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The Organization of the '90s

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Organizations based on the "Command and Control" principles of the 1910s are too costly, too slow to adapt, too unresponsive to customers, and too limited in creativity and initiative to respond effectively to the competitive challenges of the 1990s. Many companies are beginning to experiment with a new set of organizational principles. Few have yet made a complete transformation, but there is much to be learned from the efforts under way.

Any recent survey of contemporary organizational thinking would reveal such terms as the borderless, networked, inverted, empowered, and non-hierarchical organization. At first, executives find these terms strange, ill-defined, and inconceivable. Yet they realize that something new is afoot.

Managers know that new approaches to organizing and managing are required. In almost all types of corporations, they are looking for ways to create more entrepreneurial organizations, where employees at all levels are focused on increasing value and satisfaction to customers. In their hearts, most executives realize that the basic bureaucratic organizational approach that has dominated industrial companies since the 1910s is out of date with today's needs. But there are several questions about the new organizational approach: What is it? Where is it appropriate? How do you make the transition?

These are tough questions, and the reality is that the answers are not fully known. Yet by examining how some leading companies are approaching this challenge, we can begin to develop some practical insights. Our review of their efforts to date indicates that:

1. Companies are increasingly recognizing that the "Command and Control" type of managing is an inadequate response to the demands of today's environment.

2. A potentially powerful new organizational approach is gaining increasing acceptance. Companies are taking approaches proven on the factory floor and applying them throughout the rest of their organization.

3. Successfully developing a high-performing organization requires that senior managers overcome some commonly held misconceptions and lead a change process that blends top-down and bottom-up initiatives.

Limits

With some variations, most companies are organized around the "Scientific Management" or "Command and Control" model of the 1910s. This model created many of the concepts that we now take for granted—line and staff, policies and procedures, middle management layers. It created an organization that thrived in a stable environment, where problems could be identified by daily or weekly reports, analyzed by staff, presented to top management for their decision, delegated to middle managers, and implemented by workers.

The Command and Control (C&C) organization, at its peak, was a highly refined system predicated on stability and forged by a particular set of technological, market, and demographic forces. Single purpose machinery, stable mass markets, and a semi-skilled workforce were all mutually supporting. Together they shaped a predominant strategy of standardized, high-volume production and a C&C organization. The essence of a C&C organization is the separation of decision making and implementation: managers and staff make decisions; middle managers transmit and coordinate; workers implement.

New challenges

The forces shaping strategy and organization today are dramatically different from those facing Frederick Taylor and Alfred Sloan. End-use markets are fragmenting, requiring faster and more targeted responses. Advances in the ability to capture, manipulate, and transmit information electronically make it possible to distribute decision making ("command") without losing "control." Gone is the abundant, primarily male, blue-collar workforce. Workers today are better educated, in short supply, and demanding greater participation and variety in their jobs.

Individually all these changes are dramatic; collectively they shape a new era in organization and strategy. Strategies are increasingly shifting from cost- and volume-based sources of competitive advantage to those focusing on increased value to the customer. Competitive strength is derived from the skills, speed, specificity, and service levels provided to customers. The Command and Control organization is under strain. Indeed, many businesses are finding that C&C principles now result in competitive disadvantage.

Cost. Layers of management and unnecessary staff functions to communicate and control top management directives can no longer be afforded.

Slow response. Standardized procedures, together with inflexible roles and responsibilities, create an organization that does not readily sense and react to changes in customer needs or technologies.

Lack of creativity and initiative. Narrowly defined tasks do not fully tap the potential of today's better educated employees.

As corporations become increasingly aware of the shortcomings of the C&C model, they will search for alternatives. A survey of Fortune 1,000 companies by the American Productivity and Quality Center showed that almost half of the respondents already have plans to move beyond the C&C approach in some or all parts of their organizations.

The new model

The "Organization of the '90s" approach stems from the radically different and highly successful organizing approaches in factories that have been gaining increasing prominence over the past 10 years. General Electric's Salisbury plant appears to be an excellent example of such an organization—so good, in fact, that GE's CEO Jack Welch sends his top executives there for what he calls "a peek into the future."

