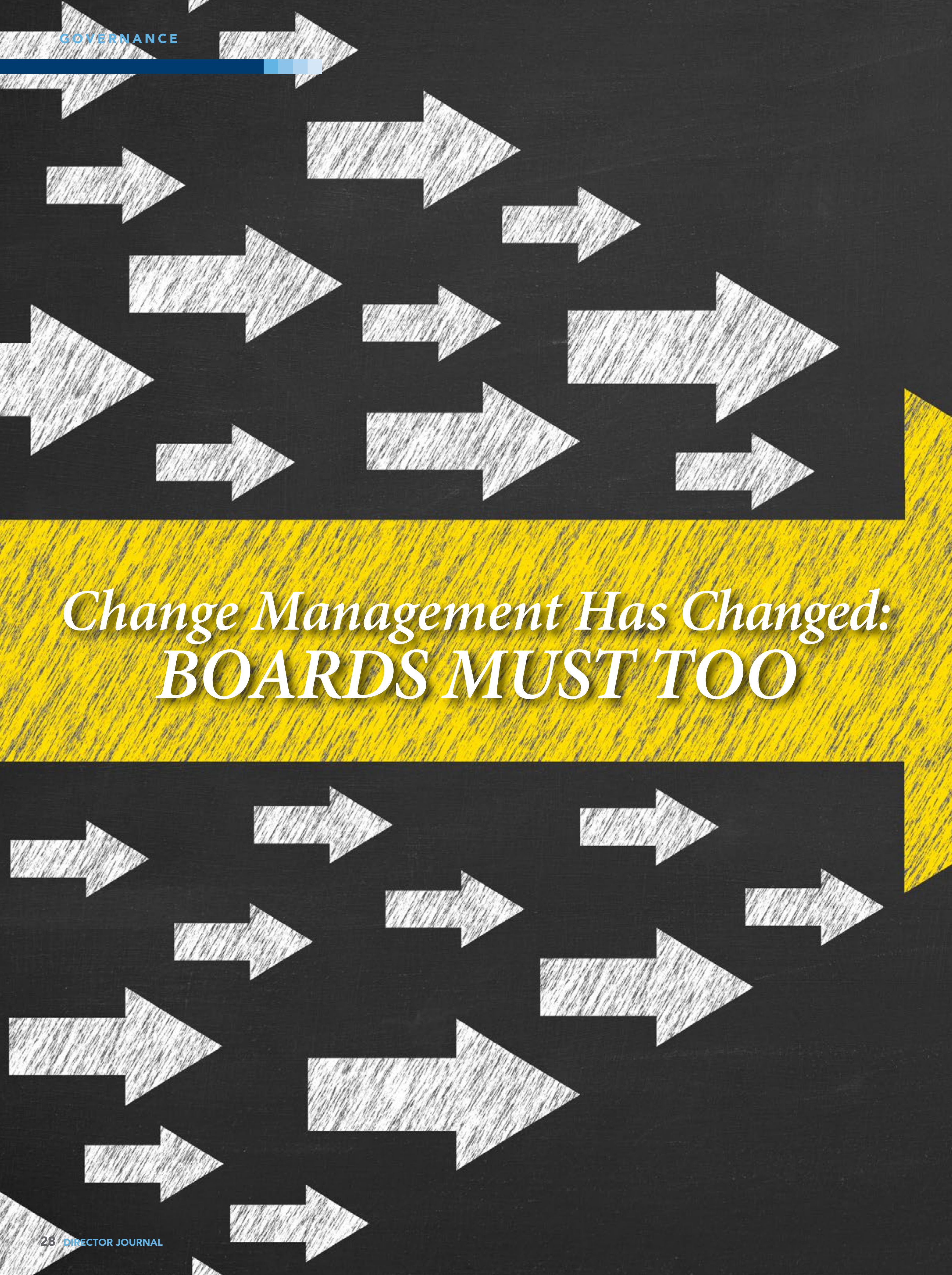

Change Management Has Changed: BOARDS MUST TOO

***Edmond Mellina** argues that it's the board's job to ensure that management hires disruptive leaders – and to serve as a bridge between these innovators and the organization's legacy parts*

Netflix is celebrating its 20th anniversary. The startup began disrupting the movie rental business by offering convenience: With a few clicks, we could rent movies at any time from the comfort of our homes. Compared to visiting a Blockbuster store during a winter storm, that was cool. But we had to wait for the DVD to arrive in the mail. Today, there is no more waiting. The video streams instantly.

