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A Holistic Program and Critical Success Factors of Corporate Transformation

RALPH KILMANN, *George H. Love Professor of Organization and Management, Katz Graduate School of Business, University of Pittsburgh*

Corporate transformation **is fundamentally changing how all employees in an organization perceive, think, and behave — so that they can satisfy the diverse needs of all key stakeholders for an extended period of time. Due to our turbulent global economy, achieving corporate transformation continues to be at the forefront of senior management's attention — and responsibility. Yet this incredibly complex problem is often addressed as if it were quite simple. Otherwise, why would senior executives continually subject their organizations to singular, quick-fix approaches that rarely, if ever, result in long-term survival and success? In this article, Ralph Kilmann presents a holistic approach for succeeding at corporate transformation by identifying — and integrating — the great variety of improvement activities that are usually implemented in a singular manner. The essence of this holistic approach is a sequence of eight interrelated tracks, which consists of five system tracks (culture, skills, team, strategy-structure, reward system) and three process tracks (gradual process, radical process, learning process). This paper concludes by highlighting eighteen critical success factors that were learned by implementing this approach in a variety of organizations — in both the US and Europe.**

The Fallacy of Singular Approaches

Today's managers are increasingly susceptible to a vicious cycle that can only lead to eventual failure: riding the merry-go-round of *singular approaches to corporate transformation* — also known as quick fixes. Consider the

worst-case scenario in which this dangerous cycle gradually undermines an organization's capacity to transform itself.

Senior management announces a new corporate program: total quality management, company-wide quality, continuous process improvement, or some other variation of these terms (Deming, 1986; Juran, 1991). A portion of this formal announcement attempts to explain why all previous efforts at improvement did not go far enough (such as corporate culture, quality circles, restructuring, employee involvement, empowerment, downsizing, teamwork, and so forth) and how this new effort will complete the transformation process. Management also articulates a carefully developed quality vision: 'We are actively involved people who are continuously improving processes in order to satisfy our present and future customers by consistently meeting or exceeding their expectations with better and better products and services.' Then a company-wide training program is conducted to teach all employees such techniques as process mapping and statistical process control, which is quickly followed by the formation of numerous cross-functional teams — referred to as quality teams (QT), process improvement teams (PIT), or continuous improvement teams (CIT) — with the expectation that noticeable improvements will occur in a short period of time (e.g. in a few months).

Now take a moment to imagine a firm that embodies the following 'silent killers' or *systemic barriers to organizational success:*

- mistrust within and across work units
- a withholding of information and expertise across work units
- an unwillingness to change old habits and traditional practices
- defensive communication, finger pointing, and demeaning behavior
- a reluctance to express true opinions and disagreements in group meetings
- little or no cooperation and teamwork across work units
- strategic goals have not been deployed into clear tasks and objectives for every jobholder — thus priorities are vague and confusing
- overlapping and outdated departmental boundaries are treated as walls, turfs, fiefdoms, empires, stovepipes, and chimneys
- the reward system ignores group performance, teamwork, and contributions to process improvement

If these systemic barriers are ingrained throughout an organization, what is the likelihood that employees from different departments will effectively collaborate with one another in cross-functional teams to improve quality? Not very likely indeed! Simply having heard about the quality program in a special section of the company newsletter, having received a quality vision on a calendar card, poster, T-shirt, or coffee mug, and having learned some new skills in a half-day workshop — are not enough to create significant process improvements. And when these efforts fail — and they do about seventy-five percent of the time (Ernest & Young, 1992; Spector and Beer, 1994) — senior management gravitates towards another singular approach that offers a promise of greater improvement. Since management didn't succeed at *gradual* change, they will now try *radical* change! Next stop: business process reengineering.

Management now announces a new corporate program that will restructure work units in the organization around key business processes — such as new product development and introduction, order fulfilment, customer service, and performance management (Davenport, 1993). Often, a process vision is also presented to show employees what their new horizontal organization will look like — and how it will radically reduce cycle times, process costs, and increase customer satisfaction (enabled by recent advances in information and communication technologies). The new program is called: *Quantum Leap.* This time, however, there is little time (or perceived need) for extensive skills training; only a small portion of employees will actually be participating in the cross-functional teams that will be designing the new horizontal organization. Especially with the huge investments in information technology (IT), senior management now expects quantum improvements in performance during the next year. But these dramatic process improvements are not realized — which should not be surprising, since fifty to seventy percent of all reengineering projects fail (Hammer and Champy, 1993).

Again we can ask: What is the likelihood that employees will join together — across traditional departmental walls — to reengineer their organization (and, perhaps, themselves out of a job)? Very unlikely indeed! All the superb business logic, sophisticated technologies, and quantum visions that have the potential to redesign the organization cannot overcome the actual systemic barriers to success that are still operating. And when these efforts at quantum improvement fail — and they will, since they never had much of a chance to succeed in the first place — management then gravitates towards another singular approach that offers the promise of improvement. Next stop: organizational learning.

Now management confesses that radical change was too unsettling and disruptive in the company. Nevertheless, the real key to success is how individuals and organizations learn — and the *rate* at which learning occurs (Senge, 1990; Stata, 1989). An impressive learning vision is presented along with the official announcement that the firm will become a global learning organization (Marquardt and Reynolds, 1994). Of course, employees have become rather skeptical about *any* promise of change and improvement. They have heard these words before and have experienced this cycle before: The pattern is becoming very familiar now! As the corporate program on learning proceeds, all employees — ironically — have already learned to go through the

motions, say the politically correct slogans ('we are a learning organization') and wait for next year's program to be announced.

