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# Changing the Way We Change

by Richard Pascale, Mark Millemann, and Linda Gioja



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*In all three organizations, the 800-pound gorilla that impaired performance and stifled change was “culture.”*

*How leaders at Sears, Shell, and the U.S. Army transformed attitudes and behavior – and made the changes stick.*

# CHANGING THE WAY WE CHANGE

BY RICHARD PASCALE,  
MARK MILLEMANN, AND LINDA GIOJA

**M**ORE AND MORE COMPANIES are trying to make a fundamental change in the way they operate. For years, they've struggled with growing competition by introducing improvements (or at least improvement programs) into every function and process. But the competitive pressures keep on getting worse, the pace of change keeps accelerating, and companies keep pouring executive energy into the search for ever higher levels of quality, service, and overall business agility. The treadmill moves faster, companies work harder, results improve slowly or not at all.

The problem is not the programs, some of which have worked wonders. The problem is that the whole burden of change typically rests on so few people. In other words, the number of people *at every level* who make committed, imaginative contributions to organizational success is simply too small. More employees need to take a

greater interest and a more active role in the business. More of them need to care deeply about success. Companies achieve real agility only when every function, office, strategy, goal, and process—when every person—is able and eager to rise to every challenge. This type and degree of fundamental change, commonly called *revitalization* or *transformation*, is what more and more companies seek but all too rarely achieve.

Surveys confirm that executives have begun to give revitalization a high priority. With a few notable exceptions, however, most of their efforts to achieve it have met with frustration—partly because large organizations have such a remarkable capacity to resist change of *all* kinds, and partly because the kind of change being sought is so much more radical and uncomfortable than anything required by a shift in strategy or process or corporate structure. For that matter, corporate revitalization often includes shifts in strategy or process or structure, but revitalization means a good deal more—it means a permanent rekindling of individual creativity and responsibility, a lasting transformation of the company's internal and external relationships, an honest-to-God change in human behavior on the job. Revitalization is not incremental change. Its realizable goal is a discontinuous shift in organizational capability—a re-socialization so thorough that employees feel they are working for a different company, a leap in a company's ability to meet or exceed industry benchmarks, a jump in bottom-line results.

This kind of sustained organizational renewal would not be easy even if companies had a reliable road map to make the journey a reasonable bet. As it is, most of what's been written about transformational change is either too conceptual and therefore too impractical, too inspirational and therefore too vague, or too company specific and therefore too hard to apply to one's own situation. We have been inept at transforming troubled organizations—

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even at maintaining the vitality of healthy ones—because we have never before identified the factors that produce sustainable revitalization.

In essence, there are three concrete interventions that will restore companies to vital agility and then keep them in good health: *incorporating employees* fully into the process of dealing with business chal-

## Like physicians appraising their patients' health, managers can evaluate the *vital signs* of organizational vigor.

lenges, *leading from a different place* so as to sharpen and maintain employee involvement and constructive stress, and *instilling mental disciplines* that will make people behave differently and then help them sustain their new behavior into the future. Done properly, these three interventions will create a landmark shift in an organization's operating state or culture by significantly altering the way people experience their own *power* and *identity* and the way they deal with *conflict* and *learning*.

We discovered these sources of revitalization by tracking the change efforts, in good times and bad, of three of the world's largest organizations: Sears, Roebuck & Company, Royal Dutch Shell, and the United States Army. Sears (with \$36 billion in revenues and 310,000 employees), Shell (with \$100 billion in revenues and 110,000 employees), and the U.S. Army (with a \$62 billion operating budget, 750,000 civilian and active-duty employees, and another 550,000 in the Army Reserve) share traits of size, geographical dispersion, and managerial complexity. They also share the distinction of having beaten the odds. All three have survived for 100 years or more and have retained their essential identity—they have been neither swallowed up by others nor disaggregated into fragments.

The events that triggered transformation efforts at Sears, Shell, and the army were quite different. In all three organizations, however, the 800-pound gorilla that impaired performance and stifled change was culture. The trouble is, there are as many different definitions of *culture* as there are articles on change management, and none of them give us much help in telling us how, or even what, to fix. Nevertheless, in our study of what might loosely be called *culture* at Sears, Shell, and the army, we found four distinct indicators that are highly pre-

dictive of performance in both good times and bad. These four indicators can serve managers in much the same way that vital signs serve physicians in appraising the health of the human body.

This analogy of vital signs is important. The reason so many early forms of healing failed was that practitioners were treating only the most obvious symptoms of some larger malfunctioning system they knew little or nothing about. Gradually, however, medical science identified these invisible systems, figured out how they worked, studied their interdependencies, and learned to pay close attention to key indicators of a patient's physical well-being. Today physicians begin an examination by checking these vital signs—pulse, blood pressure, pulmonary function, reflexes—to form a general but still fairly accurate impression of how each complex subsystem and the organism as a whole are faring.

Organizations have similar systems and symptomatology. Their vital signs reveal a great deal about their overall health and adaptability, and about the strength and vigor of their functional systems. The four vital signs we identified at Sears, Shell, and the army give us a working definition of culture and tell us most of what we need to know about the operating state of any company:

**Power.** Do employees believe they can affect organizational performance? Do they believe they have the power to make things happen?

