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When New CEOs Succeed and Fail:

4-D Theory of Strategic Transformation

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WHEN NEW CEOs SUCCEED AND FAIL

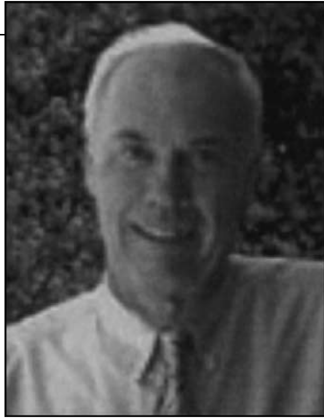
The frequency of CEO turnover has risen steadily over recent years—up 53% since 1995. The average tenure of a CEO in Fortune 500 companies is now 7.3 years, down from 9.5 in 1995. Involuntary turnover usually results when a concerned board of directors, after witnessing a steep slide in earnings, decides to replace its CEO, either from inside or outside the company. Increasingly, these boards, instead of automatically selecting the next-in-line candidate, turn to outsiders—the proportion of outsider CEOs has more than tripled over the past decade—or they reach down inside the organization for a ''dark horse'' appointment more likely to question the organization's status quo and traditional bases of political power.

Quite clearly, there is no honeymoon for most new CEOs these days. Instead, they are challenged immediately by their boards to make major changes and improve financial performance. Entering with strong mandates for change, new CEOs frequently launch strategic transformation initiatives. Research evidence consistently suggests that the majority of these new CEOs rarely succeed in their efforts to improve financial performance. Numerous quantitative studies reveal that most new CEOs produce no significant positive or negative effect on financial performance, as revealed in either short-term or long-term revenues, profits or returns. The main difference between outsider and insider appointments is that outsider CEOs tend to be more visible and introduce more short-term organization changes than insiders, but neither, on average, is able to improve financial performance.

Nonetheless, this research on turnover and performance still indicates that there are a few successful ''outlier'' CEOs who exist at the tail of the statistical distribution curve where they are obscured by the large number of failures. These unique and successful CEOs are the focus of this article.

Over the past 15 years, our research on new CEOs has sought to determine what leads to success or failure in their attempts at strategic transformation. We define successful strategic transformation to include a combination of: (1) large-scale internal organizational change, (2) major external change in the firm's market position, and (3) greatly improved financial performance. Our research strongly suggests that strategic transformation can only occur with complementary changes in both the organization's design and external market position. They go hand-in-hand because today's organization was typically designed years before and subsequently conditioned to implement yesterday's strategy.

Our research has reviewed many existing models and studies on new CEOs and strategic change; it also included in-depth studies of successful CEO-led transformation efforts that we have been able to observe close up. Interestingly, our review of these



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models found them to be either very general without practical relevance or narrowly conceived and incomplete. Some theories propose oversimplified phases of change, such as entry, changing and reinforcing, while others limit their focus to the leader's style and use of power. None of these models integrate the strategic, organizational, and leadership imperatives that lie at the heart of the CEO's transformation challenge.

4-D THEORY

After studying and observing many new CEOs, we conclude that the successful ones share certain unique patterns of behavior in their transformation efforts, especially as they initiate and follow a predictable sequence of intervention phases. Yet we also find that highly skilled CEOs, even if they intervene in an effective manner, can still fall victim to organizational and environmental roadblocks. This brings us to our proposed ''4-D'' theory, which reflects the degree of overall alignment or fit across the following four key driving forces that either support or impede the change process (shown graphically in Fig. 1).

- The focus and sequence of intervention phases and roles undertaken by the CEO.
- The CEO's personal action orientation that indicates whether the CEO can or can't perform the required intervention steps and roles.
- The surrounding organization's degree of receptivity toward change.
- Certain enabling or blocking elements in the external market environment.

The ''4-Ds'' represent four alternative scenarios, reflecting the degree of complementarities across the driving forces. When one or more of these key forces are not in line, the probability for success decreases greatly. Only one of the scenarios predicts success, while the others range from limited success to failure.

- ''Desired''—when all driving forces are in positive alignment, most likely leading

to successful transformation and higher performance.

- ''Detoured''—when the external market is in alignment but organization receptivity is lacking as efforts at change are blocked by internal resistance; however, success can occur if receptivity is improved.
- ''Deceived''—when the organization is receptive to change but the market environment lacks opportunities for change, resulting in internal changes but CEO frustration over limited market success.
- ''Doomed''—when none of the driving forces are in positive alignment, leading to a failed transformation effort and likely departure of the CEO.