This vicious cycle of one singular approach after another (which has little hope of succeeding as long as systemic barriers to success are still in place) has led one company's employees to contribute a portion of their paychecks into a large pool of money. The lucky person, who will receive the entire amount of money, is the one who accurately predicts the name of next year's corporate improvement program!

It should be apparent that firms with especially large and widespread barriers to success are more likely to fall prey to the vicious cycle of singular approaches (as characterized above). But a key question remains: Who has very large systemic barriers to success? Answer: Any organization that fits one or more of the following conditions:

- the firm is old, large, and entrenched with bureaucratic procedures (which seem to come with age and size — and efforts to control people and costs);
- the firm has experienced large doses of autocratic leadership in the past and, therefore, has thoroughly demoralized its employees (or, at the very least, has taught them not to take responsibility for their decisions and actions);
- the firm was very successful prior to the turbulent 1980s and, as a result, habitually clings to its out-of-date formulas for success (instead of realizing that an altogether new — holistic — paradigm is needed);
- the firm has encountered a sudden shift from a very stable to a mostly dynamic environment and, therefore, is still living in the past (or, at a minimum, is under considerable pressure to catch up with today's world);
- the firm has implemented numerous cycles of singular approaches and, thereby, has failed to transform itself (and has, as a consequence, taught its employees that it may not be possible to transform an organization).

Naturally, organizations that fit several (or all) of these patterns have a major challenge before them — even if they now take a holistic approach to corporate transformation. Indeed, perhaps the biggest challenge is for them to convince their employees that the process of transformation will really be sustained this time — rather than switching to another program after one year. Moreover, employees must be convinced that it is possible to transform an organization with a holistic approach — even though all previous efforts have failed to make a significant difference.

Eight Tracks for Achieving Corporate Transformation

For several decades now, I have been working with organizations to develop a holistic approach to corporate transformation — by integrating and aligning the separate pieces of the puzzle (Kilmann and Covin, 1988; Kochan and Useem, 1992). What began as singular programs to help organizations solve well-defined problems evolved into multiple programs that were especially sequenced to yield sustainable improvements for complex organizations (e.g., delivering skills training in workshop sessions, followed by team building on the job, and subsequently supported by changes in the formal reward system that associated an individual's contributions to the functioning of his primary work group). Eventually, this holistic journey developed into a program of eight tracks — divided into five system tracks and three process tracks:

The system tracks:
1. The Culture Track
2. The Skills Track
3. The Team Track
4. The Strategy-Structure Track
5. The Reward System Track

The process tracks:
6. The Gradual Process Track
7. The Radical Process Track
8. The Learning Process Track

The System Tracks

The five system tracks are designed to remove the systemic barriers to success (the silent killers) throughout the organization. The first three tracks (culture, skills, and team tracks) remove the systemic barriers in the *informal* organization: how people behave toward one another — and address problems — on the job. The next two tracks (strategy-structure and the reward system tracks) remove the systemic barriers in the *formal* organization: the design of work units, resources, technologies, documents, and incentives that guide what people in the organization are supposed to do.

The *culture track* enhances trust, communication, information sharing, and a willingness to change among all members throughout the organization: the conditions that must exist before any other effort at improvement can succeed. The *skills track* provides all members with improved ways of working with people and problems. In particular, all employees learn how to manage diverse people, group process, complex problems, hidden assumptions, and radical change. The *team track* brings the new culture and updated skills into every work unit throughout the organization — transferring what is learned in a workshop directly into the workplace. Although everyone in the organization must actively participate in these first three tracks, to build the behavioral infrastructure that supports all other aspects of corporate transformation.

Using the infrastructure developed during the first three tracks, the *strategy-structure track* establishes either a new

or a revised strategic plan for the firm and then aligns all divisions, departments, work groups, jobs — and all resources and information — with this new strategic focus. Then the *reward system track* establishes a performance-based reward system that sustains all improvements by formally sanctioning an adaptive culture, the use of updated skills, and cooperative team efforts within and across all work units. Besides metrics that capture individual, work unit, and organizational performance, the reward system also develops metrics to assess individual and group contributions to process improvements (including the rate of organizational learning). Two cross-boundary task forces of about twenty-five persons each (representing all areas, levels, and locations in the organization) are assigned to the strategy-structure and the reward system tracks (one task force for each track).

This sequence of five tracks is, perhaps, one of the most important principles to understand — and honor. While it might be tempting to try to improve things by first modifying the formal aspects of the organization (strategy-structure and the reward system), such an aproach inevitably leads to failure. Changing the formal systems on paper, for example, cannot result in behavior change on the job — unless members are willing and able to change. If there is mistrust, defensive communication, a withholding of information, deficient problem-solving skills, and little cooperation across departments (i.e., the systemic barriers to success in the informal organization), better formal systems can neither be designed nor be implemented.

The Process Tracks

The three process tracks address the recent attention devoted to gradual process improvement (total quality management), radical process improvement (business process reengineering), and learning process improvement (developing a learning organization). These three tracks are all heavily rooted in a process view of life: since the process *determines* the results, the best way to improve the results is to improve the process (Imai, 1986). Moreover, increasing the rate at which an organization can gradually and radically improve its core processes defines the goal (and the outcome) of organizational learning (Stata, 1989). But just as there are important reasons for the particular sequence of the five system tracks, there are also clear reasons for the sequence of the three process tracks.