**Identity.** Do individuals identify rather narrowly with their professions, working teams, or functional units, or do they identify with the organization as a whole?

**Conflict.** How do members of the organization handle conflict? Do they smooth problems over, or do they confront and resolve them?

**Learning.** How does the organization learn? How does it deal with new ideas?

## Organizational Drift

As a result of age, size, or competitive intensity, most organizations exhibit a deterioration in vital signs that is inconsistent with—in fact, often destructive to—their ambitions and purposes.

The members of start-up organizations have a sense of individual and collective power; they feel

they can make a big difference in the pursuit of the goals they all share. Employees identify with the enterprise as a whole; alignment and informal teamwork are commonplace. When conflicts occur, people handle them directly and almost never allow them to interfere with getting things done. The whole organization is open to learning; trial and error are the norm.

As organizations grow older and larger, however, the vigor of these four vital signs deteriorates. In-



stead of power, people often develop a sense of resignation in response to seemingly insurmountable obstacles or to lack of support from their superiors in the daily hassle of getting things done. As organizations become more complicated and demanding, people strive to carve out private patches of turf where they can exercise responsibility, protect themselves, and keep the world at bay. When it comes to their identity, therefore, employees lose their sense of teamwork and alignment with the entire enterprise and begin to seek the safety of their particular profession, union, function, team,

or location. People in mature organizations tend to avoid conflict for fear of blame or of having someone take their disagreement personally. Alternatively, they may take part in a succession of routine collisions that lead to stalemate rather than resolution. As for learning, larger and older organizations tend to be less receptive to new ideas than their younger counterparts. In place of inquiry and experimentation, ideas get studied to death in hopes of ferreting out every possible weakness before making a commitment. The precondition for action is certain knowledge.

The Sears story is a useful illustration of a company culture's natural drift away from good health. It also illustrates one CEO's well-orchestrated but ultimately ineffective efforts to reverse the drift and another CEO's remarkable success at breathing new life into the enterprise.

Ed Brennan's 12-year tenure at Sears's helm cannot be faulted for a lack of intelligence, energy, or good intentions. He put the Sears Tower up for sale, slimmed down headquarters, and moved the central organization to an open campus in Chicago's suburbs. He called for an end to Sears's tradition of insisting that customers use only Sears credit cards. He launched Brand Central, which offered for the first time such non-Sears appliances as GE, Maytag, and Panasonic. He diversified into financial services through the acquisition of Dean Witter (for \$607 million) and Coldwell Banker (for \$202 million), and he invested \$1 billion to launch the Dis-

## CEO Martinez saw that Sears's culture was as strategic as its product and market initiatives.

cover Card. (When he spun off these assets in 1993, Sears's market capitalization had risen to \$36 billion from \$8 billion when he took the job, and the cumulative profit from financial services had accounted for approximately two-thirds of Sears's consolidated earnings for the preceding five years.) Brennan also did his best to rebuild Sears as a retail store. He reduced employment by 48,000 jobs, simplified logistics, moved into women's apparel, took steps to streamline the buying organization, and piloted new formats such as stand-alone automotive outlets, as well as home-furnishing and home-improvement stores. But it was Brennan's successor, Arthur Martinez, who became famous for revitalizing the retail side of Sears.

Where Brennan fell down—in contrast to Martinez—was in failing to grapple with the Sears culture; that is, Brennan failed to address the deterioration of the company's vital signs. Unlike Martinez, he never quite came to terms with the insight that culture was as strategic as his product and market initiatives were, and that fixing the vital signs would go a long way toward fixing the company.

When Martinez took over in 1992, few employees had any sense of power; most felt nothing but resignation. As one regional manager put it, "It was a company of 'salute and obey.' Directives came from above, and we did our best to follow them. There was no maneuvering room to make sensible market decisions. As bad press began in the 1970s, there was widespread depression and an unwillingness to admit at cocktail parties that we worked at Sears. It all seemed so big and complex and out of control. We felt defeated and powerless."

In terms of identity, Sears had drifted a long way from the vibrancy that prevailed from its founding in 1880 through 1956, when General Robert Wood retired as its fourth CEO. For much of that period, the central buying staff and equally strong territory managers kept each other honest through a system of checks and balances. Beginning in the mid-1950s, however, a succession of caretaker CEOs allowed this precise tension between the field and the home office to degenerate into an empty ritual. Territory managers ran their stores like baronies and stonewalled strategic direction from above.

This tilt toward regional fragmentation and a more local identity unquestionably contributed to Sears's inability to respond early to the threats posed by Wal-Mart and Toys-R-Us. "Too small to worry about" or "Not a problem in my region" were the typical reactions.

Brennan tried to correct the excesses of decentralization but pushed the pendulum too far back in the opposite direction. He eliminated the position of territory manager along with most other echelons in the regional hierarchy. Once-powerful store managers were relegated to "keeping the lights on and the doors open," as one store manager put it. "As a result, our knowledge at the fingertips was lost. Executive management ushered in an era of drive-by merchandising. Experts from headquarters would visit a store three times a month and would believe they understood your local market better than you did."

