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## Teaching & Learning

# Strategic transformation process: Toward purpose, people, process and power

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### Abstract

Across the world, public and non-profit sector leaders face an extremely turbulent socio-political-economic environment. This environment creates additional risks and uncertainties for organizations and may hinder a leader's ability to act strategically. Addressing these complex, constantly evolving conditions requires leaders to develop processes that involve the organization's stakeholders and that create organizational conditions for self-generation, creativity, resilience and action planning. In this paper we provide an organizational-level, integrative framework for the strategic transformation of public and non-profit organizations to assist leaders who are committed to effective stewardship of their organizations. The Strategic Transformation Process involves an intense dialogue among organizational stakeholders designed to create a new vision, negotiate priorities, minimize risk, and create action plans and a commitment for change.

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**Keywords:** organizational transformation; leadership; change; stakeholders



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### Introduction

This paper seeks to provide a new framework for public and non-profit leaders seeking to initiate change in their organizations. We offer a process for strategic transformation involving multiple stakeholders, focusing on negotiation of priorities, and developing action plans. We first discuss, in this introduction, what we mean by strategic transformation. Second we characterize the challenges facing public and non-profit sector leaders. Third, we discuss the current and past thinking about the strategy transformation process in organizations. Fourth, we present our Strategic Transformation Process Model. Last, we outline a model of a workshop to implement the process.

### Strategic organizational transformation

The notion of strategic organizational transformation has been a recent construct of interest in the organizational sciences literature. Stockport (2000) states that strategic transformation is about the ability of an organization to transform itself to ensure long-term survival. He suggests that transformation is tied to a radical change in the markets and customers an organization serves and the products and/or services it offers. He further explains that the transformation process implies a major change in internal [organizational] matters such as structure, systems, staffing, and



perhaps, even culture (46). Stockport further asserts that an organization's strategic transformation skills must become part of its unconscious competence, that is, a natural way of managing the organization and a part of everyday business life. Griener *et al.* (2003) 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. Bloodgood and Morrow (2003) argue that strategic organizational change [transformation] is best viewed as a multidimensional phenomenon consisting of various degrees of environmental structure and internal conscious awareness. Most recently, Adcroft *et al.* (2008) have stated that organizations that successfully transform themselves require, and will have, very different characteristics from those that stay the same. And finally, Frahm (2007), in reviewing the literature on strategic change, states that the theme common to all the literature is "change as strategic." She states that "consideration of change as strategy means recognizing that organizational change is a conscious decision to achieve or enhance competitive advantage. This has led to conversations of post-modern strategic planning where competitive advantage occurs as a result of high level experimentation and negotiation with multiple stakeholders" (949).

Our research on public and non-profit organizations strongly suggests that strategic transformation can only occur with complementary changes in both the organization's design and its relationship with external stakeholders. They go hand-in-hand because today's public and non-profit organization was typically designed years in the past and subsequently conditioned to implement yesterday's strategy. Public and non-profit leaders must first recognize two key ingredients for the transformation process. First, the leadership skills, competencies and tools required of a transforming organization are different from those required of an organization that either does not want to or does not need to transform. Second, there is a clear cultural component of transformation; only those organizations with a culture that embraces dramatic change can hope to be successful.

We recognize that there are differences between the public and non-profit sectors, just as there are differences between those two sectors and the for-profit sector and that differences in leading the three sectors, "stems from the apparent differences

between the sectors themselves" (Thatch and Thompson, 2007: 358). A key difference between management in private and public and non-profit organizations is how they measure success or their "value-added": "for-profit organizations measure this in financial terms, whereas non-profit and government agencies produce value that lies in the achievement of social purposes" (*Ibid.* at 357). Social purposes are defined for public agencies by political processes, involving legislation, regulation, court action and other policy processes. For non-profits, social purposes are typically defined by their legal charters and by actions of their boards of directors.

Another key difference between public and non-profit organizations is the source of revenue and what constitutes and how one measures the value produced by the two organizations (Moore, 2000). Traditionally, public revenue comes from taxes, fees and charges; non-profit revenue comes from donors, contracts and fees-for service. Measurement of "value" in the public sector is generally tied to legislative goals and sometimes conflicting policy objectives. In the non-profit sector, measurement of success is multi-dimensional, involving the purposes of donors and contractors, and the satisfaction of clients. Therefore, some of the analytic tasks used in developing a strategy will necessarily differ (Moore, 2000).

Public and non-profit sectors do have key similarities that relate to their strategic transformation. Most importantly, both must involve and satisfy a myriad of stakeholder interests; the support of those stakeholders is fundamental to any strategic transformation. Our definition of strategic transformation accommodates both the similarities and differences between the two sectors: it is a multi-dimensional, process-based approach in which leaders systemically involve stakeholders to achieve the long-term sustainability of their organization.

By "strategic," we adopt a process-based approach designed to deliver a set of defined initiatives (projects) that achieves a desired set of goals, and involves key stakeholders (internal and external) in the process. The process involves a definition of these goals, an assessment of the resources available for meeting these goals, and the definition of specific plans (initiatives) that are designed to achieve the goals. The process incorporates a ranking exercise, adapted from MacDonald (2008), which identifies the highest priority initiatives of the organization and its stakeholders. Our Strategic Transformation Process combines the concepts of

strategic and transformation by providing a framework for organizations and their leaders to advance the survivability, growth and sustainability of their organizations. A key to our proposal is the active involvement of stakeholders in advancing strategic transformation.

