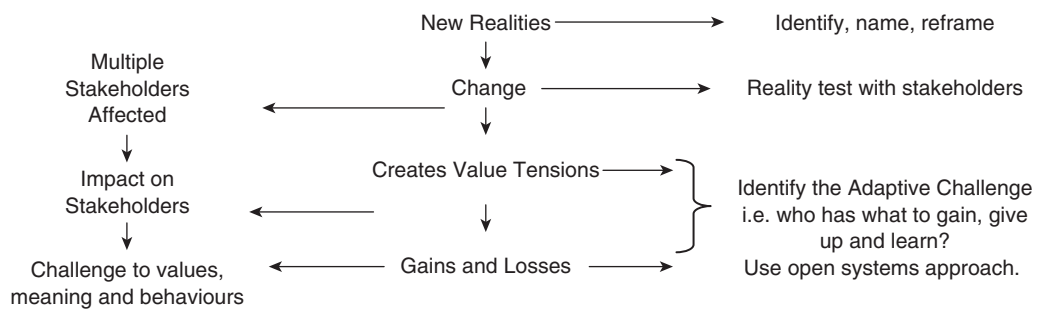


Figure 1.1 New realities as the force of change

INTRODUCTION

This chapter introduces important themes and concepts that underpin the rest of the book. It begins with a discussion of the need for organizations to remain **relevant** to their stakeholders if they wish to survive. To remain relevant requires the ability to read and respond to **new realities**. New realities are the forces that herald change. New realities are pervasive and are continuously arriving at our doorstep, whether we invite them or not. ‘New realities’ is the most important concept of this book. As we shall discover, leadership and new realities go hand in hand.

Our virtual world, where time and space are collapsed into a virtual here and now, has speeded up the arrival of new realities and compounded their number. We are easily overwhelmed by the amount of new realities we are expected to embrace. We also need to create new mindsets which recognize that perpetual change is the only true reality. The notion that change is a series of one-off events that can be anticipated, planned and tidily managed is fallacious. This mindset is outdated. New realities are continuously arriving and change arrives swiftly on their heels.

To remain relevant and alive in today's world requires a **shift in consciousness**; new ways of perceiving the world, and new ways of wrestling with the challenges of change. We also need to understand that there are good and bad responses to change. Simply changing is insufficient. If we do not change in response to new realities but rather in favor of some fantasy of our imagination, this will not serve us in the long run. Good change aligns us with new realities; bad change does not. Good change keeps us relevant, bad change does not.

By and large we do not like change. We resist it if we can. Change frightens and inconveniences us. One reason for our often deep resistance to change is that it always implies loss of some sort. Adapting to change requires transformation. Transformative change results from learning, and learning is not always easy. Change creates value tensions that require us to reprioritize or compromise our deeply held values or cherished beliefs. Harder still, change usually tests our own self-esteem or sense of self. Adapting to change is hard work.

Since we live in a world of continuous change the only way to survive and even thrive under this perpetual challenge to who we are and how we see ourselves is to strengthen our **adaptive capacity**. This is not easy. It requires adaptive work which is different from technical work. This book argues that the most important tasks of leadership are to identify the new realities facing the organization and to help build the organization's adaptive capacity. This chapter explores these ideas in greater detail.

PRIMARY GOAL OF ORGANIZATIONS

The Criticality of Relevance

All organizations, regardless of their purpose or mission, have one common, primary goal. That primary goal is to remain relevant. Organizations must remain relevant to their societies and relevant to the stakeholders interested in and affected by their actions. As a key organizational purpose this seems obvious and even trite, yet this essential requirement for continued organizational existence is often forgotten or overshadowed by fancy discussions about strategy, competitiveness and profits.

Relevance must be the major driving force behind all the actions of the organization. If relevance does not remain at the forefront of organizational thinking, the organization will soon lose its attraction to its markets and customers, slip into dysfunctional behaviors, decay, and ultimately disappear. Many, many organizations fade into the zone of non-relevance (for example Singer Sewing Machines or the well known Digital Equipment Corporation) and despite all efforts, they cannot regain their previous position. The world has moved on!

Relevance is Relational Power

Being relevant is about ‘engaged power.’ When something or someone is ‘relevant’ this describes their relational significance. If someone is considered significant, it means he or she has a ‘power’ that has traction when engaging with others. With power one can do and achieve things. Powerless people or organizations are insignificant and readily become irrelevant. **Power is a relational concept.** Power as a force does not exist unless it can be exerted, expressed or used in relation to something else. Power and relevance go hand in hand. Being relevant generates power. Without power the individual or the organization ‘dies’ (May 1972). (Authority, Obedience and Power is discussed in Chapter 5)

The key challenge leaders of organizations face is how to ensure their organizations remain relevant so that they have the power and the resources to do meaningful things. Leaders need to consider what ‘relevance’ means from the perspective of the organization’s mission or purpose, and to whom; which markets to target and where geographically they should position themselves. It is unlikely that any organization can be relevant in the eyes of everyone. Even the mighty Wal-Mart cannot make that claim. According to *Business Week*, July 2007, Wal-Mart retreated from the German market by selling eighty-five of its stores to the local competition. Wal-Mart could not adapt to German culture and was thus unable to become relevant to sufficient German consumers. The consequence: exit the market or die. It exited.

Relevance Requires Responding to New Realities

To remain relevant requires organizations to be adaptive, creative and innovative.

This means that the mission or underlying purpose of the organization must be made relevant through vision statements that lay out goals and strategies that cohere with the organization’s competencies and above all address changing realities. Being in tune with new realities is what makes organizations adaptive and creative. This task is by no means easy. New realities are always arriving. Some realities are obvious and explicit, e.g. the looming retirement of baby boomers; some are not that readily obvious and are more implicit, e.g. a change in the structure of households away from the traditional nuclear family model; and some changes slowly creep up on one and suddenly appear to be a big new reality although they have been emerging for some time, e.g. global warming and climate change. Often identifying the current reality is not easy. Identifying new realities when they are still new is even more difficult for the many reasons we discuss throughout this book. Easy or difficult, there is nothing more important for any system that wishes to remain alive and relevant than to orient its activities to responding to new realities.

NEW MEDIA REALITIES

Google has radically over-turned the newspaper industry. Google's search results track how many people click to view an ad thus providing advertisers with a measure of how many people actually read their ad. Advertising on the web linked to Google's search engine provides advertisers with a benefit they cannot get from traditional print media.

Newspapers and magazines have had to reposition. Large advertising budgets have been redirected to online advertising. Without repositioning, print media will become increasingly irrelevant. (Charan 2007: 31)

THE FORCES OF CHANGE

The Pervasiveness of Change

Whether it is news on TV, the newspaper, discussion at the boardroom table or in the corridors of offices or manufacturing plants, everyone is talking about change. Change, they say, is the only constant. (Heraclitus, the Greek philosopher, told us this over 2,000 years ago – no new reality!) Everyone claims to be in so-called change mode. Products and processes are being revised, revamped, and re-engineered to respond to change. New industries are emerging, new types of companies are being created; new partnerships forged; new territories 'invaded'; new departments established, and newly skilled employees hired. Evidence of rapid and radical change is everywhere.

