

The Reality of Enterprise Turnarounds

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Background

Leading large scale enterprise change is a tricky business. In the past 15 years, I have been involved in a number of such efforts, in both profit and NGO environments. Most of them have faltered or been forcibly stopped before they achieved their end goals.

Based on this experience, I have thought about, and talked with other turnaround leaders, on what it takes to succeed. Through this, I have become clear on the vital contribution of change sponsors to the success of an enterprise turnaround.

Change sponsors initially request the turnaround. They, and the people they represent, foot the bill and take significant financial risks when they decide to proceed with one. They also make the decisions that bring many turnarounds to a pre-mature end.

The academic literature seldom discusses the crucial interaction that occurs between change sponsors and turnaround leaders. Industry press articles deeply understate the difficulties of turning around a whole enterprise. Journalists tend to focus on the personalities of designated turnaround leaders, and seldom get beyond the surface.

Reviewing this literature did not provide me with any new insights on the relationship between change sponsors and turnaround leaders. Talking to other turnaround leaders did. This working paper is the result.

Roelf Woldring

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1. Initiate A Turnaround? Yes or No

Underlying Economic Factors

Enterprise¹ turnarounds are complex, even in small or medium-sized companies. Their success depends first on a number of underlying economic factors. They are:

- viable products or services that the enterprise can successfully deliver to its market;
- customers, current and potential, that are prepared to, and can afford to, buy these products or services at the price set by the enterprise;
- sufficient sales volumes and large enough margins for the enterprise to recoup, in a reasonable time frame, the investment that it took to set up the infrastructure needed to produce the product or service.

Investing in turnarounds does not make sense unless these underlying economic factors indicate that the enterprise is economically viable.² When this is the case, investors who are faced with the choice of shutting such an enterprise down, or proceeding with a turnaround, often prefer to do the second. It is the only way that they have any chance of getting the expected return on their initial investment.

Three Crucial Roles

Once a decision to proceed with a turnaround is made, individuals in three roles interact to plan it, structure it, and carry it out.

The first role is that of key external stakeholder. They are the individuals who make the decision that the turnaround goes ahead. They can also shut the enterprise down. They usually have substantial financial stake in the future of the enterprise, either through direct investment or through financial transactions such as loans.

The key external stakeholder group may not be made up solely of investors. It may include major suppliers who have contracts with the enterprise. It may include large customers, who are dependent on the services or products of the enterprise. It may be composed of, or include, corporate or holding company executives who oversee a subordinate business enterprise.³

From a role perspective, the most important point about the key external stakeholder group is that it makes the **yes/no decisions** about starting and continuing a turnaround.

The second important role is that of turnaround leader. Chosen by the key stakeholder group to act as the chief executive of the enterprise, this individual is accountable for making the turnaround happen. Whatever title the person carries, (e.g. President, CEO, Managing Director, General Manager, VP – Business Unit Head ...), this individual is in charge of the enterprise in trouble, and responsible for getting it out.

The third crucial role is that of change sponsors. Change sponsors represent the key external stakeholders. They are usually individuals who have a seat at the key external stakeholder table. But they do more than simply participate in that group. They take an active interest in the turnaround. They may be deeply involved in the planning of it. They may act as “coaches or mentors” to the turnaround leader. Their role becomes complex, and may at times include contradictory elements, since they are involved in making the turnaround happen, and act as evaluators of its on-going success.

Many turnarounds fail. Some fail because the marketplace conditions change, and the economic factors mentioned above are no longer viable. Others fail because the demands of the turnaround are beyond the capability of the turnaround leader. But many others fail because of the interaction between these three crucial roles - key external stakeholder, change sponsor, and turnaround leader – becomes troubled, even though the marketplace conditions and the skill of the turnaround leader are favorable.

The relationship between turnaround leaders and change sponsors, and through them, between turnaround leaders and key external stakeholders, is critical to the eventual success of the turnaround. Turnaround leaders seldom operate completely independently. They work closely with the change sponsors, often on a day-to-day basis. Through them, they interact in with the key stakeholders at important decision points as the turnaround progresses.

Key external stakeholders, change sponsors and turnaround leaders need to understand and to respect their respective roles. Each role has a contribution to make to a turnaround success. Each role has accountabilities to fulfill.

Change Sponsors and Key External Stakeholders

Key external stakeholders are very busy people. They may be executives in other enterprises. They may be involved in number of investments in a variety of enterprises. As a result, the key external stakeholder group tends to depend on one or two of its members to play a more active and time involving role in a particular enterprise turnaround.

The key external stakeholders may charge the change sponsors to do the following.

1. Evaluate the economic status of the enterprise in trouble.⁴

This will lead to a dialogue among the key external stakeholders about the three underlying economic factors. If they are sufficiently positive, the stakeholder group may decide that a turnaround makes sense.

2. Find a turnaround leader, if the decision to proceed is yes.

- Change sponsors may assess potential internal candidates, and recommend the existing designated enterprise leader, or another person in the inner group of immediate subordinates.
- They may recommend one of the key external stakeholders, if circumstances permit it.
- They may look for an external person to come in to lead the turnaround, either through networking or a more formal executive search.

This selection process begins the working relationship between the turnaround leader and the change sponsor.

Changing Out the Change Sponsors

Because the turnaround leader and the change sponsors are so crucial to the success of the turnaround, the departure and replacement of either can doom a turnaround. The unexpected departure of a turnaround leader partway through the change is often explicitly considered during the deliberations about who should lead the turnaround. Often, one of the change sponsors is considered a potential replacement, at least temporarily.

A change in the change sponsor(s), does not usually receive equivalent consideration. The role of the change sponsor, and its importance to the eventual success of the turnaround, is not well understood. Change sponsors are often not deliberately chosen. Individuals end up in the role as a result of the natural dynamics in the key external stakeholder group, or because of the fact that they represent the larger investors.

Change sponsors generally see their involvement in the turnaround as an extension of their financial interest in the eventual success of the enterprise. They may not see themselves as having a formal role in the turnaround. However, the role of change sponsor is a critical one. Continuity in the change sponsor is as vital to the eventual success of the turnaround as continuity in the turnaround leader. The reasons for this are explored in the following pages.

Table 1: The Three Critical Roles in Enterprise Turnaround

| | Key External Stakeholders | Change Sponsors | Turnaround Leader |
|---------------------------------------|--|---|---|
| Who | A group of individuals that represent organizations that have made a financial investment in the enterprise. Can include investors, customers, suppliers, debt holders, or executives from a corporate group that owes the enterprise. | Individuals, usually members of the key stakeholder group, who work on a more regular basis with the turnaround leader. They may be involved in the formulating the turnaround plan. | The individual who leads the turnaround, and acts as the leader of the enterprise during the turnaround period. |
| Main Responsibility or Role | The yes / no decision to proceed with the turnaround. Yes / no decisions to continue with the turnaround at intervals during the progress of the turnaround. | Monitoring the progress of the turnaround. Informing the key external stakeholders if it is going off course, especially when the turnaround leader does not seem aware of this. | Making the turnaround happen on a day-to-day basis. That is, translating the turnaround strategy into operational tactics, coordinated across the people, process and tooling levels of the enterprise. |
| Contribution to the Turnaround | Approval of the turnaround strategy. Resources to carry it out, if further investment is part of the approved change strategy. | Deep awareness of the progress / success of the more detailed components of the turnaround strategy. Reporting on the continuing success or failure of the turnaround that is | Leadership in all aspects of the turnaround, but especially the selection, the development and the direction of the executive team which at first turns around the enterprise, and |

| | Key External Stakeholders | Change Sponsors | Turnaround Leader |
|--------------------------------------|--|--|--|
| | | not affected by the “motivation” to make it succeed, which can affect objectivity | eventually becomes its operating executive. |
| Other Things that they may do | Act as informed subject matter or experience experts who can provide insight to the turnaround leader through one-on-one dialog. | Help the turnaround leader maintain clear, constant communications with the key stakeholder group, especially when the immediate demands of the turnaround distract the leader from the need to do so. | Short term “hands on” doer in crisis situations which threaten the survival of the enterprise during the progress of the turnaround. |

2. The Turnaround Leader’s Mandate

Finding the Right Turnaround Leader

As stated above, change sponsors, acting for the key external stakeholders, are often charged with the responsibility of finding an external turnaround leader. Their search of potentials may lead them to consider a number of types of individuals:

1. a member of the existing executive team,
2. people they know in their personal networks, including people who are associated with the key external stakeholder organizations,
3. candidates they find using an executive search firm,
4. individuals working for a group specializing in interim management,
5. individuals working for the consulting part of an investment bank or venture capital firm.

However they proceed, the mandate for the turnaround leader is clear.

"Make sure the place doesn't fall apart, and while you are doing that, turn it around. Clean up the mess. Then put a permanent executive team in place and ensure that a smooth transition to them occurs".

Sometimes it takes time to find the right person to handle this mandate, and work out the appropriate deal. In those circumstances, the change sponsors may take an interim approach, while they proceed with their search. The mandate for an interim individual is much more limited in scope.

"Just keep things going until we find the right turnaround leader."

Using an Interim Caretaker While the Search for a Turnaround Leader Proceeds

Bringing in an interim caretaker does have clear disadvantages. It sends the message: "We need a change in leadership, but we have not yet found the right leader." Clearly that has morale implications for the staff and business implications for customers and suppliers. However, it may be necessary, given the circumstances.

Sometimes, such an interim individual is asked to deal with a very limited and specific problem, as well as the "keep things going" caretaker mandate. An example might be "renegotiate this specific contract" or "fix this specific problem in this functional group or production facility". This may provide an acceptable reason for bringing in an interim individual.⁵ It shows that action is being taken to address the enterprise's difficulties while a longer term turnaround plan is being formulated.

