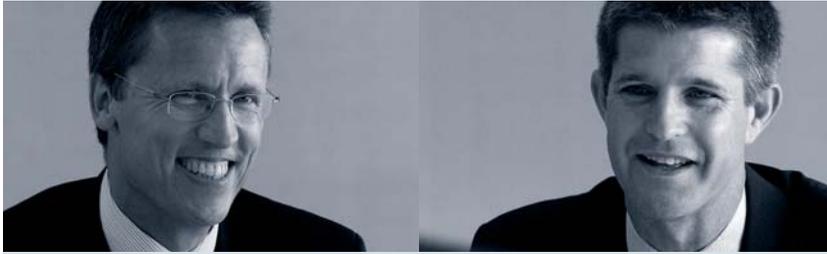


## On your marks

In transition processes organizations have to handle more and more systemic challenges



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**Very often it is the transition that people resist, not the change itself. Successfully dealing with transition – the phase between stability and change – is a crucial element of modern leadership. It calls for specific core competencies and capabilities, not only in individuals but also at organizational level. How do proven leaders cope with this transition phase and what are the pitfalls? Egon Zehnder International consultants Schneider and Hertig offer some thoughts and insights.**

IN APRIL OF THIS YEAR, Arthur Sulzberger Jr., Chairman of the Board of Directors and heir to the New York Times Company, stood before the company's shareholders and spoke about the situation facing the legendary newspaper publisher. Observers at the event noted that Sulzberger used one word more than any other: "transition."

Sales of American daily papers have been in steady decline since 1987. Young readers – and increasingly older readers, too – are migrating to the Internet, taking advertising clients with them. For many years the publishing business was a license to print money, with double-digit profits; now it is increasingly becoming a loss-making enterprise. For the first time in its more than 150-year history the NY Times, too – a flagship and symbol of independent journalism – has had to make staff redundant. For the first time, against its will, the founding family has had to admit representatives of two investment companies to its board of directors. What the company would look like at the end of the "transition" he mentioned so often, Sulzberger did not say.

The situation in which the U.S. newspaper industry finds itself also applies to many other sectors in the economy, politics, and society. We all live in times of transition. In April 2000 the economic experts were pretty much unanimous that the Internet was bringing about a fundamental paradigm shift: They had no idea that this bubble would burst just one month later. The quantita-

tive impact and the qualitative effects of globalization, the international financial crisis, and climate change cannot as yet be fully understood. We have entered a period in history where change appears to be both continuous and rapid. Seismic shifts have become more common in recent years, requiring the development of new capabilities, systems, and processes. Under these circumstances the ability of an organization and its leadership to deal with such transitions will become more and more critical. What can an organization do to address this challenge?

### **A question of mindset**

It is this uncertainty, this ambivalence, the contradictory nature of various, often indistinct signals that characterizes transitional situations. Things won't stay as they are, that much is for sure – but what they will become is not yet clear. This phase between stability and change calls for watchfulness, flexibility, adaptability, speed of response, and a willingness to take bold action. Individuals and organizations need to be like sprinters in the starting blocks – muscles tensed, all set to race forwards at the decisive moment. In other words they need to prepare themselves mentally; they need to be ready for action. Transition is a process, an inner perspective not necessarily focused on the results.

At the same time, however, transitional situations can generate widespread fear and prevarication, a sense of fatalism, and a tendency to resort to tried-and-trusted strategies. In the late 1970s, Daniel Kahneman, who later won the Nobel Prize, and his scientific colleague Amos Tversky, both pioneers in cognitive psychology, subjected human decision-making behavior in situations of uncertainty to intensive scrutiny. According to their findings, what people fear is not risk but loss. There is a key difference here: People are only risk-averse when they have some property or asset to preserve. By contrast they are very willing to take risks when faced with the prospect of losing something, hoping to avert the loss at the last minute through extreme,

high-risk actions. “People tend to avoid risks when seeking gains,” Kahneman and Tversky discovered, “but choose risks to avoid sure losses.”

This helps us understand why most employees in an organization tend to react in a defensive way to changes when they are not in a situation of absolute crisis. They have something to lose – material and organizational “assets,” experience, security, familiar routines. The risk-aversion that increases with “ownership” also explains why middle management levels often exhibit particularly stubborn resistance to change – espousing a stick-in-the-mud intransigence that is hugely frustrating for top management.

Very often it is transition that people resist, not the change itself – the confusing time between the old and the new and the risky business of a new beginning. Transition is an internal re-orientation that people go through and so it is strongly related to the human side of any change process. The role of managers is to help others to reach new beginnings while maintaining levels of activity and standards of service. Leading through transition involves specific challenges – and the larger the change, the greater the challenges.

### **Rational and emotional consensus**

One of the key factors of successful leadership is the ability to embrace change and to provide guidance in transitional processes, and this has never been more true than in today's world. There needs to be both a rational and an emotional consensus in the company. But how is this to be achieved? Successfully dealing with transition as a crucial element of modern leadership requires recognition of the following characteristics:

*Transition is personal:* Transition leaders have to understand that people go through different phases of transition and might respond very emotionally, ranging from distrust and anger, depression and stress, to regret and acceptance. Reactions may not be predictable.

