

EXECUTIVE INSIGHT

# Leading Transformational Change

Understanding the Psychology Behind Change

WHAT WE THINK

## Transformation is the ultimate business challenge.

Whether you're restructuring, implementing a new business strategy, or revamping your current operating model, effective leadership at the top is required to cascade and accelerate successful change throughout the organization.

Transformational change must be driven by leadership. By understanding what it takes to lead, manage, and inspire differently—and what it takes to get people to change their behavior—leaders can be more effective in achieving their goals.

### Introduction

To survive periods of economic uncertainty or adverse industry forces, companies have to change and adapt. In some cases these changes are relatively incremental, such as the continual enhancements of brands, products, or services to help a company stay relevant. In other cases, the change needed is more profound: as examples, consider the introduction of a new business model that necessitates reorganization, or a major shift in strategy that requires new organizational capabilities and processes, or the centralization (or decentralization) of critical activities to accelerate responsiveness to customers. These bigger changes fall under what we call transformational change.

We define transformational change as change that is organization wide

and requires significant shifts in the structure and behavior inside the company—it's more revolutionary than evolutionary. There are many underlying factors that necessitate transformational change, such as the entrance of new competitors who alter the market landscape, new technologies that emerge that reframe an industry, and general economic forces that compel a company to alter its path to survive. Sometimes companies transform themselves successfully to deal effectively with these external factors, and sometimes they do not.

Leadership is critical to successful transformation. Leaders attempting to shift the needle on performance during a transformational change have multiple levers at their disposal. New operating models, structural and organizational design changes, an influx of new talent with different skills and experience, improved management processes, and revamped compensation and rewards systems are all options that assist with shifting the direction of a company. Pulling

the right levers is necessary, but it does not guarantee success.

Why is this? Successful transformational change requires new behaviors that transcend old ways of doing things. Specifically, there needs to be a widespread shift of personal behavior and accountability. In our experience working with companies and leaders who are guiding their organization through transformational change, some leaders pay more attention to the personal side of change and the link to strategic implementation and execution than do others. Those who do focus on the human side of change, the intangibles of change, benefit from accelerated buy-in and decision making that aligns with a new strategy or business model; those who don't struggle to get traction with what otherwise might be a successful shift in the company's direction.

Companies transform themselves when behaviors change. Thus, understanding the psychology behind change, how it impacts the execution of change efforts, and what can be

done to increase the probability of success when external factors threaten a company's ability to thrive is at the core of RHR's approach to leading transformational change.

## Why Do People Change?

There has been a great deal of research that attempts to explain the conditions and factors necessary for individuals to make substantive alterations to their day-to-day behaviors. In our experience working with clients, we have found that five key themes emerge as being essential to successful transformational change. These same themes are also supported by the research on change leadership.

### 1. Individuals need a compelling reason for change.

Without knowing why the company is changing, people tend to revert to the status quo. Understanding and accepting the need for change are the first steps in getting any traction. If an individual doesn't see the need for change, little progress can be made. All individuals need a compelling reason for change—what some call a “burning platform.” Having a compelling reason for a change ultimately alters an individual's attitudes and intentions to behave differently.<sup>1</sup>

### 2. Individuals must believe that changing their behavior will lead to positive outcomes.

Change makes people uncomfortable, especially when they are anxious about company (and their own) performance.

Understanding that changing leads to a desired outcome begins to help individuals become motivated to behave differently.<sup>2</sup> Motivation, however, is not enough. Individuals need to believe they can change. Having the confidence to behave differently is critical when an individual is contemplating change. Developing confidence during transformational change is contingent on one's level of self-efficacy. Self-efficacy is a person's belief in their ability to do something or be something they are not yet but aspire to be and one's willingness and courage to do what it takes to be successful.<sup>3</sup> If employees believe that their behavioral changes will help the organization succeed, they will take the steps needed to execute on the transformational change roadmap. Leaders can help employees by demonstrating and reinforcing quick wins and empowering people to achieve their desired behaviors and outcomes.

### 3. Individuals benefit from guidance on the when, where, and how regarding change.

Informing a senior leader that the company is reorganizing and wants to innovate more to differentiate itself from competitors may be compelling, but it doesn't provide much direction in terms of the behavioral changes needed from the senior leader. Individuals accelerate their change efforts when they have a roadmap; they understand what needs to be done and when in order to make progress on the change agenda. Psychologists refer

to this as achieving clarity on the implementation of a new behavior.<sup>4</sup>

The how of change is absolutely critical to success. New behaviors, habits, practices, and ways of working take time to develop, and they tend to endure only if a) they are clearly specified and known to facilitate the transformation and b) embodied in the day-to-day work of individuals.

