

STRUCTURE IS NOT ORGANIZATION

Diagnosing and solving organizational problems means looking not merely to structural reorganization for answers but to a framework that includes structure and several related factors.

ROBERT H. WATERMAN, JR., THOMAS J. PETERS, AND JULIEN R. PHILLIPS

The Belgian surrealist René Magritte painted a series of pipes and titled the series *Ceci n'est pas une pipe*: this is not a pipe. The picture of the thing is not the thing. In the same way, a structure is not an organization. We all know that, but like as not, when we reorganize what we do is to restructure. Intellectually all managers and consultants know that much more goes on in the process of organizing than the charts, boxes, dotted lines, position descriptions, and matrices can possibly depict. But all too often we behave as though we didn't know it; if we want change we change the structure.

Early in 1977, a general concern with the problems of organization effectiveness, and a

particular concern about the nature of the relationship between structure and organization, led us to assemble an internal task force to review our client work. The natural first step was to talk extensively to consultants and client executives around the world who were known for their skill and experience in organization design. We found that they too were dissatisfied with conventional approaches. All were disillusioned about the usual structural solutions, but they were also skeptical about anyone's ability to do better. In their experience, the techniques of the behavioral sciences were not providing useful alternatives to structural design. True, the notion that structure follows strategy (get the strategy right and the structure follows)

ROBERT H. WATERMAN, JR. is a Director, THOMAS J. PETERS a Principal, and JULIEN R. PHILLIPS an Associate in the San Francisco office of McKinsey & Company. Messrs. Waterman and Peters are co-leaders of McKinsey's Organizational Effectiveness practice.

The authors want to offer special acknowledgement and thanks to Anthony G. Athos of Harvard University, who was instrumental in the development of the 7-S framework and who, in his capacity as our consultant, helped generally to advance our thinking on organization effectiveness.

looked like an important addition to the organizational tool kit; yet strategy rarely seemed to dictate unique structural solutions. Moreover, the main problem in strategy had turned out to be execution: getting it done. And that, to a very large extent, meant *organization*. So the problem of organization effectiveness threatened to prove circular. The dearth of practical additions to old ways of thought was painfully apparent.

OUTSIDE EXPLORATIONS

Our next step was to look outside for help. We visited a dozen business schools in the United States and Europe and about as many superbly performing companies. Both academic theorists and business leaders, we found, were wrestling with the same concerns.

Our timing in looking at the academic environment was good. The state of theory is in great turmoil but moving toward a new consensus. Some researchers continue to write about structure, particularly its latest and most modish variant, the matrix organization. But primarily the ferment is around another stream of ideas that follow from some startling premises about the limited capacity of decision makers to process information and reach what we usually think of as “rational” decisions.

The stream that today’s researchers are tapping is an old one, started in the late 1930s by Fritz Roethlisberger and Chester Barnard, then both at Harvard (Barnard had been president of New Jersey Bell). They challenged rationalist theory, first—in Roethlisberger’s case—on the shop floors of Western Electric’s Hawthorne plant. Roethlisberger found that simply *paying attention* provided a stimulus to productivity that far exceeded that induced by formal rewards. In a study of workplace hygiene, they turned the lights up and got an expected productivity increase. Then to validate their results they turned the lights down. But something surprising was

wrong: productivity went up again. Attention, they concluded, not working conditions per se, made the difference.

Barnard, speaking from the chief executive’s perspective, asserted that the CEO’s role is to harness the social forces in the organization, to shape and guide values. He described good value-shapers as *effective* managers, contrasting them with the mere manipulators of formal rewards who dealt only with the narrower concept of *efficiency*.

Barnard’s words, though quickly picked up by Herbert Simon (whom we’ll come back to later), lay dormant for thirty years while the primary management issues focused on decentralization and structure—the appropriate and burning issue of the time.

But then, as the decentralized structure proved to be less than a panacea for all time, and its substitute, the matrix, ran into worse trouble, Barnard’s and Simon’s ideas triggered a new wave of thinking. On the theory side, it is exemplified by the work of James March and Karl Weick, who attacked the rational model with a vengeance. Weick suggests that organizations learn—and adapt—very slowly. They pay obsessive attention to internal cues long after their practical value has ceased. Important business assumptions are buried deep in the minutiae of organizational systems and other habitual routines whose origins have been long obscured by time. March goes further. He introduced, only slightly facetiously, the garbage can as an organizational metaphor. March pictures organizational learning and decision making as a stream of choices, solutions, decision makers, and opportunities interacting almost randomly to make decisions that carry the organization toward the future. His observations about large organizations parallel Truman’s about the presidency: “You issue orders from this office and if you can find out what happens to them after that, you’re a better man than I am.”

