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BREAKING THE CODE OF CHANGE: THE ROLE OF FORMAL STRUCTURE AND PROCESS

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The Role of Formal Structures and Systems

This chapter will argue that under many circumstances, the change to formal organizational structures and systems is central to the success of the overall change process. The first section will set the context for the argument by identifying which circumstances are those requiring structural changes. It will also define the terms of formal structure and systems and what is meant by being "central to the change effort." The next section will use the example of global professional services firms which are changing to serve the global customer. The argument will be made that a change in the formal structure from country based profit centers to customer focused profit centers is central to executing the customer strategy. And finally the last section presents the ideal of an organization, a reconfigurable organization, which is designed from the beginning to be quickly and easily changeable.

The Centrality of Change Levers

There have always been debates about which change levers or which change strategies are the most powerful or central to achieving meaningful change. In this first section, the author will develop his position on this issue. That position is that meaningful change requires the combined use of many change levers but for some circumstances, formal structure and systems can be the central lever.

The Organizational Development (OD) movement in the 1960's was one of the first groups to propose that soft means like team building and improved interpersonal relationships were superior to hard means like formal restructuring in driving organizational change. Hal Leavitt tried to address the debate with his chapter on organization change in March's Handbook of Organizations (1965). Leavitt quite cleverly conducted an argument with himself. He created a manager with a problem who solicited proposals from consulting firms representing the OD viewpoint, the Operations Research (OR) or mathematical school and the traditional general management consulting viewpoint. For the same problem, he received three very different proposals reflecting each firm's specialty. Leavitt's point, in brief, was that each proposal was not wrong, but each was only partially correct. In order to solve the problem and create meaningful change, the manager should adopt all of the proposals. That is, the manager had to change the personal relationships suggested by the OD firm, the information systems suggested by the OR firm as well as the structure suggested by the traditional firm.

Leavitt's point was that one does not produce real change by relying on a single means such as reward systems or structure. Organization designs are integrated systems consisting of structure, formal systems, informal processes, reward and measurement systems and human resource practices. Change is best produced by changing a combination or all of the policies of a design to create a new and integrated one. That is, all of the policies must be changed but must also be aligned or mutually reinforcing. Leavitt's ideas have since been translated into organization design models such as the author's star model (Galbraith 1978, 1995) and the Mc Kinsey 7S model.

While acknowledging the need to use combinations of hard and soft levers of change, an argument can still be made that under some circumstances a hard or soft approach may be more central to the success of a change. There are two arguments that can be made for this centrality. One argument is about leverage. That is, under some circumstances, a manager can produce more change by changing the formal structure than by changing culture. If change could be measured along an index, a greater proportion of the variance of the index could be attributed to structure change under these conditions. In this way, structure can be more central or more important in producing certain types of change. The manager gains more leverage by using changes to the formal structure to produce this type of change. Or there will be little change if the structure is not changed. Other supporting changes still need to be made to things like culture and rewards to complete the total change. But it is the structure change that is the star of the show.

The second argument is about sequence. A change lever is more central when it is the first lever of change to be used. In this manner the first lever shapes and drives the subsequent change efforts. A combination of change levers is eventually used but the first one takes the central position by starting the change. A case for formal restructuring can be made which satisfies both of these arguments. But first what are the conditions under which formal structure can be central?

Changes to formal structure and systems play a central role when the change involves substantial changes in strategic direction. At the extreme these changes involve changes to the legal structure of assets of the company through mergers and acquisitions. For example Monsanto has transformed itself from a traditional chemical company to a life sciences company based on biotechnology. To execute this change, Monsanto spun off the traditional chemical businesses, acquired seed and biotechnology companies and formed a joint venture with Cargill. This type of transformation could not be accomplished by solely focusing on cultural change and team building.

The best discussion of internal structural changes required by changes in strategic direction is Chandler's classic <u>Strategy and Structure</u> (1961) study. In his historical analysis, he showed that companies did not succeed in diversifying until they adopted a multi-divisional structure. Using a similar premise, Stopford and Wells (1972) and Egelhoff (1988) showed that structure changes are needed by firms transitioning from a national company to a multinational company. In all of these cases the execution of the strategic change requires a change to the formal structure of power in the company. Formal structures and systems concern the power dimension in the organization. In this sense, power is the capability to allocate and coordinate the limiting resources. Usually the limiting resource is money or a type of money like capital. Formal structures create positions of power which control the allocation of funds to R+D, advertising and other uses. The capital budgeting process is a formal system for managing this limiting resource on a company-wide basis. Changes in strategic direction require a redistribution of this power.