Change is pervasive. Many assert that never has there been so much change, such radical change, or such swift change as now. They insist we are facing change of new dimensions and proportions that exceed anything ever experienced. Is that true? Consider the time of the industrial revolution when, seemingly overnight, factories appeared; people left their traditional work at home to be employed by others; steam engines and automobiles replaced donkey carts and bicycles; and new types of medicines cured century-old diseases. Songs and discussions on the local commons were supplanted by the gramophone and the wireless, and flying machines soon ushered in the jet age. People living in those times must have been overwhelmed by the impact of change and are likely to have said much of what we are saying today about the radicalism and rapidity of change.

If we go further back in history we are likely to find many similar turning points where massive changes were the order of the day. If we look carefully we will note that not just every century, but every country heralded a series of spectacular changes.

EXAMPLES OF RADICAL CHANGES

Horses to chariots
Sailing ship to hydrofoil
Morse code to the telephone
Printing press to the computer
Bicycle to the automobile
Radio to television
Kites to aeroplanes
Library to the world wide web

Change: A Shift in Space and Time

The twentieth century brought with it a major change in our experience of space. One example is that thanks to advances in aerodynamic technology we can now travel faster than the speed of sound. This reality can hardly be grasped conceptually!

If we look back over the centuries we can mark our progress in the realm of travel. We evolved from walking, to riding the horse, to the donkey cart, to the bicycle, to the automobile, to the propeller plane, to the jet plane, and now to supersonic flight. Along with our new technical abilities, our consciousness has shifted in order to keep up with our changing understanding of distance. Distance, we know, relates to space.

Several hundred years ago, a once in a lifetime physical journey from, say, Casablanca to Mecca would take months. Now this trip is possible within several hours. We can also repeat this journey weekly or even daily without undue hardship. Our twenty-first-century understanding of journey is thus quite different to that of say four hundred years ago. There is no place on earth we cannot physically reach within twenty-four to forty-eight hours.

If for a moment we set aside the physical element of traversing distance and transport ourselves instead to the intellectual or mental plane, we recognize that here too we have made dramatic strides. In earlier centuries we could only communicate face to face via oral messages or handwritten briefs. Communication took time and space (distance had to be covered). Now, with the computer, the internet, and satellite communication, we can communicate almost instantaneously. There is no perceived space between us. Distance is collapsed into the immediate here and now. Space and time no longer exist. Everything is *virtually* here and now. The communication revolution has eradicated the 'space between.' Thus new happenings or new news is not new for long. We are relentlessly assailed with new realities. New realities are made known to us by seemingly instantaneous data feeds. No matter how much you and I might glue

ourselves to the news or the internet, there is no way we can absorb, never mind grasp or embrace, all the new realities being communicated.

The communication revolution is likely to continue. The speed of communication has stimulated the development in new technologies, which in turn has improved the technology of communication. The so-called information revolution has resulted from these new technologies that have spawned and fed the ubiquitous world wide web. One important reminder is that the bombardment of information we experience does not guarantee its relevance or quality. Our new challenge is not paucity of information but how to sift out the grains of relevant truths from the mounds of data, facts and fanciful narratives. This too is one of the key challenges of organizational leadership. How does one lead in a virtual world? How does one identify the most salient information required for good decision making?

Change as the Only Reality

Judging by the enormous hype regarding the change we are experiencing one might be led to believe we are living in a new era. Well, are we? What makes this time so spectacular, so different? Is 'change' really a special phenomenon? Contemporary physics tells us that everything, everywhere, is always (and always has been) in perpetual motion and change. Nothing is static; everyone and everything consists of continuously vibrating molecules of energy. The cosmos comprises one pulsating mass of particles in continual movement toward new potentials, new possibilities and new outcomes (Capra 1995; Laszlo 2007). Waves of change perpetually wash through the cosmos. If this is true, and the new science is the governing scientific paradigm at this time, then it is clear that change is inherent in all that we are and do. Change *is* a constant; has always been with us, and will continue to dictate reality. In fact change *is* the reality. Nothing can remain the same for any length of time. Change is as inevitable as night follows day.

So what is so different about our present time? Maynard and Mehrtens in their book, *The Fourth Wave* (1993), argue that we are moving from an era of interconnectedness (third wave) to an era of integration (fourth wave). (The first wave was the agricultural revolution and the second wave industrialization.) In the fourth wave, as we come to realize how integrated the world is, we experience a shift of consciousness. As we learn and experience that China, for example, is only a few jet hours away and that China's culture and industrial activity can be brought into our living rooms via TV, we apprehend China differently. The charming notion that the flap of a butterfly's wings in Brazil can impact wind currents over Asia is now understood as an existential reality. Our perception of what is and can be has altered. The combined forces of technology and communications have not only removed or destroyed old fences and archaic stereotypes but have ushered in a profusion of new possibilities and choices. Entrenched ideas have always been

challenged, but never at the same rate as now. Old technologies have always faded away, but never at the current pace. The more we realize how interrelated we are with one another and with the environment, the more interrelated we become. The collapse of space and time brings to our consciousness something the sages have always insisted on: the only thing we need to pay attention to is the present moment. As Peter Drucker claimed in one of the books he wrote at the turn of the twentieth century, the future is now!

Given this reality the phenomenon of change is not what requires our attention as much as the impact and meaning of the change. Robert E. Quinn, author of *Deep Change, Discovering the Leader Within* (1996), writes 'If we want to make the world a better place, we need to understand change.' He claims that every person and every organization continually faces a core dilemma: deep change or slow death. Unless work is done to the contrary, all living systems move toward **entropy** or loss of productive energy. He claims that if we do not make deep change we are doomed.

I say more about change in Chapter 2. At this juncture we recognize that change is the reality and that not keeping apace with change soon renders a person or an organization irrelevant. If one ignores the reality not only of change, but of the need for continuous change, one dies!

A STORY OF RELEVANCE

Recently I moderated a panel discussion on Leadership. One of the panelists, the CEO of a small high-tech engineering company in New Hampshire, mentioned during her presentation that 80 percent of the tools and gadgets that are in common use today did not exist over ten years ago. She was making an important point about the rapidity of change. The audience nodded agreement. Further on in the discussions, when it was my turn to say a few words, intent on building on her comment, I asked the audience whether they recognized my pen, which I held up for them to see. The pen at the time was a blue fountain pen. Over half the audience indicated they had never seen a fountain pen, never mind used one! When I carried out the same exercise in my class of juniors and seniors a week later, only five out of sixty students had ever seen a fountain pen before. How times change! Certain fountain pen makers have remained relevant to people like me who love all forms of special writing materials. Their market is surely a dwindling one and they are challenged to continuously recreate themselves to ensure their relevance. Not only are most people not that intrigued with fountain pens any more, most

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people depend on computers to do their writing for them. Writing by hand is a 'dying' art. There is no longer much *need* for fountain pens or any pens at all for that matter. How will organizations that make any kind of writing instrument or writing materials remain relevant in this kind of a world? Well, notice the growing market in specialized journals! If we do not write for work any more maybe we can be encouraged to handwrite in a beautiful journal with special pens, possibly fountain pens, as part of our reflection or leisure pursuits. This is one attempt at keeping writing materials relevant in changing times.