### 4. Individuals continue to make progress through feedback and coaching.

Shifting a business strategy or operating model does not happen overnight. An organization needs time to implement transformational change because people need time to adjust their behavior and improve. Feedback and coaching, when provided to individuals, helps to accelerate and institutionalize the new behaviors that are necessary for success.

### 5. Individuals must learn through trial and error and feel safe to make mistakes.

If individuals are worried that their jobs are in jeopardy or that the organization has little tolerance for mistakes, they are less likely to truly change. They may give lip service to the new strategy, acknowledging the need for change, but they will stick to behaviors that are familiar to them and just try to work harder. This does not benefit the organization, as it is wasted effort on the wrong actions. Experimentation and discovering how to execute differently require patience, and mistakes are inevitable.

## The Implications for Leaders

Understanding the factors that enable real behavioral change allows leaders to accelerate transformational change within their organization. These factors, as outlined above, all have implications when planning and executing change:

### 1. A compelling reason for change comes from a clear and believable vision and direction.

Leaders often make decisions that create change. Companies enter and leave markets or geographies routinely. They centralize operations to gain efficiencies. Whether or not these changes transform behavior depends on how employees respond and execute. Specifically, while decisions can be rationalized by the CEO and senior leaders in the organization, the execution of the changes can be slow or cumbersome without the full engagement and participation of the managers and employees doing the work. A clearly communicated vision that is authentic, believable, and provides a sense of direction for employees is critical. Vision can be defined as a picture in the CEO's imagination that motivates people to action when communicated compellingly, passionately, clearly, and repeatedly. Great leaders use vision as a tool to inspire and motivate, not to dictate. Coordinating activities and actions in a different way around the vision aligns people around a common goal and the desired transformational change.

### 2. Confidence and self-efficacy are reinforced through communication.

Many transformational change

initiatives start out with the right intention, and the vision and desired changes are clearly communicated. However, momentum is often lost, and conflicts or roadblocks emerge. In the midst of overseeing day-to-day responsibilities, leaders often do not take advantage of opportunities to reinforce the vision and desired organizational changes. Ongoing communication is paramount to success. In particular, supportive communication highlighting the difficulty of change and how progress is still being made in the right direction despite roadblocks helps employees maintain their efforts to redirect the organization. Supportive communication is specific and addresses potential challenges that employees might be encountering; it is not vague or unrealistically optimistic. The CEO and other senior leaders must help employees link their day-to-day problem solving to different behaviors and choices that ultimately will shift organizational outcomes.

### 3. Planning and guidance, the what and when, come from the senior leadership team, and team members must be aligned.

There is no denying that transformational change, be it a new strategy, restructuring, or a revamped operating model, requires smart decision making and the establishment of new initiatives. The nuts and bolts of change stem from functional and business leads mapping activities to the vision and direction of the company. Two things tend to get in the way of progress. First, senior leaders often

disagree on the exact nature of these new activities. Interpretations of strategy are inevitable, and senior leaders within the company differ in their perceptions of how to achieve proper execution of the strategy (or implementation of the new operating model, etc.). Second, even if senior leaders do agree on the activities required to achieve the transformation, the plethora of activities and initiatives creates competing priorities for many employees. The senior leadership team must be the driving force to set the tone for which work is important. They establish the pace and sequencing of critical priorities for the organization. When they are aligned, their managers and employees quickly synchronize behind them. People then understand what they should do and when they should do it.

### 4. The how of change begins with defining new behaviors for leaders and linking them to desired outcomes within different functions and businesses.

If changing an organization's direction was as simple as defining what needs to be done and when, there would be more success stories about companies that have navigated periods of transformation effectively. Strategy consulting firms provide advice and guidance on such decisions all the time. Unfortunately, the mapping of activities against strategy and prioritizing these activities are necessary drivers of change but are not sufficient alone. Success requires new ways of performing activities, what we call

the how of change. Organizational change, by definition, means that people must change their behaviors and the ways they make decisions.

Taking the time to define these essential behaviors and to have senior leaders commit to them so they can model them for employees are critical stages in the change process. While there are many positive behaviors that facilitate change, the specific behaviors that are linked to the transformation required and surrounding business context are the ones that need to be identified and articulated. At RHR, we label these essential leadership behaviors as the transformation leadership behaviors (TLBs). The TLBs serve as the focal point for how senior leaders work with each other and with the rest of the organization.

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Operationalizing the TLBs in meaningful ways for employees across the organization is critical. Mere words on a paper outlining a desired behavior have no purpose unless individuals translate those words into concepts they can apply to their own experience, integrating them so that their mindsets and actions shift. Being customer focused looks and feels very different within the finance department compared to the sales organization. Leaders need to help

employees in different parts of the organization develop their own relevant adaptation of the TLBs. Once the behaviors make sense to managers and employees, real change can take hold. Stories about how and why the new behaviors will make a difference serve to reinforce adoption. Thus, cascading change requires cascading the actions described by the TLBs in a relevant, meaningful way across the organization.

