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**DESIGNING CHANGE
CAPABLE ORGANIZATIONS**

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Designing Change Capable Organizations

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Organizations are increasingly operating in a business environment that is characterized by rapid change and increasing performance demands. As a result, organizations face the challenge of accomplishing two, often conflicting objectives: performing well and changing in order to adapt to their business environment. In most cases, the changes they make must be quick, skillfully executed and clearly targeted at implementing an effective business strategy. Change that occurs every few years as part of a special change effort is no longer adequate. It too often is late and disruptive. Change needs to be constant and rapid in order to allow organizations to move at the speed of business. The importance of change in today's environment virtually guarantees that organizations which do not change will quickly become "corporate dinosaurs", headed for extinction because they no longer fit the current environment (Lawler and Galbraith, 1994).

Organizational change has been a persistent topic of discussion in the field of organizational behavior and organizational effectiveness for many decades. Numerous books and articles have been written about how to manage change (see e.g. Beer and Nohria, 2000; Hamel, 2000; Nadler, Shaw, and Walton, 1995). They typically emphasize the importance of leadership, employee involvement, and incentives in overcoming resistance to change. The classic model of change identifies three phases of change: the first involves creating dissatisfaction with the current state so that an organization will abandon its traditional ways of

operating, next, the organization is expected to go through a period of change which is followed by a period of stability. This way of thinking about change is becoming obsolete. For more and more businesses, periods of stability are a thing of the past. The environment is changing too rapidly for organizations to enjoy periods of stability. In order to be effective organizations must continuously change. Thus, in today's business environment organizations have to be built to change, not changed as a result of a special change program or effort that is in response to a change in technology or the business environment.

Creating organizations that are designed to change calls for a special mindset with respect to organization design. Instead of striving to produce a fine Swiss watch with all of the movements interconnected so that it consistently produces the same behavior, organizations need to be designed in ways that stimulate change. This means creating an organization that encourages experimentation, learning about new practices and technologies, and a commitment to continuously improve performance. Accomplishing this requires designing organizations that have structures, reward systems, communication processes, and human resource management practices that are designed to change, and that encourage organizations to continuously and rapidly change. Before discussing how this can be done, we need to consider some basic points concerning organization design and effectiveness.

Competitive Advantage

Many of the historical sources of competitive advantage such as geographic location, physical assets, and access to capital simply are not sustainable sources of competitive advantage in the today's economy (Mohrman, Galbraith, and Lawler, 1998). What is available as a source of competitive advantage? The answer is an organization's ability to perform effectively. That

is, its ability to organize and manage its financial capital, technical knowledge, and its human capital. Doing this is a complex challenge and it needs to be driven by a business strategy, which identifies the kind of organizational capabilities and core competencies that an organization needs to develop.

Organizational Capabilities

In order to be successful, organizations must have capabilities that allow them to coordinate and motivate behavior in ways that are tuned to the marketplace and produce levels of performance that differentiate them from their competitors. Every organization must understand what capabilities it needs in order to compete in its market and then develop them by creating the appropriate organizational designs and management systems (Lawler, 1996).

What are some key organizational capabilities? In many respects, the ability to change rapidly is the ultimate competitive advantage. It is the ultimate competitive advantage because it potentially enables an organization to stay ahead of its competitors and meet the increasingly higher performance standards that the environment presents.

Organizational capabilities don't exist in one place—in the heads of a few technology gurus or in a set of patents. They rest in a combination of the skills and knowledge of the workforce and the reward system, culture, processes, and overall design of an organization. They typically require the coordinated behavior of many individuals and systems.

In most cases, it is not enough for an organization to simply have one capability that is world class. In today's highly competitive environment it is often necessary for an organization to have several capabilities that are at least world class in the ability of the organization to execute them. Thus, it is a bit of an over simplification to focus on just rapid change but by

doing it we can highlight the features of an organization which allow an organization to be change orientated and adaptive. Thus, for the rest of the chapter the focus will be on the design features which an organization should have in order to create a continuous change capability.

Core Competencies

Core competencies, also a possible source of competitive advantage, are technical areas of expertise such as Boeing's expertise in the aerodynamics of flight, Microsoft's expertise in computer science, Honda's competency in making gasoline engines, and Sony's ability to miniaturize products (Hamel and Prahalad, 1994). The longevity of the competitive advantage an organization gains from its core competencies depends on how easy they are to copy and develop. There is always the risk that others can duplicate or capture them because they often reside in the minds and skills of a small number of employees. The easiest way to acquire competencies in these cases is to hire key employees away from an organization that has them. Employees may also leave on their own and take core competencies with them to create new, competing organizations. In some cases organizations have been able to perform effectively for decade without having to develop new competencies but this is becoming much less common. With the development of more and more disruptive technologies, organizations increasingly need to develop new core competencies (Christensen, 1997).

