DEALING WITH ROUGH TIMES

A CAPABILITIES DEVELOPMENT APPROACH TO SURVIVING AND THRIVING

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Leaders during a deep and prolonged downturn should introduce organizational practices that build capability in the organization, not only to withstand the uncertainties of rough times better, but also to emerge stronger for the future. We present a set of organization design changes that can create closer connections to the marketplace and better use knowledge in the organization to introduce new ways to deliver value while consuming fewer resources. During rapid change and extreme threats, steering the ship is not sufficient. Leaders must introduce approaches that tap employees' energies throughout the organization. © 2009 Wiley Periodicals, Inc

Keywords: organization design, capability development, agility, knowledge leverage, employee energy

Facing the crisis of an extended and deep recession—one that may result in lasting change in the global economy—is on everyone's mind. Two thousand eight started a period not only of severe and global economic downturns, but also of fundamental upheaval in the financial system that has underpinned most business strategies. Although the dominoes are still falling and sending waves of change through the economy, forward-looking companies are making two types of changes.

On the one hand, and as are most organizations, they are responding with budget cuts, tighter controls, staff reductions, and efforts to preserve cash; in many cases, they are taking measures that will make them smaller than they started out (Charon, 2009). Companies as diverse and successful as Boeing, Walt Disney, Sun Microsystems, Caterpillar, Sprint-Nextel, Texas Instruments, and Microsoft have announced restructurings and significant layoffs—in addition to the massive layoffs in the struggling automotive and financial sectors of the economy. On a single day—January 26, 2009—major global companies announced 62,000 layoffs (Healy, 2009). More recently it was announced that the U.S. economy contracted by 6.2% in the last quarter of 2008, with most other global economies

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Human Resource Management, May–June 2009, Vol. 48, No. 3, Pp. 431–443

Published online in Wiley InterScience (www.interscience.wiley.com).
DOI: 10.1002/hrm.20292

experiencing similar contraction (Dougherty & Evans, 2009).

On the other hand, forward-looking companies are also seeing opportunities in the crisis to build increased organizational capabilities to adjust dynamically to a quickly changing environment—capabilities that will stand them in good stead now and into the future (Teece & Pisano, 1994). Although necessary for survival, reductions and control alone may leave the organization less capable at a time when it needs increased capability.

Finding the right mix of disciplined cost cutting and focused capability development is the correct way for companies to go. We see these as complementary, not competing, approaches. Organizing for capability not only helps address the uncertainty and pressures, but also builds a foundation for emerging strong and renewed when the upturn occurs. Consider how companies traditionally view these approaches. Many have invested heavily in such initiatives as Six Sigma, knowledge management, and innovation programs to renew and improve their capabilities continually. Companies have often treated these initiatives as add-ons to the organization's core value-delivery system, however, and they are often assigned to specialized staff groups. This ensures that line management often does not view them as core activities but rather as nice-to-do initiatives if they do not interfere with the "real work" of delivering valued products and services to customers and growing the business. These initiatives are often the first to go when times get rough because they generally are not seen as offering immediate value to the firm's core work. We argue that firms will achieve a true and lasting competitive advantage only if they use this time of great challenge and disruption to couple their value stream delivery activities tightly with greatly enhanced approaches to generate and use knowledge to adjust in the face of changing conditions.

Finding the right mix of disciplined cost cutting and focused capability development is the correct way for companies to go.

The best way to ensure that the organization is flexibly and efficiently delivering the right value to the right customers and to foster the continued health of the enterprise is quickly to weed out organizational barriers and old habits that maintain the status quo and replace them with new ways of functioning that yield enhanced capability. A dynamic capability-building approach may be easier to develop during a time of crisis than when an organization believes all is going well. This will only happen, however, if corporate leaders have a clear idea of the behaviors they want to instill in the organization and the organizational approaches that can foster them. During crisis, leaders must quickly introduce profound change in the way the organization operates—approaches that greatly increase the organization's capacity to leverage knowledge and employee involvement throughout the organization in finding solutions to the challenges it faces.

