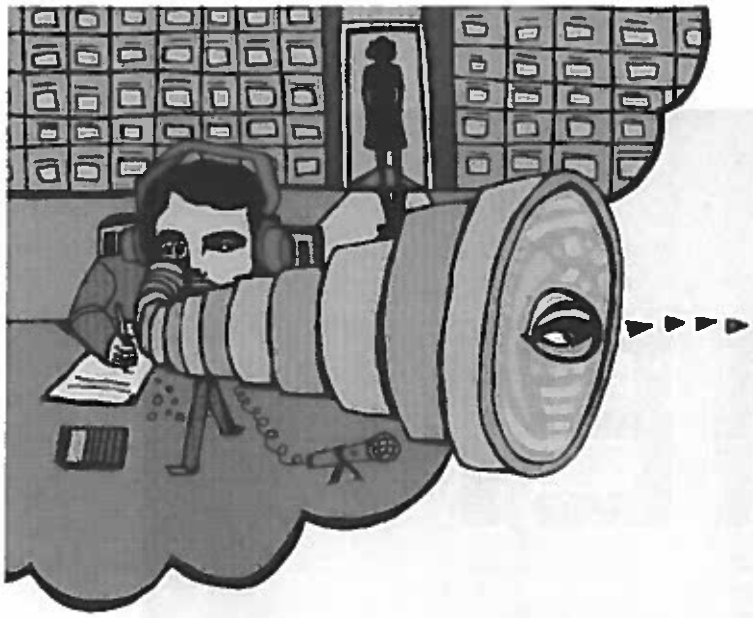


# Leadership and the Psychology of Turnarounds

by Rosabeth Moss Kanter

**Decline causes managers to dislike and avoid one another, hide information, and deny responsibility.**

IN RECENT YEARS, I have been inside nearly two dozen turnaround situations, in various stages of progress, in which new leaders were bringing distressed organizations back from the brink of failure and setting them on a healthier course. In every case, I saw—and agreed with—the need for smart financial and strategic decision making. But along the way, I also noted another important aspect of this leadership task, a related line of effort that seemed to go largely unnoticed and unstudied by observers but that was just as vital to improving the company's fortunes and just as hard to do well. Each of these executives restored their people's confidence in themselves and in one another—a necessary antecedent to restoring investor or public confidence. They inspired and empowered their organizations to take new actions that could renew profitability. In short, each had to lead a psychological turnaround.

Consider the situations that confronted new CEOs in three companies:

**Gillette:** Its performance was strong through the mid-1990s, but by the beginning of 2001, this global consumer-products company had experienced several years of flat sales, declining operating margins, and loss of market share. Its Mach3 shaving system was a blockbuster product, but the company was suffering the effects of its own reliance on trade loading—the practice of offering discounts to retail customers at the end of a quarter in order to move products and achieve sales targets, thus sacrificing margins and jeopardizing the next quarter's sales. Meanwhile, because the executives in different product groups and locations rarely sat in the same meetings, initiatives in their various areas were not coordinated. SKUs (stockkeeping units, or product variations) proliferated as groups made decisions without informing other departments, leading to waste and duplication. Respect among peers declined.

**BBC:** In 1999, the British Broadcasting Corporation was a seriously demoralized organization. Its funding was secure through 2006 because of a government-collected licensing fee, but it had lost audience share, experienced declining ratings, and was being outpaced by commercial competitors. Skepticism and cynicism reigned in the company. Many people felt under attack, externally and internally. Program developers felt they were at the mercy of broadcast commissioners and that they were being treated unfairly, having to endure a long bureaucratic process

**That's what makes turnarounds so hard – and leaders who reverse the cycle so impressive.**

MICHAEL MILLER

that ended in their show proposals being rejected more than half the time. The radio division felt it didn't get the same respect as the TV unit. The sports division had to fight for airtime. Employees regularly went to the press to air grievances, reinforcing the BBC's culture of blame.

**Invensys:** A global conglomerate that was created largely through acquisitions, Invensys in 2001 had more than 50,000 people working in industrial and energy services – and was close to defaulting on its financial obligations. Some managers felt the company was also bankrupt in terms of ideas. There was insufficient communication across the company, including few common meetings of the top group, competition among divisions that were largely isolated from one another, and an inward focus among managers. Perpetual restructuring had created a culture of fear and had reduced employee initiative. When the new CEO asked executives individually to name the three people in the company for whom they had the greatest respect, most could barely name one.

**Organizational pathologies arise and reinforce one another in such a way that the company enters a kind of death spiral.**

It may be true, to paraphrase Tolstoy, that every unhappy organization is unhappy in its own way, but once we set aside the details, the fundamental dynamics of decline – and recovery from it – in these three companies turn out to be remarkably similar. Indeed, across a wide variety of situations, in banking, consumer products, retail, industrial products, software, education, and media in North America and Europe, I've found the same pattern. Organizational pathologies – secrecy, blame, isolation, avoidance, passivity, and feelings of helplessness – arise during a difficult time for the company and reinforce one another in such a way that the company enters a kind of death spiral. Reversing that downward trend requires deliberate efforts by the CEO to address each of the pathologies.