At Salisbury, GE produces electrical circuit breaker panels—by any reasonable measure, a low technology product in a mature market. Before its transformation, it was a classic C&C operation: workers were confined to narrowly defined tasks; equipment was specialized and inflexible; the plant had five management levels; and design and manufacturing were separate. But extremely poor financial performance in the circuit breaker business forced GE to reorganize the plant in 1986.

The new plant bears no resemblance to the old. It now has three levels: associate, advisor, and plant manager. The workforce (called "associates") is organized into self-managing teams that perform traditional staff functions like planning and hiring, and handle capital appropriation requests. Elected facilitators lead teams on a regular basis to solve problems, share knowledge, and plan changes to improve performance. Cross-functional committees of associates meet on a weekly basis to address policy issues (for example, long-range production planning, organizational development, and safety). Computer-based equipment provides flexibility. Plant performance is available to the teams on a minute-by-minute basis via an electronic scoreboard hanging over the production floor. Result: cost reductions of 30 percent, tenfold reduction in customer complaints, delivery cycles reduced from three weeks to three days.

The number of companies embracing this new approach in at least some part of their organization is growing. Since the early 1980s, over 400 units covering a full range of industries have been created in the United States, and they are starting to appear in Europe.

Drawing on the GE example and others we have visited, we have synthesized a common set of characteristics for the Organization of the '90s. These characteristics contrast sharply with those of the Command and Control approach:

Customer (versus supervisor) focus. In theory, everyone in the Organization of the '90s is focused on providing superior value to their external or internal customers. This contrasts with C&C organizations where only certain departments or levels of management make understanding and satisfying customers their chief concern.

Continuous performance improvement (versus meeting periodically defined objectives). The organization is oriented from top to bottom around continuous improvement. It is constantly identifying relevant opportunities both within and across functional areas and adjusting its actions accordingly. Focus on quality, speed, flexibility, and learning is always present. Increasingly, we believe the best of these efforts will be driven by multiple measures of performance (that is, customer value delivery, shareholder wealth, and employee gain).

Team (versus hierarchical) relationships. The classic hierarchical structure is no longer the sole or dominant determinant of organizational relationships. Multiple performance- oriented and accountable teams are found at all levels in the organization. Within functions, members are organized in teams, cross-trained, and provided with business information to enable them to perform multiple roles and to adjust quickly to varying requirements. Across functions, the formation and reformation of multi-disciplinary teams to solve particular performance issues becomes the norm rather than the exception. As a result of this team orientation, decisions become more participatory, due to members' possessing the skills, incentives, solution space, and information to contribute. Structures also tend to be flatter and more flexible, but a well-designed hierarchy remains.

Flat, flexible (versus vertical, static) structures. Organizations reduce levels and barriers across functions in order to respond quickly and effectively to customers and their changing needs. Ongoing processes (for example, interactive forums, group problem solving, continual renewal/ redesign efforts) facilitate integration across functions and provide the basis for regularly adapting structures to changing customer needs.

Empowerment (versus compliance). The expectation is that everyone in the organization will look for opportunities to improve performance and take action without relying on procedures or orders from above to act. However, empowerment is not simply an untargeted increase in individual freedom. By bounding behavior with broader concepts such as business objectives and shared values (versus specific targets and directives), the team or individual has greater opportunity to improve performance.

Vision- and value-driven (versus control-oriented) leadership. Developing and maintaining the organization requires leaders to shatter expectations that all important direction comes from above and that deviation from prescribed norms will be punished. Employee initiative requires imbuing everyone in the organization with a clear, shared sense of purpose—and with values linked closely with teamwork, problem solving, and risk taking.

Creation

Few managers would argue with the benefits of this kind of organization if they could create one at reasonable cost and risk. Although previous experience with change may make managers skeptical about their organization's ability to accomplish such fundamental change, a review of leading companies show that success is possible through a combination of intense "bottom-up" operating unit redesign and gradual "top-down" cultural shaping initiatives.

