

Transformational Change

This chapter presents interventions for transforming organizations—that is, for changing the basic character of the organization, including how it is structured and how it relates to its environment. These frame-breaking and sometimes revolutionary interventions go beyond improving the organization incrementally, focusing instead on changing the way it views itself and its environment. They bring about important alignments between the organization and its competitive environment and among the organization's strategy, design elements, and culture.

Transformational change can occur in response to or in anticipation of major changes in the organization's environment or technology. In addition, these changes often are associated with significant revision of the firm's business strategy, which, in turn, may require modifying internal structures and processes as well as its corporate culture to support the new direction. Such fundamental change entails a new paradigm for organizing and managing organizations. It involves qualitatively different ways of perceiving, thinking, and behaving in organizations. Movement toward this new way of operating requires senior executives to take an active leadership role. The change process is characterized by considerable innovation as members discover new ways of improving the organization and adapting it to changing conditions.

Transformational change is an emerging part of organization development, and there is some

confusion about its meaning and definition. This chapter starts with a description of several major features of transformational change. Against this background, three kinds of interventions are discussed: integrated strategic change, organization design, and culture change.

Integrated strategic change is a comprehensive OD intervention aimed at a single organization or business unit. It suggests that business strategy and organization design must be aligned and changed together to respond to external and internal disruptions. A strategic change plan helps members manage the transition between the current strategic orientation and the desired future strategic orientation.

Organization design addresses the different elements that comprise the "architecture" of the organization, including structure, work design, human resources practices, and management and information systems. It seeks to fit or align these components with each other so they direct members' behaviors in a strategic direction.

An organization's culture is the pattern of assumptions, values, and norms that are more or less shared by organization members. A growing body of research has shown that culture can affect strategy formulation and implementation as well as the firm's ability to achieve high levels of performance. Culture change involves helping senior executives and administrators diagnose the existing culture and make necessary alterations in the basic assumptions and values underlying organizational behaviors.

CHARACTERISTICS OF TRANSFORMATIONAL CHANGE

As the twenty-first century unfolds, a large number of organizations are radically altering how they operate and relate to their environments.¹ Increased global competition is forcing many organizations to downsize or consolidate and become leaner, more efficient, and flexible. Deregulation is pushing firms in the financial services,

telecommunications, and airline industries to rethink business strategies and reshape how they operate. Public demand for less government intervention and lowered deficits is forcing public sector agencies to streamline operations and to deliver more for less. Rapid changes in technologies render many organizational practices obsolete, pushing firms to be continually innovative and nimble.

Organization transformation implies radical changes in how members perceive, think, and behave at work. These changes go far beyond making the existing organization better or fine-tuning the status quo. They are concerned with fundamentally altering the prevailing assumptions about how the organization functions and relates to its environment. Changing these assumptions entails significant shifts in corporate values and norms and in the structures and organizational arrangements that shape members' behaviors. Not only is the magnitude of change greater, but the change fundamentally alters the qualitative nature of the organization.

Change Is Triggered by Environmental and Internal Disruptions

Organizations are unlikely to undertake transformational change unless significant reasons to do so emerge. Power, emotion, and expertise are vested in the existing organizational arrangements, and when faced with problems, organizations are more likely to fine-tune those structures than to alter them drastically. Thus, in most cases, organizations must experience or anticipate a severe threat to survival before they will be motivated to undertake transformational change.² Such threats arise when environmental and internal changes render existing organizational strategies and designs obsolete. The changes threaten the very existence of the organization as it presently is constituted.

In studying a large number of organization transformations, Tushman, Newman, and Romanelli showed that transformational change occurs in response to at least three kinds of disruption:³

1. **Industry discontinuities**—sharp changes in legal, political, economic, and technological conditions that shift the basis for competition within an industry
2. **Product life cycle shifts**—changes in product life cycle that require different business strategies
3. **Internal company dynamics**—changes in size, corporate portfolio strategy, or executive turnover.

These disruptions severely jolt organizations and push them to question their business strategy and, in turn, their mission, values, structure, systems, and procedures.

Change Is Aimed at Competitive Advantage

Transformational change is concerned with choices organizations make to improve their competitive performance. To establish a competitive advantage, organizations must achieve a favored position vis-à-vis their competitors or perform internally in ways that are unique, valuable, and difficult to imitate.⁴ Although typically associated with for-profit firms, these competitive criteria can also apply to nonprofit and governmental organizations. Activities that are unique, valuable, and difficult to imitate enhance the organization's performance by establishing a competitive advantage over its rivals.

Uniqueness All organizations possess a unique bundle of resources and processes which, individually or in combination, represent the source of competitive advantage. An important task in transformational change is to understand these unique organizational features. For example, resources can be financial, such as access to low-cost

capital; reputational, such as brand image or a history of product quality; technological, such as patents, know-how, or a strong research and development department; and human, such as excellent labor-management relationships or employees with scarce and valuable skills. Apple's reputation as a leading-edge innovator of consumer electronic products, such as the iPod and iPhone, makes a powerful case for how resources alone can represent a unique advantage.

An organization's processes—regular patterns of organizational activity involving a sequence of tasks performed by individuals⁵—use resources to produce goods and services. For example, a software development process combines computer resources, programming languages, typing skills, knowledge of computer languages, and customer requirements to produce a new software application. Other organizational processes include new product development, strategic planning, appraising member performance, making sales calls, fulfilling customer orders, and the like. When resources and processes are formed into *capabilities* that allow the organization to perform complex activities better than others, a distinctive competence is identified.⁶ Collins found that a key determinant in an organization's transition from "good to great" was a clear understanding and commitment to the one thing an organization does better than anyone else.⁷

Value Organizations achieve competitive advantage when their unique resources and processes are arranged in such a way that products or services either warrant a higher-than-average price or are exceptionally low in cost. Both advantages are valuable according to a performance/price criterion. Products and services with highly desirable features or capabilities, although expensive, are valuable because of their ability to satisfy customer demands for high quality or some other performance dimension. BMW automobiles are valuable because the perceived benefits of superior handling exceed the price paid. On the other hand, outputs that cost little to produce are valuable because of their ability to satisfy customer demands at a low price. Hyundai automobiles are valuable because they provide basic transportation at a low price. BMW and Hyundai are both profitable, but they achieve that outcome through different value propositions.

Difficult to Imitate Finally, competitive advantage is sustainable when unique and valuable resources and processes are difficult to mimic or duplicate by other organizations.⁸ Organizations have devised a number of methods for making imitation difficult. For example, they can protect their competitive advantage by making it difficult for other firms to identify their distinctive competence. Disclosing unimportant information at trade shows or forgoing superior profits can make it difficult for competitors to identify an organization's strengths. Organizations also can aggressively pursue a range of opportunities, thus raising the cost for competitors who try to replicate their success. Finally, organizations can seek to retain key human resources through attractive compensation and reward practices like those described in Chapter 17, thereby making it more difficult and costly for competitors to attract such talent.

The success of a competitive strategy depends on organization responses that result in unique, valuable, and difficult-to-imitate advantages. Transformational change assists organizations in developing these advantages and managing strategic change.

Change Is Systemic and Revolutionary

Transformational change involves reshaping the organization's design elements and culture. These changes can be characterized as systemic and revolutionary because the entire nature of the organization is altered fundamentally. Typically driven by senior executives, change may occur rapidly so that it does not get mired in politics, individual resistance, and other forms of organizational inertia.⁹ This is particularly pertinent

to changing the different features of the organization, such as structure, information systems, human resources practices, and work design. These features tend to reinforce one another, thus making it difficult to change them in a piecemeal manner.¹⁰ They need to be changed together and in a coordinated fashion so that they can mutually support each other and the new cultural values and assumptions.¹¹ Ultimately, these changes should motivate and direct people's behavior in a new strategic direction. They are considered transformational when a majority of individuals in an organization change their behavior.¹²

Long-term studies of organizational evolution underscore the revolutionary nature of transformational change.¹³ They suggest that organizations typically move through relatively long periods of smooth growth and operation. These periods of convergence or evolution are characterized by incremental changes. At times, however, most organizations experience severe external or internal disruptions that render existing organizational arrangements ineffective. Successful firms respond to these threats to survival by transforming themselves to fit the new conditions. These periods of total system and quantum changes represent abrupt shifts in the organization's structure, culture, and processes. If successful, the shifts enable the organization to experience another long period of smooth functioning until the next disruption signals the need for drastic change.¹⁴

These studies of organization evolution and revolution point to the benefits of implementing transformational change as rapidly as possible. The faster the organization can respond to disruptions, the quicker it can attain the benefits of operating in a new way. Rapid change enables the organization to reach a period of smooth growth and functioning sooner, thus providing it with a competitive advantage over those firms that change more slowly.

