Transformation:
The Quiet Role of Coalitional Leadership

By Stephen Friedman and James K. Sebenius*

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Abstract: The top management function that we call coalitional leadership involves the art and science of building a sufficient and sustainable “winning coalition” of support behind an organizational vision as well as dealing effectively with would-be “blocking coalitions.” We illustrate the practice of coalitional leadership by critically examining three deep changes at Goldman Sachs & Co.—where one of the authors (Friedman) was Chairman—during the 1980s and early 90s: the firm’s moves into junk bonds and private equity and its sustained efforts to become a truly global company. An effective coalitional leader 1) shores up his or her bases of support for change including superiors, the board, and respected internal opinion leaders; 2) motivates others for change; 3) protects and nurtures the vital role of creative mavericks; 4) signals respect for and actively reinforces crucial core values; 5) constrains the power of obstructionist “grand dukes” 6) initiates and sustains cross-cutting actions to break down the polarizing effect of “fiefdoms” and “stovepipes,” as well as 7) focuses attention on cultivating and managing key external stakeholders such as major customers, important shareholders, regulators, creditors, and alliance partners.

You know one big thing: it’s time for major change. Perhaps you have been recently promoted, and after the champagne, things look distinctly worse from the top floor. Maybe you’ve just bought a business that needs serious fixing, or you’ve been assigned to an ailing division, or you’ve been brought in from the outside for a full turnaround.

Let’s say that you’ve gone through an intensive analytical process with key players to develop a more promising strategy. Now what? Between the lure of this new strategic vision and a genuinely transformed organization loom many needed changes. Inevitably, some people will have principled disagreements with the new direction; others will see threats to their power, resources, or established routines. In the face of active and passive opposition, how do you get enough of the right people to start acting in accord with the new vision? How can you swell their ranks to a critical mass of committed supporters? And how do you accomplish this in a way that fosters the organization’s adaptive capacity in the face of tomorrow’s challenges?

Among many academics and consultants, change management is a minor industry with a sprawling agenda. Prescriptions range widely—from decisive orders to inspirational speeches to supportive IT systems and the right financial and psychic incentives—but we’d like to highlight a less well-appreciated catalyst for change. The top management function that we call coalitional leadership involves the art and science of building a sufficient and sustainable “winning coalition” of support

* Stephen Friedman and James Sebenius prepared this article. Stephen Friedman built his career at Goldman Sachs & Co. for 28 change-filled years, running its merger and investment banking businesses and serving as the firm’s Chairman, before retiring and taking up a second career in private equity, serving on several Boards (including Goldman Sachs), and holding senior level economic and intelligence posts in the Bush Administration. Along the way, he’s had the opportunity to observe the importance – and elusiveness – of a culture of adaptability in numerous corporations and the government. James Sebenius, Gordon Donaldson Professor at Harvard Business School, has been an academic focused on negotiation, with an active consulting practice, some junior federal government stints, and full-time employment in New York with the founders of the Blackstone Group during its first five years. A mutual friend, Graham Allison of Harvard’s Kennedy School—to whom we are greatly indebted—encouraged Friedman to distill his long executive experience fostering and observing various transformations, in part by setting up a faculty seminar on the subject, and introducing him to Sebenius, a strand of whose research included “negotiating corporate change.” Sharing an interest for generating good advice to those who seek to transform organizations, we blended various measures of executive experience (more Friedman) and analytic frameworks (more Sebenius) to write this note. We also thank the many participants in discussions at Harvard Business School and Harvard’s Kennedy School of Government for their insights, suggestions, and comments.
behind your vision. The flip side of this entails dealing effectively with would-be “blocking coalitions,” whether consciously formed or arising from old patterns and inertia.

“Coalitional leadership” may sound like an oxymoron: “leadership” seems to call for individual action while “coalitional” has a collective sense. Yet this individual/joint combination is precisely what we mean: decisive individual actions to forge sufficiently broad and deep cooperation to transform vision into reality. In dealing with would-be blockers en route to a sustainable winning coalition of support, “coalitional leadership” can have a harder edge than is often associated with fully collaborative leadership, yet the means and ends of a coalitional leader stress the inclusive. Coalitional leadership tends to be quieter than the inspirational and command-oriented approach often attributed to the celebrity or charismatic CEO but, we would submit, offers an approach that can often build a much firmer foundation for a transformed organization.

Make no mistake, real change upsets deeply rooted relationships of authority and prestige; there will be perceived winners and losers. As an effective coalitional leader, this means shoring up your bases of support for change, including your boss, the board, and respected internal opinion leaders. It means motivating others for change, protecting and nurturing the vital role of creative mavericks, signaling respect for and actively reinforcing crucial core values, constraining the power of obstructionist “grand dukes,” and initiating and sustaining cross-cutting actions to break down the polarizing effect of “fiefdoms.” At the same time, you must inevitably focus attention on cultivating and managing key external stakeholders such as major customers, important shareholders, regulators, creditors, and alliance partners.

