to high-performance ones. The change process is difficult to manage, but it is manageable. Based on a number of studies of organizational transformations, there appear to be some general guidelines that, when followed, can increase the chances for a successful transformation to a high-performance organization. It is perhaps a bit too bold to call these principles, but they are at least good predictors of successful change.

1. Establish Compelling Business Reasons for Change

The organizational change literature is full of suggestions about how to motivate change. Most focus on the importance of making people feel that there is a need for change and the importance of providing a vision of a new more attractive world toward which the organization should be heading. There is no question that these points apply to adoption of the new logic. Organizations are most likely to change when there is a commonly accepted view that the current ways of operating are not likely to lead to success—but that a new, better way will lead to success.

Organizations that decide to change to the new logic do so for a number of reasons. Some find it more aesthetically pleasing. Others agree with its underlying values. Still more believe that it provides the kind of culture that they prefer. All of these reasons are valid and can lead to change. But in my experience the most effective way to motivate change is to establish a compelling business reason. Survival, competition, and winning in the marketplace are the kinds of compelling reasons that consistently generate energy around change and also provide a sense of direction. In the absence of these, change becomes a luxury or a hobby rather than a business necessity. This is particularly true in large, complex organizations that have a strong vested interest in maintaining the status quo. In these organizations, change needs to have compelling reasons behind it, not just a vague sense that it is something "nice to do."

Often the best way to establish a business justification for change is to analyze the competitive environment. A careful benchmarking of how an organization compares to its competition can often provide good evidence of the shortfalls of an organization's performance and highlight the kinds of improvements that need to be made. It is important in this exercise to look not just at
direct business competitors but at anyone who is using similar business processes and activities. This is the only way to accurately assess an organization's long-term competitiveness. Once this activity has been completed, the organization should be in a position to identify its weak points and the threats to its continuing success and survival.

New technology such as computers or automation in the workplace, the start-up of operations, new business ventures, and new territories or locations also can provide a felt need for change. All of these sources of instability in the organization can actually create the energy and provide an opportunity for an organizational transformation. A "start-up" mentality can take hold, making it easier to create new designs and systems for an organization. When I consult with organizations, I strongly recommend that they look upon every major change in technology and/or physical location as a prime opportunity to redesign themselves and move toward a high-performance approach to organizing.

Any effort to justify change for business reasons must consider all four points of the Diamond Model presented in Chapter Three. That is, it must analyze the business environment and determine how the organization must behave in order to perform successfully in it. Further, it must identify the kinds of organizational capabilities and core competencies needed to reach a winning performance level.

One of the most important things that an effective manager or leader can do is to help generate the feeling within an organization that there is a need for change. Jack Welch did it at General Electric, Larry Bossidy did it at AlliedSignal, and David Kearns did it at Xerox. For many years before significant change began in these organizations, some people within them were dissatisfied with the existing state of affairs. But it took an effective CEO to crystallize the discontent into a strongly felt need for change and ultimately to provide a vision of how the change process should play out.

The example of Jack Welch and General Electric is particularly impressive in terms of making the business case for change. When he took over as CEO of General Electric in the early 1980s, it was a successful firm and viewed as world-class in terms of its management practices. But Welch believed that in order for GE to con-
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sume to be successful. he had ro lead a major transformation process. His first challenge: draw attention to the need for an
d and define the kinds of changes that were needed. Welch believed that unless GE's businesses were first or second in their competitive markets, they were unlikely to produce high levels of financial return. He therefore acde a bold statement: "Only those parts of General Electric that are number one or two in their business will be retained; others will be sold or shut down." This rather dramatic statement mobilized energy for change within GE and shows how leadership can create successful change.

2. Leaders Must Guide the Change

Hierarchical, autocratic institutions and organizations can change through only two fundamentally different processes: top management-driven initiatives and revolution. Top management-driven change has a number of advantages over revolution when it comes to transforming corporations. The m, Yor one is that managers at the top have the power to make it happen in a programm tic, focused way. Unless senior management strongly supports and guides change, it is likely to be fragmented, not driven by a vision, and ultimately threatening to them.

