



The Effective Organization

What is effectiveness, and how can it be developed?

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USC MARSHALL **CENTER FOR**
EFFECTIVE ORGANIZATIONS

USC Marshall
School of Business

“You can only truly understand an organization by actively trying to change it.”

Kurt Lewin

Founder Field Organization Change & Development

The Effective Organization

What is effectiveness, and how can it be developed?



H A R V A R D | B U S I N E S S | S C H O O L

“Every institution is vulnerable,” according to Jim Collins, author of *How the Mighty Fall*, “no matter how great. no matter how much you’ve achieved, no matter how much power you’ve garnered, you are vulnerable to decline. There is no law of nature that the most powerful will inevitably remain at the top. Anyone can fall and most eventually do.”

Collins, J. (2009) *How the Mighty Fall: And Why Some Companies Never Give In*

“It is not the most intellectual of the species that survives; it is not the strongest that survives, but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself.”

Charles Darwin
The Origin of Species

Santa Rosa Systems Division

- ✓ We have two competing strategies that are battling each other for the same resources. The resultant factions around these two strategies are tearing this organization apart.
- ✓ The members of the top team operate in their own silos. They are a group fiefdom's that refuse to cooperate effectively for fear they will lose power.
- ✓ There is a cold war going on between R&D and the Custom's Systems department.
- ✓ Our business unit is still not clear what type of business it wants to be in.
- ✓ Morale is poor & people are leaving for other divisions

On a 5-point scale
How effective is this organization?

What Honest Conversations Revealed

Silent Undiscussable Barriers to Effectiveness



1. Senior teams are ineffective
2. Unclear & uncompelling strategy, values, and conflicting priorities
3. Leadership behavior
4. Poor coordination/ collaboration across functions, business & geographic regions
5. Inadequate delegation of decision rights and authority to act
6. Inadequate leadership development & not enough effective leaders below the top
7. Poor vertical communication, two-way learning. No partnership

Source: Adapted from Beer & Eisenstat (2000)

Do the “silent killers” exist in your organization?

How do they undermine effectiveness?

Would your leader employ an honest conversation
to learn the truth?

What an Honest Reflective Conversation Revealed

SRSD suffers from the legacy of HP. We are not a box [instrument] division, yet we manage and have structured SRSD as though we are. Although it has taken on a more expansive role in creating systems than it ever did in past divisions, Custom Systems is still run out of manufacturing. Although SRSD needs to be heavily market oriented in this new fast changing internet market, we still have R&D calling most of the shots. Although our product lines need to be grown and managed as businesses, we still treat them as projects. **The systems market is vastly different than anything HP has done in the past with test and measurement. We need to start thinking of ourselves as a unique entity operating in circumstances that requires a different strategy and structure than has been traditionally utilized in the past.**

– George Mosby, Finance Manager

The Effective Organization

Achieves Three Essential Outcomes Simultaneously

- Performance Alignment
- Psychological Alignment
- Capacity to Learn and Change Continuously

