

Change by design - 2



The Xpragmatic View #61
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In the present Xpragmatic View, we further explore the concept of organisational change as a management instrument triggering innovation and process improvement. Assuming the basic promise of this concept is correct, what type of organisational change do we have to look for?

In [Change by design](#), we briefly discussed how organisations are often able to develop new opportunities and innovative approaches, after being forced by some "external" reason to adjust their organisational structure. In the present View, we further explore this basic concept. More specifically, we try to identify the underlying mechanisms that drive such innovation process.

Complexity and scarcity

In essence, the innovation process that we are talking about here is triggered by the presence of two "negative" forces. More specifically, nearly every externally imposed organisational change introduces both additional complexity and scarcity. Since both are experienced as negative forces, the natural reaction of an individual or a group will be to act in a way that both complexity and scarcity are reduced again.

In order to understand the mechanics of these forces, we will examine a number of job definitions according to these two basic characteristics. However, before doing so, let us give a more precise definition of the two concepts.

Complexity

Let us start with our notion of complexity. The notion of complexity that we use here must not be confused with the regular difficulty of a job. It is clear that lots of jobs do look extremely complex. Engineers, surgeons, researchers... they all perform tasks that require specialised skills that are way beyond the capabilities of the average individual.

However, this is not the type of complexity that we talking about here. Indeed, whereas these jobs seem extremely complex for the average person, they are often little more than a routine task for the specialist. In addition, the environment in which such specialist operates is often well defined and even isolated and the decision-making process is typically encapsulated within the single specialised context of this knowledge worker.

In the present View, we use the expression "complexity" as an indication for the degree of heterogeneity of the decision-making context. For obvious reasons, organisational changes such as mergers and acquisitions do increase heterogeneity, hence complexity.

Scarcity

The expression scarcity is used here as the indication for the (lack of) availability of resources (employees, budgets...) to execute the job. In addition, this takes into account the ability to acquire or assign additional resources when needed.

In general, specialised functions feature a high degree of scarcity. Organisational changes such as cost-cutting and headcount reduction do increase scarcity. Organisational changes such as outsourcing reduce scarcity, but increase complexity.

Delegation authority and process authority

Trying to reduce the additional complexity and scarcity imposed on them, people have essentially two escape routes (working harder is not seen as an option here).

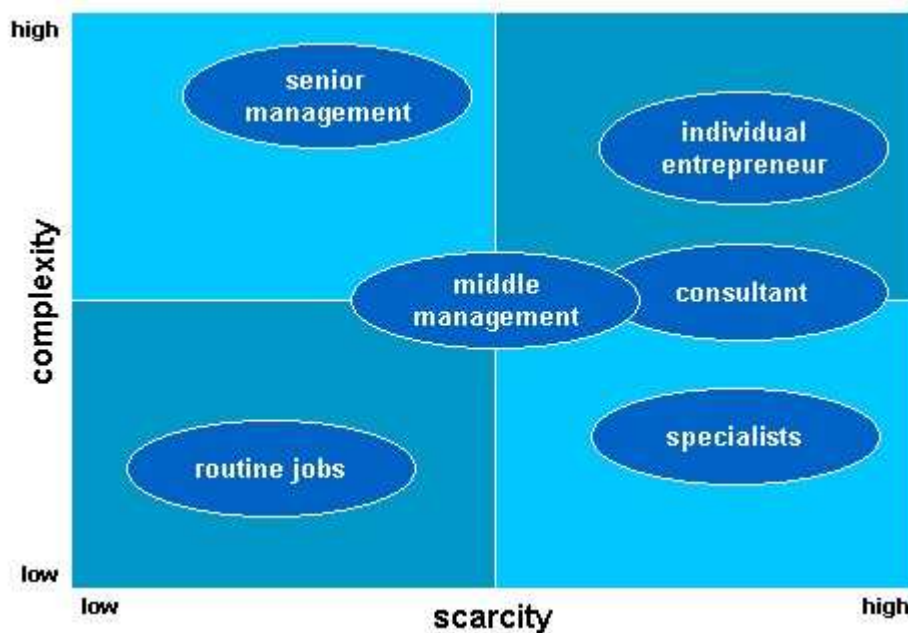
First, assuming they have the right to do so, they can execute their delegation authority, passing part of the work or the decisions to other people. In essence, this does little more than putting the problem elsewhere, so this is not immediately what we are looking for.

More important is the notion of process authority. Here, we are talking about the authority to change the processes that you are participating in or that you have control of. Thereby, it is important to state that this control must be rather direct. Indeed, in theory, the CEO of an organisation has control over every business process of the organisation. In reality, this control will be very indirect for most of the lower level processes.

In this View, process authority is the authority to change or redesign the processes that you are participating in or that you have directly control of.

Complexity/scarcity relations

Let us now examine how people in various positions do experience this complexity/scarcity relation.



Above graph shows typical complexity/scarcity relations for a number of job categories. For practical reasons, the dimensions of delegation authority and process authority are not shown, but they are implicitly taken into account while evaluating the position for a specific job.

In the lower left quadrant, we find the routine jobs with low complexity and low scarcity. Resources are abundant and decision-making is almost non-existent because largely dictated from above.

In the lower right quadrant, we find the specialists. These are people with a very specialised skill or competence that cannot be readily duplicated. Therefore, resources are scarce. However, as already explained above, their environment is rather isolated and the decision-making process is rather straightforward.

