Building Flexible Organizations:

A People-Centered Approach

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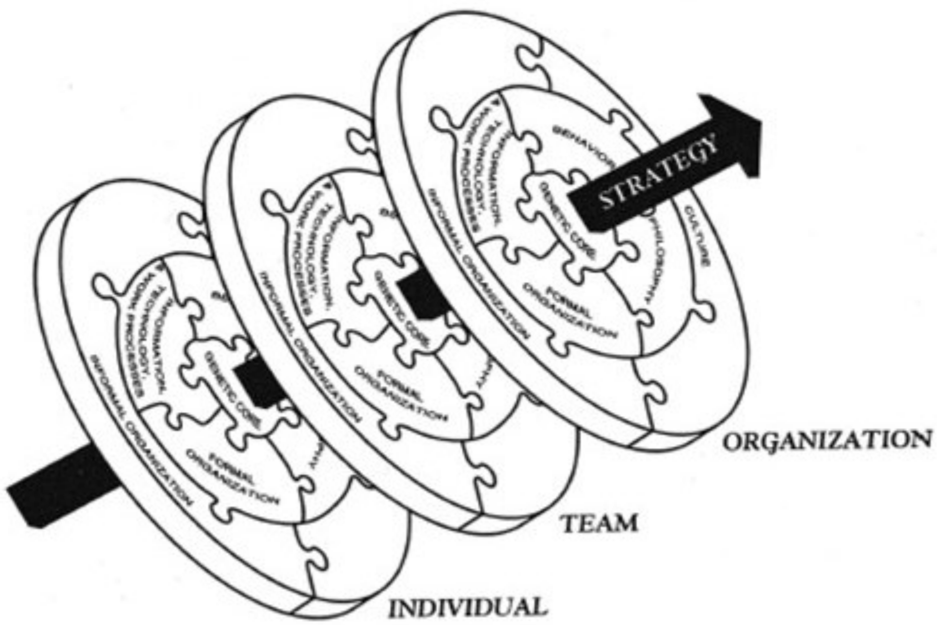

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Introduction

"The shrewd guess, the fertile hypothesis, the courageous leap to a tentative conclusion-these are the most valuable coin of the thinker at work." - *Jerome Seymour Bruner, The Process of Education*

The need to build, manage, and lead flexible organizations that respond to rapid shifts in the marketplace has never been greater. The highly competitive global economy of the 1980's and 1990's demands that organizations rapidly respond to market shifts or suffer the consequences. Well-known market leaders such as GM and IBM, have suffered and lost their market leadership positions because they did not respond rapidly to changes in the market. Their executive teams were unable to foresee the upcoming market shifts, and to change their organizations to meet the needs of the market once they were confronted with these shifts.

The age of pursuing a steady, well-proven strategy and building a stable organization to meet the needs of a clearly defined and stable market is gone. Executives are instead confronted with an era when they must anticipate rapid market shifts, develop new strategies, and redesign their entire organization to compete effectively. The highly competitive, rapidly changing global economy dictates that executives will need to become as capable of building and rebuilding organizations to meet specific market opportunities as they were of building traditional, stable organizations.
Consequently, executives, academics, and consultants are searching for the best way to build and manage flexible organizations. Not surprisingly, they have developed many different ways to build the organizations they need. Their proven results demonstrate that there is no definitive way to build and maintain flexible organizations. What is right for one company may be wrong for another. To determine what best suits them, executives need to use a design process that builds on their company's strengths and uniqueness. This process requires executives to:

1. Understand their markets and determine strategies to succeed in them;
2. Design the organizational structures and processes that can best deliver the strategy;
3. Assess their current organizational structure and processes;
4. Identify what needs to change from the current assessment to the ideal desired organization;
5. Predict what will happen as they change the organization;
6. Manage the change process as they implement the identified changes, and
7. Repeat the process as markets change or new markets develop.

