This paper focuses on leading proactive punctuated change. Based on the research literature of our extended involvement with IBM between 1999 and 2008, the chapter suggests that proactive punctuated change can be effectively managed through an engineered social process designed and led by the senior leadership team. Where reactive punctuated change is driven by crisis conditions, the motivation and energy required to lead proactive punctuated change is rooted in an overarching aspiration coupled with a contradictory strategic challenge. This change process involves disciplined conversations, actions, and associated learning by the senior team, diffusing these learning capabilities to the extended senior leadership team, and over time to the larger leadership community. The chapter connects principles for leading proactive punctuated
change to organizational change dilemmas associated with sustainability

*Keywords*: change and dialog, leading change, leading proactive change, punctuated change, senior teams

This chapter focuses on leading proactive punctuated change. Based on the institutional and organizational change literatures and our extended involvement with IBM between 1999 and 2008, we suggest that proactive punctuated change can be effectively managed through an engineered social process designed and led by the senior leadership team. Where reactive punctuated change is driven by crisis conditions, the motivation and energy required to lead proactive punctuated change is rooted in an overarching aspiration coupled with a contradictory strategic challenge. The challenge to simultaneously explore and exploit provides the logic, tension, and requirement for experimentation that helps an extended management community collectively learn how to execute strategic organizational renewal. This change process involves disciplined conversations, actions, and associated learning by the senior team, diffusing these learning capabilities to the extended senior leadership team, and over time to the larger leadership community. We connect principles for leading proactive punctuated change to organizational change dilemmas associated with sustainability.

Leading punctuated change is one of the most important and least understood challenges to the modern firm and its leaders (Greenwood and Hinings, 1996; Agarwal and Helfat, 2009). As environments shift, punctuated change is an inherent aspect of organizational evolution. Yet after decades of research, the mechanisms and dynamics of systemic punctuated change are still not well understood (Pettigrew, 1985; Tushman and Romanelli, 1985; Romanelli and Tushman, 1994; Eggers and Kaplan, 2009; Tripsas, 2009; Adner, 2012). Thus while building sustainable firms may be associated with considerable organizational benefits (for example, Cheng et al., 2014; Eccles et al., forthcoming), the process by which such system-wide change might be implemented are opaque.

Leading punctuated change is particularly problematic as those capabilities associated with exploiting a particular strategy are also associated with organizational inertia. Any strategic change must deal with the power and politics, organizational processes, capabilities, and embedded agency dilemmas associated with inertia both within the firm and its institutional context (for example, Pfeffer, 1992; Miller, 1994; Nadler and Tushman, 1997; Greenwood and Suddaby, 2006; Benner, 2007; Collins and Hansen, 2011). These inertial dynamics are likely to be accentuated for change efforts, like sustainability, that link doing well with doing good (see Margolis and Walsh, 2001; Beer, 2009; Beer et al., 2011; Smith and Lewis, 2011; Eccles et al., 2012).