Change Theories

Many theories of organizational change exist. Christiane Demers provides a synthesis of some of the predominant change theories in *Organizational Change Theories* (2007). In this book she illustrates how change theories have evolved over time and how our understanding of what initiates or motivates organizational change has altered from the 1970s to our present day understanding. I do not wish to provide a synthesis of her synthesis but simply to highlight some of the different approaches to organizational change that she mentions.

Change theories address the issue of change from a number of different perspectives. One perspective considers whether change is internally determined or environmentally determined. I argue in this book that all change is and should be driven by environmental change. In other words, the stimulus for change is external to the system changing.

Another discussion about change rests on whether change is a radical or incremental phenomenon. Here the focus is on whether change is a transformational or evolutionary phenomenon. This theory looks into the implications of radical turnarounds as opposed to creeping strategic, structural and behavioral change. I argue that both types of change occur simultaneously in a far less definable and/or controlled fashion than we like to imagine.

Yet a further perspective of change focuses on the actions of management either selecting certain specific change strategies in a strategic and controlled manner or responding to crises and driving change through urgency and haste. In both cases change initiatives are considered to be highly rational and top-down driven activities where leadership is exercised from the top. I resist this view of the management of change, as we will explore in Chapter 4.

The late 1990s and the twenty-first-century vision of change is different in that instead of being deemed a one-off event, it is seen as pervasive, continuous and indeterminate. Here managers have less control as the organization grapples with change at all levels all the time. All members of the organization are caught up in change initiatives and everyone in the organization needs to see themselves as an

agent of change. The life cycle approach to change is less relevant at this time as industries and organizations break up or recreate new paradigms that do not follow the classic life cycle path. Change is less of a specific initiative in the strategic plan and more a phenomenon of daily organizational life. Just like the atoms and molecules that are in continuous motion, creating new possibilities, organizations are in perpetual motion too. This latter approach is the most consonant with our discussions in this text.

CHANGE AND LOSS

We Dislike Change

If change is inherent in all things and is the order of each and every day, why are we so bad at it? Few would disagree that in general we dislike change and resist it if and when we can. We tend to favor the status quo. We provide all manner of reasons for justifying our preference for what currently exists, especially in the organizational context. At the personal level we may be somewhat open to trying out that new electric car and reluctantly acknowledging that our gas-guzzling SUV has to go. Times have changed. The cost of gas, not the cost of the automobile, is what now determines our buying decisions. If we are part of the organization that is losing market share with its gas-guzzlers and is now retooling and recreating itself to become an electric car maker, we are likely to be even more resistant to the change from making SUVs to electric cars. Why are we so resistant to change? What ups the stakes? What makes organizational change so complex? To answer these questions let us begin by considering the nature of change.

New Realities

As discussed earlier, change arrives by way of new realities. Realities by definition do not go away. They are real and must be heeded. We also know that new realities are always arriving. Some new realities have direct relevance and immediacy to us and our organization, and some less so. Because so many new realities are continuously arriving on so many fronts, we cannot apprehend or deal with them all. We have therefore developed coping strategies. Our coping strategies include screening out those realities we consider irrelevant or too insignificant to be concerned with. Often we identify new realities that will affect others, but thankfully not us! 'Look what they have to deal with!' or 'Thankfully that is not my problem!' are well known sighs of relief.

There are times when our coping strategies incorrectly screen out new realities that have direct relevance to us. This can occur due to inattention, negligence, distraction, denial or fear, or because we feel overwhelmed. Whatever the cause of the oversight, the ramifications of overlooking important new realities can range

from inconvenient (I did not realize I had to fill out those new forms), to dire (I should have taken the opportunity to be retrained when it was offered to me).

Organizations screen new realities both formally and informally. They do this through formal processes, such as environmental scanning or strategic planning as well as informally via the collective consciousness of employees encouraged to be attentive to the changing environment. The result of these processes drives plans for change. Changes are usually initiated through the use of planning documents that lay out goals, set benchmarks, calculate discounted cash flows and use other managerial techniques aimed at ensuring the change will generate a net positive contribution to the bottom line. The predicted addition to profits, however, does not guarantee success, nor does it mean that the change initiative(s) will ensure enduring or even continued organizational relevance. Organizations too can fail to respond to poignant new realities; can respond to the wrong ones, or even to the right ones but in the wrong way. New realities are a tricky business! As we discussed briefly, new realities can be obscure; can be deceptive; can arrive in a fragmented fashion; can readily mislead, and most importantly can be difficult or downright brutal to absorb. The bombardment of new realities contributes to making change so overwhelming. We continuously have to ask ourselves: Which new reality is the most critical one? How and why?

At the time of writing one existing reality is that North Korea, much to the alarm of many nations, is flexing its nuclear muscles. In response, the United Nations sponsored moves to tighten financial sanctions and to ban imports of luxury goods into North Korea. According to the *Economist* World Report, the Kim regime has been the biggest customer for Hennessy's top cognac.¹ Cognac fell under the import ban. The brutal reality of losing this large market due to the embargoes must have been a challenging 'new reality' for Hennessy to absorb and adapt to. Did Hennessy's new realities screening mechanism anticipate this challenge? How did Hennessy adapt, one wonders.

NEW REALITY WARNING SIGNALS

- Nascent industries emerging
- Nontraditional competitors start to appear
- New technology challenges existing price – performance relationships
- Existing business model no longer effective
- Competitor market positionings alter
- New customers emerge
- Customer needs and satisfaction level change
- New (seeming distant) legislation appears
- Foreign markets develop imitations
- Suitably skilled people are in abundance

(Adapted from Charan, 2007: 51)

Value Tensions

New realities create **value tensions**. Let us see what this means. Pause for a moment and think of the most recent change you have experienced: a new job, a new house, a new baby, a broken tooth, or possibly flooding in the basement. That change, or new reality, challenged your sense of self; your value systems; your priorities. The new house means less money for golf: what will your golfing friends say? You are no longer part of their in-crowd. That new baby means less overtime in the office: what will your boss think of you? You can no longer be relied upon for those special urgent projects. Your new priorities mean you can no longer be the ‘up and comer.’ That broken tooth means yet another imperfection in your looks you have to deal with. Someone is going to have to artificially fix that smile. And that flooding in the basement challenges you: why me? What will the neighbors think about the quality of my house? Am I the only one with lousy foundations? Am I the cheap-skate in the neighborhood?

New realities require us to give up, change or mediate our values and often change our priorities and behaviors. This cuts deep! Our values are hard come by. Our values have developed over time shaped by our life stories and experiences. They are part of who we are. We are invested in them. They reflect what is important to us, who and what we believe in, what we stand for, and how we make meaning in the world. Our values give us identity and community. Changing, mediating or reprioritizing our values is no trivial project! Change that challenges our values, therefore, most immediately results in a sense of loss since we are required in some way to relinquish or compromise on one value or another. All change, even good change signifies loss of some kind. And even ‘loss’ as a consequence of a welcome new reality invariably has an impact on one’s sense of self, or self-esteem (Beerel 1998; Heifetz 1994).