While our Strategic Transformation Process could be used by any sector – public, private or non-profit – we feel that it is uniquely able to address some of the challenges, complexities and risks of public and non-profit sector change. Public and non-profit leaders face many of the same pressures of private sector organizations, but often have fewer resources and a more complex set of relationships with stakeholders. Clients and citizens are different than customers; legislatures and donors are different from stock and bondholders; organizational governance structures are often more complex and involve a greater number of actors who must be involved in any organizational change in the public and non-profit sectors. Thus, a key aspect of the process we propose is its approach to stakeholder involvement that is designed to create a greater sense of engagement and ultimately ownership in the organization’s new direction.

### Leadership challenges

Looking ahead, public and non-profit leaders are likely to continue to face a variety of environmental challenges (see, e.g., Moon, 2000; Wise, 2002; Fernandez and Rainey, 2006; Kee and Newcomer, 2008). Those challenges are summarized as follows:

- social, political and economic turbulence that creates an unsettled environment for organizational change;
- rapid communications that penetrate traditional barriers to information sharing;
- increasing transparency and public scrutiny around ethics, results and opportunities for improvement;
- evolving information technology, breaking down organizational silos, and connecting and integrating organizational functions in ways not previously possible;
- changing strategic influences and mission requirements, exacerbated by the nature of cross-jurisdiction, cross-sector and cross-functional interdependencies;
- expectations for more agile and performance-oriented work and organizations;
- increasing top-down guidance and coordination of operational standards and improvement

priorities with some trends toward decentralized operations;

- a workforce characterized by shifting demographics and blended public—private non-profit partnerships.

Of course, private sector leaders face these challenges as well. However, there are some unique aspects of the public and non-profit sectors that make these challenges more difficult. There is a great deal of transparency required in both sectors and combined with the need to involve many diverse stakeholders, the risks of leading change initiatives effectively are more daunting. Given legislative requirements for performance data, freedom-of-information laws making intra-organizational records open to the public and increased scrutiny of government contractors’ behavior (given some highly visible scandals), public service leaders operate in more transparent circumstances than ever before.

According to Davis and Smith (2005), these dynamics will challenge leaders to

- build high performing organizations with fewer resources and in shorter periods of time;
- develop capable and creative leaders in governance who hold cross-functional and multidisciplinary perspectives;
- create new and innovative ways of thinking about leadership that are systemic and integrated; and
- devise self-sustainable processes to create strategic advantages in the organizational environment.

Responding to uncertain and turbulent conditions requires new leadership styles and techniques, and strategic action to ensure nimble and resilient organizational performance. Transforming operations and ways of doing business are challenging and often difficult to accomplish successfully; a large number of change efforts fail – some estimates say as many as two-thirds to three-fourths (McGuire *et al.*, 2008). By identifying and understanding the major challenges they face prior to implementing changes, leaders will have the opportunity to strategize with the organization’s stakeholders, create their plans and processes accordingly, and develop the skills needed in their organization to navigate the perilous change course. Two of the authors have referred to this type of leadership, with its attention to existing organizational and stakeholder values and its recognition of the risks of change in public and non-profit



organizations, as *transformational stewardship* (Kee and Newcomer, 2008).

### Strategic Transformation Processes in organizations

Fernandez and Rainey (2006) argue that today's "managerial leaders must develop an integrative, comprehensive approach to change that achieves [organizational] subsystem congruence. Many researchers stress that in order for fundamental change in behavior to occur, leaders must make systemic changes to the subsystems of their organization" (173). Changing only one or two subsystems in the organization will not generate sufficient force to bring about organizational transformation (Meyers and Dillon, 1999; Mohrman and Lawler, 1983; Nadler and Nadler, 1998; Tichy, 1983 as quoted in Fernandez and Rainey, 2006: 168). Conversely, other theories of organizational change view managers' purposeful action as driving change (e.g., Lawrence and Lorsch, 1967; Pfeffer and Salancik, 1978), although environmental, cognitive and resource constraints place limits on such action (Van de Ven and Poole, 1995 as quoted in Fernandez and Rainey: 168). So, strategic transformation must be comprehensive and integrated systemically with purposeful action by the leader. Yet the managerial response and focus of strategic activity and change efforts often is designed to react to environmental conditions and constraints that have hindered the development and movement of the organization.

At the individual level, Davis and Newcomer (2006) have highlighted that the leaders need to develop a comprehensive set of sustainable processes to address issues of

- coordination (work, people);
- duplication (functions, effort);
- communication (vertically, horizontally);
- integration (services, products);
- vision (purpose, values, culture); and
- strategy and change.

These leadership challenges can only occur through collaboration among individuals, organizations, and ultimately the stakeholders in these systems. In public and non-profit organizations this includes an array of interested individuals and organizations.

