

**02-044**

# **Building Organizational Fitness in the 21<sup>st</sup> Century**

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**Building Organizational Fitness in the 21<sup>st</sup> Century**

**Michael Beer**

The 21<sup>st</sup> century promises to be characterized by rapid change in technology and relentless competition spurred by globalization. It is hardly news that in this environment firms will have to possess the capacity to adapt or suffer the consequences – low performance and ultimately death and destruction.

Unfortunately, firms do not seem to be adaptive. Consider these startling findings by Foster and Kaplan regarding the survival rate and performance of U.S. firms.<sup>1</sup> Of those firms in the original “Forbes 100” list published in 1917, 61 ceased to exist by 1987. Of the remaining 39 only 18 stayed in the top 100. These firms (which included Kodak, DuPont, General Electric, Ford, General Motors, Proctor and Gamble) survived momentous events such as the Great Depression and World War II, but, with the exception of General Electric and Kodak, under performed the overall market by 20%. Recently, Kodak’s performance has suffered as it struggles to respond to challenges by foreign competitors. Similarly, of 500 companies in the original S&P 500 list in 1957, only 74 remained on the list in 1997 and of these only 12 outperformed the S&P 500. In a Darwinian economic environment, *unfit* organizations – those that *do not adapt to fit new circumstances* - do not survive.

Failure to perform not only hurts investors. There are human costs involved in all these corporate failures. Employees of Polaroid Corporation, a firm that has been failing for years and declared bankruptcy in 2001, found that out recently.<sup>2</sup> Not only did they lose their jobs and attachment to an organization about which they cared deeply, promised and critical healthcare and retirement benefits have disappeared. Leaders themselves are hurt by their inability to change their organizations and their leadership behavior. CEO tenure has decline from 10.5 years in 1990 to 4.2 years in 2000. Leaving a proud legacy, something most CEOs strive for, is much harder in a business environment that demands rapid change.

It seems quite clear that a wide array of firms do not possess the capacity to learn and change, what I call *organizational fitness*. Nor do their leaders possess the capacity to develop this capability. What organizational and leadership characteristics reduce organizational fitness? More importantly, what can be done to build organizational fitness? I will describe an approach to building organizational fitness, called Organizational Fitness Profiling (OFP) that has its roots in the work of Richard Beckhard, to whom this book is dedicated. Research into the application of OFP at the corporate and business unit level has revealed that senior managers must embrace a number of paradoxes if they are to ensure high performance and survival of their institutions and reputation.

## The Dynamics of Organizational Fit and Fitness

Research over the past forty years has shown clearly that organizations naturally evolve their design – work systems (structure), management processes, human resource system, principles and values, and leadership behavior to “fit” their business environment and their chosen strategy within that environment (see Figure 1).<sup>3</sup> It is this alignment that enables the business to develop the organizational capabilities/culture (attitudes, skills and behavior) needed to compete successfully. As firms meet challenges in their environments, they respond by developing management and business practices. These “habits of the business” become institutionalized through the process of recruitment, selection, promotion and attrition that sorts people in and out of the firm based on their fit. Schneider has shown that firms tend to attract, select, promote and attrite people based on their likeness to the dominant coalition of the firm.<sup>4</sup> Over time, a culture is developed (a pattern of beliefs and values) that reinforces historically successful business and administrative practices. Not surprisingly, the leaders of the organization reflect the core beliefs embedded in the culture and use their power to sustain that culture.<sup>5</sup>

### FIGURE 1

The fit associated with past high performance seems to lead to long-term rigidity, however. When the environment shifts and new “business habits” are required, the strengths that led to success become weaknesses and lead to failure. Danny Miller has called this phenomenon the Icarus Paradox.<sup>6</sup> Like the Greek mythical bird that approached the sun but fell to the ground as its wax wings melted, Miller has found that highly successful firms often fail because they adhere too long to a pattern of behavior that is no longer effective.

Nowhere is the cycle of corporate rise and decline clearer than in the economy’s technology sector. Consider the case of Xerox Corporation. Its technological innovations in the reprographic industry made it one of the most admired American firms in the 1970s. However, failure to commercialize breakthroughs in computer and related technologies from its Palo Alto Research Center in the 1970s and 1980s prevented it from adapting its business to market changes. Digital Equipment Corporation, the second largest computer company in the world next to IBM in the 1980s, failed to capitalize on personal computing technology it possessed and was ultimately acquired by Compaq. Apple Computer, a firm that founded the personal computer industry in the late 1970s by utilizing innovations first made at Xerox’s Palo Alto Research Center, was unable to respond to the threat of lower priced computers posed to its dominance.<sup>7</sup> John Scully, the CEO brought in by the board of directors to replace founder Steve Jobs, was unable to forge a top team that could listen to those in the company who recognized the need for lower cost computers. One product manager related his unsuccessful attempts to introduce a low cost Macintosh in 1988 when Apple still had the time to respond to the threat of Microsoft’s much lower cost Windows solution: “For two and a half years I wanted to do low-cost Macintoshes. I was always yelled at by senior managers that this

was wrong.”<sup>8</sup> Scully himself was ultimately fired in 1993. In 2001, Apple’s share of the computer market was 2%.

