Hitotsubashi University
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by

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**ROBUST ORGANIZATIONAL FITNESS FOR REINVENTING STRATEGY IN RAPIDLY CHANGING INDUSTRY LANDSCAPES**

**In fast-changing industry landscapes, companies are often engaged in both adaptive (reactive) and inventive (proactive, newly-shaping) change processes, and these require different types of organizational fitness capabilities. Our research of more than a decade conducted in a wide range of industries (See "About our Research") reveal that many companies are predominantly focused on past successes and internal difficulties, and do not possess the necessary robust capabilities to also inventively deal with rapidly changing industry landscapes. This seems due to the fact that many individual and group managerial minds are not able to view organizational fitness in its proper perspective, because of inadequate traditional strategy approaches being utilized. The paper provides insights into the concept and application of organizational fitness, and indicates how managers could benefit from guidelines to develop and manage robust organizational fitness capabilities.**

# Introduction

Given the rapidity of changes driving the knowledge economy in the 21st century, the challenge facing business managers is how to build and manage *organizational fitness* to deal with fast-changing industry landscapes. This paper provides a practical approach to assist managers in maintaining robust *organizational fitness* capabilities that enable both successful reactive (adaptive) and proactive (shaping, prime-mover) change in evolving industry landscapes. In the process of doing so, we provide clarity of the concepts of *organizational fitness* and *organizational fitness profiling (OFP)*. This is necessary due to the fact that although the concept of *organizational fitness*, and its application, have been in use for some time, recent research (see box below: "About our Research") indicates that it is mostly misperceived and inappropriately applied.

**About our Research**

This article is based on more than a decade-long research cases in over 150 local and global companies in North America, South America, Europe, Australia and Asia, including prominent companies such as HP, Apple Computer, Mattel, and Xerox. In conducting these research studies, data were collected by interviewing key people such as CEOs, general managers, employees, customers and suppliers, and analyzing secondary sources of information including company documents and public sources. We tracked these companies systematically over years to closely scrutinize their performance within their changing context. Although our main research focus was on building *organizational fitness* through an approach developed by Michael Beer and Russell Eisenstat called *Organizational Fitness Profiling* (OFP)[i], we have become increasingly concerned with the evident strategic misperceptions of the concept of organizational fitness, providing the rationale for this paper.

The concepts of *organizational fitness*, and *OFP* are often misperceived as static concepts of organizational 'being' or 'status' to be achieved at certain points in time, instead of a continuous and dynamic condition of purposeful goals, adaptiveness and strategy reinvention capabilities. This, in turn, seems due to misconceptions of the nature of strategy in fast-changing industry landscapes, and that competitive advantage does not only mean a desired competitive 'status' for an organization in a particular industry landscape, but a range of robust capabilities to enable both adaptive and proactive change in fast-evolving industry landscapes.

To illustrate the concept of robust *organizational fitness,* and its managerial applications, as a continuous and dynamic organizational process, this paper firstly highlights the dynamic forces driving changes in industry landscapes, and their implications for strategic management approaches. Secondly, a review of the traditional approaches to strategic management is provided, indicating their deficiencies in providing a basis for development of continuous and dynamic *organizational fitness* capabilities. Next, the paper argues that the concept of *organizational fitness* is often misunderstood, with 'silent killers' and 'organizational inertia' often existing; this paper consequently provides models of organizational fitness and organizational fitness profiling dimensions. Finally, the need for a systemic approach to strategic management is emphasized and outlined, and managerial guidelines for development of robust organizational fitness capabilities are provided.

## Forces driving change in industry landscapes, and their implications for approaches to strategic management and organizational fitness development

Many authors have highlighted the forces driving change in the late 20th and early 21st century, depicted by some as 'revolutionary' forces in contrast to earlier eras (1).[ii] A useful summary of these forces point to 6 major impacting shifts (2)[iii], as indicated below.

- information to knowledge and wisdom
- bureaucracies to networks
- training/development to learning
- local/national to transnational/global and metanational
- competitive to collaborative thinking
- single strategy and linear innovation to a range of robust capabilities and nonlinear innovation

**Forces causing a shift from information to knowledge and wisdom**

The evolution of information management to build organizational competence and manage change has generally progressed over three phases; automation, rationalization and knowledge creation. In the 21st century, it is increasingly recognized that the key source of wealth is knowledge, not technology or other tangible capital. Knowledge refers to the sum total experience and learning residing within an individual, group and organization. But how do organizations tap the knowledge residing in their members' minds and how do they develop their inner capabilities to contribute to the success of the company and continue to do so? Our research reveals that companies who have not managed to institutionalize psychological safe confrontation and conversation between those who see the 'tip of the iceberg', but do not have a say in the company's affairs, and those who built the system and who had been committed to preserve it, have been unable to continuously maintain organizational fitness. Knowledge coupled with experience and sense-making capabilities provides insight and wise decisions, which is increasingly required of all employees in the fast-changing environments of today.

**Shift from bureaucracies to networks**

The traditional hierarchical organizational designs that served the Industrial Era are not flexible enough to build the organizational capabilities of a firm. There is an increasing shift from hierarchical organizational systems to unconstrained, fluid and networked organizational forms.[iv] The important issue is to create a competent egalitarian leadership with effective participation of members and stakeholders' and their contribution therein, while simultaneously ensuring proper responsibility and accountability in order to continually capitalize on opportunities and diagnose weaknesses.

**Shift from training/development to learning**

The role of training and education has become paramount in all organizations – public and private. Structured training programs are often advocated by top management and results seem to be short lived. However, the change has been from a passive orientation with a focus on the trainer and the curriculum, to an active perspective that places the learner at the heart of the activity. In fact, learning must occur real-time in both formal and informal ways. Learning is the integral process for progress. The knowledge that one creates and applies is more important than the knowledge one accumulates. But how do organizations create a sustained mechanism for ongoing learning? The notion of real-time learning is the central construct of *organizational fitness*, and the *fitness profiling* approach attempts to answer this question by addressing the *hard* and *soft* barriers that impede learning to happen on an ongoing basis.

**Shift from local/national to transnational/global and metanational**

The relentless competition of the 21st century is spurring globalization, and it is becoming difficult for companies to rely on purely regional market to maintain their profits and growth. It is becoming crucial that every national business strategy must be created within an international and cross-national context, thus, the term *transnational*. While most companies are still rooted in their home boundaries, those fit and robust organizations are adopting a truly metanational approach in terms of location, resources and processes. Acceleration of communication technology and globalization has expanded the definition of potential business. Transnational alliances of all firms are becoming necessary in order to enter and survive in the global playing field. There seems no way that an organization can easily survive without an integral relationship with partners, suppliers, and other cross border stakeholders. *Organizational Fitness Profiling* enables a firm to revaluate its internal competitive realities in order to achieve "fit" with their strategy and their evolving landscapes.