On the other hand, it is possible to have large changes which do not involve changes in strategic direction. A company may stay in its existing business but desire to be more family friendly or more innovative. In these cases, there may be structural changes but they are more likely to be supporting rather than central to the overall change. Similarly the case of ASDA, discussed at the conference, described a major change but it did not involve a major change in strategic direction. ASDA was a sick company which was revitalized or turned around. But in the end, they remained or returned to being a mass merchandiser to the low end of the market in the UK. There were some structural changes at ASDA, but they were not central to the transformation.

The next section will elaborate on this argument by presenting a current example. The example will describe a change in strategic direction being taken by professional service firms. The point will be argued that changes to the formal structure and systems will be needed to successfully execute this change.

Changing Structure at Professional Service Firms

Professional service firms like advertising agencies, accounting firms, investment banks, consulting firms and executive recruiters are all being transformed. The force that is shaping them is the global customer. In order to serve this global customer professional service firms are restructuring themselves. This section will argue that those companies changing their strategic direction to serve this customer are going through change processes in which changes to their formal structure and systems are central to the transformation. The leverage argument will be presented first, followed by the sequence argument.

The Leverage Argument

The force that is driving change at professional services (PS) companies is the globalization of the customer. For PS firms, today’s customer is a globally present customer. Since 1985 the process of globalization has been driven by foreign direct investment (FDI). The result is that more companies and therefore more customers have presence in more countries than ever before. In addition these customers want only one or a few providers of professional services everywhere they are present. The customer wants one audit firm, one systems integrator, two ad agencies and a couple of banks to serve it worldwide. PS firms who want to serve this global customer are faced with a challenge because they are organized by country. Their basic profit centers are countries run by country managers. The global customers do not care how the PS firms are organized as long as they receive seamless service. But delivering seamless service across country profit centers is the challenge. As a result a number of

PS companies have changed or are changing from country profit centers to customer and customer segment profit centers.

The author will argue that those PS firms who want to serve the global customer will be at a competitive disadvantage if they are organized by country when competitors are organized by customer. One of the systems integrators changed its structure after directly experiencing this disadvantage. The Managing Director for Europe described a situation where a Spanish bank announced that it was outsourcing its information technology around the world and asked the systems integrators to bid on it. The Managing Director for Europe received this request and found it to be an attractive bidding opportunity. The very next day, after receiving the request, the Managing Director received a call from his Spanish Managing Partner. The Spanish partner advised the Managing Director that overnight 50 professionals from EDS had arrived in Madrid and were working on the proposal as they were speaking. The Managing Director was shocked at the incident. He was just beginning what he called the “begging process” of asking country managers to free up people and send them to Madrid to work on the proposal. The first arrivals would take a week and the full team would not be in place for a good two weeks. Even then it is not clear that the best talent would be working on the proposal. The customer was also impressed with the speed of the EDS response, awarded the contract to them. The systems integrator convened a study team and eventually restructured its profit centers around customers. It is now focusing on “integrated speed to serve the customer.”

The example reveals the need to change the power structure of the PS firm. When organized by country profit centers, the power to allocate and coordinate the limiting resource (talent) resides with the Country Manager. When the most profitable clients are the local clients, country profit centers are the most effective structure. But when the global customer is the most profitable client, country managers optimizing their local profits will not arrive at the best nor the fastest allocation of talent for the firm. In order to service Nestlé, a team of 60 people from 60 countries is needed. Persuading 60 country managers to make the kind of talent available that Nestlé wants is an arduous task. And of course Nestlé is one of 200 global clients all of whom want the same top talent. As a result, the systems integrators, investment banks, and IT outsourcing firms like EDS, IBM and Andersen Consulting have all organized around customer groups like consumer goods, banking and so on. In addition they collect specialized talent in regional resource pools to respond to pan-European opportunities. The power to allocate and coordinate talent now rests with the heads of global customer focused groups.

If Price Waterhouse Coopers (PWC) wants to serve this global customer and yet maintains its country partnerships, it will be at a competitive disadvantage when responding to opportunities generated by the global customer. With talent resources locked up in country silos, they cannot respond fast enough with a team that is competent enough and complete enough. They cannot go to Nestlé and say that we can serve you in 46 of your 60 subsidiaries because 14 of our country managers opted out. IBM will serve Nestlé all 60 countries. PWC can build networks across countries, change country manager mindsets, create a global culture, train people in cross cultural skills, all of which are good things to do, but it will lose to the others if it maintains its country profit centers. The high leverage change approach is to change the formal structure and profit accounting systems to customer based units. Then the power structure and the strategy are aligned. Then changes to global cultures, networks and mindsets will support the cental change and make it even better.

