

**C**

**E**



**Center for  
Effective  
Organizations**

---

**ORGANIZATIONAL EFFECTIVENESS:  
NEW REALITIES AND CHALLENGES**

**CEO PUBLICATION  
G 94-3 (246)**

**EDWARD LAWLER III**  
University of Southern California

**January, 1994**

## **ORGANIZATIONAL EFFECTIVENESS: NEW REALITIES AND CHALLENGES**

Edward E. Lawler III

University of Southern California

The corporate landscape around the world has changed dramatically during the last decade. Major corporations, particularly in the United States, have gone through an unprecedented period of change. Particularly visible are the changes that have occurred in the largest U.S. corporations. Some of the most revered and respected corporations have fallen on hard times and have had to dramatically restructure. IBM, Sears, and General Motors for example, have decreased dramatically in size and have lost a considerable amount of market share. While the stock went up over 200 percent, the market value of IBM decreased by over seventeen billion dollars from 1972 to 1992. The problems with these three companies are particularly noticeable because historically they have been identified as being among the best managed corporations in the United States, IBM in particular has been identified as a leader in modern human resource management.

One possibility is that the problems of IBM, Sears, and General Motors are simply aberrations brought about by poor management, bad luck, or extraneous events that could not be anticipated and therefore do not indicate anything significant about how corporations should be managed. The alternative interpretation is that their problems, along with those of many other large U.S. corporations, indicate that fundamental change is needed in the way large organizations are organized and managed in order to be effective in today's environment. There is growing evidence that the latter alternative is true. It seems quite likely that because so many changes have occurred in the world during the last several decades, it is simply no longer possible to be effective in many businesses with traditional organizational structures and management approaches (Peters, 1992). Indeed, often it is those corporations that are best at the old management that have the most trouble performing successfully in the new competitive environment which businesses face today. Their past success often makes it difficult for them to adapt and change in ways that will

make them successful in a very different environment (Galbraith, Lawler and Associates, 1993).

### **New Business Environment**

What is different about the environment in the 1990's? Perhaps the most significant difference is the nature of competition. Many businesses have become global, and as a result, success requires much higher levels of performance in three areas. Organizations need to improve their performance with respect to the quality of goods and services they produce, the cost at which they produce them, and finally the speed with which they innovate and get new products and services to the market (Lawler, 1992). In situation after situation, organizations have been able to dramatically improve their products and services, not just in one of these performance areas, but in two, and sometimes in all three. Automobiles today, for example, are much more technologically advanced, come to market much more quickly (about three years), and have fewer defects (less than one per car for the best) than just a few years ago when U.S. companies dominated the North American market. The computer industry has undergone a similar performance improvement. Computers come to the market in record lengths of time (less than a year for personal computers), are virtually defect free, and have a price performance ratio that tends to improve by 20-30% annually. As a result, IBM, which once was threatened with break-up by the government for anti-trust reasons, is struggling. It simply was caught unprepared for the dramatic changes in technology and the marketplace that it faced during the 1980's and early 1990's.

Much of the reason for the increased performance standards in business after business has to do with the globalization of the economy. Organizations that operate in different countries have different competitive advantages, and as a result often are able to enter the marketplace with products that are superior in a number of ways (Porter, 1990). Foreign competitors also may enter the marketplace with different management styles, and some of the success of these competitors is undoubtedly due to their use of these

management approaches (Galbraith, Lawler, and Assoc., 1993). Simply stated, they organize work differently, deal with people differently, and in some cases, seem to perform better because they do. As long as U.S. companies competed only with companies that used a similar management style, the importance of management and organization was not evident and did not provide a competitive advantage unless someone was particularly good at executing it (e.g. IBM).