**Shift from competitive to collaborative thinking**

We line in an era dominated by competitive strategy thinking – one that produces only win/lose scenarios. Even in a cooperative environment, parties divide up the wealth to create a win/win situation. The pie, however, often remains the same. With a collaborative approach, symbiosis creates a larger pie to share or more pies to divide. Alliances of every dimension are the natural order of the day in the realization that go-it-alone strategies are almost always suboptimal. The mentality of traditional competition is firmly embedded in leadership mentality, organizational structures and work systems, management process and values. Collaboration is equally important as competition for survival. It is time to remove the internal barriers to progress and establish mechanisms of sound communication and coordination in order to collaborate effectively with the business community of interest.

**Shift from single strategy and linear innovation to a range of robust capabilities and nonlinear innovation**

The thinking, logic and language that surrounded our past assumptions are based on a view that the world works like a machine which is, to a considerable degree, predictable and understandable. This way of thinking leads to approaching the environment with linear, reductionist or analytic. This way of thinking is now at risk.

New ways of thinking are emerging out of our awakening to new levels of understanding that the business environment is characterized by complexity, uncertainty and aperiodicity. In fact this understanding is spawning new competitors that are dominating the commercial world by playing new rules of the game. This new era is demanding systemic change in the existing process – that is change in every aspect of the organization including work system and structures, management processes, human resources systems, principles and culture as well as leadership behaviour in order to survive in the current competition, and further build a range of robust capabilities that will enable the organization to adapt well in a variety of possible unknown landscapes.

This new thinking requires a shift from a single and focused strategy to 'robust adaptive strategies'.[v] This means that the company must master the current business using its standard and analytic techniques to achieve efficiency, in order to nurture new entrepreneurial activities that enable rapid deployment of capabilities when new circumstances unfold. To achieve this, the importance of unpredictable, nonlinear consequences must be emphasized. While some strategic consequences are the result of deliberate intent, most are emergent

results, i.e. behaviour that spontaneously and unexpectedly follows a different set of rules of patterns. This paper will elaborate that the findings of our research indicates patterns of development of robust organizational fitness.

### The implications for Strategic Management

The implications of these shifts for strategic management is that the capacity to learn and change, what we call *organizational fitness,* is a critical attribute not only to adapt to fast-changing industry landscapes, but also to enable proactive, reinventive change that co-shapes industry landscapes.[vi] The question that arises is whether traditional strategic management mindsets are adequate to cope with these requirements, or not. To answer this question, it is useful to review the traditional approaches to strategic management, and to illustrate their deficiencies in dealing with the demands for robust organizational fitness capabilities.

## Traditional strategy approaches and their deficiencies in dealing with robust organizational fitness requirements

Since the 1950s, various approaches to strategic management have been popularized, and some have served very well in their particular eras. With a significant new era of revolutionary enviromental change – the era of the knowledge economy – having been entered during the late 1990s, it is becoming evident that the traditional approaches to strategic management are showing deficiencies in dealing with fast-changing industry landscapes. Table 1 provides a summary of the evolution of strategic management approaches, grouped into four eras ranging from the 1950's to the 1990's.

**Table 1 The evolution of strategic management approaches: 1950's to 1990's**

| Period / Issue | 1950s – 1960s | 1970s | 1980s | 1990s |
|---|---|---|---|---|
| **Dominant focus** | ***Planning:*** Business and budgetary planning | ***Balancing:*** Optimizing corporate entities and functions | ***Positioning:*** Industry, market and firm "adapting" and unique "fit" | ***Resources & Capabilities:*** Resource-based view for competitive advantage |
| **Main concerns** | Planning growth<br>Capital and operational budgeting<br>Financial control | Balancing a portfolio of SBU's/ firms/products<br>Synergy of resources and functions | Choosing industries and markets, and positioning within them<br>Adapting and fitting to the environment | Sources of competitive advantage within the firm<br>Responding to hyper-competition |
| **Principal concepts and tools** | Investment planning<br>Financial budgeting<br>Economics forecasting<br>Linear programming | Portfolio planning matrices (e.g. BCG, GE, Shell directional policy)<br>SWOT analysis | Industry analysis (e.g. "5 forces" model)<br>Competitor analysis<br>Value chain analysis<br>PIMS analysis | Resource analysis<br>Core competency analysis<br>Capability analysis<br>BPR (Business Process Reengineering)<br>BSC (Balanced Scorecard) TQM (Total Quality Management) |
| **Organizational and implementation issues** | Formal structures and procedures<br>Financial management predominant | Multidivisional structures<br>Diversification<br>Quest for market share growth | Industry restructuring<br>Value chain configuration<br>Positioning evaluations | Restructuring around key resource competence<br>Focus on building core competencies<br>Outsourcing<br>Alliances |

Many prominent authors such as Grant, Mintzberg, Collis and Montgomery, as well as Shay and Rothearmel depict the above-mentioned eras in strategic management approaches in more elaborate or different ways.[vii 8] The above table, however, represents general consensus regarding the dominant focus of these eras, evolving from business and budgetary planning in the 1950s/60, to a focus on firm resources and capabilities in the 1990s.

When analyzing each of these four strategic management eras in turn, it is evident that the evolution of strategic management has been driven more by the practical needs of business

than by the development of theory. The emergence of the *planning* approach was associated with the problems faced by managers in the 1950s and 1960s in coordinating decisions and maintaining control in increasingly larger and complex enterprises. The emphasis on longer-term planning during the 1960s reflected concern with achieving coordination and consistency in investment planning during a period of stability and expansion. The typical format was a five-year business planning document that set goals, objectives forecast key economic trends, established priorities in each business area, and allocated capital expenditure.

During the 1970s, attention shifted towards strategic management in a quest for performance based on a balancing of sources of profitability. This was the result of the oil industry shocks of 1973/4 and 1979, that ushered in a new era of macro-economic instability. Businesses simply could no longer forecast five years ahead, with the resultant shift from *planning* to *balancing* market opportunities and threats with various business strengths and weaknesses (the so called SWOT analysis). At the Boston Consulting Group (BCG), the determinants of profitability differences within industries were the focus of investigation – studies pointing to the critical role of market share and economies of experience. Various types of portfolio planning matrices, such as the BCG, GE (General Electric) and SDP (Shell Directional Policy matrix) became popular.

During the 1980s the focus shifted towards competitive *positioning* of the firm through analysis of industry structure and competition. Michael Porter of Harvard Business School pioneered the industrial organization economics approach to analyze the determinants of competitive firm profitability. The emphasis of strategic management was a quest for optimal positioning (or "fit") – companies needed to locate within the most attractive industries or markets where they had to endeavour to become market leaders. Porter made the point that "competitive strategy is about being different – it means deliberately choosing a different set of activities to deliver a unique mix of value".[viii] The principal concepts and tools of the positioning era became industry analysis (the so-called "5-forces" model), competitor analysis, market analysis, value chain analysis and PIMS (profit impact of market strategy) analysis.