The *gradual process track* provides monthly workshop sessions for all employees to learn how to describe, control, and improve core processes within their work units — which includes process mapping, statistical process control, and a variety of other quality tools (Harrington, 1995; Ishikawa, 1986; Montgomery, 1991). Once everyone in the organization is accustomed to seeing and improving their work as a process (Rummler and Brache, 1990), the *radical process track* establishes a number of cross-boundary task forces to describe, control, and improve core business processes — which includes the possibility of restructuring work units into a horizontal organization, enabled by information technology (Keen, 1991; Tapscott and Caston, 1993; Wriston, 1992). Naturally, if employees have become accustomed to gradual process improvement and understand the value of the process approach within their work units, they are more likely to understand — and accept — the value of radical process improvement across the boundaries of existing work units.

Once a firm has experienced a number of cycles (and successes) at gradual and radical process improvement, the *learning process track* pinpoints and spreads useful knowledge about what has been learned throughout the entire organization (Nonaka, 1991). Initially, monthly workshop sessions provide all employees with the basic concepts and tools for effective learning before they are able to improve learning processes on their own (Watkins and Marsick, 1993). Basically, a learning organization continuously describes, controls, and improves the processes by which knowledge is acquired, distributed, interpreted, stored, retrieved, and used — within and across all work units — in order to achieve organizational success. Some examples of learning process are as follows:

- facilitating cross-boundary exchanges among all key stakeholders;
- extracting useful knowledge from past failures and successes;
- synthesizing core competencies across strategic business units;
- gaining knowledge through strategic alliances, ventures, and acquisitions;
- conducting experiments on radical organizational forms and networks;
- capturing employee expertise and experiences into shared databases;
- finding ways to improve the rate of removing systemic barriers; and
- finding ways to improve the rate of process improvement.

While the usual focus of process improvement is on workflow (which occurs between employees and work units) it is also important to manage the key psychological processes that take place within every employee. Constant pressure for gradual and radical improvement can take a great toll on the human ego, since most human beings experience change as loss — and as a potential threat to who they are and what they have accomplished. As a result, an important feature of the learning process track (which thus recognizes the personal transformation that must support any organizational transformation) is to ask employees to describe, control, and improve their ego. As they proceed, they will be able to cope with change — faster and better — without losing themselves in the process. Some questions that help people to describe their ego-defining processes are as follows:

- How do you define your essence and what makes

you special and unique?
- How do you develop your skill and consistency at being who you are?
- How do you assess what value you contribute to other people's lives?
- How do you judge whether you are a good or bad person and whether you deserve to be happy?
- How do you decide who controls who you are, what you do, and whether you are good or bad, happy or sad?

Providing all employees with the chance to improve their ego-defining processes gives a new meaning to the term empowerment — and thus enables them to assume greater personal responsibility for change and improvement (Kilmann and Kilmann, 1994).

The Integrated Sequence of Eight Tracks

Figure 1 shows how the eight tracks are often sequenced over time — via monthly workshop sessions — to remove all systemic and process barriers to success. (All employees participate in tracks 1, 2, 3, 6 and 8, while cross-boundary task forces are assigned to tracks 4, 5, and 7.) The black area in each horizontal track shows when these formal activities are usually initiated and how long they last — before such activities are conducted by the work units themselves as a regular part of their responsibilities.

As Figure 1 also shows, a track does not have to be completed before the next track begins. The guiding principle is that the earlier tracks should have established the conditions necessary for the later tracks to succeed. For instance, again consider the crucial role

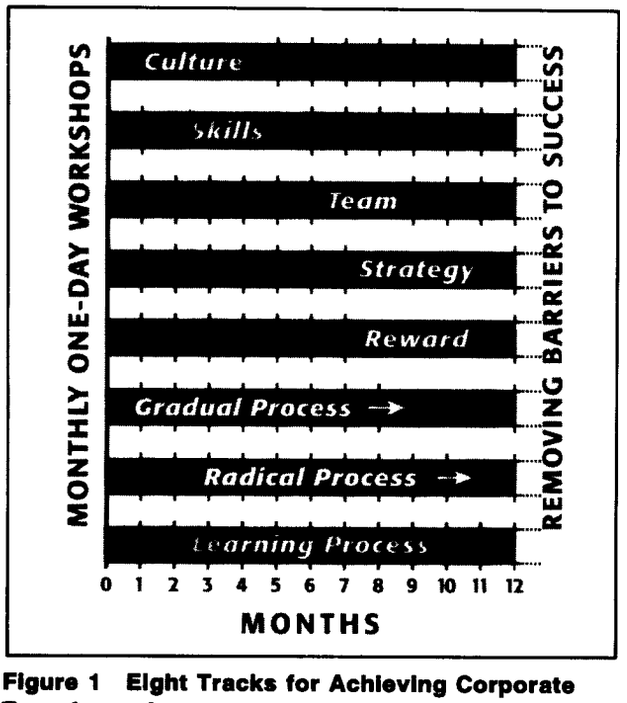

Figure 1 Eight Tracks for Achieving Corporate Transformation

that cross-boundary task forces play throughout the tracks. While the design of a cross-functional team may look very good on paper (as a list of talented, diverse participants), cooperation and teamwork may never materialize when the members meet in person. Why? The various systemic barriers to success in the informal organization (mistrust, withholding of information, defensive communication, suppressing disagreements in open meetings, little cooperation or teamwork, and so on), stymie effective exchanges across the boundaries. Therefore, before any cross-functional teams are formed (hence, before any systemwide efforts to improve strategy-structure, the reward system, and core processes are undertaken), the culture, skills, and team tracks are conducted for all employees — so their talent and energies will serve the best interests of the whole organization.

