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Step One: Establishing the Need to Change and a Sense of Urgency

Change has always been part of the DNA of business, but the accelerated pace of technological innovation means that leaders have less time than ever to show a success, recover from a downturn, or make a change stick. There is no fallow period anymore, no time for business as usual, and no patience. If you do not innovate, adapt, and persevere, you will be swallowed up by the hundreds—or thousands—of other people who do what you do and spend all their waking hours thinking of ways to do it better. You have to be nimble and look ahead. Being able to anticipate massive change, like embedding technology to improve your product or service, coming up with a new way to distribute your product, or dealing with a new service's sudden popularity, means that you spend less time knocked on your back, trying to catch your breath.

But no matter how well leaders understand the need for change, the challenges they must face in leading breakthrough change will be enormous. We can't deny that change is part of life. Yet in life and in business, some people embrace change and others actively avoid it. While "change" is theoretically a neutral word, in reality change represents the unknown, and people—some of whom you must lead—almost always find the unknown scary. As Terry Pearce, author of *Leading Out Loud: A Guide for Engaging Others in Creating the Future*, has said, "People hate change. People love progress. The difference is purpose." These words offer an excellent starting point for any discussion about change. Progress implies an improvement, a move forward. And nothing progresses by staying the same.

LINK THE PURPOSE AND MISSION

In leading breakthrough change, we must first convince others—those to whom we report and those on our team—that our proposed change has a positive, necessary, and urgent purpose. To be convincing and to draw people to your leadership team, you have to be clear about the problem or opportunity you are tackling. First with the team and later with the larger organization, you've got to help people believe that the change facing them is actually progress. You will be most successful when you tie the change to the company's mission and show how the change will help achieve it.

If you are rolling your eyes at this reference to the importance of the company's mission, you are not alone. Even though nearly every company has a mission statement that is communicated to all employees from virtually the day they enter the company, and perhaps even in the recruiting process, company mission statements often become a joke among employees. Mission statements simply aren't lived up to in many companies. In these cases, tying the proposed change to a mission that no one believes the company leaders really care about is doomed from the start.

It is beyond the scope of this book to delineate the importance of establishing a strong company culture—the values the company lives by, the actions that make those values real, and a mission that inspires employee passion and commitment. And yet every executive interviewed for this book underscored the critical importance of employees believing in and feeling connected to the corporate culture. When employees believe in a mission, they get excited and passionate about contributing to the company's goals. Thus, connecting a breakthrough change to the company mission and explaining how it contributes to the mission can help employees see and appreciate why a change may be necessary—even critical—to the company's future success.

With more than 25 years as a senior leader in the pharmaceutical and medical device industries, Ginger Graham has a successful track history with change. Now the president and CEO of Two Trees Consulting, she made it clear that many of her largest opportunities and successes have been born of very difficult circumstances. Ginger well understands that "crisis opens the door for change and new solutions." As an example, she explained that at age 37 she became CEO of a privately held business that was in turmoil after a number of leadership changes and product recalls. The company, Advanced Cardiovascular Systems, had leading technology in the world of interventional cardiology. But when Ginger came on board, they were losing market share and had received a warning letter from the FDA. There was finger-pointing and blaming; in those stressful times, she "quickly learned about people and how they operate." Employees, people who were there for the mission, were disillusioned and worried about what would happen next. She was faced with a classic burning platform, a situation in which the need for change is obvious and immediate.

"One of the things that we set about doing was describing our purpose, reminding people of the incredible value of the business. We were literally saving people's lives." This was no exaggeration. "The great need, in our case, was the fact that our products were lifesaving and life-changing and there was a reason that the company had made such a difference and could continue to make a difference.

"We employed this knowledge to reenergize people by engaging them on the purpose of the business. And we did things like bring patients back to all company meetings to really underscore why what we were doing mattered." Putting real faces on heart patients who would have died without the product was an extraordinarily powerful way to underscore the importance of the company's product line and bring the focus back on the company's mission.