When the Environment Changes

Organizations FALL out of Aligned

Most Do Not Learn and Change Rapidly, If At All

70 % of Organization Transformation Efforts Fail

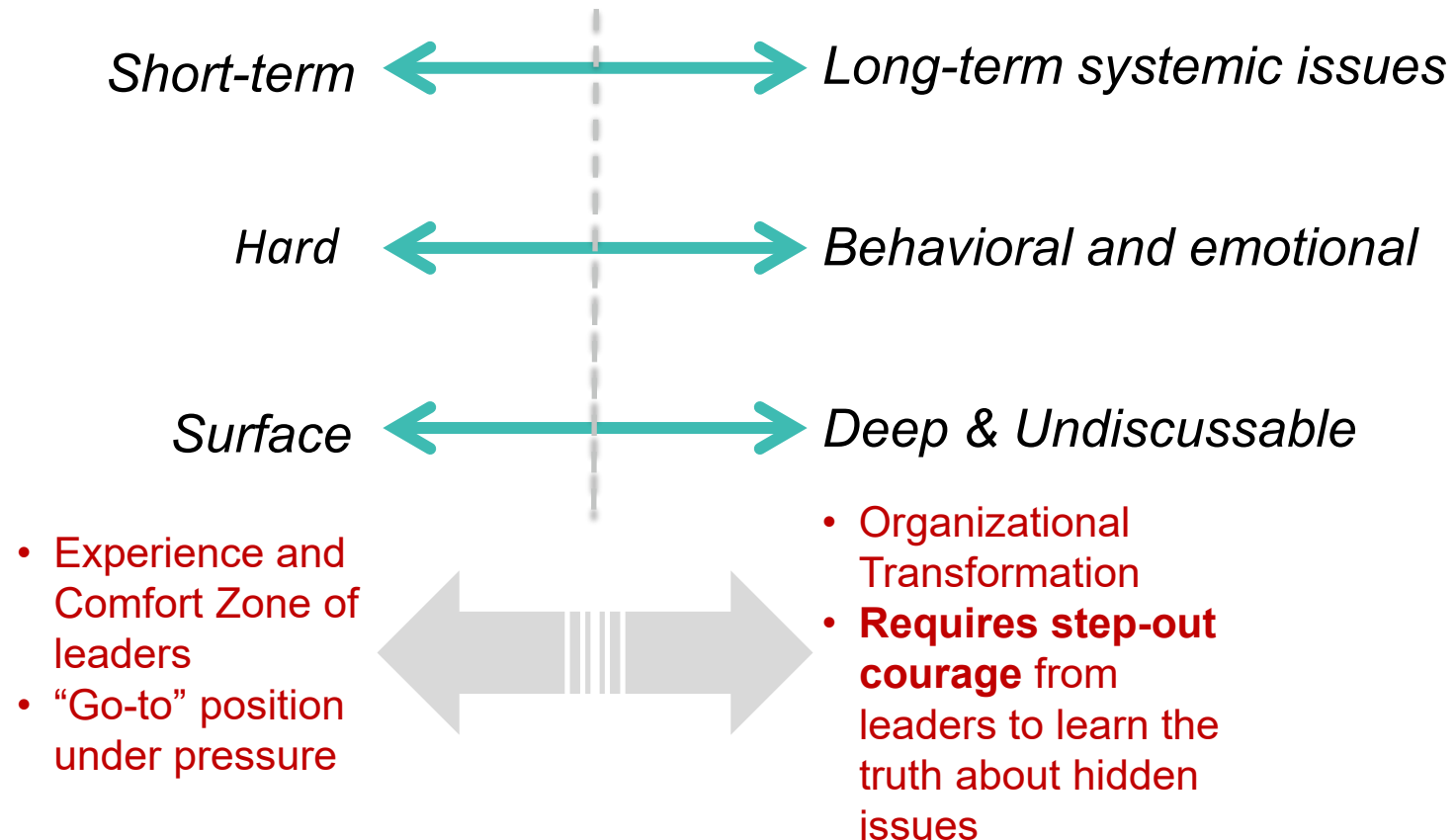
Why?