### **Information Technology**

Recent developments in information technology have important implications for the design and management of organizations. Expert systems, networks, PC's, and a host of new voice communication devices create the possibility of moving information around complex organizations in new and revolutionary ways. Hierarchy has been the natural form of organization structure for decades, and a major reason for this is its ability to efficiently handle the movement of information. The information processing task that is involved in managing all the interfaces in a non-hierarchical organization is enormous. Hierarchy has the capability of reducing the number of interfaces by creating fewer at each level and it allows for centralized decision making, an important advantage in the world in which moving information is expensive and difficult. The difficulties in moving information has also led to organizations which are functionally specialized and typically do one step in a production or service process. With the new information technology, not only can information be moved laterally much more easily in organizations, single individuals or groups of individuals can easily gain access to large data bases concerning particular products, processes and customers. Group-ware and organization-ware can aid in the formation of a consensus for action and produce whole new decision models in organizations (Morton, 1991). Finally, expert systems can be used to aid decision makers at the lowest level of organizations and reduce the response time to customer request. They also can dramatically reduce the amount of time it takes to respond to a customer request.

Information technology may well tip the balance in favor of markets in the trade-off between using markets or using hierarchies to coordinate economic decisions (Williamson, 1975). More and more markets such as those in stocks, cattle, and used cars are going electronic. Location independent and network organizations that are facilitated by communications may make cottage industries competitive again. They can be particularly effective where they are coordinated by market forces rather than by superiors wielding authority.

Information technology has the possibility of revolutionizing the way human resources are managed in organizations. It allows for the easy storage of much greater amounts of information about individuals and their skills, and it potentially allows this information to be distributed widely throughout the organization. At the extreme, we can potentially find out what every individual in an organization can do and what she is planning to do, not by looking at an organization chart, but by looking at electronically stored profiles of individuals that include their work plans for the next year as well as their past accomplishments and present capabilities. Because this information is stored electronically it can be made immediately and easily accessible to individuals throughout the organization.

### **New Work Force(s)**

A considerable amount has been written about the changing nature of the work force in the United States. It is becoming more diverse and in many respects, more skilled. However, the critical work force change in many businesses concerns the globalization of corporations and their capability of drawing upon a global workforce. Countries differ in the kinds of skills their work forces possess and in the cost of employing individuals with particular skills (Johnston, 1991; Porter, 1990). This reality, as well as the continued development of information technology and information highways, is leading to location-free organization structures and work environments. Work is moving to wherever the skills exist at the best price. Electrical engineering work, for example, is increasingly being

done in Israel, and software design is increasingly being done in India and in Russia. This is happening because of the ability to easily move information, and in some cases products, around the world, in a continuing search for competitive advantage.

Particularly in the more developed countries, the work that remains to be done requires relatively high levels of skills. This potentially has the effect of shifting power from the board room to the workplace (Doyle, 1990). The competitive advantage of organizations becomes the skills that employees have, not the skills of the senior executives and their ability to coordinate hierarchical structures.

Taken together the changing nature of the competitive environment, the new information technology and the changes in the workforce strongly suggest that new approaches to organizing and managing human resources are appropriate. Corporation after corporation has looked at the issue of organizational change, and many have launched major initiatives. Re-engineering, total quality management, employee involvement, and a host of other strategic change efforts have been popularized in order to help organizations cope with the new environment that they face. The evidence of the success of these changes is mixed at best. There are some notable positive examples like Xerox, Harley-Davidson, and Motorola, but there are also many others that have failed to change. It is beyond the scope of this chapter to discuss in detail the various change models that have been used and the reasons for the success of some, and the failure of others. It is appropriate, however, to look at some of the new principles of organizing that are gradually emerging from these change efforts and to elaborate upon them. They provide an important understanding about how organizations are likely to be able to gain competitive advantage in the future through the way they organize and manage their human resources.

## **Competency Based Organizing**

Research and theory in the fields of organizational behavior and human resource management have been focused for decades by the view that jobs are the basic building blocks of complex organizations. The idea that individuals have a job which involves specific accountabilities, responsibilities, and activities is well-established and fundamental to the human resource management systems in most organizations as well as in most management textbooks. The popularity of jobs can be traced back to the era of scientific management when the work of Frederick Winslow Taylor did much to develop the idea that jobs can be studied, specified, and that work methods for doing them can be improved and rationalized if they are studied by experts. The evolution of the bureaucratic approach to organizing carried the idea of jobs further into an overall approach to organizing and managing large numbers of people to accomplish particular goals and objectives. It led to the rationalization and development of hierarchies, line/staff job differences, and a host of organizational design approaches that rest upon the idea of individuals holding jobs.