Furthermore, the overlapping timelines in Figure 1 enable the whole program to be completed in a shorter period of time — versus what would be the case if each track had to be completed before the next one could begin. But this overlap among tracks is not designed just for the sake of efficiency: since these tracks are highly interrelated, conducting some of them at the same time makes it much easier to coordinate their activities. Consider, as one example, how the reward system must be designed to address a wide variety of behavioral contributions, so that employees will be motivated to achieve what each track offers for long-term success. Specifically, an ongoing dialogue across several task forces and workshop sessions can greatly help in operationalizing the following criteria for job performance (and in developing a valid — acceptable — process of performance appraisal).

The reward system must effectively assess and reward: (a) behavior that fosters an adaptive culture, the use of updated skills, and effective teamwork within and across work units (culture, skills, and team tracks); (b) behavior that leads to the achievement of strategic goals through valid measures of performance (strategy-structure track); (c) behavior (of managers only) that effectively administers the performance-review process to enhance employee development and corporate performance (reward system track); (d) behavior that improves core business processes within and across work units and thereby improves customer satisfaction (gradual and radical process tracks); and (e) behavior that first increases the rate of process improvement and then spreads this knowledge throughout the organization (learning process track). Alternatively, if the reward system is not designed to support the explicit purposes of all eight tracks (hence, all interrelated aspects of organizational success, it will inadvertently steer employees toward providing very narrow and shortsighted — not holistic — contributions to their firms.

Moreover, it is also important to mention an additional benefit of sorting the various pieces of corporate transformation into the well-defined categories known as the

eight tracks — even though the categories overlap. Presenting and discussing Figure 1 usually helps employees see the big picture and understand the master plan: how every set of activities (tracks) supports and connects with every other set of activities — before they can be expected to become fully committed and actively involved in the program. Otherwise, employees will not necessarily understand the key links among the tracks, which may remind them of the vicious cycles of singular approaches they experienced in the past. Firms that have proceeded with business process reengineering soon after major attention had been devoted to total quality management, and have not carefully explained the rationale — and fit — among these two process approaches have left many employees confused and cynical.

It is important that employees see the big picture and the complete integration program in attempting corporate transformation

To highlight the value of seeing the big picture and transforming the organization via a 'completely integrated program' (as shown in Figure 1), I am reminded of a three-day workshop that I conducted for the top fifty executives of a large division of a *Fortune 100* company. Before these executives decided to proceed with the holistic program, they wanted to know — in considerable depth and detail — the philosophy of the approach as well as the specific activities in each track. They even wanted to experience some of the instruments, exercises, and discussions that typically occur throughout such an improvement program.

On the last day of this three-day workshop, after considerable time had already been spent on discussing why the integrated sequence of the eight tracks is fundamentally different from the usual cycle of singular approaches, the chief financial officer (CFO) of the firm raised his hand and declared: 'I now understand what you have presented here. When you get right down to it, your program is a quick fix!'

I was shocked at this apparent lack of understanding, but I tried not to show it. Instead, I asked the CFO: 'Please tell me more about what you have on your mind. I am not sure I grasped the full significance of what you just said.' The CFO responded in a way I will never forget:

Sure, I'll be glad to explain what I mean. I've been working in this company for over twenty years now. I've seen every quick fix come and go: quality circles, participative management, MBO, matrix management, employee involvement, and now TQM. You name it, we've done it! But nothing around here that really matters has really changed much. Sure, we have new organization charts, job titles, buildings, products, people, and all kinds of computers — but we still make decisions in the same old way. We still put each other down in the same old way. We still exclude certain people from key meetings because we don't want to hear different points of view. And we still blacklist people if they didn't support us on our pet projects. But now you're saying that by following a sequence of eight tracks, and addressing the systemic barriers to success head on, at the start, and then gradually proceeding to change our informal and formal systems, month by month, before we try quality management and reengineering again . . . and that you can do all this in just a couple of years by doing first things first and getting it right before you go on . . . well, your program surely is a quick fix when you compare it to what we've been through for the past twenty years!

The Critical Success Factors for Implementing the Eight Tracks

The holistic program of eight tracks provides the essential activities for fundamentally changing an organization's systems and processes — and thereby transforming how all employees perceive, think, and behave. But conducting monthly workshop sessions and forming cross-boundary teams must be placed in the larger context of managing planned change. An extensive literature exists on how to initiate the process of organizational change and then see it through to 'completion' (e.g. Lippitt, *et al.*, 1958; Cummings and Worley, 1993). For extensive discussions and materials on implementing planned change for the eight tracks, the reader is referred to my previous book for the key theories behind my approach (Kilmann, 1989), the specific program materials that include the lectures, surveys, instruments, exercises, cases, group discussions, and community presentations that are used in monthly workshop sessions and by the cross-boundary task forces (Kilmann, 1991; 1993); and the manual for managing the behind-the-scenes logistical details on scheduling, implementing, and evaluating the program for hundreds or thousands of participants (Kilmann, 1992). For the purpose of condensing what I have learned from implementing this holistic program in a great variety of organizations (both in the US and Europe), the following discussion will highlight eighteen critical success factors (CSF):

CSF 1: Senior managers are advised on how their behavior and attitudes will demonstrate support for the program versus what signals will kill it

It seems to be a universal dynamic that employees look to their supervisors and managers to see if they are really serious about following through on a decision — or a program. If a program to improve the organization is given only lip-service by management (whether it is a singular approach or a holistic one), employees quickly learn to focus on other, more important priorities. Since many managers may simply be unaware of how subtle aspects of their behavior provide strong signals to others, managers often need some coaching on non-verbal communciation. Indeed, when managers are made consciously aware of how others read them, it becomes an act of sabotage to continue sending the very signals that will undermine the success of the program.