As an alternative, the change sponsors may recommend leaving the existing executive in place, as they search for the right turnaround leader. This option involves the least organizational turbulence, although it may extend the financial loss that lead to the need for a turnaround in the first place. It also usually means that the search for the turnaround leader goes forward as a confidential one.

Finding the right turnaround leader may take some time. Leading turnarounds require different competencies from those used in leading established successful enterprises. Turnarounds require superb enterprise change ability, based on strategic, people and operational smarts. They require an ability to manage a staged approach to succeed.⁶ Turnarounds take large amounts of problem solving energy, passion and intense commitment on the part of the turnaround leader.

What Experienced Turnaround Leaders Will Want

Experienced turnaround leaders will want to do their own assessment of the enterprise's situation. They want to understand the vitality of the underlying economic factors in some detail. They desire insight into the make-up of the existing executive team. They want to know about the critical supplier contracts and supplier relationships, as well as key customer contracts and relationships. Providing turnaround leader candidates appropriate access to the people who know about these things may require some careful messaging.

Experienced turnaround leaders will also take time to assess the key external stakeholders and the change sponsors, knowing that the relationship with them will be critical to the eventual success of the turnaround. They want to know that they can work with these people, especially the change sponsors. Experienced turnaround leaders want to succeed. They know that the force of their own personalities is not all that is required to do so.

Enterprise turnarounds are full of anticipated pitfalls that must be overcome. They never unfold as planned. They require perseverance on the part of both the turnaround leader and the change sponsors. The turnaround will in all likelihood tax the patience of both. Turnarounds will produce conflict, both inside in the organization, and in the interactions that the turnaround leader will have with change sponsors and key external stakeholders.

Experienced turnaround leaders know this. They will take the time they need to evaluate their fit to change sponsors and the potential chemistry between them. The assessment that is being done by both sides results in a period – usually days or weeks rather than months – of intense conversation. This conversation occurs on both the surface and sub-text layer. The surface layers deal with the enterprise, its problems and its prospects. The sub-text layers are focused on the more subjective evaluations of potential working relationships.

3. The Background and Experience of Successful Turnaround Leaders

Industry Experience or Demonstrated Turnaround Ability

Industry experience is not as crucial as broad business experience and proven turnaround around ability. This may seem counter intuitive to change sponsors and key external stakeholders.⁷ They may believe that industry experience is the most crucial requirement in a turnaround leader. This is simply not so. The required industry experience can be provided by other members of the enterprise's executive team.

Turnaround leaders must have hands-on experience with turning around failing enterprises. Turnarounds are incredibly stressful. Without previous experience,

inexperienced turnaround leaders often simply cannot cope with them.⁸ However they acquire it⁹, capable turnaround leaders have a deep experiential base that allows them to cope with the intellectual and emotional demands of leading a turnaround. Based on this, they can maintain the balanced perspective needed to successfully guide their executive teams through the difficulties involved.

Enterprise turnarounds last from twelve to twenty four months.¹⁰ During this period, turnaround leaders will have to demonstrate very different, almost contradictory behaviors. At the beginning, they must dramatically take charge. They must often roll up their sleeves and personally do what ever is required: – e.g. financial management and accounting, operations management, sales and marketing, government relations. This is especially true if there are immediate crises that threaten the survival of the enterprise.

As the turnaround progresses, turnaround leaders will have to inspire confidence in the face of declining performance. They will need to ensure that the enterprise's staff, at all levels, know that setbacks and decreases in productivity are an inevitable part of the change program, and that things will get better. They will have to coach the individuals they select to be members of the executive team. They will have to delegate, and risk turning over to others, significant efforts that they would often prefer to lead themselves. Everyone in the enterprise will need to feel like they contributed to getting to a new place.

Finally, as enterprise performance improves, and individuals demonstrate productive leadership of its transformed parts, turnaround leaders must distance themselves from the day-to-day management of the organization. They must become conductors, rather than doers. If they cannot, they will undermine the confidence of the people who are now leading the enterprise on a day-to-day basis.

The Core Competencies of the Turnaround Leader

Enterprise turnarounds need every leadership competency. No one individual has them all. Experienced turnaround leaders accept that they have strengths and weaknesses. They know how to supplement their personal strengths with those of their subordinates and key outsiders¹¹, so that they avoid their weaknesses. However, turnaround leaders need several core personal competencies to succeed. Without these, they are not likely to be successful leaders of turnaround teams.

Complex, multi-project program management experience is essential. States-person skills, for dealing with the organization's external stakeholders, are vital. Mentoring and coaching capabilities are key. In addition, turnaround leaders need to demonstrate:

- strategic smarts,

- analytical smarts,
- the ability to influence others persuasively,
- the maturity to confront productively, both internally and externally when required,
- the persistence to keep going in the face of inevitable difficulties and disappointments.

Successful turnaround executives must be superb team leaders. “Good enough” team leadership will not do. Turnaround leaders must be able to listen deeply to the existing industry experience they find in the enterprise. If it is lacking, they must assess this quickly, and integrate new individuals with the required industry knowledge into their turnaround teams.

Turnaround leaders must be able to motivate high powered executives to be superb individual performers. At the same time, they must not let the ego needs of such individuals undermine the performance of the other members of the turnaround team.

Turnaround leaders must have a flexible leadership style, shaping their leadership behaviors so that they concurrently contain crisis business situations and progressively develop an executive team capable of eventually running the organization.

Turnaround leaders must also be capable of “managing up” They must work at building a trust-based working relationship with the change sponsors. They may have to educate them about the dynamics of turnaround, as well as the day-to-day operational intricacies of the business.

Turnaround leaders are best suited turning around failing enterprises.¹² They are psychologically equipped to handle the emotional needs of this business situation. Their internal makeup is quite different from the entrepreneur who is great at starting up an enterprise, or the general manager who is skilled at making an enterprise more successful, through internal growth, performance tuning or acquisition.¹³

Table 2: The Characteristics and Competencies of Successful Turnaround Leaders

| | Competency | Obtained as a result of | Importance to Turnaround | Best Evaluated Through |
|---|---|---|--|--|
| 1 | Past experience at enterprise turnaround. | Experience | Provides “been there, done that, anticipated that” perspective for handling the stress and turbulence normal to enterprise turnaround. | From resume and through exploration using behavioral interviewing techniques. ¹⁴ |
| 2 | The ability to personally roll up their sleeves and get involved in turning around crises that threaten the survival of the enterprise. | Experience – including the demonstrated ability to create a crisis management team with the right knowledge and skill under intense pressure. | Keeps the enterprise alive while the turnaround is proceeding | May be hinted at on resume –but requires careful probing and exploration, using behavioral interviewing techniques. |
| 3 | Flexibility in leadership style: from take charge at the beginning to coaching and delegating at the end. ¹⁵ | Experience: training, coaching, professional development-including 360° feedback. | Turnaround leader must adapt personal leadership style to the shifting needs of the progress of the turnaround. | People are often not explicitly aware of their leadership style. They tend to describe it in general terms, using abstract words (e.g. collaborative) rather than behavioral terms. A deep discussion which probes the potential turnaround leader’s sense of the required |

| | Competency | Obtained as a result of | Importance to Turnaround | Best Evaluated Through |
|---|---|--|--|--|
| | | | | progression in leadership style at various stages in the turnaround. ¹⁶ |
| 4 | Ability to inspire confidence in periods of declining performance. | Experience. | Keeps executive team and staff focused and motivated during the first stages of turnaround, when enterprise performance declines. | From resume – but requires careful probing and exploration, using behavioral interviewing techniques. |
| 5 | Complex, multi-project program management | Experience | Needed to keep multiple change initiatives moving forward, while ensuring that the interactions and dependencies among them are properly handled. | From resume – but requires careful probing and exploration, using behavioral interviewing techniques. |
| 6 | Direct report selection, coaching and development | Experience and training / professional development, and mentoring by a superior who is good at this. | Critical to developing an executive team capable of first creating change in each of their functional areas, and then of working as a team running the “turned around” enterprise. | Balanced, thoughtful, past, subordinates who are prepared to be open about the person are perhaps the best source of insight into this competency. |
| 7 | States-person skills: the ability to represent the enterprise in dealing with | Experience and training / professional development, and mentoring by | Needed for getting past what may be “deteriorating” relationships with | Difficult to assess other than through discussion of “cases” and |

| | Competency | Obtained as a result of | Importance to Turnaround | Best Evaluated Through |
|---|---|--|---|--|
| | outsiders, in what may be strained or difficult circumstances | a superior who is good at this. | key suppliers, customers and other business partners. | through careful observation of the person over the course of dialog with change sponsors and others. Truthful, thoughtful, references, who have done business with the individual, and who are prepared to be open about the person are perhaps the best source of insight into this. |
| 8 | Strategic smarts; Analytical smarts. | Experience and training building on natural ability. | Turnaround leaders need to be able to think out 3 to 10 years, while at the same time quickly grasping the intricacies of immediate complex situations. | Will be demonstrated in an applied way if the person is given the opportunity to assess the enterprise's underlying economic factors, current operations and other such factors; and asked to talk about what the individual would do in broad terms to turnaround around this enterprise. |
| 9 | The ability to | Experience, | Essential to | Should be |

| | Competency | Obtained as a result of | Importance to Turnaround | Best Evaluated Through |
|----|---|---|--|--|
| | influence others persuasively. | training and professional development. | leading the executive team, dealing with outside business partners and others. | demonstrated over the course of the extensive dialog with the change sponsors and others. |
| 10 | The maturity to confront productively, both internally and externally when required. | Experience, training and professional development. | Essential to leading the executive team, dealing with outside business partners ... particularly the individuals or the business relationships involved have negative impact on the enterprise, and require substantial re-negotiation or termination. | Difficult to assess other than through discussion of "cases" and through careful observation of the person over the course of dialog with change sponsors and others. Balanced, thoughtful, references who are prepared to be open about the person are perhaps the best source of insight into this competency. |
| 11 | The persistence to keep going in the face of inevitable difficulties and disappointments. | Experience, based on underlying personality traits and natural abilities. | Keep going through the turbulence and the setbacks experienced in turnaround. | Balanced, thoughtful, references who are prepared to be open about the person are perhaps the best source of insight into this competency. |
| 12 | Superb team leadership | Experience which progressively | Build the team, guide it through the turnaround, | Balanced, thoughtful past, subordinates |

| | Competency | Obtained as a result of | Importance to Turnaround | Best Evaluated Through |
|----|--|---|--|--|
| | | develops from empathy for others, and a desire to succeed through them. | and turn the success over to them. | who are prepared to be open about the person are perhaps the best source of insight into this competency. |
| 13 | Psychological fit to turnaround business situations. | Clarified as a result of career choices. | Allows person to manage the turnaround and then let go as the executive team comes into their own managing the performing enterprise after the turnaround. | Resume should show a career that demonstrates progression in authority and scope (people, dollars and technology) but also demonstrates career choices that show movement to “turnaround problems”, often across industries. |
| 15 | Motivation to get things done urgently in the short term without sacrificing the long term future. | Experience / underlying personal traits. | Get things done quickly, but in a way that creates longer term success. | Probably demonstrated most clearly in compensation desires: wants both short term (day-to-day dollars) and long term stake (piece of the equity in exchange for some dollar reduction day-to-day compensation – “sweat equity”). |