All too often when I have been involved with change efforts where a middle-level manager decides to change to the new logic without senior management support, the outcome has been far from satisfactory. Remember the plant manager mentioned earlier who created a new plant based on teams and new logic principles? He was the "rebel leader" who successfully started his new high-performance plant. Unfortunately, support for his "guerrilla action" was limited to the individuals at his location. He was eventually ousted from the organization. Indeed, this is the fate of most rebel leaders.

Senior managers are uniquely positioned to supply the kind of strategic leadership that is critical to a successful transformation to the new logic. They are in a position to help define the mission of the organization and to establish a link between that mission and the type of management and organization principles that are used. In this situation, leadership—not management—is needed. Indeed, sometimes a larger-than-life transformational leader—a "magic" leader—can be a significant help.
The best transformational leaders have the ability to clearly articulate a new mission for the organization, the ability to provide a sense of how to achieve results, and the ability to use their own behavior to provide examples of the new behavior. They also know how to carefully articulate their expectations for others, and they consistently follow up with appropriate rewards for those who adopt the new behaviors.

A good example of this kind of leadership is the way David Kearns led the change process at Xerox. He made a clear business case for the change and then spent a considerable amount of time working with his own senior management team to be sure that they understood the new behaviors that would be needed in order for the organization to be successful. He next persuaded his senior management team to train their subordinates in the right behaviors and to spread the principles and leadership behaviors of the new logic throughout the total corporation by having managers at all levels train their subordinates.

3. Take a Long-Term View of the Change Process

Because changes in an organization's management approach happen slowly and take time to pay dividends, it is important to take a long-term view. How long? Depending upon the size of the organization and the urgency for change, the amount of time required can vary from a few years to more than a decade.

Xerox, which is often cited as having undertaken one of the most successful corporate change efforts, has been working on its transformation for well over a decade, and it is far from finished. Significant, positive results began to show after a few years, so it is not now a question of whether change will pay off for Xerox. They long ago regained some market share from the Japanese copier makers. The question now is what additional changes they need to make in order to achieve further gains.

Results from AlliedSignal, General Electric, Corning, Rockwell, and Harley-Davidson are encouraging. For these companies, it did not take five years for positive results to appear. Some positive results appeared in less than a year in areas such as product quality. Indeed, their experience suggests that investments in new work and organization structures, training, and the development of new

information technologies, organizational capabilities, and other aspects of the new logic pay off in the first two years. As noted in Chapter 2, the leadership literature shows a clear pattern of introducing changes into new principles of change and, of course, that organizations improve as new behaviors are incorporated into the new logic—a compelling message to leaders in all organizations.

4. Create a Climate for Change

The most popular metaphors for change are: Create a climate for change and, of course, create a sense of urgency. For a change to be effective, the organization must be able to operate with its new work and organization structures, training, and the development of new

It is hard to argue that organizations cannot change and, of course, that change is not a one-time event. Change is not a process that occurs in order to freeze new ways of doing business and then move on. Rather, change is a way of doing business. It is a way of organizing to learn from and to be open to new opportunities. An organization that is open to change is constantly making changes, not just waiting for change to occur with a constant vigilance and commitment to change with a constant vigilance and commitment to change.
information technology and management systems can produce new organizational capabilities and better financial performance within two years. As noted in Chapter One, a growing body of academic literature shows a direct relationship between the adoption of the new principles for organizing and the overall financial performance of the organizations. It does not tell us how quickly organizational change impacts on performance, but it does suggest that introducing changes takes time and that performance will continue to improve as new behaviors and systems take hold. Thus it is critical that organizations make a long-term commitment to adopting the new logic—a commitment that involves continuous change.

4. Create a Climate of Continuous Change

The most popular models of change management involve three phases:

- Create dissatisfaction with the existing state of affairs.
- Make needed changes.
- Return stability by "refreezing" so that the organization operates with its newly created organizational practices and structure.

It is hard to argue with the first two. I have already pointed out that organizations need to "unfreeze" or develop the need for change and, of course, adopt new practices. However, in this era of rapid environmental change, I question whether refreezing is the best third step. I think it is better to think of the final phase as continuous change and organizational learning.

Change is not a process that an organization should undergo in order to freeze new practices and then settle back into a new way of doing business as usual. Change is an opportunity for an organization to learn and to develop its capabilities and competencies through trying new approaches and assessing how well they work. An organization needs to continue the change process, constantly making changes, experimenting, and assessing the results of change with a continuous improvement mindset.