Value tensions cut to the chase. They challenge who we are and the world of self-perceptions we have created around us. Often they pierce our most vulnerable spots and tear at the pillars on which we have built our world views, our sense of pride and our self-esteem. Identifying the value tensions that arise as a result of change is known as defining the adaptive challenge (Heifetz 1994). Acknowledging the adaptive challenge is the beginning of the road of adaptive work – something we discuss in great detail in Chapter 4.

New realities may require us to change our ideas; our belief systems; our loyalties; our concepts; our habits, and our skill sets. As one example we have only to look at the role of technology in our lives to grasp the value tensions that new realities can create. Many a specialized craft, managerial function or professional skill has been replaced by technology of all sorts. For example software tools of graphic and design have replaced the work of draughtsmen. Decision support systems can now perform certain planning functions that used to be the preserve of management. Medical systems can now diagnose diseases that used to be the responsibility of specialists in the medical profession. The most dramatic outsourcing we have witnessed and will continue to witness is not to India or China, but to the advance

of wireless technology, advanced microchips and intelligent machines. How does it feel to know that a large portion of humankind's basic skill set can be replicated faster, more accurately, more reliably and more consistently by a machine? That truth is an old reality. The new tasks that machines will take over from us are destined to provide a stream of new realities in the foreseeable future.

On that rather somber note this does not mean that change only brings loss, it also brings gains, and important ones. Sometimes those gains are not that easy to recognize, as in the flooding of the basement, losing one's job, or having to be retrained because a machine now performs our former tasks. As Jack Welch, the well known, former CEO of the huge multinational, General Electric says, change provides a huge opportunity to shuffle the deck, to replay the game. Opportunity is the gateway to tomorrow. If we do not find the gains in change, we will have to change our minds, because change is here to stay.

CHANGE REQUIRES ADDRESSING PEOPLE'S FEELINGS

Harvard Professor, Peter Kotter claims the central issue around change is never strategy, structure, culture or systems. The core of the matter is always about changing the behavior of people. He says CEOs are often as resistant to change as anyone and just as prone to backsliding. Behavior change happens mostly by speaking to people's feelings.

In a world where change is constant and often radical we are constantly dealing with 'loss' around our sense of self and who we are. This throws us into a continuous state of renegotiation with ourselves about ourselves. This is hard work – very hard work! It is not always pleasant work, as we are continuously asked to give up some things in favor of others. If we can develop our adaptive capacities by consciously engaging in adaptive work, new realities can bring us new freedoms and new opportunities for developing our infinite human potential. For example having to find a new job may mean we find new competencies and new strengths we never knew we had. In those cases where our sense of self or self-esteem is challenged we are provided with opportunities to consider whether they were grounded in healthy or sustaining values. If nothing else, having to respond to change in creative ways enhances our adaptive capacities, even when it hurts. Mature adaptive capacities provide us with resilience, and resilience is a capacity worth working for! Resilience improves the chances of healthy survival in a world of change.

Adaptive Capacity

Identifying and responding to change requires alertness, agility and energy. As we saw, change is hard work. To be good at it, like all things, takes practice. We need to do it repeatedly. Jokingly we often say: 'No rest for the wicked!' This well worn phrase refers to the need to continuously create, shift, change, rearrange, do whatever it takes, to keep up. The work of 'keeping up' is never done. However, being adaptive is much more than keeping up.

To be good at responding to change refers to our capacity to adapt. As humans we have innate adaptive capacities. These are part of our built in survival mechanisms as a species. As Darwin has explained to us, to ensure our legacy we need to adapt. To be sure, some of the species (individuals or groups), will elect not to adapt or will not have the wherewithal to adapt, and will, therefore, die and disappear. Losing some is inevitable. The question for our consideration is: Do we want to be that individual who disappears? Does our organization want to be that group that falls behind and ends in the dustbin of history?

Adaptation is about learning: not a superficial, rote learning, but a deep learning that is transformative. Often that learning is difficult because it challenges our relationship to reality and our mental paradigms. Transformative learning is not easy as we will have to transform ourselves. We resist because we exist in the comfort zone of where we are now. Transformation takes us to new territory. That is scary. Adaptation requires strength and courage. It requires a shift in consciousness; a recognition that a new paradigm has come into being. Adaptation requires participating in this paradigm in a meaningful way and including it as part of one's reality.

Adaptation is not the same as coping. Adaptive strategies are different from coping strategies. Adaptation refers to the ability to integrate new realities into one's world view and to work consciously with the changes and value tensions these present. Adaptation means developing a new mindset and new skill sets that can integrate and competently handle new circumstances. Adaptation means being creative and active, not passive and submissive, in the face of change. Adaptation calls for working with the energy of change: guiding, shaping and harnessing that energy in innovative ways.

Coping strategies are less assertive, energetic and creative than adaptive strategies. Coping strategies imply a certain resignation to the inevitability of change whereas adaptive strategies are active, outgoing strategies that do the best they can to meet change on their own terms. Consciously developing our adaptive capacity is what makes us more competent at responding to change. It builds our resilience and our self-confidence. Developing our adaptive capacity also takes us out of the realm of simple survival to greater autonomy and personal moral agency.

Developing one's adaptive capacity is not something that is explicitly taught. Growing into adulthood is an adaptive process. Some do it well and some take a little longer. Even so, not all adults end up with the same adaptive capacities. In fact, our continued resistance to change, even though it is the essence of life, signals the need for us to become more adaptive.

From a leadership development perspective, MBA programs do not teach students how to read new realities and how to create adaptive responses. Regrettably, most MBA curricula place emphasis on technical and procedural, rather than adaptive work. (See Chapter 4 for a discussion on the difference between adaptive and technical work.) Adaptive work is left to life in the organization, and organizations have the responsibility of developing the adaptive capacity of their employees. Those organizations that specialize in developing the adaptive capacities of their employees are likely to remain more relevant and to achieve superior results. Through adaptation, creativity and innovation organizations maintain relevance in the eyes of their markets and customers. As they hone their adaptive strategies, they become more adept at adapting to new realities, as well as becoming the creators of new realities themselves. Organizations who do not place emphasis on developing their adaptive capacities will most certainly, in the medium to longer term, struggle to survive.

Adaptive people and adaptive organizations can embrace the future with greater confidence and an enhanced sense of autonomy. If you think about it, there is no greater gift than to help enhance others' adaptive capacity. Isn't that one of the major responsibilities of good parenthood, good education, and good governance? The idea of adaptive capacity and its role in leadership and change management will be discussed in more detail in Chapter 4.

PERSONAL EXERCISE

- 1 Consider your most recent significant new reality. List the various aspects that made it significant.
- 2 Who else was affected by this new reality?
- 3 Did you experience any personal resistance to this new reality? Any resistance by others?
- 4 Identify the value tensions you experienced. Do the same for the others who were affected.
- 5 What have you learned as a result of this new reality? What have you had to give up as a result of this new reality?
- 6 Have you discussed these steps with others? (If not, give it a try.)

The Complexity of Organizational Change

By now we understand well why people resist change. Within the organizational context resistance to change escalates. Let us look at some explanations for this phenomenon:

- People feel less in control when operating within the organization as they are part of a power hierarchy that has control over their future. The system is larger than they are.
- Usually there is someone else ultimately in charge of the change process, so there are usually power dynamics going on (see Chapter 5). Other peoples' issues have to be taken into consideration and these might take precedence over one's own.
- The losses people experience as part of a change process may be more visible to others than if it is within the realm of their personal lives. Exposure makes them feel more vulnerable.
- There is fear that change may result in people losing their jobs and hence their source of livelihood.
- The group dynamic of the organization: Groups always fear for the survival of the group; employees are thus caught in the 'groupthink' around resistance to change. (See Chapter 6 on the anxieties existent in organizational life.)
- Overall, change in the organization appears to raise the stakes.

