

The Change- Capable Organization

By Patricia A. McLagan

Part 3 of this series focuses on transforming your organization so that it embraces change as an ongoing way of life. Parts 1 and 2 appear in the November and December 2002 issues of T+D.

Change is a relatively recent management topic everywhere in the world. While it has always been an issue, it's now one of *the* issues. The number of books and articles on change management has increased more than 100 times since the 1960s. In addition, the costs of change failures are rising as organizations try (and fail) or make costly and repeated mistakes to implement complex and organization-wide initiatives such as reengineering, diversity awareness, globalization, quality and productivity programs, as well as complex alliances, mergers, and acquisitions. Many surveys put change management at the top of the list of executive concerns.

One way to deal with change is to notice when major changes are happening and to implement each change using methods such as those described in part 2 of this series. 🌐 “Success With Change,” November *T+D* A managing change approach is especially important when an organization isn't fundamentally designed for success with change—and most organizations aren't. A managing change approach is needed when, in order to implement change, you must override and supplement the normal processes of the business. But managing changes as they occur isn't enough these days. With the number and complexity of changes increasing, it's time to rethink how we design organizations. It's time to admit that change is a way of life and not an appendage to “business as usual.” It's time to take a new view of how your organization works and must work every day so that it isn't constantly trying to override the usual organizational processes. That requires a structural and mental redesign of the organization—a transformational approach.

Transformation

The world's research is beginning to provide insights about the qualities of organizations that have an inbuilt capacity for change. Specifically, these organizations

- link present and future
- make learning a way of life
- actively support and encourage day-to-day improvements and changes
- ensure diverse teams
- encourage mavericks
- shelter breakthroughs
- integrate technology
- build and deepen trust.

How to implement those practices is

just becoming clear. Creating a change-friendly organization is a new and still emerging pursuit. There are many experiments and some promising results, but there are as yet no robust models. We live in a time of transition, in which our concept of *organization* is being challenged and changed. One thing we can say with certainty is that what we mean by *organization* will be vastly different in the future. We can also say that the following practices are proving to create what Daryl Conner calls a “nimble” organization.

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Link the present and the future. Research suggests that change occurs more fluidly when people bring the future into current work. That means that instead of—or in addition to—seeing work as an extension of the past, we need to think about the world, markets, competitors, and opportunities that may exist months and years hence, and factor them into today's decisions.

There are several ways to do that. Several studies suggest that when teams consist of some people who are present-oriented and others who are future-ori-

ented, the teams perform better over time. One study of 108 executives in technology-based startups assessed whether each executive was more present- or future-oriented. Then they looked at communication among the executives. The findings were that significantly better performance occurred when a team contained both present- and future-oriented executives and when there was a lot of communication among the exec team.

Another way to link the present and future is to conduct low-cost experiments with new ideas in the current markets. One study of changes in eight computer companies in the United States, Europe, and Asia made this discovery: Successful projects often incorporate emerging ideas into present products, rather than just developing entirely new products.

For example, Swatch added communications capability to its watches, creating a pager watch, representing a futuristic yet anchored approach to innovation. The company has one eye on what it does well and one eye on the possibilities beyond current capabilities—with the intent to bring

them together in the present. Part of the lesson from those and other studies is to be continually looking for new ideas that build on core competencies.

Make learning a way of life. Knowledge is becoming an increasingly more important source of competitive advantage. That includes knowledge about markets and the outside world, about what works and what to avoid doing, and about where to find expertise and information. Organizations that find, spread, and manage knowledge well can respond and innovate faster. They have

less waste from people failing in the same way over and over. Recent research tells us that change-friendly organizations excel in knowledge movement and management. Another way to say that is they excel in learning.

Several important themes related to accelerating learning are emerging. One, it's important to expose frontline people to new ideas. Many—perhaps most—innovations and performance improvements happen in the course of daily work. Such improvements and innovations spread when frontline people talk to each other and to suppliers. But people at the top of the organization focused on the big picture often don't support worker communication with suppliers and across work groups. Worse, they may even discourage such contacts. One interesting study examined 73 technical innovations in a 38,000-person firm with 13 different locations. Only seven of the 73 innovations spread between units. The innovations that did spread did so primarily through direct contact between employees and suppliers. The conclusion: Make it easy for workers to talk with and learn from each other and from suppliers, or else develop more formal ways to keep frontline people aware of what's going on related to their work. Some ways to do that are field trips to suppliers and involving frontline people in purchasing decisions.