Organizing for Rough Times

Many studies and case examples demonstrate that an organization's design features determine its ability to address environmental challenges flexibly and put in place the capabilities to carry out its strategy (Lawler & Worley, 2006; Mohrman, 2007a, 2007b). Organizational features can be purposefully designed to align resources with what the organization is trying to accomplish and to enable and encourage the behaviors needed to carry out its strategy. We build on Jay Galbraith's (1994) well-accepted design model that posits that various aspects of the organizational system should be designed to fit with each other in support of the strategy: key work processes, structures, management processes, rewards, and people processes. During a time of crisis, the organization's strategy is itself under siege and needs design features that allow a continual deep assessment of environmental changes and the dynamic application of resources to achieve sustainable success in a shifting market landscape.

In addition, an organization's design features provide the context within which employees operate; they foster certain ways of operating and send messages about what

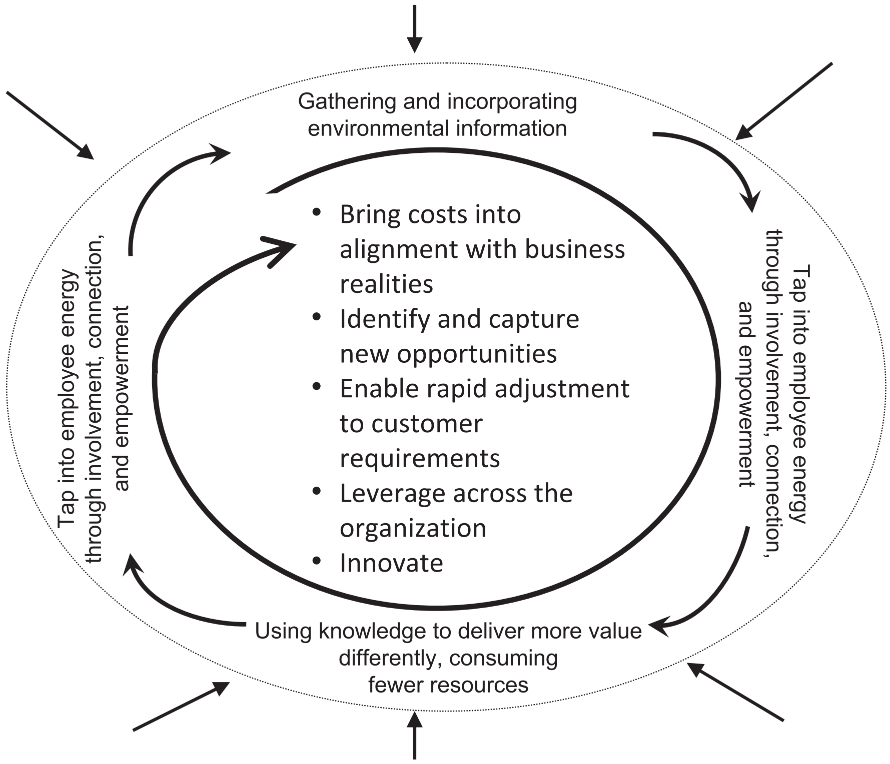

FIGURE 1. Capability Development of System During Rough Times

behaviors the organization expects and values. Highly segmented business units (BUs), for example, suggest a focus that can work against cross-BU opportunity detection and learning and send a message to employees to worry about their own BU at the expense of others. Elaborate reward systems that focus employees on narrow job descriptions and measures in a time of rapidly shifting survival requirements may divert people's attention from the obvious organizational needs and send messages that business as usual is expected. Highly top-down decision-making processes introduce delays and distance in making decisions that respond to customers' urgent needs.

A company requires a dynamic capability development system (see Figure 1), to make the adjustments in the organization as it confronts uncertainty and the relentless flow of challenges in a prolonged downturn. Three principles should guide the design approaches to achieve this:

1. Increase the organization's capacity to collect, consider, and react to information that will help reposition it as the environment continues to change unpredictably.
2. Make better use of the knowledge throughout the organization to find ways to deliver more value, differently, while consuming fewer resources.
3. Tap into employees' energy and engagement throughout the organization by focusing them on and involving them proactively in addressing the challenges.