We’ll illustrate the practice of coalitional leadership—from crafting a strategic vision, to building a supportive coalition, and to institutionalizing the vision—by critically examining three deep changes at Goldman Sachs during the 1980s and early 90s: the firm’s moves into junk bonds and private equity and its sustained efforts to become a truly global company. These three changes seem inevitable in retrospect; it may be hard to imagine a Goldman without junk bonds, private equity, or a major global presence. These characteristics are foundational to today’s Goldman Sachs with its many new strategic thrusts and even newer incarnation as a bank holding company. Yet, like transformational challenges in most companies, the implementation of each initiative was controversial at the time. Each faced both active and passive opposition. And each required effective coalitional leadership to realize the opportunity in a manner that enhanced the firm’s future adaptive capability.

Tales of change at Goldman Sachs & Co.

The Goldman Sachs of the early to mid-1980s was a successful enterprise overall, and a real leader in certain areas, but its strengths were quite uneven. In some respects it was living off highly profitable innovations and intellectual capital from earlier eras. Internal critics argued that a degree of strategic complacency and a “not invented here” syndrome consistently impeded the firm. Goldman was often late in following competitors into profitable new business and product initiatives, and in finding new ways to deliver traditional services to clients — in part held back by high divisional walls and inadequate internal communications. The firm faced a marketplace that was globalizing with gathering speed; product lines were becoming vastly more complex and interdependent; and its Asian and European operations were small, distinctly secondary to the U.S. base and not tightly networked with the rest of the firm. Against this backdrop, we’ll briefly look at the firm’s moves into junk bonds and private equity: from crafting the strategic vision, to building a winning coalition of support, and to institutionalizing the change in a manner that enhanced future adaptability.
Goldman’s Move into Junk Bonds. A firm’s senior people may be immensely talented and successful. Often innovators in the past, the need for major change indicates that the very approaches that served them well for a long time are no longer adequate. Yet, their positive past experience often makes them reluctant to abandon “tried-and-true” outlooks and habits. The best new ideas often come from younger, iconoclastic employees, who are typically frustrated at how hard it is for their radical ideas to get a hearing, let alone to be adopted. Of course, some of their notions may be wacky, but there is often at least a kernel of invaluable insight in their thinking, if you can come up with a winnowing—and legitimating—process to overcome the natural blocking tendencies of their senior colleagues.

It is not merely their junior status that undercuts the potential influence of these creative mavericks; by nature, they are often impolitic and even abrasive. Acting singly, their ideas can easily be shot down by more politically skilled and less imaginative senior players. To realize the potential of useful new ideas, these mavericks need a forum, encouragement, and support. In part to do this, Goldman’s leaders—including Steve Friedman and Robert Rubin, co-Chief Operating Officers at the time—formed several strategic planning committees and staffed them with some of the most creative people in the firm. Quite consciously, membership was composed of a cross pollinating selection of talent from below the division head level. At its best, such a process produces ideas that may be jarring and controversial at first blush, but that, with tweaking and subsequent success, come to seem inevitable.

After intense deliberation—often on weekends, in shirtsleeves, and amidst considerable intellectual excitement—various ideas would emerge. Against this backdrop, division heads were asked to present their current business models and plans for the future to such committees that, by design, tended toward the deeply skeptical, even intellectually combative. The idea was not to play “gotcha”—presenters were given a substantial amount of time to prepare—but to stimulate fresh thinking throughout the ranks. Division leaders were determined to show well when they presented—in the face of anticipated vigorous questioning—and to demonstrate open mindedness, commercial alertness, and vision.

A (then) radical proposal that emerged at one of these committees was to make a significant move into junk bond underwriting, a business then dominated by Drexel Burnham. At the time, this seemed to many senior people to be fraught with image, market, and credit analysis risks. But at least the idea got a more-than-perfunctory hearing, was probed from different angles, and gradually gained traction. After some weeks of vigorous debate, doubters on the committee were won over and the group’s consensus tended toward the idea. The next step was to create a process to study the idea in greater depth and, if it proved out, to win over the firm’s Management Committee.

Accordingly, a well- respected and conservative “traditionalist” senior banker in the corporate finance division, who was not on the strategic planning committee, was asked to conduct a more detailed study. The widespread learning that stemmed from this study, and its resulting favorable recommendation, proved broadly persuasive. Also, by now a large number of people understood and had a proprietary sense of ownership in the initiative; some “skin in the game.” Not surprisingly, and acceptable to the strategic planning committee, the underwriting and credit judgments for the business would be run by the traditional corporate finance unit.