Change Demands a New Organizing Paradigm

Organizations undertaking transformational change are, by definition, involved in second-order or gamma types of change.¹⁵ *Gamma change* involves discontinuous shifts in mental or organizational frameworks.¹⁶ Creative metaphors, such as "organization learning" or "continuous improvement," are often used to help members visualize the new paradigm.¹⁷ Increases in technological change, concern for quality, and worker participation have led many organizations to shift their organizing paradigm. Characterized as the transition from a "control-based" to a "commitment-based" organization, the features of the new paradigm include leaner, more flexible structures; information and decision making pushed down to the lowest levels; decentralized teams and business units accountable for specific products, services, or customers; and participative management and teamwork. This new organizing paradigm is well suited to changing conditions.

Change Is Driven by Senior Executives and Line Management

A key feature of transformational change is the active role of senior executives and line managers in all phases of the change process.¹⁸ They are responsible for the strategic direction and operation of the organization and actively lead the transformation. They decide when to initiate transformational change, what the change should be, how it should be implemented, and who should be responsible for directing it. Because existing executives may lack the talent, energy, and commitment to undertake these tasks, they may be replaced by outsiders who are recruited to lead the change. Research on transformational change suggests that externally recruited executives are three times more likely to initiate such change than are existing executives.¹⁹

The critical role of executive leadership in transformational change is clearly emerging. Lucid accounts of transformational leaders describe how executives, such as Jack

Welch at General Electric, Lou Gerstner at IBM, and Sir Colin Marshall at British Airways, actively managed both the organizational and personal dynamics of transformational change.²⁰ The work of Nadler, Tushman, and others points to three key roles for executive leadership of such change:²¹

1. **Envisioning.** Executives must articulate a clear and credible vision of the new strategic orientation. They also must set new and difficult standards for performance, and generate pride in past accomplishments and enthusiasm for the new strategy.
2. **Energizing.** Executives must demonstrate personal excitement for the changes and model the behaviors that are expected of others. Behavioral integrity, credibility, and "walking the talk" are important ingredients.²² They must communicate examples of early success to mobilize energy for change.
3. **Enabling.** Executives must provide the resources necessary for undertaking significant change and use rewards to reinforce new behaviors. Leaders also must build an effective top-management team to manage the new organization and develop management practices to support the change process.

Change Involves Significant Learning

Transformational change requires much learning and innovation.²³ Organizational members must learn how to enact the new behaviors required to implement new strategic directions. This typically involves trying new behaviors, assessing their consequences, and modifying them if necessary. Because members usually must learn qualitatively different ways of perceiving, thinking, and behaving, the learning process is likely to be substantial and to involve much unlearning. It is directed by a vision of the future organization and by the values and norms needed to support it. Learning occurs at all levels of the organization, from senior executives to lower-level employees.

Because the environment itself is likely to be changing during the change process, transformational change rarely has a delimited time frame but is likely to persist as long as the firm needs to adapt to change. Learning how to manage change continuously can help the organization keep pace with a dynamic environment. It can provide the built-in capacity to fit the organization continually to its environment. Chapter 21 presents OD interventions for helping organizations gain this capability for continuous change and learning.

INTEGRATED STRATEGIC CHANGE

Integrated strategic change (ISC) extends traditional OD processes into the content-oriented discipline of strategic management. It is a deliberate, coordinated process that leads gradually or radically to systemic realignments between the environment and a firm's strategic orientation, and that results in improvement in performance and effectiveness.²⁴

The ISC process was initially developed by Worley, Hitchin, and Ross in response to managers' complaints that good business strategies often are not implemented.²⁵ Research suggests that too little attention is given to the change process and human resources issues necessary to execute strategy.²⁶ The predominant paradigm in strategic management—formulation and implementation—artificially separates strategic thinking from operational and tactical actions; it ignores the contributions that planned change processes can make to implementation.²⁷ In the traditional process, senior managers and strategic planning staff prepare economic forecasts, competitor analyses, and market studies. They discuss these studies and rationally align the firm's strengths and weaknesses with environmental opportunities and threats to

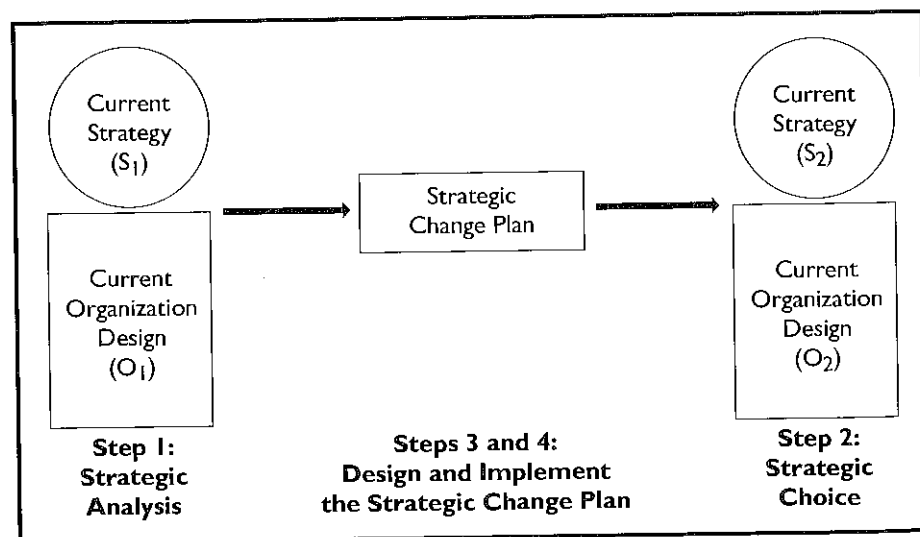
form the organization's strategy.²⁸ Then, implementation occurs as middle managers, supervisors, and employees hear about the new strategy through memos, restructuring announcements, changes in job responsibilities, or new departmental objectives. Consequently, because participation has been limited to top management, there is little understanding of the need for change and little ownership of the new behaviors, initiatives, and tactics required to achieve the announced objectives.

Key Features ISC, in contrast to the traditional process, was designed to be a highly participative process. It has three key features:²⁹

1. The relevant unit of analysis is the organization's *strategic orientation* comprising its strategy and organization design. Strategy and the design that supports it must be considered as an integrated whole.
2. Creating the strategic plan, gaining commitment and support for it, planning its implementation, and executing it are treated as one integrated process. The ability to repeat such a process quickly and effectively when conditions warrant is valuable, rare, and difficult to imitate. Thus, a strategic change capability represents a sustainable competitive advantage.³⁰
3. Individuals and groups throughout the organization are integrated into the analysis, planning, and implementation process to create a more achievable plan, to maintain the firm's strategic focus, to direct attention and resources on the organization's key competencies, to improve coordination and integration within the organization, and to create higher levels of shared ownership and commitment.

Application Stages The ISC process is applied in four phases: performing a strategic analysis, exercising strategic choice, designing a strategic change plan, and implementing the plan. The four steps are discussed sequentially here but actually unfold in overlapping and integrated ways. Figure 20.1 displays the steps in the ISC process and its change components. An organization's existing strategic orientation, identified as

[Figure 20.1]
The Integrated Strategic Change Process



its current strategy (S_1) and organization design (O_1), is linked to its future strategic orientation (S_2/O_2) by the strategic change plan.

1. **Performing the strategic analysis.** The ISC process begins with a diagnosis of the organization's readiness for change and its current strategy and organization design (S_1/O_1). The most important indicator of readiness is senior management's willingness and ability to carry out strategic change. Greiner and Schein suggest that the two key dimensions in this analysis are the leader's willingness and commitment to change and the senior team's willingness and ability to follow the leader's initiative.³¹ Organizations whose leaders are not willing to lead and whose senior managers are not willing and able to support the new strategic direction when necessary should consider team-building processes to ensure their commitment.

The second stage in strategic analysis is understanding the current strategy and organization design. The process begins with an examination of the organization's industry as well as its current financial performance and effectiveness. This information provides the necessary context to assess the current strategic orientation's viability. Porter's model of industry attractiveness³² and the environmental framework introduced in Chapter 5 are the two most relevant models for analyzing the environment.

Next, the current strategic orientation is described to explain current levels of performance and human outcomes. Several models for guiding this diagnosis exist.³³ For example, the organization's current strategy, structure, and processes can be assessed according to the model and methods introduced in Chapter 5. A metaphor or other label that describes how the organization's mission, objectives, and business policies lead to improved performance can be used to represent strategy. 3M's traditional strategy of "differentiation" aptly summarizes its mission to solve unsolved problems innovatively, its goal of having a large percentage of current revenues come from products developed in the last five years, and its policies that support innovation, such as encouraging engineers to spend up to 15% of their time on new projects. An organization's objectives, policies, and budgets signal which parts of the environment are important, and allocate and direct resources to particular environmental relationships.³⁴ Intel's new-product development objectives and allocation of more than 20% of revenues to research and development signal the importance of its linkage to the technological environment.

The organization's design is described by the structure, work design, information system, and human resources system. Other models for understanding the organization's strategic orientation include the competitive positioning model³⁵ and other typologies.³⁶ These frameworks assist in assessing customer satisfaction; product and service offerings; financial health; technological capabilities; and organizational culture, structure, and systems.