Renée James, president of Intel, also emphasized the importance of the connection between the change and the mission: "I think a lot of the big transformational changes are about being on a mission and believing in it. People choose every day to get up and go to work on the mission. At the end of the day, how that mission resonates with your people makes a huge difference. If you ask my tech security team what they do, they would answer, 'We make the world a safer place.' Wouldn't you like to get up every day believing you are making the world a safer place?" If Renée's staff is convinced that a breakthrough change will add to their ability to make the world a safer place, then she is more likely to gain their support for the change.

KNOW THE NEED

Not all of us can logically link the change we're proposing to a need as compelling as saving lives or making the world a safer place. And even if it's only that the absence of change will ultimately lead to a negative outcome, you can find ways to enlist people in the change. In explaining the need and its urgency, you must convince people that staying put is not an acceptable option and will eventually lead to failure.

One problem with staying where you are may be an erosion of competitive position. You may perceive this to be occurring or to be close on the horizon, but others may not yet have noticed. Blackberry and Nokia once had overwhelming advantages in the mobile phone space, but those advantages soon eroded away to nothing. Another reason for change that's even more challenging to communicate is the potential loss of a compelling opportunity to grow. Huge, obvious problems that are clearly threatening are far easier to communicate. For example, the rising strength of the Internet, Amazon, and iTunes left established companies such as Borders, Blockbuster Video, and Tower Records behind. But it's hard to convince people about what isn't obvious to them or already reflected in the hard numbers.

And what if the need seems to be insurmountable or the numbers seem to point to an impossible task? That was certainly the case when Larry Baer and Peter Magowan gathered forces to keep the Giants from being moved from Candlestick Park in San Francisco to Tampa, Florida. When the newly formed ownership group first bought the team in 1993, they took on debt payments of $20 million a year. As Larry, now the Giants' CEO, said, "That was a lot more debt than other clubs and it put us at a competitive disadvantage." Plus, the goal was to build a new park, despite the fact that attempts to build a new park had failed on four recent ballot measures. That part of their vision demanded patience. But the debt wouldn't wait—and the costs of planning and building a park would make that initial debt seem like small change. They needed to attract backers and significantly more funding. And win or lose, new ballpark or not, they had ongoing costs for payroll. When they most needed money and proponents, they were faced with a constant stream of naysayers, from "people in the community all the way through the institution of major league baseball."

Books and case studies are devoted to describing how they did it; Larry conveyed a sense of their driving urgency: "We didn't have time and we didn't know enough to do a business plan. Sure, we could have come up with some fantasy, but we didn't really know what we were getting into. Instead, we had this life or death urgency. We were in crusade mode and assembled smart people who, in the heat of something that they were passionate about, would figure it out. No matter how many brick walls they ran into, people kept trying and they figured it out."

Larry explained the need to just *keep at it* during times like these: "The message we got from the research came down to this: 'Shut up and play ball.' So from soon after acquiring the team in January of 1993 to December of 1995, just shy of three years, we went underground." They worked at it and they paid close attention. When the Sunday paper did a weekend series with suggestions from fans, they took note, knowing that in time, they would implement those suggestions and celebrate the people who came up with the ideas.

Whatever the purpose of the change you are proposing, convincing others of its need requires effort; and it's almost always much more effort than you expect. Even if the need seems logical and inescapable to you, others won't necessarily recognize that at first. People's inability to assess the facts and admit to the need to do something difficult and uncomfortable can seem exasperating. But remember that you've been facing the issues and planning the change for some time; you have to make the case in a compelling and thoughtful way. Even when you do, not everyone will be on board. And while you don't need all the employees on your side, you do certainly need some. For that, you must find the strength to move forward and win over the ones that you can. Getting into their shoes will help.

UNDERSTAND THE BIG PICTURE—AND ALL PERSPECTIVES

When it comes to convincing others, understanding your audience's perspective is paramount. When I took over the branch network at Schwab and began instituting what I thought were small changes, it didn't occur to me that I would need to make a special effort to get the men and women in the branch offices on board. It was clear to *me* that my changes were urgently needed; but it took a long while for me to realize that it sure wasn't clear to the average branch employee. Our perspectives were very different, in part because I had access to information that branch employees did not.