In the late 1980s and early 1990s, the intensifying competition to achieve market share leadership let to a shift in strategy focus on internal firm *resources* and *capabilities* – the difference between companies' resources and the need to develop core competencies for the establishment of unique positions of competitive advantage. Unique company resources and capabilities are thus seen as a primary source of profitability and the basis for formulating its longer-term strategy. Resource analysis, core competency analysis, capacity analysis, and business process reengineering (BPR) became popularly known as the RBV (resource-based

view), and organizational emphasis on restructuring, reengineering, outsourcing and alliancing to build unique capabilities was evidenced.

In the middle to late 1990's, the dimension of dynamic capabilities was added to the RBV approach due to high-velocity industry and market changes. Hyper-competition and high-velocity strategies contend that one firm will outperform another if it is more adept at rapidly and repeatedly disrupting the current situation by creating unprecedented and unconventional dynamic capabilities, i.e. repeatedly forming new, albeit temporary, competitive advantages based on different resource combinations than those of the existing pattern.

**The deficiencies of conventional strategic management approaches to build dynamic, reinventive organizational fitness capabilities**

The deficiencies of the above-mentioned traditional strategic management approaches to build a continuous and dynamic organizational fitness are evident when analyzing them in a different context, i.e. two categories of "*outward-in*" vs. "*inward-out*" approaches, and "*prediction*" vs. "*learning*" approaches.

- **"Outward-in" vs. "inward-out" approaches**

The *planning*, *balancing* and *positioning* approaches to strategic management can be grouped as "outward-in" approaches, i.e. first analyzing the external (macro, industry, market etc.) environment and then analyzing and competitively gearing the internal (firm) environment. This is based on implicit assumptions of periods of relatively stable (or static) environment conditions, relevance of forecasting and prediction, and achievement of particular industry positioning objectives over an extended period of time.

In the fast-changing landscapes, with high rate of environmental discontinuities due to the disruptive impact of networking technologies, speed of globalization, and shortening strategy life cycles, environmental forecasting and prediction are impossible in many, if not most, industries. Companies that continue to focus on "the competition", on leveraging and extending current capabilities to retain or extend their positions in the "existing industry", and striving for periodic optimum "fit with their environment", are faced with major dilemmas. A focus on matching and beating the competition leads to reactive, incremental and often imitative strategic actions – not what is required in the fast-changing knowledge economy. Even in relatively stable or slow-changing industries (which are increasingly difficult to find) the concepts and tools of the "outward-in" approaches are becoming deficient.

The *resource* and *capabilities* approach to strategic management can be termed an "inward-out" approach, i.e. first focusing on the firm's internal resources and capabilities and their leveraging possibilities, thereafter incorporating the "realities" of the external environment. An inwardly driven focus on resources and capabilities within a company, however, significantly limits a company's opportunity horizon and introduces resistance to change if the market is evolving away from a company's traditional strategy. It also leads to an emphasis on existing customers – the conventional focus on retaining and better satisfying existing customers through leverage of resources and capabilities tends to promote hesitancy to challenge the organizational fitness status quo for fear of losing or dissatisfying them. D'Aveni pointed to this deficiency in the mid-1990's, when he contended that existing sources of competitive advantage ought to be disrupted constantly in favour of building new sources of competitive advantage.[ix] This means that organizational fitness should be as much concerned with capabilities to handle *'misfits'* with the environment than traditional *'fits'*, i.e. to create purposeful and appropriate reinventions that might disturb existing and foreseen industry conditions, to gain unique competitive advantage.

- **"Prediction" vs. "learning" approaches**

The *planning, balancing*, *positioning* and *resource-based* approaches can also be termed "*predictive*" approaches, as they all attempt to predict a particular environment through its strategic thrusts. Traditional approaches provide frameworks for analyzing the *content* elements of a strategy that can be sources of competitive advantage by predicting the environment "out there". With the increasing inability to predict the environment, the focus of strategic management has to be *organizational processes* that enable learning to take place on ongoing basis, and to co-shape the environment. The "learning" approach to strategic management changes the character of the concepts and techniques commonly utilized in the "prediction" approach. The "learning" approach has especially emanated from the seminal work of Peter Senge[x] on organizational learning, which have enjoyed considerable popularity during the 1990s. In fast-changing industry landscapes, the focus of strategic management turns to the capacity to learn on a continuous basis - i.e. to build *continuous and dynamic organizational fitness* for adaptiveness *and* strategy reinvention capabilities. Organizational fitness, therefore, is concerned with the dynamic *learning process* of organizational capability change, rather than providing a framework for predicting future sources of competitive advantage. In the next section, focus is placed on the nature of organizational fitness as a

systemic approach to strategic management, and how misunderstanding of its essence and application can be avoided.

## Organizational fitness as a systemic strategy approach and tool in dealing with fast-changing industry landscapes

*Organization fitness* is the capacity to achieve a systemic "fit" between three components of a complex system: the external landscape, strategy dimensions and the organization. Each of these are briefly examined.

**Industry landscape**

While some environments change in an incremental way, others change fast in discontinuous ways. In continuously changing environments, it is relatively less difficult to predict the gradual and continuous change of the environment, and firms adapt by making incremental modifications on core products or service lines, without introducing major reorganization.

In a discontinuously changing environment, continuous improvement on core products and services becomes a liability where the environment is changing faster than the company's stated strategy.[xi] In fast-changing industries the use of metaphors involving landscapes have been recently popular in the field of strategic management literature to help managers understand and visualize their changing environment.[xii] Like a physical topography with high mountains and low valleys, a company's landscape is characterized by competitive and collaborative co-evolution with successful companies or strategies on high peaks near each other and losing ones in low valleys neighbouring to each other. The landscape is not fixed like physical mountains and valleys, but constantly shifting.

To survive in the constantly changing landscape, companies develop new capabilities by changing the ones that are not required and retaining the ones that have been successful in the past in order to be more 'fit' to adapt to the new environment. In making these changes, they have to choose between often-conflicting design factors. The particular business environment in which an organization becomes capable to adapt by making trade-offs and in which it has to remain 'fit' competitor is called *fitness landscape*.

**The strategy dimensions**

The dynamics of traditional strategy is often about searching a "fit" between the landscape and the organization. Traditional strategy approaches strives to achieve "fit" through differentiation, or building distinct core competences that embodies the capabilities and values of the organization that allows it to provide value that is relevant to the external world. With the rising number of entrants in many industries, resulting in higher density of companies in any one industry,[xiii] and ubiquitous new technologies and rapid diffusion of new practices, differentiation is becoming increasingly difficult.