Much of the technology in the area of human resource management is grounded in the idea of individuals holding jobs. Ash, Levine, and Sistrunk, (1983) for example, argue that the job paradigm is the unifying concept in employee selection, training, performance management and compensation. Indeed, most organizations begin their concept of organizing with a job description that typically specifies an individual's duties and activities. Job descriptions are then used for training, selection, career development and pay determination. These human resource management systems are all designed to assure that individuals will be motivated and capable of performing jobs. They are selected to fit the jobs, trained to perform them, and rewarded based on how well they perform them. Job descriptions are also used as a basis for grouping individuals together into organizational units, and finally, as the basis for rationalizing the overall structure of the organization.

Despite its historical utility, there are reasons to believe it is time to move away from the focus on jobs and toward a focus on individuals and their competencies (Lawler and Ledford, 1992). Instead of thinking of people as having a job with a particular set of activities that can be captured in a relatively permanent and fixed job description, it may be more appropriate and more effective to think of them as human resources that work for an organization. The change from a job-based to competency-based approach to organizing and managing individuals is a fundamental one that requires a change in virtually every management system in an organization.

Scientific management and the bureaucratic approach to organizing try to standardize the contributions of individuals to organizational effectiveness. Inherent in bureaucratic theory is the assumption that individuals add value to the degree that they can fit the work structure of an organization. Thus, selection tests are designed to identify individuals who can fit an existing job opening and training programs are used to develop the skills of individuals so that they can do the jobs that have been created. In a sense, effective organization in this approach usually means doing the basics of selection, job design, and organization design better than competing organizations. The implicit assumption is that the best way to optimize organizational performance is to fill jobs with appropriately skilled individuals and motivate them to perform effectively through pay and other rewards. The work on job enrichment and self-managing teams has taken this one step further by pointing out how job design can influence motivation (Hackman and Oldham, 1980). The hierarchy of responsibilities, duties, and accountabilities that is part of the bureaucratic approach leads to a command and control structure which has as its foundation the accountability of individuals for their own job performance and a supervisor or manager who assesses how well an individual performs his or her job duties.

The job based approach to organizing fit the mass production economy that dominated Europe and the United States during most of the 20th century. A number of factors have combined however to bring into question the future effectiveness of this

approach. Work in the area of organization strategy suggests that organizations cannot be successful in many businesses simply by adopting a mass production approach to the market (Porter, 1990; Galbraith, Lawler, and Assoc., 1993). Rapid developments in computing, information technology, and the movement to a global economy, have combined to change business competition (Stalk, Evans, and Shulman, 1992). There is a general consensus that organizations need to be much more adaptable and to compete on the basis of their core competencies and skills (Prahalad and Hamel, 1990; Hamel and Prahalad, 1991). Indeed, it appears that competitive advantage often rests with an organizations ability to develop particular organizational competencies, not in its size, financial resources, or even technological resources (Lawler, 1992).

The emphasis on organizational capabilities directly effects the kind and amount of value that employees are expected to add. Instead of their simply being parts of a large, bureaucratic organization where they may do the same thing (job) as hundreds of other individuals, they become a key competitive asset (Doyle, 1990). Their knowledge and skills become critical to the ability of the organization to perform. Unlike individuals that are simply filling jobs that are designed to be easily filled through selection and training processes, they become key organizational resources. In essence, their skills, capabilities, and learning become an important part of the organizations ability to compete and are at the heart of an organizations adaptability and ability to learn (Senge, 1990).

The trend to organizations needing to be more adaptable, to add more value to their products and services, and to rely on organizational capabilities as a source of competitive advantage combine to fundamentally challenge the idea of using jobs as a basis for managing individual and organizational behavior. When work is routine and focused on mass production it is reasonable to assume that individuals can be managed through the use of job descriptions and systems that are related to those job descriptions. Most individuals are not expected to make unique contributions or add significantly to the value of the products or services they deal with nor are they expected to constantly learn and change their behavior. Thus, training them and paying them to do a particular job well is

appropriate. However, it runs the risk of creating organizations that under utilize employees and do not develop the kind of capabilities that are necessary to perform successfully. In essence, the system fails to focus on the capabilities and motivation of individuals, a dangerous trend in situations where individuals have moved front and center as the key resource of organizations. The basic problem is that the development and management of individuals is a second order effect of the management system which has as its major focus filling jobs with individuals who can perform them.