Under enormous pressure to meet their performance targets and threatened by further layoffs, store management teams hunkered down and con-

centrated on their own turf. As a consequence, the stores became a merchandising hodgepodge, and poor service and frequent out-of-stock conditions alienated customers. Many of Brennan's efforts to achieve sweeping change snagged in the concertina wire of the stores' defensive perimeters. Brennan was trying to build a companywide identity by edict. Predictably, the center did not hold, and the effort failed. In the fall-out, identity fragmented more than ever as people everywhere in the company looked out for themselves.

The third of Sears's vital signs to show serious deterioration was its capacity for constructive conflict. The company's initial operating model was built on a vibrant tension between home and regional offices.

This struggle between policy from headquarters and inventive execution at the stores was mediated by a succession of four very strong and accessible CEOs whose careers spanned the first 76 years of Sears's history. These men were not threatened by conflict; they encouraged and harnessed it. But by the time Ed Brennan succeeded to the chairmanship, the former mix of initiatives and controls had long since given way to compliance and acquiescence. Pushing back or resisting directives meant "not being a team player."

As for learning, Sears had drifted to the most extreme condition of denial and complacency. Negative reports by business analysts beginning in 1974 were interpreted at Sears as bad journalism and unfair treatment. In 1990, when Sears was accused of widespread dishonesty in its automotive repairs (a sting operation by the State of California Consumer Affairs Department found fraud in 85% of its visits to Sears Auto Centers, and 44 states subsequently filed suit), Brennan's first line of defense was to deny all allegations and to stonewall. An even more troubling example: Sears began including Wal-Mart among its competitor benchmarks only in 1992, by which time Wal-Mart was 60% larger than Sears. Sears's strongly inbred culture was deeply implicated in this capacity for denial. Throughout Brennan's tenure, only one of 100 top executives had a non-Sears career background. "Sears is different" or "We tried that once and it didn't work" were frequent responses to new ideas.

## Incorporating Employees

Sears, Shell, and the U.S. Army are currently engaged in efforts to revitalize their organizations. All three are doing their best to transform the way their

people experience power, identity, conflict, and learning. All three, in one fashion or another, are using the same three interventions to achieve this improvement in their vital signs.

The first intervention is to incorporate employees into the activity of the organization. This is not the same as communicating or motivating or

# The first step toward restoring organizational vitality is to engage *every* employee in the company's principal challenges.

rolling out plans hatched at the top. It is resocialization. It means engaging employees as meaningful contributors (not just doers) in the principal challenges facing the enterprise. It means seeing employees as volunteers who decide each day whether or not to contribute the extra ounce of discretionary energy that will differentiate the enterprise from its rivals. Although incorporation shares DNA with such familiar ideas as consensus management, employee involvement, and self-managed teams, it is something more. Its distinct properties include the use of concrete, pressing business problems to generate a sense of urgency; the cascading involvement of every employee beginning at the very top of the enterprise and continuing down through the ranks; and the generation of initiatives conceived and staffed by employees across hierarchy and function.

We can see one leader's efforts to reverse drift through incorporation in the turnaround of Shell Malaysia. Its British chairman, Chris Knight, had the benefit of three career rotations in Malaysia prior to his appointment as chairman. When he arrived in 1992, he saw that the organization was in trouble. The company was overstaffed; traditional revenues from oil and gas were in decline; service standards with wholesale customers were in disarray; and the once-dormant government-owned oil company, Petronas, had become an aggressive competitor in the vehicle-fuel market.

Knight wanted to build a much more agile and less costly enterprise, but he had watched several predecessors try and fail to alter Shell Malaysia's vital signs. Most employees felt that as the largest private oil company in the country, Shell should try not to make waves. This ultraconservative philosophy led employees to avoid any deviation from usual practice and stifled in the cradle any

impulse to use their power of initiative. Within a cocoon of comfortable oligopoly, their identity was located in small, defensible silos. Refining quarreled with transport, and everyone fought the crazy ideas that came from marketing and sales, but all these conflicts were distinctly muted. Malaysian employees are from cultures sensitive to saving face and therefore tend to approach impasses by highly circuitous routes. "Smooth and avoid" was the norm. Finally, there was little learning. Knight observed a frustrating lack of concern, even of curiosity, when competitor Caltex gobbled up 10% of domestic market share.

For more than a year, Knight tried to achieve authentic alignment among his eight-person execu-

## In the valentines exercise, people air conflicts and struggle toward a robust resolution.

tive team. Somehow, the goal always eluded his grasp. In exasperation, he scheduled an incorporation event in Kuching, Borneo, and asked all 260 of Shell's senior and midlevel managers to attend.

The leader of a middle-management strategic-initiative team kicked off the two-and-a-half-day meeting with a brief presentation of two key proposals aimed at repositioning Shell and regaining competitive advantage. The first proposal envisioned a daring partnership with Shell's biggest competitor, Petronas, in order to engage in joint procurement, thus lowering costs for both companies and putting their competitors at a disadvantage. The second proposal was to streamline and improve Shell's ragged relationships with its 3,000 franchised service stations by creating a single point of contact in a customer service center.