Research evidence indicates that firms find it difficult to stay on higher fitness landscape than their competitors for more than five years at a time.[xiv] Generally, there are two broad categories of strategic responses, viz. proactive and adaptive strategy. Proactive strategy arises from business insights into how emerging trends or latent demands may unfold and change the proposition of value to customers in the future. Whether by identifying hidden customer demands or by detecting early signals of unfolded major disruptive changes, firms that achieve *proactive fit* before the competition impose their activities and structure upon the environment, will force others to follow.

Adaptive strategy involves responding as efficiently as possible to "fit" the business environment that has already occurred, or foreseen to evolve in the future. It is less difficult to work out what the organization should do in these circumstances, but success is determined by how quickly a company adapts to the evolving landscape. Such a landscape does not pose a major departure from the traditional industry environment, i.e. does not anticipate any revolutionary changes.

Zajac and Bresser[xv] distinguish four types of strategy in their analysis of 'fit between the landscape and the strategy. (1) Beneficial strategic change (dynamic fit) represents a situation where an organization confronts with new circumstances or internal changes and does change as required. (2) Insufficient strategic change shows where the organization is faced with competitive pressures for change but fails to respond adequately remaining "fit" to obsolete industry landscape. (3) Beneficial inertia occurs in stable environment where an organization is not pressured by threats or opportunities to change. There seems to be, however, rare environments not endowed by either threats or opportunities or both.[xvi] (4) Excessive change occurs when the organization's environmental and organizational variable do no suggest the need for change, but the organization keep changing additional features without giving due

consideration to other attributes of the organizational levers, eventually causing an overall strategy misfit via its 'abnormal' or 'revolutionary' behaviour.

In fast-changing industry landscapes, it is evidently necessary that companies engage in both adaptive and proactive changes simultaneously. However, our research reveals that many organizations do not even posses the capacity to learn to effectively adapt their existing businesses to fit the current environment. Given the turbulence of the fast-changing landscapes and the variability of strategy thereof, building a continuous and dynamic organizational fitness for enabling both adaptive and proactive strategy is essential to respond to constantly shifting landscapes.

**The organization**

What does 'fitness' mean for organizational capabilities? With the increasing recognition of knowledge by both academics and scholars as the only source of sustainable competitive advantage, it seems that the most relevant pointer of *fitness* for an organization is *knowledge and learning*. It seems evident that the more knowledge we are able to put into effective use, and continually being able to learn from it, the better prepared and more sustainable we will be in the long run.

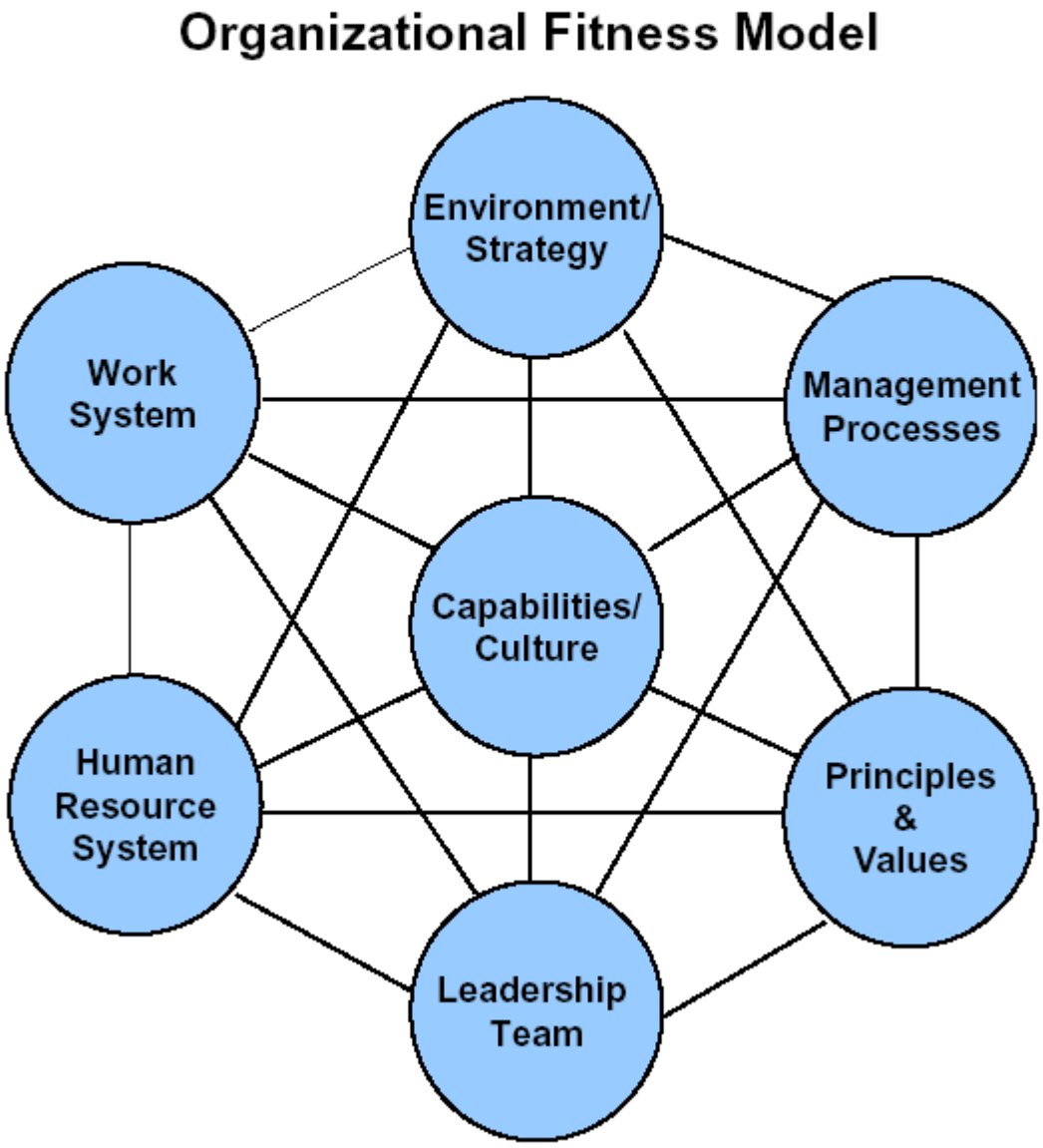
But research conducted over more than a decade in the field of organizational fitness reveals that the failure of corporations to survive and prosper in the long-term is not caused by a lack of ideas for innovation.[xvii] Knowledge, which is locked inside key individual minds, groups, routines and processes, is worthless if key attributes of organizational capabilities are not aligned to build a continuous and dynamic organizational fitness. The source of long term survival and prosperity relies much on the *organizational fitness* which is the capacity to align the organizational activities and process to develop seven distinct capabilities of coordination, competence, commitment, communication, conflict-management, creativity and capacity management, relevant for both adaptive and reinventive capabilities – a systemic open-ended fitness in contrast to the traditional close-ended 'fit' with the existing or foreseen environment.