It is up to an organization's executives to manage the development of a strategy that identifies the kind of performance that is needed, to communicate the need for that performance through mission and values statements, and to develop the needed competencies and capabilities. This relationship is shown in the Diamond Model (see Figure 1), which shows that

organizational effectiveness results when there is a fit among four points: (1) strategy, (2) competencies, (3) capabilities, and (4) the environment.

The Star Model

The most useful way to think about the features of an organization in relationship to organizational capability and core competencies is to use the Star Model. It is a well-known model that has been used for decades to identify the key elements of an organization and focus on the issue of strategy and strategy implementation (see e.g. Galbraith, 1973). Figure 2 presents the Star Model. When you take into account the interconnections in the Star Model, it becomes obvious that if you wish to make a significant change in an organization's performance, all of the five elements must be examined and possibly changed, because a change in one element of the organization has implications for the rest. The challenge is to develop an approach to organizing that considers all five of the elements and how they fit together to create an organization with the strategy, competencies, and capabilities it needs to succeed. A brief review of the five points on the star follows.

Strategy

In the Star Model, business strategy is the cornerstone design element. It needs to define the kind of organizational performance that is needed, the types of organizational capabilities and competencies that are needed, and how an organization intends to respond to its business environment. An organization can do a terrific job of implementing strategy, but unless it offers the right products or services, correctly identifies potential customers, and secures adequate financing, among other factors, it will not succeed.

Structure

The second point on the Star Model is the organization's structure—that is, how people are grouped together, who reports to whom, how tasks are assigned, and the nature of the jobs within the organization. Critical decisions still need to be made about how individuals are grouped together, how major decisions are made, how many levels of management are create, and a host of other factors. In many respects, because these decisions are the fundamental building blocks of an organization, they must be closely articulated with strategy.

Rewards

The third point on the Star Model, reward systems, must fit closely with an organization's strategy so that they reward the correct behaviors. They also need to be closely articulated with the need for human resources since they are critical in attracting and retaining individuals. Further, they are crucial in making all the elements of an organization operate effectively.

Processes

Management processes, the fourth point on the Star Model, are the systems that an organization puts into place to help control, manage, inform, and direct its members' behavior, both individually and collectively, so that they focus on the correct strategic actions.

Management processes include information and communication systems, budgeting and financial

measurement systems, and the behavior of managers, particularly those involved in decision making and setting direction for the organization.

As with the other points on the star, if the measurement, communication, and other key processes are out of alignment or are nonexistent, an organization cannot perform effectively. Some key communication processes—such as meetings and social events—are relatively informal, but most are formal. Budgets, quality controls, and financial information systems are formal means of measuring and communicating performance results. Strategic fit with respect to these systems often means correctly measuring the behaviors that the strategy says are important and that need to be motivated in order for the strategy to be successfully implemented.

People

The final point on the star is people, the organization's human resources. Individual performance is critical to an organization's functioning effectively. In order to ensure it, organizations must have individuals with the right skills and knowledge who are motivated to perform effectively. No organization can operate successfully if its employees cannot do the work that is assigned to them. Organizations can assure themselves that individuals have the skills, abilities, and capabilities necessary to perform well by selecting and hiring the right people and then developing and training them.

Organizational Culture

The five-pointed Star Model does not identify the final determinant of organizational performance: corporate culture. It is omitted because it is not a design parameter. Instead, it develops as a result of the influence of all the major elements of an organization. Some versions

of the Star Model put culture in the center of the star to emphasize its importance and indicate that it is influenced by all elements on the star but cannot be directly controlled in the same sense that the major design elements can be. An organization, for example, is seen as valuing innovation not simply because it says it does but because the reward systems, work design, and information processes all support and encourage those behaviors that lead to innovation.

It is often possible to determine whether an organization is likely to perform in a particular way by looking at its culture, because culture “says” what people in the organization should do and what will be rewarded. The challenge in changing culture is to identify what points on the star give the current culture its characteristics and then to figure out how to change them so that the organization can operate with a new and more functional culture. Culture is often difficult to change because individuals in the organization have signed up to work there and have continued to work there because they like the existing culture as well as the reward practices and organization design that created it. Thus they are likely to resist change.