CSF 2: All managers' performance appraisals assess their involvement in the program — from beginning to end.
If senior management is really sincere about following through on corporate transformation, they should put the reward system behind it. In one firm, it was made known that twenty-five percent of the annual bonuses of all managerial personnel would be determined by the extent of their support and active involvement in the program. Perhaps if the figure had been five or ten percent, this announcement would not have had a major impact on the employees. And maybe a five or ten percent figure might not have had much impact on the managers either. But twenty-five percentage points clearly delivered the message that there will be significant involvement and activity throughout the program or 'it's going to cost you dearly.'

CSF 3: Changes in key management positions should be made to support the goals, principles, and practices of the program.
During the length of a program, especially a holistic one that continues for several years, key managers come and go: sometimes, the managers who initiated or actively supported the program leave the firm (or are transferred for all kinds of valid, understandable reasons. What employees worry about is who is going to replace these managers, especially since changes in senior management personnel can have such a major impact on the continuity and success of the program. A very important signal (which also has a lot of substance) is to replace managers who leave with persons who have the styles, skills, and inclinations to become actively involved in supporting change and improvement — and setting the best example for others. If, alternatively, key management positions are filled with persons who have the opposite characteristics, the success of the program might be negatively affected: first, by the employees who take this as a sign that management does not really understand what it is doing (or is simply not interested in seeing the whole effort through); second, by the actual negative effects caused by new managers when they stifle employee initiatives that are intended to improve the organization.

CSF 4: A comprehensive, organization-wide diagnosis of all systemic barriers to success is conducted — and shared — throughout the organization.
It is essential to obtain a comprehensive, in-depth diagnosis of the firm's *systemic* barriers to success (as well as any apparent *process* barriers to success) because two questions arise again and again: (a) Why are we doing this program? (b) Is this program really that important — relative to all the other business and technical problems we have to address right now? If the diagnostic report is well done, it provides a very deep, penetrating look into the tangled web of systemic barriers that will continue to thwart all efforts at solving business and technical problems that cross any and all boundaries in the organization (which, of course, represents most of the problems that firms must address in today's global economy).

Actually, one way to tell if the diagnostic report was well done is if it evokes pain among employees when it is first shared with them. A valid and probing diagnosis is not an easy thing to see under a large spotlight (such as a bright overhead projector in a darkened room). Imagine an auditorium setting where the following cultural rules, which have never been talked about before, are presented to all members of the organization: 'when things go wrong, punish and blame others; ridicule people from other departments; if you don't trust other departments, duplicate their work; don't trust top management's intentions — they lie; don't trust employees' commitment — they loaf; don't speak to those who came from the merger (which occurred ten years ago!); don't be the bearer of bad news — you'll be shot on the spot; don't disagree with your boss no matter what he says — any disagreements will be held against you.' Even this abridged listing of cultural rules cannot convey the depth of analysis provided by a more elaborate narrative in an actual diagnosis (Kilmann, 1991; Levinson, 1972). But a key point must be made: Such a probing diagnostic report helps repeatedly answer the two recurring questions noted above. In essence, it is the systemic barriers to success, as revealed in the diagnostic report, that explains 'why we are doing this program' and 'why we won't be able to do much of anything else that is important and complex *unless* we first remove these barriers to success!'

CSF 5: A steering committee (representing all levels and areas in the organization) is responsible for the program's success.
Responsibility for scheduling and implementing the tracks (and evaluating the results) is neither delegated to consultants nor assigned to any staff group. Instead, a steering committee of about twenty or so members, sometimes referred to as a *shadow track* (running parallel to all eight tracks) is formed just after the diagnosis is endorsed by the senior executives. This steering committee assumes full responsibility for the success of the program. Its members — consisting of senior executives and a similar number of members who represent all levels and areas in the company — are carefully selected by the top management group. (But the criteria and process of selection are made public to foster acceptance of the steering committee.) Essentially, the members of the shadow track meet periodically to monitor the impact of the holistic program on the functioning of the organization and find methods for improving the implementation process.

CSF 6: Since process improvement generates excess capacity, develop and implement a plan to deploy (or divest) human resources in order to gain financial returns for the organization.
The spirit of *kaizen* (Imai, 1986), and the quality movement in general, assumes that an improved process will directly lead to improved results. But such a premise should not be taken on faith. Just consider the case in which an organization achieves a one hundred percent reduction in cycle time along with a fifty percent reduction in costs — by eliminating several process steps and thus reducing the direct involvement of numerous employees who had previously performed various steps in the old process. Are these formerly

involved employees simply standing around and doing nothing? Indeed, if these employees are not redeployed to other activities that create value for the firm (e.g., expanding the customer base for current products and services or developing new products and services), they then need to be divested (compassionately, of course). Otherwise, these employees will remain as idle capacity which, if neither redeployed nor divested, prevents the firm from translating its dramatic process improvements into financial returns (Kaplan and Norton, 1992).

Before an organization attempts to make major system and process changes, the steering committee (shadow track) should develop a plan that outlines policies and procedures for handling the excess capacity (particularly human resources) that results from process improvement. Specifically, the plan should include how resources will be redeployed to take advantage of excess capacity (and thereby create additional value) or how to divest idle capacity in order to reduce operating expenses (as another way to improve financial returns). Surely, developing such a plan well in advance of process improvements (and sharing it with the entire membership) may not only avoid harmful divestment decisions (such as layoffs), but will explain the rationale and procedures if such unpopular decisions prove necessary.

