

# The Challenges of Change

*The age of the knowledge worker has arrived. This is a time when managers must lead, workers must innovate and organizations must grow organically. Not since the birth of the industrial age have the foundations of our management practices been so challenged and the opportunities so great.*

Justin Ferrabee

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## AT A GLANCE:

- ⌚ Senior leaders must change their understanding of management to reflect changes in structure and economy of work.
- ⌚ Leaders must understand the implications of change in three broad categories: **Leadership**, **Focus**, and **Commitment**.
- ⌚ Today's leaders no longer control their organizations - they lead them. Their challenge is not to manage for maximum utilization, but to manage the staff for maximum innovation.

# The Challenges of Change

## OUR PAST

It is very difficult and certainly imprecise to summarize 100 years of economic history in a few paragraphs. To effectively understand the fundamentals of our current and future challenges, however, we must first examine the past and its trappings.

At the beginning of the 20th century, the economy experienced a fundamental shift from agriculture to industry. This shift saw the mass movement of people and resources to urban centres, where the heart of the industrial economy was pumping the lifeblood of economic growth. This change also brought new economic wealth and structure.

At the centre of this economy were machines (e.g. energy plants and assembly lines), supported by strict processes that broke work down into small tasks that the once-agricultural labourers could learn and perform in a minimum of time, acting as extensions of the machinery. The role of the manager, having all of the knowledge required to run the business, was to leverage the value obtained from the primary asset of the corporation, namely the machines, by maximizing their use. In this environment, the will of the manager was forced onto the organization, leaving no requirement, incentive or opportunity for creativity and innovation on the part of the workers. The power in the organization rested with the corporate owners. The employees retained little control over what they were doing, how they did it, or how much they were paid. Despite its shortcomings, this economic structure fuelled economic growth, funded the social welfare state, and created the foundation of our infrastructure. It was a time of building.

As the industrial age boomed, we saw the birth of a new economy, later referred to as the service economy, comprising enterprises that didn't have machinery. The driving force behind organizations changed from machinery to process, also known as bureaucracy. Though the machines were gone, little had changed: managers still had the knowledge to run the business, people still worked in narrow

jobs, and the focus was on maximizing the utilization of the processes. Workers in this environment operated as bureaucratic machinists. The service economy quickly matured, giving birth to the new and current knowledge economy, which operates on fundamentally different principles. For the first time in management history, people became the primary assets of the organization. The knowledge worker is at the centre of this economic structure, and today's economy rewards creativity, innovation and intellectual motivation. In a machine-based industrial economy, maximum utilization is the primary goal of the manager. This is simply not true in the knowledge economy.

Managers no longer possess all the knowledge required to run a business. They must rely on their people for advice and performance, and the motivation and creativity of the individual are the prime influences on productivity. Skill and motivation – both intangibles – differentiate the effective from the mediocre.

The advent of the knowledge economy has dramatically shifted the balance of power. For the first time in history, owners cannot create wealth without good employees. The roles have reversed; employers no longer have their choice of talented people, but talented people have their choice of employers. Despite these changes, management practices have not kept up. Managers in today's environment are constrained by their past managerial knowledge and experience born out of different times and needs.

## CREATING THE ENVIRONMENT

The signs of the shifting bedrock of our economic structure appear in the daily challenges we face as we re-design, re-tool and re-invent ourselves to keep up with uncertain realities. The remainder of this paper discusses Totem Hill's perspective on the current management challenges and on the principles required to overcome them.

Over the past 15 years of our consulting practice, we have come to understand that there are three conceptual challenges related to change. These challenges may manifest themselves under different names or other guises, but essentially they are:

- ⊗ **Leadership:** changing the running of an organization from the command-and-control nature of management to the nurture-and-motivate nature of leadership
- ⊗ **Focus:** making business choices to bring alignment and focus to the organization

- ⊖ **Commitment:** creating commitment to the future of the enterprise throughout the organization

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Each of these challenges is unique, yet all simultaneously interrelated and independent.

Overcoming any one challenge independently is insufficient for realizing sustainable change. For change to be successful in the knowledge economy, an organization has to overcome all three.