A considerable amount of the writing on organizational change and change management emphasizes the importance of having a organizational cultural that is change friendly. It talks about the importance of valuing risk taking, supporting entrepreneurial behavior, and developing a willingness on the part of individuals to accept change. There is little doubt that these are important cultural features of an organization and that the culture of an organization is critical in determining how easily and effectively it will change. The challenge is to create a culture which values change, risk taking, and adaptation to a changing environment. Indeed measuring the culture of an organization and finding out whether it is supportive of change is a powerful way to determine whether the effort to design a change ready organization has been successful. In that respect culture is an indicator of the success of an organization design effort rather than a design

feature of the organization that can be directly altered. What can be directly altered are the points on the star. The challenge therefore is to create an organization design that produces a culture which favors change.

Fit and the Star Model

An important principle of the Star Model has been that organizational effectiveness is greatest when there is a fit among the points of the star. In particular, the emphasis has been designing processes, reward systems, structures, and human capital that produce the capabilities that are required for the implementation of the strategy. Fit is important according to the Star Model because it is required in order to produce the kind of capabilities that provide for competitive advantage. It occurs when all the points on the star are aligned in a way that support each other and in combination, support a particular business strategy. In most cases, an alignment is sought that supports a highly focused set of behaviors. In the case where an organization wants to develop a change capability, it may be important to create a type of misfit. As we will see when we discuss the different points on the star, it may be that a particular degree and kind of misfit is in fact desirable.

Types of Change

In thinking about designing for change capability it is worth distinguishing between two types of change: evolutionary and transformational. Evolutionary change refers to the continuous adjustments, improvements, and product alterations that organizations need in order to satisfy the increasing demands of customers and to keep up with current changes in technology. It usually does not require an organization to alter its core competencies but may

involve a shift in its organizational capabilities. Transformational change refers to major changes in an organization's core competency or competencies, product mix, markets and business models. It usually requires an organization to develop new capabilities. Examples of transformational change include Corning moving from being a consumer products company to becoming a fiber-optics company, and Nokia moving from being a wood products company to being a wireless communications technology company.

The capabilities that are needed to execute transformational and evolutionary change often require different organization designs. Because they are similar capabilities some of the same practices that encourage transformational change can also support evolutionary change but some practices are clearly more appropriate for transformational than for evolutionary change and vice versa. Thus, a key issue with respect to the design of an organization is the degree to which it needs to be designed for transformational or evolutionary change. As we discuss each point of the star, consideration will be given to any differences in how it should be designed in order to optimizing the capability for each type of change.

Organizational Structure

The first point on the star that is typically considered after strategy is organizational structure. The traditional functional organization structure fits a steady state world in which the movement of information is expensive and needs to be carefully controlled. It clearly does not fit a world of cheap, high-speed communication and rapid organizational change (Mohrman, Galbraith, and Lawler, 1998). What kind of structure or structures fit and encourage the development of an organizational change capability that will allow an organization to respond effectively to a rapidly changing environment? No single structure is always optimal. However,

it is possible to identify a number of structural options which support organizations having the capability to change.

An organization that is structured around small, relatively autonomous business units is a good example of one that has a structure that enables rapid change (Galbraith, Mohrman, and Lawler, 1998). With business units it is relatively easy to change the mix of businesses that a corporation is in while keeping the organization focused on particular products, market segments, and customers. Thus, it enables an organization both to execute a transformational change with respect to its mix of businesses and to have units which themselves are rapidly changing and adjusting to their environment. This structure makes it easy to add new business units that are acquired through acquisitions. Clearly, acquiring new businesses and business units is quick and effective way to change an organization. Cisco, the very successful Internet company in the United States, has exactly this change strategy and has used it to become one of the most valued corporations in the world.

A business unit structure lends itself to the use of new venture startup units within a corporation. This approach is particularly useful when an organization has a new transformational technology that they need to bring to market but have no established units that are prepared to handle it either because they do not have the capability or because it threatens them (Christensen, 1997).