The strategic analysis process actively involves organization members. Large group conferences; employee focus groups; interviews with salespeople, customers, and purchasing agents; and other methods allow a variety of employees and managers to participate in the diagnosis and increase the amount and relevance of the data collected. This builds commitment to and ownership of the analysis; should a strategic change effort result, members are more likely to understand why and be supportive of it.

2. **Exercising strategic choice.** Once the existing strategic orientation is understood, a new one must be designed. For example, the strategic analysis might reveal misfits among the organization's environment, strategic orientation, and performance. These misfits can be used as inputs for crafting the future strategy and organization design. Based on this analysis, senior management formulates visions for the future and broadly defines two or three alternative sets of strategies and objectives

for achieving those visions. Market forecasts, employees' readiness and willingness to change, competitor analyses, and other projections can be used to develop the alternative future scenarios.³⁷ The different sets of strategies and objectives also include projections about the organization design changes that will be necessary to support each alternative. Although participation from other organizational stakeholders is important in the alternative generation phase, choosing the appropriate strategic orientation ultimately rests with top management and cannot easily be delegated. Senior executives are in the unique position of viewing a strategy from a general-management position. When major strategic decisions are given to lower-level managers, the risk of focusing too narrowly on a product, market, or technology increases.

This step determines the content or "what" of strategic change. The desired strategy (S_2) defines the products or services to offer, the markets to be served, and the way these outputs will be produced and positioned. The desired organization design (O_2) specifies the organization structures and processes necessary to support the new strategy. Aligning an organization's design with a particular strategy can be a major source of superior performance and competitive advantage.³⁸

3. **Designing the strategic change plan.** The strategic change plan is a comprehensive agenda for moving the organization from its current strategy and organization design to the desired future strategic orientation. It represents the process or "how" of strategic change. The change plan describes the types, magnitude, and schedule of change activities, as well as the costs associated with them. It also specifies how the changes will be implemented, given power and political issues; the nature of the organizational culture; and the current ability of the organization to implement change.³⁹
4. **Implementing the plan.** The final step in the ISC process is the actual implementation of the strategic change plan. This draws heavily on knowledge of motivation, group dynamics, and change processes. It deals continuously with such issues as alignment, adaptability, teamwork, and organizational and personal learning. Implementation requires senior managers to champion the different elements of the change plan. They can, for example, initiate action and allocate resources to particular activities, set high but achievable goals, and provide feedback on accomplishments. In addition, leaders must hold people accountable to the change objectives, institutionalize the changes that occur, and be prepared to solve problems as they arise. This final point recognizes that no strategic change plan can account for all of the contingencies that emerge. There must be a willingness to adjust the plan as implementation unfolds to address unforeseen and unpredictable events and to take advantage of new opportunities.

Application 20.1 describes an integrated strategic change process at Microsoft Canada and demonstrates how the process was refined over time as the organization built its capability in strategic management.

ORGANIZATION DESIGN

Organization design configures the organization's structure, work design, human resources practices, and management and information systems to guide members' behaviors in a strategic direction. This intervention typically occurs in response to a major change in the organization's strategy that requires fundamentally new ways for the organization to function and members to behave. It involves many of the organizational features discussed in previous chapters such as restructuring organizations (Chapter 14), work design (Chapter 16), and performance management (Chapter 17). Because they all significantly affect member behavior, organization

Managing Strategic Change at Microsoft Canada

Microsoft Canada is a subsidiary of the Microsoft Corporation responsible for the marketing, sales, and service of the full range of software products, including the Windows operating systems, the Office productivity suite, a variety of .Net products, and the Xbox video game console. The organization marketed to a variety of segments, such as software application developers, small and medium business, and large enterprises, through a broad range of partners that worked directly with the client organizations to install and optimize the software's use. A small service organization, along with the partner, provided consulting support to clients.

Prior to 2001, Microsoft Canada had been part of the North American subsidiary. Under this structure, the large U.S. market was clearly the focus of attention for Microsoft's server, desktop, and other software products. However, Frank Clegg, President of Microsoft Canada, argued that the Canadian market was different and underdeveloped. It had a different mix of customers than did the United States, different competitors, and different growth opportunities. Moreover, software sales and personal computer shipments as a percentage of the market's size and growth were below worldwide averages. These differences, Clegg argued, warranted a specialized strategy.

As the fiscal year ended, Clegg and his newly appointed Director of Strategic Planning, Sandra Palmero, wanted to seize the opportunity to define a uniquely Canadian strategy. Prior to becoming Director of Strategic Planning, Palmero had been Director of Marketing and Corporate Communications in Microsoft Canada. There, with Richard Reynolds, her senior marketing manager, they had crafted and implemented a participative process of strategic planning. Palmero contacted the OD practitioner who had worked with them and contracted to design and implement a strategic planning process for the Canadian organization. Over a two-month period, Palmero conceived of a series of workshops involving the Canadian Leadership Team (CLT). This team represented a broad cross section of the organization, including representatives from the legal staff, human resources, Microsoft's consulting and service business, marketing managers, customer

support, and managers responsible for different segments of Microsoft's business, including enterprise customers, small and medium business, Xbox, and the Microsoft Network (MSN).

The strategic analysis phase consisted of preliminary work by several members of the CLT as well as initial exercises during the first workshop. Members of the CLT each prepared an analysis of their respective area of responsibility. For example, the enterprise sales manager provided historical growth rates in revenues, developed forecasts for market growth and Microsoft's share, described current levels of customer satisfaction, and a technology road map of products being developed by the Redmond headquarters organization. In addition to these specific analyses, Palmero contracted with a market-research firm to provide overall descriptions of the Canadian information technology market. Finally, a competitor analysis was performed to develop an understanding of likely strategies, goals, and initiatives from key competitors such as IBM, Oracle, and Sun Microsystems, as well as the competitive threat posed by the Linux operating system software.

During the first workshop, the CLT used the pre-work data to perform an environmental scan. They discussed, debated, and ultimately came to some agreements about the trends affecting the organization. Based on that scan, the group engaged in a vision and value formulation exercise and set out an initial list of short- and long-term goals. These activities led to several important decisions for the new marketing organization. For example, the vision and values exercise produced important insights about what the Canadian organization stood for, its uniqueness compared to other marketing subsidiaries within the Microsoft organization, and its strengths in competing as a Canadian organization. The values also informed discussions about future goals and the strategy for achieving them. Importantly, the Canadian leadership realized that customer loyalty would and should become a driving force for the organization. This realization led to passionate discussions about the relative emphasis in the organization on revenues versus customer satisfaction and loyalty. It also led

to the development of a Big Hairy Audacious Goal (BHAG) that the members of the CLT believed would be challenging but achievable.

The first workshop ended with a number of assignments, unresolved issues, and excitement about the future. In between the first and second workshops, members of the CLT worked with their own organizations. Issues, decisions, and questions that were addressed within the CLT were discussed throughout the organization. The most important discussion concerned the BHAG and the relative emphasis of revenues and customer loyalty over the short and the long term. A consensus began to emerge that the right and proper strategy for Microsoft Canada was to argue for a slower growth rate in revenues in the short term, invest in customer satisfaction and loyalty, and then leverage that loyalty for a more secure stream of revenues in the future.

Frank Clegg took this idea to the executives in Redmond and discussed the implications of this strategy, including revenue projections, budget implications, the risks involved, and how the strategy aligned with corporate and other marketing organizations' initiatives. The results of these conversations became the subject of opening discussions at the second workshop.

The cautious but positive support from the corporate organization allowed the CLT to move forward on its strategic intent. In the second workshop, the organization's mission and values were finalized, year-by-year revenue goals were agreed upon to achieve the BHAG, and these goals were broken down and assigned to specific groups and managers. Finally, key customer and partner-loyalty programs were established and outlined. Ownership for the different initiatives was assigned and a strategic

change plan emerged. Clegg pressed the group on its decision to emphasize customer loyalty and challenged the group with several scenarios that tempted them to trade off satisfaction for revenue. These scenarios helped cement the CLT's commitment to their strategy.

An important part of the strategic change plan that emerged was a discussion and decision to tie the individual performance appraisals of CLT members to the achievement of both revenue and customer satisfaction goals. The CLT as a whole also staked their end-of-fiscal-year bonuses to the achievement of customer satisfaction, rather than revenue goals.

The strategic change efforts at Microsoft Canada are important for several reasons. First, the Canadian organization's realization of the importance of customer satisfaction and loyalty was influential in moving the larger Microsoft Corporation to examine its values in this area. *Business Week* reported on the changes Steve Ballmer was making in the organization; they reflected the increased importance of customer loyalty in Microsoft's strategy and structure changes. Second, the organization learned how to organize a strategic planning effort. In the two years since this effort began, Sandra Palmero has built a stronger strategic planning organization and has taken more and more responsibility for driving the strategic planning process. Even as the corporate Microsoft organization was making important changes in its reporting structure, financial systems, and business processes, the Canadian organization was able to adapt using its own resources and knowledge. Finally, the BHAG has become an institutionalized part of the organization that drives thinking and decision making in the organization.

design constructs them to fit with each other so they all mutually reinforce the desired behavior in the new strategic direction. This comprehensive intervention contrasts sharply with piecemeal approaches that address the design elements separately and thus risk misaligning them with each other and sending mixed signals about desired behaviors. For example, many organizations have experienced problems implementing team-based structures because their existing information and reward systems emphasize individual-based performance.