Failure of corporations to survive and prosper in the long-term is not caused by a lack of innovative ideas. Xerox, Digital Equipment Corporation and Apple possessed the ideas that could have saved them. What existing and new CEOs often fail to do is to redesign their organization (its work systems, processes, human resource systems, culture and leadership behavior) to enable new ideas and technologies to emerge. In effect, top management needs to take a “helicopter view” of the firm’s organizational arrangements. It must reexamine all the organizational levers in Figure 1 and redesign them to create organizational capabilities (at the center of Figure 1) the firm needs to evolve its business model. Apple Computer lacked the capability to develop effective teamwork between talented engineers in the research and development function and sales and marketing people who understood the needs for lower cost products. It lacked a work system of cross-functional product development teams to achieve needed coordination and the business-oriented managers with leadership skills to lead them. It also needed a leadership team that could agree on this new business and organizational direction, and lead the organization through the changes needed with commitment.

The challenges for each firm are different but they have to be met with the same *total systems approach* to organizational transformation. In effect, firms must be able to develop strategy from the inside out.<sup>9</sup> Management must be able to discover how the firm’s existing organizational capabilities can be augmented with new capabilities to meet new challenges. *What is clear is that organizational fitness, the capacity to adapt organizational design, behavior and culture to fit new circumstances, depends on the capacity of leaders and organizations to confront and learn from internal tensions.*<sup>10</sup>

### **The Silent Killers: Un-discussible Barriers to Organizational Fitness**

Recent research by Russell Eisenstat and myself sheds light on the specific organizational dynamics that block organizations from learning about their internal functioning.<sup>11</sup> Using an intervention I will describe later, we found top teams and key lower level managers in a dozen under-performing organizations had very similar and consistent perceptions of barriers to organizational effectiveness. These barriers had not been communicated to top management by lower levels nor had top management taken action to confront them until the intervention we designed to help them do so made it possible. The barriers identified were:

- Unclear strategy and/or conflicting priorities
- An ineffective top team
- A top down or laissez fair style of the CEO or general manager
- Poor vertical communication
- Poor coordination across functions, business or geographic regions
- Insufficient leadership skills and development of down the line leaders

These barriers typically appear together as a syndrome. The dynamic relationship between these barriers is depicted in Figure 2 and is based on our in depth understanding of how these organizations worked. Everyone knew about these barriers. They were discussed behind closed doors, but not confronted in a way that enabled an open public conversation needed to overcome them. We call them “silent killers.” Like cholesterol and high blood pressure they can cause death – in this case organizational death. These barriers block the senior management teams from learning whether the organization’s strategy makes sense and whether the organization’s design and behavior as well as their own leadership “fit” and support strategy implementation.

## FIGURE 2

The first three barriers at the top of Figure 2 (*an ineffective team, unclear strategy and conflicting priorities and the CEO’s leadership style that is too top down or laissez faire*) are interdependent and mutually reinforcing. They are key to the *quality of direction* management provides the rest of the organization. Ineffective top teams (teams that cannot develop agreement about where the business is going or how to organize) lead lower levels to perceive unclear strategies and conflicting priorities. Ineffective top teams result when leaders go around the team to micromanage the business or when they do not engage the top in developing agreement about strategic and organizational matters and/or replace those who will not or cannot come to agreement after a fact based discussion. Both styles avoid confronting and resolving conflict in the top team regarding direction, priorities and organizational arrangements.

All three of these silent killers were present at Apple Computer.<sup>12</sup> Employees at all levels were unsure about the company’s strategic direction and saw conflicting priorities between a powerful R&D function and the sales and marketing organization. This lack of clarity stemmed from a leadership team that did not agree on what direction the company should take or how to organize to do it. As late as 1988 a new head of Apple Products, the company’s product development function, was an engineer who believed the company should design high-end computers when the market and CEO John Scully saw it going the other way. Scully’s conflict averse leadership style prevented him from engaging his team in a constructive discussion that would have resolved differences or cause needed replacements. According to the V.P. of Human Resources 50% of his time was spent in efforts to resolve conflict between warring members of the team.<sup>13</sup>

*Poor coordination and inadequate leadership and leadership development at lower levels* (the bottom two barriers in Figure 2) affects the *quality of implementation*. Coordination across functions, business units or regions is essential for a strategy to be well implemented. The requisite coordination links differ from business to business but are those that connect key activities that comprise the “value chain,” activities that create economic value.<sup>14</sup> This often involves creating semi-autonomous teams across functions, regions or businesses and designating an effective leader with general management orientation to lead the teams.

Concerned about potential loss of power, top teams in the companies we studied were usually slow to confront these design questions. To do so meant they would have to consider shifting power and decision rights or give up resources. At Apple Computer, the creation of cross functional business or product development teams with authority over functional resources would have meant a dramatic shift in power from functional managers to team leaders. It would have meant diminished decision rights for these managers. It is because these are wrenching changes that organizational fitness requires an effective leadership team, one that is able to confront needed changes in roles and responsibilities for the good of the enterprise.