The alternative to job based organizing is to design organizational systems in which the capabilities of individuals are the primary focus and which cause them to be managed in a way that facilitates organizations developing organizational capabilities that provide competitive advantage. Some work has been done that suggests what an organization which is designed from a starting point of creating individual and organizational capabilities looks like. It calls for different approaches to organization design work design and human resource management in the areas of selection, career development, pay, and overall competency management (Ledford and Lawler, 1992).

### **Dynamic Learning Organization**

The traditional organizational chart with its boxes, hierarchy, and commitment to fixed positions and job descriptions, in many ways symbolizes the stability which organizations have sought as a key to effectiveness. Indeed, major organizational changes in a traditional organization rarely occur, because they are seen as tremendously complicated and difficult. They often involve the major dislocation of people and the rewriting and re-analysis of most of the jobs and relationships in an organization. Learning new working relationships and new jobs takes time, and thus there is an efficiency loss when change occurs. Traditionally this has meant that organizations do not make major structural changes very frequently.

The new logic of organizing is perhaps best captured by the term, "learning organization" (Senge, 1990). The assumptions here are very different from those of

traditional organizing. They involve not only an emphasis on the need for organizations to change as the external environment changes, but the need for organizations to change as they learn how to do things better and as they learn more effective ways to interface with the external environment (Mohrman and Cummings, 1989). In addition it is important that they change as new technology becomes available and they learn how to use it. Powerful new computer and communication technology for example make it possible to perform work and organize for it quite differently.

Effective organizational models and principles are increasingly becoming an important commodity (Lawler, 1992). Because organizations today are often facing new environments and have available new tools that have never been encountered before, how to organize best often cannot be found in a text book or in the history of the organization. They must be found through the experience and learning of an organization. Indeed, those organizations that are the best at finding new approaches, often end up with a competitive advantage over those who cannot. How organizations learn, and how well they learn are of course critical to the effectiveness of any change that is attempted. Companies such as Toyota and 3M have maintained competitive advantage largely because they have developed highly effective approaches to learning and improving their effectiveness as organizations (Pinchot, 1985; Womack, Jones, and Roos, 1990).

One way for organizations to learn is to adopt a scientific model with respect to learning. That is, they can experiment with new approaches, assess those experiments, and move forward with a dynamic learning approach to organizing. In the social science literature, this "action research" approach has been discussed for a long time (Lawler, Mohrman, Mohrman, Ledford, Cummings and Assoc., 1985). Recently it has become increasingly popular with major organizations. They are realizing that they can in-fact experiment with new ways of organizing, learn from them, and move ahead to gain a competitive advantage. Through such learning processes, many organizations are gradually redesigning themselves in very fundamental ways.

## **The Global Organization**

U.S. corporations have been slower than those in many smaller countries to adapt to global markets. For decades they have tended to focus on the domestic market and to design products and services for that market (Porter, 1990). There are a number of reasons for this including the scope and size of the U.S. domestic market. By itself it was able to create and support such large corporations as AT&T, IBM, and General Motors, so there was little need to make a concerted thrust to enter global markets and to produce global products. This thinking has changed dramatically in the last decade for a wide variety of reasons. These include the increasing costs of developing products, greater competitiveness in domestic markets, and the need to compete with foreign competitors in their own markets so that they cannot cross subsidize their products, and gain a competitive advantage in the United States (Galbraith, Lawler, and Assoc., 1993).

The drive to create more global organizations has had a number of interesting impacts on the structure of organizations. Large corporations such as IBM and Hewlett-Packard have moved their headquarters for certain businesses overseas. They have located not just production facilities, but product development facilities in other countries. There are a few companies such as Shell, DHL, and ABB, which have essentially become stateless corporations so that they can operate easily and comfortably without a strong national identity. This gives them the ability to avoid the image and entanglements that are associated with being primarily an American, French, or Japanese company.