This book focuses on steps 2-7: designing, building, and maintaining flexible organizations. It is intended to assist executives and managers in identifying, developing, and maintaining the right way to build their flexible organization by:

1. Introducing a framework, People-Centered Organizations®, to design and assess organizations:
2. Discussing basic principles of how organizations function to predict and manage change;
3.Illustrating the process of building flexible, People-Centered Organizations®; and
4.Demonstrating how People-Centered Organizations® change occurs at individual, team, and organizational level.

Section One discusses these basic principles. Section Two presents case studies illustrating the key points. Section Three develops more depth to the basic principles, showing how individual change is strongly connected to and similar to organizational and team change. The premise is simple.

Organizations are living, dynamic entities, populated by humans. Humans are complex creatures that respond and adapt, in predictable and unpredictable ways, to external environmental pressures. Organizations are full of these external pressures-policies and procedures, salaries, and peer expectations. The best way for executives to lead their organization's people in a common direction is to have as many as possible of the organizational pressures guide people in the same direction, reducing unpredictable responses and adaptations. To accomplish this, executives need to learn how to create an organization congruent with the company's purpose and strategy. The congruency creates organizational influences and pressures that guide all employees to achieve the organization's goals.

Chapter One

Tools for Building Flexible Organizations

"Absolute continuity of motion is not comprehensible to the human mind. Laws of motion of any kind become comprehensible to man only when he examines arbitrarily selected elements of that motion; but at the same time, a large proportion of human error comes from the arbitrary division of continuous motion into discontinuous elements." - *Leo Tolstoy, War and Peace*

Principles of How Organizations Work

Four basic principles explain how organizations work: (1) acceptance of people as the organization, (2) strategic alignment, (3) interdependency, and (4) congruency. Used together, they become powerful tools to predict and manage change essential to building flexible organizations.

- People centeredness is understanding that organizations are the people that comprise them. They are groups of people organized to accomplish a specific purpose.
- Strategic alignment is the fit between an organization's purpose, strategy, and its marketplace. It is the organizational equivalent of building a sleek and fast racing boat to sail competitively versus building a comfortable and slow day sailor for touring. In flexible organizations, strategic alignment means that organizational purpose and strategy must change when the dynamics of the market change or customers' needs change.
- Interdependency describes the dependent, interconnected relationship between all the components of an organization. A change in one component changes all the others.
- Congruency is the fit between the internal components of an organization. The better the fit, the better the organization functions.

People Centeredness

A fundamental tenet of current management theory is that employees are the organization's "greatest assets."[1] This concept has developed over the last twenty years to stress the important and critical role that employees play in today's organizations. It is a major paradigm shift from those that preceded it. During the Industrial Revolution people were regarded as interchangeable, replaceable cogs in the organizational machine. Companies required people to act as machines, supplying mechanical labor. Workers were encouraged not to think or make judgments about ways to make products. They were only to do. It was a belief that fit its time and enabled the great industrialists to build the foundation for today's economy. This mechanistic paradigm fit its time as the "people are assets" paradigm fits the post-industrial, post-World War II era. But times keep changing.

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[1] See *Harvard Business Review,* "People: Managing Your Most Important Asset," 1988.

All organizations revolve around what the people think and dream, what they can do and what they cannot do, what their backgrounds are and what their backgrounds are not. Apple emerged from Steve Job's dreams, and his ability to tinker with electronics. Marketing-driven firms require people who are experienced marketers, complemented by people with other business skills. Organizations have all the potential and all the limitations of the people in them. Equipment, systems, technologies, products and services are all created by people and used by them to accomplish specific tasks and purposes. People are the brain of the organization viewed as a living, dynamic organism.

The development of the personal computer ushered in the Information Age, where data is no longer a limited commodity and information is available to everyone. The requirements of the Information Age, and its successor, the Knowledge Age [2] have outdated the people-areassets paradigm. The Information Age requires that companies populate themselves with people who can interpret and analyze data, turn it into knowledge, and then use their judgment to act.