With a business unit structure, it is possible to have a variety of rewards systems, processes, and individual in the organization as a whole, but have fit among these points of the star within each unit. Internet related businesses are a good example of the kind of transformational businesses that may be put in a new unit. In a business unit structure, new ventures that are transformational can be started and protected from the rest of the organization

by being put in a separate business unit until they have reached critical mass. At that point, they may join an existing business unit, be maintained as a competing business unit within an organization, or spun out as a separate company. A business unit structure is not particularly helpful as far as creating new organizational capabilities that are corporate wide. It can make it easier to develop them in particular parts of the company but transferring them to the rest of the organization can be difficult.

The network organization structure is another approach that enables rapid continuous change in an organization. In a network organization, multiple independent organizations are typically linked together and constitute different parts of the value chain (Mohrman, Galbraith, and Lawler, 1998). A classic example of a network is the structure of Nike, Benetton, and other fashion businesses. In a network, one organization, typically the organizer of the network, takes responsibility for design and marketing while other organizations work as manufacturers, sellers, advertisers, etc. Change is relatively easy because all it requires is adding new network members who bring new competencies or capabilities. Information technology is a major enabler of network organizations. Historically, they were difficult to manage because of the tremendous cost of moving information from one business to another. With modern information technology organizations can now develop the capability to coordinate a long multiple organization value chain in ways that make network organizations practical and in many cases, very effective.

One final approach to organization structure warrants mention here. The front/back organization structure typically has relatively independent units that constitute the front of the organization and another set of relatively independent units that constitute the back (Mohrman, Galbraith, and Lawler, 1998). The front is typically organized around geography, consumers, or market segments. The front-end units are relatively independent of each other and are designed

to focus specifically on selling and marketing products to their customers. The back of the organization is typically made up of units that supply the front with products and/or services. They too are relatively independent of each other but need to relate effectively and closely to the front. Again, information technology is key in making this type of organization effective because it enables the kind of communication and coordination that is needed to coordinate the front and back pieces of the organization. Front/back organizations are relatively easy to change because new products and services can be added simply by adding independent units to the back while new markets and customers can be addressed by adding new units to the front. These changes usually represent evolutionary change rather than transformational change and highlight the point that front/back organizations are generally more effective at evolutionary change than transformational change.

Reward Systems

The reward systems in most traditional organizations use pay systems that are based on job size (Lawler, 2000). Large pay increases usually can only be obtained through getting promoted to a higher level position. Individuals often resist reorganization and organizational change precisely because they disrupt the career paths of individuals and cause a reallocation of work that may decrease the size of an individual's job.

Most traditional pay systems reward performance with merit pay increases. Particularly in low inflation periods, these increases are often just a few percent of someone's pay and are tied to a performance appraisal of how well an individual does his or her job. Research evidence shows that merit pay plans do little to motivate performance but may act as an obstacle to change (Heneman, 1992). Even the simplest change in job duties or responsibilities can call for a major

revision of the performance measurement process that determines individual pay and thus changes are sometimes resisted by both the appraiser and the individual who is being appraised. Further, since most individuals have to do to receive a pay increase is perform well in their job, there is little incentive for the individual to look for better work processes or support reorganization efforts that are likely to improve the overall performance of the organization. In this and many other ways, reward systems tend to encourage individuals to resist change, to grow their jobs, and to focus on their personal situations.

Reward systems do not have to be sources of resistance to change. Quite the opposite can be true, they can support and encourage change if they are properly designed (Lawler, 2000). They have the potential to motivate individuals to accept change and to change their skills and abilities in ways that will make change efforts successful (Beer and Nohria, 2000). What is required? The answer is simple to state but difficult to implement. Individuals need to be rewarded for learning, developing and possessing the key skills an organization needs in order to implement its strategy and individuals need to be rewarded not on the basis of their performance but on the performance of their business unit and/or organization.

Paying individuals based on their skills, knowledge, and of course, on their market value is relatively new idea but it is gaining wider and wider acceptance (Lawler, Mohrman, and Ledford, 1998). In essence it argues for rewarding individuals for what they can do rather than the job they are doing at the moment. It allows organizations to structure reward systems which reward individuals for continuously learning and changing their skill sets in ways that fit the changing nature of an organization's business. Thus, instead of resisting change individuals potentially welcome it because it leads to their having an opportunity to learn new skills and get

paid more. It can be particularly supportive of change efforts that are target at creating new organizational capabilities and probably most useful in evolutionary change efforts.

The research on organizational change clearly argues that change will only occur if individuals have a reason to change. Individual-pay-for-performance systems give individuals a reason to perform their own job well but rather than giving them a reason or reasons to change they give a reason not to change. The best alternatives in most cases to individual-pay-for-performance are profit sharing or stock-based plans that reward individuals for the overall success of the organization. In the case of large organizations, the plans may need to focus on business unit performance or team performance instead of total organization performance.