Assembled in small groups, the managers were then asked to identify the soft spots in these strategic proposals. When the entire assembly reconvened, some groups suggested improvements from the floor, but on balance there was general agreement with the proposals. The next step was an organizational audit. Each of several large teams of participants took one facet of the company—strategy, structure, systems—and described how it affected current performance and the impact it might have on the two proposals. When these analyses were shared in plenary session, it was evident to most people that Shell's operating practices would seriously compromise the new initiatives. Over the

course of the meeting, many of Knight's management cadre became aware of the emerging competitive pressures affecting the company and were mobilized to take part in developing a response. Such mobilization is the aim of any well-designed incorporation process.

Just below the surface of this off-site meeting, another development was taking place. As lower-level managers gained firsthand knowledge of business priorities and saw where the chairman wished to take the company, the vast majority of them bought into the plan, which left obstructionist senior managers isolated and exposed. One senior British expatriate, recognizing that his hand had been called, chose the final ten minutes of the meeting to air his differences with the chairman publicly. Knight dismissed him 48 hours later—a firing heard round the world of Shell, where this sort of thing was never done.

But the firing raises an obvious question: How does dismissal for disagreement fit together with the notion of encouraging constructive conflict? Knight's position was that he fired the man not for disagreeing but for never disagreeing in the previous 13 months of high-level discussions or at any time during the meeting except in the concluding minutes. Moreover, most Shell employees—at least those in Malaysia—accepted this explanation. Rather than create a fear of openness, the termination of an executive widely seen as an opponent of change was regarded as a defining moment in the progress of the broader involvement and deeper commitment that is incorporation.

Incorporation doesn't begin and end with one off-site meeting, however uplifting it might be. Knight's next move was to sponsor one-day events called *valentines*, a name and concept that he borrowed from Ford. In these exercises, gatherings of 100 salaried and hourly employees split into smaller groups of peers from each of the major functional units within the downstream organization—refining, logistics, engineering, customer service, accounting, and so forth. At issue was the new concept proposed in the second strategic initiative outlined in Kuching—the customer service center. Knight's goal was, first, to give customers a single point of contact with Shell through a toll-free number and, second, to empower the customer service center to break logjams and satisfy customer needs. The second of these twin objectives was the wolf in sheep's clothing. It is easy enough to recruit an around-the-clock staff of operators to cover a toll-free number. It is quite another matter to shift

organizational power so radically that customer-service-center representatives will be able to break deadlocks and redeploy resources. This is the stuff over which organizational blood is spilled—and a challenge that did not play into the historical strengths of Shell's downstream functions.

The valentines exercise is a vehicle for conflict resolution. Each functional team is required to write a succinct description of its grievances with any of the other teams in the room, pinpointing what it does to inhibit productivity and what is likely to get in the way of a successful customer-service center. When each group has received, say, half a dozen of these valentines, its members are given time to sift and discuss them, and then to select two issues they think particularly important to resolve. The group then gets two hours to come up with, first, a detailed plan for corrective action that it can implement within 60 days; second, the name of a member of its own team who will be accountable for delivering the action; and third, the name of a so-called committed partner from the team that sent the valentine who will share responsibility for making the new solution work.

Back in plenary session, each person assigned an action stands and explains the grievance and the proposed solution, and names the team's nominee for committed partner—often the individual seen as most likely to sabotage the proposal and therefore the person most essential to its success. The committed partner then stands, and a fascinating negotiation unfolds. Tension mounts, and the room falls silent. With coaching from the facilitator, the two principals air conflicts and express their deep-seated distrust of each other's motives. A robust solution is the usual result.

Making good use of these and other techniques, Shell Malaysia reversed its ten-year drift. It fostered a new level of individual power, a new sense of identity with the enterprise as a whole, a new kind of open and productive conflict, and a new appetite for learning that persists to this day.

### Leading from a Different Place

An organization coming unfrozen under an overload of experimentation and new ideas is a terrifying thing for traditional leaders. Matters seem out

of control, which to a degree they are. But as leaders weather this storm, they begin to undergo a shift in mind-set. From thinking, "I've got to stay in control" or "This is too fast," they develop an ability to operate outside their comfort zone and accept ambiguity and adversity as a part of the design. The second of the three interventions—a new approach to leadership—requires them to establish focus and urgency, maintain healthy levels of stress, and not feel compelled to come to the rescue with a lot of



answers. They learn to stay the course until guerrilla leaders at lower levels come forward with initiatives that address the company's shortcomings.<sup>1</sup>

Arthur Martinez did precisely all these things at Sears. And from the very beginning, he did one important thing that Brennan had not done: he began telling the truth. For seven successive years, retail executives at Sears had lied to themselves. They set annual goals and came back at year's end below plan. The targets were set lower each time around, but they were never low enough. Market surveys showed Sears perilously close to breaking its last

remaining links with its retail customers. It was the Sears credit card, delivering 70% of the profits, that was carrying the retail group. All of this was painful to face. Martinez held up the mirror.