Consequently, companies that are competing in the Information Age require a new paradigm for the role of people in organizations. To be able to succeed in the increasingly competitive global marketplace, companies must encourage people to learn, to think, and to act independently of managers and supervisors whose role was to control them. They need a paradigm that enables executives to harness and orchestrate the ability, judgment, and experience of the employees of the organization.

In the Information Age, people are not assets. They cannot be depreciated on the books, nor can they be warehoused for later use. When not actively involved in the daily work of the company, they grow stale and rigid, unusable in flexible, fast-paced organizations. Conversely, organizations without people are not organizations. They are collections of equipment, bank accounts earning interest, buildings for lease, and stocks of products for sale. Organizations are the people who populate them. Individuals, dyads, triads, and teams are the driving force behind anything and everything that an organization has done, can do, or will do. In short, people are the center of the organization.

Impact of the People-Centered Organization® Paradigm Shift: The Role of Management

Viewing organizations as people-centered shifts the management paradigm from controlling people to developing and guiding within an organizational system, consistent with the needs of the Information and Knowledge Ages. The people-centered paradigm shifts the role of management from operating the organizational machine or protecting the company's assets. Rather it demands they lead and guide interconnected groups of adults, who have the inherent ability to think, analyze, and determine their own actions. Controlling fits the old paradigm of replaceable cogs and people as assets, stifling individual judgment and creativity. Leading and guiding emphasizes the unique contribution that everyone must make in today's organizations.

The People-Centered Organization® paradigm shift enables executives to focus on five key concepts central to building and managing flexible organizations:

1. Developing and using vision, mission, and values as organizational "glue" to build cohesiveness;

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[2] Presented by Dr. Stanley M. Davis at the *Human Resource Planning Society's* 1993 Annual Conference. For further information see Dr. Stanley's *'Twenty Twenty Vision,* published by Simon and Schuster, 1992.

2. Leading, orchestrating, developing, and inspiring people as the new role of executives and managers;
3. Creating a learning organization;
4. Continually assessing organizational capabilities; and
5. Leading and managing continuous change.

These five concepts become the guidelines for managing, describing what management does, in People-Centered Organizations®. Individuals in Knowledge era companies need direction, leadership, information, challenges, and the freedom to continually adapt.[3] They do not need what traditional management typically has provided: strategic mystery, control, limited information, routine, and repetition.

Today's successful executives understand this seismic shift. While they focus on providing the five concepts to their companies, they have dropped authority and responsibility to the lowest possible levels and to those closest to the problem. They have recognized a fundamental truth about People-Centered Organizations®-get out of the way and let those who know the job best do it.

Vision, Mission, and Values as Organizational Glue

Individuals plan and control their own lives. They direct their actions based on their values and beliefs, acting willfully and purposefully.[4] Individuals are continually seeking a balance between their own identity as an individual and their identity as a member of a group.[5]

They seek to find a purpose as individuals and as members of a group. Because people are purpose-driven, People-Centered Organizations® are purpose-driven. Purpose, therefore, is an organizational glue that binds people together. They share a common purpose, with an ensuing set of objectives that provide a common base for understanding each other's actions.

People need to know and understand why they must perform certain tasks and what the consequences will be. Understanding is essential if they are to perform as adults, as capable, intelligent humans. Understanding purpose is one type of organizational "glue" that helps bind people together. The People-Centered Organization® paradigm enables executives to see more clearly that purpose is essential; without most employees understanding an organization's purpose and direction, there is no organizational purpose.

Shared values and beliefs[6] are a second type of organizational "glue," tying people together.

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[3] See Frederick Hertzberg, *Harvard Business Review,* "People: Managing Your Most Important Asset," 1988. "One More lime: How Do You Motivate Employees?", pp. 26-35, 1988.

[4] See Otto Rank, *The Trauma of Birth.* London: Paul, Trench, Truber & Co., and Harcourt and Brace, 1929.

