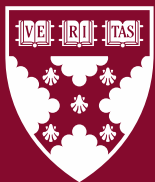


Working Paper 23-016

Developing a Sustainable High Commitment, High Performance System of Organizing, Managing, and Leading: An Actionable Systems Theory of Change and Development

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[Kurt Lewin conceived of a system as a field; that is, a] “*totality of coexisting facts which are conceived of as mutually interdependent*” [italics mine].

Kurt Lewin
(Burns et. al., 2016)

System is more than just a concept. It is an intellectual way of life, a world view, a concept of the nature of reality and how to investigate it [and change it] [italics mine].

Managers are more inclined than academics to try something new [systems thinking] and judge it on the basis of performance [italics mine].

Russell Ackoff (1999)

This chapter presents a grounded and actionable theory for developing a sustainable (adaptive) high commitment, high performance system of organizing, managing and leading managers and consultants can use (Beer, 2009).

Introduction

The theory I present is based on fifty years of action research as a scholar-consultant by me and my collaborators that included participant observation, interviews of managers and key individuals, pre and post employee surveys, and analysis of performance outcomes over time, and more distant distanced field research of corporate transformation efforts (Beer, 2020; Beer et. al. 1990). In effect these many years have provided numerous cases (many published and cited) that allowed me to do both formal and less formal cross case analysis. In effect the theory represents my own integration of lessons learned from success and failures about changing and long-term development of a system of organizing, managing and leading. At the heart of this theory is the idea that all organizations are systems, first articulated by Kurt Lewin, and his dictum that the only way to learn about and understand a system is to try to change it.

The emergent theory I present here comes from helping managers to change and develop their system. I had the good fortune to be asked by several senior executives to help change their organization as opposed to solving a particular problem. In the early stages, I did not fully understand what a system is, its dynamics and key levers for sustainable change and

development. This journey led me to understand the dynamics of hierarchical systems the corrosive effects of organizational silence, and the power of transparent honest conversations to change and develop them. Those honest conversations revealed *six key silent barriers* (“killers” as we came to call them) that the paucity of honest conversation in hierarchical systems, true of virtually all task or goal driven organizations, hides from management.

Silence about these barriers makes it impossible for leaders to manage a systemic organizational learning process that involves them, their team, and the organizational system in learning about normally undiscussable barriers so they, not consultants, can develop a valid agenda for change. At the heart of the theory is the need for repeated strategic honest conversations for continuous strategic learning and system development in an ever-changing world.

As a consultant I have facilitated these honest conversations and observed them lead to learning – for the leader, senior team, and organization - and served an expert resource on agenda items that were beyond the knowledge of the senior team such as organization design, effective decision making in senior teams, leadership and most importantly on how to proceed with the change process. When I was not an expert, I point to resources that can help and consultants who were experts in a particular aspect of the system. I hasten to add however, that with guidance about how to orchestrate, what I call an honest, collective, and public conversation (defined later) and some knowledge about effective senior teams and organization design, that I often provided, the organization can get on the right path. Managers can often take it from there with expert consultants as needed in specific subject matters identified in the agenda.

I use the term “organization development”—with lower-case “o” and “d”—to signify that the theory presented here includes but goes beyond the traditional framing of OD, exemplified by Burke’s recent definition: “Organization development (OD) is a process of planned change within an organization with a particular emphasis on the organization’s culture.” He correctly defines OD as a response to new circumstances that require planned change (Burke, 2023). He is also right in differentiating organization development from change management which he like me dislike thoroughly for reasons we agree on- lack of a long -term process perspective. (Burke, 2023). But he still frames OD through the lens of the consultant. This chapter frames o & d as a systemic strategic management process vital to leaders who put the organization’s long-term success ahead of quarterly earnings. The consultant is a facilitator and expert, but leaders must lead the process.

A long-term organization development perspective can only be achieved if the leader and leadership team come to see the purpose of the firm as developing value for and contributing to the well-being of all stakeholders, not just shareholders (Henderson, 2021; Beer, 2011). This multi-stakeholder perspective is captured in a question all managements should ask, and some are beginning to ask: “What is the purpose of our organization and what are the values by which we want to govern individual and organizational behavior?” Purpose and values, as opposed to the traditional shareholder value proposition, create a *moral* reason for the

organization's existence and allows the various stakeholders to move beyond a calculative transactional exchange (Etzioni, 1988; Walton, 1980). Success must therefore be measured not only by the profits and shareholder value, but also by the trust and commitment of all stakeholders as well as the adaptive capabilities organization.

The recognition that organizations are systems and that this significantly determines how to change them originated, as noted earlier, in the work of Kurt Lewin, who also included values. Burns describes Lewin's major ideas as follows (Burns, 2016, italics mine):

Individual behaviour is a function of the group environment or "field," as [Lewin] termed it. Consequently, any changes in behaviour stem from changes, be they small or large, in the forces within the field... Lewin defined a field as "*a totality of coexisting facts which are conceived of as mutually interdependent.*"

Lewin's view was that if one could identify, plot, and establish the *potency* of these forces, then it would be possible not only to understand why individuals, groups and organizations act as they do, but also what forces would need to be diminished or strengthened in order to bring about change.

A change towards a higher level of group performance is frequently short-lived; after a "shot in the arm," group life soon returns to the previous level. This indicates that it does not suffice to define the objective of a planned change in group performance as the reaching of a different level. *Permanency at the new level, or permanency for a desired period, should be included in the objective.*

In the main, Lewin saw behavioural *change as a slow process; however*, he did recognize that under certain circumstances, such as a personal, organizational, or societal *crisis, the various forces in the field can shift quickly and radically*. In such situations, established routines and behaviour break down and the status quo is no longer viable; new patterns of activity can rapidly emerge, and a new equilibrium (or quasi-stationary equilibrium) is formed....

As [Edgar] Schein comments, it was Lewin's view that "*... one cannot understand an organization without trying to change it.*" Indeed, Lewin's view was very much that the key to permanent change was the understanding and learning the [organization development] process produces for the individuals and groups concerned, which then feeds into changed behaviour, and is more important than any resulting change as such...

Lewin believed that the key to resolving social conflict was to facilitate learning and so enable individuals to understand and restructure their perceptions of the world around them.

The normative actionable theory proposed here, although rooted in Lewin’s work, is far more practical than the more abstract, jargony, overly complex, and mathematical theory for which Lewin has been criticized (Friedman, 2011). That is, it is grounded in my attempts to change organizations—attempts that were either successful or (occasionally) not. Moreover, it addresses Lewin’s concerns for learning which facts matter – the potency of “facts” (as perceived by organizational members below the top) in shaping the system as well as his call for a theory that makes change permanent through continuous organizational learning. The key features of the proposed system are:

1. Three interdependent, essential, system-level outcomes that general managers must improve *simultaneously*: performance alignment, psychological alignment, and capacity for system realignment and change. The third outcome fulfills Lewin’s plea for making change and learning permanent.
2. Key features of an organizational system—the *internal force field*—which must be incorporated in a diagnosis of a system and in any plan for organization and long-term development. I refer to them as “levers for change.”
3. Six interdependent “silent” barriers that comprise a syndrome which obstruct change and development. These are deficiencies in the core leadership and organizational capabilities that enable the three essential system outcomes (item 1).
4. Core principles of a *strategic organizational governance and learning process* that enables continuous (a) learning about the organization’s system and (b) improvement and development of that system.
5. Elements of strategizing organization change and development in complex, often global multi-unit systems.
6. Consistent with the idea of organizations as open systems, I discuss several contextual features (*the external force field*) of organizations not typically included as requisite targets for successful and sustainable organization change. These are particularly important to the development of a purpose-driven, human-centric organization “worthy of the human spirit.”¹

I will employ the 1968 case of Corning Glass Works’ (now Corning Inc.) Electronic Products Division (EPD) as the central illustrative example. The quote(a paraphrase of a larger quote and conversation in the case) below captures its problems:

“Morale is low and there is a lot of conflict between groups that we can’t seem to resolve. There is a lack of mutual confidence and trust. The organization is just not pulling together, and the lack of coordination is affecting our ability to develop new products. Can you help.”