**Basic features and dynamics of an organizational fitness model**

Our research indicates that an organizational fitness model can be developed, consisting of six key organizational processes termed organizational levers, that together constitute the organization's capabilities to deal with fast-changing industry landscapes. As shown in Figure 1, organizations design their work system and structure, management process, human resources system, principles and values, and leadership behaviour to "fit" their business environment and their chosen strategy within that environment. This alignment enables the business to develop the organizational capabilities/culture (attitudes, skills and behaviour) needed to compete successfully. Over time, this alignment and the fit among activities are gradually shaped by the path the company follows in fitting itself into the environment. This "fit" becomes a source of competitive advantage where the current fitness landscape yields increasing returns.[xviii16]

Where the industry landscape is fast-changing, this strong fit, which is embedded in the routines and processes of the organization, seems to lead to long-term rigidity. When the environment shifts significantly and new business capabilities are required, the strength that led to success becomes rigidities and lead to failure. The difficult barriers to change are habits of doing business and the way employees perceive the competitive environment. Most of the leaders of the organization have come to the top by mastering traditional strategy approaches and management techniques. The current system and structure reflect the top leaders core-beliefs, behaviour and attitudes. As a result, employees can have traditional views about the internal and external competitive environment which leads to poor fit between the organization's strategy and the dynamic environment. In the first place, therefore, leaders need to change their managerial abilities and behaviour in order to effect appropriate change in the rest of the organization.

Figure 1




**Barriers of learning to change**

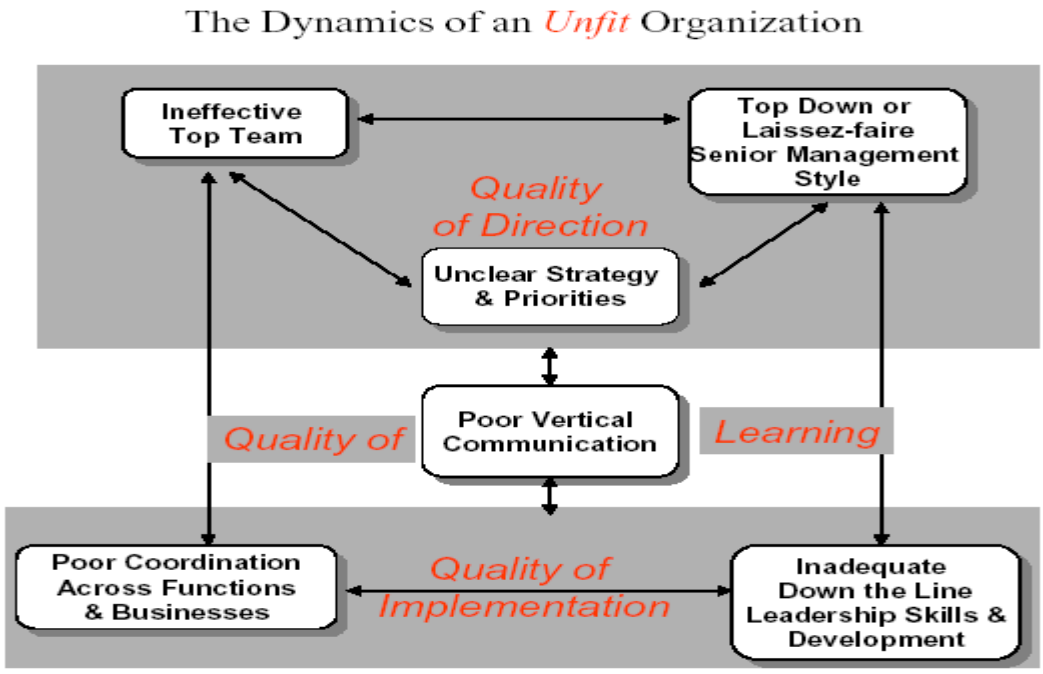
While the barriers for learning can vary depending on a specific organization's context, from their decade-long research conducted in a broad range of businesses on organizational fitness dynamics, Beer and Eisenstat[xix] identified typical barriers which they call "six silent killers" that block leaders from learning to change;

- Unclear strategy and/or conflicting priorities
- An ineffective top team

- A top down or laissez fair style of the CEO or general manager
- Poor vertical communication
- Poor coordination across functions, business or geographic regions
- Insufficient leadership skills and development of down the line leaders

The dynamic relationship among these barriers is depicted in Figure 2, and are based on the findings of the research on how many organizations experienced inability to learn to change. They are called "silent killers" because like cholesterol and high blood pressure they are not obvious and can cause death – in this case organizational death.

**Figure 2**




Three 'qualities' are indicated in Figure 2, i.e. quality of direction, quality of implementation, and quality of learning. Each of these is further elaborated, indicating the barriers that create 'unfit' organizations.

- **Barriers that affect quality of direction**

The first three barriers at the top of Figure 1 (an ineffective team, unclear strategy and conflicting priorities and the CEO's leadership style that is too top down or laissez faire) are interdependent and mutually reinforcing. They are key to the *quality of direction* management provides the rest of the organization. Ineffective top teams (teams that cannot develop agreement about where the business is going or how to organize) lead lower levels to perceive unclear strategies and conflicting priorities. Ineffective top teams result when leaders go around the team to micromanage the business or when they do not engage the top in developing agreement about strategic and organizational matters and/or replace those who will not or cannot come to agreement after a fact based discussion. Both styles avoid confronting and resolving conflict in the top team regarding direction, priorities and organizational arrangements.

- **Barriers that affect quality of implementation**

*Poor coordination and inadequate leadership and leadership development* at lower levels (the two barriers at the bottom in Figure 2) affects the quality of implementation. *Coordination* across functions units or regions is essential for a strategy to be well implemented. The requisite coordination links differ from business to business but are those that connect key activities that comprise the "value chain", activities that create economic value. This often involves creating semi-autonomous teams across functions, regions or businesses and designating an effective leader with general management orientation to lead the teams.

The second barrier to strategic implementation, *inadequate down the line leaders and leadership development*, also prevents an organization from forming needed innovative teams. Faced with the need to form teams, top management does not see sufficient leadership resources to lead them. Already reluctant to shift power to leaders of these teams, the lack of talent becomes a convenient excuse not to redesign the organization team. Research and experience suggest that the formation of teams with young inexperienced leaders is much preferred to delaying.[xx] With coaching, some of these managers develop into effective team leader and the rest are replaced overtime, but the organization has begun the organizational learning process.