Worldwide, the emerging new public service is a blended, multi-sector workforce comprised of public and non-profit servants who often work closely with the private sector to deliver public goods and

services. The composition of the blended workforce means that stakeholders may have very different stakes in the outcomes, as well as diverse values and incentives affecting their behavior. The challenge of forging the needed trust and cooperation among diverse stakeholders to implement complex change initiatives is often intimidating. Understanding who the key stakeholders are, where they are coming from, and then devising effective communication strategies to achieve productive collaboration, is a fundamental challenge for leaders, especially those in the public and non-profit sectors.

### Strategy process models

Just as there is a call for a new conceptualization of leadership, today's strategic competitive realities demand efficiency, high quality output, fast cycle capability, strategic flexibility and attention to social-environmental issues (Stalk and Hout, 1990; Schmidheiny, 1992; Hart and Banbury, 1994; Ghoshal and Bartlett, 1997; Wheelen and Hunger, 2001 [2007]; Hamel, 2002). Many scholars believe that these organizational objectives are realized through developing more effective strategic processes and organizational capabilities (Senge, 1990; Ulrich and Lake, 1990; Hart and Banbury, 1994; Bartlett *et al.*, 2008). These capabilities become essential for developing effective strategies for organizations.

Historically, the dominant conception of the strategy-building process in organizations has been the modernists' living systems viewpoint in which organization and environment are inexorably linked. It has been this systems linkage lens that has been the source of much of the strategic research. In the modernists' systems perspective, strategy is top management's planned effort to influence organizational outcomes by managing the organization's relationship to its environment.

From the 1960s, to the more current models and frameworks of organizational strategy, scholars focused on how leaders built a competitive advantage for the firm through managing this relationship with the environment (Jauch and Glueck, 1988 [1996]; Porter, 1998; Thompson and Strickland, 1999, 2001; Pearce and Robinson, 2000, Wheelen and Hunger, 2001 [2007]). Other scholars have written about the conceptualization of strategy itself, leaving process modeling at the analytical level to others (Quinn, 1981, 1993; Mintzberg, 1983; Quinn and Mintzberg, 1993; Hamel and Prahalad, 1994; Ghoshal and Bartlett,



1997). Another group of theorists have focused their work on developing analytical tools to aid in the decision-making process involved in strategy development (Schendel and Hoffer, 1979; Rumelt *et al.*, 1994; Kaplan and Norton, 2000).

Today's systems thinkers in the strategic management field have continued to focus on the dynamic interactions between the organization and its environment. One of the major strategic management frameworks used includes resource dependency theory, which posits that the organization has a set of crucial dependencies on its environment that must be successfully managed if the organization is to stay in business (Pfeffer and Salancik, 2003). Casciaro and Piskorski (2005) have highlighted that the central theoretical proposition in resource dependency theory is that organizational survival hinges on the ability to procure crucial resources from the environment. To reduce uncertainty in the needed flow of resources, organizations will try to restructure their dependencies through a variety of tactics (Pfeffer and Salancik, 1978, 2003 quoted in Casciaro and Piskorski: 167). Tinoco has stated that many studies in resource dependency theory are taken from the perspective of the organization being controlled, instead of those from that of the controlling organization (Pfeffer and Salancik, 1978 quoted in Tinoco, 2008). Additionally, Pfeffer and Salancik's (1978) research posits the proposition that the power of the focal organization is inversely proportional to its dependence on its resources. So, resource dependency theory suggests that organizations are influenced by and depend on their resources for survival. Contingent on the degree of resource dependence, organizations then strive to control their resources, thereby reducing their dependence and uncertainty and increasing their power (e.g., Pfeffer, 1982; Mizruchi and Yoo, 2002). Control of these dependencies produces outcomes of increased chances of survival, improved autonomy and increased freedom from the external influence (Pfeffer, 1982). The view implicit in Pfeffer and Salancik's argument on dependence is that of an organization being controlled by its environment; that is, an organization's attempts to satisfy the demands of another in its environment (1987; 2003). Some would dispute the empirical validity of resource dependency theory; however, the conceptual imagery of the organizational dynamics of power, resource dependence, constraint absorption and survival remains a powerful image for strategic organizational action (Casciaro

and Piskorski, 2005: 167). We believe that the resource dependency framework hinders strategic leadership's proactive action. It is these central propositions in resource dependency that place organizational actors in a reactive stance toward its environment, compromising the organization's ability to advance and transform.

Alternatively, the resource-based framework of an organization suggests that it is useful to think of firms as possessing different combinations or levels of strategic resources and capabilities (Wernerfelt, 1984; Barney, 1991, 1996, 2001a,b; Hart and Banbury, 1994). Barney (1996, 2001a,b) states that the resource-based view holds that firms that possess rare, valuable and non-substitutable and imperfectly imitable resources will enjoy a sustained competitive advantage. So it would follow then that firms that develop and accumulate different process skills as part of their strategy-making capability might be expected to outperform less process-capable organizations [and meet the global challenges] (Hart and Banbury, 1994).