Top-level leadership, no matter how charismatic, visionary, and skilled, cannot by itself ensure that the firm can weather the storm. This instead depends on the contributions and initiative of people throughout the organization. Because these are uncharted waters, employees cannot follow embedded routines. Rather, they must be part of the problem-solving process that determines how they are going to operate successfully, given the curve balls being thrown their way. A customer service team confronting a customer who cannot pay for the maintenance to keep a system running effectively, a sales representative facing a throng of customers wanting more cost-effective service, and a key account representative realizing that fundamental and lasting changes in that account's industry call for a different value proposition are all examples of employees who confront the challenges that require rapid adjustment capability throughout the organization.

Leaders must (1) rapidly put in place design elements that foster behaviors to bring costs into alignment with the new business realities, (2) rapidly adjust to customer requirements, (3) engage the organization in identifying and capturing new opportunities, (4) flexibly leverage knowledge and resources across the organization to achieve more with shrinking resources, and (5) innovate. Starting with the design of the strategy process, we describe approaches that some companies are taking to achieve these capabilities.

Although senior managers may be accountable for steering the ship through the troubled waters, they cannot do this alone. Relevant knowledge resides throughout the organization, where people are connected to events and trends "on the ground."

Strategy Is the Compass

Bureaucratic and incremental strategy processes do not fit turbulent times. Rather, senior managers should make deep assessments of the challenges facing the company, the possible and preferred scenarios of the future, and the approaches the company will use to align its resources effectively to deal with the new realities (Lawler & Worley, 2006). The organization should increase the number of strategic decision-making cycles it goes through, greatly increase its strategic intelligence capability, and look for short-term, momentary competitive advantages to generate revenue. On the basis of agility models of strategy, senior executives should meet weekly or even more frequently to detect and monitor changes and ensure the company is taking appropriate action.

Although senior managers may be accountable for steering the ship through the troubled waters, they cannot do this alone. Relevant knowledge resides throughout the organization, where people are connected to events and trends "on the ground." Organizations need mechanisms to create a rich flow of knowledge about opportunities and threats to inform decision makers at all levels. One example of this has been called "extreme strategizing" (Welbourne, in press). Borrowing from the software development world and involving an IT-based approach to harvesting employees' knowledge throughout the organization, extreme strategizing is a dynamic and participative process. Nokia, for example, engages in "strategy bursts" in which large and small groups gather on the basis of the timing of events, competitor announcements, key customer account requests, or market results, rather than formulating strategy as part of an annual exercise. These groups discuss the short- and long-term implications of specific events, compare current strategies and initiatives against these events, and make short-term, tactical adjustments or recommend strategy shifts (Doz & Kosonen, 2008). These versions of extreme strategizing make the process timelier and allow novel approaches to emerge through the combined knowledge from different perspectives.

Capabilities/Work Processes Deliver Value

The reality that will emerge from the current economic crisis is uncertain, yet if the organization has an articulated and robust strategy and a set of possible and preferred future scenarios, it is in a better position to identify and build capabilities that proactively shape its competitive landscape and market opportunities. Intel, for example, took advantage of the 2000 downturn to invest in its next generation of manufacturing capabilities so that it emerged the cost and product leader. Pursuing the same approach in the current downturn, it announced a $7 billion investment to design and build the next generation of manufacturing plants to produce low-cost, energy-efficient chips (Vance, 2009).

Learning to be quick and agile to adjust during the downturn will prepare the organization for an uncertain future that will no doubt present new opportunities and challenges more rapidly than ever before. Design features that foster the organization's innovation capability and its cross-functional implementation capability are particularly important.

Innovation Capability

Stormy business conditions may demand battening down the hatches, but they also cry out for innovation—for finding new ways to deliver increased value while consuming fewer resources. Despite the challenging conditions in the retail industry, Collective Brands, Inc., the company that owns Payless ShoeSource and the Stride Rite Corporation, has a Collective Responsibility initiative that uses cross-functional teams to identify opportunities for increasing social responsibility and sustainability. The Payless team, for example, explicitly looks for ways to deliver greater value while consuming fewer resources—betting that increasing the company's increased capability in this arena will not only help it stay healthy through the economic downturn, but also position it well for the future. Payless is doing this at a time when other companies are putting their sustainability initiatives on hold because they view them as distracting or unaffordable.