To generate a sense of urgency, Martinez set difficult goals. Within two years, Sears would quadruple its margins to achieve industry parity, reverse its loss of market share, and improve customer satisfaction by 15%. Then came the hard part. Like Sears under Brennan, most organizations are submerged in their numbing but familiar lethargy, their somnambulant operating state. It's like being stirred from your dreams by a strange noise in the night: in the fog of semiconsciousness, one part of you struggles to focus on whether it's an intruder or the cat; but another part resists the possibility of bad news and struggles to go back to sleep. Similarly, people in organizations resist undertakings that would pull them from their familiar world. When a leader raises an issue and generates urgency around it, the guaranteed first line of defense is for the organization to turn back to the leader for an answer. "We need a plan...more direction...more resources" are the words to this predictable refrain. Many leaders take the bait. Martinez did not. He refused to give his team of top-level managers the answers, and the authenticity of his refusal was powerful. He didn't *have* the answers. No one did. Sears's management had to create the answers on the basis of what Martinez did provide—which was truth, urgency, and enough productive stress to alter thinking and behavior.

Leading from a different place always requires resocialization of the kind Martinez achieved at Sears. Nowhere is the transformational power of

## Leading from a different place means resisting the temptation to provide the answers. Solutions must come from the ranks.

resocialization more evident than at three highly unusual U.S. Army training centers—at Fort Irwin, California; Fort Polk, Louisiana; and Hoenfelds, Germany. In fact, the training is sufficiently remarkable to have been studied by the chief education officers at Shell, Sears, Motorola, and GE, and by senior delegations from every country in Western Europe, Russia, and most nations of Asia, Latin America, and the Middle East. Perfected over the

past 15 years, the training is widely recognized to have almost single-handedly transformed the army, the largest employer in the United States.

Over a grueling two-week period, an entire organizational unit of 3,000 to 4,000 people goes head-to-head with a competitor of like size in a simulation so realistic that no participant comes away unscathed. The exercise often alters forever the way executives—in this case, army officers—lead. Critical to its impact is a cadre of 600 instructors, one assigned to every person with leadership or supervisory responsibilities. These *observer/controllers*, as they are called, shadow their counterparts through day after 18-hour day of intense activity. They provide personal coaching and facilitate a nonhierarchical team debriefing called an After Action Review (AAR), in which participants struggle to understand what went wrong and how to correct their shortcomings. These AARs are in fact the focal point of an organizational exercise that can range across 650,000 acres (at Fort Irwin in the Mojave Desert) and cost \$1 million a day.

For many, the juxtaposition of *U.S. Army* with words like *revitalization*, *experimentation*, and *nonhierarchical* amounts to a contradiction in terms. But that view is out of date. According to General Gordon R. Sullivan, the army's recently retired chief of staff, "The paradox of war in the Information Age is one of managing massive amounts of information and resisting the temptation to over-control it. The competitive advantage is nullified when you try to run decisions up and down the chain of command. All platoons and tank crews have real-time information on what is going on around them, the location of the enemy, and the nature and targeting of the enemy's weapons system. Once the commander's intent is understood, decisions must be devolved to the lowest possible level to allow these frontline soldiers to exploit the opportunities that develop."

A number of factors have contributed to the army's extraordinary, sustained transformation, including higher-quality soldiers, one outcome of a volunteer army. But inside and outside observers agree that the National Training Command (NTC) has been the crucible in which it has all come together. Since the NTC was established, the army's more than half a million men and women in uniform have rotated through its programs several times—most upper-, mid-, and lower-level officers and NCOs, five times. As one officer put it, "The NTC experience leaves no room for debate. Day

after day, you are confronted with the hard evidence of discrepancies between intentions and faulty execution, between what you wanted the enemy to do and what he actually did.”

Leading from a different place requires great resolve both to stay the course and to resist the temptation to provide the answer. The solutions, and the commitment to deliver on them, must come from the ranks. Leaders must maintain the pressure until followers see that *they* are going to have to make things happen, until guerrilla leaders step forward and begin to engage in leaderlike acts. Not everyone is a guerrilla leader, but sustained stress will eventually produce enough such leaders to begin shifting the tide of vital signs.

Leading from a different place also entails a transformation in the operating state of leaders themselves. They become a microcosm of the shift in vital signs that they want to see in their organizations. From resigning themselves to the limits of their power to make things happen (and to the implausibility of expecting middle managers to help), they move toward the possibility of genuinely distributed intelligence; from taking on an identity as the person in charge, they become clearinghouses for the different ways an enrolled organization handles its responsibilities; from avoiding straight talk, they develop an ability to handle and even encourage constructive conflict; from assuming that they must provide a detailed road map for the journey, they begin to accept learning as a form of inquiry in action. Leaders must place themselves squarely in the zone of discomfort and learn to tolerate ambiguity. We are all much more likely to act our way into a new way of thinking than to think our way into a new way of acting, and that is the essence of leading from a different place.

## Instilling Mental Disciplines

We know that when incorporation slackens or vanishes—as it did at Sears for a long time before Martinez or in the army before and during Vietnam—stagnation and entropy are almost invariably the results. We have seen at Sears, Shell, and the U.S. Army that incorporation combined with a different type of leadership was able to reverse an organization’s drift and restore its cultural vitality. But if an organization is to change the way its people think and act and interact, and if this resocialization is not to evaporate the moment financial results improve and people start to believe the worst is over,

then people must internalize a set of principles or disciplines that shape their reactions and govern their behavior. Disciplines of this kind might also be called enduring social patterns, but they are a good deal more than unconscious habits. Habits are automatic and therefore mindless. Disciplines are mindful. We can see these disciplines at work in the

## Leading from a different place also requires leaders to stand squarely in the zone of discomfort and ambiguity.

After Action Review, which constitutes the heart of the NTC experience.