In the next section, we begin with a description of seven related phases of intervention and change, each initiated through a different role played by the CEO. Next, we discuss what it is in the CEO's personal action orientation that makes it possible to play these multiple roles. Then we address the surrounding organizational and environmental conditions that may or may not facilitate CEO-led interventions. We conclude with four summary descriptions of the 4-Ds, and relate our findings to implications for the selection, training and career preparation of CEOs.

INTERVENTION PHASES AND CEO ROLES

The first and most striking similarity that we have observed across several cases of successfully led strategic transformation is a change process that evolves deliberately through a sequence of seven phases of intervention, beginning at the top of the firm and gradually reaching out to include the entire organization. In each of the phases, the CEO plays a different leadership role to move the organization forward. Ironically, the initial two phases of intervention are concerned more with achieving short-term results than long-term transformation.

In practice, the seven phases of intervention overlap as one leads into another. Each

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phase accomplishes certain results that make possible the next phase. The sequence, however, is not assured as new CEOs may need to return to earlier phases when unforeseen events occur, especially when unresolved issues from prior phases continue to impede progress. The transformation process moves forward only as the CEO acts skillfully to initiate each phase while playing a key leadership role unique to that phase. Vital to the CEOs' success is their sensitivity to recognizing when to adapt their styles to the demands of each phase.

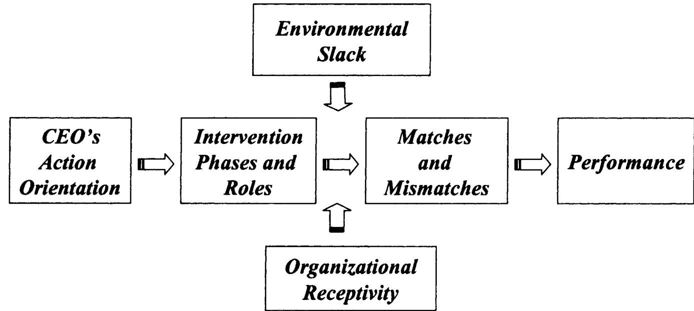
Phase I. Design the Entry Context—The CEO as Negotiator of a Mandate for Change

This is the role that successful CEOs need to play before they take over, acting as *negotiators* to arrange a mandate for change as they enter the organization. Typically, we think of this negotiation process in terms of financial incentives and severance packages. However, new CEOs also need to define the conditions under which they enter the organization. What are the board's expectations? Does the board support making major changes in how the company operates? Will it stand behind the CEO if others resist change? How will the CEO's appointment be communicated to the organization? And to the external stakeholders?

Without complete backing from the board, it is difficult for a new CEO to initiate major changes in the firm's strategy or organization. Successful CEOs (e.g., Dick Brown at EDS, Alan Questrom at JC Penny, and Meg Whitman at E-Bay) negotiate a broad mandate for change. Less successful CEOs (e.g., Durk Jager at P&G) often fail to negotiate this agreement, leading later to political end-runs to the board by disgruntled subordinates.

In one of our studies of transformation at Cal Gas, a major propane supplier, the executive team was only informed by the board about an outsider CEO's appointment the day before he took over. The team became demoralized as several members had expected to be considered for the job.

FIGURE 1 MODEL OF 4-D TRANSFORMATION



As a result, the new CEO spent several weeks trying to overcome the team's emotional let-down before beginning a major change process.

Phase II. Achieve Early Positive Impact—The CEO as Results-Oriented Manager

A common mistake made by new CEOs is to start articulating a long-term vision for the company too early. Upon appointment of the CEO, a power vacuum is created, causing uncertainty and anxiety among senior executives. There are questions about the CEO's style and how the CEO will relate to key constituencies. Most important, new CEOs usually inherit a backlog of unmade operational decisions that, if resolved, can help the CEO to address bigger strategic issues.

The new CEO's immediate priority is to build credibility and to establish oneself as the leader in-charge. The best way to do this is to play the role of a *results-oriented manager* by focusing on short-term issues that offer high probability of success, which will, in turn, signal to others that the CEO is indeed competent. The CEO's challenge is to identify issues that already have sufficient positive momentum toward solution, so as not to surprise the top-management team and arouse serious resistance. One CEO commented to us shortly after taking over, "I attacked the budget where we were seriously behind and everyone knew it because their rewards were tied to it. So we made its accomplishment our highest priority, and we achieved it ahead of schedule."

Lou Gerstner, shortly after becoming CEO of IBM, made the then controversial statement, "The last thing that IBM needs now is another vision," and proceeded with an eight billion dollar write-off for one of the largest corporate restructurings in history—and in a company renowned for its no-layoff policy. As one of his first outside hires, Gerstner brought in a new public relations executive to address the almost daily public criticism that IBM was receiving in the media. In addition, to communicate a positive message, he launched a series of meetings with key customers in which he said, "You now have a customer running IBM."