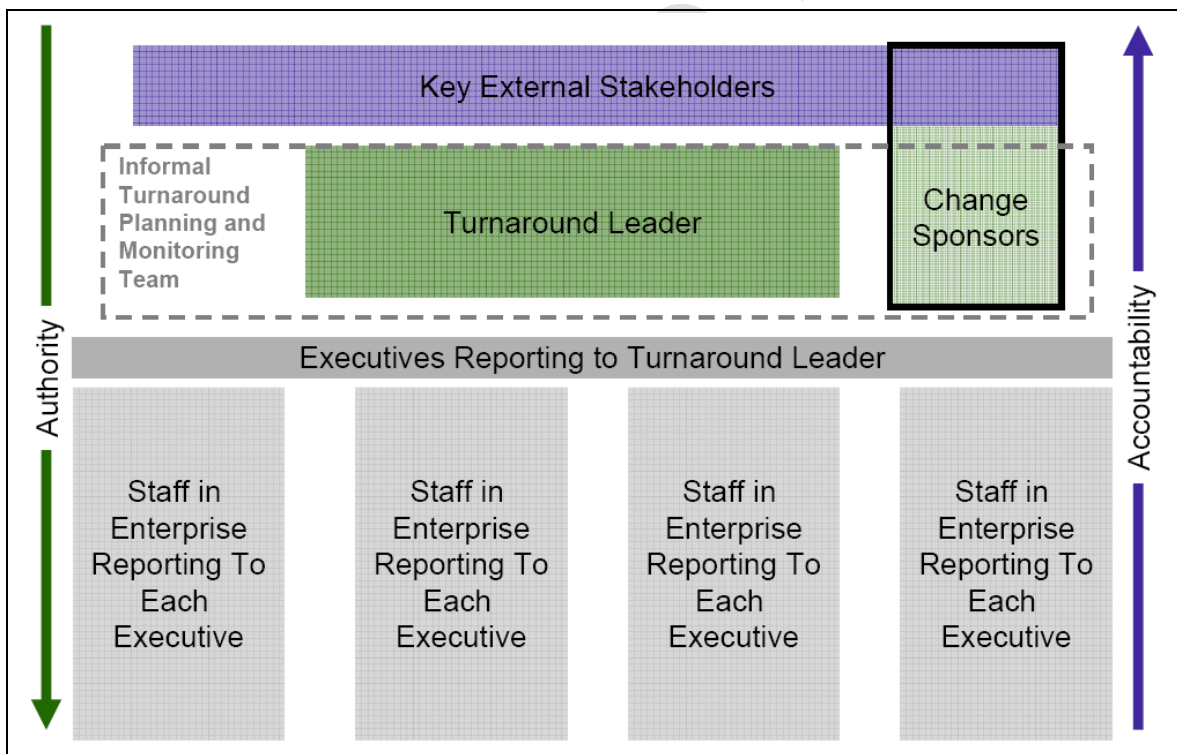
4. Power, Turnaround Leaders and Change Sponsors

Differences in the Roles of Change Sponsors and Turnaround Leaders

In the best situations, change sponsors and turnaround leaders develop a close working relationship. They come to trust each others' judgment, and dialogue regularly about what is happening during the turnaround. The turnaround leader comes to depend on the change sponsors' insight into the working dynamics of the key external stakeholder group. The change sponsors listen carefully to the turnaround leader's perspective on what is happening in the organization as the change takes hold. In many ways, they work as a team of peers.

However, there are great differences in their respective roles and power. Turnaround leaders run the enterprise. They are superior to the other insiders in the organization and have authority over them. They receive this authority from the key external stakeholders when they are appointed to be the enterprise leader.

Figure 1: Accountability and Authority Dynamics in Turnarounds



Change sponsor are members of the key external stakeholder group. They speak for them on a day-to-day basis. They are accountable to the group for keeping in touch with the progress of the turnaround, and evaluating what this means relative to the eventual goals of the turnaround. They receive their authority to do

so from the key external stakeholders. They are accountable to this group for accurately evaluating the forward progression of the turnaround, and the turnaround leader's ability to make the required change happen. This gives them a lot of indirect authority and influence. However, the enterprise leader is accountable for the turnaround to the whole key external group, not just the change sponsors.

To put it simply, turnaround leaders both work with and, indirectly work for change sponsors when they sit as members of the key stakeholder group.¹⁷

Turnaround leaders and change sponsors cannot successfully interact, and carry out their respective accountabilities, unless they share a common model of the dynamics of turnarounds. This shared model will help them sort out what is happening when, and why it is happening. It will impact the way that they relate to one another, since it will help change sponsors sort out when declining performance in the enterprise is signaling positive movement forward, and when it is related to a failing turnaround.

The Structural Difficulties Inherent in the Change Sponsor Role

As shown in the schematic, change sponsors carry out the following activities.

1. They are members of the informal turnaround team – working with the turnaround leader on a regular basis to plan and to monitor the turnaround. When doing so they are peers of the turnaround leader, and can influence events deeply. But they do not really have authority to direct the turnaround leader, since the turnaround leader is accountable to the whole key external stakeholder group for making change happen.
2. Change sponsors are members of the key external stakeholder group, who make go / no go decisions about continuing the turnaround and appoint the turnaround leader to be the leader of the enterprise. In this activity, they have authority over the turnaround leader.
3. Change sponsors have the responsibility for evaluating the progress of the turnaround, and reporting their evaluation to the other members of the key stakeholder group. In this activity, they are accountable to the other members of the group.

Change sponsors must remain clear on when they are engaged in their turnaround progression evaluation activity. If they lose confidence that turnaround will move eventually achieve its goals, they must go to the key external stakeholder group and say so.

But at the same time, since they are working closely with the turnaround leader, they must do everything they can to ensure the leader's success. This means

openly indicating when and why they are losing confidence, thereby giving the turnaround leader the chance to react to their concerns. Turnaround leaders can change the plan. Or they persuade change sponsors that their concerns can be alleviated.

The change sponsor role therefore contains a structural potential for confusion. Change sponsors must remain aware of when they are doing what, and take steps to not inappropriately use their authority as key external stakeholders when they are engaged with turnaround leaders as peers in the informal turnaround team. Coaching, suggesting, persuading is not the same thing as directing. The role of change sponsors requires a great deal of personal finesse and mature judgment.

Sometimes change sponsors are given full go/no go turnaround decision making authority by the other key external stakeholders. In those circumstances, things appear simpler. But they are not. Turnaround leaders may work with change sponsors, but they are now also accountable to them.

When change sponsors lose confidence in the future of the turnaround's success, they have the authority to act directly. They can ask the turnaround leader to change the plan. Or they can change out the turnaround leader.

Either action could have major impact on the continued forward movement in the turnaround. Pre-agreed metrics, related to the various change initiatives in the turnaround plan, help change sponsors make accurate judgments about these issues. Such metrics must take into account that change often makes things worse before they get better.

The Change Sponsor Role and Enterprise Performance / Turbulence

Change sponsors must expect that there will be turbulence during the turnaround.¹⁸ They must decide if these disruptions foreshadow long term turnaround failure, or signs that the turnaround is moving forward, but encountering "normal change turbulence".

When they conclude that the turbulence is normal, change sponsors must strongly focus the key external stakeholders on the eventual success of the turnaround and express continuing confidence in the ability of the turnaround leader to achieve that desired end goal. Change sponsors thus play a crucial role in placing the inevitable change turbulence associated with turnarounds in a longer term perspective.

Enterprise Turnarounds and Stress

Enterprise turnarounds create a lot of stress. Stress strains relationships between people, and clouds their objective judgment. Change sponsors and

turnaround leaders do their jobs within these conditions. Unless they understand this, and take steps to prepare for it, the relationship between change sponsors and turnaround leaders may be negatively impacted by the stress they both experience.

Change sponsors and turnaround leaders must shape their relationship in a way that allows them to work together when stress occurs. They must retain their ability to have open and direct dialog no matter what stage of the turnaround the enterprise is at.

This is most likely to happen if they share a common model explaining normally happens in an enterprise during a period of the turnaround transformation. When they do not do so, emotion based “push can come to shove” at the stress points of the change. Trust between them can evaporate. If this happens, neither change sponsors nor turnaround leaders can effectively carry out their accountabilities.

