How the Learning Organization Manages Change

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Whether they realize it or not, most organizations today are in an old-fashioned footrace. If they look to either side of them, their closest competitors are typically implementing the same strategies and operational initiatives. The organization that will win the race will be able to do three things better than its competitors: (1) quickly recognize changes in the demands that the market imposes on it; (2) be flexible enough to respond and even shape those marketplace changes; and (3) understand its own capabilities relative to marketplace demands. To accomplish those goals, it must become a learning organization. This article explains how.

Learning organizations are entities that have demonstrated the ability to continuously improve their products, services, and financial results and to change themselves as required by the actual and anticipated demands of the market place. True learning organizations are, by definition, change organizations. They have learned that competing in a global market requires some specific ways of doing business. Charles Larew, for example, heads an internal consulting group that has been instrumental in incorporating many of the characteristics of a learning organization into The Travelers. This has enabled that insurance firm to identify over $120 million in potential savings over the last three years.

Many companies, however, have neither the ongoing capacity for learning nor the ready capability to respond to marketplace changes at the speed required to stay ahead of the competition. Why? Most organizations operate as bureaucracies, which generally works against responsiveness, flexibility, and strategic positioning. Most U.S. organizations are awash in functional silos, are tied to the current philosophy of their business management systems and cultures that protect the status quo rather than change it, use slow decision-making processes, and are myopically focused on short-term financial results.

During the 1980s and 1990s most companies reacted to change in their environments by downsizing and through mergers and acquisitions. Yet, more and more companies are realizing that these changes by themselves are not enough to enable businesses to build the kind of strategic capability

they need to stay competitive. Organizational change strategies are needed to consciously transform the bureaucratic characteristics we have grown to grudgingly accept to ones that enlarge an organization's capacity for ongoing transformation and generate the strategic capability to compete in the global marketplace. Organizations that are committed to implementing change need to follow the seven steps discussed below.

1. Thoroughly understand your external environment, which includes markets, customers, competitors, suppliers, and macroeconomic trends. Learning organizations are continually repositioning themselves by finding new markets and looking for ways to acquire, satisfy, and keep their customers. They do this by benchmarking and incorporating world-class concepts, collecting data from employees, suppliers, customers, and competitors, and conducting market and economic analysis. Steve Roehrich, vice president of quality and business improvement for Johnson & Johnson, credits the assimilation of these best practices for optimizing J&J's growth, profitability, sustainability, and market leadership.

The capability to scan and process data from the wider environment is essential to organizational learning. Competitive analysis, for example, can enable the organization to create a new identity in the marketplace and help organizational members put their day-to-day work in perspective with their competition and with the demands of current and potential customers. These organizations are able to "create the future" by creating new markets rather than by merely satisfying existing customers. CNN is an excellent example of a business that redefined news reporting by creating a whole new audience and standard of performance for television news.

> **Competitive analysis can enable the organization to create a new identity in the marketplace.**

John Springer is president and CEO of Connecticut Health Systems (CHS) which consists of Veterans Memorial Medical Center, Newington Children's Hospital, and Hartford Hospital. Springer has used data regarding environmental trends to orchestrate mergers and acquisitions in response to changes in the volatile health care industry. He believes that "health care in the future will be a network that is conservatively financed with an integrated delivery system of hospitals, doctors, and patients." Having that vision of the future and the data to make it happen is enabling Springer to position CHS as a major regional competitor.

2. Create and communicate a vision that espouses the values of a learning organization. Organizational change requires strong leadership, starting with the creation of a vision that engenders purpose, interest, and excitement. Unless that vision embodies flexibility and openness to new ideas, methods, and styles, the stage cannot be set for a change-oriented environment.

Managing change is about acknowledging the paradoxes and diversity of organizational life, understanding them in the context of the marketplace, and focusing the strength of those paradoxes on meeting the company's mission and vision. Having a clearly articulated vision helps

people work through the messiness, and even the chaos that apparently conflicting concepts, data, and activities can engender.

Marvin Tancer, the executive director of finance and administration for Berlex Biosciences, the U.S. pharmaceutical arm of Schering A.G., credits the development of a vision with the successful reengineering of his firm's finance group. Tancer collected data via benchmarking and a customer assessment to develop a vision. In this way, finance became line management's partner, providing subject matter expertise to help executives develop and not just execute strategy and create products/services (e.g., management reports) that meet customers' expectations. Tancer asserts that "management's primary focus in leading change is to create the vision, communicate expectations, and get employees to think beyond the box."