[5] See Otto Rank, *Will Therapy and Truth and Reality,* translated by Jessie Taft. New York: Alfred Knopf, 1947.

[6] See Stephen R. Covey, *The Seven Habits of Highly Effective People,* New YJ Simon and Schuster, 1989.

High-performing work groups typically have a strongly held set of values that set performance and behavior expectations, reducing the need for traditional organizational control mechanisms.[7] When organizations are viewed as people-centered, then executives can more readily see the importance and role of values and beliefs.

Executives and managers who understand the importance of organizational glue spend most of their time focusing on the big picture issues of direction and values. They excel at communicating it throughout the company. Most importantly, they listen. They listen to the reaction of the staff and make modifications based on what they hear. They listen to the companies' customers and the marketplaces sounds, shifting strategies and tactics to leverage unique opportunities.

Leading, Orchestrating, and Inspiring

People-Centered Organization® executives lead and orchestrate the natural flows within the company. They understand that they must rise above the daily detail, anticipate the business needs of the company, sense the emotional tenor of the staff, and stretch the capabilities of the organization. Like an outstanding orchestra conductor, they must understand the1 desires of the audience, demand superb performance from the musicians, and weave together the notes to create a new interpretation of success.

They also understand that simply creating an ethical, worthwhile purpose for a company is insufficient. Executives must lead and guide by living the articulated values and role modeling behavior consistent with the vision, mission, and values. The company's purpose and values must be translated into behavioral action starting with them, then be spread throughout the organization.

Behavior, the most visible aspect of an individual's organizational life, is a much-discussed key to be leading today. Employees and managers are aware of executive behavior, continually observing and interpreting their leaders' actions. They are keenly aware of when an executive lives up to the standards in the company's philosophy statement. They are angry and disappointed when an executive fails to maintain the standards, or when an executive requires different behavior from some managers and not others.

Leading by example exerts moral force and demonstrates that executives understand that organizational purpose is greater than any individual's purpose. It sets an expectation that people will all strive for the same goal within a defined set of values.

Creating Learning Organizations

Using the People-Centered Organization® paradigm enables management to see the need more easily for continual employee education and development. If organizations are to be continually changing, then the employees must be continually learning and growing. Individually, most people do not grow on a linear basis; they do not learn in a predetermined, syllabus sequence. Rather, they seek learning experiences as they need them, acquiring the knowledge and skill to solve a particular problem or understand an issue. Consequently, executives in flexible organizations have learned that employee

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[7] See Edward W. Lawler, *High Involvement Organizations,* San Francisco; Jossey-Bass Inc., 1986.

development must be broad enough to allow individuals to explore and grow, while maintaining a focus on the organizational purpose. Motorola University's employee development is built on this concept and has proven its success.

Assessing Organizational Capabilities

The People-Centered Organization® paradigm also enables executives to view organizational capabilities in a new light. When designing the organization of the future, the question to ask is not "what do we want to be," but rather "who do we want to be." ''Who do we want to be" emphasizes the intellectual assets of a company and the institutional learning and experience that have become the key in competitive, volatile markets. ''What we want to be" emphasizes the mechanistic model, the "we can assemble the parts approach." Viewing organizations as "who do we want to be" also reinforces that the organization is a whole that is greater than the sum of its parts. Everyone within the organization has a stake in how it runs and what it accomplishes. It validates and gives form to thinking of the various organizational constituents as stakeholders.

To cite an example, a major professional services firm revised its strategy from selling to all clients in its market to selling only to the top tier. The partners decided to reach this market by changing to "who they were" rather than "what they were." Consequently, they changed the firm's hiring patterns, shifting from hiring high performers in good schools to hiring outstanding performers from the five top graduate schools in the US. The partners were clear that who was employed defined what the firm was.