For the holistic program of corporate transformation to work it is essential that all employees participate in workshops and teams

CSF 7: All members are required to attend all workshop sessions (tracks 1, 2, 3, 6 and 8) and are fairly represented on all redesign and reengineering projects (tracks 4, 5, and 7).
It would be very nice if all employees realized that transformation is essential for organizational survival and success — and knew that they themselves had to change customary ways of perceiving, thinking, and behaving. In reality, most people believe that it is others who need to change and improve. Moreover, change involves some risk of embarrassment and failure, and evokes some pain or, at the very least, some inconvenience in having to do things differently. If most people are asked to go through uncertainty, pain, and inconvenience voluntarily, they probably will say 'no' (or wait for everyone else to change before they commit to going through the process themselves). Given human nature, therefore, it is essential to require all employees to participate in the program: to attend all workshop sessions (typically, one day per month) and any assigned cross-functional team (typically, five to ten hours per week). Naturally, management may have to make various adjustments in employees' other work assignments, so they are not overwhelmed with too much work. But if the program has a high priority (as it must, if it is to succeed), it should not only be required for all, but it must also take precedence over some other work.

I recall one company that seriously questioned whether to make the workshops required for all employees and whether to have these workshops scheduled for one day per month for a whole year (tracks, 1, 2, 3, and 6). The senior managers worried whether they could add all this extra work onto the organization. I reminded them of the diagnostic report that had revealed very large barriers to success, which, in essence, made it exceedingly difficult to get their work done. Still, they argued: 'But one day per month for all employees is just too much time! Couldn't we make the program voluntary and schedule it on the last Saturday of every other month?' I then asked the senior managers to list all the ways in which they waste time now — and estimate how much time they waste every month. Their own listing of time wasters shocked them; in fact, they actually recreated many aspects of the diagnostic report! They also estimated that they waste about three to five days every month because of the systemic barriers to success that thwart their best intentions. As a result of this simple exercise, these senior managers came to the logical conclusion that investing a required one day per month for every employee would soon recover the three to five days per month currently being wasted. (Incidentally, these managers assumed, rightly or wrongly, that the employees who report to them waste even more time!) They thus decided to proceed with what they now judged to be a good investment to improve their core capabilities and organizational infrastructure (Baldwin and Clark, 1992).

CSF 8: All organizational members attend monthly workshop sessions in their natural work units.
The primary danger for most training programs is that the skills and knowledge learned in the off-site workshop setting will not transfer back to the workplace. I refer to this common experience as the three-day-wash-out effect: three days after employees have returned to their jobs (following a workshop), it is as if the workshop never took place. Even when they ask their supervisors to consider changing something, based on what was learned, employees are met with: 'Get back to work. We'll talk about it later.' But 'later' never comes: Instead, it's back to business as usual — once again. Naturally, if what is learned in a workshop is not transferred back to the job, there is little hope of transforming an organization.

But one way to overcome the three-day-wash-out effect is for employees to attend off-site workshops in their natural work units (with or without the immediate boss present — depending on the diagnostic findings). If the material is learned as a group, it is more likely to be used as a group — if for no other reason that employees can remind one another of what was learned and provide emotional support and encouragement for trying to do things in new ways. Another way to nullify the three-day-wash-out effect, of course, is to conduct the workshop sessions on a recurring basis — month after month — to reinforce what is being learned and applied on the job. Nothing complex and important, which requires significant cognitive and behavioral changes on the part

of individuals (and supportive cultural changes on the part of whole work groups), can possibly be learned and put to use in just one workshop session.

CSF 9: All organizational members must learn the same concepts, tools, and techniques — facilitated by the consistent use of expert facilitators and workshop materials.
When hundreds or even thousands of employees are participating in the program, due to logistical constraints and pedagogy, there will be many sections of employees attending different workshops (approximately fifty to one hundred persons per section). Consistency in what is learned during the workshops is vital — since members from different work units will be working together on cross-boundary teams and, subsequently, may be assigned to new work units (e.g., after reengineering business processes into a horizontal organization). If there is great variation in what people learn and experience, it will be most difficult to resolve cross-boundary problems and redesign cross-boundary processes (which necessarily require a common language and a shared understanding of how to use complex analytical techniques). If there is a perception that some sections of employees are receiving *better* (and not just different) knowledge and experiences, feelings of mistrust, inequality, and dissatisfaction will spread (which typically reinforces the very barriers to success that the program is trying to remove). However, by using identical workshop materials across all sections of employees, by using the same facilitators across the workshop sections (or effectively coordinating the roles and presentations of several facilitators), and by monitoring potential consistency problems from session to session (and making adjustments, as necessary, to enhance consistency), will certainly help employees *receive* the same knowledge — and *perceive* this to be so.

CSF 10: Homework assignments continue the learning process during the month — in between all formal workshop sessions.
As noted above, a series of monthly workshops in natural work units is essential to sustain — and reinforce — the social momentum of transformation. A difficulty arises, however, if the participants in the program don't keep the process going during the time between these monthly workshops. To overcome the tendency to talk transformation in the workshops but to revert to 'business as usual' in the workplace, each workshop session concludes with a homework assignment: to complete various exercises and discussions that were introduced during the day. The main reason is to keep the process going between the formal workshop sessions. Second, by documenting what was learned, each work group can proceed in an efficient manner — rather than wondering each time: 'What were those cultural rules we discussed at the last session?' Third, while doing the homework assignments, group members begin discussing all sorts of other things, such as: 'What did you do about that problem you had? It would help me to know.' Thus, there are several useful by-products from doing the homework. Lastly, experience shows that the groups which do these assignments — diligently — find it easiest to change and improve. There is a slogan that captures the essence of doing homework 'It hurts, but it works!'