Other researchers have accumulated data which support this unconventional view.

“In the face of complexity and multiple competing demands, organizations simply can’t handle decision-making in a totally rational way. Not surprisingly, then, a single blunt instrument—like structure—is unlikely to prove the master tool that can change organizations with best effect.”

Henry Mintzberg made one of the few rigorous studies of how senior managers actually use time. They don’t block out large chunks of time for planning, organizing, motivating, and controlling as some suggest they should. Their time, in fact, is appallingly but perhaps necessarily fragmented. Andrew Pettigrew studied the politics of strategic decision and was fascinated by the inertial properties of organizations. He showed that organizations frequently hold onto faulty assumptions about their world for as long as a decade, despite overwhelming evidence that it has changed and they probably should too.

In sum, what the researchers tell us is: “We can explain why you have problems.” In the face of complexity and multiple competing demands, organizations simply can’t handle decision making in a totally rational way. Not surprisingly, then, a single blunt instrument—like structure—is unlikely to prove the master tool that can change organizations with best effect.

Somewhat to our surprise, senior executives in the top-performing companies that we interviewed proved to be speaking very much the same language. They were concerned that the inherent limitations of structural approaches could render their companies insensitive to an unstable business environment marked by rapidly changing threats and opportunities from every quarter—competitors, governments, and unions at home and overseas. Their organizations, they said, had to learn how to build capabilities for rapid and flexible response. Their favored tactic was to choose a temporary focus, facing perhaps one major issue this year and another next year or the year after. Yet at the same time, they

were acutely aware of their peoples’ need for a stable, unifying value system—a foundation for long-term continuity. Their task, as they saw it, was largely one of preserving internal stability while adroitly guiding the organization’s responses to fast-paced external change.

Companies such as IBM, Kodak, Hewlett-Packard, GM, Du Pont, and P&G, then, seem obsessive in their attention to maintaining a stable culture. At the same time, these giants are more responsive than their competitors. Typically, they do not seek responsiveness through major structural shifts. Instead, they seem to rely on a series of temporary devices to focus the attention of the entire organization for a limited time on a single priority goal or environmental threat.

SIMON AS EXEMPLAR

Thirty years ago, in *Administrative Behavior*, Herbert Simon (a 1977 Nobel laureate) anticipated several themes that dominate much of today’s thinking about organization. Simon’s concepts of “satisficing” (settling for adequate instead of optimal solutions) and “the limits of rationality” were, in effect, nails in the coffin of economic man. His ideas, if correct, are crucial. The economic man paradigm has not only influenced the economists but has also influenced thought about the proper organization and administration of most business enterprises—and, by extension, public administration. Traditional thought has it that economic man is basically seeking to maximize against a set of fairly clear objectives. For organization planners the implications of this are that one can specify objec-

“Our assertion is that productive organizational change is not simply a matter of structure, although structure is important. It is not so simple as the interaction between strategy and structure, although strategy is critical too. Our claim is that effective organizational change is really the relationship between structure, strategy, systems, style, skills, staff, and something we call superordinate goals.”

tives, determine their appropriate hierarchy, and then logically determine the “best” organization.

Simon labeled this the “rational” view of the administrative world and said, in effect, that it was all right as far as it went but that it had decided limits. For one, most organizations cannot maximize—the goals are really not that clear. Even if they were, most business managers do not have access to complete information, as the economic model requires, but in reality operate with a set of relatively simple decision rules in order to *limit* the information they really need to process to make most decisions. In other words, the rules we use in order to get on with it in big organizations limit our ability to optimize anything.

Suppose the goal is profit maximization. The definition of profit and its maximization varies widely even within a single organization. Is it earnings growth, quality of earnings, maximum return on equity, or the discounted value of the future earnings stream—and if so, at what discount rate? Moreover, business organizations are basically large social structures with diffuse power. Most of the individuals who make them up have different ideas of what the business ought to be. The few at the top seldom agree entirely on the goals of their enterprise, let alone on maximization against one goal. Typically, they will not push their views so hard as to destroy the social structure of their enterprise and, in turn, their own power base.