- **Barriers that affect quality and speed of learning**

*Poor vertical communication* affect the quality and speed of learning. Middle level managers who perceived problems with the strategy or experienced difficulties in coordination did not take the risk to communicate concerns to top teams. Yet, they knew better than anyone else what was working and not working. To communicate honestly up the line meant that they would be exposing the six silent killers and raise questions about power, politics and leadership at the top. To do so in a productive manner an organization needs a forum that brings the top team and lower levels together to discuss problems in a public yet safe manner. Only a conversation that involves all key members of the community can lead to organizational learning and break the norm of silence.

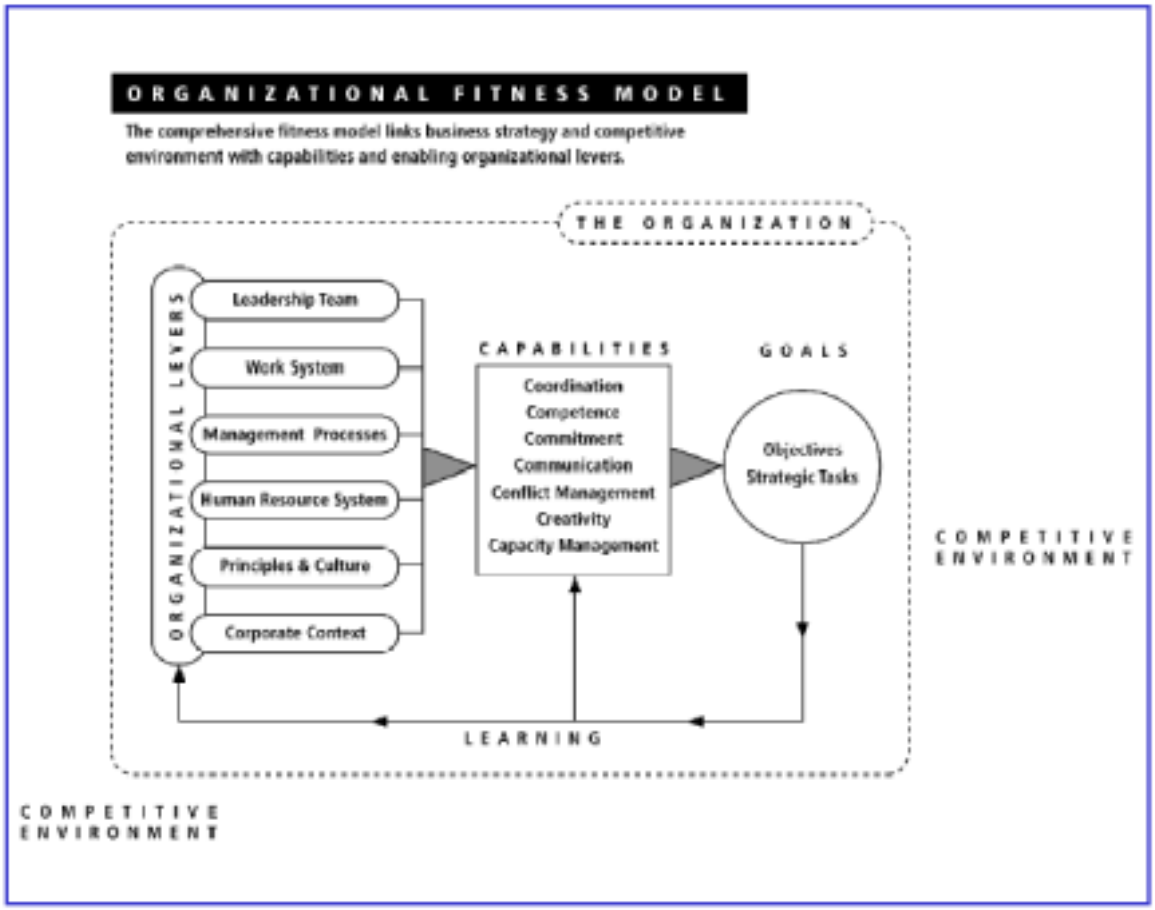
The above six barriers are interconnected and deeply embedded in the organization's ways of doing business and culture. How do organizations transcend these barriers to build a continuous and dynamic organizational fitness to deal with fast-changing industry landscapes? One approach of building and nurturing a continuous and dynamic organizational fitness is by institutionalizing a strategic conversation and learning process called Organizational Fitness Profiling using the organizational fitness model.

**Organizational Fitness Profiling (OFP)**

The need for *Organizational Fitness Profiling* arises as a result of substantiated need to change. While recent strategic management research that focus on innovations and new business models provide rich insights into how organizations can develop systemic innovation or new business models,[xxi17] in order to be comprehensive theories, they also need to address the "soft" aspects of the organizational capabilities which are fundamental requirements for strategy reinvention. By *soft* aspects we mean that organizational transformation involves 'painful' experience for those involved in change and that any framework that discusses systemic change must address psychological 'safety' for those involved in the change process.

The theory of *organization fitness* attempts to address both; reinvention of the business model in order to achieve *fit* of the organization and its strategy with the environment, and removing the barriers for achieving this.

**Figure 3**




OFP is a strategic change process aimed at creating an honest conversation, in psychologically 'safe' manner, about the organization as a total system by using the OFP model shown in Figure 3. OFP enables managers to diagnose the whole organization as a system in order to develop a plan to redesign and change the organizational levers in the model, and then further inquiry into the success of the change over time. By using the organizational fitness model, OFP enables a systemic change process i.e. to change leadership behaviour, structure and systems, management processes, human resources systems, principles and culture, as well as corporate context. These in turn lead to particular dynamic capabilities for both adaptive and creative, co-shaping industry activity.

**Misperceptions of organizational fitness and OFP**

The *organization fitness model* and *OFP*[xxii] are often misperceived as static concepts of 'organizational being' to be achieved at particular points in time, instead of a continuous and

dynamic range of goals, adaptiveness and strategy reinvention capabilities. In the face of the current shift of the research realm in the strategic management field from analysing *content* of sources of competitive advantage to studying *organizational processes* for adaptive and proactive changes, we regard it essential to clear some misperceptions associated with traditional views of strategy. The misperceptions are clarified by analysing three distinguishing points: *content* based models versus *process* based approaches; *distinct* capabilities based approaches versus *robust* capabilities based approaches, and *planned* change versus *emergent* change.

### ***Content*** **versus** ***process***

Traditional strategy approaches focus on analysing *content* or products of a strategy that provide sources of competitive advantage, for example, identifying attractive industry structure or differentiating the firm's strategy by possessing distinct and inimitable resources. Whereas these traditional strategy approaches can be useful in achieving this in stable environments, in fast-changing landscapes the focus of strategic management shifts from analysing static sources of competitive advantage at a point in time to studying organizational *processes* by which a firm is able to constantly create temporary competitive advantages. The organizational fitness theory is, therefore, an *organizational process* model which provides insights into how to build a continuous and dynamic organizational fitness that will enable a firm to continually adapt to changing landscapes.