We are in a very fertile period of new ideas and new technologies concerned with organizational design and management. An
organization that freezes or locks in its management practices and becomes unable to take advantage of what are likely to be significant developments in the future.

It is important to keep in mind that there is a significant distinction between locking in the new logic approach to building organizational capabilities and locking in particular management practices. The former is usually positive, the latter is often not. Most organizations can continue to improve their organizational capabilities only by introducing new management practices that support or create them. For example, in creating a quality capability, the challenge is to find the best combination of practices to support it. Motorola and other organizations that have been pursuing a quality capability for over a decade are still making new discoveries and learning new ways to improve their capability. Their ongoing pursuit of improvement demonstrates a focus on developing the capabilities of the organization and a healthy willingness to search for the right mix of practices. They are open to learning about the positive and negative effects of particular practices and are not wed to a "we have to do it this way" mentality. They are wed, however, to having a world-class capability in quality and to creating a high-performance organization.

Given the current levels of organizational experimentation and the evolution of information and computer technology, there is no doubt in my mind that many valuable ideas are going to emerge in the next decade about how to manage new logic organizations. Organizations need to be aware of these new developments and, where appropriate, put them into practice. The challenge will be to utilize them as a way to enhance organizational capabilities and to integrate them into the organization.

On the down side, a real danger is that organizations will automatically adopt technologies and new approaches to management without determining how well they fit their business strategy and their need for certain organizational capabilities. This can clearly lead to an instability that is more dysfunctional than functional and can ultimately lead to the reduction of an organization's capabilities. Effective continuous change requires that an organization strike a careful balance between being open to learning new practices and maintaining constancy in its key capabilities and its sense of mission and strategy and political change.

5. Avoid Fads

In many respects, managements, like the flavor of the month, are insatiable, in a very short form. But this is very much a case of participative management, reengineering on a short-term basis. An individual, like the flavor of the month, is discarded. As daily new ideas about management, kinds of fundamental management innovations become null-ters, it is impossible to make a safe prediction. No large number of new ideas that dominate
of mission and strategy. Indeed, this may turn out to be the ultimate organizational capability in an era of rapid technological and political change.

5. Avoid fads

In many respects, management practices have become a consumer product. Individuals, companies, and publications vigorously market new ideas about how to manage. Books on management can sell a million copies or more, and magazines such as Fortune, Business Week, The Economist, and Industry Week regularly report on new management practices. There are also hundreds of thousands of workshops on management practices as well as a multitude of consulting firms that claim to offer the management equivalents of better mousetraps. The market for management innovation is large and seemingly insatiable, particularly if the innovation can be summarized in a very short form and taught in a one- or two-day training course.

But this is very much a buyer-beware market. All too often, organizations adopt such ideas as speed to market, total quality management, reengineering, organizational learning, and many others on a short-term basis. After a while, all of their new programs seem like the flavor of the month (or perhaps year). The net result is that each time the emphasis shifts to the next new program, with its "silver bullet" solutions, much of what was learned in the old program is discarded and forgotten. Individuals who did not commit to the previous program feel reinforced for not accepting it and not participating in it. As they so often say to me when I interview them, "I knew it was a passing fad, so why invest my time and energy in it?"

It is impossible to predict what the next fad will be. The only safe prediction is that fads will come and go just as management by objectives, zero-based budgeting, and a host of other management innovations disappeared because they did not focus on the kinds of fundamental changes that organizations require in order to become high-performance organizations.

Can organizations inoculate themselves against the fad- or flavor-of-the-month syndrome? I believe they can. For organizations, the challenge is to identify the useful new practices and reject the large number of new practices, recycled old practices, and current fads that dominate the management field but are not a good fit for
them or are simply not very useful. The place to start: determine whether the practices lead to the development of capabilities that are key to business success.

Hewlett-Packard provides a good example. Its careful analysis of its markets and products found that speed to market is critical to the profitability of its products. In many of its businesses, the greatest profits (by a wide margin) are made by organizations that get products to market just a few months ahead of the competition. This led Hewlett-Packard to identify speed to market as critical and to work hard to develop its capability in this area. They test new management practices to see if they will improve speed and adopt only those that do.