Despite its age, the story of EPD illustrates how the key features of a hierarchical system interacted to make the system less effective and human, and how change in these

¹ I owe this characterization of a human-centric organization to Thomas Rice.

features fostered powerful and sustainable change for several years until a contextual factor, the dale of the business, interrupted the path of learning and development.

Three Essential System-level Outcomes

Organizational decline (entropy) is inevitable in the environment of constant change we live in today and for the foreseeable future. Competitive pressure and changes in societal values and norms require changes in organizational purpose and strategy and their requisite organizational values, habits, and capabilities. These values and capabilities typically arise gradually (usually in an unplanned way) out of the organization's successes and failures. Over time, the organization and its members' attitudes, processes, policies, and practices become tightly aligned, making them difficult to change without feelings of loss by some in power, competence, personal opportunities, and identity. Therefore, the capacity to change alignment that overcomes these losses must be an essential adaptive capability, sometimes referred to as "dynamic capabilities," which any leader with a long-term systems development perspective must develop (Eisenhardt and Martin, 2000; Beer, 2020a).

Studies of deliberate organizational change find that about 70 percent of organizations fail to achieve the intended changes in a reasonable time frame (Beer and Nohria, 2000). In many cases, the failure to develop a high-performance, high-commitment system is due to the command-and-control nature of the change process employed. In almost all cases, I will argue, the organization failed to develop core leadership and organizational capabilities needed for sustainable alignment and a sustainable capability to change, partly because its leadership had not institutionalized a strategic governance and learning process of "honest, collective, and public conversations" about the system's strengths and weaknesses. Or they failed to insulate the organization from the unanticipated short-term financial performance pressures which frequently undermine or reverse attempts to develop such long-term capabilities. Lewin, as noted by Burns above, saw this rapid decline after a change effort and called for permanent system change and capabilities.

Performance Alignment

No organization (for-profit, not-for profit, government, or NGO) can survive in a market without achieving its performance goals, measurable by relevant outcomes such as profitability, customer, or patient satisfaction, social good, market share, and so on. To do this they must align its system of organizing, managing, and leading with its strategic task – what it must do to succeed. We begin, therefore, with performance alignment. Focusing on improving performance directly through stretch goals and mandates creates short-lived change at best and undercuts the ultimate long-term goals of realigning the organization and its practices with new and emerging strategic realities.

Consider the case of the Electronic Products Division (EPD) of Corning Glass Works (now Corning Inc.) which was underperforming in the 1960's due to changes in its competitive

landscape.² As demand by their primary customers for electronic passive components—defense contractors—contracted due to government budget cuts, EPD found new markets in the emerging and rapidly growing color TV and computer businesses. However, the basis of success in these new markets was not reliability at any cost, as it had been for military components, but *continuous development of new products* at a competitive price.

This, in turn, required a realignment of EPD’s system of organizing, managing, and leading. EPD’s top-down and autocratically led functional structure, under its past founding general manager, had worked reasonably well as long as the business did not require much cross-functional coordination and collaboration. That leadership style and structure created silos that impeded the much higher level of coordination and trust needed for continuous product innovation and development. As its new general manager Tom MacAvoy told me, the company’s internal behavioral scientist, “Morale is low and there is a lot of conflict between groups that we can’t seem to resolve”... (see full quote above).

This became my seminal experience in systemic change, and I use it here, despite its age, because it is the best example of how misalignment of the system can cause failure and what, as I started to learn there, system change is all about. EPD’s problems in the 1960s are, however, remarkably like many underperforming organizations I have worked with and studied in the 50 years that followed. Poor coordination and integration were at the heart of all these dysfunctional organizations, one of silent barriers I discuss later. Moreover, multiple streams of field and action research find such misalignment of an organization’s well-established system with its changing competitive environment to be an excellent predictor of performance (Lawrence and Lorch,1960; Galbraith,2002; Nadler & Tushman, 1997; Beer (1980, 1998. 2020a). That is why an organization’s system needs constant attention and monitoring by senior management, which in turn requires a strategic management and learning process that reveals the truth about how well the organization is aligned with its strategic task, a theme I return to below (Beer, 2020a).

Psychological Alignment

Psychological alignment is a state in which an organization’s principal stakeholders—starting with employees but including customers, suppliers, shareholders, the community, and society—trust that the organization will do the “right thing” by them. That is, it will continuously add value to these stakeholders—however they measure it—and will even do so, if necessary, at some sacrifice to its own short-term performance goals.

This combination of trust and commitment is one of the three “essential outcomes” because it enables win-win, morally based relationships between the organization and its stakeholders

² I began my career Corning Glass Works as the company’s internal behavioral scientist (1965–1975) after earning my Ph.D. and founded and grew its Organization Research and Development Department, an innovation at the time.

rather than inherently short term calculative, transactional relationships based only on self-interest.

Such a state of trust and commitment requires a collaborative and participative process of decision-making by managers, employees, and other stakeholders. Put differently, change in a psychologically aligned organization is a process of informed choice by all stakeholders directly affected by the change (Argyris, 1970; Ackoff, 1999). As Argyris argues, this is the only means of gaining internal commitment—the sort that survives ups and downs—rather than surface agreement. For these reasons, command-and-control top-down leadership cannot succeed in building a sustainable system. That latter model of leadership assumes that strong and decisive leadership is necessary for the organization to perform (McGregor, 1960). Embedded in that perspective is the assumption that making oneself vulnerable by acting humbly and seeking guidance from peers and those at lower levels is the only viable way to gain trust and commitment as a leader (Rousseau et.al. 1988)

The strategic learning and change process necessary for an organization to be adaptive requires a more democratic form of leadership, as advocated by founders of the field of OD and system theorists like (Ackoff, 1999). Such a shift has been underway for some 50 years, but requires significant acceleration if leaders are to build a high-commitment, high-performance systems of organizing, managing and leading.

Capacity for System Realignment and Change

Organizational change is often sparked by some crisis of underperformance but waiting for such a crisis is costly—sometimes fatal. A crisis often results in top-down rapid efforts to improve performance which, by their very nature, undermine trust and commitment of key internal and external stakeholders. As Burns noted, Lewin saw decline in an effort to create systemic changes, or “shot in arm.”

In an environment of continuous change in the competitive, technical, and social contexts, continuous change on the part of organizations is required. Consider, for example, the demand for change that the pandemic of 2020–2021 created. The “Great Resignation,” as it has been called, spurred CEOs to change numerous HR policies and practices—*from the top*. But none of this “git ‘er done” change addresses the deeper problem of disengagement and cynicism stemming from the very widespread belief on the part of employees that their leaders do not understand the real issues and therefore the organization cannot and will not solve them. What is needed is a method of change governed by stakeholder participation.

Unless leaders and their senior teams (a) learn what the real deeper issues in the system of organizing, managing, and leading are undermining performance alignment and psychological realignment and (b) involve stakeholders in creating solutions—to which those stakeholders will then feel commitment—change will remain insufficient. In my experience, the organization’s problems are not so much the top leaders’ failure to understand what to do

strategically, but rather their inability—and therefore the organization’s collective inability—to discuss honestly the tensions and conflicts that will undermine even the “correct” strategy.

