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**DESIGNING ORGANIZATIONS
AS IF CHANGE MATTERS**

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Designing Organizations as if Change Matters

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As the pace of change increases, the premium on an organization's ability to change grows. Even though there is a great deal of research on and experience with organization change, we see many more examples of unsuccessful change than of successful change. Why is this? Our research has led us to conclude that it is because of the way we design organizations, and that the only way to ensure that organizations will be able to change is to *build* them to change. Capital One, Google, Microsoft, Intel, and Kimberly Clark are visible examples of companies that understand this imperative and are designed to change. (See Research Box)

Built to Change Research

At the outset of our work on the built to change approach to organizational effectiveness, both of us were interested in the subject of organization change. Ed came from a motivation and organization effectiveness perspective and Chris came from a strategy and organization development perspective. We were both concerned with the ineffectiveness of current organization designs when it comes to supporting change. We did not want to offer another proposal that spends seventy-five percent of the time decrying the problems with most organizations and then offering only weak and generic conclusions like “we need to reward people differently.”

We believed that focusing on currently effective organizations would be too limited. Too many researchers identify paired-samples (one good and one not-so-good) or study a cohort of successful organizations, find patterns, and hold them up as icons of success. All too often – witness the In Search of Excellence, Built to Last, and Good to Great organizations – these organizations have difficulty facing serious challenges, and quickly become mediocre performers.

We believed that the research on organization effectiveness, organization design, and organization change was the right place to focus. We sorted through that research, in addition to borrowing from our own experience in consulting and researching organizations, and identified streams of research that supported principles of organization design that assumed change was the normal condition in organizations. For example, much of the research applying complexity theory to organizations inherently assumes the system is constantly changing. Similarly, the research on dynamic capabilities tends to view organizations from a process perspective that is inherently time-based.

The built to change model of organizations, or b2change for short, is the result of our thinking.

Unpacking the Stability Assumption

More and more executives and management theorists are calling for agility, flexibility, and innovation in the performance of organizations. However, most of these calls and the change efforts that result from them do not question the traditional principles of organization design and effectiveness; instead they focus on developing more effective change models. Unfortunately, even the most advanced change models cannot produce change when they face organization designs and management practices that are anti-change. Despite a few notable cases – Nokia and Intel come to mind - the reality is that most large scale change efforts fail to meet expectations. We believe the root of the problem is the assumption of stability in traditional models of organization design, effectiveness, and change. It leads to organizations that are difficult, if not impossible, to change.

The assumption that stability is possible and desirable is buried deep in the managerial psyche. Existing theory and practice explicitly and implicitly encourage organizations and their leaders to seek sustainable advantage and stability. Change is seen as costly, undignified, annoying, and hard; it is clearly the enemy of effectiveness.

Stability and Design

For as long as there have been social systems, there have been calls for stability and hierarchy. Consider Moses, who after leading his followers through the wilderness, tried to listen to everyone's change suggestions. His father-in-law, Jethro, said, "What you are doing is not good. You and these people who come to you will only wear yourselves out.... Listen now to me and I will give you some advice.... select capable men from all the people... and appoint them as officials over thousands, hundreds, fifties and tens" (Exodus 18:17-21). By creating structure and process, Jethro helped to bring order and increased stability to Moses' life.

In modern times, stability is no less prominent in management thinking. Max Weber noted that “from a purely technical point of view, a bureaucracy is capable of attaining the highest degree of efficiency, and is in this sense formally the most rational known means of exercising authority over human beings. It is superior to any other form in precision, in stability, in the stringency of its discipline, and in its reliability.”¹ In their classic book *The Social Psychology of Organizations*, Katz and Kahn note, “one can define the core problem of any social system as reducing the variability and instability of human actions to uniform and dependable patterns.”² The popularity of process improvement efforts, from total quality management to six sigma programs, provides ample evidence of the consuming desire for stability and predictability in today’s organizations.