> **Building an organization's capability requires a customer-focused strategy.**

3. **Align and integrate the organization's architecture to closely support the strategy.** Building an organization's capability typically requires more than just rightsizing, introducing new technology, or reengineering business processes. It requires a customer-focused strategy that is closely supported by all elements of an organization's architecture. Regardless of size or complexity, all organizations have the following elements:

- *Strategy*: The vision, mission, business strategy, and measurable objectives.
- *Structure*: Unit boundaries, work processes, reporting relationships, and the way jobs are designed.
- *Business systems*: The administrative policies and procedures that shape behavior, including human resources, administrative control, and communication systems.
- *Infrastructure*: The physical layout of offices and production facilities.
- *Information technology*: Software, data, and hardware (personal computers, mainframes, etc.) that are used.
- *Organizational capability*: The core competency of the organization (e.g., are you engineering- or sales-driven?).
- *Individual capability*: The competencies (e.g., knowledge, skills, and abilities) found in each employee group.
- *Culture*: The shared beliefs, values, and assumptions that guide the way an organization does business.

Alfred Austin, head of Aetna Life & Casualty's claim organization, used these alignment concepts while leading Aetna's Personal Auto Business through a drastic downsizing (more than 64 percent) that cut costs and repositioned the auto business in the most lucrative markets. Austin, along with Robert Restreppo, vice president of Aetna Homeowner's business, have partnered to shift the architecture of those businesses from bureaucratic and rules-driven to a customer-driven environment that heavily

utilizes teams of employees. In an effort to save the auto business, Austin completely reengineered its business processes. Operating costs were reduced by over 50 percent and profits have doubled in the last three years.

Effective change management requires identifying gaps between the existing elements of architecture and the business strategy. Paul Allaire, CEO of Xerox, integrated the concepts of the learning organization into his vision for the company. He envisioned Xerox as a company that would be highly responsive to change, capable of learning and applying new knowledge, and providing the right environment for innovation. Allaire recognized that creating organizational capability requires a complete "systemic makeover" of each element of architecture to ensure that people work in entirely different contexts and relationships than they have had in the past.

> **An organization's human resource systems have a significant impact on shaping employee behavior and performance.**

Perhaps the most critical area to focus on is gaps between the human resource systems and the strategy. An organization's human resource systems (employee selection, performance management, reward and recognition, succession planning, management development) have a significant impact on shaping employee behavior and performance. Therefore, it is essential that these systems be modified accordingly.

Robert Prohaska, vice president of management development and training has been instrumental in helping the Shawmut National Corporation assimilate a number of strategic initiatives. Through a number of acquisitions during the last decade, the organization has grown from being a bank with $2 billion in assets to one with over $30 billion. Prohaska believes that training was instrumental in integrating several diverse cultures, empowering employees, and bridging skill gaps.

4. Create a culture that closely supports the business strategy. A common oversight of most organizations is a failure to realize that culture has a direct impact on the bottom line and that culture can be modified over time to more closely support the strategy. Many world-class companies, such as DuPont, consciously focus on creating and maintaining a culture that promotes innovation. DuPont gets tangible results by setting clear guidelines on how to channel creativity. For example, it regularly holds creativity sessions to spur new product and process development. The company also requires that: clients be involved in all sessions so that their ideas are heard and implemented; the sessions include both technical experts and stakeholders who bring a totally fresh perspective to the issues; there be sponsorship, action be taken, and progress measurement for all outcomes.

Culture is an output as well as an input. Furthermore, the characteristics of each element of architecture determine an organization's cultural characteristics. Therefore, by modifying the appropriate elements of architecture, a learning culture can evolve over time. Optimally, a learning culture should have the following attributes:

- Ability to adapt to unforeseen circumstances;
- Openness to new ideas and information;

- Members that cooperate and work together across functions;
- A mind-set that underplays differences in status;
- Continuous learning, growth potential, and improvement;
- Calculated risk taking;
- High degree of teamwork;
- High degree of trust among all employees;
- A mechanism to allow ideas and paradigms to be continually challenged; and
- Employees who are committed to a total customer focus.

Philip Ashton, chairman and CEO of Yankee Energy Systems Inc. believes that culture change was a critical success factor in the growth of his company. To achieve his vision, he resolved to eliminate bureaucracy and led a transformation of the culture to ensure that employees were highly motivated, adaptable to change, and open to new ideas.