Other theorists have looked to Population Ecology Theory, the Darwinian "Survival of the Fittest" answer to the strategy-building equation (Hannan and Freeman, 1977; Aldrich, 1978, 2000; Aldrich and Mindlin, 1978). Still others have looked at strategy building from an Institutional Theory perspective, which argues that environments make technical and economic demands on organizations, forcing organizations to produce and transact goods/services in markets/quasi-markets, requiring them to assume certain roles (Selznick, 1957; Hatch, 1997; Scott, 1998).

There are several conclusions that one can draw from these perspectives relative to strategic transformation. First, the theoretical frames presented for strategy building take a less than integrated viewpoint of the process. Hart and Banbury (1994) have stated that strategy-making process models are portrayed as either rational, incremental or evolutionary (Lindbloom, 1959; Frederickson, 1984; Quinn and Mintzberg, 1993), *or* separated into "formulation" and "implementation" activities (Porter, 1980; Jauch and Glueck, 1988 [1996]; Wheelen and Hunger, 2001 [2007]).

If we examine the multitude of frameworks and approaches toward strategy, one can then appreciate that at the singular level there is no one approach that fully integrates and dynamically links all the identified dimensions of the individual, organization and wider environment. Most of these frameworks provide models with lenses



limited to a single organization's "view from the top" with a mental mindset focused on organizational control, conservation of resources and capabilities to meet environmental constraints and exigencies. An element lacking in these frameworks is the active engagement and the integration of stakeholder perspectives as real actors and contributors in the strategy process. One can effectively argue that stakeholders have often been consulted in the strategy process. However, more often, stakeholder management strategies are and have been developed with organizational cooperation, co-optation and control in mind rather than active participation, integration and engagement of internal/external actors perspectives in the strategic mission, organizational strategy formulation and implementation processes.

Second, the literature evidences that strategy building has an underlying assumption based on "organizational fit" or "congruence" or "match" with the environment. In other words, the challenge for the strategist is bringing what the organization can do (its competencies) into alignment with the perceived needs and demands of its environment. Some might argue that strategy building then is concerned with actively managing "fit" in order to survive and to achieve a competitive advantage.

Third, we believe that resource dependency frameworks set the stage for organizations to generate strategies that eliminate creative and innovative strategic responses to the environment. The dependency frame relies heavily on the organization's ability to react, adjust, adapt and predict, and prepare for "what may be coming down the pike." While many theorists have called for pro-activism in the field of strategy building, it is hard to imagine that the strategist/leader can "get beyond" the foreboding sense that the environment is "out-there" just waiting to "spring something" on the organization. Extending this notion, it is easy to imagine that many strategists simply see their jobs as one of controlling their response to the environment, minimizing environmental exposure in an effort to reduce perceived risk in the larger field.

Strategy making, we believe, should be conceptualized as a process requiring purposeful design (Hammer and Champy, 1993; Hart and Banbury, 1994; Ghoshal and Bartlett, 1997; Davis and Smith, 2004, 2005). It requires adopting a systemic view toward the process, understanding the interconnectedness and interrelationships of the whole (Werhane, 1999, 2007). It further requires us to

think about developing capabilities of the leaders and key stakeholders inside and externally to the organization. Specifically, this set of relationships (leaders-stakeholder dynamic) is a resource capability critical to strategic organizational transformation and ultimately critical to successful survival of the organization in its environment. Public and non-profit organizations may be in the best position to utilize this leadership capability given the nature of the fluid networks involved in public service in the twenty-first century. The network of stakeholders required to collaborate in public service present open systems that are even more vulnerable to the environment than ever before.

### **Strategy-making process models:**

#### **Key requirements**

Strategy making must involve sets of individuals, institutions and operational processes working within the context of a complex network of interrelationships and their development (Mitroff and Lindstone, 1993; Werhane, 1999; Freeman, 2006) to build strategic capabilities (Kee *et al.*, 2007, 2008). Strategy making also calls for an alternative view of leadership in a global economy, one that is less hierarchical, and does not depend on traditional leader-follower relationships but cross-boundary leadership involving stakeholders (Newcomer and Davis, 2006; Werhane, 2007; Kee *et al.*, 2008). The strategy-making process must also be regenerative, continuous and anchored in understanding and enacting purposes of individual actors/stakeholders. Leadership frameworks for the future will have to rely on less command and control and more collaboration within organizations, and a greater reliance on the input and collaboration of organizational, industry and community stakeholders.

#### **Strategic transformation involves stakeholder interests**

Stakeholders are all the individuals and organizations involved in, or affected by, a change initiative (Kee and Newcomer, 2008). Internal stakeholders are those managers and employees located within the organization. This also includes repetitive volunteers in non-profit organizations. Private contractors to public sector organizations may be identified as external stakeholders in the sense that they are not direct employees of a public or non-profit organization even when they are central to networked delivery systems. Nonetheless, in this age of networked government that is increasingly

dependent on public–private partnerships and outsourcing of functions, contractors are often key stakeholders. Other critical external stakeholders may include political institutions, private firms and interest groups, other governmental, non-governmental or international organizations, potential funders for non-profit organizations and individual citizens or residents. Each and every stakeholder stands to contribute to or feel the impact of a major strategic transformational change that an organization initiates. Leaders need to systematically identify all people and groups involved in the implementation of a change initiative (Kee and Newcomer, 2008). Freeman (2005) makes this point forcefully: “No matter what you stand for, no matter what your ultimate purpose may be, you must take into account the effects of your actions on others, as well as their potential effects on you.” Doing so means you have to understand stakeholder behaviors, values and backgrounds, including the societal context. Where does a change leader begin in the effort to shape communication strategies that facilitate regularized, open, meaningful internal and external stakeholder collaboration? They should look inside, outside and ahead of their immediate organization (Brinkerhoff, 1991; Goldsmith, 1995).