5. The Most Essential Critical Success Factor Underlying Turnaround

A Deepening Relationship of Trust

A deepening trust based relationship between the turnaround leader and the change sponsors over the time period of the transformation is the most essential critical success fact for enterprise turnarounds. Reciprocal trust, based on shared experience and a shared model of a turnaround’s normal progression, allows turnaround leaders and change sponsors to maintain productive dialog at the most turbulent points of a turnaround.

The fact that trust is so important to the success of turnarounds is known implicitly. Change sponsors often select with individuals they already know for turnaround leadership roles. They may have concerns that the individual lacks some of the required core competencies. The need for trust overrides this awareness. They know they can trust the person based on their past mutual interaction. This is so important to them that they are prepared to move ahead with the individual as turnaround leader even when they know that the person lacks one or more of the core competencies.

Past trust cannot make up for a core competency deficit in a turnaround leader. The risk of failure is dramatically increased when key decision makers choose a turnaround leader make the trust, rather the competency, choice.

Trust can be built up over time. A shared model which describes what happens in an turnaround in general terms is the right place to start. A turnaround plan based on that framework, specific to this enterprise, deepens that trust. Use of the framework to negotiate realistic progress metrics, which acknowledge

anticipated performance declines as well eventual performance improvements, creates concrete elements which further extent the trust. At the end of this process, a new turnaround leader and the change sponsors are well equipped to continue their work together.

Experienced turnaround leaders engage change sponsors in this process. They start with a general model of a turnaround. They relate the details of their action plan to it. They invite change sponsors to be actively involved in reviewing and modifying this plan. They develop progress metrics that make sense both to themselves and the change sponsors. They ensure regular progress reporting against this plan.

The Initial Action to Establish Trust Increases the Quality of the Turnaround Plan

Because such a plan anticipates turbulence, neither change sponsors nor turnaround leaders are surprised when it occurs. They can place the turbulence in perspective, and continue to carry out their roles when it occurs. In particular, change sponsors can analytically judge whether events indicate that the turnaround is moving forward.

The joint planning and regular progress measure reporting creates a great deal of transparency into the turnaround. It is useful not just to the change sponsors, but to the turnaround leader and the direct report team, as they work on a day-to-day basis to implement the turnaround. It allows them to anticipate events, and proactively work to keep them on track. It encourages explicit risk mitigation planning, so that negative indicators are met with immediate corrective action, not “its do late to do anything now” after the fact reaction.

A continuing pattern of experienced results that are worse than anticipated across a large number of the metrics in the plan is an objective sign that the turnaround may be going off-track. The sign will be obvious to all: the turnaround leader and the direct report team, and change sponsors, and through them, the key external stakeholders. Most likely, it will come about as a trend over time that the turnaround team has not be able to correct. As a result, there are no “surprises”. The turnaround leader, the change sponsors and the key external stakeholders can therefore focus on what needs to be done about situation, as difficult as that may be.

6. Things Get Worse Before They Get Better

The Roller Coaster of Change

The period of the change in a turnaround is always longer than anticipated, and never goes as smoothly as planned. **Change is a turbulent process requiring perseverance and patience.** Doug Mcnamara's "Roller Coaster of Change" is

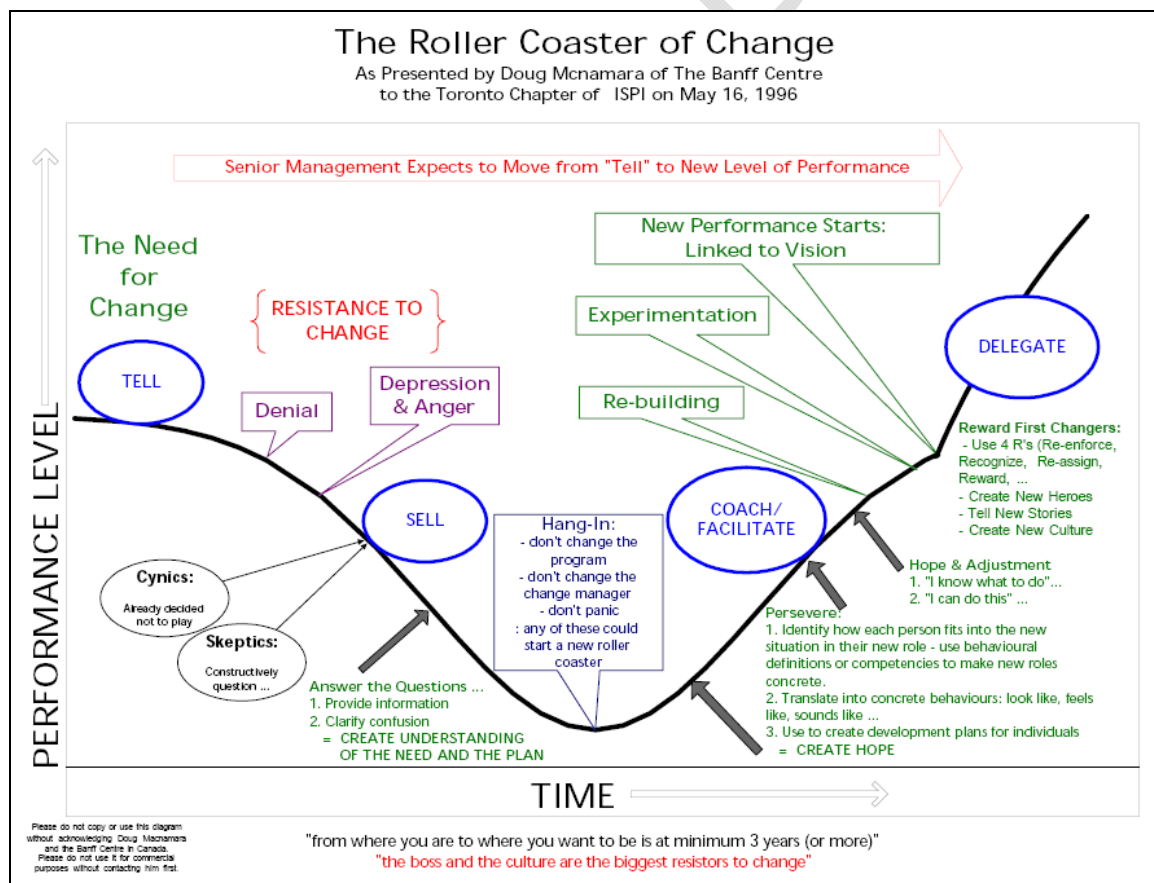
makes this clear. Built from practical experience with major organizational change in both profit and not-for-profit environments, it depicts the reality of most organizational change and turnarounds.

Turnarounds almost inevitably start with **declining enterprise performance**. The reasons for the initial down slope are straight forward.

Revenue¹⁹ is crucial to short term survival. Past investments or debt may require continuous servicing. This may make finding the funds needed to resource change activities extremely difficult.

If external resources are not available²⁰, the turnaround leader must fund the change from internal sources. Some part of the operation must be downsized to generate the required funds. Other parts may have to operate with less.

Figure 2: The Roller Coaster of Change: A Model for Enterprise Turnarounds



Internal staff and external business contacts experience these reductions as pain. Even if the enterprise's financial performance stabilizes quickly, staff morale and external reputation suffer. This increases the sense of pressure in the organization.

This is not necessarily bad, if the turnaround leader can communicate sufficiently well to turn this pressure into a sense of urgency – a desire to get on with it and make things better – on the part of the inside staff.

As the turnaround proceeds, the turnaround leader makes change on the people, process and tooling levels, coordinating the change activities across all three. Change generates resistance. Resistance takes energy to work through.²¹ Some people take on the new challenges. They increase their skills, and start to see the benefits of the changes. Their morale improves. The turnaround leader acts to deal with those who either cannot, or will not, do either.

Some people leave the organization, either voluntarily or involuntarily. If the right people leave, there is often a sense of relief. If the wrong ones do, the morale continues to decrease. New players coming in, enthusiastic about the changes, can overcome this. But new players may not come in immediately, depending on financial conditions. Even when they do, it takes some time for them to become accepted, and their positive contribution to be felt.

Day-to-day operations must continue. Products and services must go out to customers. Revenue must come in. The pressure on available internal resources – people and dollars - increases. Work done the old way must continue at the same time as changes to the new ways of working are underway. People feel the increased work load. Staff morale suffers as people feel like they are being asked to work harder for the same remuneration. External reputation suffers if deadlines are missed or commitments need to be re-negotiated or broken. The movement down the performance slope continues.

But the conditions for the turn up the performance improvement up slope are being created. New people bring in new skills. New process will create greater effectiveness and efficiency. New tools – hardware and software – will improve everyone's productivity and make things easier for the insiders. All of these changes are occurring as the movement down the performance decline down slope occurs.

7. Perspectives on the Progress of the Turnaround

The Key External Stakeholders' Perspective

External stakeholders²² seldom appreciate the difficulty of what is happening inside the enterprise. They certainly do not feel the turnaround leader's day-to-day accountability for operating events and staff, no matter how concerned they are about the eventual final outcomes of the turnaround. They view the enterprise's change from the outside looking in.²³

External stakeholders want:

1. the required improvement in financial and operating results – as soon as possible, preferably now;
2. smooth progress on the implementation of the change plan;
3. consistently reducing resource requirements and improving unit costs;
4. improving business margins and increasing revenue flows;
5. good feelings on the part of the enterprise's staff.

They don't want signs that indicate decreasing staff morale, and communicated concerns from the enterprise's outside suppliers and customers. They are disappointed when they see these signs.

External stakeholders need to have the calm fortitude it takes for wait for the eventual success. Calm fortitude when you are at a distance, is never easy, especially when things are getting worse.

At the same time, the key external stakeholders must be prepared to intervene if the turnaround program is not going to produce eventual success. They have a responsibility to ensure to limit the loss. This tension between the need for calm fortitude and the need to limit the loss makes things very difficult for them.