Each afternoon, the commander of the brigade undergoing training receives an assignment, such as “penetrate enemy defenses” or “defend your sector against a superior force.” Inside crowded command tents, 30 to 40 staff officers and senior fighting-unit commanders study the situation and endeavor to hammer out a winning strategy. Later that afternoon, this strategy begins to filter out to 3,000 soldiers dispersed across many square miles of rugged terrain. Tank crews and platoons are briefed, minefields laid, artillery and helicopters coordinated, reconnaissance initiated. Commencing at midnight, both friendly and enemy probes get under way.

By dawn, the day’s battle is in full swing. The “enemy” (the 11th Armored Cavalry Regiment) is permanently stationed at Fort Irwin. It knows the terrain, behaves unpredictably, and almost always devastates the unit in training. And all the action is recorded. Perched on mountaintops, powerful video cameras zoom in on the hot spots. An elaborate laser-based technology precisely tracks when and where each weapon is fired, electronically disabling any fighting unit that is hit. Audiotapes record communication and confusion over the voice network. By 11 A.M., the outcome has been decided, and within 90 minutes, the observer/controllers have pulled each combat team together near terrain that has been pivotal in its piece of the battle.

Let us take a closer look at an AAR in progress.<sup>2</sup> A company team of two platoons with two tanks, four armored personnel carriers, and an HMMV (the modern version of a jeep) have pulled into a tight circle under the shade of a desert outcropping. The crews lean back against tank treads, a flip chart

slung over the HMMV antenna. The fighting is in its fifth day. Exhaustion is evident. The observer/controller has created a sand table on the ground, a miniature of the terrain in which this unit was annihilated in the day's battle. He asks a gunnery sergeant to come forward, position the company's armor on the sand table, and explain the unit's mission.

SERGEANT: Our overall mission was to destroy the enemy at objective K-2.

OBSERVER/CONTROLLER: Why was this important? What was your tank's particular role in all this?

SERGEANT: I'm not sure.

OBSERVER/CONTROLLER: Can anyone help?

A trickle of comments gradually builds into a flood of discussion. It begins to appear that only the

## Frank exchanges are not likely to occur if enlisted men are holding back out of deference to their superiors.

lieutenant in charge understood the mission. There had been no coordination of individual tanks and vehicles, and none had been given a particular sector in which to concentrate its fire. No one had understood that the unit's main task was to drive the enemy column away from a weak point in the defenses and into a zone where it would be within range of friendly tanks and artillery.

Key lessons for the next day are recorded on the flip chart. The soldiers all come away with a picture of what they were involved in but could not see. Each soldier has contributed to a composite grasp of the engagement, supplemented by video clips and hard data from the observer/controller. Day after day, particular themes are reinforced: all members of the unit must understand the big picture; they all need to *think*; they must always put themselves in the shoes of an uncooperative enemy; they must prepare to the point that surprise will no longer surprise them; they must set aside hierarchy, exercise self-criticism, work as a team.

"The After Action Review has democratized the army," says Brigadier General William S. Wallace, current commander of the NTC. "It has instilled a discipline of relentlessly questioning everything we do. Above all, it has resocialized three generations of officers to move away from a command-and-control style of leadership to one that takes advantage of distributed intelligence. It has taught

us never to become too wedded to our script for combat and to remain versatile enough to exploit the broken plays that inevitably develop in the confusion of battle."

The success of the NTC experience and the After Action Review is the result of carefully designed imperatives that can be applied in any organization or corporation. First, take a team of people who must work together across functions and hierarchies and immerse it in a prolonged, intense learning experience. Have the team take on a very tough project or a very tough competitor. Under the right conditions, stress and exhaustion will unfreeze old patterns of behavior and create an opening for new understanding and behavior to take root. Sec-

ond, in order to eliminate subjectivity and debate, collect hard data on what has transpired. Let the data, not the trainers, point the finger. Third, utilize highly skilled facilitators who have a deep knowledge of what they are observing. Never criticize. Use Socratic questioning to evoke self-discovery. Fourth, do not evaluate performance. The experience is not about success or failure. It is about

how much each individual can learn. Make it safe to learn.

There are seven disciplines embedded in the After Action Review, and all seven are as relevant in business as they are in combat.

**1. Build an intricate understanding of the business.** An organization's members do best when line-of-sight understanding bridges the gap between overall strategy and individual performance. This is harder than it looks. On the one hand, troops need to understand the principal aims of each engagement ("move to establish contact but don't precipitate an all-out fight" or "block the enemy at this line but don't commit to a counter-attack") and how it fits into the larger strategic context. On the other hand, soldiers need solid individual skills. Both requirements are essential. The idea is to prevent soldiers from behaving like automatons. They are not there simply to obey orders but to apply their skills and intelligence to a larger goal.