The second barrier to strategy implementation, *inadequate down the line leaders and leadership development*, also prevents an organization from forming needed innovation teams. Faced with the need to form teams, top management does not see sufficient leadership resources to lead them. Already reluctant to shift power to leaders of these teams, the lack of talent becomes a convenient excuse not to redesign the organization. My research and experience suggest that the formation of teams with young inexperienced leaders is much preferred to delaying.<sup>15</sup> With coaching, some of these managers develop into effective team leader and the rest are replaced overtime, but the organization has begun the organizational learning process. Apple Computer certainly had a shortage of managers who had the breadth of business and functional experience to lead cross-functional teams. Many of their managers were engineers with little management experience.

Of the six silent killers, *poor vertical communication* is the “silent killer” that affected the *quality and speed of learning* in the organizations we studied. Middle level managers who perceived problems with the strategy or experienced difficulties in coordination did not take the risk to communicate concerns to top teams. Yet, they knew better than anyone else what was working and not working. To communicate honestly up the line meant that they would be exposing the six silent killers and raise questions about power, politics and leadership at the top. To do so in a productive manner an organization needs a forum that brings the top team and lower levels together to discuss problems in a public yet safe manner. Only a conversation that involves all key members of the community, as John Dewey noted, can lead to organizational learning and break the norm of silence.<sup>16</sup>

Apple Computer did not have effective vertical communication. An employee survey in 1990 showed that there was a big gap in trust and communication between top management and lower levels. As described above, “yelling” at a product manager that low cost Macintoshes are wrong does not produce a fact based conversation enabling a top team and lower levels to explore strategic problem in a fact based manner. It was not until 1991 that Scully took the top 70 managers to an offsite meeting where problems of coordination were honestly aired for the first time; by then it was too late to respond to the threat of Microsoft’s Windows and low cost PC’s.

The six barriers I have described are not only interconnected but deeply rooted in organizations. As I have shown, they defeated John Scully’s efforts to change Apple’s strategy and organization despite the fact he was unencumbered by the Apple culture and

had the marketing expertise Apple needed. Rick Thoman, a new CEO recruited from IBM in 1999, was Xerox's hope for a turnaround. He and former CEO Allaire agreed that Xerox needed to reinvent itself to succeed in a Digital Age. Only 13 months after he was brought in to lead the reinvention process, Allaire fired Thoman because "his colleagues had lost confidence in him."<sup>17</sup>

The conventional wisdom is that replacing the leader will ensure strategic and organizational issues are confronted. After all these leaders command the heights and have the authority to change the organization. Forming an effective new team is certainly an essential first step. But, as the Apple and Xerox stories suggest, without engaging key managers in an honest conversation which reveals the "unvarnished truth" about strategic and organizational issues they cannot discover and come to understand the real problems and solve them.<sup>18</sup> More importantly without involving lower level managers commitment to solve problems cannot be developed. This is what organizational fitness is about. Unfortunately, it is all too rare in organizations. Norms of silence about how the organization works or doesn't work prevent the honesty needed to move leaders and key managers to a shared understanding of what must be changed. How can such conversations be enabled?

### **Enabling an Honest Organizational Conversation That Will Produce Fit and Fitness**

Looking at the "whole truth" about the silent killers and their consequences is essential for companies to avoid decline. Yet, years of research by Chris Argyris have shown that defensive routines are deeply embedded in organizations and their leaders.<sup>19</sup> Fearful of threatening or embarrassing higher ups, peers, subordinates and themselves, the whole truth is rarely communicated. We learned about the "silent killers" from task forces composed of eight high potential individuals appointed by top teams to interview 100 key managers about the organizations strengths and weaknesses as part of an intervention I describe below. These task forces often displayed great anxiety about this assignment. When they were confronted with telling top management about the "silent killers" they became even more anxious, often starting the feedback process with a plea not to "shoot the messenger."

Two factors prevent employees from "speaking up," according to research by James Detert.<sup>20</sup> The first is psychological safety. Employees are afraid that telling the truth will affect their acceptance and their careers. They also, undoubtedly, protect themselves from the anxiety associated with upward feedback. The second is a concern about the utility of honest feedback. Their experience tells them that speaking up does not lead to change. To establish this link organizations need to establish forums for open, safe conversation and then do something about what they learn. The link between the conversation and their decisions must be explained to the employees. By open I mean that the whole organization (all relevant participants in the conversation) know the conversation is going on, there are clear signals from the leadership team that it wants candid feedback, and there are well understood mechanisms for upward feedback and for everyone to learn about the actions management plans so they can be discussed and modified if needed. By safe I mean people believe their status in the organization will not be affected. Only if management is clear that they want feedback and demonstrate that bad news does not get

punished can a climate of good vertical communication be established. Organizations are rather poor at doing this well, as the barrier of poor vertical communication we found indicates.