Stability and Effectiveness

Stability is a strong driver in organization design because of its link to effectiveness. Stability, and its progeny “sustainable competitive advantage” and “alignment,” are believed to be key drivers of performance. For example, strategy theorists argue that superior performance results from competitive advantages or the ability to perform key operations and processes better than rivals do. The Holy Grail in this view is the *sustainable* competitive advantage, or a capability that is unique, valuable, and difficult to imitate.³

Leveraging a competitive advantage requires commitments that focus attention, resources, and investment to the exclusion of alternatives. In other words, effectiveness results when organizations finely hone their operations to perform in a particular way. This leads to large investments in operating technologies, structures, and ways of doing things. As organizations search for and exploit competitive positions, resource deployments, intellectual property rights, and favored relationships with suppliers, customers, or governments over relatively long periods, they create a stable social matrix that resists change. If such

commitments are successful, they lead to a period of high performance and a considerable amount of positive reinforcement for the way things are done. Financial markets reward stable competitive advantages and predictable stream of earnings.

The concept of alignment also supports stability as a major contributor to effectiveness. Most organization design frameworks are explicit in calling for alignment, and argue that, “When all points [in the Star Model] are in alignment, the organization is at its most effective.”⁴ There is nothing inherently wrong with the concept of alignment, and we are not suggesting its abandonment. However, we are arguing that all too often a commitment to alignment is a commitment to stability. To get the high performance they want, organizations put in place practices they see as a good fit without considering whether they can be changed. The idea that they might need to change and do new things gets lost in the desire to find a good fit and to execute the current strategy. That is the great irony: by aligning themselves to get high performance today, organizations often make it difficult to change so that they can have high performance tomorrow.

Stability and Change Management

In another irony, the traditional approaches to change management reinforce the assumption of stability. The overwhelming change logic for decades has been Lewin’s model of unfreezing, changing, and refreezing. The whole notion of “unfreezing” implies that some form of equilibrium exists that needs to be disrupted. A variety of tools and processes are suggested and utilized to “overcome resistance,” help members feel “psychologically safe,” and create an ideal future state. For example, some writings on change argue for setting big, hairy, audacious goals, while others stress the importance of employee involvement and charismatic leadership.⁵

Once organizations implement interventions that move them to a new and desired future state, they “refreeze” the organization. Refreezing involves institutionalizing the change and

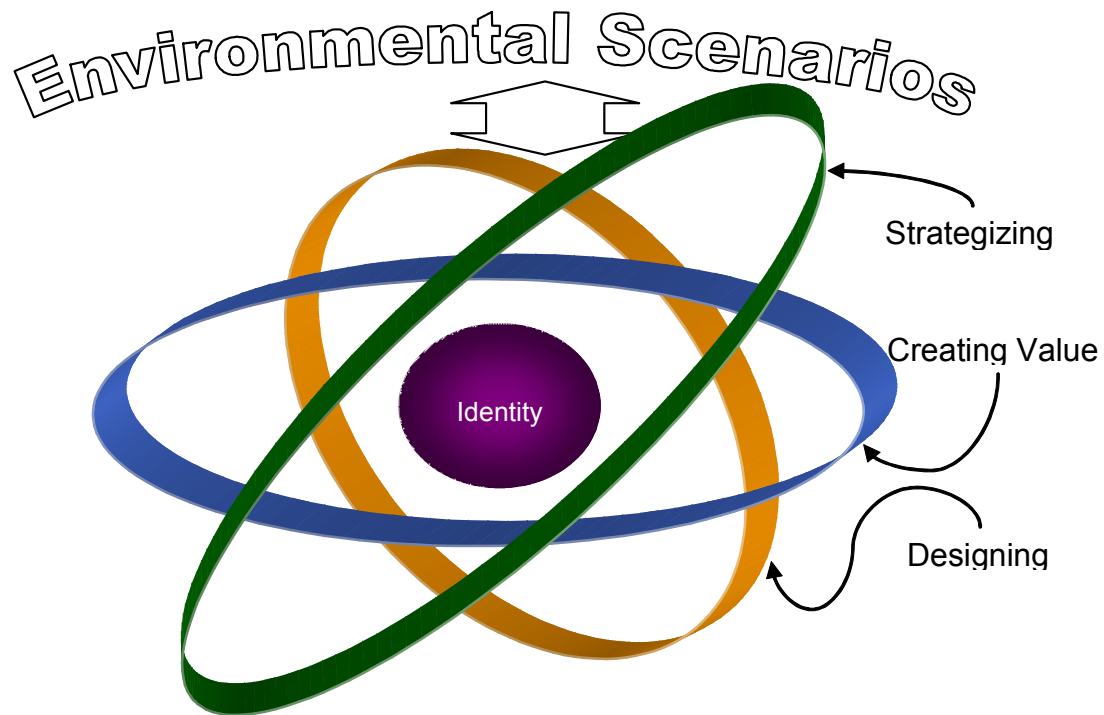
returning to a period of stability. It implies that an organization should seek stability following a period of change. The idea of unfreezing/refreezing is widely accepted because it supports traditional views of how organizations can be effective; that is by being stable, predictable, and executing effectively. The cruel hoax in this approach is that it suggests that change will and should end, when in fact in today's world it is very unlikely to.