Key external stakeholders look to the change sponsors for reassurance that things are going as anticipated. They want to know that the change is at least meeting some of the metrics and targets set out for it. They need to know that "every thing is not going to hell in a hand basket."

The Turnaround Leader's Perspective

While key external stakeholders struggle with this tension, the turnaround leader is in the thick of the change, living with its reality each and every day. Turnaround leaders are constantly making compromises:

1. a change success here;
2. a "good enough to get by for now" there;
3. a "make this deadline or provide that external product or service to get the revenue, even if it slows the change agenda";

4. a “reassure the staff and key outsiders that this setback or failure or lack of improvement is only temporary and that things will get better and easier quickly”;
5. a “intervene personally and fix something when some part of the planned change is going off track, even it this means undermining a direct report for now”.

The turnaround leader’s constant involvement events such as these require personal deep belief in the potential success of the turnaround. Without it, the pressure of making these compromises becomes overwhelming.

Unfortunately, sometimes turnaround leaders get so involved in the day-to-day pressures of the turnaround that they lose the ability to step back and see its actual progress objectively.²⁴ That is one of the reasons that the change sponsor role exists.

The time tolerance for change on the part of the change sponsor’s and the external stakeholder is always far shorter than the turnaround leader’s. It needs to be. It is one of the things that creates the urgency driving the need to change. Unfortunately, it also creates tension between the turnaround leader and the key external stakeholders.

The turnaround leader gets “tagged” with the inevitable disappointments that are felt by the key external stakeholders as they experience the turnaround leader’s working compromises from their external distance. These tags accumulate, and affect their perception of the turnaround leader’s personality and performance.

The Change Sponsors’ Perspective

The change sponsors have insight into turbulence of the change, and the turnaround leader’s compromises and progress. They understand the details of the plan. They see the regular updates to it. They remember the shared framework which predicted the turbulence and the performance down slope. They know exactly how the turnaround leader is dealing with this inevitable initial decrease in enterprise performance.²⁵ As a result, they can continue to objectively judge the turnaround’s probability of eventual success, even as they experience the movement down the performance slope.

The Need for Low Hanging Fruit and Constant Visible Progress

Experienced turnaround leaders look for “low hanging fruit” to show early evidence of successful change. They work hard to ensure that there is “constant visible progress” showing forward movement. They know that this is essential to staff morale - to internal tolerance for and acceptance of change. People need to believe that things will get better. They will do so, if they see some degree of

consistent progress, even as they experience temporary setbacks in some areas. Experienced turnaround leaders stage change activities so that some are delivering visible results, as others are still in progress.

Experienced turnaround leaders also try to impact external stakeholder's perceptions about the change by continual communication with them. However, the need to do so is another demand on their already difficult schedule. When events force a choice, they will focus on operating crisis and change progress within the enterprise. Staff and internal change agents come first in their communication priorities. Customers (and their revenue) come second. Individuals and organizations (e.g. banks) that could have an immediate negative impact on the enterprise come third. Others come last. Unfortunately, for some turnaround leaders, these others come to include the key external stakeholders.

Turnaround Leaders Must Celebrate Partial Success

The turnaround leader can always find a reason for something taking longer than hoped or planned. Coordinating change on the people, process and tooling level is difficult. It takes a great deal of attention to detail. It requires constant monitoring at the detail level to ensure that cross dependencies between different change initiatives stay synched. Failure to do so can result in waste, and the need to repeat things, neither of which is affordable in a financially stretched enterprise. The relentless pressure to do more with less never really goes away during the turnaround.

Despite this, the turnaround leader must figure out when to take appropriate pauses, to create partial success celebration points and short rests from the pace of the needed change.

If the turnaround leader does not do create such pauses, does not celebrate partial success and the achievement of partial progress milestones, the staff might lose heart. That has major negative consequences. These "we got here" celebrations must occur, especially if there have been some setbacks. They are part of the need to create constant visible progress for the staff. They are essential to keeping up their morale during the turnaround program.

To external stakeholders, this looks like the turnaround leader is celebrating when there is as yet no reason to do so. They remain focused on the end point. That is where their payback lies. As a result, such "on the way" celebrations add a certain amount of negative feeling to the disappointments that key external stakeholders attribute to the turnaround leader.

8. The Contribution of Change Sponsors to Turnarounds

Change Sponsors' Crucial Role During the Down Slope and the Performance Valley Period

The change sponsors can act in a decisive ways in response to these inevitable expressions of frustration and disappointment of the part of key external stakeholders. Change sponsors can “defend” the turnaround leader, encouraging everyone to “keep the faith” especially when things are approaching or in the performance valley. This is just when the enterprise is getting ready to take off up the slope of improved performance. It is just when things are ready to turnaround. It is always when things appear worst.


The trust that has developed between change sponsors and the turnaround leader is the key to the change sponsors' ability to do this. Through their understanding of the initial turnaround framework, the specific plan based on it, and the updates to it in which they have been involved, change sponsors have built up realistic expectations about the down slope of performance. This allows them to know that things will get better, provided that the events of the down slope more or less meet their expectations. They can defend the turnaround leader based on their accurate understanding of what is actually happening in the enterprise.

As a result, change sponsors can undertake their defense of the turnaround leader in a consistent way. They have the ability to address the frustrations of the other members of the key external stakeholder group with statements that indicate that they expected the declining performance. They have the ability to influence the others in the key external stakeholder group in positive ways during the period of highest frustration – the performance valley. They have anticipated it. They can see its end. They can point to early signs of the movement up the performance improvement slope.

The Myths and Realities of Real Change

Doug Mcnamara's "Roller Coaster of Change" provided a framework for understanding that things get worse before they get better in enterprise turnarounds. John Kettle's “15 Myths About Change”²⁶ provides a model for understanding the psychological reality experienced by change participants. At the beginning of a successful change, most people believe some or all of the myths in the left hand column. By the end of the successful change, their experience has moved them to the realities in the right hand column.

Figure 3: John Kettle’s “15 Myths About Change



| 15 Myths About Change | | |
|------------------------------|---------------------------------------|---|
| Myth | | Realities About Real Change |
| 1 | Change has to hurt | Real change should be fun |
| 2 | Change is a one-time thing | Change happens in small steps |
| 3 | Change is radical | Real change is continuing, unfolding |
| 4 | Change must be imposed | Real change is self motivated |
| 5 | Everyone wants to buy into change | Real change has to be sold |
| 6 | Everyone likes change, so it's easy | Real change is hard |
| 7 | Change does not cost a lot | Real change is expensive |
| 8 | Change is for the better | Real change can make things worst |
| 9 | Others have to change, not me | I must change if I want them to really change |
| 10 | Change is fast, we can't fail | Real change is slow, some failure is inevitable |
| 11 | Change won't be resisted | Real change is resisted |
| 12 | People know how to change | People need skills to really change |
| 13 | Change goes in a straight line | Real change zigs and zags |
| 14 | People like to be the first to change | No one likes pioneering |
| 15 | You gradually wear down resisters | You try harder, resisters get tougher |

Change sponsors who:

- have involvement in updating the turnaround plan,
- see results aligned with expected metrics,
- regularly dialog with the turnaround leader about both,

experience this belief change. They move from the generally accepted myths **to a personal understanding of the reality of this change in this enterprise, at this time.**

Based on this person experience, they can talk to the other key external stakeholders very concretely about the specific realities that illustrate the right hand column. Therefore, they can play the key role in counteracting the left hand column based beliefs that these other key external stakeholders bring forth to explain their frustration and their desire to change the change program.

The Need for Change By the Enterprise's External Contacts

The performance valley is often the point in the change cycle when the need for personal change also becomes most clear to individuals external to the enterprise. Enough things have changed on the “process, people and tool level” in the enterprise that people inside the organization are starting to do things in new ways. They are not good at them yet, but they are doing them.

This means that they are behaving in new ways that require the change sponsors, the organization's external business partners, and the organization's overseers (i.e. the key external stakeholders) to change their own behaviors when they interact with the enterprise insiders. This change may be as simple as learning to read newly formatted financial reports. It may be as complex as learning to use new computer based protocols to for interacting with specific parts of the enterprise.

Those inside the enterprise are caught up in the excitement of change at this point. They experience things as improving. They see that the new ways in which they are now working will only make things better for themselves and for the enterprise. As a result, they are highly motivated to continue the change.

However, they may not realize that individuals outside the enterprise have not travelled the same change path as they have. They can behave in ways which “just expect” the outsiders to change. They may forget that they need to communicate – to explain why and how things will get better and easier for the outsiders. They have to motivate them to engage in and complete the change needed to learn new ways of interacting with the enterprise.

The enterprise's external business partners do not always respond positively to this need for change.²⁷ The turnaround leader and the enterprise staff must respond to these business partners and manage their resistance appropriately. Communication is the key. Their effort needs support from the enterprise's key external stakeholders.

Change sponsors who personally model such change for the other key external stakeholders help in gaining their acceptance and support. By acting positively, they treat such changes as an indication that things are getting better in the enterprise. This helps defuse the tension that key external stakeholders may feel in the face of the need to change their personal behaviors.

Change sponsors also help key external business partners get ready for interacting with key players in the enterprise's external business partners. These individuals often contact key external stakeholders for insight into why their organizations need to change its interaction with the enterprise. When key external stakeholders respond positively in such dialog, supporting the enterprise's change program, they defuse potential negative external reaction.

Dealing with the Blame Associated with Past Mistakes

Change inside the enterprise may uncover what were **serious mistakes** that occurred in the past. If the people who were responsible for these are still present in or around the organization, they naturally become defensive. They will often attack the change process, and the turnaround leader, as a way of mitigating the real or perceived blame that comes their way.

This dynamic often is a signal that the performance alley has been reached, and that the performance up slope is close.