While we know much about the content of strategic change (for example, Barnett and Carrol, 1995; Hambrick et al., 1998; Weick and Quinn, 1999), we know much less about the process by which punctuated change is executed (Spillane et al., 2004; Greenwood and Hinings, 2006). Although management scholars have labeled types of change (for example, strategic, rhythmic, punctuated, transformational, divergent, or discontinuous) and offered checklists for leading change (for example, form a guiding coalition, shared
commitments, create a burning platform, maintain control during the change process)
(Kotter, 1995; Brown and Eisenhardt, 1997; Nadler and Tushman, 1997; Tushman and
O’Reilly, 1997; Beer, 2009; Collins and Hansen, 2011; Eccles, et al., 2012), we know very
little about the actual process and mechanisms by which incumbents execute either
reactive or proactive punctuated change (see Joseph and Ocasio, 2012; Battilana and
Casciaro, 2013, and Ramarajan et al., 2012 for exceptions).
Empirically, most punctuated changes are reactive; they are initiated under crisis
conditions. Based on our work at IBM between 1999 and 2008, we suggest that
proactive punctuated change (what we label as “strategic renewal”) can be effectively
managed through an engineered social process designed, owned, and led by the leader
and his/her senior team. This change process involves disciplined conversations and
associated learning by the senior team, building and shaping an extended senior team,
and then diffusing the ownership and energy of change to a larger community of leaders.
The motivation and energy required to lead proactive punctuated change is grounded in
a compelling overarching aspiration coupled with a paradoxical strategic challenge (at
IBM, to both explore into new domains as well as exploit existing capabilities). The
challenge to simultaneously explore and exploit provide the logic and tension for
experimentation that helped an engaged managerial community collectively learn how to
execute proactive punctuated change.
We use IBM between 1999 and 2008 (the latter portion of Lou Gerstner’s tenure and
the early phase of Sam Palmisano’s tenure) as a case in point of proactive punctuated
change driven by the mandate of growth through innovation and executed through a top-
down/bottom-up engineered social movement. While incremental change can be
managed from the bottom up, the (p.252) learning associated with punctuated change
must be designed, owned, and energized by the senior team. While the impetus for
system-wide change is initiated by the senior team’s aspiration and paradoxical strategic
challenge, the change is executed through an extended social movement.
At IBM, this social movement was instantiated through a series of workshops where
senior leadership teams and their shared executives, informed by a common problem-
solving methodology, collectively initiated, discussed, and learned about innovation and
change in their local domains. We suggest that the methods by which IBM’s extended
senior leadership team learned how to execute proactive punctuated change is a more
general change process that can be applied to the challenges of leading proactive
sustainability transformations (see also Barley and Tolbert, 1997; Spillane et al., 2004;
Scott and Davis, 2007; Sull and Spinoso, 2007; Eggers and Kaplan, 2009; Battilana and
Casciaro, 2012; Ramarajan et al., 2013).
We suggest that strategic renewal is not an event, a set of steps, or a program, but an
engineered social process anchored by an overarching aspiration and a paradoxical
strategic intent that unfolds over time. This process is rooted in a series of concrete
strategic challenges to the status quo (either performance gaps or strategic
opportunities) at the unit and/or corporate level. These challenges uncover idiosyncratic
root causes at the unit level as well as more systemic root causes at the firm level.
Guided by the CEO’s paradoxical strategic challenges, a common language and problem-solving tools, and disciplined follow-up, the extended management team collectively learns how to lead proactive change. This learning is grounded in collective cross-level and cross-firm experiences and conversations in solving real strategic challenges (see also Beer, 2009; Collins and Hansen, 2011; Kellogg 2011a, 2011b; Joseph and Ocasio, 2012; Gawer and Phillips, 2013).

**Strategic renewal at IBM (1999–2008)**

**The Evolution of Strategy Formulation at IBM**

In 1993, Lou Gerstner took over as the CEO of IBM. He was externally recruited to re-invent IBM. What once was the most admired firm in the world was reeling from both financial and competitive failure. An integrated series of strategic, leadership, organizational, and cultural actions initiated by Gerstner helped turn IBM around. By 1998, the firm had returned to financial stability and was growing its services and software businesses. Much has been written about this transformation (see Gerstner, 2002). We focus here on the (p.253) subsequent strategic renewal of IBM initiated in 1999, late in Gerstner’s tenure, and continued through 2008, the first half of Sam Palmisano’s tenure.

The renewal initiated in 1999 was motivated by Gerstner’s observation that IBM’s growth had stalled. While IBM had been turned around financially in the initial phase of Gerstner’s tenure, he felt it now had a growth crisis based on the firm’s inability to take advantage of a series of breakthroughs developed in its laboratories. IBM’s strategy group documented 29 distinct business opportunities based on technologies developed within the firm that it failed to commercialize. For example, IBM had been the first mover in routers, web infrastructure, voice recognition, RFID, and pervasive computing, only to lose to competitors like Cisco, Akamai, Nuance, and others. By 1999, the consequences of such missed opportunities were that IBM’s growth had leveled off (see Harreld et al., 2007). The fact that IBM had led the world in patents had not been translated into sustainable growth.

Gerstner challenged Bruce Harreld, his senior vice president of strategy, to get at the roots of this growth issue. Harreld and four of his colleagues did an analysis of this corporate-wide innovation gap. Six root causes emerged: existing management systems focused energy on the short term; the firm was preoccupied with current customers and existing offerings; the IBM business model emphasized profit and sustained EPS (earnings per share) improvement, rather than higher price/earnings; the firm’s market insight analytics were inadequate for embryonic markets; and the firm lacked processes for hosting new businesses, and even after new businesses were funded, most failed in execution. IBM’s intense efforts to re-invent itself between 1993 and 1999 had a dark side. It had become a “disciplined machine” for short-term performance (i.e., exploitation), but had reduced its ability to innovate and grow through exploratory activities.

With these data, Gerstner asked Harreld to rethink IBM’s strategic formulation process.
such that it was fact based, strategically informed, growth oriented, and had a disciplined approach to execution. As importantly, Gerstner insisted that the strategy process be owned by general managers (as opposed to their staff) (see Harreld et al., 2007). Harreld and his team, collaborating with Tushman and O’Reilly, developed the IBM Business Leadership Model (see Figure 10.1). The Business Leadership Model required general managers to focus on either strategic performance gaps (for example, underperformance against plan or customer expectations) or strategic opportunities (for example, proactive shifts in business models).