Quickly developing a new idea process for soliciting innovative ideas, evaluating them, and making choices about which ones to implement rapidly can offset an organization's inertia. Short-burst, large group processes can draw together diverse combinations of participants to identify
AQ1 new product, service, or product approaches that can address the changing marketplace the organization is confronting. In developing strategies for sustainable health care delivery, Alegent Health used these multi-stakeholder approaches to leverage the similar challenges their customers and suppliers were facing. Alegent Health, patients, and medical supply firms were all open to doing things differently to cut costs, improve patient outcomes, and reduce the organization's carbon footprint.

Quick Implementation Capability

Most organizations are littered with innovative ideas that were partially resourced but never fully implemented—and this is an unacceptable pattern during a downturn. The organization must quickly focus its scarce resources on developing and implementing the innovations that have the greatest potential for capturing momentary competitive advantages while also laying the foundation for the upswing. Speed is of the essence; the organization must overcome political and turf issues, forgo many of the time-consuming afterthoughts of buy-in and stakeholder management, and dedicate the resources to advancing the innovation to fruition and embedding it in the way the organization operates. An aerospace business, for example, has created a small high-level executive innovation board that quickly assesses and funds innovation proposals that have the greatest short- and long-term potential and that can be quickly implemented. Proposers get only one shot at making the business case for the proposed innovation and, if it is selected, achieve high visibility and support. The board assigns an executive champion, the president asks naysayers not to get in the way of the innovation, the company allocates resources, and the entire business receives regular updates about progress against milestones. According to the president, "There is nothing like a crisis to make clear the culture we should have had all along. To get through this challenging period, this has to be an exciting and challenging place to work. We can't have a few high-level decision makers telling everyone else what won't work."

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Pulling resources away from running the current business to find new things to put on the plate may seem counterintuitive at a time when resources are being cut back. It is the new approaches, however, that will provide the lift needed to survive the down times and glide the company into a strong position

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during the aftermath. And the rapid innovation and implementation capability honed during the downturn will be an asset going forward.

Structure Creates Focus and Connection

Organization structures group resources, create interfaces, and enable or discourage connections across the organization. Structure focuses the organization on what is necessary to weather the storms and emerge with new capabilities. Core and lateral structures should increase knowledge leverage and deliver greater value with fewer resources.

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Core Structure

Changes in the macrofeatures through downsizing, consolidation, or department elimination are often essential to survival and may simultaneously increase company capability. Examples during the downturn include restructuring to leverage the core aspects of the business, focusing resources on the market segments most likely to provide near-term opportunities, combining cross-functional resources to identify and land the best future opportunities, consolidating activities to eliminate redundancy, and weeding out business that drains the company's resources without adequate return. For example, the Walt Disney Company is currently addressing its falling park attendance and worsening projections by consolidating many behind-the-scenes operations across its Disneyland and Walt Disney World parks. It is setting up a single global development group responsible for each main process: identifying development opportunities, implementing new development, and operations. This streamlines and simplifies a complex structure that had grown up to provide separate focus on its resorts, entertainment, and attractions and provides opportunities for leverage (Chmielewski, 2009). Nokia has announced that it is restructuring to leverage its position in the mobile communications devices market, even as it continues its transition to software and services.

Structural changes can support more rapid cycles of strategic decision making. BUs that are buried in large vertical structures may have become distant from the very market forces to which they must quickly adapt. Identifying and pulling out cross-functional BUs and holding them accountable for quickly adapting to changes in their markets increase their capability to operate effectively. Kraft Foods, for example, has increased its focus on its core brands; it has pulled its major category units from the marketing division and has given them full P & L responsibility in order to increase and accelerate response to the market. Through the downturn, it is pursuing its innovation-based strategy aimed at becoming known for "truly delicious" brands (Kraft Foods, 2009).