The first requirement—conveying the big picture to the small unit—is easy to overlook in the heat of preparing for battle. In the AAR close-up above, we saw how the lieutenant commanding the armored unit had neglected to communicate the big picture and how his men then failed to achieve a goal of which they were unaware. To carry out the second requirement, developing individual areas of exper-

tise, the army has borrowed a concept from the total quality movement and has distilled all the facets of a military action down to three: the key *tasks* involved, the *conditions* under which each task may need to be performed, and the acceptable *standards* for success. (For example, at a range of 2,000 yards, hit an enemy tank moving at 20 miles per hour over uneven terrain at night with an 80% success rate.)

Sears has shown an exemplary grasp of this discipline. To convey the larger strategic picture to every employee, the company uses learning maps—large murals with elaborate legends on the borders—to communicate essential business conditions to small groups of employees working with a facilitator. One map takes people through the shifts in the competitive environment from 1950 to 1990. Another map, laid out like a game, asks employees to place bets on the sources and uses of funds as they flow from customers' wallets to the bottom line. Sears then asks its employees to use what they've absorbed from the learning maps to come up with a list of three or four highly practical actions that can be taken immediately at the store level to correct deficiencies and improve customer service.

Sears anchors the proficiency side of this discipline with training to improve its interface with customers, then adds performance measures that focus attention on individual and team performance with respect to customer satisfaction. Together, these initiatives enable employees to perform to high standards and to understand how they each contribute to Sears's success.

**2. Encourage uncompromising straight talk.** The AAR is predicated on a frank exchange among soldiers as they sort through the confusion of battle and figure out where things went wrong. Such an exchange will not occur if people are showing deference to their superiors or holding back for fear of hurting someone's feelings. As we noted earlier, observer/controllers are skilled at using objective data to point the finger—fostering healthy give-and-take and creating a safe environment for candor.

Sears practiced this discipline from the top down (Martinez helped his top-level managers confront the truth about Sears's past performance) and from the bottom up (town hall meetings cultivated a new and much more straightforward style of

communication). We also saw Shell Malaysia emphasize this discipline with its valentines exercise.

**3. Manage from the future.** Hardship for its own sake is clearly not the army's intention, but attaining excellence can be painful. Be All That You Can Be is more than the army's recruiting slogan. It challenges every element of the institution—from the private soldier to the logistics command—to stretch itself. Being all you can be is not a destination to be reached but a mind-set to manage from.



Organizations often “use up” their future, and that is precisely what happened to the U.S. Army after the high-water mark of World War II, to Sears after General Wood's retirement, and to Shell in the 1980s. Once the members of an organization believe they have reached the future, they begin to codify their past successes. Drift and loss of vitality follow “winning formulas” of this kind just as surely as night follows day.

The most essential aspect of managing from the future is to alter the institution's point of view. We all tend to look toward the future as a distant goal.

By contrast, this discipline means internalizing some future goal so the institution can plant its feet in that future and manage the present from there. At Shell Malaysia, Knight inherited a company that had used up its future, a company content to keep a low profile as it tried to avoid further market-share losses to Caltex, Mobil, and Petronas. Knight shifted this mind-set entirely, asserting that the future of the industry was regional, not national. He insisted that Shell and Petronas needed to join forces and make Malaysia the dominant low-cost player in Southeast Asia. Once this perspective was accepted as a valid view of the future, a stream of beneficial results flowed from it for both companies.

**4. Harness setbacks.** NTC participants know from the outset that they are fighting an enemy far tougher than any they are likely to meet in the field. Observer/controllers remind them daily that their maneuvers are not about winning but about learning. Harnessing setbacks is a matter of recontextualizing failure, treating breakdowns as breakthroughs, seeing defeat as opportunity. But this requires considerably more self-discipline than most managers realize. Human beings are hardwired to react adversely to mistakes by blaming themselves (guilt or shame), others (finger-pointing), or bad luck (resignation and fatalism). Day after day, observer/controllers hammer on the benefits of controlled failure until every soldier learns to embrace setbacks as windows to learning.

This discipline has been directly applied at Sears, where Gus Pagonis (one in a long line of increasingly sought-after U.S. Army generals who have landed top corporate posts) heads Sears's far-flung logistics empire. Pagonis has brought the entire AAR process directly to Sears. Daily sessions of 10 to 12 employees representing every level from

## Observer/controllers hammer on the benefits of controlled failure until soldiers embrace setbacks as windows to learning.

warehouse to headquarters scrutinize 24-hour updates on late or wrong shipments and chip away at corrective action.

**5. Promote inventive accountability.** The tasks, conditions, and standards in the first discipline create the benchmarks of acceptable performance, and soldiers are trained to meet or exceed these bench-

marks so that their units can count on them in combat. But there is more to it than that. Close battles are won by exploiting the enemy's broken plays. Mastery of a combat assignment requires not just replicable skills but also the capacity to improvise. Observer/controllers single out and reward creative acts of initiative that are built on a solid platform of proficiency.