Leading and Managing Continuous Change

The People-Centered Organization® framework also reinforces the concept that organizations do not change; people do. Many company executives have been frustrated in attempts to change their organizations when they ran into "people" problems. They had crafted well-conceived strategies that were based on the assumption that as soon as the changes were announced, the employees would immediately shift to new ways of working. They were surprised that employees resisted the change because they had failed to view the organization as people centered.

It is only when executives view the organization as the people in it, that they begin to understand that organizations change in the same manner that people change. Organizations can change as quickly or as slowly as people perceive the need to change and could change. Controlling change in the people-centered organizational framework is an oxymoron. Control, adjust, tweak, force, or tinker are verbs that describe mechanistic approaches to change. Lead, guide, influence, persuade, or coach are verbs for people-centered organizations.

Executives lead organization change by defining the purpose of the organization, identifying the need to change, and enabling the employees to make the necessary changes to support the new organizational direction. They accomplish it by creating an organizational environment of continuous learning, in which thinking, using individual judgment, and acting are the expected norms. They lead change by orchestrating and influencing those around them.

Strategic Alignment

Strategic alignment is the way in which organizations shape themselves to meet the needs of their markets and customers. For example, a defense contracting company's purpose is to provide the products and services that the military needs, at a profit to the company's shareholders. The executives, managers, and employees fulfill this purpose by identifying and understanding the needs of the military and developing business strategies to meet these requirements. The military's needs change as world politics shifts and the company's executives anticipate this shift by preparing for growth during times of rearmament, and diversifying in times of retrenchment, that is, aligning themselves with the changing market.

Markets continually change and companies' strategies change with market shifts. Like dance partners, companies and markets have a reciprocal relationship. Either can lead or they can take turns leading, but they must be in step with each other. However, unlike dance partners, where both lose when one falls out of step with the other, the company loses, and the market finds a new partner. If the company falls out of step, then it is penalized. When the company leads it must be aware of where the market is. It must not move two steps ahead or it will trip up its partner, losing its customers in the market by being too far ahead and being replaced by a company that more accurately anticipated the marketplace. When the market leads, the company must remain in step or at worst, a step behind. Dropping two steps behind again penalizes the company, as customers shift their purchases to other companies in step with the market.

The marketplace is comprised of many markets so that it can dance with many different companies at the same time. Many partners dance to different music, but each will dance within the parameters of leading or following. Some dance to jazz, some to the blues, and some to a fox-trot. Deliberately, each couple dances differently, following a conscious or unconscious strategy to win the contest that they all are entered in.

Dancing in the Marketplace

Two companies in the same market but in different niches in the toy retailing business provide clear and more detailed examples of this principle. FAQ Schwartz occupies an upscale, exclusive market, catering to the wealthy. Its strategy is to maintain an extensive stock of exclusive toys, mix the stock liberally with popular toys, provide a high degree of service, and charge the highest possible prices. FAQ Schwartz markets nationally and internationally and has created a brand name aura. In short, the strategy is high quality, high volume, high service, and high margins. In Southern New Jersey, a discount toy store locally nicknamed "Dirty Harry's" (in reality named Discount Harry's) has developed the opposite strategy. "Dirty Harry's" offers a large stock of the most popular toys at the lowest possible prices with the least amount of service. The store is in two warehouse type buildings a few minutes’ drive outside Philadelphia. "Dirty Harry's" is virtually a drive-in retail store. No frills, no gimmicks, no eye-catching displays, just rows and rows of toys that the customer can grab, pay for, and leave. The strategy is clearly high volume, low margins.

Each company is in strategic alignment with its market niche. Each has built a strategy that meets the demands of its market. FAO Schwartz overwhelms the customer with magnificent displays of thousand-dollar stuffed animals. "Dirty Harry's" underwhelms the customer with row after row of dull, steel shelves filled with deeply discounted games, dolls, and sporting equipment. FAO Schwartz's employees are impeccably dressed, unfailingly polite (by New York city standards), and provide toy expertise upon request. "Dirty Harry's' employees wear rumpled clothes, frequently do not respond when asked a question, and only provide information about items when pressed to respond.