An adaptive learning process thus requires an *honest, collective, and public conversation* between the senior team and key people in the organization about (a) the organization’s strengths and (b) the “silent”—that is, publicly undiscussable—barriers to performance, trust, and commitment (Beer, 2020a). This dialogic conversation must be followed up by a dialogic diagnostic conversation and then by action by a senior team that makes itself accountable to the organization (not just to their own bosses) for enacting change (Bushe & Marshak, 2009).

Of course, not all leaders, our research shows, are predisposed to open transformational conversations by virtue of their personality (Beer, 2020a). This is not surprising given research, though not definitive, shows a relationship between positive personality characteristics such as hope, optimism, openness resiliency and extraversion, and the kind transformational leadership process discussed in this chapter and firm performance (O’Reilly et.al, 2014; Peterson et. al, 2008; and Hermann & Nadkarni, 2013). Yet different personality characteristics like consciousness were associated with detail orientation and results orientation and are likely to be associated with acting on what is learned, an integral part of the governance and learning process I discuss later. **Therefore, those leading a governance and learning process I propose later require a duality of capabilities (Hermann & Nadkarni, 2013).**

Personalities are steady, do not change easily, therefore, top managements that wish to institutionalize, strategic, honest, collective, and public conversations that have shown lead to continuous change and improvement should replace these leaders with those who will and can lead these conversations. In effect requiring a willingness and capability to lead these conversations becomes a means for a shared commitment (culture) to this fundamental adaptive practice.

The High-commitment, High-performance System of Organizing, Managing, and Leading

A sustainable, high-commitment, high-performance system is composed of and shaped by interdependent facets (Lewin’s “facts”) or levers. They must be aligned or fit each other and must fit the system’s principle strategic task(s) and its espoused values (Beer, 2020a). (There are a variety of alignment of fit models (Tushman and Nadler,1997; Galbraith,2002; Beer, 1980). Note that despite Burke’s assertion that planned change should put an emphasis on culture (Burke, 2023), culture is not a facet of the high-commitment, high-performance model presented in this chapter.

Culture is an *emergent outcome*, not a lever for change (Beer, 2020b). As one CEO put it, “Culture gets changed by doing real work in line with the new strategy—a new governance model, business processes, or performance management systems.” As CEO Vince Forlenza opined not much happens from pure culture conversations [such as a “culture committee”] because they don’t result in a clear idea of what work processes need to change and how it will be changed to reinforce key strategic priorities” (Beer, 2020b). Harvard Business School

professor Jay Lorsch and investment analyst Emily McTague interviewed current and past CEOs who had led successful corporate transformations and came to the same conclusion:

[These leaders] say that culture isn't something you "fix." Rather, in their experience, cultural change is what you get after you've put new processes or structures in place to tackle tough business challenges like reworking an outdated strategy or business model. The culture evolves as you do that important work (Lorsch & McTague, 2016).

At EPD, for example, the creation of clearer priorities and new product development teams and the associated changes in roles, responsibilities, and relationships led to different ways of work and that in turn led to rising trust and commitment (Beer et. al., 1990a; Beer et. al., 1990b; Beer, 2020a). Behavior change spurred by changes in how work is done lead to attitude change and that leads to a readiness for the acquisition of new knowledge needed to sustain change over time, not the other way around (Bas & Orbell, 2022). Such findings confirm that efforts to change culture (attitudes) by means of speeches, training initiatives, awards, and so on will not succeed.

Five Levers for Change

If managers and consultants are to change and develop an organizational system it is important, they know which "levers for change" – facets of the system – have the greatest "potency," as Lewin argued, diagnose their effects on the three system outcomes discussed above, and then develop and enact an organization change and development plan consistent with the diagnosis. The system model in Figure 1 incorporates the levers I and colleagues have found are most frequently identified by key people below the top team in honest organization-wide conversations in hundreds of organizations worldwide as needing change and most potent.

The five design levers in Figure 1, are highly interdependent—each a cause of the others and an effect of the others—and must therefore be targeted for change simultaneously, though they cannot be implemented simultaneously, particularly in large, complex, multidimensional, multi-unit organizations.

Figure 1: The Internal System of Organizing, Managing and Leading

As should be clear by now, the system model I propose should not be used in a top-down manner. The specific levers that require change should be determined by an honest, collective, and public conversation, as discussed below.

Organization Direction: Purpose, Strategy, and Values

An organization requires a clear direction about its purpose beyond profits, about its strategic task, and about its values as perceived by all members of the senior team and by other key

leaders and members of the organization. These typically come to the surface in an honest conversation about barriers to underperformance (Beer and Eisenstat, 2000). A clear purpose and clear goals are related to higher engagement and resultant customer satisfaction, and financial performance and develop the potential for a partnership between senior leaders and the wider organization when they become shared by virtue of honest conversations—what I am referring to as psychological alignment (Schneider, 2017; Gartenberg & Serafeim, 2019; Beer et. al., 2011)

Clarity about the organization's *strategic task*—what it must do to succeed—enable senior leaders to design (or redesign) their system of organizing, managing, and leading to achieve that task. Lack of clarity about the direction of the organization leads to confusion about priorities, which impairs coordination and collaboration of key activities (functions, businesses, or regions) in the value-creation chain. Each activity doubles down on its own goals by allocating its resources to its own priorities at the expense of the organization's collective survival and success. This what happened at Corning's EPD.

Similarly, lack of clarity about *values* and expected behaviors impedes human-centric management and cooperation, whatever the organization's leaders might say in speeches, editorials, or newsletters.

In my experience, top managers too often assume wrongly that all they must do is communicated the organization's direction clearly and often, and organization's behavior will change. A good discussion of purpose, strategy and values by the leadership team is needed. That discussion should produce answers to the following questions and if either answer is no, why not?

- Does my top team agree with and is it fully committed to our organizational direction?
- Do key managers and individuals two to three levels below the senior team understand and are they committed to our organizational direction – strategic task, priorities, values and purpose?

Leadership Team

The honest organizational conversations I have facilitated in underperforming organizations typically reveal the senior team to be ineffective—to have failed to develop or communicate a clear organizational direction and clear priorities amongst various key strategic initiatives so that every leader in the value-creation chain allocates resources—time, money, and people—in the same way. Resource allocation and real time reallocation is a central task of a senior team of an adaptive system.

The underlying reason for senior team ineffectiveness was their inability to have constructive debates about organizational direction. Such debate as there was occurred offline, without all members of the leadership team involved. Design features of the senior team—such as its size (too large), unclear and changing membership (sometimes due to high turnover), and lack of a

clearly defined process by which a consensus is reached contributed to its ineffectiveness. Too few senior team members allotted the time to examine their collective ineffectiveness, although they were often uncomfortably aware of it. These obstacles have frequently been observed and documented in action research and descriptive studies (Eisenhardt et. al., 1997; Wegeman et. al., 2008).

At EPD, the autocratic style of the past general manager who had founded the business precluded the development of a team capable of constructive conflict. A quarterly marketing meeting included 30 people reviewing the progress of 12 products under development. With no clear method for achieving and recognizing consensus, managers left this unwieldy meeting officially agreeing to disagree and then met in small groups to unofficially resolve the unresolved issues.

A diagnosis of an organization's system should therefore include the following questions about the senior team:

- Has it developed a clear organizational direction and priorities?
- If not, why not?
 - Is the team capable of constructive conflict?
 - Is it too large to allow debate and joint commitment to decisions?
 - Are there enough top team meetings and are they differentiated to deal separately (and therefore more effectively) with administrative issues and strategic issues?
 - Is there a clear agreed to decision-making process for arriving at agreement rapidly and with commitment?
 - Is there an established process to integrate new members into the team?
 - Does the team step back from the content of the discussion and examine its own process?
 - Is the leader the problem?
 - Other?