The objective of this phase is to avoid the temptation to begin a prolonged study of the firm's strategic situation, which could involve calling in strategy consultants or visiting throughout the company and listening to employee concerns—not atypical responses among less successful CEOs in our studies. Another ineffectual approach is for the new CEO to promote a proliferation of delegated initiatives that subject the company to Chinese water torture. Instead, the new CEO needs to make a few bold decisions with tangible immediate impact. Positive results, usually financial, should appear within the first few months if the CEO is to build a strong power base that enables the CEO to move on to attack broader strategic issues.

Phase III. Create Competitive Logic and Tiebreakers—The CEO as Visionary

As visible positive results occur, new CEOs need to transition from their short-term orientation to become more *visionary* and strategic. Here the most effective role that the CEO can play is to stimulate debate among the senior management about the long-term direction of the firm, thereby surfacing underlying assumptions and differences within the top team. Competing visions in this team can cripple a major change effort. This phase is completed when the executive team commits itself to a coherent long-term direction.

Distinct from a detailed strategic plan, the successful completion of this phase results in developing a succinct *competitive logic* that spells out the economics of how the firm intends to use its internal strengths to enhance its market position relative to competitors. If, for example, it can act to lower operating costs, then it might be able to cut prices and increase sales volume. Or if it can invest to improve customer service, it may be able to raise prices in markets where customers value service over price. Jack Welch, the widely cited CEO icon, made rapid progress through a simple articulation of GE's business mix—''being #1 or #2 in services, high technology, and core businesses''—which became the company's new strategic logic for intense managerial action.

As part of developing the competitive logic, we find that successful CEOs also work with their teams to identify distinctive elements that become what we call market *tiebreakers*—specific product or service features that will attract customers away from competitors. As an example from a study of ours in the propane company, the following comment by the firm's new CEO explains how they developed their competitive logic and tiebreakers:

> My team debated lots of directions to go, including diversification and acquisitions. But finally we decided to focus on our existing strengths in our established propane business. Our analysis revealed that the industry was populated by lots of small mom-and-pop companies that gave poor service. So we invested heavily in acquiring several of these companies and improving our delivery system with new trucks and trained workers. This last step created a perception with customers that we were safer and more reliable than our competitors, and for that we were able to charge two cents more per gallon, which fell directly to the bottom line.

Phase IV. Achieve Fit Between New Positions and People—The CEO as Organizer and Political Orchestrator

Once the competitive logic and tiebreakers are agreed upon, the change process enters into a politically sensitive phase where a new organization structure is introduced to implement the new strategy. As a result, senior and middle-level executives find themselves being moved around, with some gaining or losing power. Successful CEOs must carefully orchestrate this process of structural design and the selection of key executives for positions in the new organization. As *organizer and political orchestrator*, these CEOs, who are normally participative, become more directive to avoid turf battles that could easily erupt if decisions about organization and appointments are attempted in group meetings. At the same time, effective CEOs need to remain open to input from those affected, especially from key executives who are essential to the plan's success.

In one of our case studies, the CEO at a strategic retreat asked his team of eight executives for its input about alternative designs for a new organization structure. This discussion rapidly deteriorated into a contest of vested interests. He stopped the discussion, changed the agenda, and after the retreat worked with consultants to prepare a

new structure. This new design was presented at a second retreat attended by a smaller group of only four senior vice-presidents who held line operating positions. The CEO decided to invite only four of the eight executives because he regarded them as most essential to future success, and he wanted to reduce the amount of political behavior in the group. He explained to them that the future organization was a *fait accompli*, but asked each vice-president to nominate ''who among you should hold which job.'' Because the new organization included positions for five senior vice-presidents, each of the four executives felt secure in retaining a senior position. In this way, the team realignment became a win-win process. Earlier when the consultants cautioned the CEO that this approach appeared risky, he replied, ''If they disagree, I can merely take their suggestions as input, and make my decision later.'' As it was, to the surprise of the consultants, the team agreed on who was best for each position.

During this phase, the CEO may also learn that the company lacks the depth and breadth of capabilities required to achieve the full benefits of transformation. Surprisingly, we found that successful CEOs make only minor personnel changes in their inherited executive teams during the first year on the job, usually with additions rather than replacements. Long-term, however, it may not be enough for the CEO to simply match existing capabilities with corporate ambition. Instead, the CEO will likely need to enhance the organization's capabilities through tapping talent in underutilized groups, re-training existing employees, or recruiting new talent from outside the firm.