Organizations started embracing "change management" as a formal discipline around the time Reed Hastings and Marc Randolph founded Netflix. Since then, change has accelerated as much as their company's delivery model.

Yet organizations have not adapted to the new nature of change. They continue to rely on methods, mindsets and structures developed when the pace of innovation was relatively gradual. For example: Most businesses still adopt a phased approach to managing change. This strategy made sense when the dust had time to settle before the next disruption. But that era is gone forever. In our increasingly digital world, change is fast-paced, constant, overlapping and disruptive.

The MIT Sloan Management Review highlighted the mismatch when it recently reported that "companies are unprepared for the [digital] disruptions projected to occur in their industry … largely due to internal obstacles." Typical signs include stifled innovation, not adapting fast enough, and heightened anxiety over the potential "Uberization" of their own industries.

It is up to the board to ensure that the organization has the right corporate culture, people and capabilities to embrace change in the age of digital disruption. As Alan Hutton, a director of Canada's newest stock exchange, Aequitas Neo Exchange Inc., put it: "This is both a strategic and risk-related subject. It must be a focus for directors."

DESPERATELY NEEDED: "CO-DISRUPTIVE" LEADERS

Organizations have a stark choice to make: They can continuously disrupt themselves or risk becoming irrelevant.

"Even large, seasoned public companies that live and die by performance measures need to create space for breeding innovation where teams of employees can take risks with new ideas, new processes, new products, and face failure without repercussions," says Poonam Puri, a corporate director of Arizona Mining Inc. "The board should ensure that such spaces exist and thrive."

All organizations need disruptive talents – particularly within their leadership ranks. Researchers have started developing profiling tests to help the board and management identify disruptive talents. That is a good start.

But if having raw, disruptive talent is great for startups, it can dangerously backfire in established organizations. The latter require leaders who continuously reinvent the business without fully alienating those at the current organization. These leaders are "co-disruptive" in the sense that they take a highly collaborative approach to disruption.

Of course, not every leader should be co-disruptive. But it is essential to have managers with a bias toward shaking up the status quo, particularly in the C-suite, among innovation teams and in business units most at risk of digital disruption.

As part of its oversight responsibility, the board must ensure the organization attracts and deploys a critical mass of co-disruptive leaders in these three key areas.

Paul Cantor, chair of QuadReal Properties Ltd., goes one step further by stressing the importance of co-disruptive thinking within the board itself. "A good board needs more than strategic thinkers, hard questioners and consensus builders. It needs blue-sky thinkers too," he says. "Sometimes it's the blue-sky thinkers who provide the ideas for disruptive change."

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ALAN HUTTON
AEQUITAS NEO EXCHANGE

"The makeup of the board requires insightful minds that are sensitive to the forces of change at play," adds Hutton, of Aequitas Neo Exchange.

Furthermore, "the board should ask itself what its role is in innovation. Is it acting as an enabler or a wet blanket?" says Kathy Milsom, board member of the Greater Toronto Airports Authority and chair of its risk oversight committee. "If directors don't consider opportunities as much as risk exposures in establishing risk appetites and tolerances, they may inadvertently be stifling innovation."

KEEP THE CORPORATE IMMUNE SYSTEM IN CHECK

"Intrapreneurs" – those innovative people who act like entrepreneurs within larger organizations – often refer to the much-maligned "corporate immune system" that kills their brilliant ideas. But the real problem is elsewhere, starting with the lack of co-disruptive leadership in the key areas listed above.