5. Establish and link metrics for business units, work processes, and team and individual contributors. You have, no doubt, heard the adage, "You get what you measure." Performance metrics drive results and shape employee behaviors. This precept is most obvious when studying how large consulting companies really work. These organizations pride themselves on hiring the best and the brightest. Employees are then put through rigorous training programs and work in an environment that espouses an "up or out" philosophy. This tends to create zero-sum situations where people are vying for the silver ring of partnership. The competition that ensues does little to promote teamwork or the sharing of information/knowledge or to create an environment where mistakes are seen as a learning experience.

> The more complex the product or service, the more important it is to understand, measure, and manage process changes.

Unless employees take responsibility for managing the *process* they use to produce their products/services, including their own *behaviors*, they will generally have difficulty changing that product or service to meet new customer requirements. The more complex the product or service, the more important it is to understand, measure, and manage process changes.

Charles Mention, a former manager at Milliken and president of TRM Consulting Group, has had hands-on experience implementing JIT/TQM, ISO 9000, process redesign/reengineering, and change management. Mention feels that developing and communicating metrics are perhaps the most important issues in change management, asserting that "these metrics must measure financial, operational, and perceptual trends."

Goals are attainable when they are clear, specific, measurable, and make sense in light of business strategy and customer needs. Translating organizational goals and metrics to individuals and teams continues to be one of the most difficult management activities and is often a stumbling block to implementation. Goal setting often remains a paper exercise that does not translate into results, unless accountability is clear. In other words, unless specific outcomes are related to customers, sponsors, and team members and the behaviors needed to make those outcomes happen are

clearly spelled out and agreed to, implementation probably will not happen as intended.

Performance metrics are effective when they are "employee-owned." Employees who are partnering with their customers and who are involved in strategy development and implementation are in a position to manage their own performance. These employees tend to understand the bigger picture—their organization's direction and constraints—and can be counted on to raise their own standards of performance, particularly if the rewards are there.

6. Implement mechanisms to promote communication among stakeholders—customers, employees, and management. Effective communications go in three directions: top-down, bottom-up, and horizontally. Communications play an important role in breaking down functional silos, identifying changes in the market, and disseminating organizational innovation. Successful change requires relentless communication of the vision, successes and failures, and solicitation of feedback from all stakeholders.

Emery Olcott, president and CEO of Canberra Industries, Inc., has built a culture of trust, commitment, and credibility by directly communicating in person with employees. When Canberra went through its only downsizing, employees were brought together and told the why, what, who, when, and how. After a devastating flood that seriously damaged the company's facilities, employees were told of Canberra's major options, including moving out of state or relocating to a different part of the city, and how it would affect them. By taking them into his confidence openly and honestly, Olcott reinforces his vision, shares successes and failures, and demonstrates the regard in which he holds them. He believes this approach has resulted in the dedication of management and employees to relentlessly meeting their customers' needs.

7. Eliminate barriers to innovation. Conflict is an interesting phenomenon. Too much conflict in an organization creates fear and paralysis. Too little conflict promotes an entitlement culture where mediocrity replaces excellence. Conflict is necessary to promote innovation. Yet many companies have difficulty managing differences among their employees. When carefully managed, these differences lead to "beyond the box" thinking that is essential for a learning organization.

Here are a number of tactics that can be used to remove barriers to innovation and continually challenge long-established paradigms:

- Invest in development opportunities for employees. This includes future jobs as well as their current jobs.
- Avoid being insular. Regularly visit world-class companies, especially those outside your industry.
- Create mechanisms to showcase innovation and methods for disseminating these improvements throughout the organization.

> **Conflict is necessary to promote innovation.**

- Reward and recognize innovation; do not be averse to risk.
- Use cross-functional teams to minimize silos.
- Organize by process and reengineer all strategic processes.
- Design jobs to minimize task specialization. Focus on horizontal skill acquisition and leverage decision making down to the lowest level.
- Restructure management's role to be less of a boss and more of a coach. Get out of people's way and let them do their job.

Because the learning organization is a change organization, it builds into its architecture the ability to learn and widely disseminate improvements. To develop and maintain learning organization characteristics, large corporations must act like small, entrepreneurial companies, and their executives need to operate with both autonomy and integration. Only in this way can organizations succeed on a global level well into the future. ✪