### ***Distinct*** **versus** ***robust*** **capabilities**

In contrast to the traditional RBV strategic management approach of focus on core competencies, dynamic capabilities or resource-leveraging of the firm, which assume that the firm's unique and inimitable competencies provide sustainable advantage in evolving industry landscapes, the organizational fitness theory views capabilities as robust and potentially disruptive. It is the alignment of all organizational levers and the fit among these levers that build organizational fitness.[xxiii] Porter[xxiv] is more articulate on the notion of fit among a company's activities, when he maintains that the success of a strategy depends on doing many things well - not just a few and integrating among these few. The theory of *organizational fitness* recognizes that in fast-changing landscapes the *fit* that had been sources of success in the past can lead to long-term rigidity, if not developed to fit the firm's changing context and its capabilities to proactively influence that context. In other words, building robust

organizational fitness capabilities depends on change in the structure and systems as well as leadership and organizational behaviour, change in the top team and in the coordination at lower levels, and creating broad change across several organizational levers while also creating deep cultural change – i.e. across hard and soft managerial elements.

### *Planned* change versus *emergent* change

Common misperceptions of complexity management theory is that organizational change must emerge from guided evolution, and that it need not be planned. It is true that highly controlled systems that work through top-down commands like a machine leads to death in turbulent environments. So is a highly uncontrolled chaotic system, leading to calls for 'managing at the edge of chaos'.[xxv] Complexity management thinking and applications allow management intervention through overall guidance and coherence mechanisms, but it is impossible to conceive of any change without enablement, approval and advocacy of the leadership. OFP brings 'guided chaos' and planning together. The *fitness profiling* methodology assesses the need for change at the bottom and enables (guides, coheres) the leadership in effecting change that evolve from the need and desire at all organizational levels, while also providing required direction and planning for change at the top.

A starting point of any organizational redesign or restructuring change in an effort to be fit for a changing landscape must be conducted in a psychologically safe confrontation and conversation between the grassroots, those who have many eyes and see "the tip of iceberg", but do not have a say in the decision-making, and the leaders those who built the current system and are committed to preserve it.

OFP has been applied in over 150 organizational units within 18 corporations operating in several different national cultures with different work values and it showed that the most rapid and powerful way to mobilize a firm to respond to competitive threats and opportunities is to publicly confront the unvarnished truth.[xxvi] One of the successful companies is Mattel Canada which has effectively applied OFP for three years annually, and is extensively illustrated in the following. The reason Mattel Canada was chosen for this study is because it is a subsidiary firm and its success has been used as an example of bottom up organizational change - i.e. change from a geographically periphery organization to the headquarters.

## Organizational Fitness Profiling at Mattel Canada: Case Study

> "*You may think that little finger is small, or the thumb, but it plays an important part. If you lose your little toe you can't balance when you walk. I think the involvement of every individual in the company, seeking their input, makes a big difference."* Mattel Canada OFP task force member

Mattel Canada is a small sales and distribution arm of the US toy and baby products company Mattel Inc. In 1998 it had about 130 employees, consisting of a large sales and marketing force, a unionized warehouse management groups, and small support groups such as accounting, finance and consumer relations.

**Fast-changing landscape**

- Mattel executives compared the toy business to the movie business of its "hit-driven" nature. Sales could leap one year with a new hit toy like Rescue Heroes, then drop rapidly the following year when competitors held hot licences like Pokemon and Star Wars.
- Despite its cache of consistently brands like Barbie and Hotwheels, Mattel was often severely impacted by sales fluctuations that it had little power to control. These variations could be aggravated by the state of the economy, since parents increased toy purchases dramatically in good times, then cut back quickly in difficult times. Economic problem in Canada and poor performance by their US parent had resulted in painful cost cutting and frequent layoffs.
- In addition to yearly variations, toy sales levels were varied intensely by time of year, with the great majority of sales occurring in the Christmas season.
- Despite fast-changing circumstances, for many years the toy industry had been staid and relatively slow to respond to demographic and market changes. The industry was slow to cope with technological changes like the rise of computer use by children and the growth of Internet shopping.
- In Canada, the retail toy scene was also changing dramatically both technologically and in store consolidation. Wal-Mart was growing rapidly in Canada, and changing the market by demanding higher service levels and just-in-time delivery, which Mattel Canada was less capable to cope with. Wal-Mart also contributed to dramatic

consolidation at the retail level. In 1999 Mattel's top 10 customers bought more than 90% of its sales, and its top 3 customers bought well over 70%.

**Internal Problems**

- Economic problems in Canada and poor performance by their US parent had resulted in painful cost cutting and frequent layoffs. Large variations in sales and profits were one reason that Mattel as a group had many "stars" that were quickly promoted and "goats" that were fired or quit. Mattel had a culture of quickly firing top managers who did not "make their numbers".
- The difficulties of poor performance were compounded by a series of problematic mergers. Mattel's mergers with Fisher Price and Tyco has also led to organizational and cultural difficulties at the Canadian subsidiary.
- Mattel Canada and Fisher Price's managers stubbornly continued to purchase and manage inventories separately, resulting in high excess inventory, and destroying the potential economies of scale from merger. Mattel Inc.'s recent acquisition of The Learning Company had been labelled disastrous, with Mattel paying $4billion for the firm and selling it only a year later at a serious loss.
- Mattel Canada's internal culture was very dysfunctional. The employees sensed a strong segregation between "the floor" unionized distribution workers in the cement floored warehouse) and the "carpet" (managers in the carpeted office space).
- The lack of communication and trust was also evident in the relationship between top management and employees; workers felt that their leaders were uncommunicative and sometimes just plain unfriendly.
- Relationships between the different functional "silos" lacked coordination and communication. In meetings, Mattel Canada managers practiced a perverse culture of incompetence. Showing up late and unprepared was viewed as a "badge" of being busy with important duties. Fixing these problems was difficult, since there was no support from Mattel Inc. for change efforts, and since HR was viewed as a purely administrative function.

**Mattel's First Profile: Problems and Solutions**

It was in this difficult environment that Tony Dedante, vice president of human resources at Mattel Inc. decided to use OFP to initiate change at Mattel Canada. Instead of using an outside consultant from the OFP network, Tony planned and led OFP himself after learning about the process from Professor Michael Beer at an Executive Education program. In early 1998 Tony began preparations for OFP process At Mattel Canada. Mattel Inc. needed new CEO for Canada, and Tony took advantage for the opportunity by seeking a candidate that had experience with change management and would commit to OFP. He then visited Canada frequently, training the new executive team in strategy and organizational issues, and building support for OFP. Several months after Geof Masingberd came on as the new CEO, and only one month after a round of layoffs, Mattel began its first profile.