It is easy to understand why models of organization design, effectiveness, and change stress stability -- they were born in an age when environments were stable or at least predictable. When the environment was changing slowly or predictably, these models worked well. But the pace and uncertainty of change, brought on by globalization, technological innovation, and terrorism, strongly argues for a new model. What is needed is an organization effectiveness model built on assumptions that change and changing is business as usual.

The Built to Change Approach

What does an organization that is built to change look like? The atomic-like image in Figure 1 captures our thinking, and suggests that three core processes - Strategizing, Creating value, and Designing – are in constant motion, spinning around a core nucleus of Identity. Thus, almost everything in a built to change organization (b2change for short) is changing. Understanding and coordinating what is changing – and what is not – is the key to effectiveness in a b2change organization.

Figure 1
The Built to Change Model



Strategizing: Crafting a Series of Temporary Advantages

Strategizing is the first core process in a b2change organization. It describes how an organization achieves and maintains “proximity,” a dynamic concept that refers to how “close” an organization’s outputs are to the demands of its environment. As the environment shifts and changes, the organization’s responses must shift and change to drive effectiveness. Thus, instead of pursuing a single sustainable advantage, a b2change organization seeks a *series* of temporary advantages.

The strategizing process is focused on how a series of temporary advantages can create and maintain proximity. Temporary advantages have a “hit and run” or “entry and exit” logic -- similar to the way HP approached its small instruments business in the 1970s. Southwest Airlines uses this approach as well. Instead of committing to an inflexible hub-and-spoke route

system, it uses a point-to-point system so it can easily enter and exit those city pairs that offer the best return at the time.

Bringing an organization into proximity with environmental demands and defining a series of temporary advantages involves the relationship among the environment, strategic intent, and identity. To achieve and maintain proximity, b2change organizations first must develop a sense of the future. Rather than scheduling static annual reviews of the environment, organization members –not just senior managers – need to observe and report on trends and to identify competitive opportunities. They need to constantly think about potential alternative futures and create a variety of short- and long-term scenarios.⁶ This is just what the U. S. Secret Service does in order to protect the president. As we will see in the designing process, developing scenarios is eminently possible because b2change organization members are in close contact with the external environment and able to identify these trends.