Each of these retailers has built a powerful, profitable, and loyal customer base. Each has developed a retail strategy to meet the needs and expectations of their customers in their market niche. If their niche changes, then so must they. Conversely, if their niche does not change, neither can they. "Dirty Harry's" tried to make a shift to a more upscale market several years ago, seemingly an easy move to make. The employees swept and polished the floors, rearranged the shelves so that the toys were neatly stacked and organized, began to answer customer questions, and in general acted as if they worked at Toys "R" Us. The change so startled their customers that business quickly dropped off. No one could believe that the prices were no longer the lowest possible, for in the customer's mind, good service and cleanliness translated to higher prices.

Both these retailers demonstrate that executives must understand the dynamics of their market, determine their market niche, and develop a strategy to reach that niche. Executives need to identify the right strategy for their company at any given moment and be prepared to switch if and when the market dynamics change. They must learn to dance with the market.

How Marketplace Dancing Has Changed

The link between market realities, organizational purpose, and strategy demands is the foundation of the art and science of designing and leading organizations. When market realities remain stable over a significant period of time, as they did for the automotive industry during the 1950’s and 1960's, then the link between market and strategy remains stable and needs no change. However, in periods of shifting market realities and changing strategies, organizational purpose and strategy must be changed to meet the new market realities.

For most of the twentieth century, the primary goal of the successful corporation was to create stability, institutionalize routine, and manage procedures. Overlooked during this period of strategic stability, was the historical pattern of organizational form following function.[8] Business history is filled with success stories built around matching organizational form to function.

The well-established giants of the twentieth century were designed to maximize the advantage of pursuing this goal. Thomas Watson, Sr., built IBM to dominate the market by offering high-quality products with superior and informed service. He created a company culture that centered on being the largest and the best and supported that by ensuring that IBM treated all its employees in the best manner possible, consistent with the times. In its prime, IBM was not monolithic and ponderous, but rather a growing corporation that used its size and strengths to execute a well-conceived strategy. IBM was not built for the ages, but rather for its market and times.

Conventional wisdom from the 1930's to the early 1980's was that the large manufacturing organization was right for its time. But it was not right at all times. Organizations must shift with the marketplace, anticipating and meeting market needs and demands in the most efficient and effective manner possible. For almost half a century the traditional organization was highly successful, but the late 1980's and early 1990's have proven that times have changed. Executives no longer have the luxury of building stable, unchanging organizations in which everyone has time to understand, learn, and improve their performance. The markets are so volatile that organizations must continually flex to meet new needs, match new competition, and create new products and services.

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8 See Tom Bums and G. M. Stalker, *The Management of Change,* Chicago: Quadrangle Books, 1962. Also see Jane Woodward, *Industrial Organization: Theory and Practice,* London: Oxford Press, 1965.

Interdependency

Most executives and managers intuitively understand that all aspects of the organization are interrelated and that a change in one creates a change in all the others. This principle is a basic tenet of systems theory, originally developed to explain interrelatedness in biological systems.[9] Organizations, as living systems, respond to change throughout.

A key characteristic of any living system is its ability to adapt, to respond to a change in the environment by changing itself to match the environment. The process of adaptation usually requires that the organism make multiple changes to the environmental stimulus. The changes are interconnected and can be easily viewed as tradeoffs. Life cycle changes in a family readily illustrate this principle. Parents often cherish the responsibility and gratification of caring for a baby. The baby is responsive, warm, loving, and usually appreciative of all attention and care she receives. The parents enjoy the immediate gratification of taking care of a baby's needs, however, the tradeoff for the parents is significant. They have less time for themselves, are on call twenty-four hours a day, and have no choice but to respond to the baby's cry.