Not only did the junk bond business ultimately generate substantial profits, it later made invaluable contributions to the integrated development of other lines of business, including private equity. And the internal support for this new business had been quietly nurtured from a few iconoclasts to a broad and deep coalition. While high-level idea champions are often vital for success, the reality of this quiet coalition-building process represents the antithesis of a vision of leadership
that has a compelling idea decisively “executed” or “implemented” by a powerful figure astride the organization.

**The Path to Private Equity.** Goldman's move into private equity followed a longer and harder path. This initiative faced outright internal opposition that was not only based on doubts about its financial merits. In contrast to private equity as today's "hot area," conventional internal wisdom then suggested that this area would not be a career-enhancing specialization. Some feared blame if large investments went awry, and in any event, questioned the firm's long-term commitment to this risky line of business. Deeper skepticism arose from Goldman's traditional answers to the question: "What business are we in?" and to a strong cultural "agency" orientation in investment banking, linked in part to a fear of competition and conflicts with the firm's marquee advisory business.

Ironically, careful study of the private equity business, mainly leveraged buyouts at the time, yielded an interesting insight: by virtue of its other lines of business, Goldman possessed all the discrete skills necessary to succeed. In particular, it had an abundant supply of the most coveted resource of all: close and trusting relationships with a broad client base, some of whom over time would be candidates for leveraged buyouts.

As Goldman attempted to enter the business, early support was lukewarm; the bankers were slow and not very effective in generating investment ideas and recruiting for the area was difficult. One response was to do several small deals—"to get on the scoreboard"—and familiarize the organization with the business. As a more meaningful step, private equity was placed under the energetic operating oversight of Hank Paulson, then an Investment Banking Division Head who commanded wide respect as a traditional banker, and had come to fully share in the vision. (Paulson, who went on to head the firm, is now Secretary of the Treasury.) With Paulson’s backing, the firm’s senior leadership decided to include private equity’s profits in the P&L of the conventional investment banking group—always a way to focus people's attention. With his senior colleagues, Paulson put the investment bankers' contributions to this area under a spotlight and made them a part of their performance appraisals, reminded them that a key part of their job was to identify investment candidates, applauded the early adopters, and ensured that any failed investments would be the responsibility of the specialist investors. As financial results became increasingly positive, and early adopters registered widely recognized success in developing prospects, hearts and minds were won over and private equity became a major line of business for Goldman.

As an ironic insight into the process of building a winning coalition of support for this foray, the greatest early resistance to private equity had come from the mergers and acquisitions group, which itself had been seen as a fringe business only a few decades before. M&A, of course, had since become the new "establishment." M&A bankers had feared that they would lose assignments if they were perceived to be encroaching on the turf of their private equity clients. And, in any event, any corporation that the firm's private equity business acquired in a year was one less potential client for the merger department. Not trivial concerns, but ones that have since been managed successfully for two decades.

These two examples begin to highlight the requirements for coalition-driven change. Key information and new opportunities had to surface; they had to be thoroughly vetted before they could become the underpinnings of new strategic thrusts. Yet without the **coalitional leadership** to protect and nurture the iconoclasts, champion the concepts, and gain acceptance for the evolving ideas, two extremely valuable lines of business might have remained stillborn. To institutionalize the new initiatives, management systems—including incentives, compensation, and accountability measures—had to be realigned with the new strategy and people who were critical to success.
Tools and Tactics for Intelligence Gathering: The Raw Material for Coalitional Leadership

Effective coalitional leadership calls for a continual flow of useful information both to craft the right strategy and build the requisite support to give it reality. Whether you’re a newcomer or an insider from another part of the organization, you’ll need in very short order to develop a nuanced sense of the lay of the land. Here’s some advice on doing so:

**Find a local “anthropologist”.** You’ve just arrived on a strange island with alien cultural norms. To guide early steps, get your local “anthropologist”, a well networked insider, to explain the customs and mores, interpersonal relationships, rivalries and distinctive ways of thinking and doing. There are some local taboos you are going to want to change, inevitably causing offense, but you don’t want to do so unwittingly.

**Avoid a Praetorian Guard.** While you may well bring on board some trusted lieutenants, it is quite easy to set up, consciously or inadvertently, the equivalent of a Praetorian guard, that will insulate you from the free flow of information on which your success depends. Instead, you need to develop a broad range of informal internal relations, have an "open door," and visibly highlight the importance of candid communication and insights. "No Surprises" needs to become a cardinal rule.

**Stock Legal Pads and Schedule Lots of Interviews.** After obligatory "meet the family" group meetings with senior management, your most valuable intelligence-gathering process begins. You need to schedule at least twenty-thirty open-ended, one-on-one interviews, fast. Some people you’ll clearly want to interview, and others you will have to talk with by virtue of their positions and roles. Most importantly, you want to heavily touch on people who are experienced but below the most senior levels. They are less likely to have a vested interest in rationalizing "what is." You will benefit from these interviews in at least three ways.