Rather than the typical formalistic yearly review, the new strategic planning process engaged general managers in disciplined conversations with their strategy colleagues on the nature of their performance and/or opportunity gaps. These conversations focused on strategic insight, based on fact-based analyses of market conditions, innovation streams, and associated alternative business models, along with a careful analysis of execution options (the implications of various business models on the units’ critical tasks, structure, culture, processes, competencies, and leadership behaviors). Under this revised strategic planning process, the role of Harreld’s strategy team shifted from yearly evaluation to on-going conversations, based on jointly developed data, about innovation streams, new business models, and associated leadership capabilities and organizational architectures (this process of corporate/business unit interaction is similar to that described by Joseph and Ocasio (2012) at GE).

**Strategic Leadership Forums and Emerging Business Opportunities**

To execute this new strategic planning process with its emphasis on maintaining the firm’s ability to exploit existing strategies and to simultaneously explore opportunities to leverage IBM’s technological capabilities, Harreld initiated two related but distinct interventions: Strategic Leadership Forums (SLFs) and Emerging Business Opportunities (EBOs). SLFs were intensive workshops to engage both strategic and operational issues within and across IBM’s business units. In these workshops, intact teams learned to employ the business leadership model and to explore the relations between streams of innovation (exploration and exploitation), senior team behaviors, ambidextrous designs, and change management. These SLFs were followed up with 30-day, 60-day, and 90-day reviews initiated through Harreld’s office. EBOs were a series of
efforts to strategically explore new business opportunities at the corporate level. EBOs were initially built to explicitly take advantage of cross-line-of-business opportunities, for example creating the life science and pervasive computing businesses (O’Reilly et al., 2009).

SLFs and EBOs involved every area of IBM (i.e., functions, geographies, and business units) and its most senior leaders in a series of experiments designed to both enhance the on-going cadence of IBM’s “disciplined machine” and to (p.255) “trick the disciplined organization” into exploring new strategic spaces (see Harreld et al., 2007). The SLFs and the EBOs were corporate interventions employed between 2000 and 2008. As these experiments began to have an impact on innovation outcomes, the SLFs and EBOs developed a reputation for impact and senior team involvement and, in turn, generated their own momentum.

Initial SLFs and EBOs (2000–2002)
The nature of the SLFs and EBOs shifted over time as IBM learned how to employ these interventions. Between 2000 and 2002, Harreld sponsored seven SLFs involving 34 intact teams. The initial SLFs were composed of sponsors and senior teams that Harreld knew would be a supportive community to help launch and co-create the SLFs. These sponsors also had performance or opportunity gaps so that if progress were made, the interventions would be visible and impactful to IBM. For example, Paul Horn, then head of IBM’s research community, worked on technology-transfer issues for IBM Research, while Janet Perna and John Swainson brought their teams to work on major strategic issues in database management and in the Websphere business units, respectively. In this initial phase, one SLF was entirely dedicated to EBOs. Five early EBO initiatives (for example, life sciences and network processor) were brought together to work on their unique EBO challenges as well as to share learning across EBOs.

With the active involvement of Harreld’s strategy team, the initial 34 business owners, and the two external faculty, early SLFs evolved into the following structure and process. Structurally, each SLF had corporate strategy and a group senior vice president as sponsors. Such dual senior sponsorship ensured that strategic performance or opportunity gaps were selected and that intact teams and appropriate other individuals joined the workshop. SLFs were funded both by Harreld’s organization and by the sponsoring line executive’s organization. Teams were selected by Harreld and a co-sponsoring senior vice president based on the firms strategic issues. Resistant leaders were actively encouraged to take advantage of these workshops. These initially resistant leaders either became more enthusiastic or were sanctioned by Harreld and his colleagues.

The SLF process evolved during these first two years (see Figure 10.2). By the end of 2002, Harreld and this early SLF community converged on a replicable methodology. Each SLF had between three and seven intact teams (roughly 90 individuals in total), each with a unique performance or opportunity gap. These teams were supplemented with other individuals who had relevant expertise for their gap. The teams met before the workshop to gather their own data on the unit’s strategic situation and craft a clear gap
statement. These pre-SLF meetings were facilitated by a strategy person as well as by an organizational effectiveness professional from the HR community. Teams (p.256)

![Figure 10.2. SLF and EBO process: top-down and bottom-up dialog and learning](image)

*Source: Adapted from IBM document.*

(p.257) came to SLFs primed on the nature of the issues to be discussed and armed with data on the strategic importance of their performance/opportunity gaps.