The group dynamic around resistance to change will be explored in detail in Chapter 6. At this point let us simply note that organizational change is more complex than personal change. Even where organizational leadership has clearly and accurately interpreted the new realities and devised appropriate strategies to move forward, organizational resistance to change can torpedo even the very best efforts. Identifying new realities is only the first part of the challenge of remaining relevant. These efforts must be followed by adaptive work or change initiatives will be sabotaged. Let us also for the moment note that 'execution,' a now popular concept, is not the same as adaptive work! We discuss this further in Chapter 9, on Systemic leadership strategy.

MANAGEMENT AND THEIR APPROACHES TO CHANGE

Ackoff identifies three primary forms of management based on their attitude toward time and change.

- 1 *Reactive* management prefers the way things were in the past. They attempt to remove or suppress the effects of change in the hope of returning to the status quo ante.
- 2 *Inactive* managers also resist change; they like the way things are. Their objective is to prevent change. Their attitude tends to be 'if it

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ain't broke why fix it?' These managers do not react until there is a crisis. They try to suppress the symptoms of a problem that signals the need for change. These are the characteristic behaviors of bureaucracy.

- 3 By contrast to the other two, *preactive* management looks to the future. For them change is an opportunity to be exploited. They predict and prepare. The most change-oriented leaders are preactive management. They try to create the future as much as possible. Their possibilities of survival and remaining relevant are the most promising.

(Ackoff, 1999)

GOOD CHANGE AND BAD CHANGE

An important thing for organizational leaders and for executive management to grasp is that there is good change and there is bad change. Good change responds directly to new realities. Good change acknowledges the adaptive challenge and includes engaging in adaptive work along with the required technical work. Good change reinforces the organization's potency and relevance to its customers, markets, employees and shareholders. Good change sets the organization on a forward-looking and healthy trajectory. Good change advances the adaptive capacity of the organization as a whole as well as that of its executives and employees. Good change is recognized as an ongoing process.

Bad change detracts from the organization's potency and relevance. Bad change corrupts an organization's healthy trajectory and impairs its adaptive capacity. Bad change affects morale and people's willingness to be adaptive in the future.

Bad change can be worse than no change, especially where it deludes the company into thinking it is a good change. Bad change is particularly 'bad' if the organization has not truly dealt with the new realities that it needs to respond to in order to remain strategically relevant. Leaders that initiate badly aligned change initiatives do the organization serious damage. Alas, although examples of bad change efforts proliferate, many errant CEOs or executives are oblivious of the damage they have done and have moved on to their next big job, while the organization is stuck with reorienting and revitalizing itself.

It is possible that some change initiatives keep the organization on some course but not the most critical or salient one. That too is bad news. Not only has the organization used enormous energy and resources to achieve mediocre results, but the organization will remain convinced that it has changed and that

an important goal has been accomplished. Change is the means to an end, and not the end in itself. Change is an ongoing process. The end of one change effort is the beginning of another. In the strenuous efforts around change initiatives, these truths are easily forgotten.

Why Change Fails

Here are several reasons for the low success rate of change projects in organizations:

- The change did not really respond to new realities, but was a response to the reality the CEO and strategic management wanted to perceive was occurring rather than that which was really occurring.
- The change required in order to truly respond to the new realities was not fully understood, as the new realities were not adequately 'reality tested'.
- The change engaged in was a technical fix to an adaptive problem (see Chapter 4).
- People involved in implementing changes did not truly believe that the change project was responding to new realities, so they were coerced into action rather than feeling self-mobilized.
- The anxieties inherent in the organization impeded its ability to adapt and learn.
- People's resistance to change was not properly dealt with.
- People affected by the change were not included in the decision-making processes.
- Leadership did not or could not convey the urgency of the requirement to change, resulting in poor timing of change.
- The extent of the change initiative was not fully thought through, hence shortly after launch trouble spots creating further stress occurred.
- The full impact of value tensions on stakeholders to the change initiative had been only superficially explored.
- The focus on the change was strategic, tactical and technical but not ethical.

As we discuss throughout this text, identifying new realities and managing the change process is the critical task of leadership. When leadership is exercised effectively the organization's change initiatives will be effective and there will be 'good change.' When leadership is exercised ineffectively, change initiatives will be mediocre, ineffective or will fail miserably. Leadership challenges that arise due to new realities and change will be explored from many angles in the following chapters.

ADAPTIVE, CREATIVE AND INNOVATIVE RESPONSES TO CHANGE

Organizations need to be adaptive, creative and innovative to survive and prosper. Being adaptive, creative and innovative requires enormous attention and energy. To sustain these efforts demands a culture of openness to change. The adaptive and creative work cannot be the sole responsibility of the CEO and strategic management or that of a single division or department. The adaptive and creative mindset must pervade every corner of the organization to make it effective and sustainable.

A change mindset must permeate the entire organization:

- Due to the amount of energy and focus needed to be adaptive and creative, organizations need to optimize group synergy around creative efforts.
- Departmentalizing creativity creates artificial barriers that foster a 'them versus us' attitude.
- Organizations are only as progressive as their weakest link; therefore their weakest link had better be adaptive and creative.
- Organizations need to encourage the creative potential of all their employees, not just those in special functions or departments.
- A culture of openness to change heightens the organization's awareness of new realities and reduces resistance to change.
- In order to foster a learning organization – see below – all the individuals in the organization need to bring their adaptive capacities to bear. (See Chapter 5.)

Adaptive Learning Organizations

We have discussed the concept 'adaptive' and the notion of adaptive capacity. What we can add at this point, and something we explore in more detail in Chapter 4, is that adaptive organizations are fundamentally continuous learning organizations (Argyris 1999).

Many organizations claim they have the characteristics of a learning organization. They insist they are creative and innovative and engage in healthy risk taking. Creating a learning organization requires more than this! True learning is to 'know differently'. It is the process of exploring, enquiring, searching, reflecting and in the end knowing somewhere for the first time. The learning

process alters the way a person constructs meaning and re-charts her mental maps. True learning results in transformation, not the addition of more information. True learning does not mean acquiring new skills or new technical solutions. True learning creates new understandings, new paradigms and new adaptive strategies and new behaviors.

Let us take a simple example: learning to drive a motor vehicle. Think back on the adaptive work and learning that took. There was certainly all the technical work: learning how to use the pedals, what the information on the instrument panel meant; using the rear view and side mirrors; what lay under the hood; how to change a tire and so on. Well and good. Prior to learning to drive you had no doubt been driven around by your parents, teachers and friends. Now you are to take over and drive for yourself. This is big! There is a lot of adaptive work here too. You are going to be responsible for your actions behind the wheel. You have new autonomy and thus a new sense of self. You are a real grown-up now as you can take yourself places on your own terms. On the other hand, now you will be asked to fetch and take other people. You may even lose some of your freedom. Driving has opened up a whole new world of opportunities and responsibilities and new realities always bring both 'losses' and gains.