First, you will get a clearer sense of the challenges and the opportunities. Apart from the occasionally trivial —“the parking situation here urgently needs improvement”—you’ll rapidly get the bigger picture on strategy, people, and culture. After about half of these conversations, you’ll find that the remainder are largely confirmatory, mainly underscoring and adding nuance.

Second, you’ll begin to appraise talent.

Third, you’ll start recruiting respected thought leaders who can be your ambassadors for building coalitions behind constructive change throughout the organization.

As a very rough rule of thumb, you’re going to have twenty percent, give or take, of your people who say, “We are failing in our mission. We need change, and we’re frustrated. It’s going to be traumatic, but here’s what we have to do.” Another 20% or so will be wedded to the status quo: "yes we have some problems but we’re fundamentally fine.” These people may represent the resistance, both passive and active, to bold initiatives. Somewhere in the middle, you’ll find 60% or so who are looking to the left, and looking to the right, trying to see who will prevail.

Think of it as a Boeing 747, with you in the cockpit. Unfortunately, the 20% or so who have diagnosed the challenges and are hungry for change generally tend to be in the back of the plane, sometimes way back in coach. This frustrated, often iconoclastic, group will be vital to your success. Those in first class more often than not like it the way it is; after all, the present approaches were their creations, and their status may depend on the status quo. The contented crowd often doesn’t want the people back in coach to get up to the cockpit where you are and spill the beans. If it were otherwise, you wouldn’t have a place that needed transformation.
On business trips with employees, after a beer they’ll often start to tell you what’s really on their minds. Ideally, you’ll soon hear the magic words, “May I be candid with you?” While you may be tempted to reply, “no, why don’t we waste more time on banalities,” this is usually an entrée to real insight. Stay alert, listen aggressively, and be encouraging. And don’t limit such informal conversations with employees to your early days.

It is also very useful to get an aide who is widely respected in the organization and perceived as discreet and non-threatening. When people want to tell you things, but they’re a little afraid to do so directly, they are more likely to come to this individual.

Visit Customers and Other Influential Stakeholders. In the category of reconnaissance, you will certainly schedule early visits to customers. After a few niceties, you’ll often get brutal, highly informative critiques. Don’t neglect to solicit the views of other potentially influential external stakeholders, especially those who may be critical to your success or who may impede you. Depending on your business, this group may include vital dealer networks, franchisees, creditors and potential capital providers, unions, regulators, alliance partners, regulators, government agencies, and the like. Throughout this reconnaissance process you will consciously be developing a vision of what the enterprise must become and the support needed to get there.

Tools and Tactics to Forge a Sustainable Winning Coalition

Beyond directly building support, effective coalitional leadership is also about articulating and reinforcing core cultural values that underpin the new strategic vision. These twin tasks are closely related, but we’ll start with a blunt assertion: a successful transformation can’t be achieved without a critical mass of support. In effect, you need enough of the right people, both internally and externally, to say “yes” to your intended strategy, to mean “yes”, and to continue to say “yes” by their actions over time, including tough times. Otherwise, you’ll be isolated and ineffective, however brilliant your strategy and vision might be.

At its most basic level, building such support for a “winning coalition”—and, correspondingly, dealing with potential “blocking coalitions”—calls for the mix of education, persuasion, inducement, shared sense of mission, and example-setting—that generates sustained commitment to the transformation. Occasionally this means saying “OK, we’ve had a good discussion, now here’s how we’re going to do it.”

Develop and continually refine a political “map” including members of a potential “winning coalition” of support as well those who may form potential “blocking coalitions.” As events unfold, you need to identify potential supporters. Some people are obviously critical to your success; don’t forget your boss (if you have one) and key board members or owners. Likely internal allies include people who have genuinely expressed the need for change and seem eager to undertake it, younger iconoclasts and mavericks, and “restless traditionalists,” who recognize that it is necessary to “change if you would preserve.”

Ultimately, some of the most valuable “change agents” will be individuals who are widely respected for their competence in traditional lines of business but who come to recognize the imperatives for new approaches. Metaphorically, think of the “1920s battleship admirals” who understood the coming primacy of seaborne air power. Looking beyond respected traditionalists of this kind, pay special attention to those individuals and factions in the organization whose views and positions are especially influential with others. For an organization in trouble, certain outsiders (e.g., vital customers or clients, regulators, creditors) may be in this camp. Don’t forget those whose
positions will likely be determined by stances of others and a sense of which way the wind is blowing.

While your rough political map needs to include potential supporters, it should also note those who may become part of "blocking coalitions," either actively or passively. Some unit heads, whom we might think of as "grand dukes and barons," may refuse to seriously contemplate material change, given potential costs to their influence and power. You should also be alert to ideological opponents and deep skeptics of your appointment. Most bluntly, who want to oppose you and the change for which you stand?