The SLFs were 3.5 days in duration and held in non-IBM settings. In these initial workshops, external faculty presented content on the challenges of dynamic capabilities, the IBM Business Model, strategic innovation and change, structural ambidexterity, culture, and leading change. The content sessions used non-IBM cases. The faculty modeled the process of disciplined problem solving through the cases and set up the challenges of building organizations that could simultaneously exploit existing capabilities and explore into new domains.

Over each 3.5-day workshop, each team spent 17 hours working their unique gap. In the non-academic sessions, each team did their own diagnostic work that led, in turn, to their own set of action plans and commitments. While each team did their own work, each day the teams reported back to the full community. These report backs, moderated by the executive sponsors, helped raise the level of work, as each group got immediate feedback from the corporate sponsors as well as from their peers in other teams. As participants heard multiple presentations, the SLF communities were able to uncover system-wide root causes as well as possible system-wide remedial actions. There was substantial social pressure to do quality strategic and diagnostic work. Each evening, the sponsors, faculty, and business owners met to debrief and make course corrections, so material and processes remained customized to each group. Finally, the process of articulating next steps and follow-up were built into the SLF methodology. Business owners were responsible for implementing their proposed actions. Their SLF facilitators assisted their implementation. Finally, business owners held structured follow-up sessions with Harreld’s strategy colleagues, as well as their respective sponsors.

These SLF processes created a context for multiple types of learning. Learning at the unit level was initiated by top-down strategic challenges along with intensive cross-firm and
cross-level dialog on the roots of these challenges. As each SLF had multiple teams, the report-back sessions encouraged communication across these extended communities. These community discussions surfaced a range of system-wide root causes of IBM’s innovation performance gap. Thus, if several teams independently arrived at similar root causes, that convergence indicated a system-level root cause. Each SLF then generated insight for action at both the local and corporate levels of analysis. The SLF process triggered learning about innovation and change co-created and co-owned by multiple areas and levels in the firm.

**SLF and EBO assessment (2002)**

After this initial set of seven SLFs, O’Reilly and Tushman (assisted by a Graduate School of Education School student) did an SLF review. This review (p.258) indicated that participants valued the business leadership framework and the common language employed to both develop provocative strategies and to build organizations capable of executing those strategies. Participants were struck by the complex interdependencies within and outside IBM. They were also struck with the leverage of bringing the right actors together, sponsored and pushed by corporate executives, to intensely grapple together with strategic issues. One of the most consistent observations was the importance of senior teams jointly owning their unit’s strategy and having a hand in crafting their gaps, diagnoses, and action plans. They also noted the power of dedicated time and the ability to work together on strategic issues as intact teams with their relevant corporate executives (see Tushman et al., 2007; Kellogg, 2011a, 2011b).

This SLF review also generated a set of system-wide observations that were used to shape subsequent SLFs. Participants observed that while most of the firm’s strategic opportunities involved cross-IBM interdependencies, the firm was organized and measured from a line-of-business, country, or functional point of view. Participants noted that the firm was optimized to exploit existing business but under-organized and managed for exploratory opportunities. Participants observed that “light-weight teams were given heavy-weight strategic opportunities.” Participants also focused on the role of culture in stunting exploratory innovation at IBM. They observed that a culture of risk aversion and incremental change, the power of finance, a process mentality, low tolerance for mistakes, and little cross-line of business trust all colluded to diminish innovations that crossed firm boundaries. In contrast, the culture of collaboration, teamwork, and high expectations they experienced in the SLF was the kind of culture they felt could enhance innovation across the firm.

Finally, this interim review suggested a range of issues associated with the action-planning phase of the SLFs. Participants and faculty observed that across these initial SLFs, even though the root cause analysis often called for punctuated change, the proposed interventions were typically incremental in nature. Further, where actions on structure, roles, incentives, and processes were well specified, they were weak in dealing with cultural barriers, and weaker still in focusing on the role of the senior team as root cause of the performance gaps.

An interim review was also done for the EBOs. Harrel, his strategy colleagues, and the
initial EBO leaders developed a set of best practices for EBOs going forward. This EBO design team learned that those EBOs with joint line and staff senior support and funding, that had seasoned EBO leaders, dedicated measures and milestones, disciplined reviews focusing more on strategy and emerging customer requirements than on financial measures, and had strict graduation criteria, were more impactful that those EBOs without these factors. These initial EBO experiments also required the CEO’s support in signaling the importance of EBOs to prospective EBO leaders and to skeptical line/functional managers (see O’Reilly et al., 2009).