How organizations might be helped to confront organizational and leadership problems has occupied the field of organization development for several decades. A pioneer in the field, Richard Beckhard developed “The Confrontation Meeting.”<sup>21</sup> In this meeting several levels of the organization are brought together to identify problems and solve them in a supportive atmosphere that encourages risk taking. In the past two decades other large system interventions modeled after Beckhard’s Confrontation Meeting have followed.<sup>22</sup> Underlying the use of these methods is the acknowledgement that organizations are generally poor at confronting difficult issues and that a disciplined method – a social technology - that creates the condition for a public, open and safe conversation is needed.

While methods for confronting hidden issues safely have been largely effective in surfacing the unvarnished truth about what is going in the organization, they have not been based on a comprehensive theory of business and organizational effectiveness. Nor have they incorporated the latest research on organizational change. The underlying theory has been that hierarchy prevents open communication and that open communication will help solve problems. In short, these methods have been focused on changing the human condition in organizations, making them less hierarchical and more democratic. They have failed to populate psychologically safe processes for feedback with means by which leadership teams could actually redesign their organization to *fit* the firm’s objectives and strategy. That is because existing methods have failed to embrace the following paradoxes essential for successful business transformations:

- **Embrace both the objective economic value creation and organization development.**<sup>23</sup> Many of the methods for confronting internal organizational problems do not focus the inquiry sufficiently on task/business objectives and strategy. Successful corporate change efforts, research has shown, are motivated by task/business issues as opposed to programs focused solely on changing the human condition in organizations.<sup>24</sup> That is because many managers see human resource and organization development programs as important for the long-term but irrelevant for solving urgent business problems. Moreover, clarity of direction is an essential first step for beginning a dialogue about the organization’s fit with its competitive environment.
- **Embrace the paradox of top down direction and bottom-up participation.**<sup>25</sup> Effective change efforts are a partnership between leaders and led. Current methods for enabling honesty focus on empowering lower levels to speak but in the process of doing so may actually un-empower top teams to lead change. In effect the methods developed assume that for organizations to be more effective they must become more democratic. While excessive hierarchy will undermine organizational effectiveness so can indecisive leadership teams at the top. Along with other researchers, we have found that effective top teams are essential to a successful corporate transformation.<sup>26</sup> Methods for organizational change must,

therefore, enable leadership teams to get stronger and develop greater effectiveness as a team, to learn how to lead while leading learning and change.

- **Embrace the paradox of “hard” and “soft”.**<sup>27</sup> Organization change efforts tend to split “hard” structure and systems changes from interventions aimed at changing “soft” emotional, behavioral and cultural factors. Management consulting firms recommend changes in structure and systems while organization development consultants focus on surfacing valid data – what people perceive and feel are problems. The former result in valid solutions that run into implementation problems. The latter often fail to result in the structure or systems that are required for a fundamental transformation in the business. The coordination problems surfaced in the companies we studied had their roots in organizational structures and processes not just leadership behavior. Top teams needed a framework for analyzing and changing organizational design to create a long-term solution to problems they were experiencing while also targeting for change their behaviors as leadership teams.
- **Embrace the paradox of advocacy and inquiry.**<sup>28</sup> The methods for confronting hidden problems are often used in order to cope with crisis. A meeting that surfaces problems lead management to plan advocate change. Too frequently, however, leaders do not then reengage the organization to inquire about the efficacy of the organizational changes they have made. They particularly avoid inquiring into whether they have been successful in adopting the leadership behaviors required to support organizational changes. When inevitable inconsistencies between what leaders advocate and their actual decisions and behavior are not addressed publicly cynicism emerges, trust is reduced, commitment diminishes and momentum is lost. Leaders’ capacity to elicit commitment to changes in the future is also reduced. If organizations are to be adaptive, their leaders will have to adopt a disciplined organizational learning process that “enforces” a continuous cycle of advocacy and inquiry throughout the life of the organization.

Convinced that the barriers to creating an honest conversation about the state of the organization as a total system is essential but very difficult for managers to orchestrate, Russell Eisenstat and I developed a strategic change process called Organizational Fitness Profiling (OFP).<sup>29</sup> OFP creates an honest organizational conversation about the *fit* of the organization and its leadership with objectives and strategy advocated by the top management team. It guides top management through a diagnosis of the organization as a system (see Figure 3), the development of a plan to redesign and change the organizational levers in the model, and then further inquiry into the success of the change over time. Fitness Profiling embraces the paradoxes discussed above, thus allowing it to be a systemic change process – to change structure and systems as well as leadership and organizational behavior, to make change in the top team and in the coordination at lower levels, and to create broad change across several organizational levers while also creating deep cultural change. It has been applied in over 150 organizational units within 18 corporations operating in several different national cultures with quite different work values. Below I describe OFP through the lens of its application at the Santa Rosa Systems Division of Hewlett Packard.<sup>30</sup>

FIGURE 3

### **Organizational Fitness Profiling**

The Santa Rosa Systems Division of Hewlett Packard (SRSD), was created in 1992 to target a new systems integration opportunities in the growing communication business sector. By 1994 SRSD faced fundamental challenges that threatened its success and that of its leadership team. Organizational members perceived the following organizational issues:

- Two competing strategies that were threatening to “tear the organization apart”
- Coordination – “a cold war” - problems between two functions competing for common engineering resources. These problems were caused by a functional structure with very poorly designed cross-functional business teams
- Cross-functional teams that were not effectively led or managed and did not produce needed coordination
- A top team that was not effective – spent too little time on strategic issues
- A general manager who was not confronting and resolving key strategic and organizational issues.
- Low trust that prevented organizational problems, known to everyone, from being discussed and managed.
- Underperformance in rate of growth and profitability as well as low morale and turnover of key technical people.

