The Leadership Ladder:
Business transformation through high trust leadership

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Introduction

Leading a transformation in the contemporary business environment, one that is charged with frenzied competition is perhaps the most challenging of all assignments. The complexity of this task is enhanced on account of a number of business trends that define the current economy. Some of these trends[1] are:

- Mergers and acquisitions taking place at a phenomenal scale as devices to counter competition.
- Product life cycle becoming shorter resulting in a constant need for research and innovation
- Incidents of customization in manufacturing as well as the service sector
- Bureaucratic organization structures being dismantled to expedite decision making
- The lines separating different businesses are getting blurred as technology and markets have been converging fast giving rise to new opportunities for growth
- Corporates are searching for managers who can deliver high degree of performance under rapidly changing conditions
- Effective people management and change management strategies are being evolved to cope with the emergent realities.

Most organizations find themselves inadequately prepared for changes with change literature replete with cases of failed change efforts. There are several cases of failure while using interventions such as total quality management (TQM), business process reengineering (BPR), organization development (OD) etc. In response, organizations tend to concentrate course correction on non-human factors like organization structure and work processes with little attention being given to changing mindset and attitudes. It is therefore imperative that a transformation plan has to first address the people preparedness issue and begin with identifying leaders who are:

- Able to envision new ideas, gather consensus, and internalize them in the organization.
- Decisive and can instill a sense of urgency among individuals and teams.

[1] The Change Champion's field guide.

- Capable of linking change management processes to quantifiable business results
- Able to communicate the vision to give a clear mandate to people and
- Internalize the change culture into an organizational way of life.

A prerequisite for a successful transformation is what Ghoshal, Piramal & Bartlett (2000) call the need to generate "a sense of purpose within the company" for creating internal quality and team happiness for employees, delight for and loyalty from customers and profitability for stakeholders. This involves several acts of balancing, between individual and collective action, contents and procedures, long term and short term goals. Transformation can happen only through collective effort though it is a leader who spells out the nuances of the change process. In this article we essay an approach used by an Indian company for transformation. This approach is centered on the core value of high trust leadership. The leadership directed the transformation process through the steps of a Leadership Ladder each of which describes how small steps can lead to a big change.

Background of the organization

XYZ Limited (*name changed based on company's request for anonymity*) was in the business of transmission and distribution system- power and distribution transformers, low, medium, & high voltage switchgears, protection & control systems, vacuum interrupters, industrial fans, and HT motors. It was the market leader in most of the products.

In the late eighties, when competition became intense at the global level, the industry majors went in for acquisitions and mergers aiming at industry consolidation.

In order to compete with the lead players, two companies from UK and France came together to form a single entity at the global level in the early nineties with corporate head quarters based at Paris. In India, the merged company was under the direct control of the parent company in UK.

The Indian subsidiary's sales turnover was Rs 650 crores in 1996 with 16 manufacturing facilities located all over the country. The sales organization was divided into four regions based in Delhi, Mumbai, Chennai and Kolkotta with each region branching to important cities. The man power strength stood at 6200 in 1996.

Top management change

As the first step to organizational and business restructuring, a new Chairman and Managing Director was appointed in 1995 with a mandate to provide new meaning and direction to the Indian operations in line with global restructuring. The Board directed the CEO to articulate strategy for India operations and the assignment was named as Country India Strategy.

The new CEO, as a primary task appointed top executives at corporate level including a Director for Corporate Strategy and Economics directly reporting to the CEO based at Delhi to lead changes at corporate, business and functional levels. The top heavy organization structure was pruned and remodelled to include only Corporate Strategy, Finance, HR, Corporate Communication, and International Business at the corporate level and new people who had values and attitudes matching a high trust style were recruited to head each of the positions. With the team in place, the next task was to effect improvements, change and transformation within the existing system and in its members. Building a culture of high trust was an enabler in the process.

Most distressed organizations are ones where issues of trust have gone unrecognized, unaddressed, or unresolved. The ensuing "trust deficit" can stand in the way of any transformation exercise. It is therefore crucial to start off any change initiative with trying to build a culture of trust, creating an atmosphere where everyone is free to contribute fully, offer innovative solutions, take initiative and appropriate risks and be allowed to voice personal viewpoints openly. Such a culture of trust enables creation of a bond that fosters synergy and creativity within teams and across functional lines. It makes the organization multi-layered, and consequently more resilient to take changes in its stride and build and maintain a high performance pace.