When organizations base pay on organizational performance it creates not only a reason to change, it provides a reason to implement and effectively operate the desired strategic and operational change. My research shows that the implementations of most change efforts that are directed at capability building: total quality management, knowledge management, and reengineering, are more effective when pay is based on organizational performance (Lawler, Mohrman, and Ledford, 1998). Rewards for organizational performance motivate individuals to continually ask how we can do things better and of course, reward them when in fact, they do things better. Failure to change means deteriorating performance and as a result fewer financial rewards so it is not a surprise that individuals are more focused on how to improve performance and more willing to accept change when they are paid based on the profit and stock performance of their organization.

In addition to creating pay systems that reward organizational members for organizational performance, it may be useful to reward them for critical individual behaviors. This is particularly true in organizations that are looking for transformational change instead of

continuous evolutionary change. Organizations such as Enron have created specific bonus plans to reward individuals who start new ventures and break the mold of the traditional way of doing business. In essence, they reward good risk taking and thinking that is outside the mold of standard operating procedure. It is an effective way to mature individuals to stay with their organization instead of leaving to start a new corporation.

Rewards for new venture efforts in companies can take the form of individuals being given equity in the new ventures. This is particularly effective when the venture is high risk and very different from the existing business of the organization. It is a way of creating “big hairy audacious rewards” for people who take major risks with their careers and thinking in order to create transformational business opportunities for their organization. It also is consistent with the idea of varying the practices of an organization in order to fit different performance needs.

Human Capital

In order for change to occur individuals must support it and have the skills necessary to implement it. Having a reward system which rewards change and skill development is one piece of creating an organization in which human capital seeks change and learns the new skills and abilities that are necessary to implement it. However it is only one step, other human capital management practices need to be in place in order for an organization to continuously change.

In many respects readiness to change starts with the basic HR systems in an organization. In traditional organizations they are based on jobs and because of this individuals are focused on their job. Change typically requires a redefinition or elimination of jobs and as a result, may be a threat to individuals. The alternative to traditional job based human capital management is a human capital system that is based on skills and knowledge (Lawler, 1994). In this approach,

individuals are hired based on their skills, abilities and the degree to which they are a good fit for the future direction of the organization. They are also recruited on the basis of a value proposition that is focused on change, growth and development, and rewards which are dependent upon learning and performance. Some theorists in the HR field have called this approach to recruiting and employment the employability contract. It emphasizes the importance of individuals gaining and learning skills so that they will be employable and it de-emphasizes the idea of job security and lifetime employment.

It is perhaps slightly counterintuitive to argue that an employability contract will lead to less resistance to change than will traditional approaches that emphasize job security. However my research suggests quite strongly that a employability contract which states that individuals need to perform, learn, and change in order to retain their job leads to more effective organizational change and transformation than one that tells people they are secure and have a job for life (Lawler, Mohrman, and Ledford, 1998). Although security may be satisfying for some individuals it doesn't seem to be a motivator of change. Quite the contrary, it seems to encourage individuals to continue to do what they have done in the past rather than to think about how they can improve and how their organization needs to change.

Implementing an employability contract needs to start with a selection process that includes a realistic preview of the nature of the organization and the importance of continuous change. Once an individual has joined an organization it involves a career system that gives individuals information about career options but expects them to manage their own career. It provides them with learning opportunities rather than placing them on career tracks. In a highly predictable world, carefully orchestrated laid-out careers may make sense but in a world in

which things are changing rapidly it is unrealistic to expect management to provide individuals with a dependable career map or for that matter with a secure job.

The fit aspect of the Star Model might argue for creating an organization that has a homogeneous group of individuals. That is, individuals who are similar in their tolerance of risk, willingness to innovate, and desire for certain kinds of rewards. With similar individuals it is relatively easy to design reward systems, jobs, and other organizational features that are appealing to the members of the organization. In essence a one-size fits all approach can be taken. However, this may be exactly the wrong approach to take in order to create an organization with a change capability. Particularly if an organization is expecting to go through transformational change, it may be very important to have a heterogeneous population of employees.