The argument can also be made that pre-emptive structure changes can lead to competitive advantages. Personal conversations with investment bankers suggest that investment banks that have organized by customer and industry profit centers are

winning business from those banks that are organized by country. Merrill Lynch apparently was a first mover. They wanted to enter into the top rankings of investment banks. They acquired a group and let them focus on the oil and gas industry. After some success they converted other industry groups into profit centers. The other investment banks soon followed them. The customers discovered that these specialists knew more about their industry and about them. The U.S. investment banks took this advantage into Europe. European banks still viewed Europe as a portfolio of countries. The U.S. banks saw a portfolio of cross border customers and industries. When Ciba Geigy and Sandoz merged to form Novartis they hired the U.S. banks and not the Swiss banks who are their shareholders. Why? The reason is that the American banks had done the mergers of Bristol-Myers Squibb, Smith Kline Beacham, Pharmacia Upjohn, and Glaxo Welcome. They had the in-depth knoweldge and knew more about the value of merged pharmaceutical companies. European banks are now merging to get the size needed to afford to specialize by industry. The pre-emptive moves to customer focused formal structures have given advantages to U.S. investment banks.

The Sequence Argument

The sequence argument can also be made to support changing formal structures as the central change lever. Let us take the same example of professional service firms and the globalization of their customer. The way that formal structures and systems can be employed to drive the change is by using formal integrating mechanisms like teams and coordinators. These integrating mechanisms can be employed in a sequence of changes to coordinate work across countries to serve the global customer and also to build the organizational capability to organize by customer. An example sequence is described in the next sections.