Looking inside, in the new public service environment, requires understanding and acceptance among internal stakeholders of each other’s diverse work-related orientations and interests. Upfront investment in sound communication strategies to encourage collaboration can reap dividends. Open deliberation, in settings considered by employees and other stakeholders to be safe and non-threatening, helps to foster a trusting culture. A trusting culture is conducive to securing buy-in to change initiatives. Both internal and external stakeholders are primary sources of ideas about how to build strategy and implement change projects. Building trust among stakeholders through intentional communication processes can facilitate planning. “A ‘mindset’ or commitment to the whole” is a worthy yet hard-earned objective (Mandell, 1994, quoted in Mandell, 1999: 46).

As with the challenge of communication, ensuring accountability for contributions to performance is another key leadership responsibility. The larger the number of stakeholders, the more complex the accountability challenge. Agranoff and McGuire (2003) note that because there are multiple interests involved in network transactions, everyone in the network is somewhat accountable, but no one

individual is completely accountable, *for* outcomes or *to* various stakeholders (309–310).

Strategies for ensuring accountability are even more problematic in non-hierarchical networks, and communication and collaboration structures are needed to clarify expectations about accountability for achievement of change outcomes. Looking outside at the external environment, leaders should engage stakeholders, such as citizens, by encouraging open communications. Ongoing, routine monitoring of how external stakeholders view an organization and organizational performance certainly helps when innovation or external demands require change. Increasing the quantity, quality and speed of feedback will engage stakeholders as changes are planned.

Looking ahead, leaders must anticipate new stakeholders who may become involved as a result of the change initiative. It is likely that organizations or interest groups may be drawn into planning and implementation of change initiatives – by intention or not. Careful consideration of the requirements for successful change can help in preparing for the consequences of a larger and more diverse number of collaborators, and/or interested parties. In either case, forecasting changes in implementation partners and stakeholders is helpful as a means of securing effective collaboration.

We believe candid reciprocity in sharing views and ideas is facilitated by trust – in leadership and in other stakeholders. However, it is certainly possible that collaboration may be based on resource dependency, expertise dependency or contracts that establish *de facto* hierarchical relationships; this is especially salient in the public sector. Regardless of the role of trust vis-à-vis other forces linking stakeholders who are responsible for building strategy and implementing change, candid communication about tangible as well as intangible obstacles to change initiatives is a key foundation for effective collaboration. We also agree with Freeman (2004) that given the changes wrought by globalization, information technology and the recent ethics-related scandals (in all sectors), there is more urgency in adopting a stakeholder approach to value creation and trade, and this can only be done in the context of open communication and transparency in collaborative efforts.

### **A model for strategic organizational transformation**

There is a need to develop models and processes that realistically respond to environmental issues



but allow considerable room for creative and “out of the box” strategic action. This calls for an integrated multidimensional process in which key stakeholders are at the center of the process, thereby creating the ability for the organization to be “change centric.” Our viewpoint opens the opportunity for organizational leaders to create the conditions for creative responses to highly uncertain environmental conditions, enhancing the organization’s capability for strategic transformation, while confronting the issue of risk. This new model must be a process-based model that generates a broader stakeholder perspective for the organization, creating greater stakeholder value and not simply greater shareholder wealth. Our model of transformational change builds on earlier work done by the authors and a variety of researchers (Smith, 1980; Freeman, 1984; Davis and Smith, 2003, 2004, 2005; Smith and Davis, 2004; Kee et al., 2007; Davis et al., 2008; Kee and Newcomer, 2008) who have sought to create processes in which strategic leaders establish the conditions for an environment of trust, a climate of commitment and strategic action that provides power to motivated stakeholders to produce value for all.

Our Strategic Transformation Process Model is designed to provide a framework to guide institutional and organizational leaders toward creating flexible, innovative and dynamic organizations with a highly developed capacity for change. The model focuses on providing the guidelines for establishing an effective process for developing strategy and simultaneously leading the transformational change needed.

We see this process of strategy generation and transformational change as deeply intertwined. In turbulent environments, building the capacity for transformational change is a key to the long-term survival of the organization. This process then is a critical tool of organizational leadership and a requirement for the successful strategist. Effective leaders in this process must be more than just “goal directed,” they are “vision directed” (Bennis and Goldsmith, 2003).