Understanding High-trust Leadership

High trust leadership is a style of leading and developing an organization that puts trust-building at the forefront of its leadership agenda. It does not replace other styles of leadership, instead works in conjunction with existing leadership styles to intensify a leader's credibility, leverage, and impact. Building a high trust culture is important for various reasons. Trust is the glue that holds an organization together and the lubricant that allows it to run smoothly. When trust breaks down, the result is fear, anxiety, suspicion, and insecurity which an organization in the process of change can ill afford. Communication becomes closed and self-serving. Turf-guarding and self-protection take over. People then begin to resist change, even when change is essential for survival. In this atmosphere productivity inevitably plummets, dragging profits down with it.

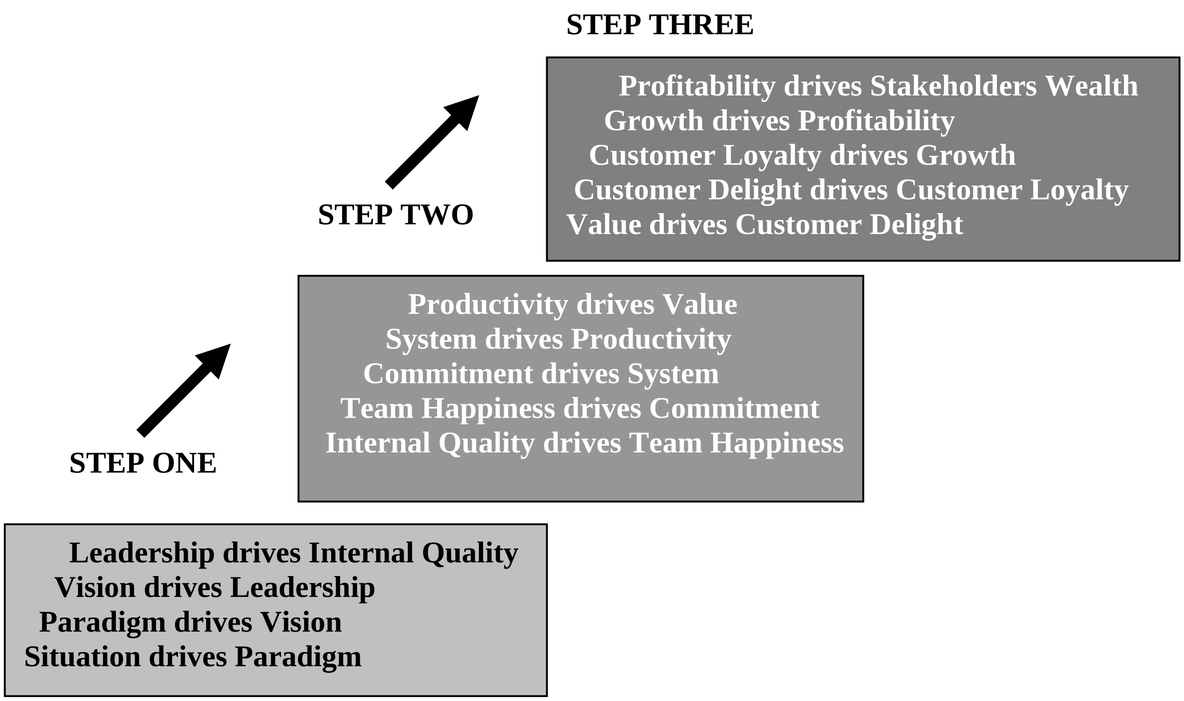
The organization started out with determining the desired behaviors for their management that would help them increase their effectiveness by better aligning actual behavior with a high trust style. The new functional heads were all assessed for their personal, interpersonal, managerial, and leadership competencies. Personal competencies included integrity, openness, trust, respect, humility, fairness, humour, and accountability while teamwork, communication, and human relations were identified as interpersonal competencies. Managerial competencies included planning, organizing, team building, measuring, negotiating, budgeting, and problem solving and decision making; and leadership qualities were assessed based on their attitude, judgement, vision, strategic planning, and motivation, coaching, and mentoring.