Change sponsors who understand the realities of this enterprise's change will defend the turnaround leader from such attacks, especially if they come from individuals who are in the key external stakeholder group. All they need to defuse the blame is to point out that the past is the past, and things are now about an improved future. The past is not the issue. The future is. People need permission to move on. Change sponsors have a major role to play in granting it.

The Crisis Point – The Deepest Part of the Performance Valley

Substantial change always takes more time, and involves more turbulence, than anticipated by key external stakeholders. In many cases, they become most impatient exactly when the dynamics of real change require them to be most patient.

By the time the performance valley is reached, they are often deeply frustrated with the turnaround leader. In their view, real positive results that matter to them

have not yet been achieved. Or if they have, they have not yet reached the critical mass needed to justify continued support for the turnaround leader.

When turnaround leaders respond to such frustration, they sound defensive at best, and intolerant at worst. They can see that the up turn is about to begin. They may not understand why the key external stakeholders do not share their enthusiasm for getting through this last piece of poor performance.

At this point, the behavior of the change sponsors makes the critical difference. If they express continuing confidence in the turnaround leader and congruently indicate that the up slope is near, things will move forward. If they do not, the turnaround will be in trouble.

9. Things Go Bad, Just as They Are Poised to Get Better

Key Dynamics in the Performance Valley

The performance valley is often the point at which key external stakeholders act to replace the turnaround leader. There are two sets of reasons for why this might happen.

1. The first set is straightforward. Any or all of the following will be occurring.
 - The key external stakeholders experience growing impatience with the length of time that the turnaround is taking, without what seem to be positive results. Performance may be improving in parts of the enterprise, but they have not yet seen significant overall improvements in the enterprise's revenue, unit costs and profit margins.
 - The number of times that the turnaround leader has been tagged with disappointment has grown cumulatively. It has reached a level where positive results of any kind no longer off set the disappointment in the individual's personal performance for the key external stakeholders.
 - The turnaround leader has become involved in internal operating and change management issues. The leader has paid insufficient attention to communicating with the key external stakeholders and other external business partners.
 - A change in the external world has impacted the underlying economic factors impacting the enterprise in a negative way. The turnaround leader has not changed the turnaround plan to take it into account, or has not been straight forward about this change with the key external stakeholders. As a result, the key external stakeholders do not believe that these changing external economic circumstances can be overcome by this turnaround leader.

2. The second set involves the dynamics inside the key external stakeholder group. Again, the basis for improved enterprise performance has been set. But in this case, the following occurs.
 - The change sponsors do not express positive commitment to the turnaround leader during the “performance valley period”. They do not consistently re-affirm their faith in the turnaround leader. They, either by their silence, or their statements, throw doubt on the future of the turnaround. This makes it almost impossible for the turnaround leader to overcome the negativity felt by the key external stakeholders.

In either case, the time needed to get through the performance valley, and to move up the slope of performance improvement, is cut short.

Choices Facing the Key External Stakeholders

The key external stakeholders consider changing out the turnaround leader. It seems like an obvious way to deal with the situation. All of the emotional tension associated with the turnaround appears, on the surface, to be centered on this person. The key external stakeholder group comes to believe that the replacing the turnaround leader will eliminate this emotional tension.

If the change sponsors do not take a strong stand, the emotional dynamics of the moment might win over the reality of what is happening inside in the enterprise.

If the change sponsors fail in this crucial part of their role at this point, the external key stakeholders will do one of the following.

- Bring the turnaround to an end, and shut down the enterprise.
- Replace the turnaround leader in the belief that this individual is the underlying reason for the “lack of apparent” progress.

10. How Things Go Backward When the Turnaround Leader is Replaced

A New Dynamic Takes Hold

The exited turnaround leader is blamed for the turmoil that has accompanied the change to this point. The original need for the change is devalued or declared to be over. The period of change is declared over or successful, needing little further commitment, energy or resources. Many of the process and tooling improvements that are close to completing are undone or suspended part way through. Ones that still need to commence are not be started. The need to **stop**

expending resources (dollars and talent) is given as the reason. Everyone starts to talk about “reaping the results”.

The key external stakeholders, feel better in the short run when this occurs. They feel that they have stepped in and “rescued or fixed up” a bad situation.

Inevitably, the organization pays a greater longer term price not finishing changes that will allow it to climb up the up slope of performance improvement. It just does not know it yet.

The Apparent Fix, and Its Consequences

A new enterprise leader is found internally or hired externally. That may occur quickly or take a significant period of time. When it takes time, a change sponsor, or someone associated with one of the key external stakeholders, takes on a role as an interim enterprise leader.

In reality, this new individual is not deeply committed to the previous turnaround leader’s change program. The person’s internal and external statements must align with the messaging that has been used to explain the departure of the previous turnaround leader. As a result, the individual cannot work through the tensions, or create and resolve the confrontations, required to complete the change. Essentially, the new enterprise leader’s primary purpose is to eliminate the turbulence that has accompanied real change in the enterprise.

This new individual may be put in a difficult place by what has just occurred. If the turnaround has been declared “completed or successful”, there is little tolerance for further needed process, people or tooling change, even when it is required to reach the original financial goals of the turnaround. As a result, the seeds of the new person’s future non-performance are sown.

Internally, the open dialogue needed for honest assessment of the remaining enterprise performance issues is difficult. The transition to a new, proven positive forward looking management team dedicated to reaping the rewards of the turnaround has not occurred. Instead, everyone perspective’s is clouded by the on-going need to associate the “departed” turnaround leader with “unneeded enterprise turbulence”.

Unfortunately, process, people and tooling changes are personality independent, and have a life cycle all of their own. Declaring them successful when they are not fully complete does not accomplish the needed change. The people inside the enterprise know this. They are living the day-to-day reality defined by the partially completed or rolled-back process and tooling change. Stopping, - declaring success - makes it impossible for them to indicate that their working lives even more difficult than before the change started. The process and tooling integration that drives the movement up the performance improvement slope

does not occur. Internal moral and motivation suffers. Individual and group performance declines.

All of these dynamics can lead to the start of a new roller coaster which takes as its starting point the performance valley of the previous roller coaster. Enterprise performance deteriorates from there over time.

Sometimes, this happen more than once. The declining performance leads to yet another change in turnaround leader. A third roller coaster starts, with the second performance valley as its starting point. Enterprise performance declines even further.

Eventually, the key external stakeholders finally make a stop decision, and terminate the life of the enterprise.

11. What It Takes to Avoid These Dynamics

Keep the Turnaround Leader

The single most important way to keep this from happening is to pick a competent turnaround leader at the outset, and then maintain continuity in the turnaround leader – change sponsor relationship during the major period of change.

The right time to make a change in turnaround leader is shortly after the change program has started. Change sponsors must work with the turnaround leader during the plan creation period, and the early days of its implementation, in order to do a working assessment of the leader's capabilities. If they have doubts about it, they must act at this point. They must go to the key external stakeholder group and get support for replacing the turnaround leader immediately.

That is not easy to do. Change sponsors and key external stakeholders experience this need as a failure in their judgment to find an appropriate change leader. However, unless they can move beyond this, they risk the turnaround program, and the continued existence of the enterprise.

Sometimes the turnaround leader must change for reasons other than performance. Events that were not anticipated or could not be controlled may mean the individual is no longer available (e.g. health issues or an accident). If either happens, the change sponsors, and key external stakeholders will risk the enterprise turnaround if they do not choose a new turnaround leader with the required core competencies. However, this is not enough. The person must be prepared to work with the existing turnaround plan, not initiate a completely new one based on their own personal approach.

Keep the Change Sponsors

Change sponsors make crucial contributions to successful turnarounds. Changing them out before the up slope of performance improvement is achieved will threaten the success of the change.

There are a number of reasons why a change sponsor may have to leave.

1. In organizations where "elections for positions on the key external stakeholder group" play a role, the change sponsors may not be re-elected. As a result, they can often not maintain their presence for a sufficient period of time to see the turnaround through the performance valley crisis period.
2. Change sponsors may get tired after dealing with difficulties of the down slope period of the change. They may experience other demands on their time which keep them from staying in the role. Because the nature of the role is often not recognized, they may receive little recognition for their efforts. Unless they have a considerable financial stake in the outcome of the turnaround, and have enough experience as change sponsors to understand the demands of the role, they may simply leave before the performance valley occurs.
3. Outside individuals associated with the enterprise's key business partners, are often in a position to influence its key external stakeholders. They may undermine the ability of change sponsors to stay in the role.
4. Individuals associated with the "mistakes" uncovered during the turnaround may be influential enough to do the same. They may seek to replace the change sponsors as well as the turnaround leader in response to the real or perceived blame that comes their way.
5. The normal dynamics of reputation and personal interest occur in key stakeholder groups. Shifts in its internal dynamics, or change in the relative power of members, based on their relative investments, may lead to turnover in the change sponsors.
6. Finally, events in a change sponsor's lives may lead to an individual withdrawing from the role (e.g. family, health, accident or the pressure of other concerns).

When change sponsors turn over just before, or during the performance valley, their replacements often cannot carry out the crucial confidence inspiring role needed to get past the valley onto the performance improvement slope.

New Change Sponsors, and Their Possible Negative Impact

New change sponsors, especially ones who come into the turnaround in mid-stream, may believe the myths about change rather than the realities. They also often just want the change to be over, even when it is not yet complete. They find it difficult to defend the change process, and the turnaround leader, especially during what appears to be the low point. They do not have the history of interaction with the turnaround leader that has built up the trust that they need to carry out their crucial role.

Having more than one change sponsor is a partial defense against this possibility. If one person leaves, the other change sponsor may be able to avoid the negative results of change sponsor turn over.