All this leaves the manager in great difficulty. While the research seems valid and the

message of complexity rings true, the most innovative work in the field is descriptive. The challenge to the manager is how to organize better. His goal is organization effectiveness. What the researchers are saying is that the subject is much more complex than any of our past prescriptive models have allowed for. What none has been able to usefully say is, “OK, here’s what to do about it.”

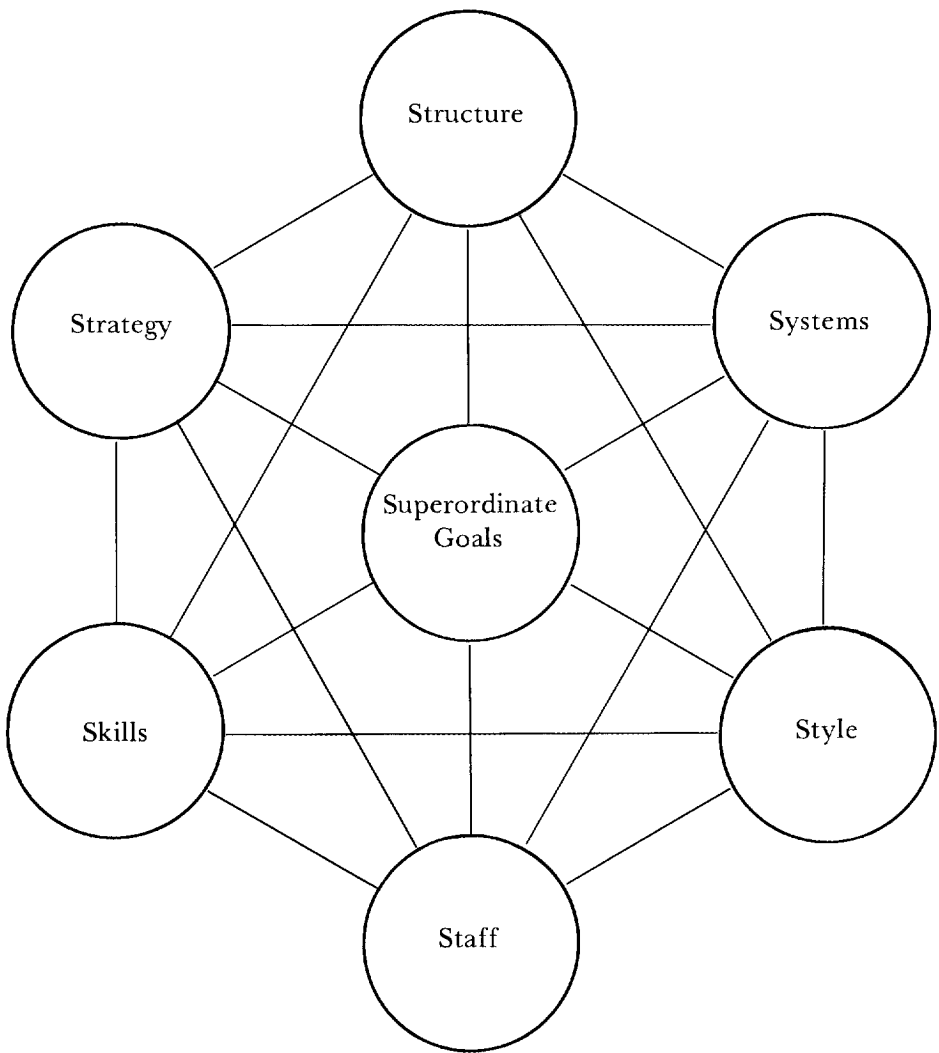
THE 7-S FRAMEWORK

After a little over a year and a half of pondering this dilemma, we began to formulate a new framework for organizational thought. As we and others have developed it and tested it in teaching, in workshops, and in direct problem solving over the past year, we have found it enormously helpful. It has repeatedly demonstrated its usefulness both in diagnosing the causes of organizational malaise and in formulating programs for improvement. In brief, it seems to work.

Our assertion is that productive organization change is not simply a matter of structure, although structure is important. It is not so simple as the interaction between strategy and structure, although strategy is critical too. Our claim is that effective organizational change is really the relationship between structure, strategy, systems, style, skills, staff, and something we call superordinate goals. (The alliteration is intentional: it serves as an aid to memory.)