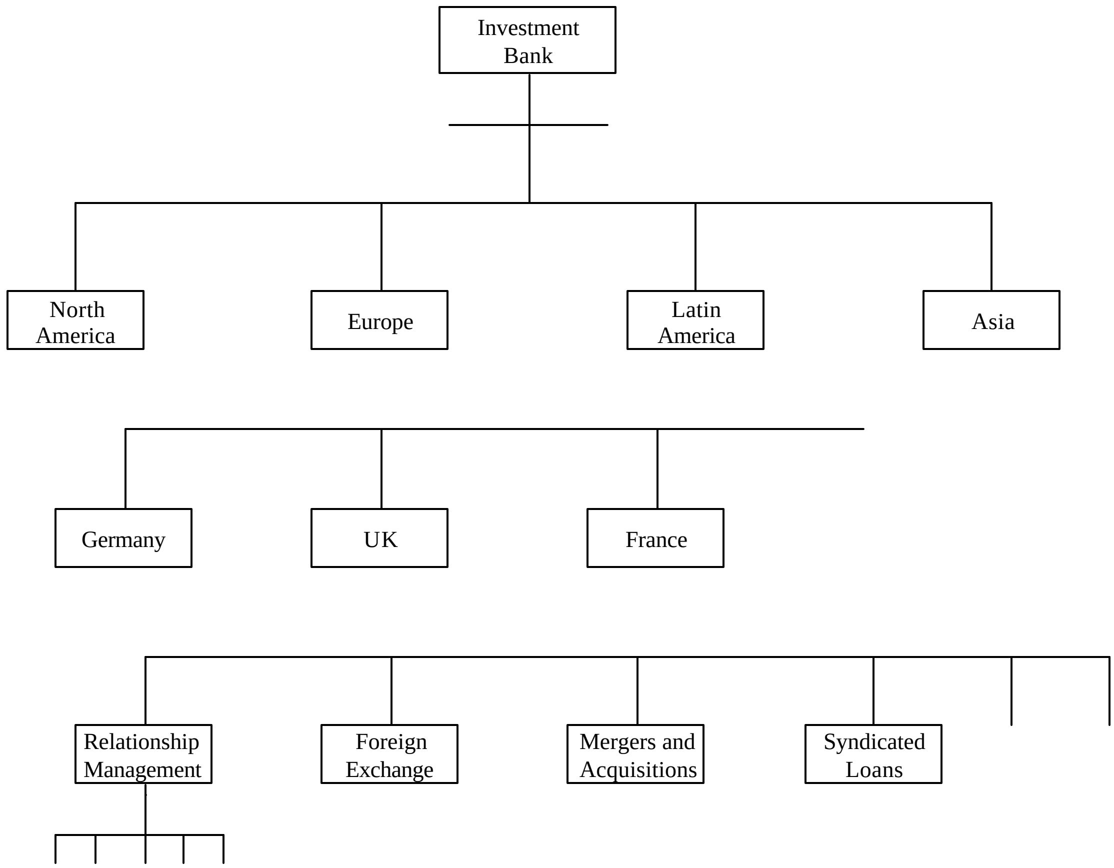

Figure One   Example Structure of Investment Bank - Circa 1990

Most PS firms were organized by country and service or product lines as shown in figure one. It shows an investment bank with the primary profit center built around countries. Within a country, relationship managers served customers and called on specialits in the service or product lines when the customers needed their services. The product lines like Foreign Exchange (Fx) and Mergers and Acquisitions (M+A) were the secondary profit centers. Then in the late 1980's the global customer wanted cash management and Fx to be provided to it in every country that the customer was present. They began to select PS firms on their ability to provide integrated service. This challenged the PS firms because of the country and product profit centers.

Many of the large multinational PS firms saw that they were in a position to serve these global customers. But they needed to change their country based organizations and skeptical country managers and to build a capability to coordinate across countries.

1. A Few Customer Teams

An initial step to drive the change was to create around five customer teams to serve the customer around the world. Care was taken to choose the five customers that were most desirous of this global service. The account manager serving the customer's headquarters was the team leader. In each country where the customer wanted service, there was a team member selected. This team then put together an integrated customer strategy and plan to serve the customer and executed it. Two things usually resulted from this effort. One was the intended purpose of better coordination across countries to deliver integrated service to the global customer. The second was the opportunity to drive organizational change and build organizational capability.

The first opportunity is provided by satisfied customers. They can become a genuine force for change. If they were carefully selected, these customers should respond positively to any efforts to better serve them across countries. They will probably respond positively but they will also indicate that more effort is needed to meet their needs. The use of this outside force, a satisfied customer wanting more, can be used to change country focused mindsets. The request for more effort makes them part of the change process.

Then there is the opportunity to expand and build upon the capability already created. With each customer team consisting of 50 to 60 people, between 250 and 300 people have now become aware of and part of the change effort. There are now 300 people trained in cross border customer strategies. There are 300 people who now understand the needs of the global customer. There are 300 people who now have cross border networks and personal contacts. The 300 people themselves will have had different experiences. Most of them should be positive if people were chosen and recruited on the basis of skills and interests. They too can become a positive force for change. Some of these people will enjoy the experience and want more. Some will find that serving local clients is more to their liking and can opt out. For the observant management, the effort is an audition to find cross border talent. Some people will be good at this new effort and others not. Those managements that see their task as identifying new leadership will use the teams as an opportunity to do so. And finally, the effort provides an experience from which to learn and improve. By collecting team members' and customers' experiences and ideas, the customer team effort can be improved next time.

In this manner every change to the formal structure and systems creates two outcomes. The first is to improve the execution of some task. This outcome remains the intended purpose of the change. But a second outcome is the opportunity for management to engage outsiders like customers, change mindsets of the doubters, train agents of change, build personal networks, select and develop new leaders and improve the process. For those managements that capture the opportunity, they can use changes to the formal structure and systems to drive and shape organizational change. These two outcomes are produced at each step in the sequence.

2. More Customer Teams

A next step would be to expand from a handful of teams to a dozen or so teams. Again the firm selects those customers who want the integrated service. The firm can also solicit volunteers or carefully select team members who are interested in cross border work. The previous team members can solicit their colleagues to join. Usually the firm can make these team assignments attractive. In professional service firms, people are interested in personal growth and opportunity. Working on a team serving a global customer can be a source of learning and development not available with local clients. The multinational customer is usually the most advanced customer. Management can also follow up to see that working on global customer teams is recognized and rewarded in the countries.

Similar outcomes should result from this expended effort as did from the first effort. The difference is a larger number of people involved. Instead of a couple hundred, this time a thousand or more people are trained in serving global customers and building their networks. A couple of dozen customers are satisfied and asking for more. A critical mass of change agents is being built.

3. Global Accounts Coordinator

The next step is to create a position on the management team to coordinate the efforts to serve the global customer. At a minimum this change creates a voice or a champion on the management team for the global customer. Someone of higher status can now appeal to recalcitrant country managers. The coordinator will expand the number of teams again. But perhaps most important, this role can fund and build a customer focused infrastrature.