Organizations that emphasize change often talk about the importance of having some “wild geese” employees who are willing to take risks, break from the mold, and champion change efforts. Staffing an organization with a variety of individuals starts with the selection process and a concerted effort to hire a variety of individuals. However, simply hiring diverse employees is not sufficient. If the organization systems and treatment of people is homogeneous, individuals who do not fit the mold will tend to turn over and in the long-term the organization will end up with a homogeneous workforce.

Essentially there are two ways to ensure that an organization maintains a somewhat diverse workforce. The first is to rely on the business unit model. As was mentioned earlier, it can be used to allow business units to treat people differently, develop different capabilities and competencies. The second is to individualize the systems within an organization so those individuals who differ significantly in their preferences and behaviors can have their needs met

by the organization (Lawler and Finegold, 2000). This is not a simple feature to build into an organization but with modern information technology it is increasingly possible to give individuals the choice of how they are rewarded, what benefits they get, what kind of career tracks are available to them, and so on. Of course, having a variety of individuals in an organization has a cost, not only an administrative cost but also a coordination cost. Thus, it is probably best used when an organization is particularly concerned about the importance of being able to develop a capability for a transformational change. It is important for evolutionary change but not as much individualization is required in order to produce an organization that is capable of evolutionary change.

Business Processes

The decision-making and communication processes in an organization are critical to its ability to change. Rigid, hierarchical, secretive decision and information processes tend to produce inwardly focused business processes which produce organizations that are difficult to change and resistant to recognizing that change is needed. Change needs a reason, it needs a driver. The best driver of most change is information about the environment that indicates that the old ways of doing business are not appropriate. In order for this realization to drive change throughout an organization, individuals at all levels need information about the environment and how it is changing.

Information systems and decision processes which provide individuals throughout the organization with real time business information and decision-making opportunities are a good way to get information about environmental change into an organization and to call attention to the need for continuous change. With modern information technology it is now possible to put

the business of an organization on everyone's desk. There is no excuse for individuals not understanding the environment, the business strategy of their organization, and the financial model of the organization. With virtual closes, individuals can get immediate information about how the organization is performing and be kept highly informed about an organization's performance. This is precisely what has been done at companies like Cisco which deliver ongoing financial information to all employees on a daily basis. Each employee has a portal that provides relevant business information.

The business processes of an organization need to allow some experimentation and risk taking. Without experimentation and risk taking it is impossible to learn about more effective ways of operating and to develop new products that will lead to transformational changes. It is also often important to have enough resource slack so that individuals have access to the financial resources that are needed to experiment with doing things differently and to develop new products. 3M is famous for its policy of allowing individuals 15% free time to experiment and develop new products and processes that they think have a chance of being successful. In terms of financial resources, organizations can create pots of money that can be awarded to individuals who have ideas about new products or processes that can change the organization. This is particularly important in producing transformational change.

The leadership processes of an organization are a particularly critical determinant of an organization's ability to successfully change. Many discussions of organizational change start and end with a discussion of leadership (see e.g. Conger, Spreitzer, and Lawler, 1998; Kotter, 1996; O'Toole, 1995). Leaders clearly are important in creating a change capability in an organization and in leading change. Leaders need to do two seemingly contradictory things in order to create and support change in an organization. First, they need to provide a clear sense of

strategic direction for the organization and provide a compelling mission for the organization. Typically this leadership function needs to be done by senior managers. Although it is important that they get input from others in the organization, the reality is that in a rapidly changing business environment many times they have to change strategy quickly and in a somewhat top-down manner. This is particularly true in the case of transformational change.

Setting strategy however, is only one part of being a successful leader of change. Leaders also need to communicate and enroll people in the strategy and vision. This is where the second element of leadership comes into to play. In order to change, organizations need not just leadership from the top that is strong and provides a compelling strategy and reason for change, they need leaders throughout the organization. Leadership itself needs to become an organizational capability so that individuals throughout the organization are capable of taking leadership roles with respect to changing the business and business processes in the areas where they work. Leadership cannot become an organizational capability unless the senior leaders in an organization support the development of leaders through out the organization. They need to make leadership development an important organizational objective.

The view that leaders are needed not just at the top of an organization but throughout the organization is somewhat different than the tradition in many companies of focusing on developing leaders for the top level position. It argues for broad scale leadership development that focuses on both producing the few senior leaders that are needed to set strategic direction and provide leadership at the top and for developing individuals throughout the organization who are capable of developing key leadership behaviors. Strategic leadership at the top is particularly important to executing major transformational changes in the organization. On the other hand, leadership throughout the organization is critical to the kind of continuous change that is needed

in many organizations. It leads to small but important changes in relationships with customers, the ability to satisfy customers quickly and decisively, and to change processes in ways that reflect the changing nature of the customer base and the environment.