Recall the first days of driving. You get in behind the wheel and now you are driving. Yes, you know all the technical stuff, but putting it all together is another matter. You run out of hands to activate the turn signals, you brake too late and nearly miss the stop sign, you forget to look in the rear view mirror when you make a turn and nearly hit an overtaking car ... and so it continues for quite some time. You also learn about your understanding of speed. What it means to accelerate to 80 m.p.h.; you feel exhilarated and scared. What it means to stop and how long that can take if you are driving too fast. You learn that reading the map while you are driving is not a good idea as you will most likely miss the turn-off. Driving in a thunder or snow storm presents a whole other number of challenges.

Learning to drive changes your world. It changes the way you feel about yourself and it changes your relationship with others. You have a new understanding of go, speed and stop. You have a new awareness of yourself and your ability to multi-task in this environment. You know why you cannot drink and drive or should not drive when you are drowsy. You know this through the deep personal understanding of being in control, or not, of this metallic capsule that hurtles you and others through space. No one can really grasp the mindset of driving unless they drive. Driving requires an 'altered state of consciousness'.

If we remain with our driving metaphor, a true learning organization provides its employees with opportunities to develop and experience 'new vehicles,' 'new speeds,' and 'new mental maps.' It encourages 'altered states of consciousness' in that it acknowledges that these states provide opportunities

for new problems to be identified and new paradigms of understanding to be found.

In this vein the characteristics of a learning organization include the following:

- The organization is open to changes in the environment.
- It allows those changes to flow through the organization and does not block them, check them, or unduly try to control them.
- Employees are encouraged to look at change from multiple perspectives and to reality-test the new realities inherent in the winds of change.
- New realities often require new learning. Learning is experiential and so risk taking is encouraged.
- Learning is recognized as affective as well as cognitive, so people are encouraged to share their feelings, not just ideas about change.
- Interdisciplinary dialogue is encouraged to explore and heighten the learning that is taking place.
- Active and constructive feedback is considered part of the learning process.

Learning Can Be Unlearning

A key part of learning is unlearning. This too is part of the adaptive process. Organizations, like individuals, become accustomed to approaching familiar problems in familiar ways. Often unfamiliar problems are categorized as familiar ones as it is more convenient to deal with them using tried and tested solutions than to find new ones. In these cases differences are ignored and similarities are accentuated. The tendency to look at problems in this manner can easily lead to an ever wider range of problems being solved the old way. In truth, they are not really solved.

The successful solution of problems also reinforces the fallacy that the same strategies are infallible and can be used time and again. Discarding or revisiting well ingrained, old behaviors or problem-solving strategies becomes increasingly difficult over time. Unless organizational leadership persists in finding new ways to handle both old and new challenges, past success readily breeds complacency and apathy. Getting members of the organization to unlearn accustomed ways of interpreting the world and to relinquish old behaviors is often the greatest barrier to the next level of learning. New realities challenge us to new levels of learning and new behaviors. If we wish to adapt we have to be prepared to unlearn, give up, reorient and change.

THE SHAPE OF NEW REALITIES — THE FUTURE IS NOW

When thinking about *new realities* it is easy to fall into the trap of trying to predict the future as if it is a one-off event. The future is not a one-off event. It is *always arriving!* It is as ceaseless as the waves that wash up on the sea shore. And the future is the past before we know it. No sooner has it arrived than it is past. There is no way and no point in trying to stargaze and anticipate future out of the blue events. Everything we wish to know about the future is being revealed to us in the present. Remember, every minute now was in the future a moment ago!

The future lies in the present; the future is now. Our understanding of the future and new realities depends upon our ability to pay attention and understand what is going on now. If we read today's tea leaves correctly we will see the new realities emerging an unfolding.

Organizations that excel, work intensively with current realities. Their mindfulness and attention to developments both in their markets and in others provides them with insights into new solutions and new creative opportunities. These organizations are observant and curious. They tend to investigate corners where others are not paying attention. They are essentially idea driven, rather than market share or profit driven. They continuously change the rules for themselves to avoid complacency and arrogance. They see change as an opportunity. The entire enterprise is committed to change and action. Above all they employ adaptive, creative, self-motivated people.

ONLY THE CHANGE LEADERS SURVIVE

Peter Drucker in *Managing for the Future* (1992) claimed one cannot manage change. One can only be ahead of it. The only ones who survive are the change leaders; they see change as an opportunity; they actively look for and anticipate change. Their attitude is to abandon yesterday; to feed opportunities, and inculcate a policy of systematic innovation.

Gary Hamel in his article 'Be Your Own Seer' provides some profound advice on how to be alert to new realities and how to respond effectively. He advocates the importance of freeing oneself from the stranglehold of the familiar by leaping over our mental constraints. We are prisoners to tradition and our eyes are dimmed by precedent, he claims. Familiarity is the enemy. He stresses the importance of the imagination, curiosity and creativity that come with learning to see

and be different. He suggests that we become novelty addicts and heretics, willing to challenge the status quo and to proactively shape the environment.

Hamel insists it is essential to become 'addicted to change' and to perpetually seek new possibilities. Predicting the future is for fools; what is important is to develop strategies to deal with unpredictability. He argues that the future is different rather than unknowable. Opportunities are found by looking where others are not looking, and that requires really paying attention. He advocates that we challenge our mental models and deconstruct existing beliefs.

John Kotter of the Harvard Business School insists that the central issue is never strategy, structure, culture or systems. The core of change lies in changing the behavior of people. And behavior change happens mostly by speaking to people's feelings. The task of leadership is primarily about dealing with people's capacity for adapting to new realities, i.e. their ability to transform and change.

THE PRIME TASK OF LEADERSHIP — IDENTIFYING NEW REALITIES

Leadership is about facilitating, guiding and managing change. Where there is no change, we do not need leaders. Exercising leadership concerns mobilizing oneself and others (the group or the organization) to adapt to the new realities of change (Beerel 1998).

The first responsibility of the leader is to define reality in collaboration with others in the organization. This requires sizing up the current situation as it really is; not as it used to be, or as people would like it to be. It is essential that the current realities are viewed from every angle; that bad news is confronted, and that creative attention is given to new realities that are continuously arriving.

Max De Pree, ex-chairman of Herman Miller, the highly specialized furniture manufactures, describes in his two well-known books, *Leadership is an Art* (1989) and *Leadership Jazz* (1992), an approach to leadership that resonates with this attention to new realities. In *Leadership is an Art*, his advice for leadership is deeply consonant with the systemic and interrelatedness concepts of the new science discussed earlier. He claims that the first step of the leader is to define reality (De Pree 1989: 11). According to him leaders should also liberate people to do what is required of them: to change, grow and strive to achieve their potential. They can only do this if they are aligned to the changing realities of the world and are in touch with the consequences.

Defining reality is difficult as we tend to mute or downplay those parts of reality we do not want to deal with. Entire organizations and even entire societies (see p. 000 below) collude in this fashion. In order to define reality effectively, therefore, leaders need to reality test their perception of what is changing. Reality testing means involving others in dialogue and investigation

so as to arrive at a co-created understanding of the current new reality. Leaders must include views and opinions of people across all sectors of the organization; across all disciplines, and preferably across all points of view. Frequently the organization's outliers have insights into 'reality' that others may not see or grasp. Leaders must also persist in exploring current new realities that are being ignored, no matter how trivial they may initially seem.