One task is to create a common process for building global customer plans and strategies. Initially some experimenting by customer teams is useful. But soon the countries get overwhelmed with 15 different planning formats. The Coordinator can collect best practices from the various teams, initiate a task force staffed with veterans of global teams and create common guidelines, forms and processes. The common process makes it easier for customer teams and country management to work together.

The next step is the design and building of customer based information and accounting systems. The question always arises “Are we making any money serving these global customers?” With country based accounting systems and profit centers, it is usually impossible to tell. Depending on whether the countries have compatible systems or not, this change can be a major effort requiring central funding and leadership from the Global Account Coordinator. But in the end, the customer teams have information with which to measure their progress, compare their performance with other teams and demonstrate global profitability.

The two steps can be combined by generating revenue and profit targets for customers in the planning process. The teams can have revenue and profit goals for their global customers. The teams can have goals for revenue and profit in each country. Perhaps more importantly, the goals can be added up in each country. Then each country manager can have revenue and profit goals for local clients and global accounts. The country manager can get credit for and held accountable for targets for global customers in their country. The accounting system is important because the costs and revenues from the global customer are rarely connected. For example, an account team in the London office of one of the Big Five worked for a year to win the global audit of a big UK firm. They were successful but most of the work for the next few years would be in the North American subsidiary and in a recent acquisition in Australia. That means that the work plus the costs to win the business were incurred in the UK and the revenues were booked in N.A. and Australia. With customer profit accounting, the UK can identify the revenues and costs and receive credit. The targets can be adjusted for these disconnects. Thus in addition to being a champion for the customer, the Global Accounts Coordinator can create the processes and information systems to manage the global customer as well as continue to develop and identify talent and leadership on the teams.

4. A Global Accounts Group

As the number of global acounts and teams exceeds several hundred the Global Accounts Coordinator role can be expanded into a department or a group. In part for ease of supervision, the customers and teams are grouped into broadly defined industry categories like Consumer Products, Financial Services, Oil and Gas, Pharmaceuticals and Life Sciences, Multi-Media and so on. But the main reason is customer satisfaction. Customers want auditors and consultants who understand their business. Bankers do not want to teach their auditors about derivatives. Pharmaceutical companies assume their consultants know what the Human Genome Project is all about. So the Global Accounts activity can be expanded and specialized by customer segment.

The Global Accounts leadership usually leads an effort to establish a common segmentation scheme across the company. In large countries like Germany, the UK and Japan, customer segments were probably already in use. What is important is to have compatible schemes across the countries. Then a one-to-one interface can be established to facilitate communication between countries and within an industry.

The Global Accounts Group is usually expanded by adding Global Industry Coordination. A Global Industry Coordinator is selected for each industry that is common across the countries. For many companies the need for global coordinating roles is experienced but there are few people who are qualified to fill the roles. But if a company has followed the advice presented in this chapter and used the opportunity created by the initial customer team implementations, the company should have grown its own talent by now. An audit firm can serve as an example. A young Swiss auditor was identified as a talented performer on audits of banks in Zurich. When a global team was created for Citibank, the auditor, who had experience in audits of Citibank’s subsidiary, became the Swiss representative on the Citibank team. Based on good performance, the auditor agreed to an assignment in the UK. The move gave the auditor the opportunity to work in the London financial center. While in London, the auditor served as the UK representative on the Credit Swiss global team. The next assignment was to lead an in-depth audit of the Credit Swiss – First Boston investment bank in the US. The auditor was then made partner and returned to Zurich. From there he was selected to be the Global Account team leader for Credit Swiss. After several years in the team leader role, the auditor became the Global Coordinator for the Financial Services customer segment. The auditor was assessed in each assignment for audit performance and knowledge of the Financial Services industry as usual. But assessments were also made of team work, relationship with customers, ability to influence without authority, cross cultural skills with customers, and cross cultural skills and leadership of the cross border team. Based on these experiences and training courses, the auditor was qualified to move into the Global Coordinator role.

5. Global Accounts Units in Countries

A next step to shift more power to the teams serving global customers is to carve out units within countries and dedicate them to the global customers. The other country units will serve local customers. The global customer units report to the Global Accounts Coordinator and to the local country manager. These country units place dedicated talent in the service of the global customer.