Overall, moving to a global corporation requires a fundamental rethinking of most of the organization and human resource management practices of a corporation. Suddenly skills are needed with respect to managing multi-ethnic workforces, pay systems need to reward different kinds of management behavior and the geographic mobility of employees. And finally, skills are needed in coordinating work that is done in different parts of the world by employees of different nationalities. In many cases, being successful with a global model requires corporations to understand local market environments and local preferences well enough so that they can design products for them, or to be able to create

customized products that can be flexibly mass produced for sale around the globe. Overall, globalization requires a dramatic change in the traditional nationally focused hiring, development, and human resource management principles that have so long dominated the way large corporations in the United States and Europe have been managed.

### **Small is Beautiful**

The most admired corporations in the United States have been among the largest. IBM, Sears, General Motors, AT&T, Kodak, and Exxon are not only among the largest corporations in the United States, they are among the largest corporations in the world. Such terms as "economies of scale" have often lead to the conclusion that being big is not only desirable, it provides a strong competitive advantage. Size often does allow for better access to capital, the support of extensive research and development labs, the ability to purchase products and services at favorable prices, and finally, a way of accessing global markets. It is becoming increasingly apparent, however, that the advantages of size have been overstated in many businesses. Many of the biggest corporations are experiencing the most severe performance problems. In some cases, size has become more of a liability than an asset because it has made corporations inflexible, difficult to change, and has created workforces that are not involved in the business and tend not to care about the business (Lawler, 1992). There is a great deal of research in the organizational literature which shows that size has its dysfunctions in terms of involvement, satisfaction, and motivation. Historically, these were thought of as solvable or at least tolerable problems that were not severe handicaps, particularly when compared to the advantages of large size. However, this thinking is changing.

To improve their effectiveness, such organizations as General Electric, AT&T, and IBM have had to downsize and dramatically change their approach to being large. This is particularly ironic in the case of IBM and AT&T because both of them were, at one point, seen by the U.S. government as being so big as to preclude others from competing effectively with them. Today we find them downsizing and restructuring so that they can be

competitive with smaller organizations. In essence, in order to be effective, IBM is doing to itself what the justice department tried to do to it several decades ago in order to make it less effective. At this point, the question may legitimately be asked, "What is going on here?".

Obviously the world has changed. What used to lead to effectiveness, does not necessarily lead to effectiveness in today's environment. Sheer size, particularly when poorly organized, is not an advantage, but a distinct disadvantage. The right answer in many industries seems to be, to be simultaneously small and large. In some businesses, there clearly are many advantages associated with size. It pays to be big when dealing in a global market, when raising capital, when supporting a research and development lab, and when developing an expensive new product. It does not pay to be big when it comes to exercising control, coordinating performance, motivating employees, getting individuals involved in the business, and making customers feel that they are an important focus of the organization's attention and efforts. There is no single way for organizations and companies to be simultaneously small and large, but in general, this can be accomplished by breaking companies down into small, relatively decentralized units that face particular customers or deliver particular products. These units, in order to be effective, need to have their own financial accountability, financial information systems, and reward systems (Mills, 1991).

### **Product/Customer Focus**

The traditional logic of organization calls for creating organizations that are divided into functional specialties. Sales, marketing, production, accounting, personnel, etc., are among the many staff and line departments that typically exist. These units carry out various steps in the process of creating a product or providing service to a customer. They typically are controlled in part through a budget which is hierarchically negotiated.

The advantages of a functional organization are many, and particularly include the ability to have high levels of expertise in each of the functions. Specialists in sales, marketing, manufacturing, etc., are developed and the expectation is that corporations will excel because they are excellent in the various functions that are needed to do business.