## LEADERSHIP – THE FIRST CHALLENGE OF CHANGE

As discussed, traditional management practices were founded on a command-and-control structure with maximum utilization of capacity and capital as the goal. This style and purpose of management was well suited to the economic structures of the past; however, the future growth of the economy is in the knowledge sector (e.g. technology, health care, entertainment, telecommunications and most other growing sectors). In the knowledge sector, the traditional management skills of controlling and directing workers run counter to the need for creativity and innovation. Today's knowledge workers do not want to be managed; they want to be led; they want to be trusted. They need to be empowered with the right information to make sound decisions, to grow the business and to be part of a community that is contributing to something worthy with their time and energy.

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*Rather than controlling the activity of the enterprise, managers have, as their prime responsibility, to create and nurture an environment that leverages the talent of its people by engaging them in the innovative and creative pursuit of clear and common goals.*

In the context of the new economy, senior managers are still responsible for protecting, growing and ultimately leveraging the assets of the firm. However, the critical corporate assets are now the minds of the people who work in the firm. New tactics for success are required. Rather than controlling the activity of the enterprise, managers have, as their prime responsibility, to create and nurture an environment that leverages the talent of its people by engaging them in the innovative and creative pursuit of clear and common goals. We are in a world of ideas, where the employee, asked to participate in a monotonous routine, will contribute little, while the same employee engaged in creating the future will produce well beyond the expectations of management and significantly contribute to the creation of wealth.

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*THIS CORPORATE SHIFT IN LEADERSHIP IS THE SINGLE GREATEST CHALLENGE FACING THE MODERN BUSINESS LEADER.*

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The concept is easy to grasp; its execution, however, requires nothing less than genuine personal transformation at the top of the organization. The unfortunate reality is that the controlling and directing skills that got executives to their position are the very skills that will limit their future success and the success of their organizations. It is for this reason that the need for personal change is difficult to admit, difficult to accomplish, absolutely essential and rewarding when achieved.

## FOCUS – THE SECOND CHALLENGE OF CHANGE

The economic environment is one of constant and accelerating change. At the very heart of this new reality are rapid and ongoing changes in customer needs, which, although difficult to anticipate, generate new and exciting opportunities. Consequently, our current reality is one of abundance. The question is no longer where to find opportunities, but rather how to select from among them. Today's leaders must rely less on their ability to identify new opportunities and more on developing the discipline to focus on the right opportunities.

Senior people form and hold many strong opinions based on their own understanding of the business, the environment, their beliefs and expectations. All of these ideas are expressed through people's actions. For example, two managers working in the same organization may interpret a business trend towards a new technology very differently.

The first may believe the new technology to be first-generation and technically superior, but short-lived because of the small market share of its supplier. The second manager may believe that the superiority of the new technology is sufficiently worthwhile to merit investment. The same business trend, two different opinions, and two very different responses. The result is different, incompatible technologies running separately in the same organization.

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*THE CHALLENGE OF BUILDING COMMON UNDERSTANDING ACROSS A SENIOR MANAGEMENT TEAM IS ONE OF MAKING IMPLICIT BELIEFS EXPLICIT SO THAT THEY CAN BE DISCUSSED, DEBATED AND ULTIMATELY ALIGNED OR AT LEAST MANAGED.*

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Common understanding across the senior management team can be achieved by collaboratively building simple, comprehensive models of the business; a process Totem Hill calls Collaborative Model-Based Planning. These models reflect the essence of a business with concrete illustrations of customers, their needs, the products and services that meet these needs, the forces affecting the enterprise, and other relevant information. These models allow managers to compare competing opportunities and identify new relationships among the various parts of a firm. As the team works together to develop a common understanding and interpretation of key elements affecting the future of the business, individual members are free to evaluate and identify strategic opportunities. This evaluation is done consistently, and ultimately leads to independent action that is aligned with and moves the organization towards the commonly held picture of the future.

## **COMMITMENT – THE THIRD CHALLENGE OF CHANGE**

Looking honestly and critically at the business and making choices about the direction to take is difficult. However, this pales in comparison to the challenge of creating a genuine commitment across the knowledge workforce to actively pursue the future in a meaningful and ambitious way. The challenge of building organizational commitment to change is the third challenge faced by today's leaders. The traditional command structure saw the organization as a mechanism that was responsive to instruction and seldom questioned the prerogative and wisdom of the senior manager.