(p.259) SLFs and EBOs, 2002–2008
These evaluation data suggested an emerging set of best practices in executing SLFs and EBOs. They also indicated that the SLFs and the EBOs were gaining traction in terms of organizational outcomes and credibility with influential senior executives across the firm. These data also indicated the power of SLFs to create the space and conditions for disciplined conversations about strategy and execution, the role of senior teams in driving change, and on the power of jointly developed and publically communicated diagnoses and action plans. These data also indicated there was a range of systemic factors hindering exploratory innovation and the associated execution of punctuated change within and across units.

These lessons on innovation and punctuated change overlapped with the promotion of Sam Palmisano to CEO in 2002. Palmisano articulated a growth agenda for IBM and his intention to have IBMers reinvigorate their heritage of “restless self-renewal.” Palmisano also called on IBM to “re-invent itself again...even as it retained its distinct identity.” Building on the firm’s shared values of “client success, innovation that matters, and trust and personal responsibility,” Palmisano suggested, “if there is one thing that IBMers agree on, it’s that ours can be the greatest firm in the world.”

This energy by the new CEO for growth, innovation, cultural change, and renewal reinforced the importance of the SLF and EBO workshops. The SLFs and EBOs were tools to execute Palmisano’s aspiration, based on the firm’s rearticulated values. Armed with data from two years of experience with SLFs and EBOs and the CEO’s call for growth and renewal, the next set of SLFs were more themed in nature. Between 2002 and 2005, 21 more SLFs were hosted, involving 150 teams and 2,500 executives. The themes included EBOs, technology, growth, industry standards, and cross-line-of-business integration. During this period, for example, three separate EBO-dedicated SLFs were hosted, involving 14 EBOs. These dedicated SLFs helped Harrel, his team, and an extended set of IBM leaders to learn how to execute EBOs across the corporation. By 2005, 80 percent of the top 50 IBM executives either attended or hosted an SLF (including Palmisano). During this period, more than 60 percent of the top 300 executives attended at least one SLF. As positions changed and challenges shifted during this period, many senior executives volunteered to attend multiple SLFs.

By 2005, the SLFs and EBOs were no longer experimental workshops. The language and methods of the business leadership model with its emphasis on gaps, disciplined problem
solving, senior team responsibilities to re-invent their units through exploitation as well as exploration, and the power of conversations leading to disciplined action were diffused through the senior team. Influential leaders volunteered for both EBOs and SLFs. Those skeptical senior leaders either changed their point of view after having employed an SLF \textbf{(p.260)} or were actively coached by Harreld and Palmisano on the career-limiting consequences of not engaging in these workshops. By 2005, SLFs were seen as an important tool to lead innovation and change. Further, EBOs were seen as a legitimate career step. Indeed, high-potential leaders had to demonstrate their ability to exploit through IBM’s disciplined processes and cadences as well as effectively explore into new strategic spaces.

Given the momentum of the SLFs and EBOs, these workshops shifted from Harreld’s direct sponsorship and were decentralized to the functions, geographies, and business units. Similarly, once the methodology was developed and tested at the corporate level, the logic of EBOs was decentralized into the functions, regions, and business units (O’Reilly et al., 2009). Over this period, more than 180 EBOs were in place across IBM’s functions, regions, and business units. By 2005, EBOs alone had contributed more than $15 billion dollars in incremental IBM growth and were a more effective growth instrument than acquisitions (Harreld, et al., 2007; O’Reilly et al., 2009).

By 2008, 40 SLF sessions were run in this decentralized fashion, involving more than 5,000 IBM executives. The SLFs were institutionalized throughout the firm and led by middle-level managers who were able to leverage their more senior leaders to support and model leading punctuated change. This process of decentralizing SLFs and EBOs throughout the firm broadened the reach of senior leaders, developed leadership throughout the firm, and extended the language and orientation of the business leadership model more extensively (see Figure 10.3). For example, in IBM China, Henry Chow used the SLF methodology to engage his colleagues on accelerating growth in inland China. The EBOs and SLFs were associated with IBM’s enhanced performance during this period (see Table 10.1).

**Leading Proactive Punctuated Change at IBM**

Between 1999 and 2008, IBM renewed itself from a disciplined machine that excelled in incremental innovation to a firm that sustained its short-term targets even as it explored fundamentally different domains. This ability to lead proactive punctuated change was institutionalized throughout the firm; within functions (for example, R&D), geographies (for example, China or India), business units (for example, Tivoli or Lotus), and across-business units (for example, life sciences or pervasive computing). This strategic renewal was executed through a series of punctuated changes within each area of the firm.