Increasing the organization's "surface area" (Lawler & Worley, 2006, p. 96)—connecting greater numbers of employees and BUs to important elements of the environment—can bring more nuanced external knowledge and awareness to bear on organizational performance. P&G, for example, has worked hard to open up its innovation processes (Deutsch, 2008). When engineers, marketers, academics, customers, and regulators work together, innovation cycle times decrease and product quality increases. By increasing the number of people who interact with regulators, vendors, and, most importantly, customers, the organization increases its information flows, becomes aware of environmental changes more quickly, and creates a sustained employee energy level and sense of urgency (Welbourne, Andrews, & Andrews, 2005).

Decisions about what is centralized and leveraged in a business and how to create or maintain decentralized response capabilities are both critical during a downturn. They may seem to be conflicting approaches, and yet they support each other. The BU that needlessly and redundantly consumes resources to maintain control is not applying those resources to its core task of delivering value and taking in revenue. Unnecessarily complex processes, often driven by managers' desires for complete control, consume people-hours needlessly and are particularly senseless in a time of such extreme uncertainty. Shared services organizations should focus on high-quality, critical, and value-adding activities that enable the BUs' major tasks. One multidivisional industrial materials company has eliminated divisionally deployed IT support and put a moratorium on add-on modules to the core IT system. It is requiring all divisions to use standard modules—thus focusing IT on a core and powerful system and eliminating hours spent on discussing the need for nice-to-haves. Senior management feels that this approach will benefit the company not only during the downturn, but also as it emerges from it by ending the time-consuming debates that deplete energy and result in systems far more complex and resource consuming than the business could justify on the basis of performance impact.

Lateral Capabilities

Building appropriate and effective lateral connections is an important element in structural design. Cost-containment activities often leave the organization feeling too lean to execute effectively and deplete employees' energy level (Welbourne et al., 2005). While operating in a more difficult business environment, the organization will be more successful if it makes structure changes geared to quickly increasing its capabilities to do more with less and does not simply create a situation in which people have to do more and work long hours just to stay afloat. Well-designed lateral capabilities can connect knowledge, build synergy, and reduce coordination costs. This is one of the most overlooked areas of organization design—even in good times.

Organizations see lateral approaches such as teams, boards, and networks as free; create too many of them; and use them sloppily—thus consuming far too many hours of people's time in ineffective coordination. An organization during a downturn has to get its lateral approach right. It cannot afford the turf wars and stand-offs that occur when ineffective linking mechanisms that require consensus and articulation of effort across competing interests impede important action. This is the time to ensure shared goals, clear roles, defined authority, and clear accountability for quick results. A specialized professional services firm that was watching its traditional geographically based markets dwindle assembled domain teams from across the country. The teams consisted of members who had experience in those market domains in which demand was perceived to be the most robust or in which current resources could exploit new opportunities. Management asked these domain teams to combine their knowledge and experience and to identify within one month go-forward plans that they could rapidly enact to help stop the company's revenue bleeding. With high-level sponsorship, they did not worry about which business line got credit—rather, the company distributed revenue across all BUs involved in executing the plan. Instead of going through a painstaking process of aligning all the stakeholders in advance of any action, the president approved a small number of these plans to move forward and directed and held his entire staff accountable to make sure they had the support needed: "We're struggling for survival and can't afford to have every Tom, Dick, and Harry feel they can hold these plans hostage to endless debate and objections," he said. "That's a habit we've had for too long."

Structural changes can support more rapid cycles of strategic decision making. BUs that are buried in large vertical structures may have become distant from the very market forces to which they must quickly adapt.

Companies can also use lateral relationships to save costs. Creating single points of contact between BUs or explicitly assigning integrator responsibilities when different parts of the organization do interdependent work (such as serving the same customer) can diminish rework and prevent problems that would otherwise develop because the right BU did not know what the left BU was doing. One materials solutions firm formalized a client manager role to monitor activities with key clients continually, to draw important information to the attention of others in the organization who could use that knowledge, and to convene an impromptu client strategy session when there were issues, opportunities, and potentials for conflicting activities from different product line groups. This active role supplemented a more passive and spottily used Customer Relationship Management system.