Phase V. Release and Mobilize Employee Energy—The CEO as Communicator of Commitment

The roles and phases discussed so far are concerned mainly with interaction between the CEO and the top team as they map out the competitive logic and organization structure. This is understandable because our research clearly indicates that strategic transformation is a ''top-down'' process, not a ''bottoms-up'' one—although a great deal of participation is required along the way. In this fifth phase, the CEO moves beyond the top team to unleash widespread energy and commitment to change throughout the organization. Steve Kerr, Chief Knowledge Officer at Goldman-Sachs, refers to this effort as the ''gardener test.'' Can the vision be translated into terms that a gardener can understand about what he/she must do differently? Rather than simply writing a memo about the new strategy and delegating implementation to subordinates, effective CEOs reach out to make contact with many employees at all levels. They play the role of a visible champion and *communicator of commitment*. The CEO, by constantly articulating the company's new strategic direction and its key priorities, supports other executives and managers as they launch change initiatives of their own within their units.

Each time GE began a major strategic initiative, Jack Welch became its most visible and articulate champion. When GE created its ''Work-Out'' program in 1989, it became the focus in Welch's letter to GE's stockholders, and the subject of interviews for the *Harvard Business Review*. Internally, Welch extolled the virtues of Work-Out at monthly Crotonville executive training sessions and in internal communiqués. Welch's approach to GE's investment in its recent ''Six Sigma'' efforts was similarly visible and pervasive.

An essential element of being the champion and communicator is to emphasize not only the overall strategy but also related core values that appeal to employees and customers. Many employees will not necessarily respond favorably to abstract financial goals, but they will feel commitment to values that champion the ''person on the street'' and the average customer. In the propane company example mentioned earlier, a new value and motto became ''double in five years,'' which was explained to employees as not only the achievement of greater sales volume but enhanced rewards and career opportunities for everyone.

Phase VI. Alter Workforce/Customer Interface—The CEO as Monitor of Implementation

Ultimately, a company's competitive logic must be translated into action and results. Investments need to be allocated to new action programs that translate the company's strategy into multiple decisions and new behaviors among employees at many levels. During this phase, the CEO becomes a *monitor of implementation* who supports, guides, and follows up to assure that decisions and actions are consistent with the new strategic direction. This involves holding executives at all levels accountable for implementing the new strategic direction in their respective units.

Over the last few years, several companies have made major investments in new initiatives to improve employees' ability to execute. IBM's ACT program, which stands for ''accelerating change together,'' and GE's Work-Out program are good examples. In each case, the underlying premise is that execution typically lags behind direction setting; therefore, focused investments and implementation programs are needed to improve execution.

To support execution ability, the CEO ensures that performance accountability and resource allocation are consistent with the newly espoused strategy. Interestingly, we find in this phase that the change effort becomes highly focused as financial goals are limited to one or two, the number of major initiatives confined to just a few programs, and financial investments channeled to support the new competitive logic. Unfortunately, many underachieving companies reflect a lack of focus and an overload of superficial initiatives that are perceived as weak and fragmented by employees.

Phase VII. Make Grassroots Employees the Primary Agents of Change—The CEO as Architect of Empowerment

The final phase of transformation requires that sufficient energy, capability, and confidence be instilled deep in the organization so that employees see themselves as activists responsible for carrying out change every day. This is when change becomes a daily way of life, and when the momentum for change from below overtakes in intensity the pressure for change coming from the top. During this phase, the CEO acts as an *architect of empowerment* seeking to release untapped energy and initiative at lower levels. Like a real architect, the CEO looks for walls to tear down to create an open environment to support increased collaboration, communication and change. At GE, Welch and his senior executives literally used a physical environment, its Crotonville training facility, to provide an offsite forum for confronting hundreds of executives with the need for change, to exchange ideas and opinions, and to create task forces to attack problems. Welch memorably commented, ''I will know that I have succeeded in transforming GE when my style will no longer be tolerated by the people under me.''

CEO's ACTION ORIENTATION

In theory, the CEOs' formal position at the top of the corporation makes them responsible for establishing the firm's long-term direction. However, whether CEOs will, in fact, do so remains highly problematic. What are the personal characteristics of those CEOs who possess the capability to initiate the seven intervention phases, while also acting out the diverse roles appropriate to each phase? Since so few succeed, these personal characteristics are obviously unique and limited to only a small number of CEOs.

