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**THE ROLE OF TOP MANAGEMENT
IN LARGE SCALE CHANGE:
A VIEW FROM WITHIN**

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The Role of Top Management in Large Scale Change:

The View From Within

During the past two decades, few corporations have been immune to the global economic forces that have required large-scale change for survival. Deregulation, globalization, and technological advances that have enabled coordination of activities and real-time exchange of knowledge and information have altered the terrain on which organizations compete and add value to the markets and societies in which they operate. The changes in organizational paradigms—in strategies, organizational designs, and relationships to market—have been profound.

The popular literature is full of accounts of CEO's who have seized the moment, formulated a vision, and led their companies into new and perhaps uncharted waters. Case accounts abound describing what CEO's do to lead these changes, including formulating the vision and underlying strategy to anticipate and/or respond to changes and trends in the environment, and reshaping the organization to operate in new ways. Many of these accounts are formulated from the perspective of the executive and are consequently somewhat "CEO-centric". One could walk away from many accounts feeling that if the CEO is prescient enough, charismatic enough, visionary enough, and, perhaps, smart enough to hire the right consultants, a large, complex organization can be transformed.

Certainly the role of the executive is crucial, and the factors listed above are helpful and important. In fact, they may be necessary for successful corporate-wide transformation. But accounts that focus primarily on the role of the executive in large-scale change may mask a tremendous amount of activity that goes on in the guts of the organization in order to embed new ways of operating and achieve success. This chapter examines the phenomenon of large-scale change from the perspective of organizational members and draws implications for change leadership.

The framework taken in this paper is that large scale change is a learning process, a process in which units at all systems levels (business units, teams, individuals) learn to operate in new ways. New patterns and routines replace the old ones; employees develop a new understanding of the organization and their relationship to it. Change occurs when the members of the organization collectively assume new ways of behaving and achieve new kinds of performances. Consequently, this chapter describes what leaders do that contributes to or prevents the organizational learning required to enact the new organizational model.

A key aspect of today's transitions is a new relationship between employees and employers. Downsizing and corporate restructuring have significantly disrupted the implicit or explicit loyalty between employee and employer that characterized many companies during the post-World War II era. As organizations transition to high involvement management styles including flat and lean structures, broad distribution of responsibility for business success, pay-at-risk, and broader roles with more self management, employees are finding themselves with greatly more complex, responsible, and demanding jobs, often with no change of status or salary. The traditional employment bargain has been disrupted. Thus, organizations are undergoing demanding transitions that demand considerable organizational learning and that are introducing considerable uncertainty into their relationship with their employees.

This chapter examines the role of top management during transition from the perspective of those within the organization. It is based on extensive qualitative data (over 1000 interviews) in more than 80 business units within corporations undergoing large-scale change. Ten

technology companies were part of a study from 1990-1993 of the transition to lateral team-based forms of organization in order to embed process management and market-orientation into their way of doing business (Mohrman, Cohen, and Mohrman, 1995). Eleven companies have more recently been part of a study of “learning during transition”. This study examined the internal learning dynamics that differentiated between business units that were able to put new ways of working into practice quickly and to experience performance improvement as a result and those that were having more difficulty with the transition (Tenkasi, Mohrman, and Mohrman, 1998). In neither of these studies was the role of top management the prime focus; however, in both studies it was among the variables that were examined. These studies have provided a rich qualitative understanding of how executive leadership is seen from below during organizational transitions.

This chapter first provides a framework for conceptualizing large-scale transition as a learning process. It then examines the aspects of this learning process that are shaped and influenced by executive behavior.

Large-Scale Transformation As Learning

Established organizations manifest organizational learning that has occurred within a particular paradigm, or way of doing things, that sufficed in earlier environments. Organizations learned as they went through their growth cycles (Greiner, 1972) and put in place new processes and structures to deal with increasing size and complexity. However, they often established a resilient mode of operating, an organizational “recipe” (Starbuck, 1976), that fit with and was shaped by the environment in which they grew up. Subsequent learning was largely within that overarching recipe. Within a predominant model of hierarchical control and bureaucracy, organizations learned such things as how to design, produce, and distribute increasingly complex and diverse products, to employ sophisticated manufacturing control systems and knowledge bases, to utilize increasingly sophisticated information and control systems, and to put in place more sophisticated, hierarchically-oriented performance management systems. All of this learning has been first order change (Bateson, 1972)—change that occurs within the overarching assumptions and governing principles of the hierarchical form.

Recently organizations have faced competitive environments that demand discontinuous performance: they call for qualitatively different levels and kinds of performances. Achieving this requires second order learning—learning that entails the development of new organizational models and frameworks that challenge the assumptions of the hierarchical, bureaucratic form. Such transitions require employees to jump out of frame in their understanding of the organization and its environment, and in the way in which they carry out their jobs. The change may be from hierarchical governance to lateral governance and self-management; from technical to market orientation; from national or international to global, to name a few of the re-orientations that have been occurring.

Many organizations today are undergoing strategically driven, large-scale change: lasting change in the character of the organization that significantly alters its performance (Ledford, Mohrman, Mohrman and Lawler, 1989). Large scale change tends to be organization-wide. It is pervasive in the sense that it involves almost all aspects of the organizational system, including strategy, structure, and processes. Finally, it is deep change, in that it challenges fundamental assumptions and values that previously underpinned the organization. In sum, large-scale change demands that the organization learn ways of operating that are based on different conceptualizations of the system, and new assumptions, values, and goals.

Learning Processes During Large-Scale Change

In the typical organization in the midst of such change, it seems to employees that everything is changing at once. Three aspects of the organizational architecture often are changing simultaneously (Tenkasi, Mohrman, & Mohrman, 1998). First, advances in technical tools and knowledge and in telecommunications and computerized systems are combining with new ways of conceptualizing, organizing and controlling technical and organizational processes to yield new technical architectures. New tools and methodologies to support cross functional work such as optimization and trade-off tools, advanced simulation and modeling techniques, and integrated business systems and data bases make possible new ways of doing work.

The market architectures of organizations are also changing dramatically. Organizations are finding new ways to orient to and relate to customers, boundaries with customers and suppliers have become blurred, and a proliferation of organizational alliances has meant that competitors are also partners. Companies are changing from being international to being truly global. Organizations are distributing responsibility for market and financial success into small, dispersed, flexible units and moving it deeper into the organization.

Simultaneously the social architectures of most organizations are changing: new structures, work designs, processes, and systems are being put in place to underpin the web of relationships that are required within and between organizations, to take advantage of the capabilities of new communication systems, and to build the capacity for flexibility of action and business involvement throughout the organization. People find themselves in flat, lean organizations, working in teams and networks that may include customers and suppliers, delivering services from shared service structures, managing outsourcing relationships, and working in a variety of partnership structures.