Our model views the Strategic Transformation Process as an ongoing feed-forward–feedback model that is continuous and processed through and by a strategy team. The strategy team is populated by *key stakeholders* inside and outside of the organization. Our strategic transformation model constantly processes and integrates purpose (strategic intent), knowledge of risk, and evaluative organizational and environmental performance

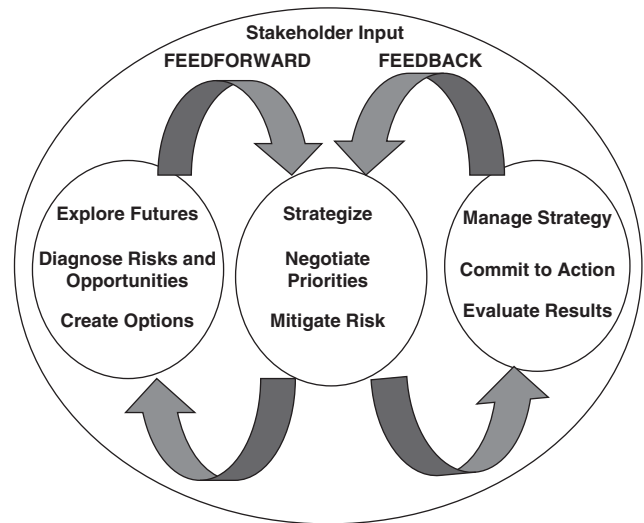


Figure 1 Strategic Transformation Process.

information. Figure 1 illustrates the Strategic Transformation Process Model.

In our process model there are several critical leadership functions or responsibilities that we have identified for leaders of change and transformation, in three general phases:

1. *The visioning phase (explore, diagnose, create options):* This phase involves the diagnosis of opportunities, threats and risks for the organization; the exploration of mission and possible futures; and thinking “out of the box” about options for the future.
2. *The strategy phase (strategize, negotiate, mitigate):* This phase involves examining strategic influences, values and options; negotiating strategic issues and priorities; and developing strategies to mitigate potential risks for the organization.
3. *The implementation phase (manage, commit, evaluate):* This phase involves the strategic management of the chosen options, including specific goals and objectives; the development of and commitment to specific action plans, and alignment of processes and resources to those action plans; and the measurement of performance and reinforcement of the transformation initiative.

Effective leaders must have the capability to create the conditions for and lead the transformation process in a way that guarantees long-term survival of the organization and at the same time creates an environment that emphasizes “stakeholder value.” Stakeholder value is produced when organizational leaders make a commitment to sustainability of their organizations and the larger

community. The model presented in Figure 1 represents a process that is systemically interactive; in other words, the process is recursive, not linear. Central to the process is the ongoing stakeholder dialogue, sorting, negotiating, evaluating and decision making with respect to the information, data and knowledge received from the organization's internal and external environments. This process of engagement among stakeholders is at the heart of the transformation process. We refer to this engagement process as *Strategic Influence*. Strategic influence forms the basis for sustainable change and transformation in the organization. Here influence is defined as the engagement around issues of individual and organizational purpose. It leads to an environment of "power with" rather than "power over" and the integration of strategic objectives of key stakeholders (Follett in Graham, 2003 [1995]).

#### **The visioning phase: Exploring purpose, visioning organizational capability and diagnosing risk**

Leadership has a primary responsibility for assessing the risks of organizational change and for the examination of their organization's capacity for meeting the challenges of change linked to strategy development. In addition to this leadership responsibility for risk assessment and capacity evaluation relative to environmental conditions, leadership also has a responsibility to envision the organization's capability, to create new pictures of "what the organization can be" and explore organizational purpose. Key activities of leadership in visioning the future of their organization include

- exploring and articulating organizational purpose through the lens of stakeholder perceptions;
- articulating strategic intent;
- building creative pictures of the future organization;
- determining environmental change drivers – what is mandating the change (political, socio-cultural, economic, technological, global, customers, competitors, supplier dimensions in the environment);
- analyzing change complexity and organizational capacity;
- facilitating identification/realization of common interests and objectives;
- anticipating the overall scope required for integrated total systems change;
- framing change within capacity limitations of the organization and with a maximum return on resources;

- developing an understanding of risk and its implications;
- identifying and initiating discussions with stakeholders to enhance organizational capacity; and
- creating a deep appreciation for what the organization "can be," its potential and "what it currently is," the reality or as Collins (2001) articulates: the ability to "confront the brutal facts."

#### **The strategy phase: Negotiating priorities and mitigating risks**

The heart of this strategic transformation model is the creation of stakeholder engagement. The central theme of most change management literature is the need for stakeholder buy-in. We would argue that stakeholder engagement/participation is a more effective approach than stakeholder "buy-in." This is especially important with those stakeholders who have the ability to influence others and/or garner additional support for strategic transformation and change. The following are important actions to take when leaders are in the midst of developing strategic options and negotiating priorities:

- creating a vision and articulating a purpose reflective of and which can be shared with stakeholders who are engaged in a process that allows for them to express their thoughts, feelings and concerns and ask questions for clarification;
- creating a process of engagement through dialogue in which stakeholders have the opportunity to negotiate strategic priorities and generate potential strategies for change that influence outcomes;
- establishing a coalition of stakeholders, for example a change vanguard (Kelman, 2005), who support the vision for change and will inspire and encourage other members of the organization to get on board with the effort and "act on the vision";
- examining the organization's culture and values, which values are important to protect and how the organization can be made more change-centric;
- establishing a sense of urgency for the change through environmental scanning and conveying to stakeholders both evidence to support the reason why the change is necessary as well as the possible risks associated with not implementing change (Kotter, 1996).