We have observed and compared various approaches taken by both successful CEOs and those who fail. All these CEOs, whether successful or not, possess what we call *an action orientation*, which, in simple terms, represents how they use their brains and behavior to move the change process forward. More technically, it reflects their cognitive approach to processing complex information and reaching a decision, as well as their interpersonal styles that include

not only their ways of behaving but their expression of emotion and attitudes toward others. Too often the management literature addresses the question of interpersonal style separately from the substantive content of problems being considered. As a result, certain CEOs might be considered to be ''charismatic'' or ''participative'' in their styles but not possess the cognitive ability required for addressing the wide spectrum of content issues inherent to strategic problem solving. Charisma does little good for a CEO who is inept at content analysis and judgment.

We find that the action orientations of new CEOs can be classified into one of four types shown in Fig. 2. Each type is the result of interaction along two key dimensions: (1) the scope of strategic content being covered by their thinking and behavior, and (2) their interpersonal styles for interacting with others.

Scope of Strategic Content

Scope reflects the substantive content of strategic change, which in itself is a holistic concept that requires attention to many factors that affect and define a firm's strategic direction. A statement of strategic direction is not simply an articulation of market orientation; rather, it includes such diverse elements as the product strategy, pricing, distribution channels, organization structure, financial goals, information systems, culture, rewards, personnel, shared values, and many other factors that determine a firm's future direction.

Our research suggests that successful CEOs are able to act and think about the scope of strategic content in what we call a ''comprehensive'' manner. They possess a wide view that encompasses into their thought processes many of the diverse factors bearing upon successful transformation, including considerations about people, finance, technology, and competitors. Even their use of multiple roles to initiate each intervention phase is a reflection of their breadth of thinking and behavior.

In contrast, those who fail to achieve major change tend to think and act with a ''limited'' view of strategic content, such as

FIGURE 2 CEO ACTION ORIENTATION

Scope of Strategic Content	Unilateral	Collaborative
Comprehensive	***Comprehensive/ Unilateral***	***Comprehensive/ Collaborative***
Limited	***Limited/ Unilateral***	***Limited/ Collaborative***

Interpersonal Decision-Making Style

assuming that only an adjustment in product pricing or replacing a few key executives will suffice to produce major change. Their role repertoire is also limited; for instance, they may behave exclusively in a visionary role or act solely as an organizer and political orchestrator, while neglecting the other role requirements associated with each of the seven phases.

Interpersonal Style

The second key dimension of the CEOs' action orientation involves their interpersonal style, which is concerned with how they approach and involve other managers and employees in the transformation process. As can be seen in the seven phases, successful CEOs act in a ''collaborative'' manner as they include not only their top teams in decision making but later they reach out to include the entire workforce in implementing specific workplace changes.

The failed CEOs, such as Al Dunlap at Sunbeam and John Walter at AT&T, tend to act in a ''unilateral'' manner as they announce and impose changes upon the organization without engaging in serious collaboration. The overriding concern of these CEOs is to maintain power and control, not to increase involvement and empowerment. At the same time, the use of a collaborative style by successful CEOs does not imply abdication of the role of decision-maker. They know when to step up and take charge, and when to step back and let others walk on stage.

Comprehensive/Collaborative CEOs

When we put scope of content and interpersonal style together, our studies reveal that effective CEOs pursue an integrated ''comprehensive/collaborative'' approach to strategic transformation. They are able to anticipate and negotiate their way through the seven phases of intervention by not only encompassing many facets of strategic content but also including many employees in the change process. At the start of each phase, their role shifts to attack new content and involve people differently. For example, their use of the visionary role engages the top team in developing a competitive logic for the firm, while their communicator role makes direct contact with many employees to empower them in making additional changes.

GE's Welch used a comprehensive/collaborative action orientation to move that company forward. His efforts resulted in comprehensively changing GE's strategy, organization, people and rewards, and he did so through involving many people. We believe he was misinterpreted by the press with the label of ''neutron Jack'' for selling off companies and laying off employees, since his interpersonal style was to engage many senior and middle managers in continuous discussion and debate about what to do next, and then later involve thousands of employees in the highly participative Work-Out and Six-Sigma programs.

Career and Personality Characteristics

Who are these CEOs who possess a comprehensive/collaborative action orientation? We know something about their career backgrounds from public information. They tend to have held several senior executive jobs and gained more general management experience than those who utilize the three other, less effective action orientations portrayed in Fig. 2. Their greater depth and breadth of experience appears to help them in recognizing and considering wider elements of strategic content, and it also seems to provide the necessary self-confidence to open up decision making to many employees.