Although the practitioner literature is filled with descriptions of these new approaches and often sings their praises, closer examination sometimes yields a less optimistic picture. For example, even consultants closely involved with process reengineering (Hammer & Champy, 1993) report that these efforts lead to true improvement in organizational performance capabilities in just a small percent of companies (Bashein, Markus & Riley, 1994). Initial reported gains often are merely the result of downsizing in anticipation of expected operating efficiencies. Even the original proponents of the concept admit that the resilience of the entrenched organization was underestimated, and that the very executives who were propelling process engineering failed to become adequately educated about its essence and requirements for success (Hammer, 1996; Hammer & Champy, 1995). Even the initial advocates of process reengineering admit that they did not fully comprehend the depth of organizational change required to truly manage processes that span the empires of the segmented organization. One study of process reengineering in one company has found that the transition was most effective in units that experienced integrated change in their technical, market and social architecture, rather than focusing primarily on one or two of these domains (Mohrman, Tenkasi & Mohrman, in press).

There have been a number of diverse definitions of organizational learning. Some of these relate it to activities assumed to yield learning such as TQM or training (e.g., Ulrich, Glinow & Jick, 1994). Others reduce it to individual learning within an organization (e.g., Argyris & Schon, 1978) or to generic competencies such as shared vision, team learning, and mental models (Senge, 1990). An alternative definition is in terms of outcomes—organizational learning can be conceptualized as the collective processes by which an organization is able to put in place new approaches that enable it to perform more effectively in its changing environment (Tenkasi, Mohrman, & Mohrman, 1998). This definition explicitly defines learning in terms of what the organization is trying to accomplish strategically and operationally.

Clearly, effecting the simultaneous change in technical, market, and social architectures in order to perform more effectively entails considerable learning. The implementation of these new organizational forms entails the design of new structures, processes and systems, which itself represents a formidable learning task for organizations that have spent years honing the structures, processes and systems of the bureaucratic, functional form. For example, developing the ability to generate new products through cross-functional, global product development teams that include partnerships and alliances with other companies requires that cross-functional and cross-organizational structures be designed, as well as the systems and processes required to support and operate within them. In addition, new collective behavior patterns, or programs (March & Simon, 1958) must be established, if the new organizational design is to result in different kinds of performance. Not only must cross-functional and cross-organizational planning sessions be held, but the participants must develop ways to surface relevant information, integrate diverse information, create win-win solutions, and coordinate across functional “thought-worlds” (Dougherty, 1992), national cultures, and distances. Underpinning the design of new organizational structures, systems and processes and the enactment of new behavioral patterns are new cognitions—new and more systemic ways of understanding the organization, its purposes, the factors that impact performance, and the various knowledge sets that must be integrated.

Figure 1 arrays the various facets of the learning challenge embedded in large-scale change. Achieving the desired outcomes requires change in *patterns* of behavior—in organizational level phenomena. The learning process is necessarily a collective process as new shared cognitive frameworks emerge that form the basis for altered collective behavior patterns. The learning required to become global, for example, is not accomplished solely by creating a global vision, nor by exhorting businesses to become global. Rather, it happens because structures are set up for global design and production, processes are set up for world-wide participants to influence and shape goals and plans, reward systems recognize global growth development systems build capability for effective global performance, and people collectively begin to behave in patterns that are globally oriented. Gradually a rich and deep shared understanding emerges of what it means to be a global company.

In our studies of organizational units involved in organizational transitions, we found it quite interesting that within the same organization (with the same top management) there are units that apply new approaches in an accelerated fashion while others struggle and continue to house old behavior patterns despite reconfiguration into new structures and the introduction of new formal processes and systems. Units that are “accelerated learners” are characterized by higher levels of collective learning processes that enable the members to develop a new shared understanding of their organizational system and how they operate (Tenkasi, Mohrman & Mohrman, 1998). There is considerably more dialogue about the changes, and more effort to learn from their own experiences with the changed approaches. They also engage in open system learning—by opening themselves up to information and feedback from outside the unit, and by building bridges to other units and organizations. These accelerated learning units develop a more systemic understanding of their organization that allows an integrated understanding of the technical, social and market approaches (Mohrman, Tenkasi, & Mohrman, 1998).

These collective learning processes enable the organizational unit to learn what kinds of organizational design features are effective for accomplishing the new operating capabilities that are the focus of the organizational transition, and to establish behavioral patterns to make them operate effectively. In essence, each organizational unit must self-design (Weick, 1993; Mohrman and Cummings, 1989). There are no road-maps for fundamental transitions. The high level design features can be specified by executive leaders and their various change agents, but making them work and learning to work within them requires considerable local learning as the unit tailors, fixes, and assimilates new approaches (Orlikowski, 1996). Take the example of

organizations moving to cross-functional new product development teams in order to implement a strategy that calls for reduced development cycles and increased yield of new products to market. Some teams are able to learn quickly how to take advantage of this reconfiguration to achieve greater concurrency of operation and significant break-through thinking. Others recreate their old sequential, segmented way of doing business and historical status patterns. They essentially perform in a traditional functional manner despite being reconfigured. When these two kinds of units are compared, the former are characterized by considerable local sense-making, local design of practices and systems, and the importing of ideas from outside the group.

Because of the amount of learning required for transition, one way to conceptualize the role of top management is as the stimulator and orchestrator of a learning organization. Seen from this perspective, the challenge goes beyond charting a strategic and organizational course, taking tough action, and architecting the new organization. It requires that management establish a framework for organizational learning and lead the learning process.

The Changing Employment Relationship

When organizations undergo such large-scale change, the relationship of employees to the company may change dramatically. This has been particularly true during the last decade when strategic restructuring has been accompanied by pervasive down-sizing, flattening of hierarchical levels, outsourcing, and establishment of global operations. These changes in strategy and structure have often been accompanied by changes to human resource practices such as decreased loyalty to employees, altered career opportunities, and pay at risk. Such changes have violated the traditional psychological contract (Barnard, 1938; Rousseau, 1995) of employees—the individual beliefs about the employment relationship and terms of exchange between the individual and the employer. The psychological contract establishes an implicit balance in employees' minds between the level of effort and nature of the contribution the company expects from them and the outcomes they can expect in return. During the past decade, a change in the balance has been unilaterally imposed, with more being demanded of employees in return for a dramatically altered set of outcomes. Furthermore, the new contract has become increasingly transactional, placing a greater emphasis on formal provisions and shorter term in nature than the traditional relationship-based contract that was longer term and less formal in nature (Rousseau, 1995).