The tradeoff principle holds true no matter what life cycle stage the family is in. When the baby grows into a teenager, she can do a lot more to meet her own needs and is less dependent on her parents. In fact, she can take responsibility for activities that her parents used to do, setting the table, cooking some of the meals, mowing the lawn, and washing the car. The tradeoff remains in effect. Parents worry about having less control than they had previously, wondering if she is safe at the dance, or on the canoe trip. They must learn how to deal with challenges to their authority and decide how much independence their child should have. They have gained relief from some of the care keeping but lost much of the gratification of caring for a baby.

The interdependency principle holds true for all aspects of organizational life. For example, on a strategic level, the executive team of a small manufacturer of specialty coatings for the pharmaceutical industry decided that the company needed to develop new products to offset a potential decline in current products. They decided to bring to the market a new process that they had some success in experimenting with on several previous jobs. They shifted the time allocation of the R&D engineer and her staff from improving quality on current products to developing the new product.

The R&D staff had more difficulty in developing the product than anticipated, and while their time was spent on developing the new product, the quality of the current products slipped. Sales dropped and the executive team had to cut personnel to make the budget balance. The executives laid off an R&D staff member and the new product development process slowed down even more. Finally, the executives re-allocated the R&D engineer's time back to quality improvement to maintain current sales. The executive team had failed to see the tradeoff that they were making when they decided to make the original change.

The tradeoff, unintentionally made, was to sacrifice current product quality for the more rapid introduction of a new process. If the executive team had been aware that they were making a tradeoff, they could have anticipated the consequences and managed them. Organizational life, like family life, is a set of tradeoffs that needs to be accepted as reality and managed.

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[9] See James G. Miller, "Living Systems: The Organization." Behavioral Science 17 (1) (January 1972) for a comprehensive discussion.

Conversely, the executive team of the corporate service department of a Fortune 50 company anticipated a shift in the department's role as the company adjusted to massive changes in the marketplace. The executives decided to shift the department's role from monitoring and policing divisional activities to providing expertise to the divisions. The executives understood that making this type of change would alter every aspect of the department. Consequently, as they shifted the role of the department, they created task forces to revise job descriptions, evaluation processes, hiring and firing policies, and supervisory roles. They coordinated the work of the task forces so that changes recommended by one task force were reviewed by all the others and after negotiation between the task forces, each incorporated all the changes into their work. The executives understood the interplay between all aspects of the department and created a process that managed the tradeoffs.

Understanding interrelatedness is a key to building flexible organizations. Executives cannot build flexible organizations unless they develop processes and systems that manage, monitor, and realign the tradeoffs made as one area of an organization shifts and impacts on another.

Congruency

Congruency occurs when organizations have all their components aligned with each other. The components fit together, reinforcing and supporting each other. Congruency is a dynamic process, a shifting interchange among organizational components as each responds to changes in the whole and to changes within itself.

The interplay in the tidal marsh is a good example of this shifting and interchange inherent in organizational congruency. When the tide is in, the mussels and shells that live on the edge of the water can feed on the nutrients in the water. They open their shells to allow the water to run through them so they can strain the nutrients from the water. When the tide is out, the mussels and shells become food for the birds and mammals that live in the tidal marsh. They respond to the environmental danger by closing their shells, burying in the tidal mud, and hiding from their predators. The various organisms that live in the marshes are aligned to the tidal rhythms, synchronized with the ebb and flow of life. They shift their activities to match that of their environment. The very long-lived organisms are also able to adapt to major disturbances in their environment. Each has a well-developed strategy to survive in its environment and realigns itself to the changes or disturbances in its environment in order to thrive.

Ideally, organizations act in the same way. They have a marketplace strategy that allows them to thrive, and they align their components to enable them to implement their strategy. Their components are in a dynamic state of congruency, shifting to meet the normal shifts in the market. They must be able to support the strategy to thrive in their niche and they must have a well-developed, successful strategy.

Like their counterparts on the tidal marshes, they risk extinction when they do not adapt to the environment. Two major maladaptations can occur. First, executives may choose the wrong strategy or set of strategies, a failure of alignment. Second, executives may fail to create and maintain internal consistency, a failure of congruence.