A second step in guarding against being a victim of faddism: test all new management practices against the new logic. The best way to do this is by asking the following set of questions which follow directly from the principles of the new logic:

- Does the change increase the degree to which employees throughout the organization are involved in the business? To be more specific, does it lead to a broader sharing of information, knowledge, power, and rewards with respect to key business decisions and processes?

- Does it improve the degree to which employees throughout the organization can add value through their work? For example, does it allow employees to work with less supervision, to coordinate key lateral processes, or to make decisions and use knowledge that previously would have been reserved for managers at a higher level in the organization?

- Does it improve the lateral communication and coordination processes among interdependent employees in customer service, product development, or the production of a particular product?

- Does it move the organization toward a greater focus on products and customers so the employees will increasingly feel associated with a piece of the business rather than with a specialized function?

- Does it improve the leadership capability in the organization either because it helps improve the capability of leaders or because it provides them with an opportunity to model effective behavior?

- Does it help how they carry and capabilities?

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6. Focus on W

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careful analysis of the market is critical for businesses. The market analysis area. They test speed and breadth of fuddism: test. The best way to follow directly employees of business? Taring of information to key throughout the organization? For example, supervision, to visions and use served for management. Coordination customer focus on increasing focus on. Fad or business, model effective behavior and communicate with the organization about its mission and strategy? Does it help leaders focus on organizational effectiveness and how they can add to the organization's core competencies and capabilities?

Literally any management practice can be tested by asking these questions. If the practice does not pass this test, it should not be adopted.

Finally, senior management must play a critical role in preventing fad-embracing behavior. It needs to have a constancy of purpose and focus on developing multiple capabilities that position new practices and policies as a part of the organization's long-term business strategy. If senior management has a short attention span and does not behave strategically, it is almost inevitable that the rest of the organization will also be easily entrapped by the latest fads.

Designing an effective organization is a journey without end. Yesterday's performance is unlikely to be good enough tomorrow, so organizations must continuously think of ways to improve their performance. This means change, experimentation, strategic alignment, and a willingness to adopt a learning stance toward the development of organizational capabilities. It does not mean a fad-dish, ever-changing, flavor-of-the-month approach to organizational effectiveness.

6. Focus on Where Change Goes and What Points It Covers

One of the clear implications of the Star Model is that change to the new logic usually requires changing all the important systems and practices of an organization. At the start-up of a new organization or business unit, it is relatively easy to create a new logic organization. All the major systems can be designed according to the new logic, and thus there is no sequencing issue with respect to which point to change first, second, and so on. Just the opposite is true when a traditional organization is being changed. A critical question concerns where to start the change process. The answer to this question is both simple and perhaps not very satisfying to someone undertaking the change process.
There is no one right way or place to start the change process. Typically, the best place to start the change process is where the organization is open to change. If there are complaints and pains with respect to the pay system, this most likely is the right place to start change. If there is a major technological change occurring, the design of work and the organization's structures may be the right place to start the change. The critical issue in changing to the new logic is that change does not end with just one point on the Star Model. It needs to continue until all points on the Star Model have been changed and aligned with the principles of the new logic.

7. Don't Wait for Heroes

An all-too-common belief is that change can happen only if a single hero emerges to lead the process. This so-called magic leader phenomenon is dominant in American mythology. John Wayne and other great heroes in American popular culture were solo operators. So we expect the same to be true in the business world, and we see the image of the magic leader reinforced by the mythology surrounding the impact that Lee Iaccoca had on Chrysler, Michael Eisner on Disney, and Jack Welch on General Electric. Stories about the success of these companies often picture these individuals as almost single-handedly turning them around. There is no question that each of these individuals played a critical role in improving their corporations. But they also had a talented group of people surrounding them to provide the overall sense of senior leadership and direction that was critical to a successful change effort.

Not every senior manager can lead a complex change process, but I believe that many can and that in the case of organizational change there is considerable strength in numbers. Highly successful organizations such as 3M and Hewlett-Packard have had strong leaders, but more than anything, they have had strong groups of individuals at the top who provide an ongoing sense of leadership. Texas Instruments and Rockwell are other examples of large organizations that have moved toward the new logic without having highly visible "magic" leaders. Waiting for a great leader to produce change is not only in which rapid change is
produce change is not only foolhardy but potentially fatal in an era -

In-wnnccil-r;:toia change is badly needed.