The process described here allows for a deep examination of stakeholder values through the specification, negotiation and decision of strategic priorities of the organization. Because organizational transformation is most successful with the support of those inside the organization, a sense of urgency accompanied with explicit understanding of why the change is imperative will motivate individuals to get involved and support the effort.

The Strategic Transformation Process advocated here assumes the inclusion of *all* key influential stakeholders in this process. This is the heart of the transformation process: the assumption is that *people* and their *purposes*, values and beliefs are critical to their understanding “what is important or significant” for change to occur. While a sense of urgency is necessary to reinforce the degree of importance of change, it is equally critical that stakeholders identify and rank order the strategic priorities for change as “they see it.” The choice of strategic priorities associated with the change or transformation for the organization forms the basis for strategic organizational action. Further, it is incumbent upon the stakeholder group to sort the priorities and create teams of individuals who agree on priorities that are central to moving the organization forward. These teams provide the foundation for the generation of strategic action plans associated with the strategic transformation.

As in the first phase of this process, strategic priority negotiation serves to enhance transparency in the process, solidify engagement and create a collective ownership by stakeholders involved. This focus on strategic dialogue, which is at the center of the transformation process, becomes the critical component of making successful change and transformation. The dialogue and constant communication creates the conditions for collaborative strategies to emerge.

### Designing and implementing strategic change

The third phase of the strategic transformation model centers on the design of operational *Action Plans* for the organization. These action plans are centered on the specification and identification of short- and longer-term goals and objectives central to the execution of strategies and priorities identified by the stakeholders. Action plans in this context must be designed to respond to the cross-functional aspects of the organization and require a commitment of a team of key stakeholders in

the organization in order to be successful. The following are the responsibilities of leaders when developing action plans to implement strategic transformation:

- establishing the responsibilities and tasks of key stakeholders required to realize the objectives of the strategies/strategic priorities identified;
- developing a transformation or change structure or “vanguard” that is committed to leading the project;
- aligning needed resources (human, capital and information resources) to operationalize the plan, which means that an ongoing assessment of leadership, technology, communication, management and structural systems should be reflected in the plans produced in this phase;
- developing processes, power sharing and structures to support the action plans;
- developing a performance measurement system that tracks the success of the change initiative;
- establishing time lines for completion of the action plan so that ongoing performance can be collected and processed.

### Sustainability of strategic change and transformation: Feed-forward and feedback to create a learning organization

The key to the long-term transformation of organizations is to create an environment of learning and sustainability. The idea of sustainability of the change process is linked to the idea that *people* and the ongoing process of *communication* and *dialogue* are not just essential to the process of strategic transformational change, but essential for long-term success of any organization. Our Strategic Transformation Process provides for the continuous cycle of evaluation, re-evaluation and modification of strategies, by passing information through the dialogue process as a mechanism for allowing for adjustment, re-conceptualization and change to be accommodated. The dynamics of this feed forward/feedback process also creates the conditions for the organization to “learn” while setting the conditions for the emergence of new strategies. By encouraging feedback, leaders of transformation can create the “learning organizations” that Senge (1990) and Senge *et al.* (1994) and others believe to be so essential to twenty-first century organizations.

The ongoing feed-forward and feedback continuous process creates learning and sustainability through a cycle of reflection and action for

stakeholders. The Strategic Transformation Process is designed to reinforce:

- trust, transparency, engagement and collective ownership;
- creative space for exploration, reinvention, innovation to take place;
- effective communication and collaboration strategies with stakeholders;
- common language and vocabulary for all those involved in the change;
- appreciation, understanding and address resistance by providing a safe place for true dialogue over important and critical issues that could result in conflict;
- alignment of personnel, processes, structures, etc. with the strategic change;
- effective performance systems that are meaningful, flexible, learning-oriented;
- successful stakeholder partnerships; and
- change-centric culture that welcomes change and openness.

Leaders must constantly reinforce an organizational climate that is conducive and open to change. In order to facilitate the resilience and productivity in their organizations, leaders have an ongoing responsibility for strengthening their own skills and the vitality of their organizations in order to make their organizations more change-centric for the future.

### The strategic transformation workshop

The Strategic Transformation Process Model can be applied in a workshop atmosphere using a series of sessions involving key stakeholders from both inside and outside the organization. Generally, the workshop is facilitated by a team of consultants who move stakeholders through the process the first time. The workshop is designed so that leaders can continue the transformation process themselves.

The workshop can provide the platform for a process of social, economic and technical transformation through stakeholder engagement, negotiation of priorities and the creation of sustainability through ongoing change and transformation by participants. Facilitators are there to create the conditions for experiencing the process and aid in stakeholder learning. The workshop can be modified to match particular needs of the leaders or organization.

### Overview of a sample workshop design

The Strategic Transformation Process unfolds in four steps including three phases; each is designed as a half-day or 1-day session.