The new emphasis on "the softer side of Sears" has brought the company into competition with Nordstrom, which, according to Martinez, sets the world standard in striking the proper tension between improvisation and accountability. Nordstrom encourages inventiveness with the motto Respond to Unreasonable Customer Requests (for example, delivering an over-the-phone purchase to a frantic customer at the airport who is about to catch a plane). Salespeople keep scrapbooks of their heroics in providing exceptional service, and these heroics figure into promotions and storewide recognition. On the accountability side, each department tracks the sales per hour of each salesperson and posts the information publicly every two weeks—from the top of the list (worst) to the bottom (best). A sales associate unable to meet a threshold level of sales on a three-month rolling average is dismissed—an infrequent occurrence, since topping the list several times in a row leads most poor performers to move on of their own free will.

**6. Understand the quid pro quo.** Organizational agility and the disciplines that sustain it make enormous demands on people. Organizations must make sure that their members receive commensurate returns. Once upon a time, corporations were like ocean liners. Anyone fortunate enough to secure a berth cruised right through to disembarkation at retirement. In return for loyalty, sacrifice, and the occasional aggravating boss, employees at Sears, Shell, and the army, among others, enjoyed implicit or explicit job security.

We have now witnessed a decade of continuous job attrition in which companies have downsized, delayed, reengineered, and outsourced. From 1980 to 1996, Sears has laid off more than 100,000 employees. The U.S. Army has reduced its ranks by 300,000 soldiers from a high of 1.2 million during the Gulf War. Worldwide, Shell has cut 150,000 jobs since 1980.

Understanding the quid pro quo is a demanding discipline. A genuinely transformational employment contract has four levels—three more than the reward-and-recognition that was once considered

adequate. The second level is employability—the training and skills that enhance people’s marketability. Valuable as this element of the contract may be over the long run, it is nevertheless overrated as an incentive. Enhanced employability will inspire no one to offer the kind of deep, creative commitment and enthusiasm that companies

## Employees must understand where the enterprise is going and have some say in its destiny.

struggling for revitalization so badly need. Employee involvement at that level cannot be bought or enticed, and it is not likely to emerge naturally from the individualistic, transactional employment contracts that are typical for many kinds of credentialed experts and specialists.

It takes more than compensation and employability to produce transformational participation. It also takes a sense of meaning in the work strong enough to generate intrinsic satisfaction. And finally, employees must understand where the enterprise is going and have some say in shaping its destiny. Shell, Sears, and the army are all wrestling with these four components of the quid pro quo. In the army, the AAR is the engine of a powerful learning and resocialization experience, driven in part by people’s clear perception that defending their country is important work. Senior officers take part in more dramatic changes of perception than their juniors; but even the lowest-ranking soldier has a hand, day after day, in altering the army’s culture and, ultimately, its destiny.

**7. Create relentless discomfort with the status quo.** The After Action Review is based on the notion that individuals can improve—in most cases, improve dramatically—on everything they do. Observer/controllers continually reinforce the notion that AAR disciplines can be applied elsewhere to other activities, and a protocol like the AAR does tend to get under a person’s skin. Soldiers carry the ideas back to their home bases. Once internalized, the discipline of relentless discomfort begins to reveal itself in repeated, gnawing questions: How can we do this still better (faster, cheaper)? Is there a radical new approach that we haven’t thought of yet? Day in and day out, throughout the army, the AAR format and disciplines are employed to critique performance and to make improvements as soldiers and employees at every level begin to see

acceptable performance levels as insufficient for sustained vitality.

Sears and Shell struggle to turn episodic attention to improvement into a vigorous daily discipline. Among their benchmarks is USAA, long a top performer in the insurance industry. USAA has adopted a practice it calls “painting the bridge”—a reference to the fact that the task is never complete. (As soon as painters on the Golden Gate or any other large bridge finish the job, it’s time to go back and start over.) In brief, an independent team of 14 organizational experts starts at one end of USAA and works its way to the other, one unit at a time. Its mission is to work with departmental teams and question everything they do. Is the role teams perform necessary? Can it be streamlined or improved? Can the team be merged with another unit? Can it be eliminated? Not surprisingly, people in the company have ambivalent feelings about this once-every-two-year regimen. But it reliably delivers improvements and, equally important, reinforces USAA’s unending effort to become a better company.

Researchers at the Harvard Business School recently tracked the impact of change efforts among the *Fortune* 100. Virtually all these companies implemented at least one change program between 1980 and 1995, but only 30% of those initiatives produced an improvement in bottom-line results that exceeded the company’s cost of capital, and only 50% led to an improvement in market share price. This discouraging result was not for lack of trying. On average, each of the companies invested \$1 billion in change programs over the 15-year period.<sup>3</sup>

Frustration with such results is naturally widespread because the effort and the outcome are so hugely disproportionate. Or to be more precise, the effort of some people in a company is so much greater than the outcome for all. The solution is to focus on the *all*, to shift the attention from incremental change to the tools that can transform the attitudes and behavior of every last employee.

*This article is based on research and consulting work carried out jointly with CSC Index.*

1. See Ronald A. Heifetz and Donald L. Laurie, “The Work of Leadership” (HBR January-February 1997).

2. The following description is taken from a video presentation of an After Action Review at Fort Irwin, titled *Mojavia: In Pursuit of Agility* (New York: Marc Gerstein Associates, 1997).

3. Nitin Nohria, “From the M-form to the N-form: Taking Stock of Changes in the Large Industrial Corporation” (Harvard Business School Working Paper 96-054).

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