Conceptual Framework

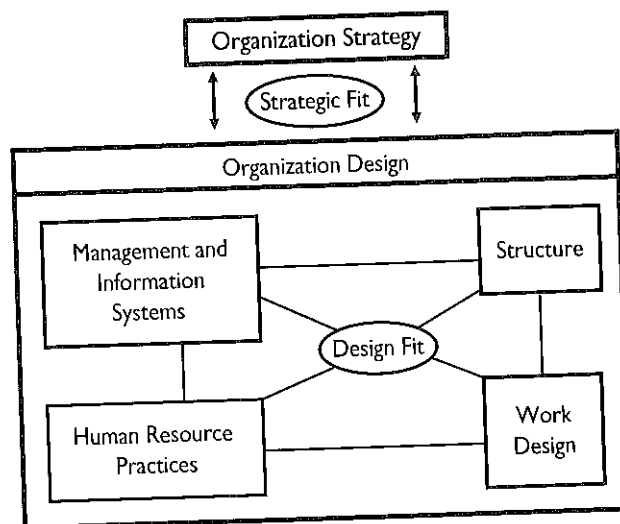
A key notion in organization design is "fit," "congruence," or "alignment" among the organizational elements.⁴⁰ Figure 20.2 presents a systems model showing the different components of organization design and the interdependencies among them. It highlights the idea that the organization is designed to support a particular strategy (strategic fit) and that the different design elements must be aligned with each other and all work together to guide members' behavior in that strategic direction (design fit). Research shows that the better these fits, the more effective the organization is likely to be.⁴¹

Most of the design components have been described previously in this book, so they are reviewed briefly below.

- **Strategy** determines how the organization will use its resources to gain competitive advantage. It may focus on introducing new products and services (innovation strategy), controlling costs and reducing prices (cost-minimization strategy), or some combination of both (imitation strategy). Strategy sets the direction for organization design by identifying the criteria for making design choices and the organizational capabilities needed to make the strategy happen.
- **Structure** has to do with how the organization divides tasks, assigns them to departments, and coordinates across them. It generally appears on an organization chart showing the chain of command—where formal power and authority reside and how departments relate to each other. Structures can be highly formal and promote control and efficiency, such as a functional structure; or they can be loosely defined and flexible and favor change and innovation, such as a matrix, process, or network structure.
- **Work design** specifies how tasks are performed and assigned to jobs or groups. It can create traditional jobs and groups that involve standard tasks with little task variety and decision making, or enriched jobs and self-managed teams that involve highly variable, challenging, and discretionary work.

[Figure 20.2]

Organization Design Model



- **Human resources practices** involve selecting people and training, developing, and rewarding them. These methods can be oriented to hiring and paying people for specific jobs, training them when necessary, and rewarding their individual performance. Conversely, human resources practices can also select people to fit the organization's culture, continually develop them, and pay them for learning multiple skills and contributing to business success.
- **Management and information systems** have to do with how employees are led and the nature and kinds of information they are provided to guide their work. Managers can lead through command and control, relying on hierarchical authority and the chain of command; or they can be highly participative and facilitate employee involvement in decision making. Information systems can be highly centralized, with limited access and data sharing; or they can be open and distribute copious information throughout the organization.

Table 20.1 shows how these design components can be configured into two radically different organization designs: *mechanistic*, supporting efficiency and control, and *organic*, promoting innovation and change.⁴² Mechanistic designs have been prevalent in organizations for over a century; they propelled organizations into the industrial age. Today, competitive conditions require many organizations to be more flexible, fast, and inventive.⁴³ Thus, organization design is aimed more and more at creating organic designs, both in entirely new start-ups and in existing firms that reconfigure mechanistic designs to make them more organic. Designing a new organization is much easier than redesigning an existing one in which multiple sources of inertia and resistance to change are likely embedded.

As shown in Table 20.1, a mechanistic design supports an organization strategy emphasizing cost minimization, such as might be found at Wal-Mart and McDonalds or

[Table 20.1]

Organization Designs

	MECHANISTIC DESIGN	ORGANIC DESIGN
Strategy	• Cost minimization	• Innovation
Structure	• Formal/hierarchical • Functional	• Flat, lean, and flexible • Matrix, process, and network
Work design	• Traditional jobs • Traditional work groups	• Enriched jobs • Self-managed teams
Human Resources Practices	• Selection to fit job • Up-front training • Standard reward mix • Pay for performance and individual merit • Job-based pay	• Selection to fit organization • Continuous training and development • Individual choice rewards • Pay for performance and business success • Skill-based pay
Management and Information Systems	• Command and control • Closed, exclusive, centralized information	• Employee involvement • Open, inclusive, distributed information

other firms competing on price. The organization tends to be structured into functional departments, with employees performing similar tasks grouped together for maximum efficiency. The managerial hierarchy is the main source of coordination and control. Accordingly, work design follows traditional principles, with jobs and work groups being highly standardized with minimal decision making and skill variety. Human resources practices are geared toward selecting people to fit specific jobs and training them periodically when the need arises. Employees are paid on the basis of the job they perform, share a standard set of fringe benefits, and achieve merit raises based on their individual performance. Management practices stress command and control, with power concentrated at the top of the organization and orders flowing downward through the chain of command. Similarly, information systems are highly centralized, limited in access, and do not permit sharing data widely in the organization. When taken together, all of these design elements direct organizational behavior toward efficiency and cost minimization.

Table 20.1 shows that an organic design supports an organization strategy aimed at innovation, such as might be found at 3M, Apple Computer, and Intel or other firms competing on new products and services. All the design elements are geared to getting employees directly involved in the innovation process, facilitating interaction among them, developing and rewarding their knowledge and expertise, and providing them with relevant and timely information. Consequently, the organization's structure tends to be flat, lean, and flexible like the matrix, process, and network structures described in Chapter 14. Work design is aimed at employee motivation and decision making with enriched jobs and self-managed teams. Human resources practices focus on attracting, motivating, and retaining talented employees. They send a strong signal that employees' knowledge and expertise are key sources of competitive advantage. Members are selected to fit an organization culture valuing participation, teamwork, and invention. Training and development are intense and continuous. Members are rewarded for learning multiple skills, have choice about fringe benefits, and gain merit pay based on the business success of their work unit. Management practices are highly participative and promote employee involvement. Information systems are highly open and inclusive, providing relevant and timely information throughout the organization. In sum, these design choices guide members' behaviors toward change and innovation.

Application Stages Organization design can be applied to the whole organization or to a major subpart such as a large department or stand-alone unit. It can start from a clean slate in a new organization or reconfigure an existing organization design. To construct the different design elements appropriately requires broad content knowledge of them. Thus, organization design typically involves a team of OD practitioners with expertise in corporate strategy, organization structure, work design, human resources practices, and management and information systems. This team works closely with senior executives who are responsible for determining the organization's strategic direction and leading the organization design intervention. The design process itself can be highly participative, involving stakeholders from throughout the organization. This can increase the design's quality and stakeholders' commitment to implementing it.⁴⁴

Organization design generally follows the three broad steps outlined below.⁴⁵ Although they are presented sequentially, in practice they are highly interactive, often feeding back on each other and requiring continual revision as the process unfolds.

1. **Clarifying the design focus.** This preliminary stage involves assessing the organization to create the overall framework for design. It starts with examining the organization's strategy and objectives and determining what organization capabilities are needed to achieve them. These become the design criteria for making

choices about how to configure the design components. Then, the organization is assessed against these design criteria to uncover gaps between how it currently functions and is designed and the desired capabilities. This gap analysis identifies current problems the design intervention should address. It provides information for determining which design elements will receive the most attention and the likely magnitude and time frame of the design process.

2. **Designing the organization.** This key step in organization design involves configuring the design components to support the organization's strategy and objectives. It starts with a broad outline of how the organization should be structured and how the design components should fit together to form a particular design usually falling somewhere along the continuum from mechanistic to organic. Senior executives responsible for the overall direction of the organization typically design this overarching structure. Next, the design process addresses the specific details of the components, which involves generating alternatives and making specific design choices. A broader set of organizational members often participates in these decisions, relying on its own as well as experts' experience and know-how, knowledge of best practices, and information gained from visits to other organizations willing to share design experience. This stage results in an overall design for the organization, detailed designs for the components, and preliminary plans for how they will fit together and be implemented.
3. **Implementing the design.** The final step involves making the new design happen by putting into place the new structures, practices, and systems. It draws heavily on the methods for leading and managing change discussed in Chapter 10 and applies them to the entire organization or subunit, and not just limited parts. Because organization design generally involves large amounts of transformational change, this intervention can place heavy demands on the organization's resources and leadership expertise. Members from throughout the organization must be motivated to implement the new design; all relevant stakeholders must support it politically. Organization designs usually cannot be implemented in one step but must proceed in phases that involve considerable transition management. They often entail significant new work behaviors and relationships that require extensive and continuous organization learning.