OFP enabled SRSD’s leadership team to surface these problems and make changes that allowed the business unit to capitalize on market opportunities it was chartered to exploit. The leadership team and many of the key managers in the division had grown up in Hewlett Packard’s traditional instrument business. Not surprisingly SRSD’s organizational design and management behavior reflected this experience and did not fit the new systems business strategy Hewlett Packard was pursuing. Fitness Profiling enabled the leadership team to have an honest organizational conversation about the “silent killers” and diagnose root causes. Using the organizational systems model in Figure 3 they were able to take a “helicopter view” of the organization and clarify their strategy for themselves and the organization as well as change a number the organizational design levers in the model needed to implement the strategy. These changes in turn affected the key capabilities needed to compete (middle box in Figure 3), particularly coordination, commitment, communication, conflict management and capacity management (allocation of resources).

Below is a description of each of four stages in OFP that unfold over an eight to ten week time frame as well a brief description of the organizational and leadership changes at SRSD that occurred at each stage. A third party outside of the organizational unit (an external consultant for corporate Profiles or internal HR/OD professionals for organizational units below the corporate level) facilitates the process, leads the top team through the analysis of their organization using research based heuristics and tools

embedded in the process, and acts as a thought partner in developing plans for organization change.

### **Stage 1: Develop a Statement of Business and Organizational Direction (1-2 weeks)**

Description: The first major event in a Fitness Profile is a one to two day meeting with the senior management team to craft a statement of direction. It articulates the links between the competitive context, performance goals, business strategy, and needed business and organizational changes. Each member of the team prepares answers to questions designed to help the top team crystallize its strategy and test for agreement.

Outcomes at SRSD: The meeting surfaced a number of differences in interpretation of the strategy and the role of business teams. It helped crystallize the strategy and organizational capabilities needed for the business to succeed. As in most Profiles, the process began to develop better communication and trust. It started a process of learning for the general manager that gave him new insights about his top team and his own leadership. Finally the meeting produced a document that was used throughout the process as the basis of the inquiry into the fit of the organization with its environment and strategy.

### **Stage 2: Complete a broadly validated assessment of the current state of the enterprise (3-5 weeks)**

Description: The CEO and his/her management team select a task force of eight highly regarded managers from various parts of the firm. The task force conducts in-depth interviews with approximately 100 managers in pivotal roles throughout the corporation. They ask about key organizational strengths to be preserved and barriers to be overcome if objectives and strategy are to be achieved. In one day the task force organizes its data using the rigorous analytic framework in Figure 3. The consultant interviews the top team using the same questions as the task force and also asks about the leadership teams effectiveness.

On the following day the task force feeds its findings back to the senior team using a process we have found reveals the “whole truth” about the firm’s problems. The task force sits in a “fishbowl” in the middle of the room facing each other, while the top team sits at tables in the shape of a U surrounding the task force. Psychological safety is bolstered by several factors. The task force is seated facing each other signaling that they are speaking as a group. As they discuss their findings they remind the top team that they are reporters. These arrangements provide the psychological safety needed for the task force and enable a rich conversation between the top team and the task force. Feedback from the consultant feedback to the top team follows the “fishbowl.”

Outcomes at SRSD: The top team received an unvarnished and comprehensive assessment of the organization’s current capabilities and effectiveness. It revealed the

business's "core DNA" (a strong tradition of engineering) as well as its core weaknesses – inadequate linkages between engineering, marketing and the custom systems function. The root cause was the functional organization, a legacy of the traditional instrument business and the way the top team managed this organization. The top team was not functioning in a way that enabled effective cross-functional and cross-business decisions. The general manager's style prevented the top from dealing with critical strategic issues.

The honest feedback had a powerful emotional impact, something that is not possible through more traditional one to one discussions or consultant presentations. It built a shared commitment to change SRSD and reduced the silo mentality that caused poor performance and resistance to change.

Because they heard about problems from their own people and in their own language, the top team felt a strong obligation to lead change. Task force members shifted allegiance from their own functional unit to the division as a whole. They became deeply knowledgeable about, and committed to, the transformation of the business as a whole.

### **Stage Three: Create an integrated agenda for action (2-4 weeks)**

Description: After a day of receiving feedback about the current state of the organization, the task force departs and calls those who they interviewed about how the feedback was received. The senior team spends the next two days using the Fitness Model in Figure 3 to perform a root cause diagnosis of the organization's fit with its strategy and develops a plan to realign the organization.