In some small countries, the country management may be reluctant to create a dedicated unit and share in its direction. They may have a surplus of profitable local business and prefer to avoid the multinationals. In these cases several PS firms have created joint ventures between the headquarters and the local country management. Usually the dedicated unit is funded from headquarters and staffed initially with expatriates. Then after a couple of years, the local management notices that the unit is quite profitable. In addition they notice that the unit is a positive factor in recruiting. Many new hires are attracted by the opportunity to work with global firms. In this way the creation of a global customer joint venture changes the mindsets of local management. They eventually take over the staffing and share in the administration of the unit.

6. Customer Profit Centers

A final change is the creation of customers and customer segments as the line organization and profit centers. All of the global units report to the Global Industry units. The countries manage the local business and serve as Geographic Coordinators.

A similar stepwise process was followed by Citibank’s commercial banking business. Starting in 1985 they re-established their World Corporations Group which managed global corporations across their country profit center structure. They created teams for each global account. The members were Subsidiary Account Managers (SAM’s) and the leader was a Global Account Manager (GAM). The number of customers qualifying to become global accounts increased to around 450. They created a customer focused planning system and an accounting system to track customer revenue, cost and profit across countries.

In 1995, they conducted a strategy study, Their realization was that they were a bank (took deposits and made loans) in over 100 countries. The nearest competitor was Hong Kong – Shanghai Bank with bank presence in around 43 countries. This presence was a competitive advantage when serving the global customer and one which could not be matched by competitors. They chose to become a cross border bank. They would focus on global products, foreign exchange and cash management, for global customers. Each of 1300 global customers became a profit center. These customers were collected into global industry groupings for administration. The customer focused planning process is now called COMPASS and is placed on an intranet. Thus in about 12 years, Citibank evolved from Country profit centers to Customer profit centers. They evolved their strategy, structure and systems. They drove the change with formal integrating mechanisms like customer teams and global account coordinators before completing it with the establishment of a new formal structure.

In general, management can drive a change process which transforms any existing organization into any new organization using the sequential approach. Each step in the sequence makes an incremental shift in the power structure. The incremental changes are shown in figure two.

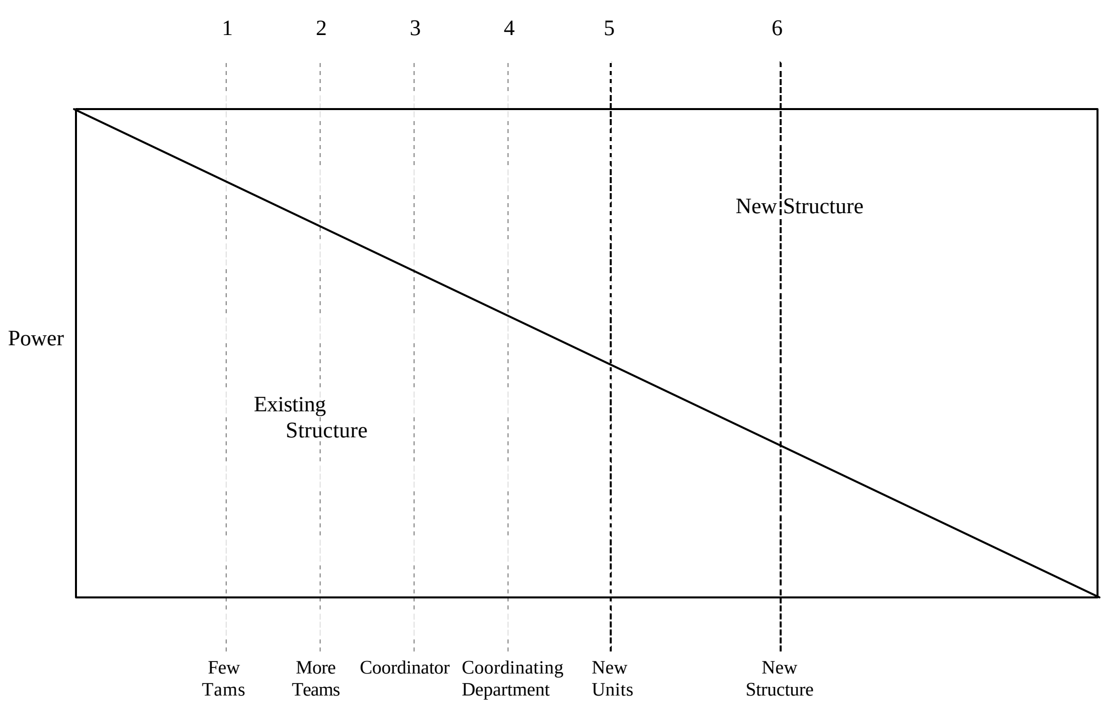

Figure Two Shifting Power Incrementally to a New Structure

Each increment corresponds to the change in the example. Starting with a few teams and moving to stronger coordinating units, the example described the transfer of power from countries (existing) to customers (new). At each step new work is accomplished. In the PS firms the new work was cross country coordination to provide integrated service to the global customer. At each step there is also the opportunity to drive and shape the change process. With teams, steps 1 and 2, 300 then a thousand people learn about the global customer. They learn how to create strategies that competitors cannot match. A percentage of the participants will become convinced of the direction and lobby the non-believers. Through the teams, a thousand people are building networks of personal contacts.