Our central idea is that organization effectiveness stems from the interaction of several

A New View of Organization



factors—some not especially obvious and some underanalyzed. Our framework for organization change, graphically depicted in the exhibit above, suggests several important ideas:

- First is the idea of a multiplicity of factors that influence an organization’s ability to change and its proper mode of change. Why pay attention to only one or two, ignoring the others? Beyond structure and strategy, there are at least five other identifiable elements. The division is to some extent arbitrary, but it has the merit of acknowledg-

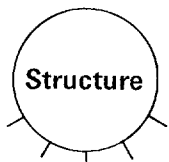
ing the complexity identified in the research and segmenting it into manageable parts.

- Second, the diagram is intended to convey the notion of the interconnectedness of the variables—the idea is that it’s difficult, perhaps impossible, to make significant progress in one area without making progress in the others as well. Notions of organization change that ignore its many aspects or their interconnectedness are dangerous.

- In a recent article on strategy, *Fortune* commented that perhaps as many as 90 percent of carefully planned strategies don’t

work. If that is so, our guess would be that the failure is a failure in execution, resulting from inattention to the other S's. Just as a logistics bottleneck can cripple a military strategy, inadequate systems or staff can make paper tigers of the best-laid plans for clobbering competitors.

- Finally, the shape of the diagram is significant. It has no starting point or implied hierarchy. A priori, it isn't obvious which of the seven factors will be the driving force in changing a particular organization at a particular point in time. In some cases, the critical variable might be strategy. In others, it could be systems or structure.



To understand this model of organization change better, let us look at each of its elements, beginning—as most organization discussions do—with structure.

What will the new organization of the 1980s be like? If decentralization was the trend of the past, what is next? Is it matrix organization? What will “Son of Matrix” look like? Our answer is that those questions miss the point.

To see why, let's take a quick look at the history of structural thought and development. The basic theory underlying structure is simple. Structure divides tasks and then provides coordination. It trades off specialization and integration. It decentralizes and then recentralizes.

The old structural division was between production and sales. The chart showing this was called a functional organization. Certain principles of organization, such as one-man/one-boss, limited span of control, grouping of like activities, and commensurate authority and responsibility, seemed universal truths.

What happened to this simple idea? Size—and complexity. A company like General Electric has grown over a thousandfold in both sales and earnings in the past eighty years. Much of its growth has come through

entry into new and diverse businesses. At a certain level of size and complexity, a functional organization, which is dependent on frequent interaction among all activities, breaks down. As the number of people or businesses increases arithmetically, the number of interactions required to make things work increases geometrically. A company passing a certain size and complexity threshold must decentralize to cope.

Among the first to recognize the problem and explicitly act on it was Du Pont in 1921. The increasing administrative burden brought about by its diversification into several new product lines ultimately led the company to transform its highly centralized, functionally departmental structure into a decentralized, multidivisional one. Meanwhile, General Motors, which has been decentralized from the outset, was learning how to make a decentralized structure work as more than just a holding company.

However, real decentralization in world industry did not take place until much later. In 1950, for example, only about 20 percent of the *Fortune 500* companies were decentralized. By 1970, 80 percent were decentralized. A similar shift was taking place throughout the industrialized world.

Today three things are happening. First, because of the portfolio concept of managing a business, spun off from General Electric research (which has now become PIMS), companies are saying, “We can do more with our decentralized structure than control complexity. We can shift resources, act flexibly—that is, manage strategically.”

Second, the dimensions along which companies want to divide tasks have multiplied. Early on, there were functional divisions. Then came product divisions. Now we have possibilities for division by function, product, market, geography, nation, strategic business unit, and probably more. The rub is that as the new dimensions are added, the old ones don't go away. An insurance company, for example, can organize around market segments, but it still needs functional control

over underwriting decisions. The trade-offs are staggering if we try to juggle them all at once.

Third, new centralist forces have eclipsed clean, decentralized divisions of responsibility. In Europe, for example, a company needs a coherent union strategy. In Japan, especially, companies need a centralized approach to the government interface. In the United States, regulation and technology force centralization in the interest of uniformity.