On a more formal level, accumulating evidence indicates that designing organizations to manage knowledge more systematically and effectively has high payoffs. One study of 158 global companies in North America, Europe, and Asia discovered such benefits as productivity improvements, faster speed to market, increased market share, improved sales volume, and cost reductions and avoidance.

Another study examined 24 companies to discover the keys to using

knowledge in an organization successfully. Success occurred in these conditions:

- a knowledge-friendly culture
- a reward system for sharing knowledge
- multiple channels for knowledge transfer, especially encouragement of personal contact across work groups.

All of those are embedded conditions that go beyond any specific change project or program.

It's all about creating and supporting a learning and information-sharing orientation. A study of 268 Australian organizations found that customer retention, new product success, sales growth, and return-on-investment are significantly better in companies with a learning orientation. That is, such companies are better at creating, acquiring, and spreading knowledge and helping people bring that knowledge into action. That study also indicates that a learning orientation has a more positive impact on overall performance than just a market orientation, which focuses on needs that customers say they have. Market orientation is good for adaptive change but seems to prevent radical change: Customers usually want refinements but don't request products when they don't yet feel a need. Learning orientation appears to go beyond that, supporting the kind of creativity that anticipates and even creates new customer demands.

The behaviors of top management has a significant effect on an organization's learning. If the top team actively supports learning, learning orientation goes up significantly. If the team is risk-averse, learning orientation goes down.

Support and encourage day-to-day improvements and changes. Most management interest focuses on the big and planned changes driven by formal strategies or specific challenges. Though some change occurs within a framework of strategic priorities, most change hap-

pens almost imperceptibly on local and team levels. One typical study of changes in four industries (biochemical, animal feed, steel, electronics) found that 77 percent of changes at the work-group level were reactions to a specific, current problem or to a suggestion from someone outside of the team; 68 percent of those changes occurred in the course of day-to-day work. Those changes focused on work processes not directly related to work tasks, product and service changes, or changes in how group members work together.

The point is that change is occurring all of the time in organizations. Great organizations encourage—or at least don't inhibit—ongoing change at the individual, team, and inter-team levels. This topic deserves more study, but research-based insights do support that conclusion.

A massive review of the world's organization change literature concludes that in organizations constantly improving, change is “a way of life for the entire organization, not a one-time program.” Collins reached the same conclusion after identifying the 11 companies (out of 1435) that achieved breakthrough performance that continued to exceed industry standards. In those few organizations, “relentless commitment” to excellence, rather than a grand program, was part of the success secret. A study of eight computer companies on three continents used the same word, *relentless*, saying that optimal innovation occurred when there was a “relentless pace of change,” in which continuous innovation was punctuated by periodic formal innovation planning sessions.

It's clear that the most change-friendly organizations are developing and encouraging skills for ad hoc and emergent change actions—not only for formal and planned change.

Ensure diverse teams. Diversity is an antidote to business as usual. It seems to

The World's Research

Here's a sampling of the studies and literature on which this article is based.

- *Good to Great: Why Some Companies Make the Leap...and Others Don't*, by Jim Collins (Harper, 2001)
- "Navigating the Competitive Landscape: The Drivers and Consequences of Competitive Aggressiveness," *Academy of Management Journal* (August 2001)
- *The Innovator's Dilemma*, by C. Christensen (Harper Business, 2000)
- "The Development of Product and Process Improvement in Work Groups," *Group and Organization Management* (September 2000)
- "Developing a Market-Oriented Learning Organization," *Australian Journal of Management* (September 2000)
- "Beyond Knowledge Management: New Ways to Work and Learn," *The Conference Board* (March 2000)
- *Research in Organizational Change and Development, vol. 12: An Annual Series Featuring Advances in Theory, Methodology, and Research*, Editors Passmore and Woodman (JAI Press, 1999)
- "Change and Complementarities in the New Competitive Landscape: A European Panel Study, 1992-1996," *Organization Science* (September/October 1999)
- "What's a Good Reason to Change? Motivated Reasoning and Social Accounts in Promoting Organizational Change," *Journal of Applied Psychology* (August 1999)
- *Leading at the Edge of Chaos: How to Create the Nimble Organization*, by D. Conner (John Wiley & Sons, 1998)
- *Enhancing Organizational Performance*, Editors Druckman, Singer, and Van Cott (National Academy Press, 1997)
- "The Corporate Entrepreneur: Leading Organizational Transformation," *Long-Range Planning* (June 1997)
- "Igniting Organizational Change From Below: The Power of Personal Initiative," *Organizational Dynamics* (May 1997)
- "The Art of Continuous Change: Linking Complexity Theory and Time-Paced Evolution in Relentlessly Shifting Organizations," *Administrative Science Quarterly* (March 1997)
- "Strategic Change: The Influence of Managerial Characteristics and Organizational Growth," *Academy of Management Journal* (February 1997)
- "Temporal Dimensions of Opportunistic Change in Technology-Based Ventures," *Entrepreneurship Theory and Practice* (Winter 1997)
- "Success Stories in the Strategic Use of Telecommunications: Companies That Made It Work," *Telecommunication* (September 1996)
- "Are Champions Different From Non-Champions?" *Journal of Business Venturing* (September 1994)
- "The Diffusion of Innovation Within Multi-Unit Firms," *International Journal of Operations and Production Management* (October 5, 1990)