When organizations are unaligned their organizational structures and processes may be internally consistent, but their strategy is not aligned to market realities. When "Dirty Harry's" realigned its internal form to provide cleaner, better service, it may have been organizationally congruent but its strategy of attracting upscale customers was not aligned with its market realities. No matter how congruent the organization may have been, it could not overcome failing to meet its customers' expectations.

Organizational congruency is essential to flexible organizations but will not alone produce high functioning. Organizations must be both strategically aligned and congruent.

When organizations are aligned but not performing well, they are most often incongruent. The specialty coatings manufacturer discussed earlier, developed a good strategy. It was correct in anticipating the market. It understood what it could do to meet the shift in the market, and it developed a plan to implement its strategy. Unfortunately, it was incongruent.

If viewed as a snapshot in time, most companies are partially out of alignment and partially incongruent. They are frozen in transition at a single point of time. The snapshot catches them attempting to respond to changes in the environment. The danger lies not in being unaligned or incongruent, but in staying that way, in being trapped partially in alignment and congruency and partially out.

For example, a snack food manufacturer had established itself as a regional presence in its market. The company's strategy had been to produce high quality, moderately priced snacks for Mom-and-Pop stores throughout the region. Company drivers/salespeople distributed the products, developing long term relationships with their customers, understanding each customer's market. As intended, they became an integral part of their customer's operation. The drivers/salespersons were surrounded by a congruent organization that matched the intimate feel of their customer relationships, providing individualized billing, custom orders, and special delivery when needed. The company treated the drivers/salespersons as they treated their customers, anticipating their needs and finding ways to make them more successful. Company management emphasized that the drivers/salespeople had to make a profit and receive the appropriate services from the company so that everyone could be successful.

The company became very successful and profitable. Then the snack food market shifted as strong regional competitors grew big enough to market nationally and began to force the regional companies to compete on price. Frito-Lay and Eagle Brand snack foods began to compete in all the regional markets and forced the company's executive team to shift its strategy. It decided to try to grow large enough to compete nationally. They developed a two-step strategy, expanding to supermarkets in the region, then building regional presence in areas where Frito Lay and Eagle were the weakest. They expanded the production facility, hired marketing and distribution executives, and began to successfully penetrate the supermarkets.

Unfortunately, the company's organizational congruency supported the Mom-and-Pop market, not the regional supermarket or national markets. The executive team did not realize this at first. The company could and did stretch to service the regional supermarkets. The stretch was uncomfortable and shaky. While service and relationships were the competitive advantage in the Mom-and-Pop market, they were not in the regional market. At this point in the market, price was the dominant competitive advantage. The company began to lose market share in its core Mom-and-Pop business, but did not change internally to support the new regional supermarket business. The attempt at regionalization and nationalization failed because the congruency did not match the new strategy. Within eighteen months, the company was on the verge of bankruptcy.

Compensating For the Lack of Strategic Alignment

When organizations have unclear or ill-defined strategies, the organization will frequently become congruent around some other defining characteristic. The characteristics vary depending on how long there a lack of a clarified strategy, the previous strategy, and the market dynamics has been. Organizations without direction create their own direction, then shift congruency to support the new direction. The railroad industry illustrates this well. When the interstate highway system and the national airlines matured enough to drain traffic and shipping from the railroads, most of the big railroad companies lost their strategic direction. The railroads had excelled at growing and building, at becoming bigger and better to serve an increasing volume of traffic. Executive teams were unclear about a strategy to survive and tried to operate in the old mode, however, without a clear direction, survival became the predominant strategy. The federal government increased its regulation to try to keep the railroads alive and the unions featherbedded to protect their members' jobs. The railroad companies quickly became large bureaucracies whose major purpose was to exist. And, not surprisingly, all the components of the organization shifted to a new bureaucratic congruency.