Outcomes at SRSD: An integrated organizational change plan was developed. The top team:

- Combined warring engineering groups into one department
- Created a matrix organization with business team leader responsible for profitability and authority to run four key businesses, an organizational form unpopular at Hewlett Packard.
- Redefined the role for the top team and rules for engaging conflict and making decisions.

The Profiling meeting did not only change formal (hard) organizational arrangements. Its powerful emotional impact enabled the leadership team to develop trust and commitment to a new organizational vision. It began to reduce cynicism and built a partnership between the top team, the task force and the "top 100" who were interviewed.

The top team also developed a structure and process by which change was to be managed in the next year.

#### **Stage 4—Develop and mobilize the commitment key managers and stakeholders behind the transformation plan (1 –3 weeks)**

Description: Shortly following the Three-Day Profiling Meeting, the top management team meets with the task force a second time to share what they heard, their diagnosis and their plans for change. After caucusing separately, the task force critiques the proposed change plan. Does it address the key issues identified in their interviews? Will it meet resistance in the organization? Has the leadership team identified the changes in their own decision-making process and behavior essential to the success of the new organizational arrangements?

Following the meeting with the task force, the leadership team takes their vision of change to the larger organization. They meet with the “top 100” people for further discussion and to enlist their support. Changes are then communicated widely, often with the help of the task force.

Outcomes at SRSD: The task force was quite vehement in its critique of the change plan the leadership team created. They had some specific concerns about the organization’s design but they were also concerned about the “soft stuff,” the leadership team’s ability to change their behavior. The general manager, to explore alternative organizational designs, formed sub-groups. Within a week a slightly modified organizational design emerged to which the leadership team and task force were committed. It was communicated to the whole organization. Trust in and openness in SRSD improved as a result of the process. Within less than four months SRSD had simultaneously, transformed the fit of its organization with strategy, taken significant first steps in the development of an effective leadership team and established a climate of hope, trust and commitment to the new organizational arrangements.

#### **Building Organizational Fitness: Results and Implications**

What were the effects on SRSD’s performance? In the first year alone sales doubled and profitability quadrupled. SRSD continued to employ OFP as a core strategic management process in the next five years. During that period organizational effectiveness and performance increased steadily. Five years after OFP was first introduced the CEO of the company stated that the division had progressed from the worst to one of the best in the company.<sup>31</sup> Employees saw it as a listening division in which the leadership team was now exerting effective strategic direction of the business. Moreover, members of the senior team and task force saw the experience of going through OFP as a powerful management and leadership development experience.

Research on the application of OFP in over a dozen organizations has shown that a disciplined process like OFP can produce an honest organizational conversation that reveals the unvarnished truth about the organization fit with its business environment and its fitness to adapt. The discipline of the process helps general managers embrace the paradox inherent in building fit and fitness. The analytic frameworks embedded in OFP have produced dramatic changes in organizational design, leadership and performance in a variety of corporate settings and national cultures.