During this nine-year period, the 180 EBO experiments and the 40 SLF workshops involving more than 150 intact teams created the material where more than 5,000 senior leaders learned about leading change in their own domains, helped others in their domains, and raised a set of system-wide issues that hindered IBM’s ability to explore and exploit. Corporate executives used these data to take action at the system level to
support more local (for example, functional, geographic, business-unit, and cross-business-unit) punctuated changes. During this period, IBM’s executive leaders and its (p.261)

![Table 10.1 SLFs, EBOs, and IBM performance](image)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2005</th>
<th>2010</th>
</tr>
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<tr>
<td>Cum. no. of SLFs</td>
<td>7</td>
<td>23</td>
<td>40</td>
</tr>
<tr>
<td>No. of executive participants</td>
<td>350</td>
<td>1,800</td>
<td>5,000</td>
</tr>
<tr>
<td>No. of EBOs</td>
<td>7</td>
<td>23</td>
<td>180</td>
</tr>
<tr>
<td>EBO revenues (as % of IBM total)</td>
<td>6</td>
<td>19</td>
<td>24</td>
</tr>
<tr>
<td>IBM revenues ($billion)</td>
<td>81.2</td>
<td>91.1</td>
<td>99.9</td>
</tr>
<tr>
<td>Gross margin (%)</td>
<td>36.6</td>
<td>40.1</td>
<td>46.1</td>
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<tr>
<td>Earnings per share ($, diluted)</td>
<td>2.43</td>
<td>4.91</td>
<td>11.52</td>
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</tbody>
</table>

extended leadership team collectively learned and co-created a set of tools to more effectively lead punctuated change. This set of interrelated interventions led, over time, to the strategic renewal of IBM.

It may be that punctuated change at the corporate level can be executed through collective learning that is induced by senior leaders executing punctuated change within the firm’s component units. Such learning about punctuated change is supported by a process, context, language, and set of tools where leaders and their teams both execute change and simultaneously learn from other teams about what helps and hinders punctuated change. Such experience-based conversations help an extended leadership community learn about leading punctuated change both at the unit level and at the corporate level. The impact of this senior team learning about leading punctuated (p.262) change is institutionalized as these leaders, in turn, taught and coached their extended teams (see Figure 10.3).

This firm-wide strategic renewal was energized and legitimized by the new CEO, who
articulated an emotionally engaging vision for the firm (one that was built on IBM’s roots) and a new set of values, even as he articulated a growth opportunity gap. This proactive transformation was enacted through a set of experiments (i.e., SLFs and EBOs) that were constructed by Harreld and his colleagues, that led, in turn, to an ever-increasing set of senior leaders who learned to lead punctuated change by their own work in their teams and by sharing best (and worst) practices with their peers and corporate executives in highly engineered social settings. Similar to Kellogg’s (2011a, 2011b) work on change in medical centers, the workshops associated with SLFs and EBOs were spaces where teams and their leaders collectively learned about leading punctuated change both in their units and across the firm.

This renewal was executed in a highly top-down fashion, even as the learning was actually done in a decentralized fashion. In effect, the IBM senior executive team proactively created a “burning platform” for change that captivated the hearts and minds of the extended organization. Further, as the SLFs and EBOs involved substantial time for conversation and collective learning, the extended team was able to give feedback on those systemic corporate issues that needed to be changed if the firm-wide renewal was to be executed. Thus, IBM’s executive team and its extended senior team collectively co-created IBM’s renewal through a combination of top-down as well as bottom-up leadership actions. The extended leadership team set the architecture, pace, and sequencing of these interventions over this extended period (see also Greenwood and Hinings, 1996; Nonaka, 2008; Joseph and Ocasio, 2012).

Institutionalizing innovation and punctuated change at IBM

The impetus for the post-2002 renewal at IBM was Palmisano’s aspiration “that IBM can be a great company” and the new set of IBM values developed through the values jam. The new CEO observed that IBM had grown by “restless self-renewal” and could grow again based on innovation (“We create innovative technologies, and we help our customers apply them to transform what they do and how they do it”). Palmisano anchored this post-Gerstner renewal on the core identity of IBM as an innovator and IBMer as restless innovators (see Figure 10.3).

Palmisano empowered such innovation and renewal by further extending and supporting the strategy process Gerstner and Harreld had created. By 2002, Harreld and his strategy colleagues had already gathered data on those factors that helped versus hindered the SLFs and the EBOs. Over the last phase of Gerstner’s tenure, the SLFs and EBOs had evolved into a learning and change process that had generated results and had helped create a culture (p.263) among senior line and staff executives of collaboration, joint accountability, and teamwork, and a language around disciplined problem solving and leading innovation and change. These SLFs and EBOs were each experimental trials where participants and teams learned from their successes and failures, and importantly, Harreld and his corporate colleagues learned from these experiments. Anchored by Palmisano’s aspiration for IBM, his growth-and-innovation mandate, and revised values for the firm, the SLFs and EBOs were accelerated and focused post 2002.