Here's how this spiraling effect worked at a company I'll call Industrial Era Corporation, or IEC.

## The Dynamics of Decline: A View from Inside

IEC was once a rapidly growing industry darling. But a series of lackluster products and expenses too high for a shrinking post-tech-crash market had set it on a downward path. Meanwhile, its largest rival went from strength to strength in the same unforgiving market. It was almost as if they were now two different species. The rival could do no wrong; IEC could do no right. One analyst declared that IEC was worth more dead than alive. Institutional customers called to ask whether the company would be able to meet service commitments to its products. Each group that questioned IEC's viability caused other groups to lose confidence.

IEC tried to bounce back by launching two innovative products. But neither moved the company off the death watch, because everything IEC did was now viewed as evidence of weakness. The organization was under a negative halo. Psychologists define the halo effect as the aura that surrounds a successful person or organization. Indeed, when IEC was on the rise, its founders were lionized as brilliant strategists, and the praise heaped on IEC made its products more desirable and reinforced a growth spiral. The halo effect had hidden any weaknesses back then. Now it was hiding IEC's strengths.

When IEC posted a string of consecutive quarters of decline, the company's leaders thought they could push their way back into the black by exhorting people to reduce their expenses further and launch new products faster. Commands started flowing from the top. But the tighter controls were greeted with cynicism. Some people began to do the minimum, showing up at work just long enough to earn their end-of-year bonus. Managers distanced themselves from company decisions. They would tell outside consultants that they weren't involved, that they disagreed with the decisions, or that someone else in another division or department was responsible.

As problems mounted, so did the likelihood of secrecy and isolation among managers. People tended to either blame or avoid one another. Since bad news is never as welcome as good news, and there was more bad news than good, IEC managers kept communications with the staff and one another to the bare minimum. It wasn't that they were consciously hiding problems; they simply found reasons to cancel or postpone meetings, often citing increased work pressures.

The CEO told managers to focus on improving their own performance, and he put their bonuses at risk. As group heads emphasized meeting current targets, the company virtually eliminated cross-functional or cross-division projects. Groups knew less about what was going on in other parts of the organization and stopped caring – or cared too much, imagining how others might be plotting to cut them out of their share of a shrinking budget.

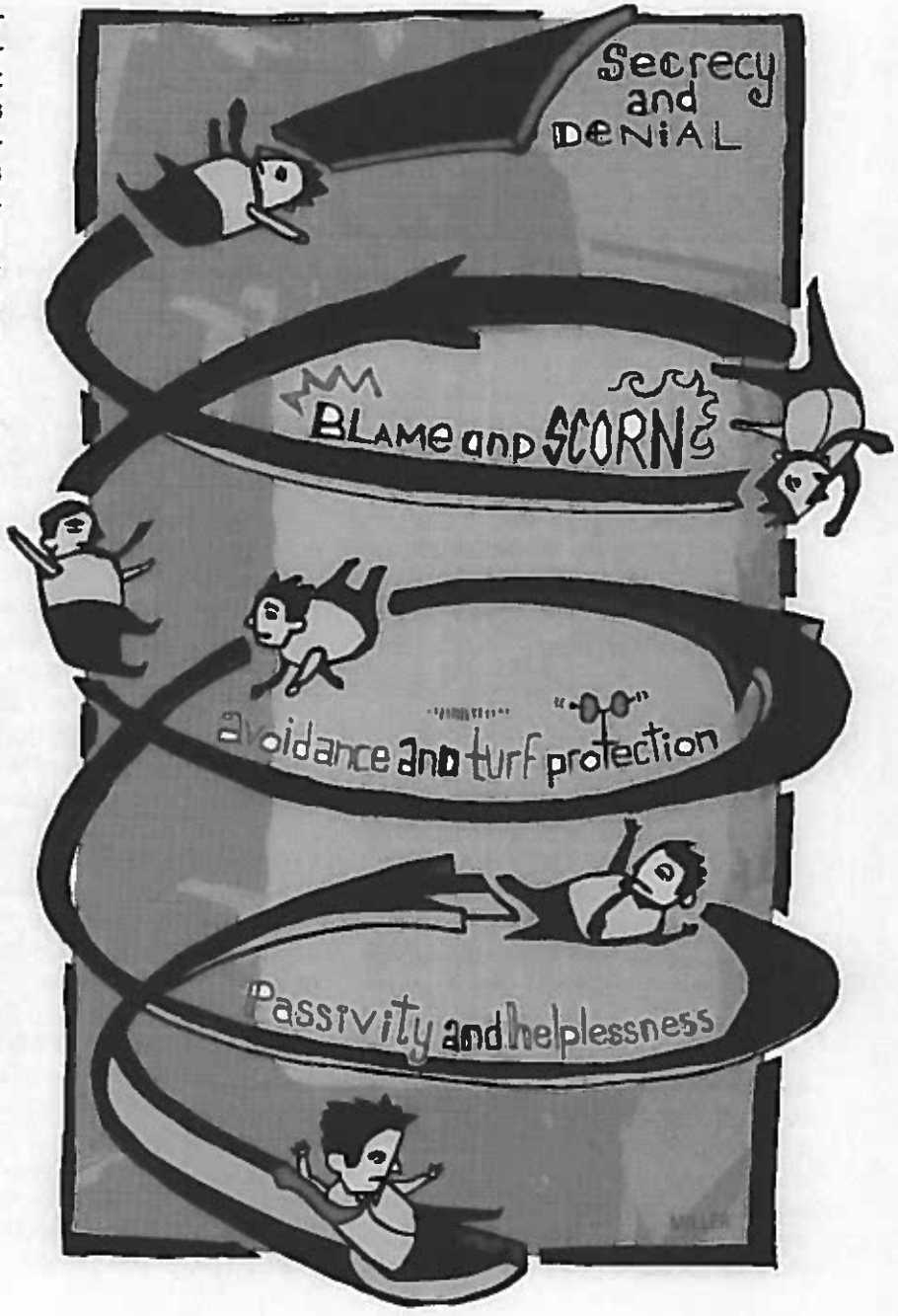
*Rosabeth Moss Kanter is the Ernest L. Arbuckle Professor of Business Administration at Harvard Business School in Boston, specializing in strategy, innovation, and leadership for change. She is a frequent contributor to HBR and was the editor from 1989 to 1992.*