Application 20.2 describes organization design at Deere & Company.⁴⁶ It illustrates how the different design elements must fit together and reinforce each other to promote a high-performance organization.

CULTURE CHANGE

The topic of organization culture is becoming a very important one to companies, and the number of culture change interventions has grown accordingly. Organization culture is also the focus of growing research and OD application and has spawned a number of best-selling management books starting with *Theory Z*, *The Art of Japanese Management*, and *In Search of Excellence* and, more recently, *Built to Last* and *Corporate Culture and Performance*.⁴⁷ Organization culture is seen as a major strength of such companies as Herman Miller, Intel, PepsiCo, Motorola, Hewlett-Packard, Southwest Airlines, and Levi Strauss. A growing number of managers appreciate the power of corporate culture in shaping employee beliefs and actions. A well-conceived and well-managed organization culture, closely linked to an effective business strategy, can mean the difference between success and failure in today's demanding environments.

Organization Design at Deere & Company

Deere & Company, one of the world's leading producers of agricultural, construction, forestry, and turf care equipment, has a rich history of dedicated employees, quality products, and loyal customers. When Robert W. Lane, an 18-year veteran of Deere, became Chairman and CEO in August of 2000, however, economic and organizational problems were threatening this tradition. The company's operations were capital intensive, extremely decentralized, and spread across a diversity of products with highly cyclical business cycles. This meant that overall company profitability required constant vigilance and comparison of profit margins across products with an eye to reducing cyclical swings and to optimizing the whole business and not just a particular business unit. Unfortunately, Deere focused too loosely on managing assets and profit margins and was too decentralized to do business this way, often wasting economic value. Lane described the firm as "asset heavy and margin lean." Moreover, Deere was having problems keeping pace with a rapidly changing and demanding global business environment.

With the support of a unified senior team, Lane immediately created a plan to manage assets more efficiently, to make a new generation of products geared to emerging market demands, and to reduce the firm's vulnerability to cyclical swings and uncertain agriculture and construction markets which together accounted for about 70% of Deere's sales. To make the plan work over the next several months, Lane made a number of related changes in the company's management and information systems, structure, and human resources practices.

Deere's redesign effort started with a simple yet powerful approach to measuring firm performance: shareholder value added (SVA), which is net operating profit after taxes minus cost of capital. Because this value-based metric is straightforward and intuitive, it was easily understood and embraced by operating people throughout the firm. SVA became the central tool for managing the company's business. It provided a common performance measure that could be applied to every product; it addressed the fundamental question, What value does this product add to Deere's shareholders?

Consistent with this new performance measure, Deere restructured its largest division, agriculture, into two business units: worldwide harvesting and tractors/implements. This enabled each new unit to focus more diligently on the underlying economics of its products. It also provided for a far more integrated business than the previous structure allowed. Thus, for example, worldwide harvesting could now get its combine harvester factories in Asia, Europe, and North America to all work together as one global product team with common metrics. It could also do the same for its factories that made cotton pickers and so on.

Next, Lane introduced an online performance management system to align goals and rewards with SVA. All 18,000 salaried employees now had to develop goals that were explicitly linked to the firm's goals. Specific SVA targets were set for each product line at various points in the business cycle. High expectations for improvements in operating performance and SVA growth were set and widely communicated. Then, rewards were tied directly to progress on meeting those objectives. The simplicity and consistency of this system focused employee behaviors on the economics of the business and reinforced the need to continuously improve performance and raise SVA.

Finally, Lane made significant changes in Deere's talent mix to better meet the higher performance standards and the increasing demands of global competition. Employee selection and training practices were oriented to acquiring and developing a workforce with a strong customer orientation and collaborative skills. Employees needed to understand customer needs fully so they could respond with appropriate technological solutions and product innovations. They needed to be able to work together in teams on a worldwide basis.

Six years into Deere's organization redesign, financial results were remarkable. In contrast to 2003, the firm's 2006 net income more than doubled and revenues were up almost 50%. In 2006, SVA was near \$1 billion. Perhaps more important, Deere's culture had shifted from mainly family values to those promoting a high-performance organization.

Concept of Organization Culture

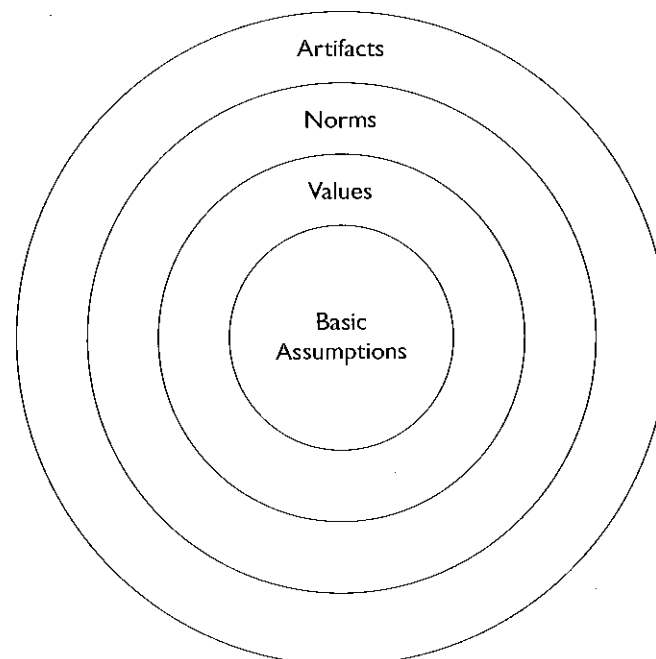
Despite the increased attention and research devoted to corporate culture, there is still some confusion about what the term "culture" really means when applied to organizations.⁴⁸ Martin argues that culture can be viewed from an integrated, a differentiated, or a fragmented perspective.⁴⁹ The integrated view focuses on culture as an organizationally shared phenomenon; it represents a stable and coherent set of beliefs about the organization and its environment. In contrast to the integrated perspective, the differentiated view argues that culture is not monolithic but that it is best seen in terms of subcultures that exist throughout the organization. While each subculture is locally stable and shared, there is much that is different across the subcultures. Finally, the fragmented view holds that culture is always changing and is dominated by ambiguity and paradox. Summarizing an organization's culture from a fragmented viewpoint is somewhat meaningless.

Despite these different cultural views, there is some agreement about the elements or features of culture that are typically measured. They include the artifacts, norms, values, and basic assumptions that are more or less shared by organization members. The meanings attached to these elements help members make sense out of everyday life in the organization. The meanings signal how work is to be done and evaluated, and how employees are to relate to each other and to significant others, such as customers, suppliers, and government agencies.

As shown in Figure 20.3, organization culture includes four major elements existing at different levels of awareness:⁵⁰

1. **Artifacts.** Artifacts are the highest level of cultural manifestation. They are the visible symbols of the deeper levels of culture, such as norms, values, and basic

[Figure 20.3]
Levels of Corporate Culture



assumptions. Artifacts include members' behaviors, clothing, and language; and the organization's structures, systems, procedures, and physical aspects, such as décor, space arrangements, and noise levels. At Nordstrom, a high-end retail department store, the policy and procedure manual is rumored to be one sentence, "Do whatever you think is right." In addition, stores promote from within; pay commissions on sales to link effort and compensation; provide stationery for salespeople to write personal notes to customers; and expect buyers to work as salespeople to better understand the customer's expectations. By themselves, artifacts can provide a great deal of information about the real culture of the organization because they often represent the deeper assumptions. The difficulty in their use during cultural analysis is interpretation; an outsider (and even some insiders) has no way of knowing what the artifacts represent, if anything.

2. **Norms.** Just below the surface of cultural awareness are norms guiding how members should behave in particular situations. These represent unwritten rules of behavior. Norms generally are inferred from observing how members behave and interact with each other. At Nordstrom, norms dictate that it's okay for members to go the extra mile to satisfy customer requests, and it's not okay for salespeople to process customers who were working with another salesperson.
3. **Values.** The next-deeper level of awareness includes values about what ought to be in organizations. Values tell members what is important in the organization and what deserves their attention. Because Nordstrom values customer service, the sales representatives pay strong attention to how well the customer is treated. Obviously, this value is supported by the norms and artifacts.
4. **Basic assumptions.** At the deepest level of cultural awareness are the taken-for-granted assumptions about how organizational problems should be solved. These basic assumptions tell members how to perceive, think, and feel about things. They are nonconfrontable and nondebtable assumptions about relating to the environment and about human nature, human activity, and human relationships. For example, a basic assumption at Nordstrom is the belief in the fundamental dignity of people; it is morally right to treat customers with extraordinary service so that they will become loyal and frequent shoppers.