Table 3: Managing Turn Over in Turnaround Leaders and Change Sponsors

| | Role | Reason for Turnover | Most Appropriate Way to Handle |
|---|--------------------------|---------------------------------------|---|
| 1 | Turnaround Leader | Not effective as a turnaround leader. | <ol style="list-style-type: none"> 1. Make sure that management contract for turnaround leader has appropriate exit clause. 2. Identify problem early in the turnaround, during the first parts of the performance down slope. 3. Start “stealth search” for new turnaround leader. <ul style="list-style-type: none"> ◦ Use existing turnaround plans during dialog with new candidates. ◦ Assess both their core competencies and their willingness to work with the plan. 4. Contract with new turnaround leader. 5. Exit existing turnaround leader. Put new turnaround leader in place immediately 6. Message “continuity in turnaround plans”. Meet crucial external business partners and key insiders as soon as possible (best done by joint team of new turnaround leader and 1 or |

| | Role | Reason for Turnover | Most Appropriate Way to Handle |
|--|------|--|--|
| | | | more of change sponsors). |
| | | Personal reasons require turnaround leader to leave (family, health ...) | <ol style="list-style-type: none"> 1. Identify time frame for managing issue: immediately, weeks – months. 2. If immediate, i.e. little or no notification / unexpected: <ul style="list-style-type: none"> ◦ Ask a change sponsor to take on interim caretaker leader role ◦ Message interim / care taking nature of role to key business partners and key insiders. ◦ Start search for new turnaround leader. <ul style="list-style-type: none"> ▪ Use existing turnaround plans during dialog with new candidates. ▪ Assess both their core competencies and their willingness to work with the plan. ◦ Contract with new turnaround leader. ◦ Put new turnaround leader in place. <ul style="list-style-type: none"> ▪ Message change to key business partners and key insiders; new leader committed to continuing plan already approved by key stakeholders. ▪ Meet crucial external business partners and key insiders as soon as possible to build working relationships (best done by joint team of change sponsor acting as |

| | Role | Reason for Turnover | Most Appropriate Way to Handle |
|---|-----------------------|---|---|
| | | | <p>interim turnaround leader and new turnaround leader).</p> <p>3. If managed, i.e. with notification and managed time frame:</p> <ul style="list-style-type: none"> ◦ Ask existing turnaround leader and change sponsors to start a search for a new turnaround leader – use existing turnaround plan as part of selection process. ◦ When new turnaround leader found, message transition to crucial business partners and key insiders. ◦ Put new turnaround leader in place. ◦ Meet with crucial external business partners and key insiders (best done by joint team of new turnaround leader, who is acting as the lead in these meetings, and the departing turnaround leader). |
| 2 | Change Sponsor | Personal or business reasons require change sponsor to leave. | <ol style="list-style-type: none"> 1. Key external stakeholders select new change sponsor. 2. Key external stakeholders meet with turnaround leader and remaining change sponsors to re-affirm the existing turnaround plan and the role of the turnaround leader in being accountable for making it happen. 3. Turnaround leader meets with new and existing change sponsors to bring new individual up to date. 4. Turnaround leader messages |

| | Role | Reason for Turnover | Most Appropriate Way to Handle |
|--|------|---------------------|--------------------------------|
| | | | change to key insiders. |

Experience and Communication Skill Count

No one can control or predict all events. Experienced turnaround leaders understand the dynamics that have been described in this white paper. They will seek to educate change sponsors about them. Experienced change sponsors also know them. They will try to make sure that they have personal backups for their role as change sponsors, and that these individuals truly understand what is happening during the turnaround.

Openly discussing these dynamics with the key external stakeholder group helps everyone deal with the complexity of the roles, and the impact of the stress experienced during turnarounds.

There is one major conclusion. Communication skill, both one-on-one and to groups, **especially under conditions of stress**, is essential competencies in turnaround leaders and change sponsors. Don't underestimate this need. It is not just the ability to talk persuasively under normal day-to-day conditions that that characterize successful turnaround leaders and change sponsors. They can continue to persuade others, even when everyone around them is deeply frustrated and stressed. They do so in a way that turns frustration back into patience and focus on the future. This skill is essential to successful turnarounds.

Afterword 1: Turnaround Leader Personality and Failed Turnarounds

Lack of skill in the turnaround leader is the other major reason for failed turnarounds. Ineffective turnaround leaders often engage in “personality driven” change, and use personal “to me” loyalty dynamics to the individuals they move into enterprise leadership roles. They reward these individuals in ways that make it clear that their future is tied to the turnaround leader, not the enterprise. These turnaround leaders see themselves as the center of the change, and cannot conceive of a future in which they personally do not play a key role.

Personality driven turnarounds usually do not involve a carefully balanced program of coordinated change on the process, people and tooling level. The personality driven turnaround leader takes personal ownership of all of change elements, and bases them on personal beliefs about what works, rather than on an analysis of what is needed and will work in this enterprise.

As result, the turnaround feels like a “tribal leadership change” to the others in the organization, than real substantial change. Individuals at lower levels in the enterprise do not widely support and buy in to what they believe to be a change in the “leadership tribe”. They may “talk the talk”, but not “walk the walk”.

Staff in enterprises in trouble has a great deal of tolerance for “three step forward, two step back” dynamic that can characterize the early phases of a turnaround. As long as people in the enterprise feel that real change in their behavior is recognized and rewarded by a balanced, thoughtful turnaround leader, they are prepared to continue to push forward. They will do so even with an imperfect change plan, and a less than “walk on water” turnaround leader.

As long as there is constant visible progress, people will work towards the anticipated performance take off. They recognize that the enterprise was in danger of failing. Their personal economic security was threatened. So, any forward movement is better than staying where things were. If the turnaround leader clearly recognizes and rewards the efforts of people at all levels in the enterprise to make things better, people will be remarkably tolerant of the leader’s imperfections.

This is particularly true if the turnaround leader is honest, takes personal responsibility for mistakes, learns from them and focuses on recovery rather than on blame, while praising others for the successes.²⁸ People will do a great deal for a person whom they perceive as fair. They will support an individual who takes what they consider to be an even handed approach to the personnel unpleasantness that is often required for a turnaround to succeed. They will work through the pain and do the extra work required to implement change while operating the current business. They want things to succeed, for the simple reason that it ensures their own economic security.

People watch hires, terminations and promotions very carefully during a turnaround. They interpret these events as strong messages about the underlying motivation of the turnaround leader. When individuals who they believe to more capable of managing “up” than making a real contribution to the enterprise are promoted or hired, they rapidly loose faith in the turnaround leader. They also pay close attention to the turnaround leader’s personal style. Although they are tolerant of a certain amount of executive privilege, a turnaround leader who exhibits consistent flash and grandiosity will not earn the deeper commitment needed to motivate people to work through the work load and stress normal in turnarounds. A turnaround leader who works from personality does not inspire this type of confidence.

No matter what the personal capability of the turnaround leader, no matter what hours this individual works personally, the reality of turnarounds is that the day-to-day work that ensures success is done by the lower level staff. Maintaining their commitment and motivation is key to success. This is one of the turnaround leader’s key success factors. It turns on an intangible and subjective factor: the personal style of the turnaround leader.

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Afterword 2: Managing the “Hurt” of Changing Out People

Enterprise turnarounds require "tough" people transitions. Significant downsizings, in which a number of people, including proven contributors, lose their jobs, may be needed. Specific individuals, whose performance is not up to par, may be asked to leave. This may require spending money on terminations, when those funds may be more productively employed in implementing the turnaround plan. People transitions are experienced as pain by the people remaining in the enterprise.

A "changing out the turnaround leader" dynamic can be explicitly used to heal this pain. With a transition to a new, positively oriented permanent management team, people in the enterprise can put this pain behind them, and get past the “I am still here guilt” syndrome that is associated with downsizing.

Experienced turnaround leaders explicitly use this dynamic as part of their turnaround plan. Once performance improvement is well underway, they become less and less visible in the organization. They prepare everyone to expect the departure of the turnaround leader at some point on the latter part of the performance improvement up slope. They delegate authority to members of the new executive team. They create opportunities for these individuals to become visible as the leaders of the enterprise, both with inside staff and external business partners.

When such turnaround leaders leave the enterprise, they take the “hurt and negativity” associated with past painful people actions with them. They remove it from the organization. Everyone acknowledges that the turnaround leader had to do **"difficult and negative"** people work. But the need for it is now past. The departure of the turnaround leader, and the celebration of success associated with the new leader of the enterprise's executive team, heals the organization.

This may sound like ritual and theatre, but such social ritual is very much part of enterprise life.²⁹ Experienced turnaround leaders explicitly use social ritual to move the enterprise forward.

The successful use of this dynamic requires that the change sponsors, the turnaround leader, and the new management team members remain committed to the process, people and tooling changes that have been implemented to date, and are planned for the future. New executive team members may be previous insiders or new individuals brought into the enterprise by the turnaround leader. In each case, they must clearly be bought into the turnaround program, and be seen to taking responsibility for implementing their part of it. They cannot establish their identity as members of the new executive team by being “against” elements of the overall turnaround program. They must not expect the enterprise to line up with their way of doing things, when these ways collide with the coordinated people, process and tooling change that is going on in the

organization. They can positively influence future elements of the program, but only if their ideas build on what is already happening. They cannot behave as “individual” players who are not part of the greater enterprise whole.

The turnaround leader must be a superb team leader in order to build an executive team composed of such individuals. Finding high power direct reports, and integrating them into a team, while motivating them to do their best as individuals, is not an easy task, given executive egos.

The best time to identify a new enterprise leader to the rest of the organization is in the last stages of the performance improvement up slope. This individual must be the turnaround leader’s visible successor, committed to completing the change program and to leading the senior team as it is then composed. This commitment must last for some period of time beyond the departure of the turnaround leader.

There are straight forward reasons for this.