Various business efforts were duplicated; each group felt it was easier to perform tasks itself rather than coordinate its actions with others.

Increasingly, people's time and energy were spent on self-protection instead of joint problem solving. The invisible walls between territories grew. Most senior executives at IEC sat within a few feet of one another in offices with glass walls, yet many professed ignorance of the other units' plans to solve IEC's problems. The CEO and CFO tended to control the information that circulated. Though reporting requirements increased during IEC's troubled period, communication outside of formal meetings decreased.

It became rare for all the senior executives to sit down in one room together. Executives found reasons not to attend meetings because those few meetings that remained had degenerated into diatribes by the CEO, followed by uninformative reports. No one wanted to raise questions because that tended to produce angry exchanges, as department heads accused other department heads of putting obstacles in their paths. The game became one of blaming others before they could blame you. For example, the head of IEC's customer service group wrote memos outlining the problems other divisions were causing that his department had to fix. Since the good performers in the organization did not want to be tainted by the failure of the poor performers, those in units with strong sales became openly scornful of their peers in other units.

Managers with opportunities were leaving. Not all the departures were mourned; some senior managers had not met expectations. But now IEC was constantly recruiting to fill holes at the top, and critical tasks were left undone because executives were on double duty—for example, the CIO was now supervising the operations group. All of this reinforced the dynamics of IEC's decline. Employees had so little interest in socializing with one another outside of work that the CEO had to order his direct reports to show up at a company social event.




## The Troubled Company's Cycle of Decline

Corporate decline generally does not stem from a single factor; it results from an accumulation of decisions, actions, and commitments that become entangled in self-perpetuating workplace dynamics. Secrecy, blame, isolation, avoidance, lack of respect, and feelings of helplessness create a culture that makes an already bad situation worse. Once a company is caught in this spiral, it is hard to simply stop and reverse direction. The system has momentum, and change seems impossible. But there are interventions managers can use to shift the momentum in the company's favor.

To cope with the decline, IEC got caught in the trade-loading trap, common in troubled companies. Toward the end of each quarter, IEC offered promotional deals to its distributors to move inventory. This was a tantalizingly simple short-run solution to declining sales but tended to make the situation worse. The price cuts reduced the funds available for marketing, which increased IEC's reliance on the promotional deals. And customers knew they could wait until quarter's end to get even better deals. IEC's managers felt they had no choice but to continue to discount. Acting from a weak bargaining position reinforced IEC's ever-weakening position.

That assumption of weakness reflects a phenomenon psychologists call learned helplessness, a term coined by the University of Pennsylvania's Martin Seligman. Many people at IEC began to feel there was little they could do to make a difference in the company's fortunes. They became passive. The CEO complained that he had to come up with all the good ideas; the more he complained, the worse people felt about their own ideas, since presumably theirs weren't the good ones. Managers set low goals to guarantee they would achieve them. One group at IEC tested a new method for selling products that had doubled sales, but other managers wrote much lower numbers into their plans in case the new method wouldn't work for them. Think of this as the opposite of the arrogance of success – it's the timidity of mediocrity. Individual choices, each logical to the person making it, added up to a system that caused people to feel powerless. And the downward cycle continued.