Leader

The general manager's role is to enable the senior team to *function* effectively so the organization can *function* effectively. An ineffective general manager will therefore lead an ineffective team. The leader's leadership may be either too top-down or too laissez-faire (hands-off; either way, he or she has been unable to engage the senior team in debate about strategic direction and values. Both those types of leaders lack the inclination or the skills to inquire into their own assumption about direction.

A diagnosis of an organization must therefore provide honest feedback to the leader about his or her effectiveness as seen by the senior team and the wider organization.

The System of Organizing and Managing

The system of organizing and managing must fit or be aligned with the strategic task of the organization. That task will change as organizations enter new markets as happened at EPD or societal values morph over time.

For example, relatively stable and slower changing markets require less innovation and call for different forms of organizing and managing than more rapidly changing markets in which innovation is required. That in turn requires high levels of coordination and teamwork across different specialized functions, businesses and or geographic regions in the value creation chain (Lawrence & Lorsch). In the 21st century and beyond most enterprises have and will continue to face the challenges in coordination EPD faced. Much of the talk today about need to develop Agile organizations is best framed as improving coordination and collaboration at the lowest levels of the enterprise.

EPD's simple functional structure in which decisions were made by the senior team worked when their customers were all in the defense industry. But when national defense budget was cut and their revenue and profits declined, EPD entered emerging rapidly changing color television and electronics markets that demanded rapid new product development. Their functionally organized and managed system in which all decisions were made at the top did not enable the high level of coordination and teamwork required to develop new products rapidly, indeed it created the conflict and distrust that led its leader Tom MacAvoy to seek my help .

Decision made at the top in 30 person meetings no longer worked. People in these meeting did not have the most recent information to make good decisions. That Information existed at lower levels Galbraith, 1974). Moreover, each functional department worked to achieve its goals at the expense of coordination and teamwork. This was the cause of the toxic relationship between the functional departments and slow product development that motivated Tom MacAvoy, EPD's new general manager, to call me for help.

When problems in coordination and integration arise, as they did at EPD, they require senior teams to assess its causes. In my experience how the enterprise is organized, managed, and led, is almost always one of the causes. The diagnostic questions to be asked and answered are:

- Do our changes in our markets or customers' requirements require a new strategy?
- What must our organization do to succeed?
- Does it require high levels of interdependency and coordination between units (functions, businesses, and regions?)
- Is our system of organizing and managing capable of developing that coordination?
- Do we need cross-boundary teams such as business teams, new product development teams, customer focused teams, or as they are referred today, agile teams to enable coordination? If yes:
 - Roles, responsibilities, decision rights, reporting relationships and performance measures must be clearly defined.
 - The senior team's role in managing this more complex organization must change in form (all sides of the emerging matrix must be represented) and particularly

about delegating authority and allocating and reallocating resources (money and people) between teams as circumstance change.

- Teams and their leaders will require process consulting, coaching, and training.

The Human Resource Management System

The organizations capacity to perform (performance alignment) and to develop trust commitment (psychological alignment) as well as its capacity to change are shaped by numerous human resource management policies and practices and how they are administered by managers (along, of course, with the other levers in the system). That system includes policies and practices governing people, their jobs and their rewards. A good diagnosis requires learning about which of the following practices cause the system's dysfunctions.

- Who is recruited?
- Who is selected?
- How are people socialized.
- How are jobs designed.
- How are people evaluated.
- How are people, particularly leaders, developed.
- How are people rewarded?
- What is out layoff policy.
- Are people given a voice?
- Are our HRM policies and practices fair, just and enable dignity for all.

There are no one-size-fits-all best practices. They must be developed in the context of the leadership team's espoused organizational direction and the requisite alignment of the system of organizing, managing, and leading with that direction. The organization's members—particularly key leaders at all levels—must fit the system; that is, they must have the capabilities required to collectively achieve that purpose, accomplish those tasks, and promote and live up to those values. HR policies and practices are long term determinants of these capabilities.

A seminal study by Ben Schneider suggests a paradox that all HR systems face. Over time, successful organizations attract individuals who either have or develop similar technical knowledge and personal qualities. The extent of similarity is positively associated with organizational performance, probably because the greater the similarity, the less "friction" or conflict there will be in executing the organization's strategy and value system. Paradoxically, this similarity also reduces, over time, the capacity for innovation and change (Schneider, 1987). All the more reason for honest and collective conversations.

HR policies and practices must therefore be reexamined when the competitive and social context changes. In complex, multi-unit organizations whose diverse business units face different competitive and cultural environments, each must be allowed the develop its own HR policies and practices. Indeed, my research finds that HR policies and practices must be lag

lever for change. That is the direction (strategy and values) and system of organizing and managing should *ideally* be defined first. HRM practice, such as, importantly, the selection of people that fit and other policies follow (Neville & Schneider, 2021).

In organizations I have helped to conduct honest and organization wide conversations, employee most often identify inadequate leadership development as a barrier to executing the organization's direction. Indeed, when new cross-boundary teams are created to increase coordination (see earlier discussion) few people with the credibility and capability to lead those teams can be found. Too little has been invested in the HR system for developing leaders; in particular, for giving people cross-functional experiences.

System Change at EPD

The five levers for organizational change all came into play at EPD. Changes in how the division was organized, managed, and led included the following (Beer, 1983):

- The leadership team met offsite to develop a clearer strategy and priorities. Discussions resulted in a previously nonexistent consensus about EPD's strategic task – new product development – required given changed competitive environment, and about prioritized product development initiatives.
- Ineffective new-product-development meetings involving 30 participants and covering all new products were discontinued and cross-functional product-development teams were established.
- Each team was to be led by a product development specialist in marketing, a dramatic change in the power structure for a company in which manufacturing had always had the strongest voice.
- Each team was accountable to the senior team for developing its own goals and plans.
- Progress by each team on its business goals was reviewed with the marketing leaders quarterly. They were also expected to report about lack of cooperation from functional departments if they encountered it. This enabled the senior team to intervene. In other words, problems were not to be kept secret and allowed to metastasize.
- Because the marketing leaders—now the team leaders—did not have the leadership skills to lead teams each team was assigned a process consultant to coach and facilitate team meetings for the first year of their existence. Later changes in the careers system for developing general management skills in team leadeaders came under discussion.
- The senior team found it difficult to manage this new team organization and had to be coached to enact this role effectively – to delegate to teams' full responsibility to manage their assignment and avoid micromanaging them. That is, to rely instead on the team leaders to manage day-to-day decisions for their products. This was not easy for anyone; they had all become accustomed to top-down decision-making. My intervention as their consultant was needed on several occasions and led to learning.

The changes that were made resulted in a dramatic improvement in coordination, a commitment to the new system, and improved performance alignment and psychological

alignment. Five new products were developed in a two-year period, whereas only one had been developed in the preceding five years. These changes in the dramatic improvement in both performance and psychological alignment, led its general manager MacAvoy to give me an oil can (one with a long spout to oil machines) filled with good Alcohol with the label “The Emotional Oil Can.”

The organizational problems and barriers to change at EPD are remarkably like problems my colleagues and I have encountered in countless other organizations in the decades that followed as are many of the design solutions.

Capacity for Change: Adaptive Leadership and Organizational Capabilities

If we are to take seriously the *capacity to learn and change* as an essential outcome to be developed by an adaptive system, senior managers and their consultants require a better understanding of the capabilities they must develop in the organization and the best way to develop them Beer, 2020a). Research has identified the major underlying cause of system rigidity to be *organizational silence* (Morrison and Milliken, 2000; Beer and Eisenstat; 2000) In virtually all organizations, it is difficult, dangerous, or impossible for those below the top level—who really know what is keeping the organization from carrying out its strategy but don’t have the power to do anything about it—to inform their leaders—who do have the power but either do not realize what’s wrong or can’t acknowledge it openly (Morrison & Milliken, 2000; Argyris, 1990; Detert & Edmondson, 2007; Beer 2009 & 2020a). Leaders typically do not see—or do not want to see—potentially threatening facts about their system of organizing, managing, and leading and thus do not fully understand how it is working or not working. Specifically, they do not know the whole truth about the system dynamics that cause underperformance (Oshry, B, 1981; Beer, 2020a).