#### *Pre-workshop meeting: Stakeholder design of phases.*

The design session is meant to bring together the major stakeholders of an organization to begin the process of creating a dialogue between them and the organization's leaders. The goal is to create some ownership of the process and begin developing alternative visions of the organization and discussing a strategy to influence the organization's stakeholder population to participate in the larger vision.

*The purpose/visioning session.* The visioning session should include a representative sample of key stakeholders who can formulate a compelling vision and can contribute to the development of an overarching purpose for the organization. The stakeholders included in this visioning session should include those individual stakeholders most able to identify and influence the priorities and implementation of the purpose of the organization. It is very important that these stakeholders represent the widest possible set of interests that will be affected by the vision and strategy of the organization. At the end of the visioning session, all key stakeholders should have had an opportunity to express their own visions for the organization. The leadership challenge is to see the extent to which it is possible to construct/integrate a statement of organizational purpose that incorporates the visions of key stakeholders while addressing environmental opportunities, constraints and risks.

*Strategic priorities session.* The strategic priorities session is designed to take the broad vision from the previous session and refine that vision by developing concrete priorities for action. This will involve considerable discussion, integration and tradeoffs as stakeholders realize they cannot achieve everything within the limits of the organization's resources and environment.

The purpose of this session is fivefold:

- review current work and themes around the emergent strategic vision of the organization;
- advance this strategic vision by developing strategic priorities;
- develop roles and responsibilities by forming groups around the major strategic areas of interest for implementing the vision;





- explore the best options for implementation of the components chosen and identify the likely impact on these components on a broad base environmental stakeholders;
- confront and discuss major areas of risk (responses and mitigation);
- advance the organization by identifying people who will work on action plans for coordinating and communicating the activities.

At the end of the strategic priorities session, key stakeholders should be able to determine how their visions of the future are incorporated into those options developed in the session. The goal is to achieve as wide as possible ownership by the key stakeholders so that they will be enthusiastic participants in the next phase, the strategic action planning session.

**The strategic action planning session.** In the final session the focus is the formulation of specific action plans tied to specific strategic priorities and strategies of the organization. These action plans identify specific actions/responsibilities, objectives, actors, resources and time frames needed to be accomplished by the stakeholders as part of a plan that is created. These plans are tied directly to the previously identified priorities established in the strategic priorities session. It is in these plans of action that stakeholders come together to create specific ways/actions to accomplish and achieve their strategic priorities. This requires stakeholder commitment of energy, resources and time to the strategy and change previously worked through.

The process approach discussed here is designed to generate the maximum trust possible among stakeholder participants and to create the conditions for those participants to formulate and find solutions that take into account the broadest range of stakeholder interest possible and confronting issues of risk.

### Summary and conclusions

In this paper we have reviewed what we believe are the leadership challenges today in organizations, emphasizing the particular challenges of public and non-profit organizations. We have offered an alternative way of thinking about change and strategy building in organizations – a process-based integrative framework for strategic transformation and action. Our model of strategic transformation, more than other strategic planning models, places a greater emphasis on understanding and mitigating

the risk involved in change, and it creates the conditions for an ongoing strategic conversation with stakeholders creating trust, greater commitment and ultimately increased value for the organization and environmental actors. We also highlight in this model the need to create a continuous flow of information between organizational actors and their stakeholders. Additionally we emphasize the need for strategic leaders to center their activities in this continuous conversation creating greater stakeholder value both inside and outside the organization. Freeman (2006) would call this “the new narrative of stakeholder capitalism.” In other words both sets (internal and external) stakeholders are critical “strategic influencers” in the organizational transformation process. Traditional organizational strategic activities would gather input/information and involve direct participation from primarily internal stakeholders. Our model specifies the need for expanded conversation and dialogue between and among stakeholders (internal/external). In this context, the center of gravity for strategic transformation is achieved by having both feed-forward and feedback of stakeholder information as a purposeful activity in the process. It is recursive, continuously integrating new stakeholder processed information, adding expanded vision, strategic priorities and plans to the organizational repertoire. This recursive process also ensures that the organization is engaged in learning, too. The design and execution of this leader–stakeholder dynamic in the Strategic Transformation Process becomes the bedrock from which value, trust, ownership is generated and ultimately helps to mitigate risk for the organization. Lastly, we presented our model and a mechanism for activating the Strategic Transformation Process via a workshop format.

Most strategic management theories either implicitly or explicitly underscore organizational performance implications often tied to econometric and financial outcomes (Schendel and Hoffer, 1979; Hax and Majluf, 1984; Venkatraman and Ramanujam, 1986; Shrivastava and Nachman, 1989; Kaplan and Norton, 2000). Yet we would argue that effectiveness, especially for the public and non-profit sectors, requires much more than simply economic and financial measures. Strategic change, leadership and strategy are intimately intertwined and effective to the degree that we build proper relationships with stakeholders.

Organizations that develop and accumulate and integrate different process skills and capabilities



should outperform less process-capable organizations. One might think of effectiveness then as the organization's ability to accumulate and integrate skills, strategic capabilities and processes using multiple modes of strategy making, yielding higher

levels of performance (Hart and Banbury, 1994; Kee et al., 2008). The Strategic Transformation Process Model offered here creates this integrated framework and ultimately the capabilities needed for an effective change-centric organization.

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