### 5. Feedback and coaching start at the top and cascade down through the organization.

Establishing new routines that support the transformational changes being made takes time. New or different behaviors and decisions need to replace old ones and become the new status quo. A blind trial-and-error approach, while possible, is not the most effective way to learn and adapt during change. The CEO must take time to provide coaching and feedback to his or her direct reports, aligning on and accelerating progress toward effectively leveraging newly established structures and processes.

### A Feedback-Rich Environment is Critical

Even the CEO needs feedback and coaching to monitor blind spots where old ways of influencing and directing inhibit progress toward the desired end state. No one in the organization is immune to feedback, and there must be recognition that increased coaching helps accelerate change. However, in most cases, senior leaders provide too little coaching

and feedback. Lots of companies talk about making their directors and managers better coaches, but more than 60% of employees, especially younger ones, say they don't get enough feedback from their leaders. Lack of feedback is the number-one reason for performance problems, which are only exacerbated in times of transformational change. A feedback-rich environment is critical.

Helping leaders to enhance their feedback and coaching skills promotes adoption of new behaviors. Learning is accelerated, and the momentum for change increases as managers and employees see how their new behaviors and decisions lead to desired outcomes.

### RHR's Approach to Leading Transformational Change

We begin with the premise that change must be led from the top. Change is not something that just happens; moreover, not all changes are transformational. Executing a significant shift in strategy, integrating a large acquisition, and implementing a new operating model represent some of the types of changes in which leaders play an irreplaceable role. Leading change cannot be delegated.

Transformational change is difficult. By understanding what it takes to get people inside an organization to change their behavior, leaders can be more effective in their collective efforts. It starts at the top with the CEO and senior-executive team and then cascades through the organization. Based on the underlying factors that trigger and support successful change and the implications for leaders

discussed above, there are some requirements that need to unfold.

### Requirements for Successful Transformational Change

From the outset, there must be a clear vision and direction communicated to the organization so employees understand the strategic shift along with the desired future state and how the company will win. Once this understanding is in place, leaders should make necessary adjustments to the organizational structure and work processes to ensure consistency with the strategic imperatives. Appropriate talent should be in place, and the goals, reward system, and culture should support efforts to achieve the desired outcomes. Transforming an organization also requires operational discipline and quality communication from the top of the organization. In addition to the positive effects on behavioral change highlighted earlier, having constant, targeted communication helps to reduce

the anxiety that change induces. Without constant communication from the top, employees will tell their own story about the change, and it may not reinforce the behavior and execution needed to win.

Beyond these minimum requirements for success, there are a handful of change mechanisms that often get overlooked by leaders but are essential to behavioral change. Based on our extensive experience, we believe the following mechanisms are critical:

#### Defining the Roadmap for Change

Diagnosing what leaders need to transform, and why, helps form the roadmap for change. In some cases, the vision and strategy are clearly understood throughout the organization and it is merely a matter of shifting behavior and execution to implement critical change initiatives. In other situations, leaders and managers have very different perceptions of what is needed, and different parts of the organization focus on different things.

## There are a handful of change mechanisms that often get overlooked by leaders but are essential to behavioral change.

Getting alignment on the plan, or roadmap, that moves the company in the same direction is the ideal starting point for leading a transformation.

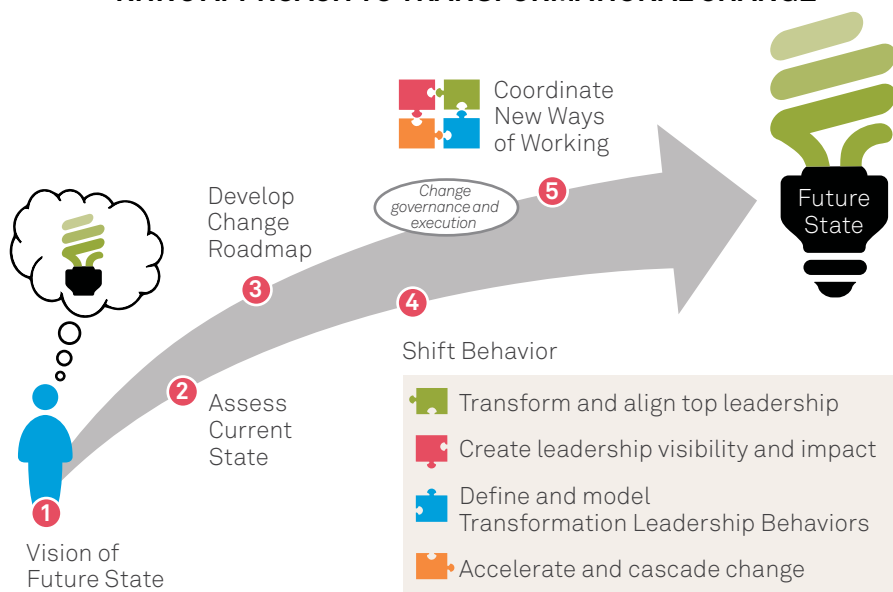
#### Transforming and Aligning Top Leadership