Management's role is to seize the opportunity and drive the change. They may sponsor a formal development program. Everyone working on teams could attend a several days session with their other team members. In addition to facilitating more learning and networking, management and customers could attend and get feedback from the participants. But most important is the opportunity for management to select and develop the talent and leadership for the new strategy and structure. By observing and reviewing the teams, management can identify those who have the skills and interest in cross border work. Who are the best potential team members? Who can be a team leader? Who can develop into a global industry coordinator?

The Coordinator roles, 3, 4 and 5, shift more power to the new structure and deliver more service to the customer. But the other opportunity is to develop processes and information systems to support the new organization. In addition the Coordinator teaches management about the new strategy. They must shift from managing a portfolio countries to managing a portfolio customers. How will they make trade-offs and set priorities? Thus at each step management has the opportunity to change the soft factors to support the change. They can develop the talent, build the networks, change the mindsets and ultimately create a cross border, customer focused culture.

In summary, formal structures and systems are central to changes in strategic direction. They are the high leverage change factor for these strategic changes. Through the use of integrating mechanisms, changes to the power structure and systems can drive the change process. Under these conditions formal structure can be central to the change from both the sequence and leverage viewpoints. But there is probably a more powerful way that formal structures and systems can be central to breaking the code of change. That is "Can we design organizations that can be more easily changeable?" The change at Citibank took 12 years. Today many companies do not have that amount of time. Can we make organizations quickly reconfigurable into new forms?

The Reconfigurable Organization

The theory of organizations has always identified some types of organizations as being more easily changeable than others. Perhaps the earliest concept was Burns and Stalker's (1961) distinction between mechanistic and organic types of organization. Today there is renewed interest in organizations that are organic, flexible, agile or reconfigurable. These are organizations that are designed from the beginning to be quickly and easily changeable. Even a little success in this endeaver would go a long way toward reducing the enormous amounts of time, energy and pain associated with current change efforts.

The basic premise is to apply organization design thinking to create an organization which can move easily from one design to another. These moves result in combinations and then recombinations of skills, competencies and resources. These skills and resources can be internal and owned by the firm or external and come from different companies. In a single business company, these skills and resources are functional skills and resources which are combined in different ways for different products and for different customers. An example can illustrate the design and the alignment of the design policies. A single business consumer food company will serve as the example.

Strategy

The firm in our example adopted a strategy for which a reconfigurable organization was appropriate. The example company comes from an industry in which competitive advantages do not last long. Sustainable advantage comes from a sequence of short term advantages. The food company competes by moving from one temporary advantage to another. The company then needs to move from one organization to another. That is in order to implement a sequence of temporary advantages, the firm needs to configure and reconfigure different combinations of skills and resources, to implement each advantage. Any firm considering this type of organization should confirm that it has a strategy which requires a reconfigurable organization to execute it. The professional services firms mentioned earlier need a flexible capability to assemble and disassemble teams in order to provide solutions to the global customer.

Structure

The structure of the reconfigurable organization consists of a stable part and a variable part. The stable part serves as home for specialists in a function and host for generalists on rotating assignments. These homes would typically be functions in the single business company. They would be responsible for the long term development of the talent and resources in their care.

The variable part of the structure are integrating mechanisms and networks across the functions. Initially the example food firm had two teams for different product lines. They were like the standard cross functional teams used by most firms today. But then this food company discovered an ingredient that allowed it to maintain the taste of its products but lower their fat content. Management targeted the health segment of the market for this new ingredient. A team was put together to reformulate and re-brand the current products for the health segment. This new team was both cross functional and cross product.

When the new products were successful, the company used them to lead it into new channels of distribution. These channels needed different packaging for channels like vending machines. A new channel team was then formed to manage this effort. This team was cross product and cross functional but did not have an R+D representative. New product development was not undertaken for these new channels. The team had an operations representative but the team used an outside co-packer with packaging flexibility to supply some of the channels.