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Moving the expense of poor lateral relationships into the light and finding ways to decrease coordination costs is a great way to think about cost reduction—and build habits of effective coordination. Building on the notion of the GE Work-Out (Tichy & Sherman, 1992), an engineering services firm introduced a grease-the-skids process to support those who were trying to build and execute effective strategies but were running into barriers. Employees experiencing barriers to delivering service and/or pursuing work could quickly get the issues resolved by one of several small and focused management teams who pledged to be available to resolve issues every Friday morning. The management teams also identified general problems—such as the excessive time required to resolve which division got credit for work that cut across boundaries or whether key talent could be temporarily reassigned to seed a new opportunity—and issued guidelines to prevent unnecessary delays. Many of these issues had held up work for years. The downturn provided both the impetus and the necessity to change the firm's decision-making structures and processes to accelerate and make it easier to book and conduct the core business. An added benefit was overcoming the employee cynicism that results from continual delays in their ability to meet their customers' needs.

Management Processes Glue the Organization Together

Goal setting, communication, and decision making are foundational navigational processes during tough economic periods. Goal setting, in particular, helps organization members keep focused on the work and provides a line of sight to corporate strategies. Rather than waiting for the next budgeting cycle to begin, managers and employees should work together to set, test, and reset goals frequently—as opportunities and constraints change. At Davita, the dialysis services provider, goal setting, decision making, and resource allocation are components of an integrated and dynamic process known as ARC (accountability and responsibility charting). Top managers in the organization meet at least monthly to discuss their accountabilities. The managers nominate and evaluate new projects in terms of the organization's long-term vision and of information received from different parts of the organization. Initiatives are assigned to executives not on the basis of function or product but on keeping workload balance, development opportunities, or expertise. Each initiative has defined milestones, quality standards, and due dates. The team also reviews progress on its existing accountabilities, rebalances workloads on the basis of urgency, and eliminates initiatives that are complete or have become irrelevant.

When customer demands are changing rapidly, expecting employees to meet stretch goals that were set during better times can dampen motivation. When people are worried about their jobs, stating a three-year goal may seem irrelevant. Specific, shorter-term goals give a sense of ownership and contribution. Help employees take control of the things they can and at the same time ensure they are aware of management's best thinking about the zigs and zags it may have to take—and to which they may have to adjust—in maneuvering through the choppy waters.

Communication about how management is actively adjusting the company to fit the new realities is the foundation for employee trust and provides the contextual information for setting priorities and local goals. Old habits of waiting to communicate until management knows exactly what it is planning to do and information is ready to be rolled out have to give way to ongoing updates—explicitly acknowledging the uncertainties but also providing current information about and highlighting the actions being taken. The "you know as much as we do" attitude gives employees the sense that there are no surprises lurking. A consumer products company has a dedicated SharePoint Web site—The Good, the Bad, and the Ugly—where all employees can see the latest information about the challenges and trends from the downturn, various actions and initiatives under way, and successful revenue-enhancing activities occurring in different product lines and markets. Two-way communication is critical. This same company makes it easy for employees to share what they know about the markets and products they work in. On the SharePoint portal is a You Can Help space in which employees can direct their intelligence and ideas to the relevant executive.

Rewards Align Behavior

Most organizations begin early in a downturn to communicate with organization members about the likelihood of smaller raises and bonuses, but that does not mean the organization has to stop rewarding people. Nonmonetary forms of reward, such as training and development, assignment to visible and challenging task forces, celebrating successes, and publicly acknowledging special contributions can increase engagement. Use reward monies judiciously to reinforce the clearly articulated performances critical both to short-term survival and to longer-term competitive capabilities—most likely those related to delivering greater value with fewer resources and those focused on finding and capturing new opportunities.