Why Organizational Transformation is Hard

Few employ honest conversations to learn about hidden intangibles

Tangible/Visible Issues

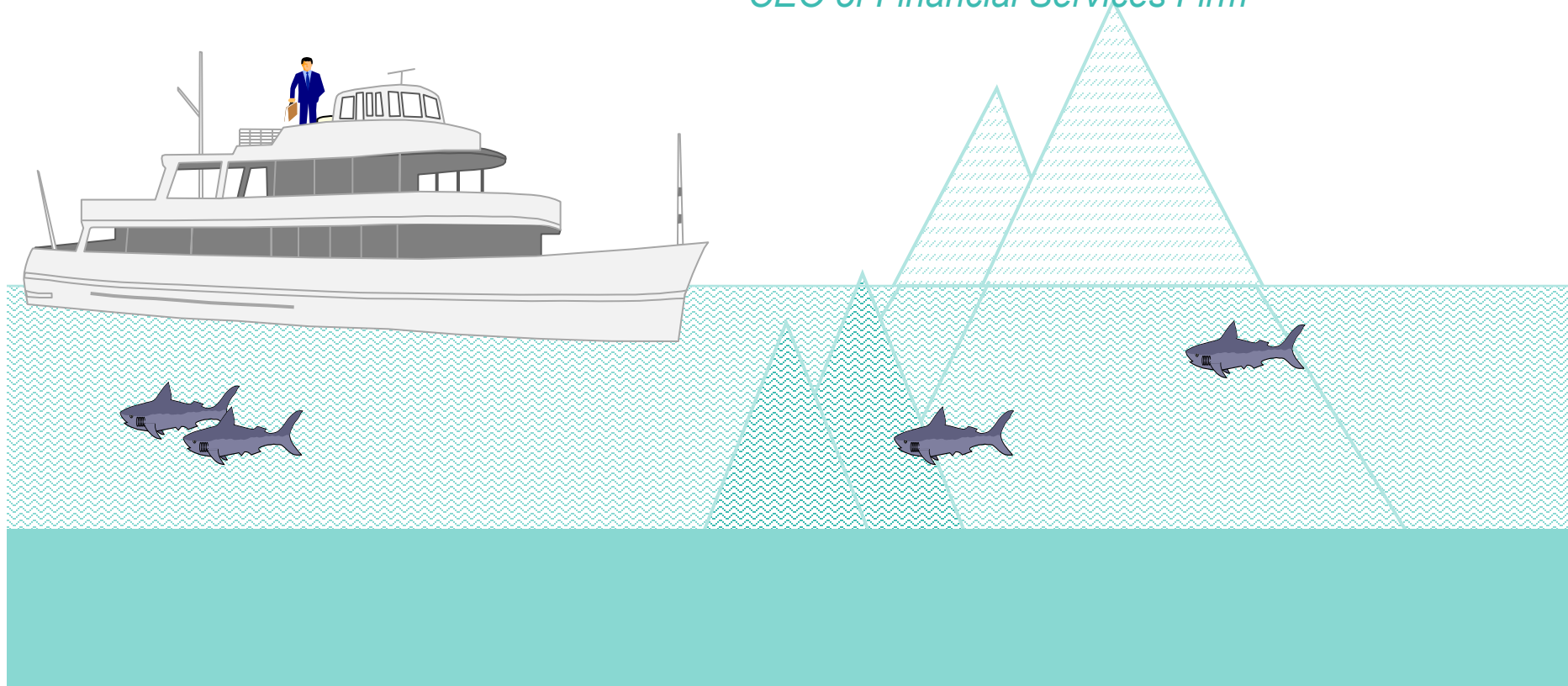
Intangible/Hidden Issues



“Organizational Silence” Prevents Discussion of Hidden Issues

Truth cannot speak to power

- “
- No one ever told me the whole truth
- ...
- – CEO of Financial Services Firm
- ”