The problems with this approach to organizing have become increasingly apparent as competition is increasingly based on speed and quality. Speed in particular tends to suffer in functional organization because products and services have to be passed from one function to another in order to be developed and dealt with, and this always takes time (Stalk and Hout, 1990). In addition, customers and products may be dealt with poorly in the hand-off process between one function and another (Hammer and Champy, 1993). Finally, functional organizations require extensive amounts of hierarchy in order to coordinate their actions. This often raises costs because hierarchical controls and individuals are expensive to develop and manage, and it slows down performance because decisions that involve multiple functions often are made high in the hierarchy after going through multiple levels of the organization.

A number of large organizations are moving away from the functional approach to organizational structures which are much more product or customer focused. This is one of the ways they operate simultaneously as small and large organizations. When it comes to developing a product or servicing a customer, they are small because a small group of cross functionally trained and skilled employees deals with the customer or develops a product or service that is to be delivered. Among the companies that have moved to smaller, relatively autonomous units that are highly focused on one particular product or market segment are Xerox, Motorola, and Hewlett-Packard.

### **Meeting Customer Requirements**

The logic of traditional bureaucracy calls for job descriptions and the evaluation of individuals against the details of the job description. In the stable world of the bureaucratic organization, with good top-down coordination of effort, it is easy to see that

this model makes sense. Indeed if the organization is well designed and all employees perform their jobs well, it is likely that the organization will be effective. Problems occur, however, when the environment is dynamic and there is a need to respond to the changing needs of the customer. These conditions require that organizations focus their performance on meeting customer requirements or expectations. Undoubtedly, the strongest influence in moving organizations toward this approach has been the Total Quality Management movement (Deming, 1986; Juran, 1989). It has correctly pointed out that the key issue is not meeting job requirements, but meeting customer requirements, because it is the customers that provide the revenue, and the customers who need to be satisfied by the services and products.

The Total Quality movement goes even further and emphasizes that there are both internal customers and external customers. Not everyone has an external customer, but most people can and should have internal customers. This has led corporations such as Xerox, Motorola, and Federal Express to do extensive evaluation of internal and external customer satisfaction and to hold employees accountable for the results of these customer satisfaction measurement programs (Schmidt and Finigan, 1992). This has the obvious advantage of focusing employees on results which are directly related to their activities and which are often more meaningful than simply meeting the objectives in the job description.

### **Doing Only What You Can Do Best**

The traditional approach to organizing has been to create organizations which are vertically, and in some cases horizontally, integrated. The U.S. automobile industry has been a classic example of this logic. Historically, some auto manufacturers made their own steel and glass. They transformed these raw materials into a finished product and sold the product through their own dealer network. In other words, they were highly vertically

integrated, doing all aspects of manufacturing a product. They were also horizontally integrated in the sense that they had within their organization all the necessary staff functions and support services that were needed to create an effective organization. The logic supporting this approach is straight forward and has led to the bureaucratic organizations that exist today. In essence, the assumption has been that a large, well-run organization like IBM, Ford, or General Motors, can do virtually anything better than anyone else, so why trust others to do it? In addition, it was reasoned that if there is a profit to be made on producing a particular part, or providing a particular service, why shouldn't the large organization make that profit? Contracting with someone else to do it means that the other organization will gain a profit that should have been retained.

The problems with trying to do everything are becoming increasingly apparent to most corporations. The simple fact of the matter is that in a complex environment the performance demands in all areas are constantly going up, and the expertise needed to do things well is constantly increasing. Thus, it is hard for any corporation, regardless of its resources, to be good at a variety of things. At the extreme, this has led to networked organizations in which a variety of organizations do just one aspect of what it takes to develop a product or deliver a service (Miles and Snow, 1986). They form a network with other organizations who are very good at other activities. The network is generally held together by an organization that performs the key integration function that differentiates the product or service in its market environment.

A good example of a network organization is Nike. It does no shoe manufacturing because it does not feel it can do as good a job of this as someone who is specialized in manufacturing. It specializes in designing, advertising, and marketing products. This has allowed Nike to become an extremely successful corporation with an enormous amount of revenue despite a relatively small employee population. Nike's success depends on it being able to orchestrate a network of suppliers and distribution channels in a way that assures the success of network members.