DENIAL OF NEW REALITIES

Climate change is bottom of the priority list for Britain's largest companies.

More than half the companies surveyed by YouGov for KMPG, the professional services firm, said there were more urgent issues, such as brand awareness, marketing strategies, and corporate social responsibility. Just 14 percent of them had a clear strategy for tackling climate change. Climate change is outside the limit of fund managers who are not looking at 2012, let alone 2050. Long term for them is about three years out.

Only half of the 73 companies surveyed claimed to understand fully the implications of climate change. Industry efforts are aimed at getting the green fraternity off our backs (*Financial Times*, Tuesday June 5, 2007: Summary of views of some of the nineteen fund managers surveyed).

Jared Diamond gives us some interesting insights into the devastating results of ignoring new realities and how and why this occurs. His book, *Collapse: How Societies Choose to Fail or Succeed* (2005: 6), chronicles the collapse of past civilizations. He reveals how humankind's use and abuse of the environment throughout the centuries reveal the truth behind the world's greatest collapses. History, he claims, is filled with patterns of environmental catastrophes. The processes by which past societies have undermined themselves include deforestation and habitat destruction, soil problems, water management problems, overhunting, overfishing, the effects of introduced species on native species, uncontained human population growth, and increased per capita impact of people on the local environment. And we are calling these phenomena new realities!

His examples include the history of Easter Island, Norse Greenland, and the Native American Mayan society. In recounting the events that led to their demise he highlights the warning signals that were present and visible but ignored by the population and its leaders. In fact some of the leaders' strategies exacerbated the situation rather than raising it to public attention or confronting the signs of impending doom.

Diamond asks the question: Why do some societies make disastrous decisions? He refers to the collapse of the Easter Island society who cut down all the trees on which they radically depended. Easter Island was discovered by Jacob Roggeveen

on Easter Sunday April 5, 1722. It is famous for its gigantic stone statues of human faces. Over several centuries the islanders systematically destroyed their forests. Without constraint they used wood for building houses and canoes, and for platforms to haul the enormous statues across the island, and used bark for ropes. Clans competed to build bigger and bigger statues, destroying forests as they sought to outdo one another. The result of the native tribes' overexploitation of resources and destruction of a fragile ecosystem led to the society's eventual demise.

In order to answer his own question, Diamond refers to the work by archaeologist, Joseph Tainter in *The Collapse of Complex Societies* Tainter describes how societies sit by and watch their encroaching weakness without taking corrective action. Many of their stories appear to reflect idleness in the face of looming disaster. Tainter (1988: 421) goes on to analyse this baffling phenomenon. He claims that there are four main reasons why groups fail to make decisions when realities reflect danger signals:

- Failure of anticipation of problem before it arrives;
- Failure in perception that there is a problem;
- Even once they perceive it, failure to solve the problem;
- Despite attempts, lack of success in solving the problem.

Tainter explains his analysis as follows:

- 1 Failure of anticipation – The society is facing a new problem; it has no prior experience; it has not been sensitized to the possibility; its reasoning processes fails as it uses old analogies to try to grasp the problem.
- 2 Failure to perceive – The origins of the problem appear imperceptible; people distant from one another, as in large corporations, are not able to piece the issues together. The new reality arrives in the form of a slow trend concealed by up and down fluctuations; it becomes creeping normality; this leads to landscape amnesia where people forget what the terrain looked like in the past due to the gradual changes.
- 3 Failure to attempt to solve a problem, once it is perceived – People over-rationalize the problem; there is a clash of interests between stakeholders; the blinding force of the lust for power distracts competing leaders from actually solving the problem; maintenance of the problem is good for some people. There is also irrational behavior, where people are torn by a clash of values and resist doing something new. An interesting question is: At what point do people prefer to die rather than compromise their values and live? Then there is the sunk-cost effect where people feel reluctant to abandon a policy in which they have invested heavily.
- 4 Failure to solve the problem – The problem is beyond the group's present capacities to solve.

What we observe from Tainter's analysis is that the failure to respond to new or unpleasant realities applies equally well to organizations. There too leaders and senior management readily fall into one or more of Tainter's four categories of decision-making inertia or failure. The role of good leadership is to minimize the possibility of ignoring or misreading important realities that have a direct bearing on the survival and relevance of the organization.

WHAT LEADERS REALLY DO

They don't make plans; they don't solve problems, they don't even organize people. What Leaders really do is prepare organizations for change and help them cope as they struggle through it.

How does one set the direction for change? Not by organizing people but aligning them.

(John P. Kotter, 'What Leaders Really Do', *Harvard Business Review* 2001.)

Systemic Leadership

In this book we focus on the Systemic Leadership approach. Systemic leaders focus on keeping the organization fine tuned to new realities. They understand the impact of new realities and change, and help (members of) the organization to work with the value tensions presented, adapt, learn and develop their adaptive capacities.

Systemic Leaders are transformational leaders, concerned with strengthening the organization's capacity for learning. They understand that this will determine its resilience and continued competitive strength. They recognize the consequences of Easter Island myopia.

Understanding the philosophy of Systemic Leadership and the tasks of effective systemic leaders will preoccupy us in the next chapters. One thing Systemic Leaders are good at is inductive as opposed to deductive thinking. Deductive thinking is based on old rules of deduction. Radical change requires new heuristics for framing complex problems.

Inductive Thinking

Understanding new problems requires an inductive rather than a deductive approach. Management focuses mostly on deductive reasoning and decision making. The task of leadership is to embrace **inductive thinking**. Inductive thinking is more complicated and very different from the deductive approach.

Deductive reasoning is about applying rules to circumstances and events. By contrast, inductive reasoning is about looking at circumstances and events and considering what

rules may apply to them or finding new rules. The emphasis of inductive thinking lies on identifying and interpreting a variety of data, finding patterns, relationships and linkages that may explain things. Inductive thinking emphasizes questioning. It seeks to draw out specific causes and connections and arrive at inferences that accurately describe reality. Dealing with reality is essential in the case of inductive reasoning, to ensure that inferences drawn stand up to thoughtful scrutiny.

Inductive thinking is an approach we usually neglect – largely because it is time consuming, can be enormously frustrating as we have to find our own answers, and tantalizing when answers seem to allude us. Yet, inductive thinking is enormously powerful and creative when used appropriately. Once again, inductive thinking is not taught much in schools or universities. An organization is left to create its own culture of inductive thought processes and questioning. This endeavor is yet another task we can add to that of leadership as part of the new reality identification and testing process.

EXECUTIVE SUMMARY

Now we have laid out the groundwork of this text on *Leadership and Change Management*. In this first chapter we emphasize that, in order to stay alive, organizations need to respond to the pulse of change. Leadership is about facilitating and directing these change efforts. True change is complex and transformative. Good leadership facilitates transformation and develops the organization's adaptive capacity.