Key Strategic Issues

Putting in place the right organization design features is basic to creating an organization that is capable of continuous change and improvement. In discussing the practices that are appropriate for each point in the star, we have identified the key practices that are needed to create a change capability in an organization. At this point it is important to look at some of the strategy issues that are important in managing an organization that is effectively able to change.

Type of Change

Perhaps the most difficult call for any organization to make involves determining the type of change of which it needs to be capable. Transformational change requires different things than does evolutionary change. It requires somewhat different reward systems, structures, processes, and in many cases different human capital. Thus, organizations, which have a high probability of facing the need for dramatic transformational change, need to build a somewhat different kind of organization.

Perhaps the best way to think of the need for a change capability is that at a minimum most organizations need to develop the capability for evolutionary change. But when an organization senses that it may need to make a transformational change, it needs to take special steps to prepare the organization. This will usually require financial process that offer venture funding opportunities for individuals, structures that include special new venture units who have

major change experience, and reward systems that offer large rewards to those who create transformational change. Finally, it may also need to recruit some “wild geese” who are willing to champion radical change.

What To Keep Stable?

Keeping certain elements of the organization stable while allowing others to change can be an important facilitator of change. The key question of course, is what should be kept stable and what should be allowed to change? How much and what should be kept stable is partially determined by the kind of change the organization needs to make. Much more can be kept stable in an organization that needs continuous evolutionary change than in one that needs transformational change. In the case of the latter, stability may simply be commitment to a certain mission and a way of dealing with individuals that produces a culture that is supportive of change. Beyond that, it may also include some reward system practices such as stock, profit sharing, and a continued focus on customers and the external market.

In the case of a situation where evolutionary change is desired more can be kept stable. For example, more of the HR systems can be constant as can the basic organizational structure. Many of the key processes can also often be kept stable, particularly those having to do with the measurement of business success and communicating business information to all employees.

Internal Competition

Change can be stimulated by both internal and external competition. It is hard to argue against maximizing the focus on external competition. Competing against an external competitor is a powerful motivator and can be supportive of change. A more difficult issue to

resolve is how much internal competition an organization should encourage. With respect to building a change capability, the most important issues concern competition among different business units. Competition between units can be quite healthy particularly if it stimulates innovation and change in order to win the competition. However, it may also lead to a failure to share ideas and as a result, to poor development of core competencies and organizational capabilities.

As a general rule, high levels of competition are probably best when transformational change is needed. Tolerance of internal competition is particularly important when new business areas need to be developed and tested, even though they are a direct challenge to existing products or services. Indeed, this brings a second issue front and center, how much should an organization cannibalize its own products? In rapidly changing technologies and businesses the answer right answer is usually as much as it can (Christenson, 1997). The reason is simple, if an organization doesn't come out with a better product a competitor certainly will and the long-term result will be loss of market share. Particularly in the high tech world, internal competition even if it means cannibalizing products and stealing customers is an important feature that needs to be designed into most organizations because it is a powerful creator and motivator of change.

Use of Outsourcing

Outsourcing a variety of services and key parts of the value chain can be a powerful way to enable an organization to change. It creates an opportunity to make significant changes simply by changing a vendor or supplier. The use of outsourcing however, contains a number of risks and needs to be used with some caution. For example, it runs the risk of creating a competitor who takes what they have learned as an outsourcer and uses it to produce competing

products. It also runs the risk that many of the services and processes are done in a way that does not provide competitive advantage. Outsourcing organizations often do the same thing for many organizations thus, what they do usually does not operate as a competitive differentiator. The key to building a successful change capability in an organization does not depend as much on how much is outsourced as it does on what is outsourced. It is particularly critical to keep things that provide a competitive advantage for an organization inside.

Outsourcing is a way to create both evolutionary change and transformational change but it is probably most useful for evolutionary change. Exceptions to this include cases where research that advances new products or processes is outsourced and situations where an outsourcer is able to create an entirely new business model. Instances of this happening are relatively rare and thus, in most cases outsourcing should not be counted on as a way to produce transformational change. It can, however, produce evolutionary change because outsourcers who focus on a particular business process can often improve on an organization's business processes and performance.