I noticed early in my tenure at Schwab that our corporate culture was wary of sales—almost anti-sales, in fact. Having come from Citibank and Shearson, where selling was perfected to an art form, I found this quite a shift in gears. Schwab ran advertisements with the tagline "No salesman will ever call" to differentiate itself from traditional brokerage houses whose fundamental business model started with cold-calling potential customers. We used a direct-response advertising model to attract new business: the company ran ads and waited for customers to respond. The culture permeated our branches, making our field organization fundamentally reactive rather than proactive.

One can be proactive without being pushy and grow without becoming "sales-y." The question became how to accomplish that change—how to make that progress into a reality—without undermining our customer-centric culture. That required a better understanding of the company's culture.

For the first fifteen years of the company's history, all calls from customers were routed into local branch offices. This setup seems logical at first, but a closer look reveals significant inefficiencies that lead to frequent breakdowns in customer service. During a rush hour (around noon, for example, when customers were on their lunch breaks and had time to call their brokers), some branches would be swamped. Our people were overwhelmed and even missing calls during these high-traffic periods. Meanwhile, employees in another branch office in a different time zone were sitting around doing crossword puzzles, waiting for their phones to ring.

When I asked a branch manager how many new accounts her branch opened weekly, she claimed that the number was about 100. My face must have registered surprise: that seemed like an incredible number for a sales force that never placed outbound calls. She explained that the advertising which Schwab ran was doing well and was actually bringing in people off the street to open new accounts. Clearly we had products that people wanted and our marketing succeeded in engaging people. Customers had demonstrated that they would buy from us if only they knew what we had to offer.

Our first idea was to use the "down" time, when the phones weren't busy, to make outbound calls, rather than have our staff sitting around unproductively. We could thank customers for opening new accounts with us and welcome them to the company. We could even invite them into the branch where we could give them more in-depth information about the services we offered. Schwab wasn't Citibank or Shearson and we didn't want to force it to be that way, but there had to be some kind of happy medium between a selling machine and Schwab's purely reactive strategy.

At the heart of the issue was the fact that our engine of growth—direct-response advertising—was growing less effective as more discount competitors copied our model. If we didn't find another arrow in our growth quiver soon, our success would start to slide. The leadership team understood that this was a serious and urgent issue.

When I introduced these initiatives for proactively contacting customers to Chuck Schwab and Larry Stupski, I thought it would take perhaps two or three years to get this new system substantially in place. The ideas seemed so easy to implement and really not that complex. Making some outbound calls in addition to answering the phone seemed like a natural expansion of our staff's existing job description. Our executive committee was very supportive of this "small change." The problem was that I hadn't really looked at *any* of this from the branch staff's perspective. As a result, I hadn't considered how to help them see the need and urgency for this change.

The difference between selling and what I was proposing seemed clear to me. I wasn't asking people to call customers and urge them to buy shares in a company we were pushing. Instead, it just seemed logical—at least to me—for us to contact our new customers to let them know what our business was and what we had available for them. As far as I was concerned, it wasn't hard-core selling to simply point out that we had IRA accounts or that our customers should start thinking about retirement funds. This is basic customer service. Our customers should know that we didn't offer just stocks but mutual funds and bonds as well. That's a good business decision, good for our customers and good for us.

The more engaged customer outreach would be aimed at getting customers to better understand what Schwab did and the benefits of opening additional accounts and depositing more money with us. If we could get customers to add a custodial account for their children or an IRA, or any other variety of account, we could build our pool of assets. I could see much bigger assets for clients and employees ahead. But first, I needed to better understand the employees I was attempting to lead.

Anticipating Fear and Its Impact

I thought the branch employees would jump at the chance to take on a more challenging, more interesting job that would eventually offer a better rate of pay. From where I was sitting, simply answering phones amounted to little more than clerical work. We were offering them a chance to forge relationships with customers and take on more responsibility. But I initially failed to realize that people liked their jobs as they were.

As far as the branch employees were concerned, we weren't just adding some duties to their job descriptions. We were *fundamentally changing* what they did to something that they expressly did not want to do. Many employees interpreted our proposed changes as a step toward becoming salespeople. For them, our grand plan wasn't an upgrade at all. It was a nightmare!