Leadership Ladder

The change process was modeled around the concept of a Leadership Ladder. The genesis of this model is the simple truth that organizational members have different values, opinions, attitudes, beliefs, work habits and interpretations of the business scenario. Because of this diversity, it has never been more difficult and yet more necessary for leaders to emerge to bring in an alignment at every level with the ultimate business objectives. The ability to negotiate, communicate, influence and persuade others to do things is absolutely indispensable for leading a transformation and so is the ability to confront and understand reality and start rethinking from the scratch.

The Leadership Ladder starts from the very beginning, understanding the business situation to envision and implement a unified plan and purpose across the organization ultimately leading to growth & stakeholder value. It’s a model that rests on inclusiveness of the employees on the battlefront who are well versed with the market and workplace reality. The Leader leads the way, demonstrating integrity and intent to move from the ‘actual state’ to the desired vision.

The Leadership Ladder



(Figure 1)

Step one

Situation drives the paradigm

The strategic planning team carried out an assessment of the external environment in the light of the many changes that had come in. The government policy to open up the energy sector to private players coupled with the reorganization of the state electricity boards had changed the industry and competition structure and hence the future plans of the major MNC competitors. The altered environment therefore necessitated a new paradigm for management. On the internal environment front, this translated into the task of creating a detailed assessment of resources- people profiles and capability, ability to welcome and deal with change, manufacturing technology, and sales organization besides clarifying the organizational purpose. The findings were so exhaustive on the government energy and power policy and the resultant opportunities and risks for the company that the strengths and weaknesses of the company had to be seriously reassessed to manage competition and sustain business.

Paradigm drives vision

The findings were synthesized at corporate, business and functional levels to ascertain the causes and the possible solutions. On the strategy front, the company had a variety of businesses and was not willing to let go of those which were loss making and bleeding cash. While in operations, it was way behind leading competitors in terms of customer satisfaction, productivity, employee morale, using IT, new product developments, profitability, return, and cash flow. The company articulated its new vision which was "to build an organization respected and admired for its integrity, professionalism, customer focus and concern and care for people".

Strategic Choices of the company

The team identified four focus areas aimed at fulfilling both long-term as well as short-term expectations of its stakeholders. The focus areas were mapped as a Strategic Choice Matrix.

Strategic Choice matrix

Core processes	Operations	People	Measurement	Strategy
Focus	Quality	Team building	E-Business	Market
Outcomes	Productivity	Alignment & Responsive	Structured Information	Growth & Profitability
Timeline	12 months	12 months	24 months	36 months

(Figure 2)

In the final analysis, the team articulated Country India Strategy for the company in India with broader strategic priorities as outlined below.

Vision drives Leadership

With market leadership as the goal in most of the businesses, the team identified the businesses that were to be retained where they were the industry leader and sell off those businesses where they did not have any competitive advantage. On the retain - business category, the thrust was on restructuring businesses by revamping operations, reorganizing sales organization, deciding on the product portfolio, and identifying new team leaders to head each of the restructured areas. The timeframe identified was one year from the date of approval of the stabilization strategy by the Board. The following were the performance improvement initiatives identified for the short-term:

1. Customer First through Total Quality Service
2. Productivity through Total Quality Management
3. Cash for Growth through Fight-for-Cash
4. Cost cutting
5. Integrated performance management for the business and people
6. Rationalizing the product portfolio

Leadership drives internal quality

The drive to ensure internal quality included developing systems that followed a structured approach that was holistic and all encompassing. The key elements of process quality were:

Diagnosing

(*Detailed analysis of trends, patterns, cycles, etc using data and facts to articulate the causes, symptoms, and effects*)

↓

Synthesizing

(*Cross-functional teams shall develop common understanding of the situations, causes, symptoms, and effects*)

↓

Planning

(*Setting objectives, milestones, & priorities, setting performance standards, quantifying resources, defining roles and responsibilities, project planning , training requirements, and review system*)

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Organizing

(*Scheduling resources as quantified and deploying them as per the project progress, providing additional resources as and when required*)

↓

Executing

(*Briefing the task ahead, clarifying the outcomes and expectations, Initiating actions as planned, overcoming teething troubles, maintaining morale of the team, and update the actions completed against the planned tasks*)

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Measuring

(*Monitoring progress of the activities, conducting daily operational reviews to maintain the pace, comparing actual versus planned resources, identifying critical tasks that will delay the planned completion, provide support at every stage, measure the outcomes, cheer and appreciate every success as well as failures, and bestow rewards and recognition*)

As part of the consolidation strategy, the strategic priorities were modernizing operations, embracing E-Business in every activity of the businesses, downsizing the large product portfolio in every business, introducing new products based on state-of-the art technology, and finally reducing the bloated manpower in every level. The timeframe decided for the consolidation strategy was two years from the date of approval of the strategy by the Board. Concurrently, attention was given to attracting, nurturing, rewarding and retaining leadership talents without which little could be accomplished.