help stir the pot. And diversity at senior-management levels is especially important to having a nimble organization. When top management teams are diverse in time orientation (combing present and past); tenure; and experience, strategic change is more likely. A global, 14-year study of 67 semiconductor firms found that the most strategic change occurred when the top executive and his or her team had relatively short but different lengths of time on the job. Another comprehensive study based on a six-year review of the two largest companies in each of 16 industries found that more diverse top management teams implemented more complex changes, though the tendency was not to sustain them. The challenge is keeping all diversity headed in the same direction.

Diversity isn't only important at the top. Research has long shown that diversity within any team, though it increases the potential for conflict and sometimes makes it difficult to sustain new directions, leads to more innovative solutions.

Encourage mavericks. Mavericks frequently are essential champions of the new directions that create an organization's future. Mavericks take the risks and do the early experimentation that an organization won't easily fund. By definition, mavericks are not part of the mainstream. They stand for radical change, not evolutionary change. Their ideas and approaches aren't standard and, therefore, cause a lot of resistance and reaction. Evidence is growing that to have transformational capacity, an organization must encourage and be a home for mavericks.

Research is helping to clarify the qualities of disturbers of the status quo. In one study, executives in each of 24 companies of various sizes in the United States, the United Kingdom, and Canada describe the qualities of people who had led small but effective changes in their or-

ganizations. The executives said those change leaders were energetic, independent but committed to the organization, questioning of the system, impatient and not put off by resistance, and willing to go beyond the requirements of their jobs to make a difference. These mavericks usually didn't get formal support until they'd proven their ideas. They were driven by the needs of the organization, not by rewards or promotion.

Another report describes 300 people who had led successful customer-focus transformations. They had these qualities: enthusiasm and energy, knowledge of customer needs, communicativeness, and the ability to not only understand customer needs, but also to interpret them creatively.

A large international study of 4405 respondents from 43 companies in 68 countries sums up the maverick profile: "These change champions have the same profile as entrepreneurs."

Sadly, many mavericks who are inside organizations don't find ongoing support there, especially when their ideas challenge the status quo radically. They usually leave and start new businesses. An extensive global review of innovations in several industries found that although every breakthrough innovation in the computer industry from 1973 to 1995 was born in an established organization, none were developed and commercialized in those organizations. A quote from the findings: "Some changes that will make an organization viable are radical changes. When these present themselves, most leaders go where the customers, budget processes, and promotions systems drive them—to incremental and safe decisions." Under those conditions, mavericks leave.

Research is beginning to tell us that it is possible for mavericks to live and prosper in organizations. Creating an environment that doesn't evict them ap-

pears to be important to ongoing organizational transformation.

Shelter breakthroughs. When breakthroughs occur in an existing organization, they meet enormous resistance. The resistance forces are so powerful and integrated (the whole organization is often set up for the old ways) that the best course of action may be to create a new organization to shelter and grow the change. Change-friendly organizations have institutionalized ways to provide such shelters.

Christensen's intense and thorough study of breakthrough innovations in the computer, retail, printer, and mechanical excavator industries makes this lesson clear: Successful changes are more frequent in organizations that routinely create small, independent units, in which breakthroughs have their own budgets, suppliers, markets, and cultures. These independent units also receive more resources for learning and trial-and-error. They tend to have different attitudes to the market, often leading the market rather than following its stated needs.

Companies known for their high rates of innovation and large proportion of new-to-old products have long had a policy of sheltering breakthrough ideas. 3M is a good example. It has a formal process for moving new ideas into a protected organization with a separate budget and where those ideas can grow.