**Despite the common psychological dynamics at work, leading a corporate turnaround isn't a one-size-fits-all process.**

## Reversing the Cycle

IEC's story demonstrates how problem fuels problem in an ailing organization's culture. (See the exhibit "The Troubled Company's Cycle of Decline.") The dynamic boils down to this: After an initial blow to the company's fortunes, people begin pointing fingers and deriding colleagues in other parts of the business. The resulting tensions curtail collaboration and degenerate quickly into turf protection. Increasing levels of isolation throughout the company then engender secrecy. Once they are no longer acting in concert, people find themselves less able to effect change, and eventually many come to believe they are helpless. Passivity sets in. Finally, the ultimate pathology of troubled companies takes hold: collective denial. As in the fabled village where the emperor showed off his new clothes, people unwittingly collude. Rather than volunteer an opinion that no one else seems to share, people engage in collective pretense to ignore what they individually know. It's a phenomenon known to psychologists as pluralistic ignorance.

How wonderful, then, when a company is able to pull out of that downward spiral – as IEC did after a new CEO took the helm. How did he pull it off? In the end, the only way a CEO can reverse a corporate decline is to change the momentum and empower people anew, replacing secrecy and denial with dialogue, blame and scorn with respect, avoidance and turf protection with collaboration, and passivity and helplessness with initiative. Let's look at each of these interventions in turn.

**Promoting Dialogue.** Companies compound their financial and strategic woes when they keep information secret from their employees and the public. As numerous recent scandals have made clear, the cover-up is often worse than the mistake. And problem solving is impossible if people do not have all the facts. So the first task of turnaround leaders is to open channels of communication – starting at the top.

On Jim Kilts's first day as CEO of Gillette in February 2001, he held a full meeting of the operating committee. He presented a detailed set of slides outlining his style and leadership philosophy. He expected fact-based management, open communication, simplicity, and collaboration from Gillette's line managers and employees. Featured prominently on the list titled "My Style" was the statement, "If something bothers you, I want open dialogue." Kilts then outlined the results of his month-long external review of the company prior to joining, a detailed analysis of Gillette's strengths and weaknesses. He was also planning to present this information to the board several days later. Kilts immediately established multiple communication channels – weekly staff meetings, weekly business overviews from all executives worldwide, quarterly two-day off-site meetings for senior executives, a chairman's page on Gillette's intranet where anyone in the company could post questions and receive answers from Kilts himself, the distribution of videotaped dialogues with Kilts for managers in the international locations he couldn't visit personally, and employee roundtables.

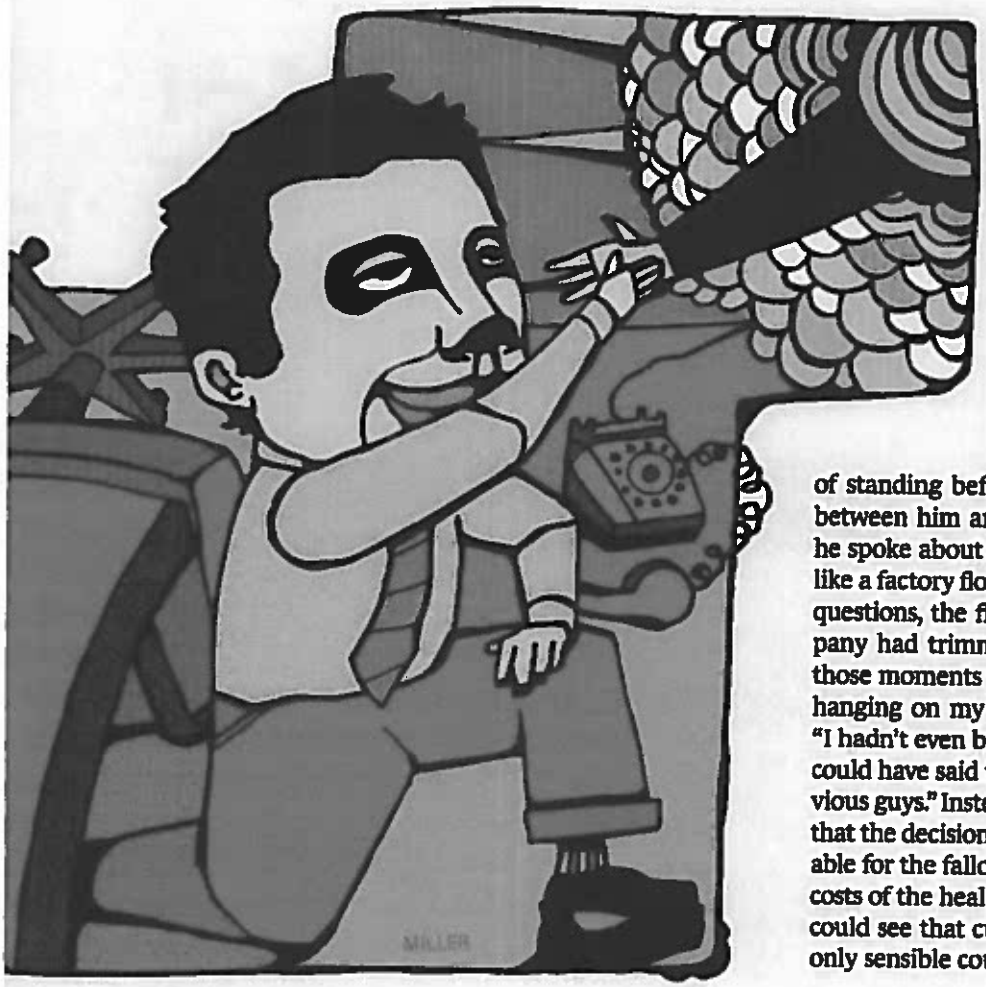
One of Kilts's more controversial moves, but one that increased disclosure among colleagues at Gillette and pushed communications forward, was to expose the performance data regarding his top team. The CEO introduced quarterly report cards for his senior managers, and after the first ones were completed, he posted the results for the whole top team to see (anonymously at first) so that everyone knew where they stood in relation to their