The changes have been particularly interesting because for the employees who remain part of the company after downsizing and restructuring, the changed organization has in many cases offered greatly increased outcomes in personal growth domains such as “the chance to learn new things”, “the chance to accomplish more”, and “the chance to make a difference”. In fact, successful performance in the reconfigured organization practically demands that these occur. Simultaneously, hygiene-oriented outcomes such as security, the opportunity to make more money, and career opportunities have decreased. Table 1 shows survey data from eleven diverse companies reporting employee perceptions of the impact that restructuring has had on their outcomes. It may not be stretching reality to say that we are in the midst of a very large social experiment—examining the impact of greatly decreasing the core bread and butter outcomes of employment while simultaneously dramatically increasing the amount of growth and development that is both offered and required.

Most significantly, in most cases this change in the employment relationship has not been mutually crafted by the company and its employees; rather, the new psychological contract entails an adjustment by employees to new terms of employment created by unilateral employer action. Because of the increasingly short term nature of the new relationship, the increasingly demanding expectations of employee performance in most organizations, and the dynamic nature

of the organization and its strategies, the new relationship has carried with it a sense of threat. This threat can be expected to have an impact on the ability of the organization to learn as required for successful implementation of new organizational directions.

In our studies of learning during organizational transition, we found that compared to members of struggling units, the members of the units in which accelerated learning was occurring were considerably more positive about the outcomes they were experiencing as a result of the organizational changes. They also felt that the changes were in their best interests and in the best interests of the company (Tenkasi, Mohrman and Mohrman, 1998). The degree of positive or negative affect with respect to the changing organization differed significantly between units within the same organization, indicating that interpretation of the changes is to a great extent socially constructed within the unit. It seems that the processes within each organizational unit affect even the perceptions of the employee outcomes that form a basis for the new psychological contract. Despite these differences in overall level of affect, it is fair to say that in the companies we studied, there was a prevailing sense that the shift has entailed an increase in growth outcomes and a decrease in hygiene outcomes.

The role of top management in leading large-scale change should be understood in the full context of the organizational dynamics that are set in motion during such change. Fundamental changes in organizational architectures require extensive organizational learning by a population of employees for whom the traditional psychological contract is being battered. In all the venues of the organization—business units, teams, and various kinds of workgroups, collective processes are determining what is learned, how the new employment bargain is perceived, and what levels of performance will result.

Top Management Seen From Within

There have been a number of insightful treatments of the role of leaders and the nature of change leadership (e.g., Bennis & Nanus, 1985; Tichy & Devanna, 1986; Wheatley, 1992). Indeed, a number of themes appear repeatedly: visioning, architecting the flexible organization, modeling ongoing learning, developing capabilities, and inspiring and energizing. Numerous case studies demonstrate how these have been done by noteworthy leaders in highly visible corporations. This paper does not purport to refute nor to recast this literature. Rather, it intends to complement it by providing the view from within. It reports themes from interviews and focus groups with people at all levels in organizations undergoing discontinuous change, and clusters them into three main categories that we have found to be critical to organizational learning: the learning system, shared meaning, and the psychological contract. First, it puts these comments into context, by discussing the lenses through which many employees see “top management”.

Who is Top Management and How Salient are They in the Organization?

Most of the data in our studies of organizational transitions came from people within business units—divisions, product lines, regions, programs and shared services. We interviewed top managers in order to get a sense for the strategy, vision, intended architectural changes, and the change process being deployed. We took these features of the transition as givens, and set out to understand what is required to enable the organization to operate in these new ways. Our overall approach was to examine a variety of units and compare those that were making the changes effectively with those that weren't. The impact of top management was viewed from below—not from the perspectives of top managers and their key change agents.

What was striking in our interviews was how infrequently top managers came up in response to open-ended questions such as “what are the facilitators of and barriers to putting these new organizational approaches into operation?”; or “What role has management played in this transition?” Questions about the nature of the transition indicated that people had registered a great deal of the message from top management: about the changing market environment, the strategy of the organization, the key focuses of the transition, and so forth. This was true in accelerated learning units and in the units that were struggling with the transition. However, there was a difference. In the accelerated units, the messages had been internalized, and were being offered as one’s own view: “We have to begin to reuse technology across our programs because otherwise we will be at risk in the changing market”. In the units that were learning more slowly, the messages were often attributed to a generalized “they”: “they want us to reuse technology to save money”. In neither case was top management particularly salient in people’s minds. This distance is not particularly surprising, given that these respondents are nestled within business units that are often several levels below top management; however, it does point out the importance of aligning the organization so that people get consistent messages at all levels. It also indicates that in units that are making the transition successfully, people have made the top management’s message their own.

Another striking pattern is that interviewees often responded to inquiries about “top management’s role” with comments about the behavior of their division or business unit management rather than with comments about the CEO and executives of the corporation. Some spoke of the expectations for performance, key initiatives, and sometimes the key elements of the vision that was coming from corporate management. But when asked about the dynamics of change, their focus was primarily on the change-related role that their local management was playing. In multi-divisional companies, many have very little visibility beyond their divisional management. Beyond that there’s often a fuzzy, almost depersonalized image—analogous to the rather vague referent when people talk about how “the company” does something. Indeed, in many cases responding to these questions in terms of local business unit management makes the most sense. Many aspects of the transition were often being crafted at the more local level; this was even the case when the corporation as a whole was in the midst of a strategic transition (Beer, Eisenstat & Spector, 1990). Even when top corporate management speaks directly to employees, the message is to some extent interpreted and heard through the voices of their more proximate managers. So one of the challenges to top management is how to get their message to echo with high resolution through the organization.

Although top managers tended not to be explicitly mentioned as barriers and facilitators, it is important to point out that many of the facilitators and barriers perceived by people are the result of executive focuses and action. They reflect the change activities and elements set in motion by or occurring in the name of top management, the new business strategy, new organizational architectures, and implementation processes. People experience top management in terms of the systems, structures, processes and initiatives they put in place.

More particularly, employees experience top management in terms of the way these new systems, structures, and processes impact them. However, personal impact is not a straightforward result of the content of the changes moderated solely by individual differences. Rather, personal impact is a complex interactive phenomenon that both reflects and shapes the learning processes in the organization through which organizational members develop a new understanding of the changing architectures of the organization and their place in it. It also has a collective aspect, for the success of a unit in implementing new approaches relates to the nature of the shared meaning that is created among its members (Tenkasi, Mohrman & Mohrman, 1998). Within the same organization, similarly composed units doing similar work develop greatly divergent levels of perceived positive or negative personal impact from the change, diverse levels

of shared understanding, and diverse learning processes. Furthermore, the perceived impact changes over time.