One method (there are others) for addressing organizational silence is to enable organizational-wide *honest, collective, and public conversation* about the organization’s strengths and its barriers to effectiveness. My colleagues and I developed a structured intervention called the *Strategic Fitness Process* that has resulted in improved performance for hundreds of organizations around the globe. It requires the senior team to develop a two-page statement that states the organization’s purpose, strategy, and values (their advocacy) and to appoint a task force of eight or so key people below the top who inquire through interviews of a 100 or so about the organizational strengths and barriers to effectiveness. That information is communicated to senior teams directly in a meeting structured to create a respectful non defensive and blame free feedback conversation (see Figure 2) and is followed by the senior team redesigning the system, developing an action plan then communicating to the whole organization what they heard (the good, bad, and sometimes ugly) and their action plan.

Figure 2: The Strategic Fitness Process

The phrase “honest, collective, and public conversation” has the following specific meaning: the whole truth about the system is revealed (honest), many key people in different parts and

levels of the organization are involved (collective), and everyone in the organization is told both what the process will be and what the results were (public)—that is, what strengths and weaknesses were revealed and what changes in organizing, managing, and leading the senior team intends to make in response. This information—however unflattering some of it may be—is conveyed by the leadership team itself, not by HR. In effect, top management makes *itself* accountable the organization publicly for leading change (Beer, 2020a; Beer and Eisenstat, 2004).

Over a period of more than 40 years, the honest conversations I and my colleagues helped senior managers lead have consistently surfaced (we did a content analysis) six “silent barriers”—deficiencies in core organizational and leadership capabilities that are difficult to discuss openly and publicly - meaning they are known to everyone but at the same time undiscussable openly and publicly (Beer and Eisenstat, 2000, Beer 2011, Beer, 2020a). We came to call the barriers “silent killers” because like hypertension and cholesterol that can cause heart disease and heart attacks but are unknown to us, they caused organizational dysfunctions that reduce organizational effectiveness and learning. They are:

- Unclear strategy, values, and priorities.
- An ineffective senior team.
- A leader who is too top-down or too laissez-faire (hands-off).
- Poor coordination between functions, business units, and/or regions in complex global organizations.
- Inadequate leadership development and paucity of capable down-the-line leaders.
- Lack of effective open and honest vertical conversations.

The silent barriers are, in fact, a syndrome of interdependent and mutually reinforcing barriers *that prevent the development* of three essential components of any adaptive system (Figure 2): high-quality direction, high-quality implementation, and high-quality learning:

Figure 2: The Dynamics of an Ineffective Organization Unable to Change and Develop

- *High-quality direction.* The senior team has identified, communicated, and committed itself to the central *purpose, strategic task, priorities, and values* the organization must implement to succeed (for example, rapid new-product development at EPD). This can only be achieved if the direction emerges from high-quality discussions by an effective senior team. And an effective senior team requires an effective leader. As the arrows in Figure 2 show, the inability to develop a clear direction is caused by leader and team ineffectiveness and vice-versa, just as a clear direction to which senior team members are committed develops an effective senior team.
- *High-quality implementation.* The organization has good *coordination and collaboration* between activities in its value-creation chain through the design of the system as outlined above. And the organization has developed strong bench of key people with leadership general management capabilities who can lead teams and strategic initiatives.

- *High-quality learning.* The senior team has adequately communicated the organization's direction and better yet involved others in creating it. It has also created a *governance and learning process* for honest, collective, public conversation—for lower levels to speak truth to power about silent barriers. More than any other organizational failing, my colleagues and I found lack of organizational learning through such a process was responsible for poor performance alignment and poor psychological alignment and for inability to adapt. If they had the 100s of organizations we worked with and studied would not required our help. In a world that demands continual change and adaptation that can be fatal.

The silent barriers can be found in all organizations. They are tensions or *stress points* that make it hard for the organization to adapt to new strategic circumstances. It is difficult to develop these weaknesses because they involve changing human behavior such as leadership and collaboration. Even when they have been developed, they are difficult to maintain at a high level due to human mistakes in communication—such as defensiveness and blaming—and to the natural turnover in personnel at all levels.

That is why repeated honest, collective, and public conversations that enable senior management to learn the whole truth about the effectiveness of the system of organizing, managing, and leading are so important. Our analysis of 12 organizations that had implemented honest conversations found that the extent of change in each organization was higher (faster and more permanent) when all six silent barriers developed into strong capabilities through the process of periodic honest conversations—in some cases, annually that enhanced the change and sustained it over time (Beer 2020a).

Institutionalizing a Strategic Governance and Learning Process

Making honest conversations a regular—or at least, repeated—occurrence requires, as noted earlier, the organizations to institutionalize a *strategic governance and learning process* that enables honest, collective, and public conversations about their organizations effectiveness in implementing its strategic direction. One key ingredient is the leader's humility. Tom MacAvoy, general manager of EPD when I worked with that organization, asked openly for help. Ray Gilmartin, CEO of Becton Dickinson in 1990 asked for help when he said, "We have a great strategy," but cannot implement it. Can you help us create an organization capable of implementing it?" Asking for help is something most senior managers would be deeply reluctant to do, fearing to be seen as indecisive and weak. Underlying this fear is the reluctance to create structured processes that share power with lower levels (Battilana and Casciaro, 2021).

Honest, collective, public conversations ask a lot of top management and can be quite hard on them. (They ask a lot of all the other participants, too.) At EPD, all members of the senior team attended a one-day meetings with key people at headquarters and at 16 other locations, including corporate staff groups, whose cooperation they needed to carry out the strategy they felt was necessary for EPD's survival, let alone for its success. These sessions revealed the

whole truth about EPD's effectiveness about which they learned from their feedback, and thereby developed trust and commitment to difficult changes in organizing, managing, and leading; they altered decision rights and power distribution—meaning there were winners and losers but even the losers had to commit if the strategy was going to work, and they did. For everyone, these sessions were a significant investment of time and effort.

The sessions were held specifically to hear critiques of top management's proposed changes and to solicit suggestions for improvement. MacAvoy allowed all the feedback gathered about his own leadership—some of it quite critical—to be made public in these meetings – a courageous act that makes the leader vulnerable. Such honesty and transparency were a major factor in the success of the change effort; if the top manager was willing to take the heat, then others were willing to commit.

The honesty of the honest conversations is usually not a product of spontaneity. It is very much the product of a need to improve performance followed by a structured process (Figure 2 with ground rules that make it safe for truth to speak to power and; that keep the conversation productive and prevent it from being capsized by the strong emotions which are bound to arise (Eisenstat and Beer, 2004; Fredberg, et al., 2011; Beer, 2020a; Edmondson, 2018; Argyris, 1990). The structure also makes it possible to repeat and institutionalize the strategic conversation, as it was at Beckton Dickinson for over thirty years, to build a high-quality, high commitment, high performance organization, just as total-quality processes enable high-quality products and services (see Figure 2 and Beer, 2020a).

A key feature of an honest, collective, public conversation is that it is leader and not consultant led. And it utilizes a task force made up of members of the organization below the top level—that is, people with a direct stake in the success of the proposed strategic changes—that enables the conversation between the top team and the broader organization. That is what makes it a governance system intended to achieve the consent and commitment of the governed through informed choice (not a vote). A third party (internal or external consultant) can be helpful, however. That facilitator who can keep the conversation about the issues, enforces the ground rules and is an expert (in organization development and change) resource to the conversation.