By very provisionally mapping the political lay of the land, you don't want to unconsciously create a polarized, "we-they" situation or make hard, self-fulfilling assumptions about possible opponents of transformation. Rather, you need a clear-eyed, evolving sense of the organization, as a baseline from which you'll act to generate support for change: the ingredients of your "winning coalition."

Develop an approach to build a winning coalition of support and to handling potential blockers.
A mental map is fine, but only as a resource to guide your next steps to solidify support. Even divine right monarchs need to cultivate allies, and you're no such king! Here are several elements of an approach to building a winning coalition of support:

- **Start by setting expectations of what lies ahead, whether "broken crockery" or worse.** Condition your boss, board, and other influential players to expect undercutting by recalcitrants and inevitable end-runs. Do what you can—in advance—to ensure their backing.

- **As you develop support, seek tangible ways to build a sense of positive potential, momentum, and inevitability to your program.** Look for some early wins and low hanging fruit; for example, personally help snag a key client or unblock an internal impasse. Make some tough, symbolic decisions that have been lying around for too long, vexing various groups. It would be a rare enterprise that didn't have some lingering "turf" issues, over-ripe for decisive settlement.

- **In the course of building a winning coalition of support, sequence your emphases carefully.** While the first few steps may be obvious, you often need to work through a range of other possibilities to go from there. Here's a useful logic: Assess your ultimate targets; for example, respected opinion leaders may be keys to a winning coalition. With these targets in mind, informally "map backwards" from this group to figure out the most promising order. Specifically, ask what would have to be in place, or whose support would be most valuable, in getting a sustainable "yes" from your ultimate targets. Then ask what needs to be in place to have the best chance of getting this second-to-last group on board. And work your way backwards to where you now stand. This thought process will generally clarify the most promising sequence for support-building.

- **Lyndon Johnson, as a rising Congressional power, and many others have discovered that carefully constituted and mandated committees can generate a force and credibility that makes it easier to gain support for new ideas.**

- **Don't underestimate the quietly persuasive power of listening, and an attitude of respect, in winning over thought leaders and influential parties.**
• Stay conscious of the need to maintain morale and focus; there is only so much change any organization can handle in a compressed time period without the boilers exploding! (You still have to produce and sell widgets daily; you can't do that if everyone is constantly at the email version of the "water cooler.")

Throughout you’ll continually recognize the challenge Machiavelli identified centuries ago: the opposition to change will be galvanized, the future beneficiaries aren’t organized, don’t necessarily yet know that they’re going to benefit, and thus aren’t as vocal. As you think about how to handle skeptics and opponents of transformation, consider a range of options, depending on what you think lies behind their position. You may be able to educate some people to the realities the firm faces, or provide reassurances on valid concerns, and win them over. Think through alternative jobs for recalcitrants, who may still be valuable elsewhere in non-leadership roles. In some cases, rather than endless, costly attempts at remediation, the firm will be far better off with some long-time players gone. They didn’t lead, they wouldn’t follow, so maybe it’s time to reassign or terminate them.

There is an old axiom that transformation only occurs when "the fear of the future exceeds the pain of change." If the need for change arises from a survival-threatening crisis and the organization is educated about the risks of inaction, you’ll likely have a much freer hand, at least early on. You may be able to take prompt, hard actions, especially in the personnel realm, that would otherwise require more deliberate efforts to build support. In such a crisis situation, we recommend that you create a psychological orientation of “us versus the crisis,” in the sense of a common enemy. Done right, this can solidify support for change.

**Consistently act to break down internal barriers and promote cross-stovepipe actions.** Your actions as a coalitional leader should consistently promote cooperation across business units and the “stovepipes” or “silos” that prevail across most organizations. This can mean cultivating a habit of widely sharing credit as well as carefully designing and staffing committees to transcend parochial perspectives. To avoid endless transfer pricing and who-gets-the-credit arguments—that may impede the firm’s real work—practices such as “double counting” and “rough justice” on fees xxx internal fee splits xxx can be useful in some industries.

Promoting cross-stovepipe perspectives and cooperation is vital to the coalitional leadership culture you’re developing. Get your senior leaders together often and regularly, but generally without their staffs, to avoid pressure to be gladiatorial in front of “their constituencies.” Colin Powell, when Chairman of the Joint Chiefs of Staff, made a point of doing this quite successfully with the heads of the Army, Air Force, Navy, and Marines. This group dynamic can be remarkably productive; all but the most intransigent bureaucratic infighter will start to better understand others’ viewpoints and function more on behalf of the enterprise as a whole. (And, eventually, there should be no room at the table for the bureaucratic infighter.)

**Articulate and dramatize core values and principles.** One of your most important jobs as a coalitional leader is to determine and then continually articulate and dramatize the very limited number of truly core values or principles that you believe must define the whole organization and its strategy. These values and principles will underlie and energize the winning culture you are forging and expanding. Chosen and expressed right, these values go far beyond empty slogans and can come to infuse the fiber of the firm.