The ingredient had potential in other food categories in which the company had little experience. They then set up a joint venture with another food company serving these other categories but which did not have the new ingredient. They both provided complementary competencies. This joint venture also was managed by a cross functional team with heavy R+D representation from our company.

Then a couple of customers recognized the company's new competency and asked then to manage their aisle in the company's category. The food company created a cross functional, cross product team to implement the category management approach for each customer. Again no R+D members were needed.

At the end of the period, the food company was organized by function, by product, by category, by channel and by customer. They were considering some commodity teams to encourage more usage of common materials in various products.

Thus the company was able to configure different teams across the functions to implement different sources of advantages. The teams and partnerships are the variable and reconfigurable part of the structure while the functions are homes and the stable part.

Formal Processes and Systems

The formal processes used by the food company also consisted of stable and variable practices. These formal systems were the horizontal processes, the processes for coordinating and allocating the limiting resource and the information systems to support them.

The stable horizontal processes were the order fulfillment or order to cash process of supplying customers and the new product development process. Both processes were cross functional and were designed by cross functional project teams. All teams used these stable processes. The new product development process received particular emphasis. About 500 people were trained in its use. The sessions not only communicated the process but built the cross functional networks to support the teams.

The formal systems for allocating and coordinating the limiting resources are both stable and variable. The limiting resource is very often money and the budgeting process is the stable formal process for allocating the funds. The food company's process was a standard one. But in the short run, the limiting resource changes and it is usually not money. Very often for the food company it was R+D talent who knew the new ingredient. Which products would they work on? Which factories got their support? And how much time was available for the joint venture? Frequently priorities needed to be decided on the use of these specialists. But when the new products took off, supply exceeded demand and new limits were encountered. Which customers get supplied through which channels? Capacity bottlenecks occured and disappeared. They occured in the factories and they occured in distribution. The food company dealt with these bottleneck decisions in the "Monday Morning Meeting". The size membership and length of the meeting would flex with the agenda. The concept was to get everyone around the table who had information about and a stake in the bottleneck agenda item. The guideline was to get a total company view with as few people as possible and decide the issue as quickly as possible. The meeting consisted of as few as seven people and as many as 21. The top management would attend but not run the meeting. They acted mainly as "tie breakers" on tough issues. Thus the meeting was a flexible, hierarchical decision process for prioritizing the ever changing limiting resource.

This flexible decision process was supported by an equally flexible accounting system. Profitability could be determined by product, segment, category channel and customer. This data could be called out to aid in the setting of priorities. The system also gave the teams an ability to set targets and build in accountability across functions and monitor their progress. So there were both stable processes to provide continuity and variable processes to provide the flexibility.

Flexible Human Resource Systems

The other important policy area is the human resource practices to support a reconfigurable organization. The most important are the measurement and reward system and the recruiting, hiring and development process.

Compensation systems have historically been complicated and rigid. Today there is interest in designing "nimble reward systems" (Ledford, 1994; Lawler, 1992). These compensation systems use more judgement in assessing performance and in assigning raises and bonuses. Performance is based on teamwork plus functional work. The salaries are more based on the person's skills and competencies and less on the job description. There is greater use of one time awards and less use of annuity awards.

The whole system is designed to encourage more skill learning and more and faster change.

The practices of recruiting and hiring receive a great deal of effort. The idea is to find people who will fit into the reconfigurable organization. Some people are specialists and will reside in the functional homes. Others will be generalists and will rotate. These latter people are usually interviewed by people from many functions. They willl subsequently spend time in several functions and then work on cross functional teams. Over time, the hiring, development, promotion and reward process creates a cross functional culture to the support reconfigurability.

Thus by creating an aligned set of policies for strategy, structure, processes and human resource practices companies can make their organizations more easily and quickly changeable. The formal design of the reconfigurable organization is central to its effectiveness.

Summary

This chapter has argued that changes to the formal structure and systems of an organization is central to change processes involved changes in strategic direction. These changes to structure are central in gaining the leverage to create the change and in the sequence to drive the change effort.

A sequence of implementations of integrating mechanisms can be used to convert from an existing structure to a new one. Each implementation both coordinates new work and creates the opportunity for building the organizational capability that will be required by the new structure. Each implementation shifts the power, step by step, from the existing to the new structure.

The ultimate achievement in designing organizations is to design them to be easily and quickly changeable. These designs use stable and variable structures, stable and variable systems and human resource practices which support this flexible structural form.

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