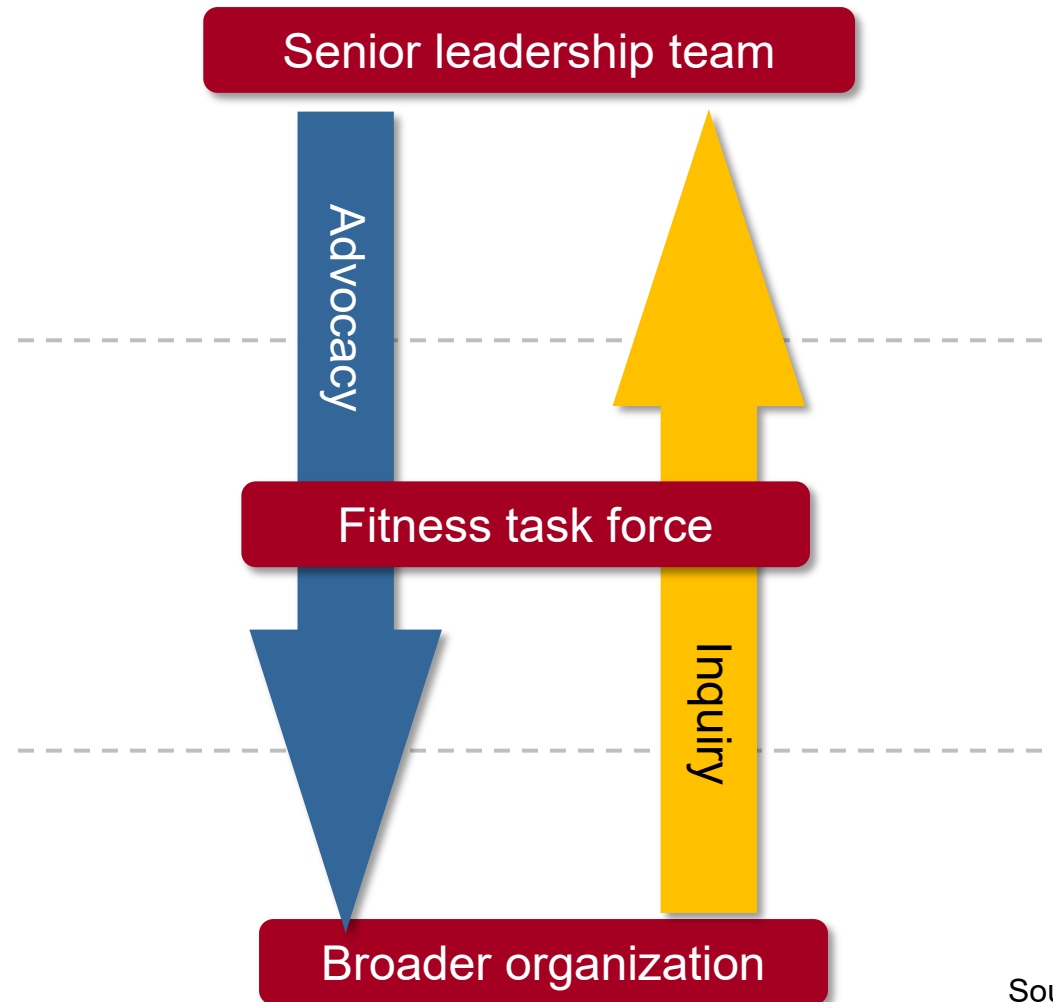
Example of Organizational Silence at SRSD

I think people did not know how to break through to it... You read about these bad marriages, where the wife and the husband both know what's wrong, they just can't find a way to talk to each other about it. And I think that's what was going on. We all knew the problems were there and I think we could not find a way to discuss it with each other in a constructive way.

Member of Senior Team:
HP's Santa Rosa Systems Division

We Invented The Strategic Fitness Process:

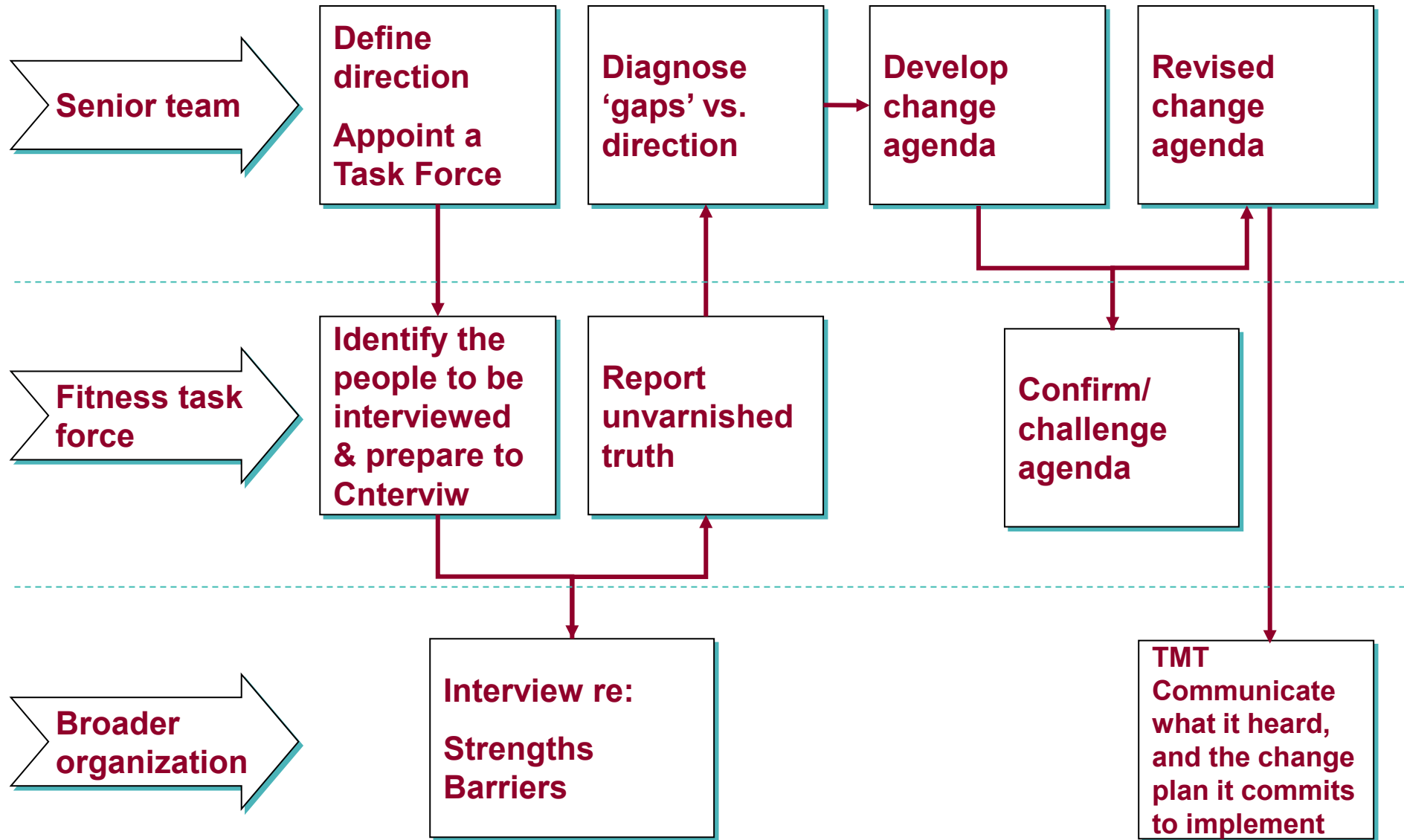
Enables an Honest, Collective and Public Conversations About Hidden Issues



Source: Beer & Eisenstat (2004)

The Strategic Fitness Process

9 Step roadmap for becoming an effective high commitment, performance organization



The “Fishbowl:”

Designed to put the unvarnished truth on the table

- Task members get a “seat at the table”
- Enables “unvarnished truth” to be heard and productively addressed by the leadership team
- Creates shared and broad ownership of key issues



“I never got hit by a punch I saw coming.”