It appears that top management reaches the troops primarily through the voices of more proximate management, and that one of their main leverage points is through stirring up learning dynamics throughout the organization that lead to the behavioral, cognitive and structural changes required to successfully enact new architectures. Simply charting the new architectures is not sufficient, for their successful enactment requires local learning and the development of new meaning. Top management does much that either fosters or impedes learning within the organization, the emergence of shared meaning, and the development of a new and positive psychological contract (see Figure 2). These focuses will be discussed below, again from the perspective of members of the organization.

Leading The Learning System

It has been recognized by others that change leaders lead a learning system. For example, Bennis & Nanus (1985) pointed out that true leaders are learners who model learning for the whole organization. Learning dynamics need to occur in all units. Management behavior can catalyze or stifle these dynamics in a number of ways.

Promoting Organization-Wide Open Systems Learning: A key learning dynamic is open systems learning through exposure to external information, feedback, and perspectives. In the transitioning organizations we have studied, it was apparent that leaders cannot learn *for* the organization. In several of the organizations that were moving to a team-based structure, for example, the general manager and several key staff members read voraciously, visited other companies, and attended a myriad of development activities. They had truly internalized a new mental model for how the organization might best work to quickly develop market shaping products and maintain strategic leadership. Unfortunately, that learning did not extend down into the teams they were leading, where members were scrambling to figure out why they were suddenly in a radically reconfigured organization. The people who were actually going to develop these new products were aware that their managers were attending a lot of “off-sites” and undergoing some sort of transformation of thinking, but they themselves were still trying to figure out how to do business as usual within team structures that made it harder to do it.

That scenario can be contrasted with some other organizations and units where these kinds of learning events (visiting and benchmarking, attending conferences, and holding developmental offsites) occurred throughout the organization; and where team members were able to more quickly develop new understanding. One top management role is to create the policies and frameworks that make such pervasive learning probable. Companies that had policies requiring a certain amount of development days per year, and that took a broad approach to what constitutes a development day (e.g., training, visiting, benchmarking, etc.) were more likely to have established an organization-wide dynamic of open system learning.

Learning From Experience: The accelerated learning units not only imported learning – they also learned from their own experience more quickly and more intentionally than the struggling units. Even these local learning processes are to a great extent influenced by whether top management establishes a compelling message linking the new approaches to business performance and whether an atmosphere of trust is established that risk taking will not be punished. Trying out new approaches and behaviors with the intention of learning from them implies the possibility of failure, a possibility that carries prohibitive personal career risk in many organizations. The alternative is a mechanical and superficial implementation of top-down

dictated changes, with little learning about how to make them work effectively in the local setting since members continue to operate in ways they know have worked in the past.

The credibility of the message from top management and the way it is translated into the operating units of the organization is key. The messages encouraging experimentation and new approaches can get drowned out by anxiety about and intensity of the performance pressures being experienced by the organization and communicated by top management. The need for a balanced set of expectations and for a clear logic connecting the new architectures to business performance is critical to creating an atmosphere where people feel that they can be successful if they commit to trying new approaches and learning from their experiences. In one of the most accelerated organizational transitions we studied, top management repeatedly conveyed the message that is paraphrased below:

Our old way of doing work won't enable us to accomplish our goals in the new business environment. We have been technically preeminent and business naive and our performance has suffered as a consequence. We need to very quickly turn that around. We have to put in place new approaches that link every person in our organization more directly to our business purpose and our customers and gives them the authority to do what's right for customer satisfaction and business success. This represents a major change from the past and we will experience a lot of bumps along the way. But we know we can achieve it because we have the most talented group of employees in the industry. We don't have all the answers. We're asking you to take the risk, extend yourselves, experience the bumps and learn from them, so that we can put in place a new way of operating that enables us to be a successful company into the future.

This was a message that gave a high-level case for action and statement of purpose and focus, gave permission to experiment, and at the same time built strong expectations of performance outcomes.

Systemic Understanding and Functioning: Even when management has thought through a systemic approach to change—one that examines market, technical and social aspects of the organization and purports to establish an integrated change management approach—employees often experience the change process as a series of unrelated initiatives. The challenge is to create systemic understanding throughout the organization. In one insurance company that was undergoing major transformation to effect market flexibility and local business ownership by quite diverse geographical and cultural regions, units experienced very uneven success due in part to the different levels of understanding among the units of the systemic nature of the change. The units that successfully implemented the new model in an accelerated fashion understood how the structural changes that created intact local business units, technical changes that enabled quick flexible processing and responsiveness, and market changes to deliver enhanced analytical business support services to customers fit together to create a new business model. They focused on all three elements of the change. The struggling units tended to see the change in terms of one primary element—some focused on creating empowered teams to the exclusion of new relationships with the market; others focused on using the new technology to generate efficiencies but didn't work on new business and market relationships or on developing accountable teams. All units were exposed to a uniform set of change interventions from the corporation: the difference between the units was a function of local dynamics (Mohrman, Tenkasi & Mohrman, 1998).

Neatly articulated integrated change frameworks cannot be effectively conveyed by presentation or documentation. Over and over again, we heard people talk about the interactive

process they went through to gain systemic understanding. Struggling teams would talk about how “management throws out all these words—like team, business accountability—and we don’t know what that really means”. In the transition to team-based organizations it is not uncommon to hear members of technology organizations say, “I don’t know what’s different. We’ve always been in teams”, referring to the old organizational terminology that referred to anyone who got involved with a particular product as a team member. One fast-learning technical services team described the pains they took early on to talk about what it meant that they were now a “business unit” delivering a service to internal customers, and how they would have to change their technical processes and coordination processes to optimize the value they contributed to the business. This contrasted to similar units that were having difficulty grasping “what this transition is all about”. The latter teams often said “this notion of teams as business units doesn’t really fit us—we’re a service unit”; and they proceeded to do work as usual, focusing on their own rather than their client’s agenda.

Developing local systemic understanding is not accomplished through executive action and pronouncement. However, it can be helped along by executive focus. Exclusive focus on narrow business results, for instance, conveys a message that narrows the dialogue within units. Reiteration of the principles of the new architecture and review of progress in getting new social and technical systems in place extends focus. Reiteration of the logic of the new architectures is especially helpful. In one organization for some units establishing integrated product development teams became its own focus: a better way of doing what we always did but faster. In other units in that organization, the teams were understood as a means of developing a new relationship with the customer, dealing with the life-long cost issues of product ownership, and using cross-discipline exchange to generate innovative approaches. The differences in understanding reflected differences in unit management emphases: in the latter, accelerated units, local management kept repeating, in every possible forum, the multi-faceted business rationale for establishing integrated product teams. Quickly the teams internalized that rationale.