They didn't realize that change was coming for them either way. Schwab was hardly the only discount brokerage firm around, and all of them were using something pretty close to our model. Just like us, they had people all over the country in little branch offices sitting and waiting for people to call. We needed to do more to set ourselves apart from all the competition—and we had to do it quickly if we wanted to succeed.

One mistake was allowing the situation to be framed as a contrast between doing things as they'd always been done versus changing to something unproven and unappealing. Another was not helping the employees see all the benefits of the alternative. In retrospect, this situation would have been a perfect candidate for the kind of pilot implementation discussed in Chapter Nine—but I hadn't learned that yet. Not surprisingly, we didn't make much progress in transforming the entire branch network, especially with the limited resources then available.

Perhaps the most critical mistake was failing to understand the importance of presenting this change as absolutely necessary and urgent. I did neither, and as a result we struggled. I worked hard at selling this vision of the future, but my efforts did nothing to overcome employees' fear or their reluctance to support this change. The less we progressed, the harder I sold, but since I hadn't fully acknowledged and addressed the fear and inertia that had hold of many employees, I may as well have been speaking a different language.

Understanding and Untangling Fear Responses

Hindsight makes it clear: I should have recognized and understood the employees' fear. It seemed natural to me that people would want what I thought of as a "better" job. I didn't see that many employees had settled into their work and were fearful of having that disrupted. These people knew how to answer phones, how to react, and how to do everything we'd ever asked of them. They were comfortable in their roles. They didn't know if they could make outbound calls or create relationships with customers, and they worried that their jobs would be in jeopardy if they couldn't. These people had spent years building up experience—and value for themselves as employees—and here I was, about to sweep in and take it all away. Changing their job descriptions meant potentially busting everyone back down to the same level of expertise.

That kind of fear is powerful and visceral; it's a purely emotional response. And many leaders go wrong in attempting to counter an emotional response with data or statistics. In *The Charisma Myth*, author Olivia Fox Cabane discusses how psychology is interwoven with business principles. She explains that challenging a person's identity—as I was doing by altering Schwab's branch network—is so fundamentally threatening that sometimes the person completely and involuntarily stops listening. They aren't ignoring you but simply having a physiological fear response that is effectively causing the brain to disengage with what you're saying.

People who are afraid do not behave logically, and they don't respond to logical appeals. Why is it that drowning people have accidentally taken their would-be rescuers down with them? Most often it's because they're so terrified that they're unable to listen to directions and behave in ways that will help, not hinder, their rescue.

Debby Hopkins is CEO of Citi Ventures and chief innovation officer at Citi. She acknowledged that understanding people's perspectives and fears is critical, yet frequently overlooked, in the communication planning process. As she put it, in driving change, some leaders tend toward "an attitude of thinking: 'Wow, we just need to go fix that. That's obvious. That's going to make this great for everybody! Let's go, run, jump!' And that approach may be successful. But it could be a very short-lived success if they haven't attempted to look at it from someone else's perspective. Instead, recognize that the change you're proposing may be low on employees' list of priorities. You have to think, 'Is there a different way I could present this, a different viewpoint that would make this more urgent for employees?' Without that, you could look very cavalier about big decisions and create a backlash you've got to avoid."

Whether a change is simply low on employees' priorities or so dramatic as to require significant effort, how can we smooth the way? What can we do to win over people who are in the throes of powerful emotions? First of all, repetition is important. It's not enough just to announce a change and call it a day. You must give your employees the information again and again and use a variety of methods. Tell them in person, tell them in writing, and tell them via e-mail. Tell them one-on-one and tell them in big groups. It's very likely that not everyone will have heard you correctly the first time. Breakthrough change cannot be accomplished with a single meeting or e-mail blast. Prepare yourself for this reality and know that the remainder of the book, particularly Chapter Three and the leadership communication chapter (Chapter Eleven) will provide more guidance.

UNDERSCORE THE URGENCY

Before you decide to convince anyone else about the change you are proposing, you have to satisfy yourself that change is not just necessary; it's necessary sooner rather than later. You must be willing and able to inspire your team. You have to invest in the change and commit to it with your time, your energy, and your budget. It is not enough to think that the numbers look good: you must truly believe in the purpose behind the change. Be sure that you've considered these issues and that you've honestly pondered and answered the following questions:

- Have I evaluated the numbers for different scenarios? Do they look good?
- Do I truly believe in the purpose behind the change?
- Am I fully convinced of the urgency of the change itself?
- Can I demonstrate that this change is worthwhile and imperative?
- Do we really have to do it *right now*?
- What will occur if we postpone it?