Integrate technology. Technology isn't just nice to have; it's critical for creating transformational capacity. However, technology must be a means to an end, not an end in itself. The largest global and ongoing study of changes occurring in organizations throughout the world drew a surprising conclusion: Of all factors reviewed, only IT had a significant and positive relationship to performance. But that was true only when it was integrated with other changes related to creating a more network-like and less top-down organization. Another

comprehensive study of companies that achieved and sustained breakthrough performance in their industries concludes that those companies don't use technology as a change driver. But they aren't technology-shy. They use technology to help implement their strategies and enhance their core competencies.

Build and deepen trust. Trust as a theme emerges throughout the change research. People are more likely to support changes when the general atmosphere in and around their organization is trusting and when formal leaders have personal credibility. One study found that nurses were more likely to believe a change was legitimate when they trusted management. If trust was low, they were more likely to resist and look for reasons what managers wanted wasn't right.

Trust is also key theme from a 1999 review of change research to discover barriers to change success. When the researchers asked what affected people's commitment to change, they found that the credibility and honesty of the change agent were critical. They also found that those trust-related qualities were built over time, making them bigger than any single change program or initiative. That partly explains why opinion leaders make such good change agents: They're people others trust.

Trust is a fragile condition in organizations, as in all relationships. A comprehensive report notes: "Many current change practices (such as downsizing) erode trust, making future change initiatives harder to implement." Because trust takes time to build, it must be developed on a day-to-day basis so that it becomes a ready foundation supporting ad hoc and planned changes as they arise.

What all this means

Change isn't just something to manage when strategies shift or crises occur. It's an ongoing challenge and condition in organizational life. Yet, most organizations are

designed to support stability. We plan, organize, and control. We operate according to rigid organizational charts and old-style decision and innovation processes. Though we need some of that, most organizations overemphasize control, rules, decision and communication lines, and precedence. Increasingly, success depends on fluidity, openness, learning, and a pervasive capacity to make evolutionary and even radical changes.

In order to open up to change as a natural and ongoing aspect of our organizations, we have to adopt some new ways of thinking about life as well as organizations. Many actions managers and others take indicate that we think organizations are rational systems that we can plan and control from the top and break into functional units for ease of control. The model for that thinking comes from 17th-century science and mechanics, in which the machine is a key metaphor for an organization and a key challenge is how to make things work routinely and consistently. In that world order, change is something to be managed and minimized. The emphasis is on stopping undesirable changes, overcoming resistance, and ensuring that rationally developed strategies will be implemented with limited failure and error.

Now things are different. The mechanical, top-down view of organizations doesn't work well in our global and networked economy and world, except for simple and predictable problems. Research confirms that principles from life sciences are a better framework for thinking about organizations. Life sciences examine how living systems perform and change. Here are a few characteristics from biology and the life sciences that reflect and shed light on many of the research-based findings mentioned in this article.

- As an organism's environment becomes more complex and unpredictable,

the organism must develop adaptive and transformative capabilities. The evolution of the brain is a prime example.

- The organism's own capabilities interact with the environment to produce a unique path of evolution. No change can happen that doesn't build on existing capacity.

- When stress and tension build to a breaking point, surprising and unpredictable new actions and directions often occur in nature (for example, feet on fish) that may lead to dramatically improved capabilities. Organisms must have an ability to create their own breakthroughs—and so must organizations. In organizations, people who don't feel they have to preserve the status quo often initiate breakthroughs. Sadly, many organizations aren't designed

to embrace breakthroughs and mavericks, so those creativities leave and grow somewhere else.

- In complex, unpredictable environments, all parts of the organism are mobilized for action. That is, parts of any organism operate with a great deal of local authority and responsibility. In the human body, it's not just up to the brain (top management) to decide what to do. Without consulting the thinking part of the brain, the body reacts instantly to stress, temperature changes, air-quality changes, viruses, and so forth. That capacity to respond at all levels becomes more important as more forces challenge and stress the organism. In other words, thinking and acting have to be delegated to the body (people) for adaptive action. That means change is everybody's business and everyone needs the skills and mindset to play an active role.

Next month in the final article in this series, we'll look more closely at the idea that change is everybody's business. We'll stress that in change, there are and can be no bystanders. Leaders can't make changes alone. People throughout the or-

ganization are powerful even when they don't act or when they resist. TD

Patricia A. McLagan is chairman of McLagan International and the author or co-author of many books and articles on management, change, and organization effectiveness, including the newly released *Change Is Everybody's Business*. She's also publisher of a series of research-to-practice reports, the RITEstuff Reports, and is co-host of an Internet radio show, *The Changing World of Work*; www.thechangingworldofwork.com.

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