In summary, culture is defined as the pattern of artifacts, norms, values, and basic assumptions about how to solve problems that works well enough to be taught to others.⁵¹ Culture is a process of social learning; it is the outcome of prior choices about and experiences with strategy and organization design. It is also a foundation for change that can either facilitate or hinder organization transformation. For example, the cultures of many companies (e.g., IBM, JCPenney, Sony, Disney, Microsoft, and Hewlett-Packard) are deeply rooted in the firm's history. They were laid down by strong founders and have been reinforced by top executives and corporate success into customary ways of perceiving and acting. These customs provide organization members with clear and often widely shared answers to such practical issues as "what really matters around here," "how do we do things around here," and "what we do when a problem arises."

Organization Culture and Organization Effectiveness

The interest in organization culture derives largely from its presumed impact on organization effectiveness. Considerable speculation and increasing research suggest that organization culture has both direct and indirect relationships with effectiveness.

Indirectly, culture affects performance through its influence on the organization's ability to implement change. A particular pattern of values and assumptions that once was a source of strength for a company can become a major liability in successfully implementing a new strategy.⁵² Case studies of organization transformation are full of

accounts where the change failed because the culture did not support the new strategy, including AT&T's failed integration of NCR, Daimler-Benz's troubles with Chrysler, and Prudential Insurance's difficulties in diversifying into other financial services.

The growing appreciation that culture can play a significant role in implementing new strategy has fueled interest in the topic, especially in those firms needing to adapt to turbulent environments. A number of practitioners and academics have focused on helping firms implement new strategies by bringing culture more in line with the new direction.⁵³ Indeed, much of the emphasis in the 1970s on formulating business strategy shifted to organization culture in the 1980s as firms discovered cultural roadblocks to implementing a strategy. Along with this emerging focus on organization culture, however, came the sobering reality that cultural change is an extremely difficult and long-term process. Some experts doubt whether large firms actually can bring about fundamental changes in their cultures; those who have accomplished such feats estimate that the process takes from 6 to 15 years.⁵⁴ For example, Alberto-Culver's performance in its core business was suffering, and senior management, with the help of an employee opinion survey, realized that the culture was not aligned with the changing business needs. Beginning with the commitment of influential top managers, a management restructuring, explicit values, and new roles and practices, Alberto-Culver began a culture change intervention that took over seven years. Its efforts have been rewarded with increased sales and pretax profit growth.⁵⁵

Indirectly, culture can also affect performance through its influence on a firm's ability to operate in different countries. Multinationals may face problems doing business in other countries, especially when their corporate culture does not fit with the national culture. For example, Disney learned this lesson the hard way when it tried to export its Americanized service culture to Euro Disney outside of Paris. Its European employees were disgruntled with the strict dress and grooming code; customers who were accustomed to having wine with their meals balked at Disney's policy of not serving alcoholic beverages. This cultural mismatch resulted in serious labor problems and lower guest attendance than expected.⁵⁶ Four Seasons Hotel and Resorts, on the other hand, made a relatively smooth transition into the French market by keeping its core service values while modifying its norms, procedures, and artifacts to fit with the French culture.⁵⁷

Directly, evidence suggests that, in addition to affecting the implementation of business strategy, corporate culture can affect organization performance. Comparative studies of Japanese and American management methods suggest that the relative success of Japanese companies in the 1980s could be partly explained by their strong corporate cultures emphasizing employee participation, open communication, security, and equality.⁵⁸ A study of the productivity of university research departments in the UK showed a strong relationship between productivity and organization cultures emphasizing teamwork, information flow, and employee involvement.⁵⁹ Another study of American firms showed a similar pattern of results.⁶⁰ Using survey measures of culture and Standard & Poor's financial ratios as indicators of organizational effectiveness, the results showed that firms whose cultures support employee participation in decision making, adaptable work methods, sensible work designs, and reasonable and clear goals perform significantly higher (financial ratios about twice as high) than do companies scoring low on those factors. Moreover, the employee participation element of corporate culture showed differences in effectiveness among the firms only after three years; the other measures of culture showed differences in all five years. This suggests that changing some parts of corporate culture, such as participation, should be considered as a long-term investment.

Another study of 207 firms in 22 different industries examined relationships between financial performance and the strength of a culture, the strategic appropriateness of a culture, and the adaptiveness of a culture.⁶¹ First, there were no significant performance differences between organizations with widely shared values and those

with little agreement around cultural assumptions. Second, there was a significant relationship between culture and performance when the organization emphasized the “right” values—values that were critical to success in a particular industry. Finally, performance results over time supported cultures that emphasized anticipating and adapting to environmental change.

These findings suggest that the strength of an organization’s culture can be both an advantage and a disadvantage. Under stable conditions, widely shared and strategically appropriate values can contribute significantly to organization performance. However, if the environment is changing, strong cultures can be a liability. Unless they also emphasize adaptiveness, the organization may experience wide swings in performance during transformational change. This line of thought was recently given empirical support.⁶² In a study of over 150 large, publicly traded companies from 19 industries, organizations with strong cultures had more reliable performance outcomes—that is, the strength of the culture was related to the predictability of performance. However, when the environment was more uncertain and dynamic, this reliability faded. In stable environments, strong cultures can provide efficiency in decision making and operations. In volatile environments, the strength of the culture can become a weakness if it stunts creativity. Organizations with strong cultures are less able to exploit new environmental opportunities, unless of course, the culture emphasizes innovation and change.

Diagnosing Organization Culture

Culture change interventions generally start by diagnosing the organization’s existing culture to assess its fit with current or proposed business strategies. This requires uncovering and understanding the shared assumptions, values, norms, and artifacts that characterize an organization’s culture. OD practitioners have developed a number of useful approaches for diagnosing organization culture. These approaches fall into three different yet complementary perspectives: the behavioral approach, the competing values approach, and the deep assumption approach. Each diagnostic perspective focuses on particular aspects of organization culture, and together the approaches can provide a comprehensive assessment of these complex phenomena.

The Behavioral Approach

This method of diagnosis emphasizes the surface level of organization culture—the pattern of behaviors that produce business results.⁶³ It is among the more practical approaches to culture diagnosis because it assesses key work behaviors that can be observed.⁶⁴ The behavioral approach provides specific descriptions about how tasks are performed and how relationships are managed in an organization. For example, Table 20.2 summarizes the organization culture of an international banking division as perceived by its managers. In this classic case, the data were obtained from a series of individual and group interviews asking managers to describe “the way the game is played,” as if they were coaching a new organization member. Managers were asked to give their impressions in regard to four key relationships—companywide, boss–subordinate, peer, and interdepartment—and in terms of six managerial tasks—innovating, decision making, communicating, organizing, monitoring, and appraising/rewarding. These perceptions revealed a number of implicit norms for how tasks are performed and relationships managed at the division.

Cultural diagnosis derived from a behavioral approach can also be used to assess the cultural risk of trying to implement organizational changes needed to support a new strategy. Significant cultural risks result when changes that are highly important to implementing a new strategy are incompatible with the existing patterns of behavior.

[Table 20.2]**Summary of Corporate Culture at an International Banking Division**

RELATIONSHIPS	CULTURE SUMMARY
Companywide	Preserve your autonomy. Allow area managers to run the business as long as they keep the profit budget.
Boss-subordinate	Avoid confrontations. Smooth over disagreements. Support the boss.
Peer	Guard information; it is power. Be a gentleman or lady.
Interdepartment	Protect your department's bottom line. Form alliances around specific issues. Guard your turf.
TASKS	CULTURE SUMMARY
Innovating	Consider it risky. Be a quick second.
Decision making	Handle each deal on its own merits. Gain consensus. Require many sign-offs. Involve the right people. Seize the opportunity.
Communicating	Withhold information to control adversaries. Avoid confrontation. Be a gentleman or lady.
Organizing	Centralize power. Be autocratic.
Monitoring	Meet short-term profit goals.
Appraising and rewarding	Reward the faithful. Choose the best bankers as managers. Seek safe jobs.

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Knowledge of such risks can help managers determine whether implementation plans should be changed to manage around the existing culture, whether the culture should be changed, or whether the strategy itself should be modified or abandoned.

The Competing Values Approach

This perspective assesses an organization's culture in terms of how it resolves a set of value dilemmas.⁶⁵ The approach suggests that an organization's culture can be understood in terms of two important "value pairs"; each pair consists of contradictory values placed at opposite ends of a continuum, as shown in Figure 20.3. The two value pairs are (1) internal focus and integration versus external focus and differentiation and (2) flexibility and discretion versus stability and control. Organizations continually struggle to satisfy the conflicting demands placed on them by these competing values. For example, when faced with the competing values of internal versus external focus, organizations must choose between attending to the integration problems of internal

operations and the competitive issues in the external environment. Too much emphasis on the environment can result in neglect of internal efficiencies. Conversely, too much attention to the internal aspects of organizations can result in missing important changes in the competitive environment.