Here are some key points of the chapter:

- Organizations are human systems formed to achieve a predetermined purpose or goal. In order to survive in the longer term, organizations must remain relevant.
- Change arrives by way of new realities. New realities are always arriving and will not disappear.
- The only constant in the world is change. Change challenges existing structures, forms and paradigms. In order for people and organizations to survive meaningfully they need to respond to new realities and adapt.
- New realities are driven by forces in the external environment. Failure to identify the source of new realities can result in the organization responding to the wrong ones.
- Change always creates value tensions. These value tensions represent both gains and losses. Change will always represent loss in some form or another. Identifying value tensions is known as defining the adaptive challenge.
- In order to enhance their adaptive capacity people and organizations need to define the adaptive challenge and then do their adaptive work. These activities enhance their adaptive capacities.

- Adaptive capacity is a function of the organization's ability to deal with the value tensions that change always implies.
- The prime task of leadership is to identify the new realities and to consider the value tensions they imply for various stakeholders.

KEY CONCEPTS

Adaptation
Adaptive capacity
Adaptive challenge
Adaptive work
Entropy
Inductive thinking
Learning organization
New realities
Organizational relevance
Reality testing
Relational power (relevance/relevant)
Relevance
Resilience
Shift in consciousness
Systemic Leadership
Technical work
Transformation
Value tensions
Virtual world

CASE STUDY

LIFELONG BANK AND TRUST (LLB)

LLB is a community banking institution based in El Paso, on the Texas and New Mexico border. LLB has over fifteen branches in both states. LLB has been in operation for 60 years. Its assets reached \$800 million in the mid-1990s, but dropped back to \$650 million in 2007. The President, Jack Stock attributed the decline in assets to a nationwide cooling off of the mortgage banking business. Stock is feeling the pressure to identify and penetrate new markets.

The number of illegal immigrants in both Texas and New Mexico has increased significantly over the last decade. Most illegal immigrants live in the

dilapidated parts of town where middle-class families used to live before the loss of many manufacturing operations. The new Latin population that has grown up around El Paso has brought with it Latin folk music, statues of Our Lady of Guadalupe and marisco stands.

To reverse LLB's declining financial position, Stock plans to offer a new mortgage product that will be marketed to illegal immigrants. The Federal Deposit Insurance Commission (FDIC) has maintained there is no federal law requiring banks to verify immigration status of foreign account holders.

Stock realizes that offering mortgage products to illegal immigrants will draw fire from critics. On the other hand it will fulfill the unmet banking needs of a new market and generate a new revenue stream. He believes that offering mortgages to the Latino population and increasing the ownership of homes will result in an improvement in the housing market for all the residents of El Paso.

Stock is preparing to present his strategy to the board of directors for approval. He needs their support to introduce this new innovative policy across the branches of LLB. He hopes to convince the directors of the manifold benefits of his strategy. Entry into the market would give LLB a competitive advantage and a new revenue stream. It would help revitalize parts of El Paso and would grow LLB's balance sheet.

Questions:

- 1 List the new realities in this case that John Stock is dealing with.
- 2 Identify the stakeholders affected by John's initiative and identify their value tensions.
- 3 What would you advocate if you were on LLB's board of directors? What are your reasons?

ORGANIZATIONAL EXERCISE: MALDEN MILLS

Aaron Feuerstein was hailed as a savior when, after a devastating fire in his factory in the depressed area of Lawrence, Massachusetts in 1995, he continued to pay his workers while his factory was being rebuilt. In hindsight Feuerstein's actions are being questioned. Had he done the right thing in paying his workers even though insurance settlements after the fire were not guaranteed and had not amounted to what he originally thought he would receive? In order to update the factory, Feuerstein spent millions over what he was insured for. Several managers had questioned the scale of the rebuilding; some even thought it was not good practice to rebuild a mill in the Northeast when other textile mills had moved to cheaper labor climates. Feuerstein had overridden these objections, insisting he had an obligation to his workers and to the community to rebuild the operations after the fire.

Malden Mills was founded in 1906 by Henry Feuerstein. After the 1940s many large fabric manufacturers in New England moved south to take advantage of lower labor costs and proximity to cotton growers. Because of this industry shift mill space became cheaper and more available in New England. Aaron Feuerstein, President and grandson of founder Henry, felt it best to keep the mill in New England. At this time Malden Mills began to have its yarns converted to fabric in small outlying plants in Vermont, Maine and New Hampshire, and then dyed, printed and finished these fabrics in its central mill in Lawrence.

Although the mill managed to stay alive, it experienced some rough times, including a declaration of bankruptcy in 1981 when its primary product, fur, abruptly went out of fashion. Feuerstein family members called for Aaron to step down as President, which he resisted. He claimed he had a new solution which entailed drastically restructuring the mill to focus on two new products: Polartec and Polarfleece. Despite warnings from his bankers, Feuerstein persisted, and Polartec became a resounding success, generating sales of \$200 million in 1995.

Malden Mills remained the largest textile mill in New England. In other areas in the US companies like Levi Strauss had at the beginning of the 1990s moved their manufacturing operations overseas to cut costs. Wage differentials between American and Mexican or Bangladeshi workers were huge. For example American workers would earn \$6.75 per hour versus \$1 for Mexicans and 22 cents for Bangladeshi workers. During the early 1990s imports from China and Vietnam increased significantly while US employment and production declined.

The fire of 1995 all but gutted the Malden Mills buildings. Twenty-four workers were injured, thirteen seriously. Despite his managers' skepticism and their suggestion that only the profitable part of the mill be rebuilt, Feuerstein decided to rebuild the entire factory. He also agreed to pay 3,100 Malden Mills employees full pay and benefits for ninety days. He resisted suggestions that new machinery be introduced to reduce manufacturing costs.

The insurance money for the rebuilding was slow to materialize and was less than expected. Malden Mills was forced to borrow significant sums to meet cash flow needs. At this time Feuerstein was hailed as a hero and stories of his generosity to employees and his commitment to Lawrence filled the newspapers. There were guest appearances with President Clinton and he was featured on many major news networks. He received a variety of awards and was named the 'CEO with a difference.'

While all was rosy on the publicity front, relationships between Malden Mills and its other stakeholders were less positive. Buyers were dissatisfied with the quality of certain goods and Feuerstein had to make great efforts to maintain their support. The amount of rebuilding undertaken to restore all parts of Malden Mills, including the less profitable parts, also exhausted the organization's resources.

By 2001 Feuerstein's rebuilding strategy was unable to support itself. Malden Mills had huge loans; had settled a few legal suits out of court, some from injured employees, that cost it several million dollars, and eventually closed a loss-making division after spending \$50 million trying to rebuild it. At the same time price competition from other brands continued to increase.

Five years after the fire, in November 2001, Malden Mills filed for Chapter 11/eleven bankruptcy for the second time. Feuerstein was relieved of control of the company by the Malden Mills creditors.

Questions:

- 1 What new realities was Malden Mills facing during the 1990s?
- 2 What new realities did the outbreak of the fire bring?
- 3 What strategy did Aaron Feuerstein use to deal with the new realities and what was his rationale?
- 4 Do you think he exercised effective leadership? If so, why or why not?

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Note

- 1 *The Economist*, the World in 2007 report: 'After the Bouffant of Pyongyang'. London: The Economist Newspaper, 2006, p. 43.