Step Two

Internal quality and team happiness through values and commitment

The company was the market leader in rail transport sector which designs, builds, operates and manages the high speed train services and power generation in France. As part of its strategy, the team identified strategic alliance and merger and acquisition as the route to gain quick entry into the Indian market. The plan was in line with the medium as well as long-term commitment the company had to the country as India was identified as a major market to be tapped.

A long term interest also required the company to build systems that enhanced internal quality of management. Change cannot happen by intellect alone; it needs emotional involvement and buy-in from people who execute those changes[2]. Though change management literature abounds in theories and models, as Senge and colleagues[3] put it, contemporary theories of change are paradoxically, neither narrow enough nor broad. The company's stance in relation to the people aspect of change was to not only change what employees did but also improve how it is done and create a collective mindset that's pro-change. This was sought to be accomplished by a high trust style of leading and follow- through.

On the strategy front, the Global Board appreciated the strategic direction for India and wholeheartedly committed to execution by providing adequate resources. Following approval of the strategy, the Board directed the India operations to formalize execution architecture with clear objectives for each of the initiatives, a milestone for each initiative, resources requirements, and reporting system for measuring outcomes and expectations. The Board also directed the Indian operations to implement the change management blueprint in those businesses where the outcomes would be optimal in a short time span and could be rolled out to other businesses quickly. Towards this objective, the Protection & Control Business in Chennai was identified as the first priority to implement the change management blueprint and the co-author was identified as the team leader to head Protection and Control Business and spearhead the initiative.

[2] Goleman Boyatzis, R.E., & McKee, A., 2002.

[3] Senge Otto C. Scharmer, Joseph Jaworski, and Betty Sue Flowers 2004

On taking over, a formal meeting was arranged for the co-author with the entire management to share his vision of the road ahead. The first issue that needed to be set right was that of punctuality and attendance as the co-author found that none of the executives were available as per the shift timing and the attendance system showed late-coming that ranged from 30 minutes to 90 minutes, with many workers continuing to stay in the factory 2-3 hours after the scheduled shift timing. It was clearly communicated in the meeting that discipline and punctuality were the first priority under the new regime and the Director would be meeting individually all the management staff over the next two weeks to understand each other, identify the problems faced by them in discharging their duty on time, and work out solutions for problems. The leader set an example by coming to work half an hour before the commencement of the shift.

It was clearly communicated that the new leadership style would be participative, based on high trust with clear sets of goals for the business, functions, and individuals and management system to monitor and review progress and outcomes. In the line of building a culture of high trust, performance and performance alone would be the criterion for deciding rewards, recognitions and promotions. Performance here stood for the demonstrated behaviour in line with core values and delivering numbers. People found to be indulging in illegitimate political behaviour would be sacked summarily; similarly, integrity issues would also result in immediate dismissals / terminations. On the business performance front, performance would be assessed along with conformance to the internal strategy and policy, executive and board’s directives, and core values of the organization; compliance in terms of doing business within the legal framework of the country in which the company operates. The management team was given 30 days time to adjust to the new reality. Those who conformed to discipline and punctuality would find a place in the new dispensation and others would be advised to look for alternatives. Finally, it was communicated that the business would be managed henceforth on the age old wisdom of integrity, humility, openness, trust, honesty, respect, fairness, humour, and accountability.