The competing values approach commonly collects diagnostic data about the competing values with a survey designed specifically for that purpose.⁶⁶ It provides measures of where an organization's existing values fall along each of the dimensions. When taken together, these data identify an organization's culture as falling into one of the four quadrants shown in Figure 20.3: clan culture, adhocracy culture, hierarchical culture, and market culture. For example, if an organization's values are focused on internal integration issues and emphasize innovation and flexibility, it manifests a clan culture. On the other hand, a market culture characterizes values that are externally focused and emphasizes stability and control.

The Deep Assumptions Approach

This final diagnostic approach emphasizes the deepest levels of organization culture—the generally unexamined, but tacit and shared assumptions that guide member behavior and that often have a powerful impact on organization effectiveness. Diagnosing culture from this perspective typically begins with the most tangible level of awareness and then works down to the deep assumptions.

Diagnosing organization culture at the deep assumptions level poses at least three difficult problems for collecting pertinent information.⁶⁷ First, culture reflects the more or less shared assumptions about what is important, how things are done, and how people should behave in organizations. People generally take cultural assumptions for granted and rarely speak of them directly. Rather, the company's culture is implied in concrete behavioral examples, such as daily routines, stories, rituals, and language. This means that considerable time and effort must be spent observing, sifting through, and asking people about these cultural outcroppings to understand their deeper significance for organization members. Second, some values and beliefs that people espouse have little to do with the ones they really hold and follow. People are reluctant to admit this discrepancy, yet somehow the real assumptions underlying idealized portrayals of culture must be discovered. Third, large, diverse organizations are likely to have several subcultures, including countercultures going against the grain of the wider organization culture. Assumptions may not be shared widely and may differ across groups in the organization. This means that focusing on limited parts of the organization or on a few select individuals may provide a distorted view of the organization's culture and subcultures. All relevant groups in the organization must be identified and their cultural assumptions sampled. Only then can practitioners judge the extent to which assumptions are shared widely.

OD practitioners emphasizing the deep assumptions approach have developed a number of useful techniques for assessing organization culture.⁶⁸ One method involves an iterative interviewing process involving both outsiders and insiders.⁶⁹ Outsiders help members uncover cultural elements through joint exploration. The outsider enters the organization and experiences surprises and puzzles that are different from what was expected. The outsider shares these observations with insiders, and the two parties jointly explore their meaning. This process involves several iterations of experiencing surprises, checking for meaning, and formulating hypotheses about the culture. It results in a formal written description of the assumptions underlying an organizational culture.

A second method for identifying the organization's basic assumptions brings together a group of people for a culture workshop—for example, a senior management team or a cross section of managers, old and new members, labor leaders, and

staff.⁷⁰ The group first brainstorms a large number of the organization's artifacts, such as behaviors, symbols, language, and physical space arrangements. From this list, the values and norms that would produce such artifacts are deduced. In addition, the values espoused in formal planning documents are listed. Finally, the group attempts to identify the assumptions that would explain the constellation of values, norms, and artifacts. Because basic assumptions generally are taken for granted, they are difficult to articulate. A great deal of process consultation skill is required to help organization members see the underlying assumptions.

Application Stages There is considerable debate over whether changing something as deep-seated as organization culture is possible.⁷¹ Those advocating culture change generally focus on the more surface elements of culture, such as norms and artifacts. These elements are more changeable than the deeper elements of values and basic assumptions. They offer OD practitioners a more manageable set of action levers for changing organizational behaviors. Some would argue, however, that unless the deeper values and assumptions are changed, organizations have not really changed their culture.

Those arguing that implementing culture change is extremely difficult, if not impossible, typically focus on the deeper elements of culture (values and basic assumptions). Because these deeper elements represent assumptions about organizational life, members do not question them and have a difficult time envisioning anything else. Moreover, members may not want to change their cultural assumptions. The culture provides a strong defense against external uncertainties and threats.⁷² It represents past solutions to difficult problems. Members also may have vested interests in maintaining the culture. They may have developed personal stakes, pride, and power in the culture and may strongly resist attempts to change it. Finally, cultures that provide firms with a competitive advantage may be difficult to imitate, thus making it hard for less successful firms to change their cultures to approximate the more successful ones.⁷³

Given the problems with cultural change, most practitioners in this area suggest that changes in corporate culture should be considered only after other, less difficult and less costly solutions have been applied or ruled out.⁷⁴ Attempts to overcome cultural risks when strategic changes are incompatible with the existing culture might include ways to manage around that culture. Consider, for example, a single-product organization with a functional focus and a history of centralized control that is considering an ambitious product-diversification strategy. The firm might manage around its existing culture by using business teams to coordinate functional specialists around each new product. Another alternative to changing culture is to modify strategy to bring it more in line with culture. The single-product organization just mentioned might decide to undertake a less ambitious strategy of product diversification.

Despite problems in changing corporate culture, large-scale cultural change may be necessary in certain situations: if the firm's culture does not fit a changing environment; if the industry is extremely competitive and changes rapidly; if the company is mediocre or worse; if the firm is about to become a very large company; or if the company is smaller and growing rapidly.⁷⁵ Organizations facing these conditions need to change their cultures to adapt to the situation or to operate at higher levels of effectiveness. They may have to supplement attempts at cultural change with other approaches, such as managing around the existing culture and modifying strategy.

Although knowledge about changing corporate culture is in a formative stage, the following practical advice can serve as guidelines for cultural change:⁷⁶

1. **Formulate a Clear Strategic Vision.** Effective cultural change should start from a clear vision of the firm's new strategy and of the shared values and behaviors needed to make it work.⁷⁷ This vision provides the purpose and direction for cultural change. It

serves as a yardstick for defining the firm's existing culture and for deciding whether proposed changes are consistent with the core values of the organization. A useful approach to providing clear strategic vision is development of a statement of corporate purpose, listing in straightforward terms the firm's core values. For example, Johnson & Johnson calls its guiding principles "Our Credo." It describes several basic values that guide the firm, including, "We believe our first responsibility is to the doctors, nurses and patients, to mothers and all others who use our products and services"; "Our suppliers and distributors must have an opportunity to make a fair profit"; "We must respect [employees'] dignity and recognize their merit"; and "We must maintain in good order the property we are privileged to use, protecting the environment and natural resources."⁷⁸

2. **Display Top-Management Commitment.** Cultural change must be managed from the top of the organization. Senior executives and administrators have to be strongly committed to the new values and need to create constant pressures for change. They must have the staying power to see the changes through.⁷⁹ For example, when Jack Welch was CEO at General Electric, he enthusiastically pushed a policy of cost cutting, improved productivity, customer focus, and bureaucracy busting for more than ten years to every plant, division, group, and sector in his organization. His efforts were rewarded with a *Fortune* cover story lauding his organization for creating more than \$52 billion in shareholder value during his tenure.⁸⁰
3. **Model Culture Change at the Highest Levels.** Senior executives must communicate the new culture through their own actions. Their behaviors need to symbolize the kinds of values and behaviors being sought. In the few publicized cases of successful culture change, corporate leaders have shown an almost missionary zeal for the new values; their actions have symbolized the values forcefully.⁸¹ For example, when the Four Seasons hotel chain agreed to operate the George V hotel in Paris, it not only remodeled the hotel; it had to implement a culture consistent with its corporate brand and strategy, which were both "North American" in nature. Didier Le Calvez, General Manager of the Four Seasons George V, made a number of controversial decisions, including agreeing to the 35-hour work week, hiring an executive chef, and implementing a performance appraisal process. The nature of these decisions symbolized his understanding of French culture on the one hand and the importance of the Four Seasons's standards on the other. In addition, Le Calvez was very visible on the property, meeting the French union officials for lunch, finding constructive ways to correct behavior in line with the Four Seasons's service expectations, and participating in the interview and selection of all employees.⁸²
4. **Modify the Organization to Support Organizational Change.** Cultural change generally requires supporting modifications in organization structure, human resources systems, information and control systems, and management styles. These organizational features can help to orient people's behaviors to the new culture.⁸³ They can make people aware of the behaviors required to get things done in the new culture and can encourage performance of those behaviors. For example, Carol Lavin Bernick, President of Alberto-Culver North America, created the "growth development leader" or GDL to support the cultural imperatives of honesty, ownership, trust, commitment, and teamwork. Each of the 70 GDLs mentors about a dozen key people in the organization to ensure they create and follow through on their "individual economic value-add" (IEV) statements. In turn, Ms. Bernick meets with the GDLs every six weeks to symbolize the importance of their work.⁸⁴
5. **Select and Socialize Newcomers and Terminate Deviants.** One of the most effective methods for changing corporate culture is to change organizational membership. People can be selected and terminated in terms of their fit with the new culture.