Similar thinking has caused many organizations to out-source some traditional support services. For example, organizations are increasingly out-sourcing their data processing and their legal services. The decision to outsource is generally made after an analysis that attributes costs to particular activities involved in producing the product or service and adopting a customer orientation perspective which emphasizes how well different pieces of the organization are serving other parts of the organization. This internal Perestroika approach to accountability opens the possibility for external competitors to bid on things like information processing, maintenance, personnel and other staff support services and for the organization to use cost and service quality as criteria for the "make or buy" decision.

### **Control through Involvement**

The traditional hierarchical approach to organizing assumes that control comes largely from hierarchical authority. This is played out through supervisor-subordinate reporting relationships, job descriptions, and reward systems that are tied to the effectiveness of individuals as measured against their job descriptions. Clearly this approach has a number of advantages and still is the most appropriate approach in some work environments. It tends to have significant problems however when performance needs to simultaneously emphasize low cost, high quality, and speed. It also has difficulties when teamwork is required. Decision making processes tend to be slow because of the need for hierarchical clearances, costs tend to be high because of the cost of control systems and quality is often lost because the individuals actually doing the work or delivering the service are disassociated from the customer or not involved in the production of the total product (Lawler, 1992).

An alternative to the command and control approach is the high involvement approach (Lawler, 1992). There is considerable evidence that many corporations are increasingly moving to this approach (Lawler, Mohrman and Ledford, 1992). Basically, it emphasizes substantial amounts of moving information, knowledge, power, and rewards to

the lowest level of the organization. In the typical example, small groups, teams, or business units are given the financial resources, the information, the knowledge and the power to make a particular product, or serve a particular customer group. They are then rewarded based on how well they perform in satisfying their customer group or producing their product. Companies at the forefront of adopting this approach include Union Pacific, Xerox, ABB, and a host of other organizations that need to increase their performance in the face of difficult competitive environments. It is beyond the scope of this chapter to go into all the details of how a more involvement oriented approach to management can be implemented and where it works particularly well. In many respects it is consistent with many of the new organizational approaches which have already been discussed (Lawler, 1992). It requires, for example, creating small units, focusing on products, or services focusing on customer requirements, and adopting a dynamic or learning approach to organizing. It is also quite consistent with the idea of out-sourcing many products and services and creating a world in which internal providers of services have to compete with external providers of the same services.

### **The New Competitive Advantage**

The trends and developments reviewed so far suggest an important conclusion about where competitive advantage will be found in the future. It is not likely to be found simply in the quality of an organizations financing, its access to natural resources or its country of origin. It also is not likely to be found simply in the quality of its workforce. Workforce quality is best seen as a necessary condition for effectiveness rather than as a key to effectiveness and competitive advantage. The key to effectiveness is likely to be found in the ability of an organization to match its organization design and management strategy to its business strategy. Organizational effectiveness increasingly depends on organizations being able to develop their own particular approach to organizing and managing and to continue to evolve it in a continuous improvement mode. In short, organization is increasingly becoming the key source of competitive advantage in

today's global businesses. Not only is it the most important source of competitive advantage, it has the potential to be one that is a sustainable competitive advantage because of the development time of an organization design is long and it is difficult to duplicate successful ones.

Those organizations that simply follow the traditional approaches to organizing and managing people appear to be destined to perform at a mediocre or worse level. The competitive world has simply passed by many of the traditional practices which in the past have been seen as leading to effectiveness. This, more than any other reason, is why many traditionally successful companies have become corporate dinosaurs in today's environment. They are still concentrating on doing the old things better, rather than concentrating on how to redesign themselves and create new management and human resource development systems that fit today's social, economic, and business realities. Clearly, it is not an easy task to change a traditional organization to one that is more learning oriented, competency focused and controlled by involvement and a customer focus.