To achieve and maintain proximity, b2change organizations must define strategy in a new way. Success within a range of possible futures requires b2change organizations to seek a *robust* strategy that can deliver results under varying environmental conditions. For example, Porter's generic strategies – differentiation and low cost – are robust because they can achieve above industry-average returns even as any of the forces of industry structure intensify.⁷

The trick, of course, is to define a robust strategy that will succeed under a variety of conditions and yet be flexible enough to adjust to those conditions. In b2change organizations, a robust strategy is created by tinkering with the tension between strategic intent and identity. Strategic intent provides the flexibility, and describes the organization's breadth of products and services, the aggressiveness with which it pursues advantages, and the product and services that distinguish its offerings from competitors. Thus, for any temporary set of product/service features, an organization can have a broad or narrow product line and can be relatively

aggressive or passive in its approach. These elements can be changed quickly. Strategic intent also includes a roadmap of how offerings will be orchestrated over time in response to environmental changes and in concert with capabilities and organization design.⁸

What keeps the organization from being whipsawed by environmental demands for change in strategic intent is identity. Identity – a combination of both culture and image – is a central concept in the b2change approach because it is the most stable element.⁹ Like an individual's personality, an organization's identity is a defining characteristic that does not change, except perhaps slowly or as the result of a major jolt.

Organizations that are built to change have a clear sense of who they are and what they stand for. In this sense, identity is very much in line with the core values concept that Collins and Porras discuss in *Built to Last*.¹⁰ When organizations know their identity, they are less likely to propose adjustments to strategic intent that will not be supported by the organization's culture or are not in line with its brand image. When new ideas bubble up that honor identity, they are easily supported and implemented. As the new CEO of American Express, Harvey Golub spent a lot of time developing future leaders in the organization by asking them, "Does that strategy sound like 'American Express?'" He was teaching his managers to leverage the power of identity and propose strategies that would be understood, at a gut level, by the people who would have to implement them.

Of course, not just any identity will work for a b2change organization. It is critical that b2change organizations have an identity that focuses on the business environment, values change, and identifies what is changeable, as well as what will not change. The latter is critical because it gives individuals a degree of certainty that makes it easier for them to seek out change. Although it may make the most transformational change very difficult, the right identity can be supportive of many kinds of change.

Creating Value: Leveraging Learning

The second core process, creating value, is concerned with how competencies and capabilities support the organization's strategic intent and how those capabilities evolve over time. Core competencies and the resource-based view of strategy are relatively recent conceptualizations in the writings on strategy.¹¹ Built on a process-oriented view of strategy and organization, their definition and application are inherently dynamic. The key to b2change thinking is the integration of competencies and capabilities with learning. Instead of "What do we do well?", a b2change firm asks, "What do we need to learn?", "How do our capabilities need to evolve?", "What new capabilities do we need to develop?" and "What do we need to do better so that we can add value in the future?" The strategizing and creating value processes have one important characteristic in common. They are both driven by worry – even paranoia – about what the future will bring.

Google constantly thinks about how to refine and extend its basic search algorithms in both subtle and grand ways. Simple extensions of its advantage include moving into scholarly websites and published articles; grand schemes include how to substitute search algorithms into operating systems. Starbucks is redefining the basic coffee-drinking experience advantage into a social advantage by creating stores where you download music and conduct business. As part of their process, Google and Starbucks are asking how their competencies and capabilities can be refined and reconfigured to redefine their products.

The hit and run economic logic of the strategizing process requires b2change firms to be as effective in executing the current strategy and capabilities as they are in thinking about how and what they will need to change to be effective in the future. A b2change firm must constantly balance and trade off resource allocations for present performance against investments that will

create future fitness. These tradeoffs are made as organizations think through a series of “make or buy” decisions to add, modify, and delete their portfolio of capabilities.

Designing: Implementing Strategic Intent

Designing is the third core process and the most flexible. It is concerned with how the organization’s features, such as structure, processes, people, and rewards, are orchestrated over time to support each other as well as the organization’s strategic intent, identity, and capabilities.¹² To support a dynamic alignment among these features, each one needs to be changeable, flexible, and agile because they will be changing all the time. The designing process must support the idea that the implementation and re-implementation of a strategy is a continuous process.