This mess has produced a new organization form: the matrix, which purports, at least in concept, to reconcile the realities of organizational complexity with the imperatives of managerial control. Unfortunately, the two-dimensional matrix model is intrinsically too simple to capture the real situation. Any spatial model that really did capture it would be incomprehensible.

Matrix does, however, have one well-disguised virtue: it calls attention to the central problem in structuring today. That problem is not the one on which most organization designers spend their time—that is, how to divide up tasks. It is one of emphasis and coordination—how to make the whole thing work. The challenge lies not so much in trying to comprehend all the possible dimensions of organization structure as in developing the ability to focus on those dimensions which are currently important to the organization's evolution—and to be ready to refocus as the crucial dimensions shift. General Motors' restless use of structural change—most recently the project center, which led to their effective downsizing effort—is a case in point.

The General Motors solution has a critical attribute—the use of a temporary overlay to accomplish a strategic task. IBM, Texas Instruments, and others have used similar temporary structural weapons. In the process, they have meticulously preserved the shape and spirit of the underlying structure (e.g., the GM division or the TI Product Customer Center). We regularly observe those two attributes among our sample of top performers:

the use of the temporary and the maintenance of the simple underlying form.

We speculate that the effective “structure of the eighties” will more likely be described as “flexible” or “temporary”; this matrix-like property will be preserved even as the current affair with the formal matrix structure cools.



If structure is not enough, what is? Obviously, there is strategy.

It was Alfred Chandler who first pointed out that structure follows strategy, or more precisely, that a strategy of diversity forces a decentralized structure.¹ Throughout the past decade, the corporate world has given close attention to the interplay between strategy and structure. Certainly, clear ideas about strategy make the job of structural design more rational.

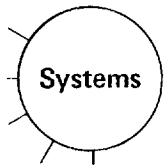
By “strategy” we mean those actions that a company plans in response to or anticipation of changes in its external environment—its customers, its competitors. Strategy is the way a company aims to improve its position vis-a-vis competition—perhaps through low-cost production or delivery, perhaps by providing better value to the customer, perhaps by achieving sales and service dominance. It is, or ought to be, an organization's way of saying: “Here is how we will create unique value.”

As the company's chosen route to competitive success, strategy is obviously a central concern in many business situations—especially in highly competitive industries where the game is won or lost on share points. But “structure follows strategy” is by no means the be-all and end-all of organization wisdom. We find too many examples of large, prestigious companies around the world that are replete with strategy and cannot execute any

1. Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mass.: MIT Press, 1962).

of it. There is little if anything wrong with their structures; the causes of their inability to execute lie in other dimensions of our framework. When we turn to nonprofit and public-sector organizations, moreover, we find that the whole meaning of “strategy” is tenuous—but the problem of organizational effectiveness looms as large as ever.

Strategy, then, is clearly a critical variable in organization design—but much more is at work.



By systems we mean all the procedures, formal and informal, that make the organization go, day by day and year by year: capital budgeting systems, training systems, cost accounting procedures, budgeting systems. If there is a variable in our model that threatens to dominate the others, it could well be systems. Do you want to understand how an organization really does (or doesn't) get things done? Look at the systems. Do you want to change an organization without disruptive restructuring? Try changing the systems.

A large consumer goods manufacturer was recently trying to come up with an overall corporate strategy. Textbook portfolio theory seemed to apply: Find a good way to segment the business, decide which segments in the total business portfolio are most attractive, invest most heavily in those. The only catch: Reliable cost data by segment were not to be had. The company's management information system was not adequate to support the segmentation.

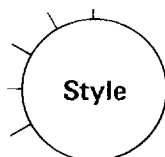
Again, consider how a bank might go about developing a strategy. A natural first step, it would seem, would be to segment the business by customer and product to discover where the money is made and lost and why. But in trying to do this, most banks almost immediately come up against an intractable costing problem. Because borrowers are also depositors, because transaction volumes vary, because the balance sheet turns fast, and

because interest costs are half or more of total costs and unpredictable over the long term, costs for various market segments won't stay put. A strategy based on today's costs could be obsolete tomorrow.

One bank we know has rather successfully sidestepped the problem. Its key to future improvement is not strategy but the systems infrastructure that will allow account officers to negotiate deals favorable to the bank. For them the system *is* the strategy. Development and implementation of a superior account profitability system, based on a return-on-equity tree, has improved their results dramatically. “Catch a fish for a man and he is fed for a day; teach him to fish and he is fed for life”: The proverb applies to organizations in general and to systems in particular.