CSF 11: Work units are requested to use a process observer in every meeting.
Much of organizational life occurs in groups (both formal work units and cross-boundary teams); groups are also the primary vehicle for trying new behaviors, receiving feedback, adjusting behavior, and so on. For the dual purpose of improving group functioning both in the workshops and in the workplace, it is essential to appoint one group member as a 'process observer' at the start of every group meeting. This person is responsible for monitoring how well the group is actually applying what has been learned. At the end of each meeting, he or she summarizes what the group did particularly well and in what ways the group fell short. Moreover, a different member should be appointed to this role every time the group meets. As a result, over a period of a few months, every member will have the opportunity to develop observation skills and practice giving constructive feedback. Eventually, it will no longer be necessary to appoint a formal process observer — the skill and responsibility for improving the group's process will have become shared among all group members.

CSF 12: Work units are expected to design a sanctioning system that celebrates victories and penalizes violations.
It is not until the fifth track — the reward system track — that formal incentives can be provided to employees for behaving according to the principles and practices of the program. Consequently, before the *formal* reward system is redesigned and operational, an *informal* reward system must be developed and utilized by every work group. Essentially, if there are no penalties for persisting in old ways and no reward for engaging in new behaviors, why would anyone want to change?

Each group is therefore asked to develop a *sanctioning system* that monitors and enforces the new skills and behaviors that are learned and practiced in the workshop sessions. Specifically, each work group is asked to develop a consensus on what exactly will be done if any member acts out a dysfunctional behavior (referred to as a violation) or engages in a desired behavior (referred to as a victory). So long as the system developed is ethical and legal, every group can be encouraged to be as creative as possible in rewarding desired behaviors and penalizing outmoded habits.

CSF 13: Use surveys and instruments to provide feedback to individuals and work units on various aspects of their functioning.
When people try to change their behavior on the job, let alone the behavior of their whole work unit, they need information and feedback. Naturally, there are several ways of providing these inputs so that employees can (a) assess where they are now, (b) determine where they need to go, (c) do something to close the gap, (d) reassess where they are now, and so forth (e.g., Plan, Do, Check, Act (Deming, 1986). Instruments that

give insight into an individual's styles of thinking and modes of behaving are exceedingly helpful, as are surveys that capture how work units manage their time or attempt to solve their recurring problems. These quantitative assessments also enable before-and-after comparisons to be made over a period of time — to see what improvements have occurred and what still needs to be done. Of course, since the workshop sections are composed of natural work units, not only will members remind one another of what was assessed on various personality and behavior instruments, but the work unit is readily available to calculate group profiles and discuss the implications of the results for improving the organization. It is important to recount a typical experience: Simply deriving a number from responses to a paper-and-pencil instrument always seems to generate a lively discussion about uncovered problems and their possible solutions (so long as the exact numbers are not taken too seriously — given the difficulties of measuring human behavior).

CSF 14: Work units deliver regular oral progress reports to other work units on 'what we have done differently.'
CSF 15: Individuals receive regular feedback on 'what I have done differently.'
Feedback exchanged in public (in front of the members of one's own work group or in front of several other work units) can stimulate fundamental changes in behavior — because people are so deeply affected by the presence of other people. Of course, it is essential that these public exchanges are conducted effectively (as learned in the skills track) and that all participants have the desire to learn from these exchanges (which usually develops as the program proceeds). Even when people or work units are utterly sincere in their efforts to change and improve, however, there may still be a large gap between what they want to do differently and their actual behavior on the job. Receiving feedback from other people (who can observe the person or work unit in question) is essential to close the gap between knowing something (intellectually) and doing it (behaviorally). Consider the following 'public progress report' that is conducted bimonthly for each group during the workshops (which is also conducted periodically for each member within every work unit):

Each natural work group first meets to discuss and answer this series of questions: Since the program began, what has improved, stayed the same, or become worse? And, what has the group done differently during this same period of time? Then each group is asked to present its responses — publicly — to the rest of the other work groups in the same section. At the early stages of the program, a few groups typically report that 'most things have stayed the same, nothing has improved, and several things have gotten worse,' followed in the same breath by: 'And we haven't had time to do our homework assignments, we usually forget to assign a process observer at our meetings, nor have we bothered to give any sanctions to one another. We're just too busy.' A few other groups, however, often report that quite a few things have already improved: more sharing of information, better listening, less interrupting during meetings, and increased cooperation across work units. These same groups then add: 'We completed our homework assignments during lunch and coffee breaks, we assigned a process observer at every single meeting, and we have given positive and negative sanctions to one another according to our agreed-upon system.' As a result of these public progress reports, it gradually becomes obvious to most employees that there is a direct cause-and-effect relationship between doing things differently and things actually improving in the organization.

Since these public progress reports are conducted at least every other month in a workshop session, it becomes increasingly difficult for work groups to confess publicly to their peers that 'nothing has changed and we haven't done anything differently.' Eventually, community-wide sanctions (soft groans and mild laughter) are applied to those groups that seem unwilling to see the connection between actively learning the principles and practices of the program — and what happens in the organization as a result. After several months of these progress reports (publicly presented by every work unit in the organization), it becomes almost impossible for any group to say that it could not do anything differently, when so many other groups in the very same organization were able to discover so many ways in which to improve their organization. (Besides, it is not politically or socially wise in most cultures for people to proclaim that, in essence, instead of serving their organization, they will continue serving themselves!)