A variety of traditional organization design practices has no place in a b2change organization. Job descriptions, for one, are emblematic of stability and as a result are a poor fit with b2change thinking. Ignoring for the moment that job descriptions can be changed (when was the last time your organization updated its job descriptions?), why go to the trouble of specifying job responsibilities and repeatedly telling employees their latest assignment comes under “other duties as assigned?” Rewards based on seniority or tenure are stifling to change. They do little but reward people for growing old. Finally, annual budgets are a poor fit because they are usually outdated by the end of their existence. Why should spending patterns change every time the earth revolves around the sun?

Structure. B2change organizations must adopt flexible and reconfigurable structures that “maximize the surface area” of the organization. The key design principle is to put as many organization members as possible into contact with the external environment. Structures that maximize the organization’s surface area increase the external focus of its members; bring in critical information about trends, opportunities, and issues; and prevent people from becoming

too ossified and myopic in their roles. As many employees as possible should have contact with regulators, suppliers, the local community, watchdog groups, and most importantly, customers. B2change firms should be anxious about being caught unaware, so they must have everyone – not just marketing or senior management – be close to customers. That way, when the time comes to move the organization, everyone moves together based on a common understanding and felt need for change.

In addition to maximum surface area, b2change organizations need to take advantage of the characteristics associated with modern organization designs, including a heavy reliance on alliances, outsourcing, small business units, matrix relationships, and customer-focused designs. Each of these features supports the organization's ability to reconfigure itself as needed. For example, with its multiple and relatively autonomous business units, Berkshire Hathaway can adjust its business portfolio relatively easily without the angst and grief associated with the downsizings and resizings of integrated divisions.

Information and Decision Processes. B2change information and decision-making processes need to be transparent and performance focused. They need to indicate the condition of the organization's capabilities, and provide everyone in the organization with information about how the organization is performing relative to its competitors and its strategy. Instead of relying on budgets to control costs, profit centers and activity-based costing are utilized. Performance-based information systems are a particularly effective way to motivate the kind of changes that b2change organizations need to make. They also facilitate moving decision making to wherever decisions can best be made and implemented.

People. B2change organizations need to be staffed by individuals who like change. They should only hire people who they are convinced are quick learners and good adapters. They need to have an employment contract that says change is to be expected and that support for change is

a condition of long-term employment. One of the best things Lou Gerstner did at IBM when he began its transformation was redefine the relationship from lifetime employment to employment for as long as individuals have the required skills and knowledge. Employees should be made aware of this type of employment deal before they join, so they can make an informed decision about whether they want to work in a b2change organization. Once they join, they should receive training when they welcome change and are expected to help lead it.

Rewards. B2change organizations need to utilize a variety of reward practices, including bonuses, stock, and person-based pay, that encourage both current performance and change. Bonus systems are a particularly good fit. Bonuses can incent current performance by creating a clear line of sight between results and rewards, and can be useful during periods of change. Individual plans that offer relatively large bonus opportunities can provide a powerful incentive for individuals to perform well and to change their behavior when a new element of strategic intent calls for it. Group and business unit bonuses can be very helpful in focusing performance and can create a felt need for change when performance and therefore the bonus decrease. In some situations, it makes sense to have one-time bonuses awarded at the completion of a strategic change. In tactical change situations, using short-cycle bonus periods (for example, three months) that target change implementation can speed up the installation of major changes.

The effect of stock plans on the motivation to perform is likely to be less than the effect of bonuses because the line-of-sight problem can be more severe. However, broad-based stock ownership can be particularly useful when it comes to leading change. Stock ownership gives organizational leaders a platform on which to stand and talk about the advantages of change. They can go beyond saying that change is good for the organization and say, “Change will be good for you because it will lead to improved organizational performance and an increase in your personal wealth.” It also eliminates the possibility of employees' sitting back and saying,

“Sure, it’s all right for him to argue for change because he’s a senior executive. He has an enormous amount of stock, but I don’t, so why should I listen to his call for change when it really is only going to benefit him?”