As for their personalities, that remains for future research to determine, although we doubt that many CEOs will sit still for personality tests. We predict that comprehensive/collaborative CEOs possess what psychologists call greater ''cognitive complexity,'' measured by a wide tolerance for ambiguity and a willingness to absorb diverse information. This quality makes them more comprehensive as they attack a

variety of strategic content. Their willingness to collaborate suggests that they possess a high degree of what Daniel Goleman calls ''emotional intelligence,'' defined by him as ''self-awareness, managing your emotions effectively, motivation, empathy, reading other people's feelings accurately, social skills like teamwork, persuasion, leadership, and managing relationships.''

SURROUNDING CONDITIONS

Just as many elements of CEOs' personalities and career backgrounds predispose them toward a certain action orientation, many pre-existing characteristics of a firm's organization and market environment serve to interact with the seven intervention phases to produce different outcomes. For the intervention phases to achieve maximum impact, the organization must be receptive to change and the environment must provide sufficient ''slack'' (i.e., ''wiggle room'') for the firm to maneuver in its marketplace.

Organizational Receptivity

Our research identifies two key elements that affect an organization's receptivity toward a CEO's comprehensive/collaborative action orientation and the seven intervention phases: (1) the composition of the top team, and (2) the amount of change previously experienced by the organization. We find that executive teams with low average tenure in the company are less attached to past practices and better able to cope with transformational change. Also, the greater the degree of heterogeneity in age, education and industry experience among team members, the more value is created though a collaborative process. The discussion becomes broader and more creative. Finally, with regard to the organization's experience with change, we find that receptive organizations have been exposed to occasional major changes that have succeeded, instead of lots of half-starts, or modest incremental changes, or no change at all.

As an example of failed transformation in a non-receptive organization, we studied a company where a new outsider CEO appropriately used a comprehensive/collaborative action orientation, but was rejected after proceeding into the later intervention phases. The company was a large construction firm with a top team composed of mainly engineers who had been with the company an average of 15 years. In addition, there had been no major change in the organization for many years, which is why the new CEO was hired. The behind-the-scenes resistance from not only the top team but middle management as well became so great that the CEO was asked to resign after only one year on the job.

Environmental Slack

Contrary to the frequently expressed belief of many CEOs that there are always good opportunities in the marketplace, we find that many environments are actually limited in the space they provide for strategic action. A good example is Enron, which set growth targets of 15% per year in a market that was growing only 5% annually, causing them to find inappropriate ways to increase revenue. By the term ''slack environments,'' we mean those that provide greater opportunity for strategic movement. Key elements that indicate a high degree of slack include markets with: (1) considerable uncertainty caused by technological change or surprising competitor moves, (2) rapid industry growth, (3) low degree of public regulation limiting managerial decisions, (4) wide competitive latitude to differentiate products beyond price so as to add value and achieve higher margins, and (5) fragmented industry conditions where there are market inefficiencies and room for consolidation.

CEOs with a comprehensive/collaborative action orientation thrive in high slack environments, which contain greater room for flexibility and discretion in strategic decision making. Situations of high growth, ability to differentiate products and services, and limited regulatory constraints enable wider

latitude in strategic decisions. Market uncertainty makes necessary a wide-ranging analysis, as well as requiring greater input and creativity from the entire executive team, each of whom possesses diverse knowledge about a fluid situation. CEOs and their teams need this added discretion to be more creative when selecting and formulating appropriate strategic choices from a range of alternatives.

In the previously mentioned case of the propane company, senior executives initially believed they could not act because their industry was highly regulated, a condition of low slack. However, through extensive discussion, the CEO and top team realized that their industry was very fragmented with lots of small competitors who delivered poor service. This provided the necessary slack and opportunity to develop a new strategy of acquisitions and additional service training for employees, resulting in rapid sales growth and higher profitability.

MATCHES AND MISMATCHES: THE 4-D SCENARIOS

So far our discussion of the major driving forces affecting strategic transformation suggests that CEO interventions and strategic change are not likely to occur in the same way or with the same outcomes across all situations. Some attempts will break down from the start because the CEO does not possess a comprehensive/collaborative action orientation and may not be able to play the multiples roles essential to the seven phases of intervention. Or even where the CEO's action orientation is conducive to transformational change, the additional driving forces of organizational receptivity and slack environment may not be sufficient to propel the interventions forward. Indeed, our experience suggests a high probability for a mismatch occurring somewhere across these multiple driving forces.

This brings us to the 4-D scenarios, where only one *D* predicts success while the other three *D's* foretell serious trouble.