Leading the Development of Shared Meaning

The transformed organization is one that has developed new capabilities: it is also one that has developed a new meaning system. The pre-existing shared understandings, including explicit and implicit values, norms and routines, have been altered, enhanced or replaced. A myriad of new understandings may have needed to be put in place: about the need to address the customer's business needs in conjunction with one's own technical and business considerations in making ongoing trade-offs and decisions; about what it means and requires to be global rather than international; about factors that yield performance in the changing environment and the need for a balanced performance that yields both current and future outcomes; and about new ways of leading and controlling organizational performance. In one insurance company, for example, the members of the new decentralized cross functional business teams had to learn to understand what constitutes good and bad business, since they were now being asked to operate like a business and focus on return on equity rather than purely on revenue. In the past, central actuarial groups had been the "watchdogs" for bad business; now, team members were governing their own behavior in this regard. These are broad systemic understandings that require cognitive shifts as well as new behavioral patterns. Each has layers of implications for the organizational architecture and its programs. Above, we talked about the need for the executive to act in a way that catalyzes local learning. To establish a new shared meaning requires attention to new programs that will embed these new understandings in the way the organization operates and create a coherent and flexible whole.

Shared Meaning Around Principles, Processes, and Language: To say that creating shared meaning is equivalent to architecting the new system is only partially true. As we mentioned earlier, learning how to make new architectures work requires a great deal of local learning. Architecting the new systems needs to be done in such a way that local interpretation, assimilation and accommodation are possible and in fact required. For it is through these local processes that shared meaning develops and becomes concretized in new ways of doing work. On the other hand, commonalities across the organization enable effective and efficient commerce across units and leverage and flexibility in the application of resources. Top management, it appears, walks a tightrope between setting in motion forces that require unneeded uniformity and discourage local learning and optimization, and setting in place change forces that yield unwieldy diversity of practice. The people in our studies reacted negatively to both over and under-prescription. The reaction to over-prescription came both because it attenuates local learning, designing, and ownership: the reaction to under-prescription occurred because people feel at risk of doing the wrong thing, or of charting an idiosyncratic course that results in isolation from the larger corporate context, as for instance, for career purposes.

The shared meaning that people sought is in such areas as general operating principles and values and how the various parts of the organization relate to one another. Ultimately these have to be concretized in common practices and clear designs. The question is how common do approaches need to be and how dynamic will they need to be? One way that management can achieve a new shared meaning that is not experienced as constraining is to embed new meanings in high level processes within which each unit goes through its own internal process that establishes internal shared meaning, and which can yield different designs and approaches in various units. In one organization moving to self-contained integrated product units, for example, a common nine phase life cycle phase model was introduced with three formal check points that were required of all units and served as the basis for relating the unit to the larger organizational context. By providing a reconfigurable software package to the units, each was encouraged to tailor the phase model to fit their situation, including adding and removing steps and focuses. In several other companies business models were introduced whereby each business unit was required to do a value chain business assessment, determine key drivers, and formulate goals and

objectives accordingly. Certain corporate drivers were prescribed, but units with different market or product constraints could generate unique configurations of drivers and goals. Each division and business unit in the company went through a similar process, yielding diverse, locally sensitive focuses. Shared meaning developed around the importance and process of focusing on key business levers in order to impact short and long term results.

The key implication for top management is that shared meaning is a combination of prescription and local self-direction. Change interventions do not create a neat uniform ripple through the organization; rather they catalyze diverse activity in diverse units that enables high level meaning systems to be concretized in local practice. Members of the units that went through the business model planning processes described above singled them out as perhaps the key contributor to learning. “We floundered about for a year, and when we went through that business planning process we kept trying to figure out what it had to do with our work (exploring for oil in the Gulf of Mexico). Why didn’t management just tell us our metrics? Then all of a sudden it clicked. We had a collective ‘aha’ and figured out what it meant that we are a business team. We don’t think the same way anymore.”

Consistency of Messages: The development of shared meaning is also enabled by the consistency of messages in the system, a point that is certainly not new in the change literature. Aspects of this issue relate in part to the infrastructure and architecture of the organization: do the reward systems acknowledge the new performances and capabilities?; are the corporate support groups redesigned to fit with the new organizational logic?; is the organization measuring and focusing on the outcomes they say are important? These are all systems that our respondents pointed to either as inhibitors or enablers of learning, depending on whether they were aligned with the new logic or not. In one organization, for example, a number of respondents made a similar point: Although the company was pursuing a new low cost strategy, there was not a single system that gave good cost feedback. Instead, feedback focused entirely on schedule. Thus, architecting the various aspects of the system is one of the major ways in which management sends a consistent message and establishes common meaning.

Consistency in what top managers say and do is also important for building shared meaning. Discrepancies in the messages that come from different members of the executive staff, for example, work against the development of shared understanding especially in cross-functional units. When an espoused direction is perceived to be held by only one or two of the top managers (even if this group happens to include the CEO), people give little credence to the transformation because they are continually receiving conflicting information, often from the people at the top of their own reporting chain. Conversely, commonality in message, focus, and behavior across the management team can temporarily offset incompatibilities that result while the organization is trying to bring its systems into alignment. In one defense firm, for example, one program manager received a very consistent message from his group-level managers: “Our president, controller, manufacturing vice president and chief technology officer are making a concerted effort to help us achieve commercial operating capability. We applied for special (Perry initiative) status with our government customer that allows us to deviate from traditional approaches by common agreement. My program team feels perfectly comfortable and in fact we feel a compelling need to depart from company practice in almost all respects and do everything possible to achieve the operating efficiencies of a commercial firm. For example, we’ve gerry-rigged some systems and gotten the military to agree to some new ways of reporting things.” This contrasts with a program manager in another group in the same company, who felt there was a great deal of dissension in his group level staff about the desirability of achieving commercial operating approaches. “Our president says we need to go in that direction, but our CFO is saying to us ‘just make sure you don’t change the way you report data’ and our quality officer is saying that it doesn’t matter what the president says, he knows his neck is on the line to make sure we

don't deviate one iota from mil-spec processes. So we're pretty much doing business as usual with some lip service to benchmarking commercial practices." Both of these groups were hearing consistent message from the corporation's CEO about a strong strategic commitment to commercial practice.

Inconsistency of message can also be a problem when multiple messages are coming from the same source. In one organization that was transitioning to product line business teams, the engineering vice president was a major proponent of the changes, championing training, the introduction of new processes, new measurement systems, and rotational career paths. However, his explicit message to the organization about rewards was that "when it comes to rewards we won't go by this team stuff; we all know that people contribute at different levels and that some disciplines contribute more than others. You'll have to make it visible to me that your contribution is greater than that of your peers in order to get a good raise and promotions around here". That simple message was reported by people to be far more powerful in determining how they thought about their work than the structures and processes that were put in place to support integrated teamwork.