Another intriguing aspect of systems is the way they mirror the state of an organization. Consider a certain company we'll call International Wickets. For years management has talked about the need to become more market oriented. Yet astonishingly little time is spent in their planning meetings on customers, marketing, market share, or other issues having to do with market orientation. One of their key systems, in other words, remains *very* internally oriented. Without a change in this key system, the market orientation goal will remain unattainable no matter how much change takes place in structure and strategy.

To many business managers the word “systems” has a dull, plodding, middle-management sound. Yet it is astonishing how powerfully systems changes can enhance organizational effectiveness—without the disruptive side effects that so often ensue from tinkering with structure.



It is remarkable how often writers, in characterizing a corporate management for the business press, fall back on the word “style.” Tony O'Reilly's style at Heinz is certainly not AT&T's, yet both are

successful. The trouble we have with style is not in recognizing its importance, but in doing much about it. Personalities don't change, or so the conventional wisdom goes.

We think it important to distinguish between the basic personality of a top-management team and the way that team comes across to the organization. Organizations may listen to what managers say, but they believe what managers do. Not words, but patterns of actions are decisive. The power of style, then, is essentially manageable.

One element of a manager's style is how he or she chooses to spend time. As Henry Mintzberg has pointed out, managers don't spend their time in the neatly compartmentalized planning, organizing, motivating, and controlling modes of classical management theory.² Their days are a mess—or so it seems. There's a seeming infinity of things they might devote attention to. No top executive attends to all of the demands on his time; the median time spent on any one issue is nine minutes.

What can a top manager do in nine minutes? Actually, a good deal. He can signal what's on his mind; he can reinforce a message; he can nudge people's thinking in a desired direction. Skillful management of his inevitably fragmented time is, in fact, an immensely powerful change lever.

By way of example, we have found differences beyond anything attributable to luck among different companies' success ratios in finding oil or mineral deposits. A few years ago, we surveyed a fairly large group of the finders and nonfinders in mineral exploration to discover what they were doing differently. The finders almost always said their secret was "top-management attention." Our reaction was skeptical: "Sure, that's the solution to most problems." But subsequent hard analysis showed that their executives *were* spending more time in the field, *were* blocking out more time for exploration discussions at board meetings, and *were* making more

room on their own calendars for exploration-related activities.

Another aspect of style is symbolic behavior. Taking the same example, the successful finders typically have more people on the board who understand exploration or have headed exploration departments. Typically they fund exploration more consistently (that is, their year-to-year spending patterns are less volatile). They define fewer and more consistent exploration targets. Their exploration activities typically report at a higher organizational level. And they typically articulate better reasons for exploring in the first place.

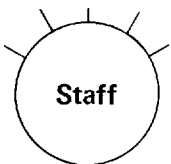
A chief executive of our acquaintance is fond of saying that the way you recognize a marketing-oriented company is that "everyone talks marketing." He doesn't mean simply that an observable preoccupation with marketing is the end result, the final indication of the company's evaluation toward the marketplace. He means that it can be the lead. Change in orientation often starts when enough people talk about it before they really know what "it" is. Strategic management is not yet a crisply defined concept, but many companies are taking it seriously. If they talk about it enough, it will begin to take on specific meaning for their organizations—and those organizations will change as a result.

This suggests a second attribute of style that is by no means confined to those at the top. Our proposition is that a corporation's style, as a reflection of its culture, has more to do with its ability to change organization or performance than is generally recognized. One company, for example, was considering a certain business opportunity. From a strategic standpoint, analysis showed it to be a winner. The experience of others in the field confirmed that. Management went ahead with the acquisition. Two years later it backed out of the business, at a loss. The acquisition had failed because it simply wasn't consistent with the established corporate culture of the parent organization. It didn't fit their view of themselves. The will to make it work was absent.

2. Henry Mintzberg, "The Manager's Job: Folklore and Fact," *Harvard Business Review*, July/August 1975: 49-61.

Time and again strategic possibilities are blocked—or slowed down—by cultural constraints. One of today's more dramatic examples is the Bell System, where management has undertaken to move a service-oriented culture toward a new and different kind of marketing. The service idea, and its meaning to AT&T, is so deeply embedded in the Bell System's culture that the shift to a new kind of marketing will take years.