peers. Those scorecards were followed by senior managers' open presentations of their priorities for the next quarter. Secrecy and denial were relegated to the trash bin; there was no way to hide information.

The nature of conversations at Gillette shifted from individual reports to group dialogue. Previously, managers told me, they would go to meetings, say their piece, and go away. With Kilts at the helm, managers said their piece–and stayed to answer questions. "He does not attempt to wrap himself or the company in any sort of mystical qualities," an executive observed. Anything was open for questioning.

Almost identical shifts in quantity and quality of communication occurred in the other companies I observed. At the BBC, new CEO Greg Dyke restructured to remove a layer of the organization that had stood between top management and those responsible for audiences and products (the broadcasters and show producers). He put program people on the executive committee and gave them a voice in decisions. Meetings became more frequent and much more informal. Dyke favored open and direct communication through personal e-mails to individual employees as well as broadcasts to the whole of the BBC. The BBC's finance director noted, "He writes the messages himself, to everyone, from the heart, telling the truth, telling people what he wants them to do, and communicating instantaneously." Dyke also sought less formality among senior managers so they could spend more time talking about strategic issues. Dyke reduced the divisions' formal reporting requirements to the executive committee. BBC News had previously submitted status updates in six three-inch binders; Dyke condensed the requirements so that the reports fit on ten pages. Staffers often remarked about the CEO's personal warmth. An executive said, "Greg cares about people–he touches them on the shoulder and arm–a sharp contrast from the behavior of most standoffish Brits. He establishes a connection and makes time for as many people as possible."

CEO Rick Haythornthwaite and his team made dialogue a hallmark of the new Invensys. Town-hall–type meetings were convened in the largest of the company's 400 sites worldwide. Haythornthwaite picked up the phone to call people who raised an interesting point or a note of dissent on the company's "Ask Rick" help line. And he still continues to be personally involved in the drafting of responses to employee questions. Dialogue means that everyone deserves a response. "If you do drop the ball, people know about it very quickly," Haythornthwaite said. "And even though it creates an incredible amount of pressure, you've got to be thinking every day, Is there someone I cut short? Is there something that someone said in a meeting that I haven't followed up? Those things just undermine the effort."



In a company where there was a perceived distance between the leadership and the workforce, Haythornthwaite made a point of standing before his employees with no podium between him and them. At one town hall meeting, he spoke about company issues in front of what felt like a factory floor of humanity. When it was time for questions, the first person asked him why the company had trimmed the health plan. "It was one of those moments where you could see everything was hanging on my answer," Haythornthwaite recalled. "I hadn't even been responsible for the decision, so I could have said that it wasn't me, that it was the previous guys." Instead, Haythornthwaite acknowledged that the decision wasn't his–but that he was accountable for the fallout. He presented the facts about the costs of the health plan. Given those facts, the crowd could see that cutting from the health plan was the only sensible course of action. "The only way I could

give you a different answer is by fundamentally shifting the U.S. health care system," he told the group, and at that point the audience was back on his side. "People just hadn't been treated to the facts in the past. That's just so consciously condescending. If you're all in the same game, then you share those facts."