The fact that leaders have made themselves vulnerable to communicate to the whole organization what they heard and plan to change—with nothing hidden in a consultant's report that can be easily buried—creates trust and commitment between leaders and organizational members (Rousseau et al., 1988). In effect, honest conversations—and their underlying principles — “democratize” task-driven hierarchical organizations. The leaders are still in charge, but they relinquish some of their power over what can be openly talked about and changed. That process enables people to restructure their perception of other groups and individuals, thus turning inevitable tensions into trusting, productive relationships, as Lewin argued (see above by Burns, 2016).

Russell Ackoff, who has studied social systems for decades, also concludes that healthy social systems are “democratic organizations... in which every individual who is affected by what the organization does has a voice in deciding what it does, and in which anyone who has authority over others taken individually, is subject to their collective authority” (Ackoff, 1999, p. 40). Honest, collective, public conversations operationalize this principle.

The extent of change attributable to honest conversation also depends on the leader. If he or she was human-centric, humble, courageous, and motivated to take the organization to a higher level of performance and commitment, then honest conversation led to more change our research shows (Beer, 2011; Beer, 2020a).

There is a rich history of social technologies meant to help organizations adapt through a process of open conversations about the system (Fredberg, et. al., 2011); these include “start conferences” (Emery, 1982), “democratic dialogues” (Gustavsen, 2001), work-based dialogue (Bjerlo v & Docherty, 2006), debriefing procedures (Lipshitz, Popper, & Friedman, 2002), and large-systems change efforts such as Weisbord,1991; Bunker & Alban, 2016). Like the Strategic Fitness Process my colleague and I developed, all are designed to create a conversation that will enable cognitive and emotional learning about how the current system (practices and technology) is working or failing. All hope that the process will be repeated and institutionalized.

The Strategic Fitness Process (SFP) differs from the others, however, in that it was specifically designed to be integrated into an organization’s strategic planning and management process in a way that develops *commitment* to implementing the plans, something (commitment), that Henry Mintzberg argued does not typically occur in corporate planning processes (Mintzberg, 1994). Moreover, SFP’s design and structure allows the process to be integrated into an organization’s normal business cycle (Beer, 2020a). For example:

- Four successive CEOs of Becton Dickinson (BD), a global medical products company, used SFP over a period of 30 years to keep redefining and refining its strategy as the business environment changed and develop commitment to their plan (Beer, 2020a, chapter 3 & 7). Dozens of business unit leaders at BD did the same thing to further performance and psychological alignment.
- A business unit of Hewlett Packard integrated the Strategic Fitness Process into its yearly three-year strategic planning process for five consecutive years and dramatically improved its performance in the new market it had been formed to enter (Beer, 2011, 2020 chapter 4).
- Merck’s Latin American Region undertook SFP as part of its strategic change process for several years. It began with education in strategy and its development, followed by SFP. Over several years the performance of the region and its employee survey results improved substantially (Beer, 2020).

Given that leaders and consultants often want to design their own process, my colleague Russ Eisenstat and I derived six principles that should be used to design an organization wide process of honest conversations.

Our experience with SFP, has led to six core principles underling any form of honest conversation:

- 1) *Focus the conversation on the issues that matter most to the organization's success.*
- 2) *Iterate between advocacy and inquiry.* The senior team *advocates* where it wants to take the organization and then launches an *inquiry* into the organization's strengths and its barriers to success. Later, the senior team advocates an action plan and then launches an inquiry into the strengths and faults of that plan.
- 3) *Make it safe to share the whole truth.* The process must be disciplined and structured, with ground rules that prevent missteps such as defensiveness, blaming and overprotection of leaders from shutting down the conversation.
- 4) *Reflect on the truth with your senior team, diagnose root causes of system ineffectiveness in achieving all three system outcomes, and develop a systemic action plan for change* that will realign the organization—the whole system—with the leadership team's espoused strategy and cultural values.
- 5) *The leadership team must make itself accountable* to those who provided the feedback; that is, accountable for having listened accurately to them and then for taking the necessary transformative actions.
- 6) *Repeat the process periodically.* This generates continuous organizational learning that will continuously improve the quality of the organization.

An implication of these principles is that a strategic governance and learning process cannot be the domain of HR. It must start with the leader's own urgent desire to take the organization to the next level and must be clearly identified with and led by the senior team from beginning to end. It is *their* accountability to the "governed" that enhances the legitimacy and ultimate success of the process). It is not a program, it is management work.

Transforming Large Complex Systems Requires a Unit-by-unit Strategy

The system theory and principles for sustainable organizational change and development proposed here apply to bounded organizational units carrying out interdependent value-creating activities and headed by a clearly defined senior leader.

They do not apply to changing large, complex, global institutions as a whole. (Beer et al, 1990; Beer, 2021). These are made up of numerous bounded units, such as the institution's top unit

(top management teams and heads of key strategic and functional units and their senior teams); divisions; region and country organizations; global functions; and operating units (such as factories and customer service units)—each with its own goals, strategic tasks, values, and silent barriers to change to which the ideas in this chapter do apply.

The evidence is that change in these large institutions is far too slow given the ever-more-rapid change in the social and competitive environment. Consider the multiple unanticipated demands for change imposed by the pandemic, climate change, and the new standards for corporate behavior that have been imposed just in the last few years. Failure to change quickly enough leads to poor performance and reputational damage and can result in the failure of the organization.

The primary reason for these failures is the use of top-down programs: training programs and prescribed new structures and procedures that may not be valid for subunits operating in different businesses with different strategies and national cultures than that of headquarters (Beer, et. al., 1990; Beer et. al. 1990b). Recall, for example, that EDP was a unit of Corning. But corporate goals, strategies, and performance measurement methods applicable to Corning's traditional business, operating in a more certain and stable environment, did not fit EPD's environment of rapid change in customer's requirements for new products (Lawrence & Lorsch, 1960). Moreover, these programs fail because they do not allow unit leaders to lead change and take responsibility for change, a requisite for success.

What is required, then, is unit-by-unit change strategy, with each leadership team fashioning its own organizational change and development process, although consistent with the overall organizational strategy and values. These local change efforts would employ a strategic change process that adhered to the six governance and learning principles discussed above. If the company has developed strategic governance process it wished to institutionalize every unit manager would be encouraged and potentially required to employ it. That contributed to the success of Becton Dickinson over a 30-year period.

A corporate transformation ideally starts at the top. If the multiple units that the top team wants to transform all have the same strategic task (manufacturing plants, retail stores or customer service centers, for example) then top management's role is to create a few successful models in chosen units and then diffuse them to all the other units (Walton et al., 1987; Beer et al., 1990a and 1990b). One executive vice president of manufacturing, for example, thought of his hundred manufacturing plants as being on a dog sled led by a few model plants. His own role, as he saw it, was to urge further improvements in his "lead dogs" and motivate change in his "lag dogs"—those that were still behind in developing high-commitment, high-performance systems (Beer et. al, 1990).

He did this through multiple means: Promoting best practices employed successfully in the model plants at plant manager meetings and thus recognizing managers publicly, requiring all plant managers to visit lead model plants for a two-week orientation and training and, importantly, replacing plants managers whose organizations did not show enough progress

with plant managers from the lead plants. Taking this approach after reading our book *the Critical Path to corporate Renewal*, the CEO of Asda, a chain of 200 UK grocery stores, led this highly successful unit-by-unit change process that became the most celebrated corporate transformation in the UK in the 1990s (Beer & Weber, 1998).