FIGURE 3 4-D SCENARIOS

Organizational Receptivity	Low Slack	High Slack
High Receptivity	*Deceived*	*Desired*
Low Receptivity	*Doomed*	*Detoured*

Environmental Slack

For all four scenarios, we assume that the CEO has used a comprehensive/collaborative approach, and is proceeding through the seven phases of intervention. That, of course, is a big assumption because failure can easily occur much earlier if the wrong CEO with a different action orientation and intervention approach is selected.

Based on our research, Fig. 3 depicts the 4-D scenarios, each describing situations where the CEO's intervention interacts either positively or negatively with the surrounding conditions.

The ''Desired'' Match

This match occurs when organizational receptivity and environmental slack are both mutually supportive of the CEO's comprehensive/collaborative approach in moving through the seven intervention phases. In this case, it is likely that strategic change will be realized, leading to improved financial performance. This *desired* scenario represents a state of ''perfect'' chemistry, rare we believe, where the fit of a CEO's action orientation is received favorably by the organization and where there is sufficient slack in the market to locate opportunities for gaining competitive advantage. Even under this optimistic scenario, the micro-dynamics of the change process will still require the CEO to exercise considerable intellectual and political skill in framing the content of the change

agenda, initiating the intervention phases, and overcoming occasional individual resistance. Meg Whitman at E-Bay demonstrated this skill when brought in by a supportive founder-Chairman to take over as CEO. She met frequently with skeptical software engineers to hear their views, and won their support by investing heavily in new computer systems. She also found new opportunities for growth in previously untouched global markets and domestic auctions for automobiles and antiques.

The ''Deceived'' Mismatch

Here the CEO's intervention approach matches organizational receptivity but encounters serious difficulty from the absence of environmental slack. In this *deceived* scenario, the CEO's intervention approach proves acceptable to the organization but can easily fail to achieve successful results in the marketplace. In essence, the CEO succeeds in moving the organization forward, but the external market contains severe limitations for financial movement.

Unfortunately, it is often not until much later in the intervention phases that lack of market success first appears. Then it may be too late for the misled CEO and organization to recover. However, if recognized earlier, there are alternative interventions to rescue some success. A conservative approach for the CEO would be to seek efficiency improvements within the organization through using a ''limited/collaborative'' approach, even though complete transformation is difficult to realize. This tact is currently being used by CEO Anne Mulcahy at Xerox as she actively and widely reaches out to employees for new ideas when faced with a mature product line and a market that is highly price competitive. A more daring approach is to attempt to cause a radical alteration in the market environment, such as acquiring a larger company or introducing a new technology that significantly changes the rules of competition—but here the risk of failure is high, witness the acquisition problems of AOL in acquiring Time-Warner.

The ''Detoured'' Mismatch

This mismatch exists when the CEO's intervention approach is supported by a high degree of environmental slack but not organizational receptivity. The top team may be composed of long-time managers who do not look favorably on a new outsider CEO, or the organization may possess a culture that has not experienced major change in the past. In the *detoured* scenario, it is unlikely that strategic change can be realized unless the CEO intervenes further to overcome resistance. This will require setting aside the sequence of seven intervention phases and concentrating on altering the organizational conditions to make them more favorable toward strategic change. For example, the CEO may need to use a ''limited/unilateral'' action orientation to replace members of the top-management team, or implement a series of minor changes to condition the organization for future transformation. Another possible intervention is to retain a process-oriented consultant who can facilitate discussion in the top team when it confronts difficult issues, although success here is problematic if resistance to the CEOs actions is deeply emotional. In the propane company example mentioned earlier, the new outsider CEO won over his resistant top team by focusing on short-term results and working closely with them as a team to plan action steps. He then rewarded them for success and later used a consultant to help the team in strategic planning.

The ''Doomed'' Mismatch

This unfortunate outcome occurs when the CEO's approach is met with a lack of organizational receptivity and a low degree of environmental slack. A *doomed* scenario signifies a complete misfit, and does not offer much hope for positive results. The odds against strategic change are so great that the CEO is likely to be replaced or quit in frustration. This scenario occurs frequently when boards select an outsider on the belief that major change is necessary in a traditional

organization facing tough competition in a low-growth industry. It is better here to pick a capable insider who is acceptable to the top team, and then he/she can make modest internal adjustments resulting in efficiency gains. A more radical approach would be to replace the entire top team to eliminate some of the internal resistance and then search for dramatic moves to change the environmental equation, such as through major acquisitions or divestitures. Again, the risks are high and success very unlikely because of such strong opposing forces. This scenario befell Jacque Nasser at Ford whose actions in a traditional culture were resisted internally and he was replaced by insider Bill Ford.