The senior team and other key leaders must agree on the case for change. In many situations, senior leaders often disagree on the exact nature of the change—what's important and why. The senior team needs to define and agree on the future state and how the organization will get there. Beyond the case for change, senior leaders also need to agree and align on the timing and the specifics of key strategic initiatives. When companies are going through significant change, there are often multiple perspectives on what the key priorities should be. To prevent unnecessary conflicts in the organization that impede change, the senior team needs to be aligned not only on what should be done, but also the when. They need to define who is ultimately accountable for what as well as the timing and pacing of the different change initiatives.

#### Defining and Modeling the TLBs

Perhaps the greatest impact that the senior team and other key leaders can have on the organization is the proper modeling of the new behaviors that support execution of the strategic shift (the TLBs). Senior-team members must

### RHR's APPROACH TO TRANSFORMATIONAL CHANGE



be the ultimate change champions, espousing why change is critical and coaching others on how things need to be done differently. Shifting the organization to adapt and embrace change depends on the aligned support and engagement of the senior team. They must be in sync when it comes to displaying the right behaviors.

Once the senior team is aligned and enacting the TLBs, the specific behaviors and actions can be cascaded down so that all managers are modeling the new way of leading inside the organization. However, doing this effectively requires translating described behaviors so that they have meaning and impact locally. For example, while the behavior “actively seeking input from cross-functional peers” can mean something very specific for C-suite team members, it can take on a completely different meaning within a particular function or business. Making sense of the TLBs and linking them to the functional or business goals that support the transformation are important parts of the how of leading change.

### Accelerating and Cascading Change

Starting behavioral change with top leaders helps the organization gain traction in moving toward the future state through various initiatives. However, there is often a disconnect between the top leaders in a company and the managers and employees who carry the burden of the day-to-day execution for results. When this disconnect is present, there is skepticism regarding the true need for change, in which employees perceive change as the “flavor of the day” and simply follow the status quo. In following efforts to provide clear direction on required changes, leaders must work with their own teams and departments to ensure that everyone is exhibiting new behaviors that help execute the strategy. Leaders can periodically monitor buy-in and commitment through pulse checks and/or other data-collection methods. Monitoring the cascade of change efforts can also be done through change champions, the early adopters and vocal supporters of the new behaviors. When change champions

stay alert to where and why resistance is emerging, their information helps senior leadership proactively address roadblocks and challenges during the transformational-change process.

### Summary

Transforming organizations is difficult. Organizational change requires that people change, and humans struggle with embracing and enacting new behaviors. We believe that the gap between change efforts and success is largely due to managing and overcoming resistance, breaking the status quo, and adopting new ways of leading and working. Understanding the psychology of individual change allows leaders to take actions that increase the odds that managers and employees will accept change and work toward a new reality that results in successful outcomes for the organization. Carefully managing the critical levers associated with change ultimately impacts individuals’ buy-in and commitment to the new behaviors required. When people change and are aligned and committed to success, good things can happen for the organization.

<sup>1</sup>Locke, E. A., and Latham, G. P. *A Theory of Goal Setting & Task Performance* (Englewood Cliffs, NJ: Prentice Hall, 1990), xviii, 413.

<sup>2</sup>Fishbein, M., and Ajzen, I. *Belief, Attitude, Intention, and Behavior: An Introduction to Theory and Research* (Reading, MA: Addison-Wesley, 1975).

<sup>3</sup>Bandura, A. “Self-efficacy: Toward a Unifying Theory of Behavioral Change.” *Psychological Review*, 84, no. 2 (1977): 191–215.

<sup>4</sup>Gollwitzer, P. M. “Implementation Intentions: Strong Effects of Simple Plans.” *American Psychologist*, 54, no. 7 (1999): 493–503.

## ABOUT RHR INTERNATIONAL

RHR International LLP is an independent, global firm of management psychologists and consultants who understand the distinctive challenges and pressures that CEOs, board directors, and senior executives face. Its singular focus on senior leadership effectiveness, business outcomes, and research-based practice sets it apart from other executive and organizational development consultancies. For more than 70 years, RHR has been helping leaders and their teams transform themselves and, in turn, the performance of their organizations. RHR offers Board & CEO Services, Senior Team Effectiveness, Leading Transformational Change, Executive Development, and Executive Assessment. For more information, visit [rhrinternational.com](http://rhrinternational.com).

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