These workshops had an impact in every domain of the corporation and, as senior
executives learned together about proactive punctuated change, this critical mass of senior executives then provided the energy to decentralize the EBOs and SLFs from the corporate level to countries, functions, business units. By 2005, most of the top 300 senior executives had been to one (or more) SLF or EBO. By 2008, these methods, language, and co-creation had involved more than 5,000 executives. These actions to decentralize the locus and ownership of change were driven even deeper into the firm through the use if idea jams (see Soske and Conger, 2010). This decentralized phase of learning to lead punctuated change was supported by senior leaders but driven by middle-level executives, who led change by teaching what they had learned from their executives. This cadre of middle manages enacting change in their local domains was crucial in institutionalizing change at IBM.

This proactive punctuated change at IBM was not a top-down, integrated change effort. Rather, it was top-down in energy and aspiration, in the articulation of an innovation-rooted performance gap, and an inspiring sense of what IBM and IBMers could be. Palmisano’s aspirations were implemented through highly structured workshops where intact teams learned specific tools, languages, and skills for their specific strategic change effort. These workshops were not voluntary; they were driven from the top of the firm. Yet this change effort was also driven from the bottom up. The SLFs and EBOs, intact teams with two corporate sponsors (and associated facilitators), worked on their own root cause analysis and action planning. Moreover, since every SLF and EBO had multiple teams working simultaneously, these teams were able to experiment and learn from each other, hold each other accountable, and generate system-wide root causes that the sponsors took as action items (see Figure 10.4). In line with Kellogg’s (2011a, 2011b) work on change in medical centers, the SLFs and EBOs provided the relational spaces as well as cultural and political tool kits, where a diverse leadership community came together to safely learn from each other as they worked on IBM’s most pressing strategic issues.4 (p.264)

**Figure 10.4.** Strategic renewal at IBM (1999–2008)

Leading proactive punctuated change
Leading punctuated change through innovation, experimentation, and disciplined learning
is not unique to IBM (see also Amis et al., 2004; Sull and Spinosa, 2007; Eggers and Kaplan, 2009; Gulati and Puranam, 2009; Beer et al., 2011; Battilana and Casciaro, 2012; Groysberg and Slind, 2012; Gaver and Phillips, 2013; Ramarajan et al., 2013). Extant literature and our experience at IBM suggest that there are multiple interrelated determinants of leading proactive punctuated change (see Smith et al., 2010; Tushman et al., 2010; O’Reilly and Tushman, 2011). These concepts can, in turn, be employed in leading change associated with sustainability.

Senior Management Ownership and Support is Crucial
Without the most senior leaders on board, punctuated change gets bogged down by powerful forces associated with the status quo. Punctuated change requires the active, unequivocal, and sustained involvement of the firm’s senior leadership team. At IBM, this change only gained traction after most senior levels of the firm focused their attention on institutionalizing change throughout the organization. Those senior leaders who did not support these changes (and the associated processes) either were let go or did not get promoted. Similarly, Ramarajan et al.’s (2013) research on gender and change (p.265) in a professional service firm highlights the importance of sustained senior leadership support.

Senior Management Aspiration and Identity
Punctuated changes require an emotionally engaging vision or aspiration. This appeal to aspirations, emotion, and organizational identity is particularly important in executing paradoxical strategic challenges (see also Glynn, 2000, and Smith and Lewis, 2011). Palmisano’s aspiration to make IBM “a great firm” again through both disciplined execution and experimentation helped unleash energy throughout the firm to lead innovation streams and, in turn, proactive punctuated change. Similarly, at Havas, David Jones has linked his firm’s aspirations on youth empowerment (One Young World) to his clients’ interests, as well as the role of the firm in society (Jones, 2012).

Extending Senior Teams and Institutionalizing Change
Senior leaders cannot lead change by themselves. Line management must eventually own and be engaged in the change effort. Punctuated change requires a social movement. Such a movement starts at the top, engages the top management team, and then involves an extended senior leadership team, and in turn, institutionalizes change throughout the firm. Senior leaders must be rewarded (or punished) and measured on their ability to manage punctuated change and to coach their subordinates in leading punctuated change (see also Amis et al., 2004; Battilana and Casciaro, 2012, 2013).