*Transition requires development:* Leaders must help people see that the old way was fine for its time, but a

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new chapter is needed to master the new challenges. As a result, it is very important for managers to support people in developing their own capabilities to cope with the new – and in most cases more demanding – requirements.

*Transition enables renewal:* Transition can be a very productive stage, once the element of crisis has been eliminated. Leaders should use this new energy and new focus to emphasize the need to re-prioritize as a way of unloading irrelevant policies and procedures.

*Transition ties closely to values:* During this phase of re-orientation it is essential to define a common and shared sense of values. It is important to clarify which values are “eternal” (e.g. integrity), which values need to be downgraded (e.g. maximization of profit), and which values need to be newly defined and implemented (e.g. sustainability).

*Transition demands strong communication:* If the transition from stability via a phase of instability to renewed stability is accompanied by worries, fears, and uncertainty on the part of employees, it is absolutely essential to have a communications system in place that reacts promptly to these responses, in order to manage transitional processes successfully.

There should be an opportunity for genuine dialogue between executive management and employees at all levels of the organization. When people don't have the opportunity to talk about their worries, their fears go underground and find expression in all kinds of largely unpredictable defensive strategies. They might be expressed through passive and active resistance to change, or through rumors and speculation that can damage the company's image, or through individual responses that can cause serious organizational difficulties during a sensitive transition phase – when key players take their fate into their own hands and leave, for example.

The best antidote to fear is to clarify the situation rapidly and talk about it openly. Even an unpleasant truth is generally easier to deal with than the feeling of being left in uncertainty for weeks and months.

### Turning a challenge into a competitive advantage

So how should executives think about leading their organization in this time of seismic change? It's possible to play offense, not defense, and turn “managing transitions” into an organizational strength. This is not a one-off effort. It is about steadily acquiring an inner state of mind, a shared mindset that defines the company as a whole, ensuring that all its players constantly remain alert and flexible, and the organization is always in a state of composed restlessness or “dynamic continuity” as the Swedish entrepreneur Jacob Wallenberg accurately describes it.

Like individual executives, organizations too have specific competencies, and since transition is not just about taking strategic and operational decisions, the organization needs to look beyond the different capabilities of its individual employees and clearly identify its own strengths and weaknesses. U.S. retail chain Wal-Mart, for example, is famous for its outstanding logistics; consumer goods manufacturer Procter & Gamble for its strong customer focus. When the appropriate corporate culture and well-structured processes combine and utilize individual competencies to optimum effect, organizational strength adds up to more than the sum of individual abilities.

Companies that can develop cultures which embrace change will have a definite advantage. Most companies, however, need to improve in two key competency areas that are crucially important in transition processes:

*Change Leadership.* This includes managers' ability to win over the hearts and minds of their employees, align people with the new direction, and build the necessary momentum within a complex organization. In order to achieve this, managers not only understand what motivates the individuals they work with and inspire them with enthusiasm, but must understand organizational dynamics in order to construct an effective change strategy. As suggested above, this calls for highly developed communications skills.



*People Development.* In transitional processes, knowing the strengths and weaknesses of one's existing management team is critical to success. Here it is a question of identifying potential and developing at an early stage those high performers with the skills required to lead transitions and the new orders that follow them.

If companies are to accurately identify this potential and develop their most capable leaders early on, they will need efficient and effective Talent Management systems. Research has shown that managing talent has already been identified as one of the biggest concerns facing the leadership of large organizations. The retirement of the baby boom generation is creating a "talent gap," and there are simply not enough established leaders to address today's challenges.

With respect to developing change leaders, Talent Management systems must get better at:

- Cross-training
- The identification, recruitment, and development of leaders with the potential to develop these skills
- The identification of talent gaps within an organization: What new skills will be needed in the post-change environment? What specific talent gaps do transitions create? How can the organization quickly address these gaps?

Organizations must become more self-aware to understand what organizational competencies are required to deal with transitions in their markets, and have the Talent Management systems in place to address any competency gaps.

### **Woven into the company's fabric**

In sum, if handling ongoing transitions is to become part of a company's fabric, organizations must be able to identify and develop leaders who are better at transition leadership and people development. Transition and change will only succeed when the organization's leaders radiate authenticity and reliability even in high-risk situations. Other helpful qualities for the men and women at the top during change processes include

courage, self-confidence, optimism, flexibility, energy, and decisiveness, visionary thinking, and last but not least a pioneering spirit.

CEOs in particular must also be able to cope with paradoxical, ambiguous situations with calmness, inner confidence, and sometimes simply with patience. At the same time they must maintain close contact with their team and with the company as a whole. Implementing a change of direction brings extraordinary forces into play – and these in turn generate counter-forces, distortions, and complications. Leaders have to know how much they can ask of their team or organization – so that the organization doesn't emerge from the transition drained and exhausted, but accomplishes the change process with renewed inner strength. Imbedding the ability to handle change within a company's culture may become a distinct competitive advantage. Because transition and change are no longer the exception – in today's world they are the rule.

## **THE AUTHORS**

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