Distributing a small amount of money through spot bonuses for performance that beats the odds or makes an appreciable difference can focus people on the behaviors that matter and are a clear message of appreciation during hard times. One engineering firm, for example, eliminated its fancy bonus programs that made small discriminations across divisions, functions, and people based on elaborate data collection and a time-consuming performance review process. A clear statement of the performance gates that would trigger increases across the company makes the statement that everyone is responsible for contributing to survival and reduces the amount of time and energy being spent on "Who gets what?" Top management expressed, modeled, and monitored the expectation that all employees should receive ongoing informal coaching and feedback about their contribution rather than doing this through a formal bureaucratic yearly process with an elaborate formula tied to pay action. At monthly all-hands meetings in its various locations, managers discussed priorities, initiatives, challenges, and accomplishments—and publicly acknowledged and celebrated special contributions. The president articulated the philosophy that "more is better—if a unit can't pick out lots of people who are going above and beyond, that means you're not rising to the occasion." The company also created a small awards pool to distribute to individuals or teams on the basis of clear measurable criteria that were broadly communicated to employees. Those criteria include (1) generating significant new booked revenues, (2) rescuing important accounts that were in trouble, (3) implementing innovative approaches with measurable customer savings, and (4) booking work that penetrated new markets.

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People Drive Results

Development

A downturn is not the time to suspend development activities. Although this is a common approach to save costs in the short run, it usually backfires. It sends a clear message that people are not our most important resource, it increases cynicism, and it makes building capabilities harder and more costly in the future. Investing in the organization's talent symbolizes commitment to the future, serves as an important retention and reward mechanism, and helps to build capability. The current downturn particularly demands greater leadership capability, and leaders are facing new kinds of challenges. Being crystal clear about the key organization members who must be retained helps focus development and retention strategies. Developmental opportunities such as challenging work assignments, leading or participating in significant organization initiatives, or being part of critical meetings to rationalize the supply chain during tough times provide a broader view of the business and enlist people's energies in activities that are likely to determine its future.

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Organizations may tailor traditional general leadership development activities to focus on methods and business approaches of dealing with severe downturns and uncertainty. Line managers can teach short modules and share experiences and approaches for navigating through tough times. These modules may be integrated with current company case information, lessons learned, and action learning projects focused on critical organizational problems or opportunities. As The Hartford's core markets have changed and its need to grow revenue through different products and services emerged, for example, it engaged line managers in defining critical problems and opportunities facing the firm and enlisted participants in its leadership development process to address them. It provides these high-potential managers with an opportunity for senior management visibility and exposes them to the complex challenges facing executives. Quickly spotting organizational successes and creating learning opportunities from lessons learned can spread awareness, increase the organization's positive energy, and develop greater change capability. Sponsoring educational or conference attendance can be part of the effort to increase the organization's surface area by purposefully exposing individuals to people and new ideas from other companies.

Work Design

Work design configures individuals, jobs, and teams with accountabilities for carrying out the organization's work processes, thus ensuring that the right talent is applied to the right tasks and developing and motivating employees as they carry out work. The company's work systems are challenged when it faces decreasing revenues, extreme uncertainty about the depth and timing of the downturn, and the need to alter its cost structure and scale quickly. Layoffs or broader reductions in force may lower costs but rarely reduce the workload. As a result, a variety of stressors increases and heightens the importance of managing the organization's talent wisely by designing work to enhance the motivation and expand the contribution of all employees to make every person-hour count.

This is a good time to increase the firm's self-organizing capabilities and, by implication, its adaptive capacity. Managers with higher reporting spans are likely to be heavily involved in initiatives aimed at increasing capacity across the organization. At the same time they are expected to lead their people through difficult times, they feel understaffed to carry out their group's mission. During downturns, and particularly when conditions change quickly, the organization must rely on the employees' resilience and ingenuity. The organization should enlist everyone in solving core challenges: If the imperative is to find new customers, make it part of everyone's role definition to scout new business. In a maritime division of an electronics firm, for example, this led a junior accounting officer—while talking with a customer about invoices—to ask questions that provided early intelligence on a customer opportunity that was turned into a small high-margin contract that may seed a new business line.