Continuity: It is also not a new theme in the change literature that continuity permits learning and gives the opportunity for a new shared meaning to develop in the organization. "The thing that has helped the most is that our President has stayed the course despite everyone's bellyaching and the initial pain we felt. We've actually had a chance to learn how to make this work." In some organizations, continuity was mentioned over and over by interviewees as the single biggest facilitator of learning. This pattern of response was particularly likely to be present when the transition was a reconfiguration to a new architecture that embedded a new systemic model of organizing rather than being a sequential series of programmatic initiatives. When there is a "switch-over" of organizational model, subsequent changes can be introduced that are portrayed and understood as the supporting features for the new model. Programmatic initiatives, on the other hand, are often experienced as the "change de jour". Interestingly, initiative driven transformation is often described by top management and their advisors in a systemic manner—there's a master plan guiding the unfolding of various interventions—but it is almost impossible for recipients to experience it in a systemic way because they are not set up to operate with the full new logic. This is illustrated by a commonly expressed theme: "There are so many initiatives that we just pick and choose which ones are worth the energy and which ones aren't". (Apparently failing to see systemic fit and mutual reinforcement between them).

Another deterrent to continuity is change of top management and subsequent changes in message and architecture that undo the organizational learning that has occurred. New managers often haven't been present to learn with the system and may not have an understanding of the logic. Changes to divisional or group level management, for example, often occur in the middle of a multiple year transition in that business unit, in a corporate environment that has insufficient shared understanding to ensure continuity across managers. In our small sample of companies, two transitions that were achieving marked organizational performance improvement were interrupted mid-stream because of the promotion of the general manager and his replacement by managers unfamiliar with the new operating logic that had been established. Although an argument can be made that infusing new top management promotes learning because there is a continual infusion of new perspectives and leadership, new managers also tend to want to put their stamp on the organization, and in the process often undo a lot of learning and can actually move the organization backwards in terms of its performance capabilities. New organizational forms tend to be fragile during the learning process; their full benefit often cannot be experienced until iterations of learning bring the whole system into alignment. A succession of managers often means that there is never enough stability to put a robust system in place and that the organization is destined to interventions that pick low hanging fruit.

Perhaps the most troublesome form of lack of continuity pertains to behavior during adversity. Most top managers lead a transition in order to reap performance benefits, and may make promises to keep stock analysts and stockholders happy, and to accrue large executive performance bonuses. This raises a dilemma for leading change that implies fundamental shifts of capability. In a number of our companies there was a fundamental lack of continuity because every time there was a performance crunch the messages of capability development, risk taking, and transition were abandoned and the organization went through a “budgeting process” that included downsizing as the primary “performance enhancing” focus. Without exception, the companies in our studies had gone through some downsizing and were in the process of rebuilding. For those that kept ratcheting back into a downsizing mode, however, keeping continuity in an organizational transformation was extremely difficult. In part this is because of the key role that the psychological contract plays in learning during transition. This is discussed in the next section.

Leading the Development of New Psychological Contracts

New organizational models are changing the relationship of employees to their organizations in some fundamental ways. The traditional benefits that employees have come to expect from loyalty and hard work—security, growth of compensation, chances to advance—have been eroded at the same time that job demands and responsibility have increased. People have the opportunity to do more (perhaps to do more with less—often in a downsized environment), to learn more (in order to adapt to broader responsibilities) and to make a difference (within empowered settings characterized by much less management presence and attention). Each of these opportunities can have a positive or negative meaning attached to it. Many companies that we studied have acknowledged the changes: they have admitted that they can’t be loyal to employees and that they don’t therefore expect loyalty from them. Preparing people for employability has become some companies’ way of understanding their new obligations to employees. On a much more fundamental level, however, no one really has a good idea of what the new contract is and how it will impact performance. Until recently, many organizations have been in a buyer’s market with respect to talent, and employees have accepted the changed contract because they had few alternatives. The tides have turned and companies are now experiencing the other side of the cycle as their experienced employees are able to go across the street and get a raise and a promotion. This is the true test of the suitability of the emergent employment contract.

As mentioned above, employee views of the personal impact of the transition relate to the acceleration or retardation of learning (see Figure 3). That views of personal impact differ across similarly composed units undergoing the same transition indicates that there are differences in the value attached to the growth-oriented outcomes such as responsibility and learning. The large differences across units in the level of positive or negative affect of unit members seem to reflect a collective sense-making. The members of some units are apparently able to create a new, more balanced sense of the changing relationship while members of other units continue to see it as imposed and negative. For example, in one design program that was having great success operating as a mini-business, members extensively described the benefits of being in their new environment: “other companies are going in this direction too and having been in a cross-functional product team and being able to move laterally through different functions will be a real plus in the job market”; “we now have a choice of career directions since we don’t have to worry about staying narrowly focused in order to move up a hierarchy”; “since the company isn’t loyal to us, we can pay more attention to our own development needs and not feel guilty when we put in fewer hours in order to attend a class”, “closer connection to the needs of the factory and to

manufacturability poses a more challenging and interesting design task”, and so forth. In another design program in the same company, members explained that they didn’t feel there were any career tracks left in the company; that they were being treated like commodities that can be purchased, used, and discarded; that these new ways of doing design for manufacturing were eroding their ability to focus on their technical task and do good technical work, and that their jobs were so demanding that they no longer had a life and lived in fear of being laid off if they slacked off.

An area where members of accelerated and struggling units alike reported a great imbalance in the new employment relationship is rewards. A common complaint was that management was moving a great deal of responsibility and accountability downward without giving employees commensurate compensation. Factory employees, R&D scientists, and middle level managers alike could recite their CEO’s performance bonus, and pointed out that it was made possible by them coming in on weekends for 43 weeks out of 52, skipping vacations, covering the night shift during a particularly busy period, or quitting their evening class half way through the semester because they couldn’t get away from work for a seven o’clock class. Although many of the companies we studied had introduced some form of incentive bonus, people were often quite cynical about its size in relationship to the contribution they felt they were making, and about the various gates to payout that ensured that there would be no bonus if overall company targets were not made so that executives received theirs. In fact, even some fairly upbeat employees in the most accelerated units felt that one way their top managers were ensuring their own bonuses was by suppressing the benefits their employees received.

The psychological contract relates to the speed of learning during transition and to the ability of the organization to put in place new architectures that underlie new capabilities and positively impact performance. The establishment of a new contract should be a major executive focus; in most of the companies in our studies, this potentially enormously impactful CEO role in managing change was not occurring. The formidable task facing management is to define a new relationship that establishes for employees a true stake in the organization’s performance; one that makes sense for individuals and companies that exist in a dynamic environment in which organizations require much higher levels of contribution from employees but cannot in return guarantee a stable relationship. This is an arena where executive action or inaction can be a negative force in transition—one that has up until recently been masked by the overall trauma of the restructuring that has occurred in the economy.