Building A Change Capable Organization

Organizations can be built to change but doing this requires a conscious and continuous effort to ensure that a change capability is nurtured and supported by the key practices of the organization. The capability to change does not rest in any single system or any single individual instead it rests in the systems, practices, and history of an organization. In many ways, the ability to change is the ultimate competitive advantage in today's information economy. An organization, which is able to develop a superior change capability, can respond to the rapid technological, economic, and political changes which are altering the very face of

business worldwide. The future belongs to change capable organizations. As has been stressed in this chapter, a change capability can be systematically developed in an organization. It does not and should not be left to chance.

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Figure 1. The Diamond Model

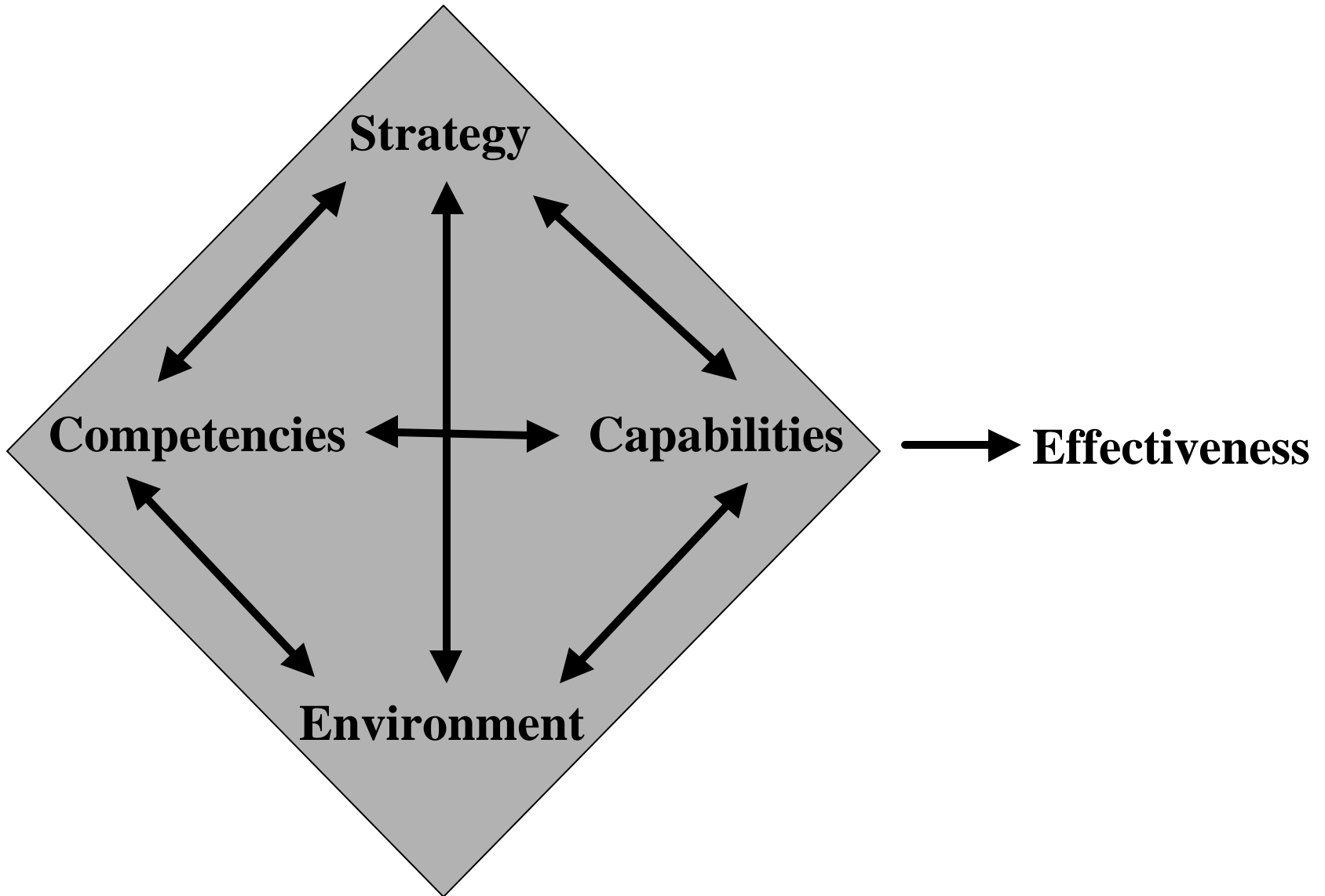


Figure 2. The Star Model