**Engendering Respect.** Open dialogue exposes facts and tells the truth, but a successful corporate turnaround depends on relationships as well as information. It is very tempting for a new regime to exact revenge and punish those responsible for past mistakes. But that would only guarantee that organizational pathologies – the company's blame culture – would continue. Turnaround leaders must move people toward respect; when colleagues respect one another's abilities, they are more likely to collaborate in shaping a better future. There is a parallel in the work of a great world leader. To turn around his country, Nelson Mandela, the first democratically elected president of South Africa, established a Truth and Reconciliation Commission. Reconciliation helps people move beyond assigning blame for problems; it helps them regain respect for one another while becoming more personally accountable.

Haythornthwaite was conscious of walking a fine line between truth and reconciliation. He observed, "You've got to speak to where the organization stands. And you've got to do it in a way that doesn't make people wrong but, at the same time, doesn't leave them in denial." He wanted to avoid punishing anyone for past mistakes, and he wanted to build mutual respect among colleagues. "You've got to create some space to make a mistake or two," he said. "We are but a collection of human beings." By making no changes in the senior-management ranks in his first months, except for one division head, Haythornthwaite signaled that there was quality to be found in the people already in the company. By involving about 100 people in strategy-formulation teams, he provided opportunities for them to demonstrate their talent. Haythornthwaite told them explicitly that he trusted them, that he believed there was talent in the company. At a three-day reporting session after their 45-day intensive effort to plot a new direction for Invensys, he said, "the mood was extraordinary. People we didn't know existed were offering high-quality presentations of strategic thinking. The overall level of respect for one another in the room rose." To set standards for a variety of processes, Invensys's new leaders looked inside the organization for best-in-class practices – among 53,000 people there were surely examples of best practice – as another way to raise organizational esteem and confidence.

Similarly, Jim Kilts's initial actions at Gillette helped people look at the facts without becoming defensive about them. Kilts's message from day one was that he had no preconceived notions about people and no plans to make sweeping changes in the management ranks. "We have a very good cadre of people who want to do the right thing," he said. One of his priorities was to eliminate the finger-pointing that had gone on in the past. Frequent meetings among managers who never had much of an opportunity to sit together before made this possible. If an executive said he did not reach a certain target because someone else didn't do his part, Kilts would turn to that person to ask what happened and to remind everyone of the overarching objectives and priorities linking the areas. A participant recalled that the first quarterly off-site under Kilts was tension ridden, with outbursts of anger as people played out the blame culture of the past. But over time, the meetings became more effective and team oriented. "I don't want competition among functions or the senior staff. Anything that even hints at it is counterproductive. I hate anyone saying 'Jim said' or 'Jim wants' or 'the board said' or 'the board wants' as the reason for doing or not doing something. Things are done, or not, based on rigorous assessments and considered delibera-

## A New Broom?

MOST OF THE EXEMPLARY TURNAROUND LEADERS I've seen – including the CEOs of Gillette, the BBC, and Invensys – were new to their organizations as well as to their jobs. Does this mean that only a new broom can sweep clean?

Perhaps so. After all, if the old CEO had wrong ideas in the past, why should people believe he or she has the right idea now? Even when an executive who presided over a period of decline admits mistakes and embraces new ways, it's nearly impossible for that person to stir up the organizational energy needed for a turnaround. As former U.S. vice president Al Gore observed when he decided not to run for president in 2004, his candidacy undoubtedly would have been dogged by debate over why he lost the race in 2000, at a time when his party needed to focus relentlessly on moving forward.

But new CEOs have the edge in more positive ways, as well. They are better able to disentangle system dynamics because they were not caught up in them. For example, one of the most important steps of a psychological turnaround is putting a name to problems that have long gone unexpressed. At Gillette, for example, senior executives claimed to a person that they had known for years what the problems were: trade loading; long gaps between new product releases and a proliferation

tions," Kilts said. That also meant that people could start relying on each other to be accountable.

It is hard to play politics if everything is discussed openly. The BBC's Greg Dyke changed the tone and style of the executive committee meetings dramatically. An executive explained, "In the past, managers would lobby the director general privately, so you would go into a meeting and not know where you stood. With Greg, if you have any issue, it needs to be put on the table. Meetings are more chatty, less formal, more sociable. We have away days. We do fun team-building events. We see each other socially." Dyke also expected managers to respect one another's ideas. To drive this home, he created yellow cards, resembling those used by referees to signal a penalty in soccer matches, labeled "Cut the Crap: Make It Happen." He used the cards himself, holding them up when he heard ideas getting trampled. BBC leaders started learning not to second-guess people but rather to extend trust.

At a leadership conference of several hundred people, a junior manager confessed in her small discussion group that she was out of pocket a few thousand pounds for a project because of BBC rules concerning qualified vendors and the timing of reimbursements. She was encouraged to speak up in the large group. After she described her situation, her boss offered to write her a check for the sum she awaited. But he was superseded by the BBC's finance director, who not only wrote the check but changed the rule on the spot.