Conclusion

This paper has looked upward from the perspective of the organizational member at the impact of top management’s leadership of large-scale change. Such change involves alteration of the architectures of the organization to achieve different levels and types of performance in a changing environment. It entails considerable organizational learning: new cognition, behavioral patterns and structures and systems need to be crafted. Interviews with participants show that top management behavior is in people’s minds not a particularly salient factor in enabling the organization to learn new approaches; however, many of the factors they mention are strongly influenced by top management behavior. Organizational units successfully implementing new approaches have gone through local learning processes so that they see themselves as the energy behind the change and have internalized a local understanding of the new approaches. Struggling units tend to place blame on an amorphous “company”, to feel negatively impacted, and to be passive about the changes. They have not established the learning processes to develop new meanings and new behaviors.

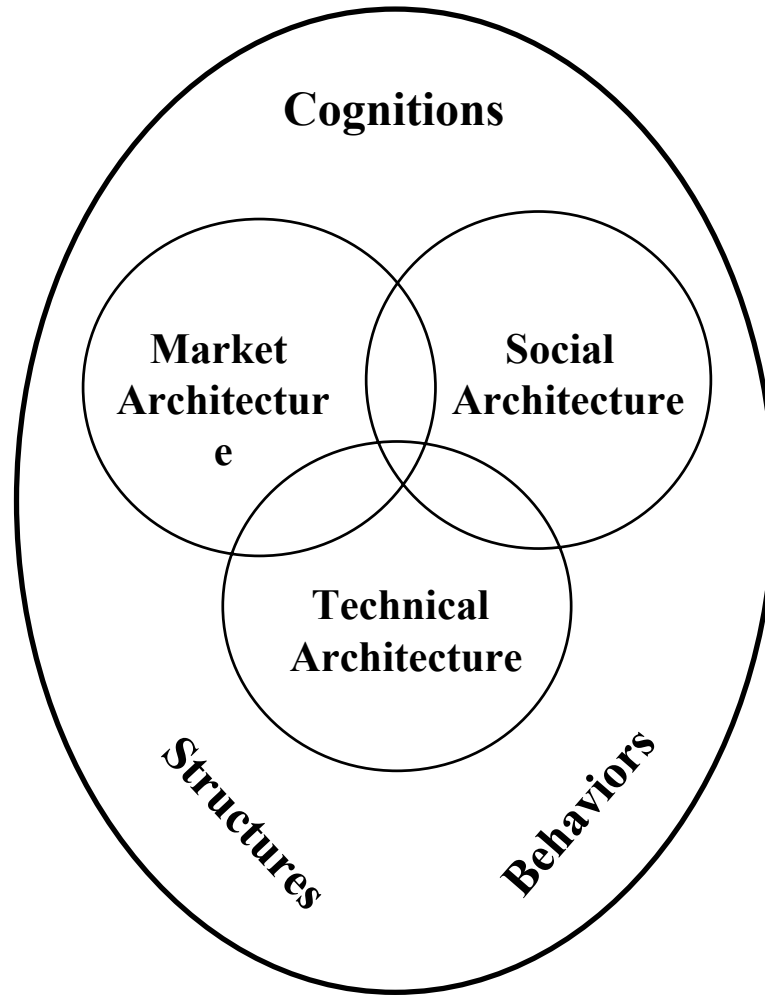
The implications for the top management role are extensive. They must not only be the architects of the change; they must also create conditions that energize learning throughout the organization. They must attend to the impact they have on the learning dynamics of the organization, on the creation of a new shared meaning in the organization, and on the shifting psychological contract.

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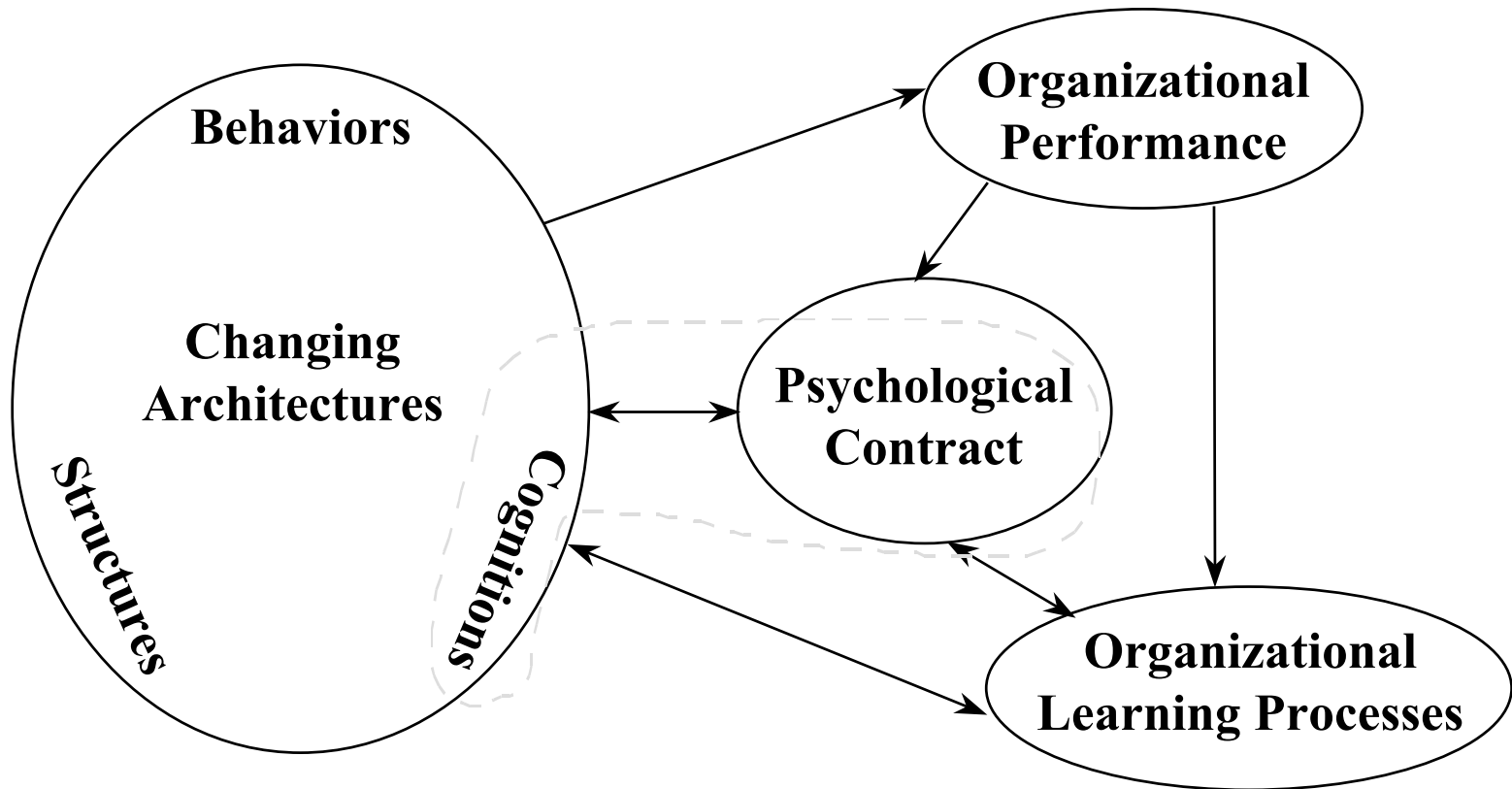
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Figure 1
Learning Domain of Organizational Transitions