Compounding the problem is the popular practice of embedding innovation teams in tech hubs or innovation districts. While it is a great way to boost creativity and shield the disrupters from the risk-avoidance, control-oriented mindset of most corporate cultures, it has one serious drawback. The distance and separation can encourage the immune response, making it harder to move from idea to commercialization.

The board, therefore, must ensure that management develops strong partnerships between innovation teams and the legacy organization while making the corporate culture more innovative.

COLLABORATION STARTS IN THE C-SUITE

In a recent article entitled "The Case for Digital Reinvention," *McKinsey Quarterly* examined research into what sets apart today's digital winners, in terms of higher revenue and income growth than their competitors. Not surprisingly, the winners are better at responding strategically to digital change. They were also found to have a more unified corporate culture with fewer organizational silos that prevent nimbleness and innovation.

A collaborative culture starts in the C-suite with a CEO who discourages the infighting that can easily consume an executive team. Senior managers have a strong competitive spirit and political savvy. While these qualities fuelled their climb up the corporate ladder, they can wreak havoc when not properly channelled towards propelling the organization forward.

Microsoft's well-documented case illustrates the point. Bill Gates fostered collaboration within his top team and the tech giant remained at the forefront of innovation under his leadership. Once Steve Ballmer took over, the culture became highly political. Microsoft lost its way and failed to seize on massive strategic opportunities like mobile phones, tablets and Internet search.

However, "collaboration should not equate to a consensus culture" says Merete Heggelund, corporate director of the Standards Council of Canada and Allied Oil and Gas Corp. "The important thing is to ensure that you have [a] leadership team or board with different education, experience and thinking styles, working collaboratively on problem solving in a culture of constructive conflict, so all perspectives on an issue can be thoroughly understood before a decision is made."

KEEP IT LOCAL, KEEP IT REAL

In the early days, change management came under the umbrella of the chief information officer. Given that people were most affected by the changes, chief human resources officers lobbied successfully to have it under their department. Later, chief transformation officers jumped into the fray.

But all these structures have a fatal flaw. They rely heavily on centralized change capabilities, yet change execution is a game of proximity. Distant leaders cannot play the game effectively, whether you measure distance in terms of geography or hierarchy. Local leaders embody the true keystone of change because they have significantly more influence on their people than any senior executives.

Ubiquitous and nimble change leadership is key to surviving and thriving in the digital age. Organizations must move away from the centralized model by boosting the change leadership of their local managers.

WEAR THE RIGHT SHOES, CARRY THE PROPER TOOLS

When Netflix was a DVD-rental service, change management was akin to a round of golf. Like the successive holes played on a golf course, projects were organized around well-planned phases – with detailed step-by-step templates for each phase. At the end, we had time to "refreeze" and "anchor the changes."

Today, change management is like a basketball game: fast-paced and super dynamic. Wearing golf shoes to play basketball doesn't make sense. Similarly, organizations must rethink the tools they use to execute change.

The board must challenge the continued use of DVD-era methodologies. Given that they are the real instigators of change, the priority must be on equipping local leaders with a nimble and minimalist tool kit. In our experience, today's leaders need stethoscope-like tools to tackle two critical tasks and nothing else: monitoring acceptance and resistance on the fly; and influencing the inevitable politics of change. Like the emergency room doctor's go-to instrument, these tools should be readily available, simple yet effective, and a catalyst for action in a dynamic environment.

The time has come to disrupt the process of change management itself. The board must give the necessary impetus so that the organization adapts to the new nature of change.

EDMOND MELLINA is president and co-founder of Orchango and a board member of the Strategic Capability Network. He was chief information officer at Delta Hotels when Expedia disrupted the hotel business, and vice president of corporate development for the technology business of Envoy Communications Group when marketing agencies started to become digital.