Followed by the management staff communication meeting, a one-to-one meeting was organized with the trade union president who was an outsider. The trade union leader was a 70 year old veteran with more than 50 years in trade union movements. The purpose of the meeting was to ascertain the reasons for the apparently unbridgeable divide between the management and the trade union, identify ways and means to bridge the gap, and work out strategies for the management and union to work together to take the company forward. Management’s attitude and perspective about managing the affairs of the company were presented. During the discussion, it was found that the intent of the management and the union leader were overlapping to the extent of 90% in terms of organization and business goals and in the approach to achieving the goals. At the end of the discussions it was decided to bring the management and union together by providing information and meeting periodically on all issues concerning the business situation. With the assurance from the trade union leader, the next priority was to build a new team from the existing team. The entire team was made to understand that the new leadership would manage the affairs based on life-governing principles, such as leading by example, ‘walk the talk’, execution within time and cost, and tough decision making.

The co-author met the management staff individually to assess the character and competencies of the individuals and identify potential candidates among them for higher responsibilities and bigger challenges and to include them in the new team. The first step in implementing changes in an organization is to identify the right people as implementers who can be inspired to face the reality and arouse them with hope to bring in the necessary changes. The existing functional heads were all in their middle fifties and had started their career with the organization; hence they had got used to considering themselves a privileged and elite lot. In the process, many young managers with good potential working below them were languishing at the bottom of the hierarchy. While the functional heads were all competent in their respective functions, they lacked the leadership qualities required to provide new meaning and direction under the new regime. The real issue therefore was to ensure that these people were moved out of the business without hurting their pride and dignity, since they had contributed significantly to the company’s success till then.

Another thrust area was creating a new organizational culture that outlined how the entire team should act in every situation as part of their responsibility. The new organizational culture addressed the following issues of:

- Attitude - changing the outlook to suit current business environment
- Practices - transitioning from archaic business practices to world class ones
- Perspectives - building long-term partnership with every stakeholder

The new potentials (younger managers) from the existing team were identified and were given suggestions about new opportunities and the road ahead. With the new team ready, the proposal was submitted to the management and the Board with clear evaluation of each candidate and their potential to ensure transparency in processes that is so critical for trust. The management approved the new team and agreed to shift the erstwhile functional heads to other positions and eventually work out an honourable exit package. The new organization structure was formally announced with the new team in place in two months. All through, clarity of purpose and fairness were the hallmark of the process, helping create an atmosphere of high trust and commitment among employees.

Having put the new management team in place and initiated a new performance culture, the transition was complete, thus paving the way for initiating business transformation. The leadership decided that the first step in business transformation exercise would entail communication of all changes that had taken place at the global level and in the Indian operations. This exercise aptly titled “Express Yourself” was a rigorous one spanning a two week period. It started with the communication of the Indian operations position since 1980, changes in the competitive landscape, government energy policy, expectations of the new management in terms of business performance, and changing organizational culture. The business goals for the medium-term were consistent growth in sales income, profitability and return and positive cash flow. More emphasis was given to positive cash flow goal because most of the customers were state electricity boards with huge payments outstanding for quite sometime.

<u>Step three</u>

Customer delight, growth and profitability

The final step of the Leadership Ladder emphasises the need to aim at not just servicing customers but in delighting them. Customers can be delighted when a product or service provider is able to anticipate their needs, provide solutions to them before they ask and go beyond their expectations. Just providing good customer service is not enough. It misses the opportunity to impress. When an organization is able to generate a "WOW" from their customer, it has succeeded in planting a special peg in the memory of the customer that is easy to recall. It also creates the possibility of the customer telling the story about their "WOW" experience to their partners and associates. This generates free advertising that one cannot place a monetary value on. It helps differentiate an organization from the rest and thereby allows a higher price for the product or service. It not only brings in more return on investment but also offers an opportunity to reward employees who rise to the occasion and offer exemplary service to customers.

An instance that very well demonstrates how the organization created customer delight is one involving a major electrical system company customer based in Mumbai. The customer had placed an order for supply of relays and components worth Rs 2.5 crores with a delivery date of March 20th, 2000. As per the customer order the company manufactured & delivered the consignment on date. Upon receiving the consignment the customer realized that they had given wrong product specifications. This consignment in turn was to be used to deliver Rs 20 crores worth of finished products to their customer. If that did not happen the consequences would be disastrous for the entire management team as it was the last month of the financial year and the loss could never be made up. After a lot of deliberation, the MD of the customer company contacted the co-author to provide a solution. The co-author promised to get back with a solution & action plan in three hours.