– Peter Dunn, Steak n Shake CEO

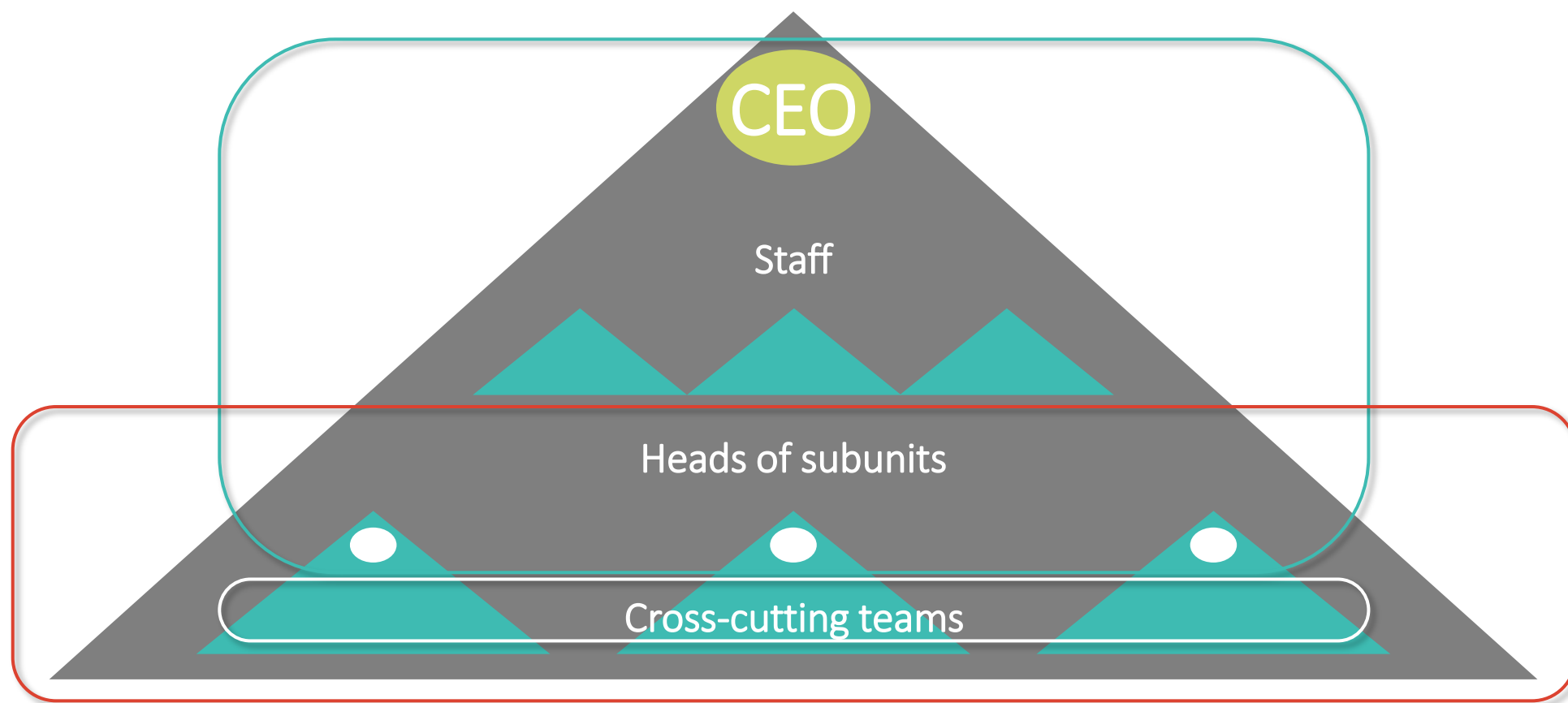
The Dynamics of an Ineffective Organization

A predictable (research-proven) set of barriers that often emerge during big change