Bottom-up redesign

Most corporations are collections of 10- to 50- to 300-person "operating units"—groups of people in production, sales, and support functions delivering a product or service. Corporations are increasingly initiating intensive bottom-up redesign efforts of these units. Many of these efforts draw on a cross-section of the organization to redesign their own workplace, balancing technical requirements (customer needs, equipment capabilities, financial returns) and social objectives (the type of place that will make for a satisfying and productive workplace).

Critical to the success of redesign is a process whose values model the Organization of the '90s approach. Continuous improvement, empowerment, and high-performance teamwork cannot simply be mandated or designed into an organization from above. They can only be created by a process that exemplifies these attributes. As more and more people participate in the redesign process, build new skills, and see results, the desired behavior change will result.

These bottom-up redesign efforts follow a typical pattern. After success in a basic front-line operation, executives ask why the same approach cannot be applied to other areas. For example, at a financial services company, after a major success in the mutual funds operations area (350-person customer service unit), the redesign process is now being applied to life operations (another customer service area) and marketing services and commission processing (two staff support areas). The net result of such experiments is that the approaches now extend far beyond the factory floor to engineering, sales, and corporate staffs.

Top-down shaping

Bottom-up redesign does not occur in a void. Leading companies also initiate top-down cultural shaping efforts to make their organizations more receptive to the Organization of the ’90s principles. (“Sweeping the snow in front of the sled to speed its path down the hill” in the words of one of the CEOs we interviewed.) Typical cultural shaping actions include:

New corporate vision. Like Jack Welch’s call for “speed, simplicity, and self-confidence.”

Major performance improvement challenge. This includes Motorola’s “6 sigma quality” (3.5 defects per million) or GE’s “#1 or #2 in all our businesses.”

Simplified structures and systems. Such as GE’s elimination of sectors and groups, BP’s reduction of committees in favor of increased individual authority and accountability, or Citicorp’s elimination of management layers in its investment and institutional bank.

New forums and change processes. Like GE’s “Workout Process” or British Petroleum’s “Project 1990.”

Intensive training and support. For example, GE’s “Productivity Best Practices Workshop” and corporate funding for change facilitators for each business unit, and “Motorola University,” which trains all employees in problem solving, teamwork, and continuous improvement.

Challenges

In theory, the applicability of the Organization of the ’90s model is broad and the advantages are many. Yet the truth is that no one fully understands the potential (and the limitations) of the model.

Senior management’s role is to determine if and how to develop Organization of the ’90s characteristics in their own organizations. Our discussions with executives well along in the process of leading such transformations lead us to believe that the first challenge is often to overcome commonly held misconceptions. Once these misconceptions are overcome, we found nine actions that could accelerate change.

Misconceptions

In any discussion about creating high-performing organizations, a number of misconceptions are frequently voiced.

Giving up control. Executives feel that if they loosen the restraints on people down the line, they will lose control of their organization. Two responses can help allay this fear.

- First, the executives are only giving up the "illusion of control." The reality is that tight procedures and detailed reports to upper management are no guarantee that employee behaviors will meet customer and market needs. Opportunities are often long gone by the time management gets the reports and dictates corrective action.

- Second, the Organization of the '90s can create a higher, though different, form of control. Clearly defined performance objectives, highly supportive training, information and compensation systems, and a commitment to the shared values of an organization are extremely powerful motivation and control devices.

Loose accountability. How do you hold people responsible in these team-based organizations? Again, accountability remains, but in a different form. In fact, two levels of accountability emerge—both much stronger than in the C&C organization.

- Team accountability. The team provides a tightly defined unit aligned around a common performance objective. The new product development team organized around the Organization of the '90s principles will provide a much clearer basis for accountability than one organized in the C&C functional or compartmentalized mode.

- Individual accountability within the team. In its self-managing form, teams will very clearly be able to distinguish between who fulfills their contract and who does not. This provides much tighter and more relevant measures of accountability than tools such as static job descriptions or periodic management by objectives.