A meeting of the production team was convened which included not only the production in charge but also shop supervisors belonging to the union, who actually handled such exigencies and could offer practical suggestions. This expert team analyzed the situation and found that fixing two additional sliding arms per relay could set right the problem. They immediately checked out the stock availability of that part with the stores dept. Meanwhile the co-author communicated the solution and the action plan to the customer company with the offer that the expert team could fly down to reach the customer factory in Mumbai the same night to enable rectification to begin at the earliest. The team attended to work the same night, rectified the relays and fitted them in the final product of the customer. As planned the customer was able to make their despatch on time and complete their sale.

This “moment of truth” repaid itself in the form of a new order in three months worth Rs 10 crores despite being the third lowest in the competitive bidding process. The customer focus that was being repeatedly articulated as part of the vision statement propelled such performance. It was mainly on account of the high trust culture that was built within the organization that employees were willing to go the extra mile.

It is not just in providing solutions but in capturing an opportunity that helped them perform & transcend commitments that high trust and commitment can translate into customer delight and loyalty. In the final analysis growth can be realized only by attracting and retaining customers through outstanding total quality service and the resultant moment of truth.

At the end of the third year of the transformation exercise the sales income increased to close to 300 crores, 2.5 times of the pervious level of profit. The total costs were reduced by close to 40% as against the target of 30% .One of the components of the cost reduction was the better management of component stock, work in progress, reduction in finished goods stocks and reduction in working capital cycle.

Out of the total costs, material costs accounted for 60%. The materials supply business was shared by 1200 suppliers. The first task was to reduce the number of suppliers from 1200 to less than 200. This translated into increased business without any additional business development cost for the suppliers and triggered a wave of saving through reduction of purchasing & transaction costs for the company. The suppliers in turn were motivated to reduce prices, improve quality & reduced delivery time. The resultant savings were used to introduce a humane VRS scheme with an attractive compensation package. 700 people took the first VRS scheme which led to major savings on account of cost reduction in various overheads like canteen, transformation, power consumption & maintenances, each of which further contributed to cost savings. These savings were then ploughed back into the next VRS scheme with a higher compensation package.

At the last step in the ladder, the entire business was transformed into a more customer-centered business where customers got real value out of their association with the company. The repeat customers translated into higher incentives for employees which set the ball rolling for further improvement. The leadership ensured that the benefits of growth were shared with the employees in the form of better health insurance benefits.

The investors benefited from increased sales income and profitability as the company could declare higher dividends and issue bonus shares to the shareholders. This acted as an inducement for foreign investors to increase investment in rail transport (coach manufacturing) and power generation in India. In the last ten years (1996 to 2006) the company has been able to set up two power generation facilities in India with a capacity of close to 8000 megawatts. Customer satisfaction increased to 98% from an initial low of less than 5%. On time delivery was increased to 98% and product prices were reduced by 20% as the benefits of cost savings were passed on to the customers. Lead time was reduced from 12 months to 6 days.

The transformation required extraordinary energy with the entire organization needing to fundamentally rethink and reshape the business while continuing to run it day to day. Where did the energy come from? A high trust environment coupled with a leadership style that was based on “follow-through rather than follow up” helped employees to believe in their effort and answered their big questions, which ranged from how the transformation would affect the company down to how it would impact them.

Conclusion

The high trust leadership style paid off by successfully laying the groundwork for a comprehensive process and strategy change. The style has been effective not only within the organization but has also helped cultivate and maintain long term relationships with suppliers and customers. This case does not rely on techniques in the transformation process but uses an approach that creates a deep fundamental change in mindset of the employees so that any technique the individuals use will indisputably work. Creating a high trust culture shifts the onus of performance on the employees who are encouraged to be self-starters and self-motivated. The Leadership Ladder anchored on high trust thus offers learnings that are extendable across organizations:

- » Meaningful transformation needs to be worked out from the ground realities of the market and workplace.
- » Transformation requires building a strong and committed team based on high trust that:
    - a) Helps unleash the power of self-motivation among employees.
    - b) Brings forth greater cooperation with management requests for change or extraordinary effort.
    - c) Creates a motivated workforce where every employee feels uniquely valued and appreciated
    - d) Enthusiastic employees who know they will be treated fairly
- » Leaders must be willing to make the transformation personal (by role-modeling desired mind-sets and behavior), must engage others openly, and share the success spotlight.
- » Transformation and sustainable change can only happen by relentlessly pursuing the road map until the end goal is achieved.

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