This is especially important in key leadership positions, where people's actions can significantly promote or hinder new values and behaviors. For example, Gould, in trying to change from an auto parts and battery company to a leader in electronics, replaced about two-thirds of its senior executives with people more in tune with the new strategy and culture. Jan Carlzon of Scandinavian Airlines (SAS) replaced 13 out of 15 top executives in his turnaround of the airline. Another approach is to socialize newly hired people into the new culture. People are most open to organizational influences during the entry stage, when they can be effectively indoctrinated into the culture. For example, companies with strong cultures like Samsung, Procter & Gamble, and 3M attach great importance to socializing new members into the company's values.

6. **Develop Ethical and Legal Sensitivity.** Cultural change can raise significant tensions between organization and individual interests, resulting in ethical and legal problems for practitioners. This is particularly pertinent when organizations are trying to implement cultural values promoting employee integrity, control, equitable treatment, and job security—values often included in cultural change efforts. Statements about such values provide employees with certain expectations about their rights and about how they will be treated in the organization. The organization needs to follow through with behaviors and procedures supporting and protecting these implied rights, or risk violating ethical principles and, in some cases, legal employment contracts. Recommendations for reducing the chances of such ethical and legal problems include setting realistic values for culture change and not promising what the organization cannot deliver; encouraging input from throughout the organization in setting cultural values; providing mechanisms for member dissent and diversity, such as internal review procedures; and educating managers about the legal and ethical pitfalls inherent in cultural change and helping them develop guidelines for resolving such issues.

Application 20.3 presents an example of culture change at IBM. It illustrates how important cultural principles are used to shape behavior during a period of organizational growth and how culture can be used to facilitate merger and acquisition integration processes.⁸⁵

SUMMARY

In this chapter, we presented interventions for helping organizations transform themselves. These changes can occur at any level in the organization, but their ultimate intent is to change the total system. They typically happen in response to or in anticipation of significant environmental, technological, or internal changes. These changes may involve alterations in the firm's strategy, which, in turn, may lead to changing its design and culture.

Integrated strategic change is a comprehensive intervention for responding to complex and uncertain environmental pressures. It gives equal weight to the strategic and organizational factors affecting organization performance and effectiveness. In addition, these factors are highly integrated during the process of assessing the current strategy and organization design, selecting the desired strategic orientation, developing a strategic change plan, and implementing it.

Organization design involves the organization's structure, work design, human resources practices, and management and information systems. It aligns these components with the organization's strategy and with each other so they mutually direct behavior to execute the strategy. This results in organization designs that vary along a

continuum from mechanistic to organic depending on the requirements of the firm's strategy. Organization design typically starts with assessing the organization to clarify the design focus. Then the design components are configured to support the organization's strategy. Finally, implementation involves putting the new structures, practices, and systems into place using many of the methods for leading and managing change described in Chapter 10.

Organization culture includes the pattern of basic assumptions, values, norms, and artifacts shared by organization members. It influences how members perceive, think, and behave at work. Culture affects whether firms can implement new strategies and whether they can operate at high levels of excellence. Culture change interventions start with diagnosing the organization's existing culture. This can include assessing the cultural risks of making organizational changes needed to implement strategy. Changing corporate culture can be extremely difficult and requires clear strategic vision, top-management commitment, symbolic leadership, supporting organizational changes, selection and socialization of newcomers and termination of deviants, and sensitivity to legal and ethical issues.

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Culture Change at IBM

IBM began in 1914 as a maker of cheese slicers, scales, and tabulating machines. Thomas Watson, its founder who became famous for the "Think" watchword, created the company on three values called "Basic Beliefs": "respect for the individual," "the best customer service," and "the pursuit of excellence." Based on these values, IBM grew into one of the great industrial giants of the world, routinely hailed as a "best managed company."

By the late 1980s and the early 1990s, however, IBM's enormous success had an unintended consequence. The firm became complacent; its basic beliefs provided a rationale for stability. "Respect for the individual" had morphed into an entitlement mentality where lifetime employment was reinforced by cultural norms. The "pursuit of excellence" gave way to corporate arrogance and a failure to listen to customers or the marketplace because IBM knew what was right. Finally, its devotion to large, centralized computer systems rather than PC-based distributed architectures led to its downfall. IBM's stock price dropped 75% between August 1987 and September 1993.

To turn things around, IBM appointed Lou Gerstner CEO in 1991. When asked how he would lead IBM, this former GE executive retorted: "The last thing IBM needs right now is a vision." Over the next few years, Gerstner cut IBM's workforce in half, abolished lifetime employment, and refocused business strategy from hardware to software and services. The spectacular success that followed is regarded as one of the great turnarounds in business history.

So what would you do as the CEO who followed Gerstner? Sam Palmisano, a lifetime IBM employee, was appointed CEO in 2002. He strongly felt that IBM's continued success depended on relaying its foundation. "We couldn't be casual about tinkering with the DNA of a company like IBM. We had to come up with a way to get the employees to create the value system, to determine the company's principles. Watson's Basic Beliefs, however distorted they might have become over the years, had to be the starting point."

To clarify and shift IBM's culture, Palmisano orchestrated a process that began with the corporation's top 300 executives. Together, they generated the basic categories for the new values, including

respect, customer, excellence, and innovation. These categories were tested in focus groups and broad surveys with more than 1,000 employees across levels, locations, and functions. Based on this input, three proposed values—commitment to the customer, excellence through innovation, and integrity that earns trust—were submitted to "ValuesJam," a 72-hour process where all employees at IBM were invited to comment on the proposed values via IBM's intranet. ValuesJam organized employee discussion around four forums. A company values forum asked general questions about the importance of values. A "first draft" discussion asked for reactions to the three proposed values. A third forum asked about IBM's value in society, and a fourth asked people to describe IBM when it was at its best. Including Palmisano, 50,000 employees made over 10,000 comments about the company's culture and identity. The following were some early-on comments:

- "The only value in IBM today is the stock price."
- "Company values (ya right)."
- "I feel we talk a lot about trust and taking risks, but at the same time, we have endless audits, mistakes are punished and not seen as a welcome part of learning, and managers (and others) are consistently checked."
- "There appears to be great reluctance among our junior executive community to challenge the view of our senior execs."
- "Many times I have heard expressions like 'would you tell Sam that his strategy is wrong?'"

However, after initial feedback about why things weren't working or wouldn't work, the debate turned more positive. Eventually, a small design team took all the comments, looked for themes, and revised the proposed values into "dedication to every client's success," "innovation that matters—for our company and for the world," and "trust and personal responsibility in all relationships." Palmisano announced them in November 2003. The feedback, in the form of postings on the intranet and more than a thousand emails sent directly to Palmisano, was "these are fine ... show me."

In the final stage of the culture intervention, Palmisano sponsored a series of change projects to demonstrate how the values would be used to make

decisions and manage the company. One project was dubbed, the "\$100 million bet on trust." It was in response to a story that Palmisano heard about an IBM employee prototyping software for a client in Tokyo who immediately needed a software engineer based in Austin to help configure a server. The employee couldn't get the help right away because a charge code was first needed so there would be a way to account for the software engineer's time. In effect, employees were unable to respond quickly to client needs because financial control processes required several levels of management approval. Although the money would usually be approved, it was often too late to be responsive. To address these issues, the \$100 million bet on trust gave each manager in a pilot group up to \$5,000 annually to spend, no questions asked, to respond to extraordinary situations that would help generate business, to develop client relationships, or to respond to an IBMer's emergency need. Subsequent evaluation showed that the money was being spent wisely. There were several examples of teams winning deals and delighting clients with a small amount of immediately available cash. Consequently, the program was extended to all 22,000 first-line managers. Palmisano was convinced that allowing line managers to take some reasonable risk and trusting them with those decisions would pay off. More importantly, the program symbolized living the IBM values.

Another important change to reflect the values better involved setting prices. ValuesJam surfaced many stories about the difficulty of pricing a customer solution that involved a variety of products and services from multiple IBM groups. Since

each brand and business unit had its own P&L, an across-IBM bid was usually pulled apart by each unit and run through the financial accounting system as separate bids for individual products and services. This made it extremely difficult to come up with an all-inclusive price, which ran counter to IBM's value of client success and the strategy of being able to offer a total solution—hardware, software, services, and financing. In one classic case, IBM's CFO was putting together a deal for his partnership account that involved hardware, software, and services. He was told by the finance function that he couldn't price it as an integrated solution. In other words, IBM's CFO was told he couldn't offer the deal he was proposing!

In response, IBM developed an integrated bid system to better reflect its values. All of the people who set prices for clients were brought together and told, "You work for IBM. When there's a cross-IBM bid with multiple products, you price it on the IBM income statement, not on the income statements of each product." This led to a series of intense meetings with senior executives about allocating integrated bids to business-unit P&Ls. IBM made it work because it was the right thing to do in aligning the organization to its values.

The IBM culture change was led by senior executives and involved the whole organization in discussing and debating the firm's values and identity. There was remarkable agreement on what the values should be. The debate, as it turned out, wasn't over the values themselves but on whether IBM would be willing and able to live with them. To make this happen, specific organization changes were made that symbolized the values in use.