If, however, an organization's units differ in their environments and therefore in their goals and strategic tasks, top management's approach should be to encourage—and, if necessary, require—all units' senior teams to follow and institutionalize *the structured corporate method* like the Strategic Fitness Process for enacting the six principles for conducting honest, collective, and public conversations articulated earlier. That is what the leaders at Becton Dickinson chose to do.

The Challenge of Developing a Sustainable High-commitment, High-performance System of Organizing, Managing, and Leading

There is a good deal of evidence that high-commitment, high-performance systems are difficult to sustain. Many of the firms that were identified in research published in books like *Built to Last* and *Good to Great* have not sustained the high-commitment cultures or the high-performance celebrated decades ago in those books (Collins & Porras; 1994; Collins, 2001). Of companies founded by enlightened capitalists James O'Toole studied a small minority have retained ethical high performance and commitment (O'Toole, 2019). Hewlett Packard, founded in 1937 was a most admired as a high-commitment, high-performance company for forty years, but no longer remains a single company and neither surviving companies are high performance and commitment companies (Beer and Rogers, 1995; Beer et. al. (2005).

Organizations can mitigate to some extent their decline and death by employing honest, collective, and public conversations that expose their inner strengths and weaknesses and correct them. But they are also open systems whose behavior is shaped by numerous features of the ever-changing external environment, including competition, social trends, and short-term performance pressure. Research and experience have highlighted several interrelated forces, discussed below, that research has shown can be factors in organizational decline and death. These have not been incorporated into the field of organization development or the strategic conversations of senior teams or organization development consultants who serve them but should be if the firm is to survive and prosper in the long run.

Short-term Performance Pressure:

It is widely acknowledged by top managements committed to building high commitment, high performance systems that short-term performance pressure can erode a high-commitment culture—not only an emerging one but even a well-established one. Such pressures can be managed, however—and the damage avoided—by the following policies and practices:

- *Limit the rate of growth.* Rapid growth leads to hiring and selecting people with lower competence who do not fit the organization's performance and psychological alignment

standards. In addition, it often leads to layoffs when the growth slows and disillusionment by employees. With this risk in mind, Hewlett Packard adopted pricing policies that would enable profitable growth *not* rapid gains in market share at the expense of profit (Beer and Rogers, 1995 and Beer, 2009).

- *Limit debt.* High debt inevitably leads to downsizing and layoffs when institutions face shocks such as an economic downturn or a rapid change in technology (Beer, 2009).
- *Ignore Wall Street pressures to meet quarterly earnings.* CEOs of sustainable, high-commitment, high-performance companies take charge of the conversations in quarterly earning calls and avoid giving quarterly earning guidance. Instead, they state their long-term goals and strategies and why these are expected to deliver higher performance.

Such practices worked well at Hewlett Packard up to 1999 when a new CEO destroyed its foundational culture. And at Southwest Airlines, Lincoln Electric, Costco that have survived and prospered over an extended time using some of these policies and others.

Board of Directors:

It is unlikely that any leader can institute and/or maintain a high-commitment, high-performance system if the board of directors does not wholeheartedly support that effort. Several aspects of the board that research by the Center for Higher Ambition Leadership identified as critical (Ludwig, et. al, 2015).

- *Membership.* Select board members who bring a long-term stewardship perspective rather than a short-term shareholder perspective.
- *Development.* Develop boards that are effective; that is, capable of constructive conflict and debate. Periodically examine the individual and collective behavior of board members to develop and preserve their role of keeping the company focused on the three key system-level outcomes: performance alignment, psychological alignment, and capacity for change and development.
- *Awareness.* Review primary data about how the system of organizing, managing, and leading is functioning. Surveys of employee and stakeholder perceptions of the organization and its leaders are one method. Honest, collective, and public conversations about the organization's alignment with its own purpose, strategy, and values are even more powerful (Beer, 2020a).
- *CEO succession.* This has often derailed high-commitment, high-performance systems. Boards play a key role in choosing CEOs and should pay close attention to candidates' values and their capacity to sustain the system's culture; this is as important—if not more important—than the candidates' experience and ability to deal with immediate threats and opportunities. And the board should review the organization's leadership-development process and the "bench of key leaders" from which, at any given moment, a successor might be chosen. Outsiders often derail high commitment systems because they have not internalized its values.

- *CEO and board partnership.* The most transformative CEOs establish a partnership with the board by being transparent about the barriers to organization effectiveness and their plans to correct them. When Ed Ludwig was CEO of Becton Dickinson, he shared with the board what he had learned from an organization wide honest conversation about the company's strengths and its barriers to effectiveness, even though he himself was responsible for at least one of those barriers—namely, the unsuccessful introduction of a new enterprise system. His honesty with the board strengthened their relationship and the board agreed to the \$100 million it would cost to fix the introduction of the enterprise system (Beer & Eisenstat, 2015). The same open honest conversation and transparency and the resulting partnership should also exist between corporate top management and key unit leaders below them (Beer, 2020, Chapter 7).

The Performance and Reward System

Variable-compensation systems that reward financial performance of executives and front-line employees have been shown to lead to many unintended and dysfunctional consequences. They risk attention to developing and sustaining a healthy human centric high commitment culture that depends on trust. (Beer & Cannon, 2004; Beer & Katz, 1988; Beer, 2009).

Investment in Organization Development Resources

While effective, human-centric change leaders matter most for success, they also need help and are ready to accept it as the case of Corning EPD illustrates. Virtually all successful transformations of an organizational system have involved third party advice and facilitation by organization design and development consultants with a system perspective. These professionals can play several roles:

- Process consultant to senior teams and to other internal teams formed to transform the organization.
- Expert advisor and resource to senior teams who need advice on how to organize, manage, and lead an aligned and effective organization.
- Experts on change strategies and facilitator of the change process itself.

Most corporations, however, have not invested in developing this essential outside resource and that is a barrier to systemic change.

Ownership:

Firm ownership matters more than any other potentially destructive force. When investors are dissatisfied, they place short-term pressures on corporations to reduce costs and raise profits quickly (O'Toole, 2019). This is followed by the replacement of

the CEO and/or by hedge fund representation on the board that initiates a vicious circle of a sometimes fatal “doom loop”—cost reduction, layoffs, and cuts in R&D, are followed by raised prices to increase declining profits. These then undermine both employee’s, investors and customers confidence and commitment to the firm. Declining sales and low morale both contribute to further cuts, and so on (see the case of Campbell Soup in Beer et.al., 2011).

Of the ethically managed high commitment and performance firms studied by James O’Toole, the few that have survived guarded against this vicious circle by means of widespread employee ownership through merit-based gains sharing or by outright stock ownership by every employee, along with a robust governance structure and process that gave employees veto power to stop short-termism and created a partnership between owners, management, and employees (O’Toole, 2019). Lincoln Electric, for example, formed an advisory committee to the CEO whose members are elected by employees and policies that make it difficult to enter the doom loop. Of course, these mechanisms only work when they are embedded in a purpose - and values-driven, high-commitment, high-performance system. For example, employee stock ownership at United Airlines failed because a true partnership practices and culture was not established (Cohen, 2001).

A broader Frame for Organization Development:

The matters I have discussed in this section have not normally been part of the strategic management conversations in the field of OD or in senior teams, or between senior teams’ intent on transforming their company into high commitment, high performance system and their board, nor with their organization development consultant. These conversations are essential if an effort to create a sustainable system of organizing, managing and leading is to succeed.

Summary and Conclusions

The single most important factor in a successful systems change are its leaders’; specifically, their understanding of systems, system development, and system change, their values, and their heartfelt desire to develop an adaptive, high-commitment, high-performance organization that will survive and prosper in the long run.