By clearly defining the situation and the need, encouraging teams and individuals to find solutions to the challenges, and drawing clear boundaries about resources and decision rights, managers can extend their group's capacity and build capability at the same time. Professional services firms are faced with clients who are themselves facing recession-triggered performance challenges and who are requiring more and more of managers' time and attention during engagements. At one firm, engagement teams started holding daily morning check-ins—with or without their managers present—during which team members assessed what was on their plates and adjusted work assignments to address priorities and move the full set of work forward effectively.

Building self-organizing capabilities during the rough times can contribute to agility well after the downturn because the organization will have unleashed energy, collaboration, and creativity among its workforce. Although financial rewards of all kinds may be severely limited during the downturn, motivating jobs are alternative sources of reward. Increased autonomy may be a natural outgrowth of a reduced management presence. The company may have decreased the manager ratio and asked managers to spend more of their time implementing the changes required to adapt to the new reality. A slimmed-down work team left to its own devices may find ways of working in which employees can opt to do new things that will provide a foundation for enriched career options and can feel better about their expanded contributions.

Organizations should expand jobs to include responsibility for gathering and disseminating knowledge through the organization and regularly sharing business information, challenges, and successes. During a downturn, the organization's instinct may be to decrease the resources spent to connect and share. This is precisely the time, however, when people need cross-discipline, cross-functional, and cross-organizational knowledge sharing connections to become aware of opportunities and to promote out-of-the-box thinking that can reframe problems. Beyond knowledge sharing, managers must also be encouraged to assemble diverse groups that cut across BUs to find ways to work more effectively with each other or to accomplish unique tasks. Expanding employee networks as well as providing new kinds of work experiences are forms of job enrichment critical to today's knowledge workforce (Mohrman, 2003)—and the foundation for the organization to derive increased value from its human capital during the downturn and into the future.

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Capability Development Revisited

We have described a variety of design features leaders can introduce to increase the organization's ability to reposition itself in a changing environment, enable rapid adjustment to customer requirements, make better use of its knowledge and employees to reduce costs and deliver more value, and find innovative approaches and new opportunities. By introducing these design changes during the downturn, when inertia and turf protection are clearly counterproductive and the status quo is not viable, the organization can use the downturn to introduce fundamental changes in logic that will make it more sustainably effective through time.

Encouraging Leadership Throughout the Organization

Reducing reliance on hierarchical management roles challenges the existing logic that ties leadership to hierarchy. By stimulating widespread leadership behavior, the organization greatly increases its ability to adapt and implement change—likely a must in the future economy where the new normal will at best involve an ongoing reconfiguration of the global economy.

Building Self-Organizing Capability

This encourages and enables individuals, teams, and BUs to generate and implement new and improved ways to carry out their work. Executive leaders must rely on the many individuals and BUs throughout the organization to figure out how to accomplish the high-level strategies they formulate. The capacity, capability, and authority to pursue the organization's mission and objectives must be broadly held throughout the organization.

Building in Habits and Orientation Toward More Effective Use of Resources

Good times breed bad habits and hidden slack. There is no better time to invent approaches to doing more with less than when the organization finds its resources fundamentally threatened or radically diminished. Crisis-induced measures to shift resources and energies to high-yield activities can produce permanent change—new routines to ensure the organization is applying energies to the right problems in the right ways.

Breaking Down and Diminishing the Notion of Boundaries

Creating connections across groups and BUs allows the organization to build social capital and relational skills that can fundamentally change the organization's networks and enhance its capabilities. New capabilities depend on new approaches, which in turn are forged out of relationships that allow employees to extend and combine their knowledge and to leverage key resources. The inhabitants of a stressed environment look to each other for synergy and impact. The organization can use the downturn to advance the diversity of approaches and relationships both internally and externally—and to establish the expectation that important organizational breakthroughs and contributions often involve activities that cut across boundaries.

There are many benefits to building these capabilities during a downturn—to morale, energy, performance, and survival. Perhaps the most important benefit is to the overall sustainability of the organization through time.

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AQ1: [AU: “product” already listed; other term intended?]

AQ2: [AU: Please update.]