The Silent Killer Dynamics Exist in Every Subunit of the Company

Corporate Transformations Require an Honest Conversation in Every Unit



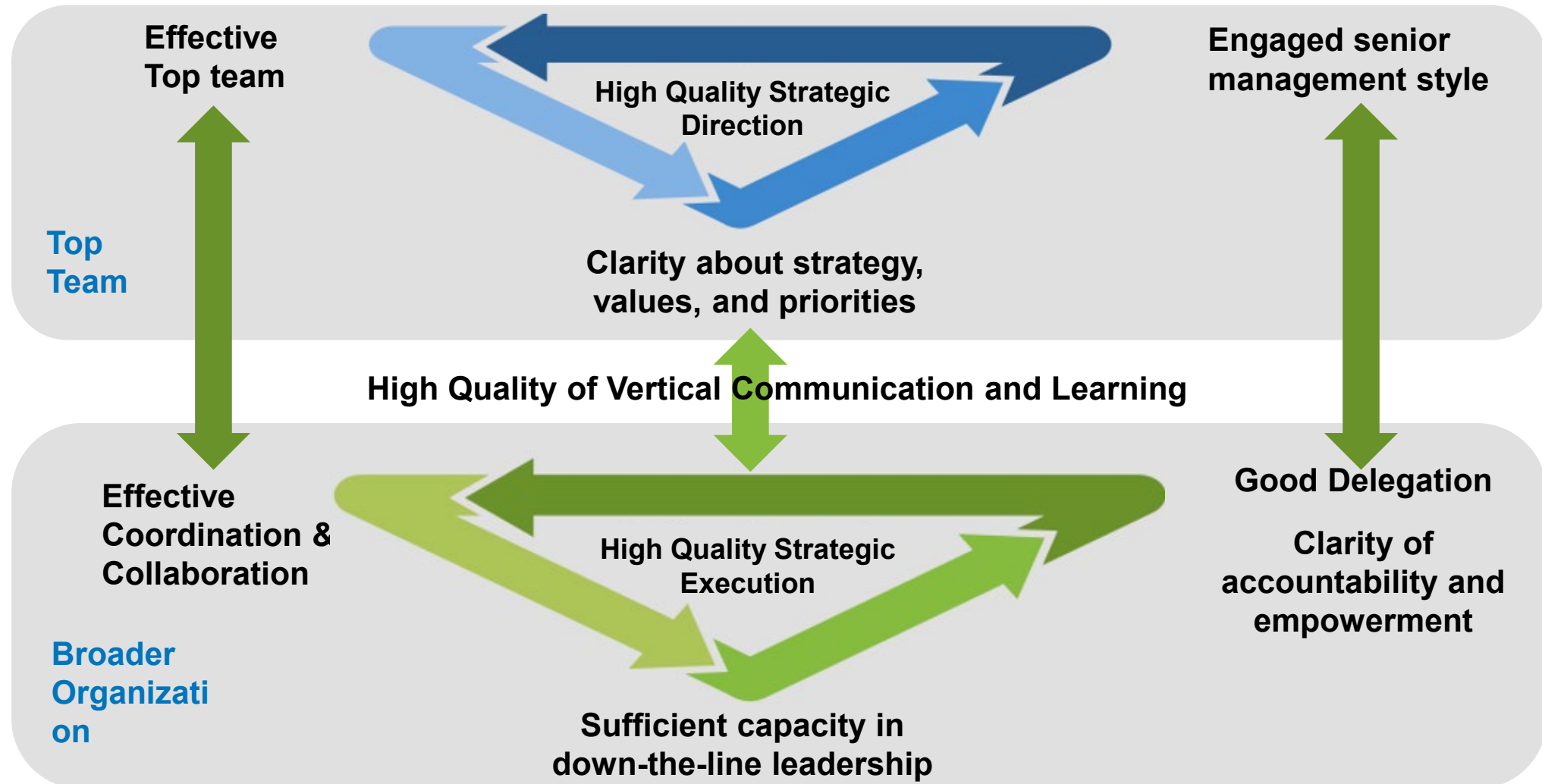
Adapted from the Beer Eisenstat & Spector, "The Critical Path to Corporate Renewal," 1990

The Power of Honest, Collective & Public Conversations

“The task force feedback really served several important roles. Not only did it function as a powerful tool to communicate difficult issues, but it also showed that that the top team cared about what employees thought and that we would not institute a change process without asking for their input. Also, I believe that by asking for their “unvarnished” opinions, the employees realized just how serious we were about improving SRSD’s effectiveness. To Scott Wright’s credit, he probably took the most amount of risk initiating a process like this. He acted as the linchpin, and without his involvement, a process like this would have been spinning its wheels.”

– George Mosby, Finance Manager

...The Dynamics of an **Effective** Organization



SRSD transformed from a functional
organization into a matrix focused on 4
businesses

“

Scott was faced with a real challenge...[but] I think they did a remarkable job of striking the balance between functional and business with the matrix. They have made it work. I give them a lot of credit for that. They speak with a coherent voice, which a functional organization normally lets you do better... They have grown the business and gotten good profits and results.

”

Dick Anderson
Group VP
Wright's Boss

The Transformation of HP's SRSD Business Unit

“It is the work they [Santa Rosa Systems Division] did on alignment [using the Strategic Fitness Process] that got them to come to grips with what business they wanted to go after and what the business model was that was needed...Today I see them as one of our star divisions.... Compared to other divisions, it probably is the most dramatic turnaround.”

Ned Barnholt
EVP Hewlett-Packard
Test and Measurement Sector

“We lost a lot of employee satisfaction and commitment as a result of our problems but regained it and more. People from other divisions now want to come to work here and they cite that interesting process – honest conversations (SFP) - that we conduct annually as one of the reasons.”