Today, leaders must entice the members of their organizations through healthy debate to participate in creating their joint future. Merely putting a kinder, gentler facade on order-giving will result in disengagement and low productivity, if not the departure of key performers. As leaders build understanding and generate commitment, the intense resistance to change, born out of fear of the unknown, is abandoned and replaced by the courage to take new directions and to actively pursue change.

## RAISING COMFORT LEVELS

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To create optimism about and commitment to the future direction of an organization, leaders must clearly understand the basis of resistance to change – an all-too-human condition. Every human being, and consequently every organization, understands themselves in and is comfortable with their current situation. In most cases, individuals and organizations have a desired future, which can look quite different from the present.

The difference between these two views results in creative tension, which cannot be sustained indefinitely but makes people take action towards resolution. For example, if an organization sees itself as a market leader in the design and delivery of unique, high-value, high-margin products but is actually a start-up providing mediocre products at reasonable margins, creative tension drives the organization toward its desired future. Since the state of tension is uncomfortable, the organization is compelled to take action to resolve it. How it gets resolved depends on the comfort zone of the organization. If people within the organization are comfortable with the position of the firm, they might endeavor to resolve the tension by dimming their vision of the desired future, rather than by moving forward. Most of us are familiar with situations in which an organization sets a goal, and over time, makes compromises and diminishes the goal. As the target date gets closer, reaching the simplified goal gets easier.

Unfortunately, this happens over and over again. The organization's desired future continues to closely mirror its current reality. Nothing ever changes! Armed with an understanding of the dynamics of commitment, Totem Hill's strategy is to raise the organization's comfort level with its desired future. The status quo becomes acceptable no longer.

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*RATHER THAN BEING CHARACTERIZED BY STRUGGLE, THE TRANSFORMATION OF THE ORGANIZATION TOWARDS THE DESIRED FUTURE FEATURES EXCITEMENT AND THE OPPORTUNITY FOR CONTRIBUTION AND GROWTH.*

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People change their comfort zone by overcoming their fear of the future. This can be accomplished either by making the future tangible and thoroughly understood, or by making the current situation completely unacceptable. Since organizations are a collection of individuals, different people require different information to arrive at understanding and ultimately commitment.

This individual endorsement can be achieved by incorporating many perspectives, involving many people, building solid understanding,

and allowing people to participate fully and rigorously in the change. Rather than seeing change management as sequential functions that follow a plan, Totem Hill proposes instead to integrate the change management requirements into the planning process. This leads to a somewhat longer but empowering process that builds commitment and momentum through communication and involvement. A demand is created that cascades change throughout the organization. The net effect is reduced effort, minimal recycling, less expense and greater chance of successful results.

## CONCLUSION

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*This requires nothing less than personal transformation, in which leaders learn to take responsibility for articulating the organization's direction and creating an environment that empowers the members of the organization to continually innovate in pursuit of the future.*

Our economic environment is changing. Businesses are faced with new challenges as they position themselves for the future. This experience is like trying to hit a moving target using old methods that fail time and again. What is required is a new set of rules. Today's managers can no longer control their organizations - they must lead them. Their challenge is not one of managing to maximize utilization, but of engaging the staff for maximum innovation. This requires nothing less than personal transformation, in which leaders learn to take responsibility for articulating the organization's direction and creating an environment that empowers the members of the organization to continually innovate in pursuit of the future.

Leaders take on the added challenge of developing a common understanding of their business environment, the business focus and the target for the future. By making the implicit beliefs explicit, leaders enrich understanding and align the energy needed for success.

Finally, leaders are faced with the constant challenge of raising the organization's comfort level with the future. By involving the members of the organization in the strategy, allowing time to build understanding, and constantly reinforcing the organization's confidence in its ability, leaders create energy required for movement.

As a result of this unique approach to change, large transformation projects require only a small number of consulting resources. The organization identifies key people to grow and champion the initiative in a practical, applied environment, well beyond the end of the consultant's participation.

These three challenges are not new; however, the environment is and we can no longer apply the old techniques and expect new results. Senior managers committed to success in the future will recognize the importance of managing all three challenges. They will see that managing one at the exclusion of another will not result in sustainable

change. With the fundamental changes facing organizations today, the emphasis on these abilities has grown along with the challenges. We can be encouraged by the new world, which reflects more directly the deepest of our dreams as individuals and as organizations.

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