The phenomenon at its most dramatic comes to the fore in mergers. In almost every merger, no matter how closely related the businesses, the task of integrating and achieving eventual synergy is a problem no less difficult than combining two cultures. At some level of detail, almost everything done by two parties to a merger will be done differently. This helps explain why the management of acquisitions is so hard. If the two cultures are not integrated, the planned synergies will not accrue. On the other hand, to change too much too soon is to risk uprooting more tradition than can be replanted before the vital skills of the acquiree wither and die.



Staff (in the sense of people, not line/staff) is often treated in one of two ways. At the hard end of the spectrum, we talk of appraisal systems, pay scales, formal training programs, and the like. At the soft end, we talk about morale, attitude, motivation, and behavior.

Top management is often, and justifiably, turned off by both these approaches. The first seems too trivial for their immediate concern ("Leave it to the personnel department"), the second too intractable ("We don't want a bunch of shrinks running around, stirring up the place with more attitude surveys").

Our predilection is to broaden and redefine the nature of the people issue. What do the top-performing companies do to foster the process of developing managers? How, for

example, do they shape the basic values of their management cadre? Our reason for asking the question at all is simply that no serious discussion of organization can afford to ignore it (although many do). Our reason for framing the question around the development of managers is our observation that the superbly performing companies pay extraordinary attention to managing what might be called the socialization process in their companies. This applies especially to the way they introduce young recruits into the mainstream of their organizations and to the way they manage their careers as the recruits develop into tomorrow's managers.

The process for orchestrating the early careers of incoming managers, for instance, at IBM, Texas Instruments, P&G, Hewlett-Packard, or Citibank is quite different from its counterpart in many other companies we know around the world. Unlike other companies, which often seem prone to sidetrack young but expensive talent into staff positions or other jobs out of the mainstream of the company's business, these leaders take extraordinary care to turn young managers' first jobs into first opportunities for contributing in practical ways to the nuts-and-bolts of what the business is all about. If the mainstream of the business is innovation, for example, the first job might be in new-products introduction. If the mainstream of the business is marketing, the MBA's first job could be sales or product management.

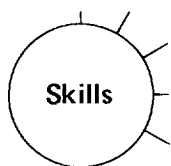
The companies who use people best rapidly move their managers into positions of real responsibility, often by the early- to mid-thirties. Various active support devices like assigned mentors, fast-track programs, and carefully orchestrated opportunities for exposure to top management are hallmarks of their management of people.

In addition, these companies are all particularly adept at managing, in a special and focused way, their central cadre of key managers. At Texas Instruments, Exxon, GM, and GE, for instance, a number of the very

most senior executives are said to devote several weeks of each year to planning the progress of the top few hundred.

These, then, are a few examples of practical programs through which the superior companies manage people as aggressively and concretely as others manage organization structure. Considering people as a pool of resources to be nurtured, developed, guarded, and allocated is one of the many ways to turn the "staff" dimension of our 7-S framework into something not only amenable to, but worthy of practical control by senior management.

We are often told, "Get the structure 'right' and the people will fit" or "Don't compromise the 'optimum' organization for people considerations." At the other end of the spectrum we are earnestly advised, "The right people can make any organization work." Neither view is correct. People do count, but staff is only one of our seven variables.



We added the notion of skills for a highly practical reason: It enables us to capture a company's crucial attributes as no other concept can do. A strategic description of a company, for example, might typically cover markets to be penetrated or types of products to be sold. But how do most of us characterize companies? Not by their strategies or their structures. We tend to characterize them by what they do best. We talk of IBM's orientation to the marketplace, its prodigious customer service capabilities, or its sheer market power. We talk of Du Pont's research prowess, Procter & Gamble's product management capability, ITT's financial controls, Hewlett-Packard's innovation and quality, and Texas Instruments' project management. These dominating attributes, or capabilities, are what we mean by skills.

Now why is this distinction important? Because we regularly observe that organizations facing big discontinuities in business conditions must do more than shift strategic focus. Frequently they need to add a new capability, that is to say, a new skill. The Bell System, for example, is currently striving to add a formidable new array of marketing skills. Small copier companies, upon growing larger, find that they must radically enhance their service capabilities to compete with Xerox. Meanwhile Xerox needs to enhance its response capability in order to fend off a host of new competition. These dominating capability needs, unless explicitly labeled as such, often get lost as the company "attacks a new market" (strategy shift) or "decentralizes to give managers autonomy" (structure shift).