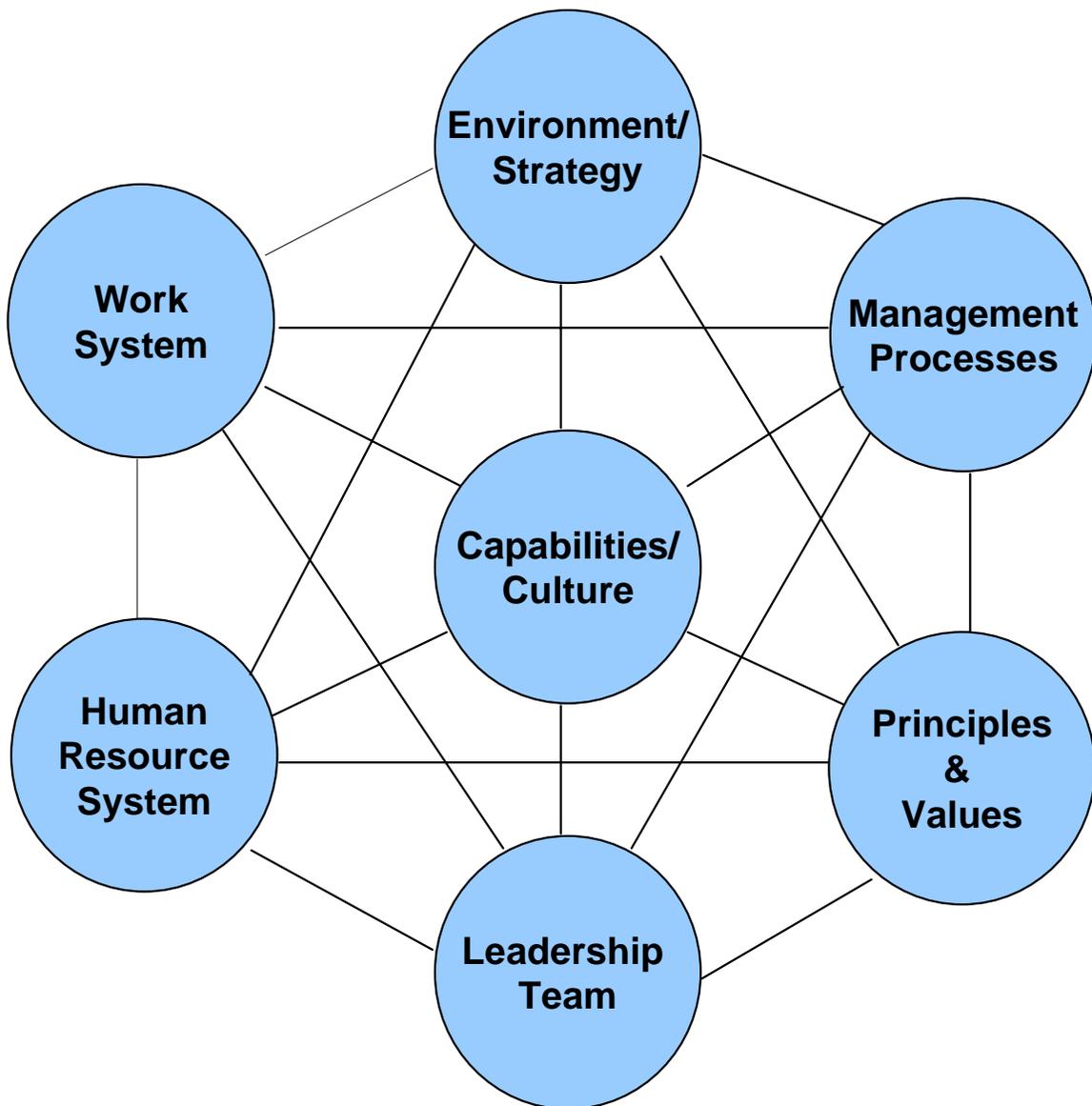
I began this chapter by presenting evidence that corporations and their leaders fail to adapt, endangering their performance and even survival. Our program of action research, using Organizational Fitness Profiling, has shown that sustaining high performance depends heavily on the willingness of top managers to confront the fit of their organization with the demands of the competitive environment and the fit of their assumptions and leadership behavior with the needs of the organization. Managers, like those at the Santa Rosa Systems Division of Hewlett Packard willing to confront the unvarnished truth can evolve their organization and management systems to changing circumstance. But it requires humility and courage. We have, however, met just as many managers who prefer to avoid the truth about their business, organization and leadership behavior. Courage to learn seems to be what limits organizational fitness.

Given that not all managers are ready to embrace the truth and learn, what might firms do that want to develop the organizational fitness required in the 21<sup>st</sup> century? A strong case can be made for institutionalizing a strategic change process like OFP in corporations so that CEOs and business unit managers can be held accountable for continuous learning about the fit and fitness of their organization and leadership. Candid review by the CEO with the board of directors and by business unit managers with the CEO about what they have learned about their organization, their top team and themselves would develop a corporate learning culture that embraces paradox. It would create accountability for fit and fitness – the crucial ingredients for sustained corporate performance and survival.