Finally, it is important to shift the basis of pay from the job and seniority to the individual and what he or she can do.¹³ In work situations where people have changing task assignments, paying the person is much more effective than paying the job, particularly when it comes to retaining the right people. When all is said and done, it is people who have a market value, not jobs. People change companies for higher pay; jobs do not change companies.

Perhaps the most important changes that person-based pay can effect are to the organizational culture and to employees' motivation to change. Instead of being rewarded for moving up the hierarchy, people are rewarded for increasing their skills and developing themselves, not their jobs. This can reinforce a culture in which personal development and a highly talented workforce are receptive to change. It can be especially helpful when an organization needs to improve its competencies and capabilities, because the company can use rewards to encourage individuals to develop the appropriate skills.

The Leadership Difference

The b2change approach represents a new model of design, effectiveness, and change, but the differences do not end there. B2change organizations also view leadership differently and leverage that difference to create organizations where change is business as usual. Research studies dating all the way back to the 1950s found that skillful managers are able to integrate inspiration and a focus on how to produce results to create win-win situations for individuals and for organizations.¹⁴ What was true half a century ago is even truer today. B2change organizations need many individuals who are good managers *and* good leaders, not one or the other.

Great leaders who are also great managers anchor their legitimacy in the external environment. They use customer demands, marketplace conditions, competitor moves, and economic realities to effectively balance leadership and managerial behaviors. When a competitor initiates a clever strategy, they inspire a creative response; when the economy turns sour, they face facts and educate the workforce. Then they use their managerial skills to redesign the organization to fit the new reality.

Leaders in b2change organizations need to practice shared leadership, or as HP's CEO Mark Hurd has noted, "leadership as a team sport." Viewing CEOs at the helm of a big ship ordering people around is not the right metaphor. It may fit traditional hierarchical organizations, but it does not work for a b2change organization. A better metaphor is to think of a corporation as a community of people spread out over miles and miles of hills, fields, and forests. To get the community moving in a new direction, competent leaders need to be dispersed across the countryside and connected by a shared sense of identity and direction.

A shared leadership approach has three advantages for a b2change organization. First, it effectively substitutes for hierarchy. Spreading knowledge across many people allows the organization to process and respond to information quickly without a great deal of hierarchical direction. Second, a shared leadership approach builds a deep cadre of leadership talent. By involving everyone in strategizing, creating value, and designing, leadership and management skills are developed broadly. Finally, and most importantly, a shared leadership approach supports more effective change management. Organizations led by hero-leaders are fragile entities; if the CEO messes up or leaves, the organization suffers. Multiple leaders at all levels of an organization who understand the external environment and the internal capabilities of the organization often see trends that call for organizational change before senior management does and can begin change.

Table 1

Comparison of Traditional and Built to Change Organizations

Traditional Firms	Built to Change Firms
Strategy <ul style="list-style-type: none">• Environmental scans and industry structure• Sustainable competitive advantage• Culture as a constraint to change	Strategizing <ul style="list-style-type: none">• Possible alternative future scenarios• A series of temporary advantages• Identity as an enabler of change
Competence and Capability <ul style="list-style-type: none">• What can we do well?	Creating and Adding Value <ul style="list-style-type: none">• What do we need to learn?
Design <ul style="list-style-type: none">• Structures with jobs and hierarchy• Information silos• Rational decision making• Leaders as heroes• Rewards for jobs, seniority	Designing <ul style="list-style-type: none">• Structures with maximum external surface area• Information transparency• Improvisation• Leadership as a team sport• Rewarding skill, performance

The Built to Change Organization

Table 1 compares and summarizes the characteristics of traditional firms with the features of a built to change organization. They are different in many ways. B2change organizations challenge the assumption of stability that drives traditional models of organization design, effectiveness, and change. Anchored by the organization's identity, the processes of strategizing, creating value, and designing constantly adjust to maintain proximity with a changing environment and drive a series of temporary advantages. The b2change organization may not always outperform traditional firms in the short term or in all situations. But there are many reasons to believe that over the long term, under conditions of rapid change, b2change organizations will outperform all others.

Endnotes

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