8. **Avoid Corporate Anorexia from Excessive Downsizing**

In the 1960s and 1970s, many large, successful organizations began to suffer from a corporate disease that has been called the dinosaur syndrome, a set of practices and beliefs that made them unwilling and unable to adapt to a rapidly changing business environment. The disease most commonly affected large and very successful corporations that were praised for and extremely comfortable with their ways of doing business and their results. They were dinosaurs because their self-satisfaction prevented them from changing in response to environmental change and created the opportunity for new and old competitors to take business away from them.

The dinosaur syndrome seems to be on the decline. The fate of dinosaurs like Pan Am, RCA, Westinghouse, and Kmart has graphically shown to all that today's successful organization can be tomorrow's disaster if it fails to change. Unfortunately, the very focus on change, which has helped eliminate the dinosaur syndrome, has produced a new disease that threatens to be equally debilitating for many large corporations: corporate anorexia.

Corporate downsizing and reengineering became popular in the 1980s for a very good reason: many organizations simply had too many managers, too many employees, and staff support groups that were too large. Their high-cost organization structures kept them from competing with leaner, more efficient, and lower-cost competitors. In response, many corporations downsized, which did indeed reduce their costs and produce short-term increases in their profitability. This in turn produced a positive reaction from the investment community and greatly rewarded managers who ordered the downsizing by increasing the value of their stock, stock options, profit-sharing plans, and compensation packages.

Some companies have followed their initial reductions with more and still more downsizings. A kind of corporate anorexia seems to have developed in some of these companies that I believe will lead to their destruction if it does not stop. The pattern resembles the human disease of anorexia in which individuals continue...
to lose weight even though they have gone far beyond the weight loss that is healthy for them. In the corporate world, the initial downsizing often makes the organization leaner and meaner, but continued downsizings, as with human beings, make them weak and emaciated, which leads to decreased performance and then to further downsizing as business losses mount. If an organization is not careful, it can enter a death spiral in which it continues to downsize as it continues to lose revenues because its earlier downsizings have caused it to lose customers.

In my experience, a death spiral is particularly likely to happen when downsizing improves only the cost structure of an organization. Downsizing that is driven strictly by cost reductions is unlikely to add key organizational capabilities and, as a result, fail to improve long-term performance. It can help an organization become a lower-cost competitor, but usually this is not enough to win in the marketplace. It often sets off demands for lower and lower costs in order to remain competitive. The demands, in turn, can lead to a spiral of cost reductions that the organization to lose its performance capabilities and matelily to lose business.

A recent interview I had with the CEO of a major organization underscores how powerful the culture of downsizing has become. He had just returned from a retreat where many Fortune 500 CEOs were present and said that the major topic of conversation was how much more downsizing was possible. CEO after CEO told him they felt they could eliminate another 20 percent or more of their employees and still perform at their present level. His concern, and mine as well, is that these CEOs may be sacrificing long-term performance capabilities of their corporations in order to gain a short-term cost-reduction advantage.

You cannot shrink to greatness. At some point in a transformational process, an organization needs to begin to gain a competitive advantage because of the improvements it has made in quality, and innovation. At that point, it should be able to capture market share, and the critical issue becomes not just downsizing but structuring the organization to develop additional capabilities. If downsizing remains the theme, it can be dumbsizing, and the organization risks initial advantages it gained from its downsizing.

Replace Downsizings

The challenge for an organization downsized to the point of structure and its ability to point or it will begin to lose move. Corporations often make the mistake of rewarding every corporation some clear signs that it is to become anorexic. A to downsizing regardless of the organization automatically downsizes its organization the business began to question the very integrity of the business, indeed the integrity of the stop and growing and

A second warning sign is that continued employees are in voluntary retirement. A third warning involves the organization's responsibility to invest in the future. Without rethinking aspects of its business, the organization cannot find a way to improve its long-term performance. It will not be able to grow and innovation. It will soon run out of candidates for cost reductions in the organization's levels of effort.

A fourth warning sign is the organizational risk of becoming anorexic. A result, sales forces customer relationships.

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