The second and third most important factors are the top leader’s success in developing an effective senior team able to develop (a) a clear direction—a higher moral purpose that will facilitate psychological alignment—and (b) a strategic task and priorities that will enable senior teams to align or “fit” the system to the firm’s strategic and values direction.

The fourth critical factor is the leadership team’s readiness to learn the whole truth—the good, bad, and sometimes ugly truths about how the system is functioning, including the effectiveness of their own leadership. Such leaders lead honest, collective, and public

conversation about the system's efficacy in achieving its direction and then, based on what they learn, lead systemic change—that is, change involving all five internal change levers shown in Figure 1. These leaders have the courage and the skill to advocate a new direction and to inquire to learn the whole truth about their organization's current system.

Collective honest conversations revealed a syndrome of six silent (that is, not publically discussable) and interdependent barriers. They represent deficiencies in six leadership and organizational capabilities that enable adaptation. Only honest, collective, and public conversation will bring these barriers to light—so that they are no longer “silent”—and make it possible to replace these deficits with the strong leadership and organizational capabilities required for sustained organizational learning and effectiveness.

For this reason, sustaining a high-commitment, high-performance system requires leaders to institutionalize a process of governance and organizational learning that facilitate honest conversations, reveals these barriers and is reliably repeatable by leaders with minimal external consulting support and strong internal consulting organization development capabilities in HR. Such a governance system democratizes the organization in the sense that it gives stakeholder a voice (though not a vote), without which it will be impossible to gain the “consent of the governed,” legitimate leaders advocacy for change, and create the partnership between the leaders and the led needed to develop a sustained high-commitment, high-performance system in an ever-changing, ever-more-competitive world.

Sustaining this permanently – over decades - requires a board of directors who are committed to the long-term development of a high-commitment, high-performance system even in the face of pressure (for example, from investors) for better short-term financial performance. It is the board who make decisions about CEO succession, layoffs, and senior management's compensation and incentives that either encourage or discourage short-termism and the consequent destruction of the system. The few companies that have managed to sustain their high-commitment, high-performance systems have made all their employees at all levels owners of the firm with a governance system that gives them a permanent rather than episodic voice from which their leaders can learn what employees want and fear losing if commitment and performance are to be sustained.

There are several implications for the field of organization change and development from my 50-year journey I highlight briefly below. Lewin's truism that trying to change a system to understand really worked in developing the kind of normative system theory presented here but unfortunately has declined in its use by this generation of OD scholars. Our unique contribution as a field is actionable theory development. That is the model of empirical inquiry we should foster in ourselves and our students, instead of trying to emulate other sub-fields in the broader field of organizational studies of which we are a part. For example:

- 1) We need to rethink our Ph.D. training in the context of this objective. I did not understand organizations and systems thinking when I started. My good fortune to work with, managers who sought help to change their system led to my development as a

wholistic thinker. The act of seeking knowledge developed by others with more traditional normal science methods was used by me to enrich and validate my inductively developed theory and my understanding of the high-level substantive knowledge required by a system's change agent. And, that learning was more profound and stuck. It also stimulated me to ask the right questions to satisfy the curiosity the action research journey developed and led to my own normal science field research (Beer et. al, 1990) as did developing a new course and book about human resource system's (Beer, et. al. 1984).

- 2) The theory I present here is just a tiny step in developing a robust normative theory of sustained systems change and development. There are many aspects of the theory I propose that require further development most important is how to embed this thinking into organizations as part of
 - a. their strategic management processes.
 - b. As a means for solving many of the challenges they face from the current issue of the great resignation, inclusion and racism, supply chain disruption. These are problems they are tackling individually rather than systemically.

The principles of system change and development and the methods for doing it can be employed in solving *the challenge* many companies are embracing, namely the development of a high performance and higher ambition purpose and human values driven ethical organization. This requires trust and commitment from by all the stakeholder (Beer et. al, 2011; Henderson, 2021). Most of these efforts involve the larger unbounded network of stakeholders.

We need to develop a more robust actionable systems change and development theory and methods for tackling the central problem in these networks- better coordination and cooperation (one of the silent barriers). Many of the remaining silent barriers discussed earlier are the cause just as they are in the bounded organizations in which I discovered them. But they require creative adaptation of the theory and governance methods of which I simply provide an overview given the space limitation of this already very long chapter. A book is clearly in order.

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Figures

FIGURE 1
THE INTERNAL SYSTEM OF ORGANIZING, MANAGING, AND LEADING

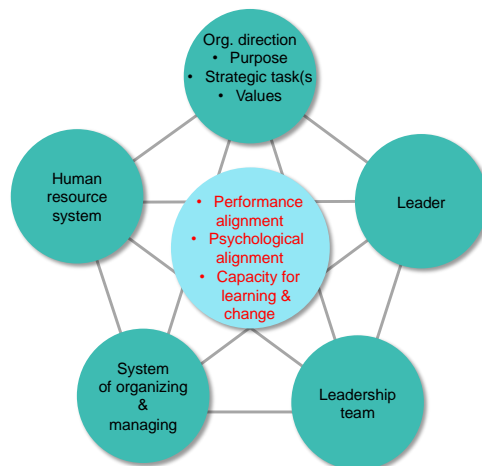
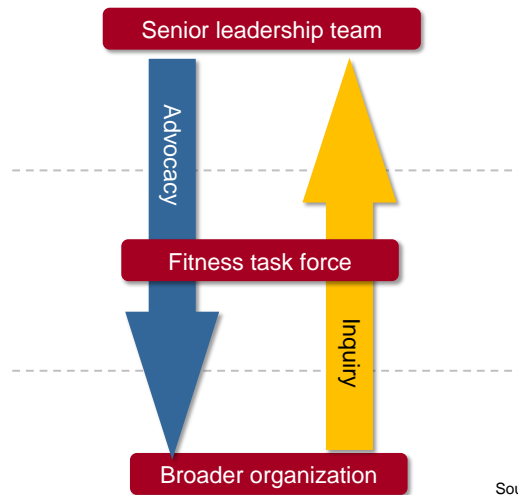


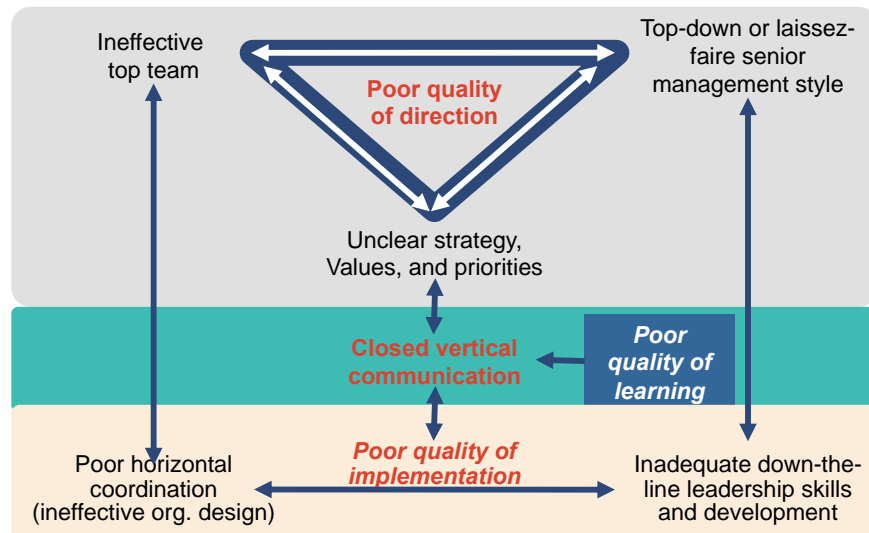
Figure 2
The Strategic Fitness Process (SFP)



Source: Beer & Eisenstat (2004)

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Figure 3
The Dynamics of an Ineffective Organization Unable to Change & Develop



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