If you have come to a carefully considered conclusion that a breakthrough change is urgently needed, then you will need to drive this forward with all the energy and conviction you can muster. The steps outlined in these chapters will help you along the way, as will the knowledge that driving change is bound to be difficult.

PREPARE FOR RESISTANCE AND CONFLICTS

It is easy to assume that resistance occurs primarily with the frontline employees—but that's not necessarily the case. If what you're proposing is big and bold and strategic, chances are that you will encounter people at all levels of the organization who think it may be easier to do it later. These people may voice their objections by saying, "Let's think about this some more" or "Let's be patient." You might also hear, "Shouldn't we get some more data?" And even, "Are we moving toward the bleeding edge?" All of these may well be valid points, but they may also be a more comfortable way of expressing the feeling that "I'm sorry, but I just don't have it in me to risk that much or work that hard." Overcoming resistance and maintaining momentum require constant effort.

In pondering the question "Do it now or later?" I recalled an experience from my early days at Schwab. At the time, Internet trading was just emerging as a new way to invest, and we had devised a strategy to have two divisions offer online trading: the Charles Schwab online/offline ("offline" meaning phone-based) hybrid service, with a higher price point, and the bare-bones, online-only service that we branded as e.Schwab. We had seen a lot of success with this dual model: the top two online brokers were Charles Schwab and e.Schwab. By almost any metric, our business model was a huge success.

But our customers were growing dissatisfied. They wanted the lower pricing of e.Schwab with the greater service of Charles Schwab. I was getting dozens and then hundreds of letters a month from customers saying they were fed up with being forced to have multiple accounts at different prices. Our disgruntled customers wanted to know why we were making managing their money so inconvenient for them. The plain fact was we were doing it to protect our bottom line. The tiered pricing system of online brokerage was absolutely not customer-oriented; it was all about our own profitability. That was a fundamental violation of Schwab's corporate culture, which encouraged us to always do the right thing for the customer. Furthermore, it was unsustainable.

Although we were receiving hundreds of angry letters, we had millions of customers, so it was not a huge onslaught. If only relative numbers mattered, it would have been easy to look the other way. But it was clear that the rise of low-cost online stock trading firms would lead more customers to either complain or leave us altogether. Behind every letter there were undoubtedly dozens of other customers who were voting with their feet.

I brought this situation to the 10 top executives within the company and posed the central question: Can this state of affairs continue? Did they think that this structure was sustainable? It's not an unheard-of structure; consider the Camry and the Lexus. Both of these cars come from the Toyota Corporation but as two separate brands with two separate price ranges offering fundamentally similar vehicles with different extras, amenities, and brand position. They've thrived for a long time this way, with no apparent backlash from the consumer. The difference between what we were doing at Schwab and the Camry/Lexus strategy was stark, however. We were essentially charging two different fees for the *same core service*, while Toyota had created the brand position of a new car company that sold better cars for more money. Did the comparison to Toyota hold water?

There were strong arguments on either side. After much debate, everyone agreed we needed to change; but how urgently? Some of my colleagues were in favor of making the change sooner rather than later. We were only going to lose more customers the longer we waited. We were the leader in online trading at that time, but our lead would evaporate if we kept the same model in place. And not long after that, we would be struggling to differentiate ourselves from our legions of competitors.

Other colleagues saw it differently. They were concerned that making any kind of big pricing change would lead to a huge dip in our overall market value and potentially affect the public's confidence in our company. They believed the prudent course would be to wait and see how things played out.

Coming together and reaching agreement on how best to proceed became a task for the leadership team. A critical part of the entire change process, it is discussed more thoroughly in Chapter Three. After analyzing the projections, the team knew that Schwab's profitability would take a big hit the year after we implemented this change. Shareholders and Wall Street analysts often see a pricing change (especially one that would drive profitability down by hundreds of millions of dollars) as an early warning sign of business model weakness and they immediately sell stock, driving the stock market value down still more. Ultimately, we decided to go forward and lower our pricing. This was truly a "bet the company" change. If it hadn't worked, the company would have taken a huge hit, possibly an unrecoverable one. As would at least some of us on the leadership team. This was a scary time for everyone—especially the leadership team.