Because change is so difficult, it is not unreasonable to expect that many existing organizations will fail to adapt and therefore will have periods of long decline. They are likely to be replaced by organizations which start in today's new environment and which therefore do not have to be "re-invented", they "simply" have to be invented. In many cases it is easier to start new organizations that can compete in today's environment than to change old ones so that they can compete (Lawler, 1992). The reasons for this are many, but they include the commitment that the existing organizations often have to their in-place human resource management systems and their existing organization structures, hierarchies, and reporting relationships. These often prove to be so critical an obstacle that they prevent change even in the face of significant threats to the continued existence of the organization. Mobilizing and engineering change in large, complex organizations remains a difficult and challenging activity. It clearly is one thing to know how an organization needs to change and quite another to produce the change. Given the rate of change that is

occurring in the business environment, the future success of most large organizations is likely to depend on their ability to master the change process. In essence, the ultimate core competency for an organization may be the ability to constantly reinvent itself and move on to the next generation of strategic competency.

## References

- Ash, R.A., E.L. Levine, and F. Sistrunk (1983) The role of jobs and job-based methods in personnel and human resources management, in Rowland K., and Ferris, G. (eds.), *Research in Personnel and Human Resources Management*, Greenwich, CT: JAI Press, 45-84.
- Deming, W. E. (1986) *Out of the Crisis*. Cambridge, Mass.: Addison-Wesley.
- Doyle, F.P. (1990) People-power: The Global Human Resource Challenge for the 90's. *Columbia World Business*, 25, 36-45.
- Galbraith, J.R., E.E. Lawler and Associates (1993). *Organizing For The Future*. San Francisco: Jossey-Bass.
- Hackman, J.R., G.R.Oldham (1980) *Work Redesign*. Reading, Mass: Addison-Wesley.
- Hamel, G., C.K. Prahalad (1989) Strategic Intent. *Harvard Business Review*, 67(3), 63-76.
- Hammer, M. and Champy, J. (1993) *Re-engineering the Corporation*. New York: Harper Press.
- Johnson, W.B. "Global Workforce 2000: The New World Labor Market." *Harvard Business Review*, 1991, 69(2).
- Juran, J.M. (1989) *Juran on Leadership for Quality*. New York: Free Press.
- Lawler, E.E., Mohrman, A.M., Mohrman, S.A., Ledford, G.E., Cummings, T.G. and Associates. *Doing Research That is Useful for Theory and Practice*. San Francisco: Jossey-Bass, 1985.
- Lawler, E.E., G.E. Ledford (1992) A Skill Based Approach to Human Resource Management. *European Management Journal*, 10, 383-391.
- Lawler, E.E., S.A. Mohrman, and G.E. Ledford, Jr., (1992). *Employee Involvement and Total Quality Management: Practices and Results in Fortune 1000 Companies*. San Francisco: Jossey-Bass.
- Lawler, E.E. (1992). *The Ultimate Advantage*. San Francisco: Jossey-Bass.
- Miles, R.E. and Snow, C. "Organizations: New Concepts for New Forms." *California Management Review*, 1986, 28, 62-73.
- Mills, D.Q. (1991) *Rebirth of the Corporation*. New York: Wiley.

- Mohrman, S. and Cummings, T.G. (1989) *Self-Designing Organizations*. Reading, Mass.: Addison-Wesley.
- Morton, M. (1991) *The Corporation of the 1990's*. New York: Oxford.
- Peters, T. (1992) *Liberation Management*. New York: KNOFF.
- Pinchot, G. (1985) *Intrapreneuring*. New York: Harper & Row.
- Porter, M. E. (1990) *The Competitive Advantage of Nations*. New York: Free Press.
- Prahalad, C.K, and Hamel, G. (1990). "The Core Competence of the Corporation." *Harvard Business Review*, 68(3), 79-93.
- Schmidt, W.H., and Finigan, W., *A Race Without a Finish Line: America's Quest for Total Quality*. San Francisco: Jossey-Bass, 1992.
- Senge, P.M. (1990) *The Fifth Discipline*. New York: Doubleday.
- Stalk, G. and Hout, T.M. *Competing Against Time*. New York: Free Press, 1990.
- Stalk, G. Evans, P.E. and Shulman, L.E. (1992). Competing on capabilities: The new rules of corporate strategy. *Harvard Business Review*, 70(2), 57-69.
- Womack, J.P., Jones, D.T., and Roos, D. (1990) *The Machine that Changed the World*. New York: Rawson Associates.
- Williamson, O.E. (1975) *Markets and Hierarchies*. New York: Free Press.