MAKING THE RIGHT MATCH

We have presented a new theory of strategic transformation, a ''4-D theory of strategic transformation,'' with the 4-Ds—*desired, detoured, deceived and doomed*—representing different scenarios and outcomes of interaction between the interventions of CEOs and their organizations and external environments. Only the *desired* scenario offers a high probability of success.

This 4-D theory begins with the CEO's action orientation that must not only address the broad content of strategy, but also involve many people affected by the change process. Next, these change-oriented CEOs must lead the organization deliberately through seven interrelated phases of intervention which, if properly followed and sequenced, can build upon each other to gradually move the firm forward. Finally, certain organizational and environmental conditions must be supportive for overall success to occur. Only when all of these conditions are in alignment and mutually reinforcing is transformational change likely to result.

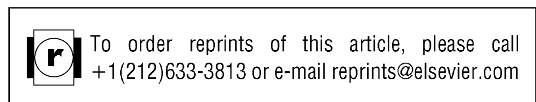
Therefore, succeeding at strategic change is a tall order for most new CEOs, whether they head a large firm or lead a major business unit within a corporation. This challenge raises many practical implications for how new CEOs should be selected and whether CEOs should accept the job.

- A comprehensive/collaborative action orientation should be the key criterion used in selecting new CEOs who are best suited to introduce strategic transformation. Executives who possess this orientation reflect the breadth of thinking and behavior needed to carry out all seven phases of intervention while performing the varied leadership roles.
- Past behavior is a good predictor of future behavior across similar situations. Thus, the action orientation of potential new CEOs should be assessed in the context of how they have behaved in previous strategic change situations. Corporate boards should press executive search firms to go beyond traditional selection criteria to look deeply into the change background of CEO candidates. How comprehensively have they intervened in past change processes? Have they been sufficiently flexible to play a diversity of leadership roles? Do they encourage wide participation and involvement in making change decisions and implementation?
- An indirect assessment of a CEO's action orientation might also include examination of certain background experiences, such as the tenure and breadth of managerial jobs held, as well as personality characteristics, including tolerance for ambiguity, cognitive complexity, and emotional IQ.
- In choosing to accept a new CEO position, executives with a comprehensive/collaborative action orientation should pay close attention to the surrounding organization and environmental conditions. The job decision is relatively easy when there is either a *desired* match with well aligned conditions or a potential *doomed* scenario where little is in alignment.
- The job choice is less straightforward when there is only a partial match with the organization and its environment. There is a reasonable probability of success in the *detoured* scenario, where the environment is conducive to strategic change but the organization is not. In this case, the CEO has far more control over organizational forces than the market environment. However, the *deceived*

scenario is just the opposite where the CEO faces major obstacles in the environment and has little control to remove these negative forces. These situations are particularly seductive to outsider CEOs because they feel well-received by the organization and confident of success in that realm. They may also not be very knowledgeable about obstacles in the market environment if they are coming from a different industry. The board, in its zest to woo the CEO, may gloss over negative signs in the market environment.

- Even when the right CEO has been selected and there is a good match with the organization and its environment, strategic change still requires careful attention to the seven phases of intervention. To successfully transform the organization, new CEOs need to apply their comprehensive/collaborative action orientation to lead the organization skillfully through these phases, from designing the entry context to altering the workforce/customer interface.
- Given the many pitfalls awaiting new CEOs, as well as their high failure rate, we need to ask ourselves if there is any way to better prepare them for the job. We are not aware of a ''school for CEOs'' but there should be one. Unfortunately, executives who reach this rank usually think they are beyond the educational value of school, and that, because of their experience, they have acquired the necessary skills to handle the job. But they are frequently wrong in this assumption.
- In place of more schooling, new CEOs may be more receptive to the use of management consultants who have worked extensively with CEOs in making successful transformations. These should be consultants who are not only skillful at the content aspects of strategic change but are able to encourage and orchestrate a collaborative approach. Our research has shown the presence of such consultants in several cases of success.

The ''hit rate'' has clearly not been high for new CEOs in launching and succeeding at strategic transformation. But we hope that added knowledge from research about how to plan for and skillfully lead such efforts should improve the odds. All models and theories, including the 4-Ds, are simply new ways of thinking for CEOs to consider when they assess their situations and choose how to intervene. The truth and validity of these models will no doubt sharpen as future research focuses on CEO-led interventions. We believe this research will demonstrate that strategic change is not unique to each situation but that predictable patterns will emerge across many situations to provide clearer guidance to new CEOs. At the same time, prospective new CEOs should beware of overly simple prescriptions published as fashionable best practices for achieving success, as well as resist the temptation to accept offers of high salaries in impossible situations. Instead, they should prepare themselves well in advance by reflecting on their own capabilities and how to improve them.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