In the upper left quadrant, we do find most senior management. Here, decision-making is very complex because decisions have to encompass and balance a mixture of financial, operational, social and cultural

aspects. On the other hand, the authority to delegate tasks, to outsource, to allocate resources and budgets is very high. Strange as it might seem, senior management is not a scarce resource.

In the upper right quadrant, we find the individual entrepreneur. Scarcity is extremely high, because he/she is the single resource. Complexity is high because he/she has to handle all aspects of his/her little business.

The middle manager keeps some kind of median position. The authority level is significantly lower than that of senior management, but the responsibility scope is also more limited, reducing complexity.

Finally, the external consultant is essentially a specialist, but his operating environment is more complex.

Above descriptions are of course rather extreme positions. In reality, most job positions are a mixture of some of the above profiles. Nevertheless, it gives us a framework to think about what happens when organisational change is imposed on (parts of) this environment.

Stability and change resistance

In every organisation, this interaction of complexity, scarcity, delegation authority and process authority has finally resulted in some form of organisational equilibrium. Of course, this has not been a formal, planned exercise, but rather a gradual, natural evolution, often copying or imitating the organisational structures of other companies.

Unfortunately, while evolving towards this equilibrium, the company has also continuously added more "structure" that will protect and consolidate this equilibrium. Doing so, they have continuously increased the rigidity of the organisation.

Indeed, in most established business environments, there is little drive to review things fundamentally. Whatever brilliant ideas people might have, structures, procedures and hierarchies often burden the practical implementation. Even worse, most people have tendency to defend and protect their current working environment against any type of change.

Moreover, people tend to think and plan along the lines of existing structures, hierarchies and processes, further reducing the opportunity for a fundamental rethinking of the business environment. As a result, most organisations do have a very low degree of "natural" innovation capability.

Therefore, innovation will have to be initiated by "brute force", typically via formal management workshops, strategy exercises, etc. Once such basic idea has been identified, a multi-disciplinary taskforce will be assigned to further develop the basic concept and to draw the implementation plan. Doing so, skills and business understanding of various departments can contribute to the final result.

This is indeed a suggested approach. However, the real value of the multi-disciplinary approach is the fact that it allows people to think and act outside the formal structure of their traditional working environment. Doing so, it removes some of the burdens that we discussed above. Assuming correct execution (e.g. avoiding that hierarchical differences have an impact on the decision-making), team-members will have the opportunity and will even be stimulated to re-think structures and processes that are way beyond their regular control environment.

Organisational change as a basis for innovation

In a similar way, organisational change can be a basis for innovation. Of course, in such case, there is no theoretical exercise, but blunt reality. Here, participants are facing a hostile, unstable environment with a higher degree of complexity and scarcity. The natural reaction of the group will be to reduce this negative impact by reorganising their work one way or another. Assuming they have the authority to do so, most groups will succeed finding a new equilibrium.

However, this does not mean at all that we have the guarantee that new opportunities will emerge, such as suggested in the article by Slywotzky and Nadler.

Indeed, in most situations, the new equilibrium will only give us a more optimised business environment. This is largely due to the fact that there is no specific incentive for the group to search for approaches that go further than getting to a new equilibrium. Therefore, any new interesting opportunity created by this reorganisation is likely to be an accidental stroke of luck.

Therefore, we do not think that organisational change must be seen as "a next big thing" to trigger innovation. There is some potential value in this approach, but it has to be combined with other incentives and guidelines that will drive the group towards more innovative approaches. In addition, this must be directly linked to the competence of the group.

Indeed, team members of a multi-disciplinary team that has to drive a specific change initiative are not randomly selected, but are selected on the basis of specific skills, experiences or knowledge. This will give the team, hence the organisation, the best chance to turn the initiative into a success.

In a similar way, the management must assess whether the group that will be exposed to the organisational change does have sufficient "body" to tackle the challenge. In addition, this group has to be guided by directives and incentives and a sufficient level of "ownership" in order to motivate them to work towards the more innovative approaches.

However, while doing so, isn't our organisational change approach not becoming very similar to the change initiatives that result from a formal strategic workshop? Is it worth the additional risk, knowing that there is no complete guarantee for success?

Well, personally I indeed do think that organisational change "as such" is a too risky approach to really deploy it as a management instrument. However, I do think that there are some opportunities in situations where organisational change cannot be avoided anyway.

An example. Many retail banks are planning for a fundamental restructuring of the activities of their branch offices. In general, such plans are the result of formal strategic planning sessions, workshops, guidance of consultants, etc. Still, it is very hard to get a convincing proof of concept without some level of real implementation. Therefore, a limited number of offices will be selected where the new structure will be implemented and tested.

For the employees of the selected offices, this will often introduce a significant level of organisational change. Unfortunately, in most cases, these employees will have little control or impact on the deployment of this change that is being driven from above. Here, I think, there are some real opportunities to get to a better and more innovative result if the management is willing to "empower" these employees, allowing them to participate in a more active way in the change exercise.

Strategic workshops, multi-disciplinary teams, etc. might be the mandatory drivers to initiate change, but they must not remain the sole sources of innovative thinking. Employees that are more execution oriented will have a less broad view on the whole of the organisation, nonetheless, they have a much more detailed view on specific parts of it. Both can be the basis for new ideas. It is only a matter of creating the right conditions to trigger those ideas.

Have fun!

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