John Whitehead, an earlier head of Goldman Sachs, valuably elaborated the fourteen principles that he expected the organization to embody; these included “Our assets are our people, capital and reputation” and an admonition to “stress creativity and imagination.” Such principles may serve a firm well for many years, and may well be immutable. The best people want to be at a business they
feel has higher values than just making money. They want to be part of something of which they can be proud.

Fourteen points, however, no matter how valid and enduring, are way too many for crisply and memorably conveying the essence of “what we are about”; a distilled version is useful for this purpose. (When Woodrow Wilson went to Paris in 1919 with his Fourteen Points, the French Prime Minister famously quipped: "Mon Dieu, even the Almighty has only Ten Commandments!") To prioritize, first determine the limited number of traits conducive to the firm’s enduring success, then make sure that you relentlessly articulate those traits and manifest them in your recruitment, training, and promotion of talent. Properly expressed, these traits should epitomize your core culture.

A good test for your distillation of core values envisions a 4:00 a.m. wakeup call to a key employee with an urgent question: “What is this firm really about?” If the three or four core values and principles you’ve been articulating spring to mind, even without coffee or time to think, they pass this test. At Goldman Sachs in the 1960s, 1970s, and 1980s, that unwelcome early morning call would have prompted a consistent answer: "Teamwork, integrity, and the client’s interests come first." These three values were vital, but the then-Co-Chief Operating officers, Steve Friedman and Bob Rubin, became convinced that elevating a fourth principle, “strategic and tactical dynamism,” was essential. Without diminishing the other values, senior management missed no chances to emphasize this “new” core value in order to spur innovation and a culture of commercial and managerial adaptability.

**Signal by action as well as talk, a real commitment to these values and principles.** These core values and principles must be continually on your mind, in your conversations, and part of your decisions. They must be central to your recruiting and personnel review process. People throughout the firm are always watching. They have to know this is not just something written up on a wall, or for review on whatever day your faith goes to worship. Credibly signaling your commitment to core values and principles is little more than applying the adage about practicing what you preach. If senior management says that globalization is key, where do people see you moving your highly talented executives? You can’t credibly emphasize the importance of diversity or a culture that welcomes women and then promote someone who’s a known malefactor, despite being a top moneymaker. You can talk on and on about integrity, but it’s not until you pass up some serious money, because earning it comes too close to an ethical line, that your people come, deep down, to believe you.

**Coalitional Leadership to Globalize Goldman: Putting these tools to work**

While employees, clients, and markets now take Goldman’s strong global presence as a given, it is a relatively recent phenomenon. Even briefly told, the transformation of a heavily U.S.-based investment banking firm into a far more global institution illustrates the role of coalitional leadership as the essential catalyst between a new strategic vision and its institutionalization.

Even in the pre-internet era of the mid-1980s, it was evident that the world’s financial markets were rapidly and tightly linking different geographical and business sectors. One who analyzed the trends could envision that in the investment banking world of the near future there would continue to be room for boutiques providing high value-added services, particularly for mergers and leveraged buy-outs and sophisticated proprietary trading. Likewise, there would be a continuing, healthy role for “gorillas”: broad-based, global financial services firms that could serve the world’s major business communities, across the spectrum of their needs, that had access to all relevant markets and the ability to provide packaged solutions. For example, an industrial company issuer of
a particular security might be based in country A; the security might include a warrant feature underwritten by an insurance company in country B, as well as a credit guarantee from a bank in country C, and the ultimate investors would be located in a number of other parts of the world.

To be effective, a broad based global “firm” needed to be closely integrated, with a culture that assured consistency in basic values and ways of doing business across business segments and geographical zones. It had to have the necessary informational “oxygen” flowing freely around the enterprise to those places where it would add value. Strategically, one thing seemed clear: You didn’t want to get caught in the middle, neither a boutique nor a global gorilla.

At that time, Goldman was neither boutique nor global gorilla. It had offices in Europe and Asia, but they were not strong bases. It did not have the capabilities to consistently compete with major local players for business on their home turf nor were these offices linked to the rest of Goldman’s operations by effective information flows and a common core culture. There were some good people in the non-US offices, but it was extremely hard to get the most talented U.S. people to go abroad; they didn’t think it would help their careers, much less provide a sufficient boost to offset the personal and family costs. And their senior U.S. supervisors were loathe to lose “their” stars. Moreover, it was extremely difficult to recruit top indigenous talent outside the United States. Goldman didn’t have a strong global brand and, at the time, the best foreign prospects considered that working at a U.S. investment bank was far less prestigious and secure than working for their own national champions, such as the major Japanese financial institutions, the giant German universal banks, or the storied British merchant banks. Unless they were doing a deal with a major U.S. aspect, overseas clients saw no particular reason to use a U.S. investment bank, much less Goldman, for their most important transactions. And, naturally intra-home country or regional transactions represented the bulk of their business.