Hierarchy disappears. Hierarchy remains as a very important dimension of every organization. Organizations will never be totally flat; they will continue to have a series of management layers, the number of which will be a function of the scope and complexity of the operation and of the capabilities of the underlying organization. However, behavior within the hierarchy will be quite different. People will look up for guidance on major policy, strategy, and resource-allocation decisions. But they will not wait for—or be blindly obedient to—direction on how to improve performance on a day-to-day basis.

"All decisions are participatory." Organizations transitioning to the Organization of the '90s model frequently fall into this trap. But with experience and training, they develop an understanding for the types of decisions that benefit from group problem solving and consensus decision making and those that do not.

Accelerate change

Few change efforts toward the Organization of the '90s involve starting from scratch. Many companies already have experiments of some type under way. However, we believe most companies would benefit from such actions as:

Take stock of your efforts to date. Almost every corporation has taken some steps in the direction of the Organization of the '90s. Managers should now ask themselves:

- Which units would benefit most from an organizational transformation? Those where the performance improvement opportunity is dependent on behavioral (for example, lots of people doing lots of little things right) versus strategic/structural (for example, reconfiguration of assets, alliances) considerations are top candidates.

- Where in the organization is readiness high? Look for a high degree of business urgency and the management talent with an open mind and skills to pursue change. Experimental or developmental efforts are often already under way in these units.

Visit other organizations attempting transformation. Firsthand visits remain the single most powerful tool for understanding the model at work and learning how to make the transition. No matter what stage in the process they may be in, executives typically come away reinvigorated from a day of discussions with their counterparts in other companies and industries.

Renew your vision. Few companies today are without a vision of some sort. And most have come a long way from 10 years ago when goals typically focused on just financial measures (ROE, growth) and provided little guidance as to how the corporation could get there. Nevertheless, evaluate your vision against the following criteria:

- Objective and motivation: is the reason for change clear and compelling to the entire organization?

- Source of competitive advantage: does the vision explicitly spell out the "winning formula" (skills, strategy, and shared values) that will result in competitive advantage?

- Change thrusts: does the vision spell out the set of integrated actions that will make the "winning formula" a reality?

- And finally, look at the items on management's agenda. Is the vision explicitly or implicitly referred to in key decisions and priorities? If not, the vision needs work.

Build a leadership team. The Organization of the ’90s requires leadership team at all levels of the organization. Evidence of progress at the top sets a powerful example. However, progress can be painfully slow as senior managers are often highly status and turf conscious. They do not readily take to discussions of trust and the candid, open communications, which lie at the heart of creating an effective team. However, enormous progress on these issues can be made if the CEO agrees to—or creates—a leadership team to address them explicitly on an ongoing basis as part of managing the change program.

Lead more, manage less. The transformation will require an explicit and dramatic shift in the management styles of most senior executives. Leaders will have to spend much more time on clarifying goals and shaping values, and much less on participating in operational decision making and control.

Eliminate layers. Place the best people in the high priority operating areas and give them the freedom to make changes consistent with the renewed vision. Two benefits will result: first, progress in important operations will be accelerated; and second, managers in other areas will either grow or be quickly exposed. Organizational speed and flexibility can only be enhanced through the elimination of layers.

Break down the organization. This is a corollary to eliminating layers. Look for ways to create smaller, more integrated operating units. The economic benefits of scale for most (but not all) organizations have reached the point of diminishing returns due to diminished minimum economies of scale and to increased costs of complexity.

Experiment. Pick two or three operations as pilots. Make sure the managers have the required support and provide them the freedom to innovate within the framework provided by the vision. The pace and shape of the evolution of the various pilots will vary. But much will be learned from the different successes and failures.

Create new management forums (or, better yet, replace old ones). Executives will need a focal point for the sharing of experiences, learning, and best practices. Create a process and structure that brings practitioners and senior managers together for candid discussions of transition actions and progress.

An organizational transformation, as we have described above, in and of itself, offers no guarantee of top performance; it cannot overcome basic structural or market disadvantages. However, properly applied, the model offers a powerful new approach for improving organizational performance. It is still in its infancy. No one can really predict its ultimate evolution. But one thing is certain: harnessing this approach will be one of the central management challenges of the 1990s. □

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