1. During the last stages of the movement up the slope, most of the people, process and tooling changes will be stabilized. The benefits are apparent to the people inside the organization. They will have faith in the individual executives they associate with the performance improvement. They will believe that they are capable of functioning as a team.
2. In the meantime, the outsiders who expected to reap the rewards of the change are starting to realize that they will achieve them. The key external stakeholders see that they will realize their financial goals, either in the growth of the enterprise, or through an orchestrated exit strategy that realizes their investment goals.

A dramatic change in direction would jeopardize this growing internal and external confidence.

By affirming the new enterprise leader in the latter part of the performance upslope, the turnaround leader sets up the individual to be associated with the success of the change. This provides a final boost that will help to continue to move the organization forward. The turnaround leader leaves, taking away the pain and frustration associated with the stops and starts of the turnaround. The new enterprise leader focuses on further productivity improvement, organic growth, and possibly growth through acquisition.

Managing “people hurt” transitions in this fashion requires a high level of personal maturity and personal awareness in the turnaround leader, the change sponsors and the new enterprise leader. However, when well done, it provides a successful conclusion to the turnaround.

Afterword 3: John Kettle's "15 Myths About Change"

I have had this document, clipped out of some trade magazine, hanging beside whatever desk where I happened to be working for at least twelve years. It was originally published in 1994 or 1995. A scan of my yellowed original appears below. I have gone looking on the Internet for the original source but Google has not helped other than to find some references to it, including:

John Kettle's Future Letter reprinted in TQM in Higher Education, January 1995.

| 15 MYTHS ABOUT CHANGE | |
|-------------------------------------|--|
| Myths | Realities about <i>real</i> change |
| Change has to hurt | Real change should be fun |
| Change is a one-time thing | Real change is continuing, unfolding |
| Change is radical | Real change happens in small steps |
| Change must be imposed | Real change is self-motivated |
| Everyone wants to buy in to change | Real change has to be sold |
| Everyone likes change, so it's easy | Real change is hard |
| Change doesn't cost a lot | Real change is expensive |
| Change is for the better | Real change can make things worse |
| Others have to change: not me | I must change if I want <i>them</i> to really change |
| Change is fast: we can't fail | Real change is slow; some failure is inevitable |
| Change won't be resisted | Real change is resisted |
| People know how to change | People need skills to really change |
| Change goes in a straight line | Real change zigs and zags |
| People like to be first to change | No one likes pioneering |
| You gradually wear down resisters | You try harder, resisters get tougher |

Source: John Kettle's FutureLetter

Footnotes

Note: In the Microsoft Word or PDF version of this document, clicking on the blue words – hyperlinks - in the footnotes will take you to relevant places on the Internet on these topics.

¹ Let's define enterprise, for the sake of clarity. An enterprise is a form of social organization that people use to organize their efforts in the pursuit of one or more shared goals. Almost all enterprises have some degree of formal organization. The most structured ones are stratified hierarchies, i.e. one (or very occasionally two) people are at the top and the rest of the folks are organized into a number of progressively lower reporting layers. Enterprises can be for profit or not for profit. All of what follows applies to both, although the focus will be on for profit enterprises.

² Comparable factors exist for not-for-profit enterprises and for organizational units that provide internal products or service to other parts of a larger organization. Clarifying these factors in these business contexts is beyond the scope of this white paper.

³ Normally, some form of investment structure is used to clarify the working relationship between shareholding investors, enterprise debt holders and other key stakeholders. The financial and legal structures used to clarify these relationships are not explored in this white paper. Although they are important in the context of each individual turnaround, they do not immediately impact the relationship dynamics explored in this white paper.

⁴ Or commission outside individuals, or individuals working for one of the key external stakeholders, to do it.

⁵ These "just keep things going" requests are straight forward to scope and to staff. They generally require expertise in a particular industry, and are often best filled by an interim executive who has a good local contact base. Fit, operational experience and availability are the three most important criteria for finding such a person. A number of senior level executive search and boutique interim management firms are specialists in finding and supplying such people.

⁶ See "[Enterprise Turnarounds: A Sustainable, Staged Approach](#)" for one such framework.

⁷ Key external stakeholders may believe this because most successful operating companies have leaders that do have industry experience. The growth paths available to a successful operating company - increasing sales, decreasing input costs, and improving selling price / cost margins - all require maximizing the benefits of existing positive industry relationships. Turnarounds may require forging new industry relationships, re-vitalizing negative ones, and breaking unproductive ones. A new face may be a distinct advantage in each of these situations.

⁸ Stress can lead to a wide variety of unproductive business behaviors, including denying or putting off the specifics of negative situations. The "been there, done that, survived that" dynamic keeps people from denial, and frees them to act. It also allows them to remain calm in the face of upheaval.

⁹ Individuals may get such experience as part of a turnaround team run by a successful turnaround leader. They may have been actively mentored by such a person. They may have acquired it through reflection on hard experience. The reflective, self-analytical learns as much from past failure as they do from past success.

¹⁰ The actual turnaround may last longer. But the essential change is usually completed in this time frame. Urgency is a key factor in avoiding burnout in the staff and the executive team. The

turbulence of change needs to be replaced by the success of accomplishment and positive outlook relatively quickly.

¹¹ The productive integration of consultants and other outsiders into the turnaround team during the great personal anxiety experience that key insiders experience during turnaround is another competency required by turnaround leaders.

¹² Startup entrepreneurs are different. Using Edgar Schein's career anchors framework, they are creative entrepreneurs. Creative entrepreneurs who build enterprises often have general management as a secondary career anchor. Turnaround leaders are more likely to have general management as a primary career anchor, with autonomous independence or technical – functional competence as secondary anchors. See Edgar Schein's work on career anchors for more insight. (e.g. Schein, Edgar H, (1990). *Career Anchors (discovering your real values)*, Jossey-Bass Pfeiffer, San Francisco)

¹³ Turnaround leaders are motivated by resolving complex organizational difficulties. They are complex problems solvers by nature. The status associated with organizational leadership is a necessary tool to allow them to do this, not an end in its own right for them.

Established organizational leaders are often motivated by status and power. They are extenders by nature. As they grow the enterprise, they expand their personal sense of importance and influence.

Entrepreneurs strongly associate their personal identity with the products or services they create. Their sense of self is enhanced when their products or services are taken up in the market place.

When they are successful business people, turnaround leaders, organizational leaders and entrepreneurs all have the attributes that Schein associated with the general management competency career anchor as part of their psychological makeup. But they express them in very different ways.

¹⁴ Behavioral interviewing involves getting individuals to talk about how they have handled this type of situation in the past, and probing their explanations using minimal encourages to talk and open-ended questions to get below the surface layer of their presentation. Some individuals develop these skills as a result of their business experience. Others acquire the technique as a result of formal training. In both cases, the interviewer needs relevant equivalent business experience of their own to effectively evaluate what they hear. Potential turnaround leaders must dialog extensively with change sponsors and others over a period of several hours in order to create the understanding needed to truly evaluate their capabilities.

Reference conversations with appropriate people who have worked with the turnaround leader are also very insightful. Once again, these must be done by individuals who have the business experience to ask the depth questions, and evaluate what they hear. This often means hearing the sub-text – what is implied but not explicitly said – accurately.

¹⁵ Ken Blanchard's and Paul Hersey's [Situational Leadership Model](#), which characterizes effective leadership as the ability of an individuals to understand the leadership needs of a situation and adapt to it, as well as the ability to change personal leadership style as a team grows in its effective maturity (from Telling to Selling to Participating to Delegating" is the kind of leadership style required by turnarounds and transformations.

¹⁶ John [Gabarro](#)'s (Harvard Business School) "The Dynamics of Taking Charge", John [Kotter](#)'s various books on change and leading change, and Ken Blanchard's [Situational Leadership](#) model are relevant to this competency dynamic.

¹⁷ Turnaround leaders may also be working for themselves if they stand to gain financially personally from the success of the turnaround. But this does not contain the same potential role confusion.

¹⁸ In fact, as we will shortly discover, change sponsors are extremely important to maintaining confidence during the initial stages of enterprise transformations. See “Things Get Worse Before They Get Better” in the following pages.

¹⁹ This white paper uses the language normal to “for profit” enterprises. Equivalent conditions exists in not for profits environments.

²⁰ Future investment is one source of external resourcing. Key external stakeholders are often reluctant to do so in the early stages of a turnaround. The initial period of declining organizational performance often works to justify them in this judgment.

²¹ See “[A Manager’s Short Primer on the Resistance to Change in Organizations](#)” - for more about the dynamics of resistance inside organizations and the most effective responses to it.

²² Doug Mcnamara uses the phrase senior management. For enterprise level change, this refers to change sponsors and key external stakeholders.

²³ Doug Mcnamara characterizes this dynamic as moving from “tell” to “expecting completion. The imaginary dialog from key external stakeholder to turnaround leader goes something like this” “Well, I have approved the change, haven’t I? What taking you long? Why aren’t you done yet?”

²⁴ Psychologists call this ability to step out of the immediate, and look at one self and the events one is involved in from the outside in the ability to move from first to second position. [Robert Kegan’s “In Over Our Heads: The Mental Demands of Modern Life”](#) and [Ronald Heifetz’s “Leadership without Easy Answers”](#) are the two classic books by Harvard based adult psychologists that discuss aspects of this ability of mature adults.

²⁵ Assuming that the turnaround leader and the change sponsor have done what it takes to create progressively deepening trust between them.

²⁶ See Afterword 3 for more on the origins of this framework.

²⁷ Once again, See “[A Manager’s Short Primer on the Resistance to Change in Organizations](#)” - - for more about the dynamics of resistance inside organizations and the most effective responses to it.

²⁸ All characteristics of what Jim Collins calls the “Level Five Leader” in his book “[Good to Great: Why Some Companies Make the Leap...and Others Don’t](#)”.

²⁹ See Lee Bolman’s and Terrence Deal’s “[Reframing Organizations](#)” for insight on the way that ritual, drama and theatre play a role in successful enterprise leadership and change.