Jody Edwards
SRSD HR Manager

SRSD Performance: Sales Up 70%; Profits Up 702%

	Orders	Revenue	Net profit
FY 1993	266.7	240.3	3.7
FY 1994	255.3	235.0	4.20
FY 1995	339.9	293.4	25.6
FY 1996	357.9	365.1	37.9
FY 1997	340.2	392.2	25.6
FY 1998	332.1	365.7	14.8
FY 1999	361.5	376.9	33.7

Note

- Numbers in millions
- Our fiscal year ends October 31
- July 1994 was first Organization Alignment process

What Honest, Collective, and Public Conversations Accomplish



- Establishes a partnership with employees in developing effective organization and leadership
 - Provides valuable information – hidden organizational and leadership problems are made discussible and actionable
-
- Change efforts become more systemic – they address hard/head and soft/heart/behavioral issues simultaneously
 - Egos and politics are suppressed and willingness to sacrifice for “community” is enhanced
 - Trust and commitment increase dramatically
 - Transparency, learning, and accountability for change increases
 - Leaders are developed
 - Hope that change will really happen is rekindled – “this will not pass like other initiatives”

The Factors That Moderate are Also Produced by SFP

Strategic change is a unit-by-unit process

Start with leading units and progress to lagging units

SFP IS Not a Magic Bulle

Extent of Change in	Silent Killers	
Type of Organization	Change in Silent Killers	Extent of Overall Change
HP SRSD – BU	4.67	7.00
Toy Company	4.67	6.00
Pharma Co., Mexico BU	3.83	5.90
Tech. Co. B, BU	4.23	5.00
Tec. Comp. C, BU	4.33	5.20
Pharma Co. Brazil BU	5.00	5.00
Hotel Co. UK	0.33	5.00
Tech. Co. D. BU	2.33	4.38
Banking BU	2.17	3.00
Pharma Co. Argentina BU	1.90	3.33
Medical Tech. Co.	2.67	3.09
Privatized Gov. Agency	1.30	2.55

Factors That Moderate Learning and Change Through SFP

- Leader's Character & Behavior
- Performance Orientation and Pressure
- Organizational Culture
- Visible & Sustained Execution of Action Plan for Change
- Consultant Availability, Capability & Involvement

DEVELOPING CORPORATE EFFECTIVENESS REQUIRES INVESTMENT

WHY & HOW?

- **Entropy: Effectiveness declines overtime unless special efforts are made for continued development of the silent killers into strengths**
 - Leading effectively with human sensibilities is a learned capability subject to entropy
- **Develop an open, positive and engaged corporate culture**
- **Corporate transformation is a unit-by-unit process of learning and change - Track it unit by unit**
 - Corporate unit
 - Multiple strategic value adding units – business, regional, functional, operating units
 - The natural process of leader turnover undermines effectiveness of units
- **Institutionalize a learning and governance process:**
 - Use it as a test & develop leaders.
 - Replace leaders who do not have the courage to engage their people in honest conversations
- ***“It’s time to split the traditional HR function.”*** (Ram Charan, Well Known Mgt. Consultant)
 - Build a separate internal organization organization Development consulting capability

Corporate Transformation Through SFP is Possible

The Becton Dickinson Story

From hold – don't buy ----->admiration

From “no human values”----->high commitment

“Real leadership is getting [people] to do something they’ve never done or aren’t even sure is possible. It is by this measure that, we the analyst community, hold the past decade in such high regard. The transformation of BD from a 3.4 billion from a low margin medical products company to a high margin 7.8 billion, diverse global life science company is truly impressive.”

A thirty-Year Journey by Four CEOs who applied SFP at corporate & many units

The Principles Underlying Governance & Learning

- Create an organization-wide honest, collective and public conversation
- Focus the conversation on important issues that matter most
- Iterate between advocacy and inquiry
- Make it safe to share the whole truth through a structured process
- Reflect on the truth, diagnose root causes of problems, and develop an action plan for change
- Make yourself (the leadership team) accountable to the organization
- Recycle periodically. This makes continuous governance and learning process that makes continuous improvement improvement possible.

Q & A