CSF 16: Recurring discussions on ego strength and internal control motivate changes in perceiving, thinking, and behaving.
If the above public discussions and sanctions are not enough to convince people to change and help them change, learning two special topics (and having additional discussions on these topics) further stimulates change: ego strength and internal control. In the early workshop sessions, employees are exposed to the effects of a person's ego on his or her capacity to adapt to change. Research suggests that people with low self-esteem and self-worth have a much greater difficulty in coping with loss (both in their personal and work lives) than those with high self-esteem and self-worth (Kilmann and Kilmann, 1994). The important implication for corporate transformation is that employees who have difficulty adapting to change must have low opinions of themselves! Whether this is actually true or not for any individual case (versus a population average) is besides the point: It seems that no one wants to admit that he or she may have low self-esteem and certainly does not want this possibility to be known (or believed) publicly. Thus, when individuals or groups discuss how to change and improve, the mere mention of the debilitating effects of low self-esteem seems to motivate changes in perceiving, thinking, and behaving.

The second special topic is *internal control*: whether

people take personal responsibility for change and improvement. Rotter's (1971) distinction between internal and external locus of control is especially useful in challenging employees to look at themselves rather than point the finger at others. *External control* is when a person believes that what happens to him is determined by outside forces (luck, politics, other people's behavior). Internal control is when a person believes that what happens to him is determined by what he does (his own decisions, attitudes, behavior). Naturally, internal control helps people take responsibility for organizational change; external control shifts all the attention to someone else (Kilmann and Kilmann, 1991).

Even after having participated in several workshops in the program, many employees keep waiting for something to happen: 'My boss still doesn't keep me informed of what goes on ... The other groups still don't cooperate with us ... My subordinates still don't complete their work on time ... When will this organization change?' But after having learned the language and concepts of internal versus external control, however, such complaints are met with these public challenges: 'You seem to have strong beliefs in external control! ... Don't you recall that nothing will ever change around here if you continue to believe that someone else out there must change you? ... Can't you see that you are the source of organizational change — and that you must therefore do something about it?' Most people would rather change their behavior, than be subjected to these additional public sanctions!

CSF 17: A newsletter publishes success stories: how individuals and work units removed barriers and improved performance; organization-wide celebrations are used to recognize achievements and encourage further improvements.

Another way to reinforce transformation is to give organization-wide attention to positive events and outcomes — beyond the workshop setting. One avenue for reaching all participants in the program is through the use of formal channels, such as the company newsletter or magazine and paper or electronic bulletin boards. More interactive forums, such as rites, rituals, and ceremonies, can be very powerful reminders of what has been accomplished and can inspire the members to achieve even more (Trice and Beyer, 1993).

CSF 18: Logistical aspects of the program are managed efficiently and effectively by a team of dedicated professionals.

Scheduling and implementing the holistic program can be a logistical nightmare — and therefore thwart the improvement effort — if it is not planned and organized with great care and precison. Besides scheduling all employees for different tracks, workshops, and sections, there are also many kinds of materials to distribute to the right participants at the right time, with the necessary reminders. Moreover, managing conference facilities for the workshops is a major responsibility in its own right — especially when so many things can go wrong (weather, food, equipment, service, and so on). Furthermore, it may be necessary to coordinate the needs of numerous facilitators, so they can effectively provide their services to employees.

Even an improvement program for a few hundred employees usually requires a full-time logistics coordinator; programs that involve several hundreds or thousands of participants would always need a logistics team (an overall coordinator with a few subgroups to focus on setting up and maintaining a database of all participants, managing audiovisual equipment and supplies, and providing clerical support). Ultimately, the key indicator of logistical success is how well the participants are able to concentrate on learning and improving — instead of incessantly complaining about logistical mishaps, poor facilities, and bad food.

Conclusions

Transforming the ways in which all employees perceive, think, and behave requires fundamental change in a variety of interrelated systems and processes throughout the organization — which is quite distinct from hoping to transform an organization by relying only on a singular approach. Even implementing an ongoing series of singular approaches, however, is likely to fail: (a) if the sequence does not address what things must change first, so other things can succeed later and (b) if the interrelationships among these various approaches are ignored. In sharp contrast, the holistic program of eight tracks provides an integrated sequence of workshop sessions and cross-boundary teams, which removes systemic barriers to success before proceeding to gradually and radically improve business processes, learning processes, and ego-defining processes. Implementing such a holistic program is certainly a monumental undertaking. But by highlighting a number of critical success factors that have been learned from both successes and failures at transformation will hopefully help managers guide their own organizations toward success — without having to learn these lessons (once again) the hard way.

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RALPH KILMANN,
University of Pittsburgh, Joseph M. Katz Graduate School of Business, Pittsburgh, PA, 15260, USA.

Ralph H. Kilmann is the George H. Love Professor of Organization and Management at the Katz Graduate School of Business, University of Pittsburgh — where he is the Director of The Program in Corporate Culture. He received both his BS and MS degrees in industrial administration from Carnegie Mellon University in 1970 and his PhD in management from the University of California at Los Angeles in 1972. Since 1975, Dr Kilmann has been president of Organizational Design Consultants, a Pittsburgh-based firm specializing in corporate transformation. He has published more than 100 articles and 15 books on the topic of planned change and has consulted for many industrial corporations including AT&T, Kodak, IBM, Ford, GE, GM, Olivetti, Philips, TRW, Westinghouse, and Xerox. In addition, he has consulted for health-care, financial, and government organizations, including the US Bureau of the Census and the Office of the President.