A Context for Experimentation, Learning, and Co-Creation
Leading punctuated change is rooted in an extended team learning how to lead and co-create change. This community learning is facilitated by a context, structured process, set of tools, and a common problem-solving language. These workshops are most effective when held in a neutral location where participants are not interrupted and focus their full attention to the issues. Such workshops must have content on innovation, organizations,
and change, as well as a disciplined process by which participants learn from each other, from external resources, from their work group colleagues who are also working on their own issues, and from their more senior sponsors. These workshops provide the space, legitimacy, cultural and political tools, and language for a heterogeneous group of leaders to experiment with ways to explore and exploit and to collectively learn how to execute punctuated change (see also Beer et al., 2011; Kellogg, 2011a, 2011b).

(p.266) Senior Team Sponsored Workshops and Follow-Up

These workshops must be owned and led by a senior leader. Without such senior governance in problem selection, team staffing, and finding co-sponsors, workshops are less effective. The senior sponsors must create a context where teams talk candidly about the real issues. Importantly, process must be built to follow up and monitor progress against commitments made at these workshops. Further, as so much systemic learning about change is generated at each workshop, the senior leader and his/her team have to integrate this learning and initiate appropriate change at the corporate level (see also Sull and Spinosa, 2007; Beer, 2009).

Exploratory Innovation is a Catalyst for Strategic Renewal

Where proactive punctuated change can be managed with the same underlying processes as reactive change, its motivation is fundamentally different. In the absence of a crisis, the press of growth through exploratory as well as exploitative innovation is a powerful and concrete way to initiate strategic renewal. Since exploratory innovation is associated with a shift in strategy, it is also associated with system-wide organizational change. If ambidextrous organizational designs are able to host both exploitative as well as exploratory innovation, these designs are a powerful tool to create the context for proactive punctuated change. Further, the press of growth through exploration and exploitation push leaders to attend to contradictory strategies simultaneously; the need to explore and exploit as well as to manage incremental and also punctuated change. At IBM, the ability to be an ambidextrous leader, to manage incremental innovation as well as lead exploratory innovation and associated punctuated change, became a criteria for senior leadership promotions (see also similar ideas at GE, Prokesch, 2009).

Our experience at IBM is that leading innovation and punctuated change is less about steps and phases, and more about dialog, participation, contexts, conversations, and commitments that leaders and their teams make to each other in the service of executing their own local change efforts. These punctuated change efforts are energized by an emotionally engaging aspiration and a paradoxical strategic challenge—at IBM to both exploit as well as explore. This learning by doing, sharing this learning within the larger community, and senior team oversight helps create the social movement so central to punctuated change. While punctuated change is initiated from the top, it is executed through an extended social movement managed and designed by senior leaders and carried through the firm by an extended set of leaders who collectively initiate, reflect, and learn about leading change in their local domains.

(p.267) This induced model or strategic renewal at IBM is consistent with the literature
on strategic renewal of organizations in not-for-profit settings. This model of strategic renewal is consistent with Kellogg’s (2011a, 2011b) work in medical centers, Battilana and Casciaro’s (2012) work in medical centers, Glynn’s (2000) work in the Atlanta Orchestra, Battilana and Dorado’s (2010) work in community banking, and Eccles et al.’s (2012) work on sustainability. It may well be that this top-down, bottom-up change process, anchored in a paradoxical strategic challenge, and executed via orchestrated learning and a social movement across the firm is a general approach to leading proactive punctuated change.

As evidenced in several other chapters, sustainability needs to be embedded in all organizations’ and institutions’ agendas. Given the magnitude of potential negative impacts on our planet’s livability and continued economic progress, waiting for a crisis to motivate change will only lead to disaster. It is likely that the principles of proactive punctuated change induced at IBM, and the larger body of literature on organizational and institutional change can be applied to the pressing challenges of creating sustainable organizations.

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**Notes:**

(1) By punctuated change, we mean integrated shifts in a firm’s architecture; its structure, critical tasks and interdependencies, competencies, and culture (see O’Reilly and Tushman, 2008). Where punctuated changes may or may not involve strategic shifts, proactive punctuated changes are rooted in strategic change.

(2) This chapter is based on the on-going relationship between IBM (and Bruce Harreld who was the senior vice president of strategy) and HBS Executive Education (Michael Tushman collaborated with Charles O’Reilly on this extended engagement). While this client relationship is obviously associated with issues of Tushman’s and O’Reilly’s objectivity, these concerns must be balanced with the substantial benefits of sustained access on issues related to innovation and change (see also Van de Ven, 2007; and Anteby, 2013).

(3) These values emerged from a “values jam” that involved 50,000 IBMers.

(4) After 2006, this process of leading system-wide change was reinforced by the Integration and Values Team. The top 300 executives from across the firm worked on a set of IBM-wide issues defined by the CEO (see Soske and Conger, 2010 for more detail).