In short, this state of affairs represented a transformational challenge: from Goldman’s close to standing start in the 1980s, an effective globalizing strategy required long-term, interdependent changes in its focus and culture, as well as the quality and number of people dedicated to non-US businesses.

Crafting a New Strategic Vision: What was Goldman’s Situation and What were the Strategic Opportunities? Beyond analyzing the global imperative for Goldman, there needed to be a compelling answer to the core strategic problem. “Why should the Europeans or Japanese do their significant business with Goldman, rather than with their home country champions?” In the 1980s, U.S. investment banks had three potential advantages. First, their home market was (and is) fiercely competitive; survival, much less prosperity, demanded better skill sets and techniques, more specializations and aggressiveness than were displayed by comfortably prosperous, dominant national champions abroad. Second, major U.S. investment banks had scale and generated substantial home country profits that could finance the years of investment spending needed to build up global operations until they became self-supporting. That was a crucial competitive edge versus the smaller U.K. and Canadian merchant banks. Third, while the dominant European and Japanese universal banks had massive profits and plenty of capital, they lacked a culture of nimbleness and integration; moreover, they found it difficult to aggressively recruit and field the same level of talent that the U.S. investment banks recruited in the U.S. and could deploy worldwide over time. Thus, if it was hard for a U.S. investment bank to adapt to doing business in Europe or Japan, it was much harder for the Europeans and Japanese to make significant inroads in the fast-moving U.S. market, which was a necessary step for any firm aspiring to maintain a global network.

Whatever these potential advantages, Goldman needed a strategy to convert them into an actual competitive edge in providing services. As to why major non-U.S. corporations would do business in their home country with a U.S firm, Goldman’s answer was: “Well, at first they may not, and
certainly not across the board. A successful strategy will call for endurance and concentration on developing "wedge competencies." This meant a limited number of product areas that would be extremely important to the senior managements of clients in key geographical target areas. Such wedges should play to Goldman’s developing strengths, perhaps by exploiting a growing edge in quick intra-firm communications to provide global linkages. These wedge competencies would be "beachheads" for establishing long-term client relationships, ultimately allowing Goldman to deliver a broader array of products and services in the target markets.

An intensive analytical process identified several potential wedge competencies. Consider two examples: mergers and raid defenses and major privatizations. In the U.K., Goldman’s initial focus was heavily on mergers and hotly contested raid contests, where its U.S. trained specialists had highly developed “defensive” skills. Moreover, Goldman could also introduce the target company to "white knights" in different countries and continents. As pointed out by John Thornton, one of the stars sent to the UK (later the firm’s co-President): “If we just try to mimic the UK merchant banks, there will be no particular reason to use us. So we have to distinguish ourselves by doing things our way, using methods that have proven themselves in the United States, while at the same time remaining sensitive to local mores.” Raid defense, along with major merger assignments, is seen by senior corporate executives as a life or death business challenge. Doing a good job for a client in such situations builds long-term relationships that lead to other substantial business.

Across Europe, the developing privatization wave offered a second “wedge” opportunity - privatization. Being able to describe to a potential issuer in country A your experience in privatizing the national telephone company of country B—the pitfalls and how they were overcome, the things you learned to do and to avoid – would greatly increase the chances of winning the B country mandate—and accomplishing a smooth transaction. If one was careful of conflicts, this growing market share would steadily build the firm’s reputation, and dramatically improve the chances of getting a similar privatizing mandate in country C.

Success in privatizing a major government owned business in any country would be a major step in legitimatizing Goldman for corporate businesses in that country. The local view would become: "after years of solicitations by numerous global investment banks, the government of my country picked these people, and they brought this transaction off successfully; thus, I can feel validated in developing a close working relationship with them." The next step for the investment bank, once these relationships were formed, would be to broaden the range of services provided beyond the initial "wedge", to begin doing important intra-host country transactions, and seek to eventually become the client’s world-wide lead investment bank.

**Building a Coalition for Globalizing.** Coalitional leadership was required to help the whole partnership deeply internalize the global imperative and re-prioritize objectives. A new and much more challenging kind of teamwork would be required, lubricated by the free flow of information across countries and product lines.

Most difficult would be deploying sufficient top talent, always a scarce commodity to ensure that the wedge strategy actually worked as envisioned. And the initial talent surge had to be followed by enough of the right people to take advantage of the virtuous circles that would ideally begin to function to Goldman’s global benefit. While there was broad agreement on the value of globalizing the firm, potentially “blocking” resistance came both from candidates for international assignments, who were unsure whether the career and family costs would be worth paying, as well as their senior U.S. operating managers who most certainly did not want to give up their top talent. A kind of Gresham’s Law of personnel says that managers will volunteer people whose loss they can most readily accommodate. Yet getting a crucial new initiative off the ground requires assigning people
with "high opportunity costs," representing costly investment that may not be re-paid for years, and then only to the firm as a whole rather than to the "home" division.