**Sparking Collaboration.** Turnaround leaders know that problem solving requires collaboration across departments and divisions—and not just because innovations often come from these joint projects. Changing the company's dynamics requires collective commitments to new courses of action lest local decisions, taken in isolation, undermine that change. New strategies are possible when new kinds of conversations are held about combining organizational assets in new ways. Thus, Greg Dyke's first major initiative, announced within two months of his arrival, was called "One BBC: Making It Happen," to highlight that he was seeking more collaboration throughout the organization. Executive committee meetings were increasingly devoted to themes that cut across divisions, and members discovered areas in which they could combine forces to tackle new business opportunities.

Gillette's complex organizational matrix meant that many operations issues arose at the intersection of groups—for instance, product managers required resources and support from the IT department or needed to coordinate their launches with help from sales representatives in the field. Jim Kilts encouraged the formation of operating committees in each business unit or regional group, and then further encouraged the creation of cross-matrix operating committees that included representatives from all the functions and areas on which the business unit depended. The view across the organization revealed business opportunities that would have been hard for any one unit to see by itself. For example, Gillette's Oral-B business unit, centered in the United States, produced a quality line of toothbrushes, and its Braun division, headquartered in Germany, had developed world-class portable-appliance technologies. But, unlike its competitors, Gillette did not make a battery-powered toothbrush—until new relationships were formed across the ocean.

Rather than continually reorganize, which is highly disruptive, especially for a troubled company, turnaround leaders simply augment the organization chart with flexible, often temporary, groups that open relationships in multiple directions. Invensys's Rick Haythornthwaite refers to this as structuring the organization to get the right discussions. "The only thing I really do is lead conversations," he says. "Any group is a network of conversations. I continuously thrust people into situations that force them to challenge the current conversation they're holding, to get beyond that discussion to one that's more productive."

of minor upgrades on existing products; and the inappropriate application of the company's strategy for blades and razors to other categories, especially the Duracell battery business. As a Gillette group director for Europe proclaimed, "I'm absolutely certain there's not one person in the whole company who for one moment thought that we should do anything other than get out of trade loading." Yet it took a new CEO to give voice to the problem and change the habit. Similarly, at Invensys, new CEO Rick Haythornthwaite reported, "Everyone knew the problems, but the structure inhibited them from doing anything about it. People could only take shots across the silos. Some people knew the issues technically and could prevent obviously bad decisions, but they lacked the power to act outside their own fields of concentration. They knew change was needed, but they were not sure how to make it happen."

New CEOs may also have more credibility in representing and respecting customers. In his earliest days at Gillette, Jim Kilts visited a major retailer with a sales executive. Greg Dyke traveled to several BBC studios outside London and immediately endorsed a plan to move them to visible locations in the centers of their cities, where they could connect with audiences more directly. And Haythornthwaite spoke passionately about what he learned from customer interviews. All three understood the powerful, unifying effect of focusing on customers.

Invensys's leadership team acted on this theory by adding new groups and roles, slicing through the organization chart vertically, diagonally, and horizontally. In his first months at the company, Haythornthwaite formed nine strategy teams comprising people from across the divisions, with each team focused on one of nine customer segments. When the company launched this initiative, it involved the top 300 people in rank at the organization and 100 additional participants called "ambassadors for change," ensuring that people below the managerial ranks would be part of the strategy conversation. Haythornthwaite also recruited experts to lead in four areas cutting across the business – supply chain (procurement), customer development, service delivery, and project management. They had only small teams and no P&L responsibility. Their charter was to set standards within their areas and to work with others to bring about necessary improvements.

**Inspiring Initiative.** Once turnaround CEOs establish the structures that allow people to collaborate, they need to empower their employees to initiate the actions that will improve the company's financial or strategic position. One incident at the BBC revealed that learned helplessness is a disease that even top executives can suffer and that initiative is not automatic even in those assumed to have power. Jane Root, controller of BBC2, remembered a pivotal executive committee meeting about a seemingly trivial matter: "Greg wanted to put up some posters on the wall and was told by someone on the executive committee that 'They won't allow that.' Greg said, 'Wait a moment – who won't allow it? We are them.' We had to break out of this infantilizing past. It took Greg to show us that we were in charge, that we could change things if we liked."

The push on the part of the executive committee to support new ideas and to collaborate on cross-division projects created some striking innovations at the BBC: a new time slot for the nightly TV news that boosted viewership; a successful Scottish soap opera produced locally rather than in London (the source of most programs in the past); and interactive features on the BBC Web site through the combined efforts of the news, sports, drama, and children's programming divisions. In another early win, a new trainee using funds intended for a training video created a ten-minute pilot for what became *The Office*, a hit comedy series about life in a dead-end, white-collar job.