Leaders are bound to face risky changes and resistance. When I recently spoke with John Donahoe, CEO of eBay, he recalled his struggles in convincing an entrenched leadership to make big changes: "When I joined eBay, I thought, 'Oh, my God, we need to change.' I was only partially able to push that idea. The fact that the company had white-hot success in its history worked against it, because even the most capable, confident, accomplished leaders were always hoping that the past was going to come back. I realized that it is human nature to secretly wish for 'the good old days.' And no one wanted to acknowledge that the narrative of success was no longer true. In fact, the more we came under stress, the more there was a tendency to revert back to behaviors and approaches that had worked before."

The responses Donahoe was receiving sounded familiar, as did his next words: "The kind of change we really needed was going to puncture a huge hole in that kind of thinking. We needed to admit that something was wrong and that the past was not coming back. By the time I became CEO in 2008, I had no choice but to confront reality and publically declare that we needed a full-blown turnaround. It felt very risky, but I had to go all-out in terms of bold change."

The need to innovate is a constant, no matter what the business. When I spoke with Starbucks chairman and chief executive officer

Howard Schultz about the challenges the coffee giant encounters in its drive to innovate despite their already enormous success, he said, "Innovation is not a line extension. Innovation has to be disruptive. And we have to teach and imprint curiosity in our company to see around corners."

Schultz mentioned that Starbucks had some innovations in the works. He continued: "The challenge is making sure the mentality of hubris does not set in when you get to this level of success. Can we be as hungry today as we were in 2008 when we had a galvanizing effort because we were in crisis? I think that is the role of the leaders of the company, to maintain that level of ambition and determination while you're winning. But it's really hard."

You will often face situations in which you could put off a change but procrastinating would sacrifice certain important benefits. You could always kick the can down the road and make this someone else's problem. But the sooner you take the initiative, the bigger the rewards often are. If you are catching wind of a new opportunity before any of your competitors, it may take them years to respond and catch up. True, it will be easier for them to make their own breakthrough changes after you have already forged a new path. But the lead and the momentum you will have achieved may make catching up to you a daunting proposition. Time and money are two of the three great variables in any business venture, and it will cost your competitors both if they want to advance to your new level.

The third and most important variable? People.

As I saw in the situation at Schwab, a huge amount of resistance can come from your inner circle, the leadership team you rely on for day-to-day success. You must win them over or change their minds—but they must not be allowed to play for time or just pay lip service to the need to change. Bold initiatives require a strong and dedicated team, a team that can work together to develop, strengthen, and maintain momentum. Chapter Two provides guidance on assembling and building that team.

STEP ONE ACTION ITEMS
ESTABLISHING THE NEED TO CHANGE AND A SENSE OF URGENCY

1. What is your company's mission statement? Do employees believe the company is committed to this mission?
2. What is your perspective on the problem you need to solve or the opportunity you need to capture?
3. What evidence do you have of this problem or opportunity?
4. How is this problem or opportunity connected to the company's purpose and mission?
5. Define your stakeholders (customers, employees, leadership, shareholders, vendors).
6. What are your key stakeholders' perspectives on the current state of the business? (Finding real examples for each category of stakeholder can be very helpful.)
7. What customer or employee stories have you heard that articulate these perspectives?
8. Why does the company need to make this change?
9. Why is it important to make this change *now* rather than later? What exactly would be the impact of a delay in moving forward?
10. Are your competitors making similar changes? What are they?
11. What are the potential repercussions—both positive and negative—if you do not make this change?
12. Prepare a concise statement describing the change that needs to happen and why it is urgent.
13. Discuss this statement with your inner circle and test its resonance with them. Does it inspire action? If not, how can you improve the statement?
14. Begin thinking about sharing the statement with a much broader audience and gauging what their reactions may be. (But don't actually begin sharing it until completing Step Three.)