Put otherwise, in the face of these challenges, how could the firm's leadership foster a sustainable "winning coalition" of domestic and international players on behalf of the globalizing strategy?

An extraordinarily important key to unlocking this desired dynamic was to get some recognized "stars," internal or lateral hires, to staff crucial new ventures or to relocate to overseas offices that were not yet firmly established. Such stars would help legitimate that opportunity for others, functioning as "magnets." Others would then reason: "If X went, management must really think it's important! I should consider that option." Moreover, the more distant and different the overseas location is from home base, the more important it would be to have Goldman players who could innovate and adapt without constant guidance, and yet who would not resent staying connected to home base for major decisions.

To get top people to disrupt their personal and career patterns and move themselves and their families abroad, they needed to have crystal clarity about the importance the firm attached to this global initiative. Beyond inspiration and exhortation, they needed confidence that they were making highly positive career moves, and also that, when the time came to return to their home country, there would be important positions waiting for them, commensurate with their skill sets, acquired experience, and willingness to support firm-wide goals. This was not always easy to accomplish. It required the senior management to develop genuinely widespread buy-in by division leaders, and it was certainly never flawless. However, eventually the necessary mobility was achieved, always with persuasive appeals, sometimes with substantial senior managerial intervention.

**Institutionalizing Change: Supportive Practices and Systems.** The right strategy and coalitional leadership required supportive management practices and systems that would ingrain vital cultural traits. Specifically, this meant a sustained focus on personnel practices, compensation, and relentless emphasis on teamwork.

As a core priority, talented professionals had to be dispatched "to the sound of the guns," encouraged to relocate to where they could have the most impact. This represented a major cultural change; in contrast to prior expectation and practice, stars would no longer be "owned" by the division head to whom they reported. There would be a "one firm" solution.

At the individual level, customized "carrots" were devised: for example, in some cases moving to Asia might accelerate consideration for partnership by two years, or committing to a five-year stint in Tokyo could be an act of dedication to be recognized by a partnership position. Such incentives often miraculously overcame previously unsolvable personal complications that had prevented such moves. And, management had to ensure that promises were kept. Promotions and re-entry jobs had to be commensurate with contributions to the global initiative. This was sometimes hard. However, over time, as success and prestige outside the U.S. mounted, it became possible to recruit top non-U.S. talent to run the business in their home countries.

Management had to ingrain new and newly intensive forms of teamwork. For example, to take advantage of the "wedge" potential of gaining national telecom privatization mandates, Goldman focused very heavily on this area, in personnel promotions and resource allocation. Winning these assignments, and carrying them out, required complex multi-year solicitations, often with multiple host country government agencies. These involved teams of Goldman people from across countries and continents to provide a matrix solution to the potential client: Such teams included bankers knowledgeable about the particular home country, telecom specialists, and experts in privatizations and initial public offerings. A key success factor was the rapid and free flow of information to where
it was most needed, both horizontally and vertically. In Goldman's matrix setup, the key players were very often located in different divisions and on different continents. This meant that the cultural tenet of "teamwork" had to be more than an obligatory Sunday school statement; it had to be an everyday reality reinforced by promotions, compensation and, of great importance, firm-wide recognition and psychic income for "culture carriers."

The way the firm kept its books was designed to engender teamwork. It was impermissible to spend any material time that might delay doing a client's business debating transfer pricing or fee sharing. Rough justice sharing rules were established in advance. In some cases, full revenues were attributed to the respective units involved for internal purposes and "bragging rights," later to be sorted out by "green eyeshades" types for the firms' P&L. People would generally be paid based heavily on their subjectively appraised contribution to the firm's success, both long and short-term including intangible contributions, and not by some formula linked to their P&L in a particular year. Otherwise, why would top people work in an expansion area that would not be profitable for years?

As this case illustrates, transforming supportive coalitions into institutionalized practices calls for more familiar management tools and systems. Having devoted perhaps 10% of your change effort to crafting a new strategic vision, something like 30-40% will go to ensuring that the right people are in the right jobs. Reprogramming the enterprise's cultural software makes human resources policies—from putting top people in HR jobs to instituting 360 reviews and cross-ruffs for promotion—your fulcrum and lever for enduring change. Jack Welch was exactly right in his conviction that "personnel is the most important thing I do." And, over time, probably 50-60% of what you do will go toward shifting the organization's culture both to support your new strategy and to ensure continued adaptability.

In less than a decade, quiet coalitional leadership steadily transformed the strategic vision of globalization at Goldman into an institutionalized reality with a firm-wide basis of support. Once unevenly observed, the behavioral traits and business practices needed to support a truly global firm gelled into cultural norms, and were honored as "the way we do business." Much later, new employees contemplating Goldman's global presence assumed: "This is the way it always was."