Additionally, we frequently find it helpful to *label* current skills, for the addition of a new skill may come only when the old one is dismantled. Adopting a newly "flexible and adaptive marketing thrust," for example, may be possible only if increases are accepted in certain marketing or distribution costs. Dismantling some of the distracting attributes of an old "manufacturing mentality" (that is, a skill that was perhaps crucial in the past) may be the only way to insure the success of an important change program. Possibly the most difficult problem in trying to organize effectively is that of weeding out old skills—and their supporting systems, structures, etc.—to ensure that important new skills can take root and grow.



The word "superordinate" literally means "of higher order." By superordinate goals, we mean guiding concepts—a set of values and aspirations, often unwritten, that goes beyond the conventional formal statement of corporate objectives.

Superordinate goals are the fundamental ideas around which a business is built. They

“The framework . . . suggests the wisdom of taking seriously the variables in organizing that have been considered soft, informal, or beneath the purview of top management interest. We believe that style, systems, skills, and superordinate goals can be observed directly, even measured—if only they are taken seriously. We think that these variables can be at least as important as strategy and structure in orchestrating major change; indeed, that they are almost critical for achieving necessary, or desirable, change.”

are its main values. But they are more as well. They are the broad notions of future direction that the top management team wants to infuse throughout the organization. They are the way in which the team wants to express itself, to leave its own mark. Examples would include Theodore Vail’s “universal service” objective, which has so dominated AT&T; the strong drive to “customer service” which guides IBM’s marketing; GE’s slogan, “Progress is our most important product,” which encourages engineers to tinker and innovate throughout the organization; Hewlett-Packard’s “innovative people at all levels in the organization”; Dana’s obsession with productivity, as a total organization, not just a few at the top; and 3M’s dominating culture of “new products.”

In a sense, superordinate goals are like the basic postulates in a mathematical system. They are the starting points on which the system is logically built, but in themselves are not logically derived. The ultimate test of their value is not their logic but the usefulness of the system that ensues. Everyone seems to know the importance of compelling superordinate goals. The drive for their accomplishment pulls an organization together. They provide stability in what would otherwise be a shifting set of organization dynamics.

Unlike the other six S’s, superordinate goals don’t seem to be present in all, or even most, organizations. They are, however, evident in most of the superior performers.

To be readily communicated, superordinate goals need to be succinct. Typically, therefore, they are expressed at high levels of abstraction and may mean very little to outsiders who don’t know the organization well. But for those inside, they are rich with significance. Within an organization, superordinate goals, if well articulated, make meanings for people. And making meanings is one of the main functions of leadership.

25

CONCLUSION

We have passed rapidly through the variables in our framework. What should the reader have gained from the exercise?

We started with the premise that solutions to today’s thorny organizing problems that invoke only structure—or even strategy and structure—are seldom adequate. The inadequacy stems in part from the inability of the two-variable model to explain why organizations are so slow to adapt to change. The reasons often lie among our other variables: systems that embody outdated assumptions, a management style that is at odds with the stated strategy, the absence of a superordinate goal that binds the organization together in pursuit of a common purpose, the refusal to deal concretely with “people problems” and opportunities.

At its most trivial, when we merely use

the framework as a checklist, we find that it leads into new terrain in our efforts to understand how organizations really operate or to design a truly comprehensive change program. At a minimum, it gives us a deeper bag in which to collect our experiences.

More importantly, it suggests the wisdom of taking seriously the variables in organizing that have been considered soft, informal, or beneath the purview of top management interest. We believe that style, systems, skills, superordinate goals can be observed directly, even measured—if only they are taken seriously. We think that these variables can be at least as important as strategy and structure in orchestrating major change; indeed, that they are almost critical for achieving necessary, or

desirable, change. A shift in systems, a major retraining program for staff, or the generation of top-to-bottom enthusiasm around a new superordinate goal could take years. Changes in strategy and structure, on the surface, may happen more quickly. But the pace of real change is geared to all seven S's.

At its most powerful and complex, the framework forces us to concentrate on interactions and fit. The real energy required to redirect an institution comes when all the variables in the model are aligned. One of our associates looks at our diagram as a set of compasses. "When all seven needles are all pointed the same way," he comments, "you're looking at an *organized* company." □