From: Tenkasi, R., Mohrman, S., & Mohrman, A. "Accelerated Learning During Organizational Transition." In Mohrman, S. A., Galbraith, J. R., and Lawler, E. E. III and Associates, *Tomorrow's Organization: Crafting Organizations for a Dynamic World*. San Francisco: Jossey-Bass, in press.

Figure 3: Psychological Contract: A Key Element of Cognition in Organizations



Psychological Contract = individual beliefs, shaped by the organization, regarding terms of the exchange agreement between individuals and their organizations (Barnard, 1938; Rousseau, 1995)

Figure 2: Executive Focuses During Transition

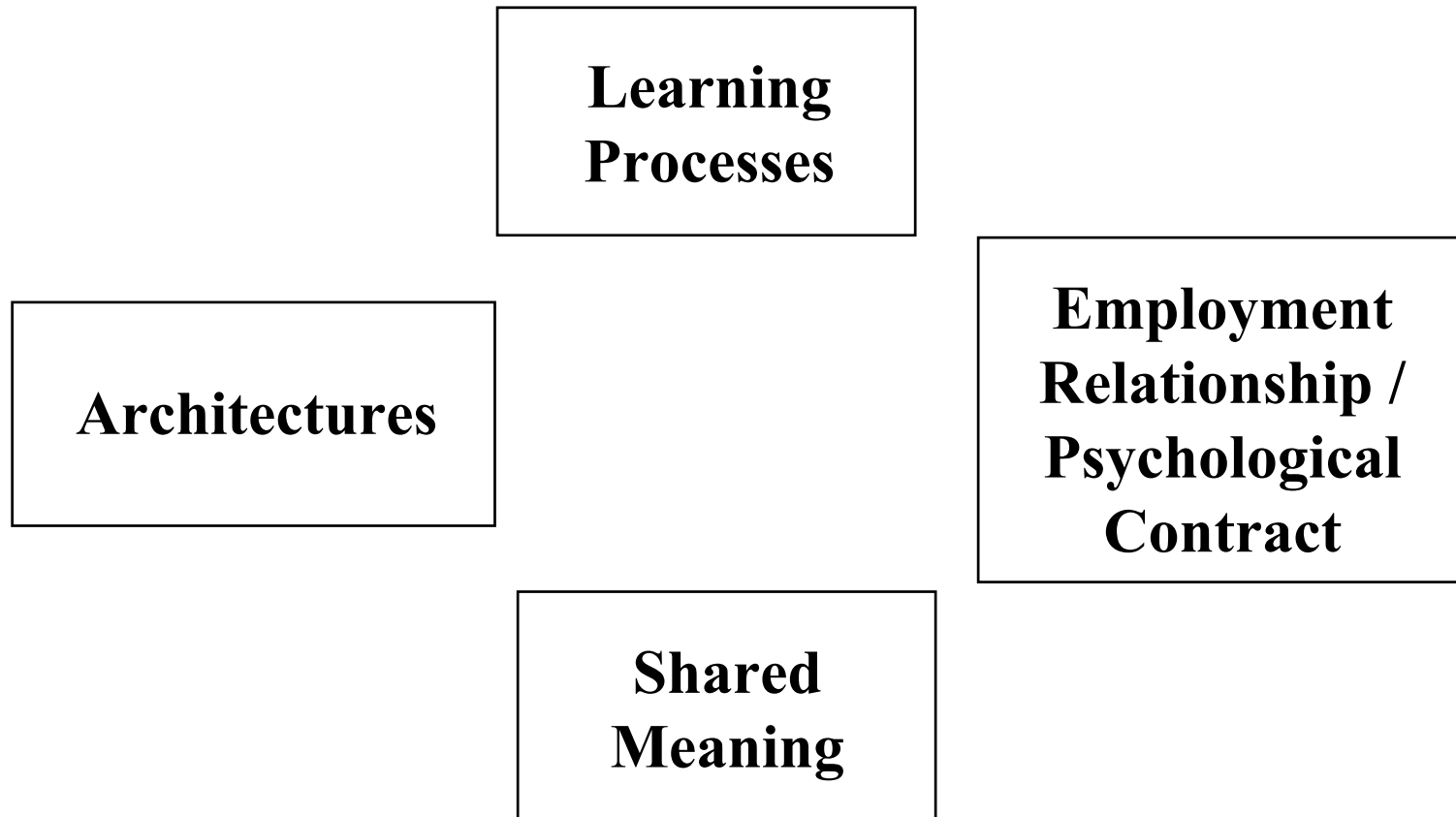


Table 1
Positive Personal Impact on Organization Transition

The changes have allowed me ...	11 Site Avg.	Sites										
		1	2	3	4	5	6	7	8	9	10	11
◆ An Opportunity to Learn New Things	3.79	3.7	4.2	4.0	3.8	4.0	3.1	3.9	3.9	3.8	3.4	4.0
◆ To Accomplish More than Before	3.40	3.3	3.8	3.5	3.3	3.7	2.7	3.9	3.2	3.4	3.0	3.5
◆ To Have More Say in My Work	3.20	3.4	3.5	3.6	3.1	3.5	2.4	3.6	3.1	3.3	2.6	3.2
◆ A Better Quality of Worklife	2.97	2.9	3.4	3.3	2.8	3.6	2.3	3.4	2.4	3.1	2.5	3.2
◆ An Opportunity for Career Growth	2.90	2.7	2.7	2.6	3.1	3.5	2.8	3.0	2.8	2.9	2.2	3.6
◆ Job Security	2.55	2.0	2.6	2.5	3.0	3.1	2.1	2.4	2.3	2.9	2.1	3.1
◆ An Opportunity to Make More Money	2.49	2.3	3.0	2.2	2.4	3.1	2.1	2.2	2.4	2.8	2.0	3.1

Response code: 1 = Strongly Disagree, 2 = Disagree, 3 = Neither, 4 = Agree, 5 = Strongly Agree

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