The next step was to move idea generation from the BBC's executive committee and senior leaders to everyone in the company, ensuring a flow of ideas from the bottom up as well as from the top down. At his annual state-of-the-organization broadcast to the whole BBC in February 2002, Greg Dyke announced the then-still-unformed "One BBC" effort – but by now, the executive committee was sufficiently confident that it could announce a major initiative even if the details hadn't been worked out. That was a major departure from the committee's passive bureaucratic past. By July 2002, 5,000 people were involved in "One BBC: Making It Happen" brainstorming sessions; by November, 10,000 of the BBC's 24,000 employees had participated. More than 2,000 ideas were submitted through the initiative's Web site, and 700 had been implemented, including a BBC-wide discount on digital set-top boxes and an important new employee orientation program. Dyke personally reviewed many of the proposals, and division managers added their own support for grassroots innovations. BBC Wales created a fund of £100,000 to pay for projects suggested by the staff, who then voted for the top seven ideas; more than 900 people, 70% of the division, voted.

At Invensys, the leadership team conveyed the message that employees were now *expected* to show initiative. "The days of autocracy are over. You have it do it yourself," Haythornthwaite told his people. The nine strategy teams were a first step. Arming them with customer information, a framework, expert resources, deadline pressure (45 days), and a process, he left them to develop the ideas themselves. A strategy rollout conference with the top 70 executives reflected their increasing confidence and initiative. At one point, the Industrial Components & Systems group walked out of the meeting, booked its own conference room, wrote a script for divestitures, and returned with a sense of pride because it had taken control.

Then Invensys started the long process of opening up the idea floodgates. The company created INVEST (identify, nominate, validate, evaluate, start, track), a program to find improvement projects already under way in the organization, as well as new ones, and give them a disciplined project-management process to make success more likely. "I want our 53,000 people to be able to come up with ideas that we'll be able to transform into results," Haythornthwaite said. A thousand INVEST team leaders were trained over six months by 33 master facilitators, and a Web-based system was developed to track the status of all the change programs. Haythornthwaite had to repeat the message several times for people to get on board, but then new opportunities popped up and old ones kept resurfacing – a virtual logjam of interconnected issues, from transfer pricing to incentive schemes. A new team was established to take action and to continue the process of empowerment.

## The Energy for Change

Despite the common psychological dynamics at work in all the turnaround situations I've witnessed, we should remember that leading a corporate turnaround isn't a one-size-fits-all process. It requires that CEOs pay attention to the specifics of a company's problems and that the leaders bring their own preferred approaches to the task.

Rick Haythornthwaite engaged large teams to work on a new strategy for Invensys, while Jim Kilts devised Gillette's strategy for each line of business by himself, working with a small group of trusted executives. Greg Dyke virtually eliminated consultants at the BBC to force managers to think for themselves, while Kilts retained many consultants to bring an external perspective to a company that had become too insular.

Yet, despite differences in strategies and tactics, all turnaround leaders share the overarching task of restoring confidence through empowerment—replacing denial with dialogue, blame with respect, isolation with collaboration, and helplessness with opportunities for initiative. Each leader must manage the tricky task of creating a winner's attitude in people, even before the victories.

And that means performing a series of balancing acts. Troubled organizations are generally in financial distress, and cutting expenses is a characteristic turnaround move. But how this is done has a big impact on whether the turnaround is a temporary fix or a path to sustainability. To pull a company out of a death spiral, the CEO needs to encourage people to take initiative and feel that they can make a difference – which is hard to achieve when an organization is in slash-and-burn mode. Effective turnaround leaders consider the kinds of cuts they're making as well as the number, emphasizing reductions in bureaucracy that stifles initiative, thus creating conditions for change. The BBC's Greg Dyke embarked on a campaign to reduce overhead over a five-year period, from 24% to 15% of revenues, by removing a level of management; cutting spending on consultants from £20 million a year to about £500,000 a year; and consolidating support functions and making it clear that such functions served the business units, not the other way around. The goal was not just a more efficient organization but one that invested in its products – broadcast channels and programs. Unlike previous rounds of cost cutting, this approach was not demoralizing; people at the BBC generally considered it empowering.

Invensys's Rick Haythornthwaite noted the enthusiasm with which people raised their aspirations and their performance. He said he was pleasantly surprised by "the quality of people that want to join. The people who don't think you're going to make it suddenly burst with enthusiasm, and then you've connected to something in their soul. It's a wonderful moment when you start having uplifting conversations. It's a pleasant surprise, the extent to which people are self-motivated." Restoring confidence raises aspirations, he told me. "And the gap between aspiration and business-as-usual is the source of energy for change."

One conclusion is unmistakable: Turnarounds are when leadership matters most. Managers can stem losses with a few bold strokes, such as slashing budgets or selling off assets. But putting an organization on a positive path toward future success also requires that leaders energize their workforce, throughout the ranks. The small wins that newly empowered people create are the first signs that a turnaround is on track. And this is the true test of leadership—whether those being led out of the defeatism of decline gain the confidence that produces victories.

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