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**Figure 1**

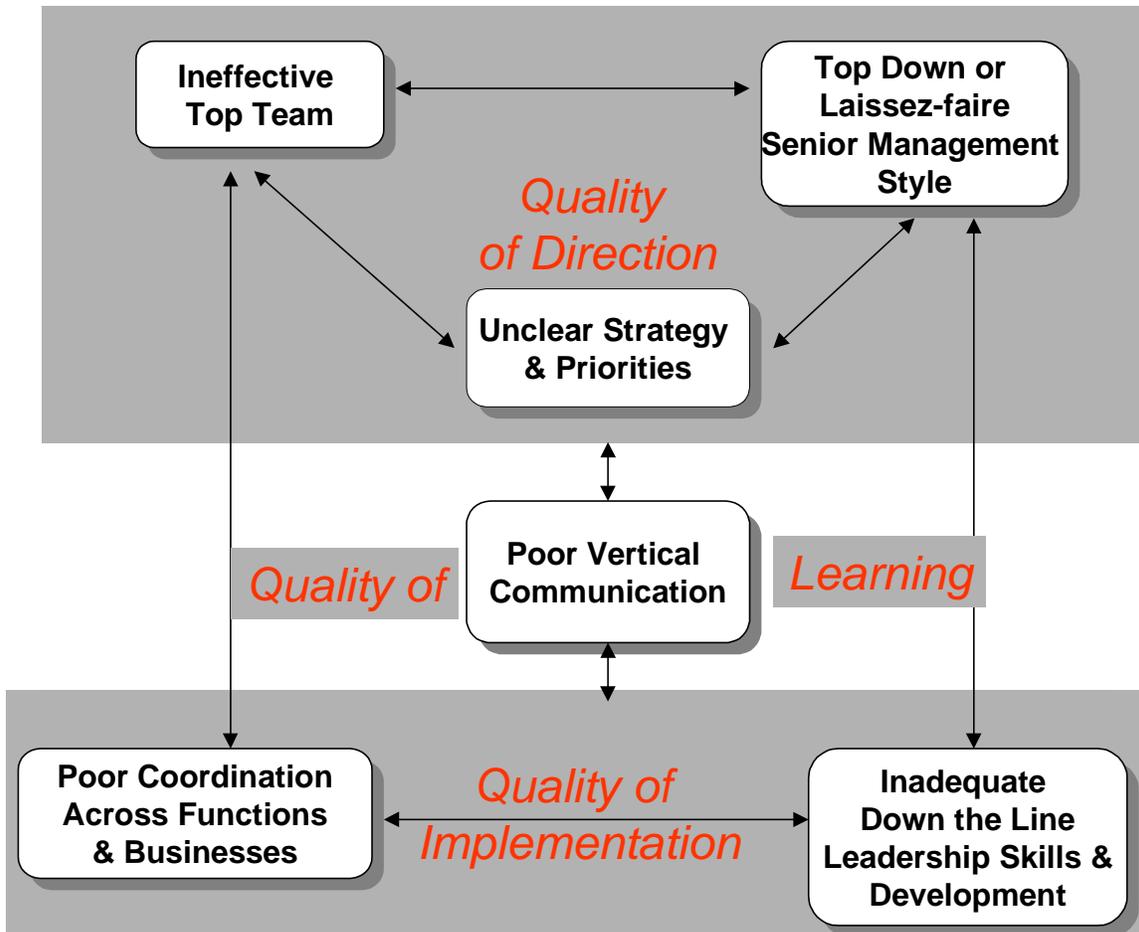
## **Organizational Fitness Model**



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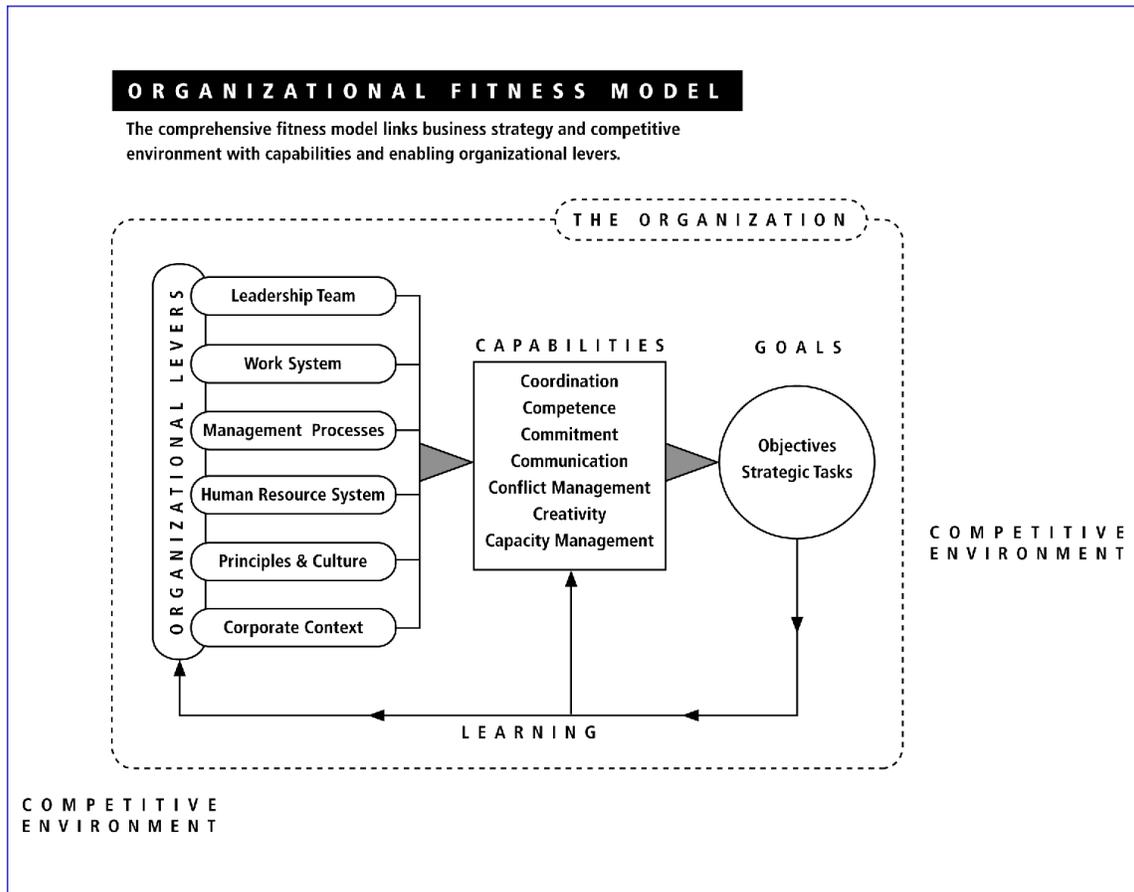
Figure 2

The Dynamics of an *Unfit* Organization



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Figure 3



## Endnotes

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- <sup>1</sup> Foster, Richard and Kaplan, Sarah (2001) *Creative destruction: Why companies that are built to last under-perform the market – and how to successfully transform them*, New York, NY, Currency
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