**Previous change efforts at Mattel**

OFP met with significant resistance early on, partially because previous change efforts had been unsuccessful and many employees had become cynical. When Tony and the executive team introduced OFP, the first reaction was, "Oh!, no here we go again". In the following weeks, however, employees began to understand that this new program would be different. The executive team was clearly committed to the process, and, more importantly, clearly committed to involving *everyone* in improving the company. The application of OFP procedures and principles are described below using the actual facts of Mattel Canada.

**Step 1: Develop a statement of business and organizational direction**

Principle: Top management launches a strategic meeting with senior management that takes one to two days to develop a statement of business and organizational direction. The statement articulates simply and clearly the link between external environment, strategy, and needed organizational capabilities to achieve "fit" of the strategy with external environment.

Outcome: The top team held a historic meeting to asses Mattel Canada's competitive environment and revaluate the current state of the organization and strategy by going through each parts in the Organizational Levers and problems surfacing the Organizational Capacity on Coordination, Communication, Competence, Commitment, Conflict Management, Creativity and Capacity Management. Based on the discussion on these strategic points, the meeting developed a document that was simple and clear to guide the OFP throughout the process by providing a framework for inquiry into the current organizational fitness.

**Step 2: Conducting interviews**

Principle: An interdisciplinary task force of about 8 of highly reliable individuals is selected to carry out the OFP process through conducting open ended interviews. The task force is trained on conducting interviews and focusing on relevant data that are related to organizational levers and conducts interviews with about 100 influential employees. Top leaders and stakeholders (key customers, shareholders, and other interest of communities) are interviewed preferably by consultants.

Outcome: In general Mattel (Canada) followed the standard OFP process, selecting a task force of trusted employees and managers from several different departments who would interview outside of their own department to collect information. The task force did not know about the organizational fitness model properly or the use of "stickies" until they began organizing their data. In two days of intense cooperation Tony taught the task force and helped them to organize their data for the *fishbowl* presentation.

Mattel customized the OFP process in a few subtle but important ways. In order to seek input and involvement from *everyone*, Mattel's task force interviewed all 130 employees, either individually or in focus groups. The task force used their familiarities with various employees to select who would be comfortable speaking in focus groups and who would prefer to be interviewed privately. Mattel also sent all employees a brief numerical survey about Mattel's Competitive Environment, Organizational Performance, Organizational Capabilities, Organizational Levers for Change, and Organizational Capacity to Change and Learn. About 70% of employees filled out and returned these surveys in the first year.

**Step 3: Analysing and summarizing the data**

Principle: The task force analyse the data and summarize the information gathered into major themes according to the Fitness Model.

Outcome: The huge number of interviewees (by task force and consultants) resulted in a rich of data covering a wide range of topics. The task force estimated that they had gathered 25 sheets of 40 stickies each, for a total of about 1000 pieces of data. The data varied greatly in quality, some of it very insightful but some of it purely emotional. OFP data pointed out literally dozens of important problems within Mattel's organization. The task force organized

these problems according the Organizational Levers and corresponding requirements in Organizational Capabilities in order to feedback to the top executives.

**Step 4: Providing feedback to the top team**

Principle: On the following day the task force feeds its findings back to the top executive using a psychologically safe process which is found to be very helpful in revealing the "unvarnished truth" about a firm's problems. The task force sits in a "fishbowl" (see figure 4) in the middle of the room facing each other, while the top team sits at a table in the shape of U surrounding the task force. Psychological safety is bolstered by several factors. The task force is seated each other signalling that they are speaking as a group. As they discussed their findings they remind the top team that they are reporters. These arrangements provide the psychological safety needed for the task force and enable a rich conversation between the top team and the task force. Feedback from the consultant to the top team follows the "fishbowl".

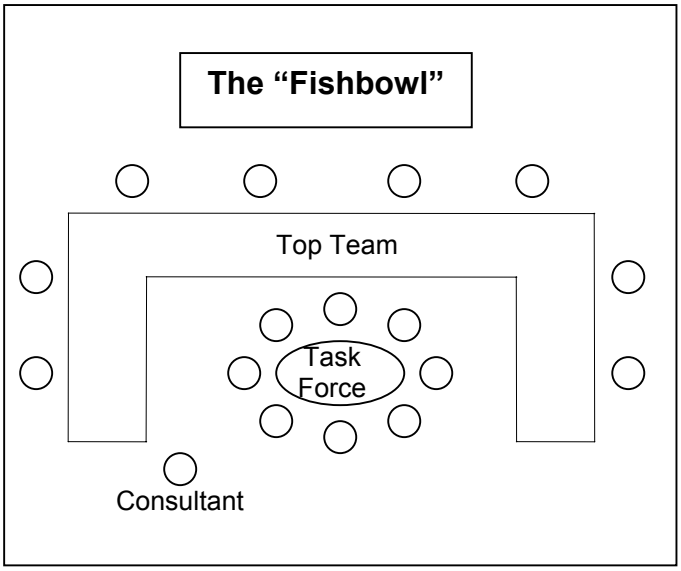



**Figure 4**

Outcome: In a one day meeting, the task force presented its feedback using a *fishbowl* format. Tony participated in the fishbowl exercise, where he provided important discipline to the process. When a top executive began to refute the task force's findings in the fishbowl, Tony used his authority as a corporate VP to aggressively reprimand the strong-willed leader, protecting the process in a way that an outside consultant could not have. Then the top team listened a truthful account from the task force on the current state of the leadership and the organization painfully but without interruption. The fishbowl was renamed "the shark bowl", because of the brutal criticism in some of the task force data.

One other modification Mattel made was the post of the "stickies" data from the fishbowl very publicly on a wall near the cafeteria, which led to significant turmoil for some managers who were fiercely criticized in the data.

**Step 5: Top management team develops a plan of change**

Principle: The senior team conducts analysis using the *fitness model* to perform a root diagnosis or the organization's fit with its strategy and develops a plan to realign the organization. The top team feeds back the proposed plan to the task force for its thoroughness and to refine it for better implementation.

Outcome: After receiving the feedback, the executive team felt that there were far too many problems to be addressed one or two at a time. The executive team developed plan of action according their priorities and discussed the plan with the task force.

**Step 6: Communication, engagement and implementation in the broader organization**

Principle: The task force plays leadership roles in implementing the plan by employing several techniques including organizing cross-functional teams to address the identified issues.

Outcome: Several cross-functional teams were to analyze and correct problems as quickly as possible. The executive team also gave strong mandate to these teams in recommending and implementing changes. Many employees felt that these early cross-functional teams were an important step in building communication, trust and commitment to OFP across different departments.

**Step 7 Institutionalization of OFP**

Principle: The key source of continuous learning lies in institutionalizing the OFP process, like budgets and financial statements, so that CEO and business unit managers can be held accountable for continuous learning about the fit and fitness of their organization and leadership. Institutionalization of OFP enables to check execution of previous plans, and ensure the organization from declining back as well as enabling periodic learning by administering yearly profiling process.

Outcome: In its second year, OFP progress slowed dramatically. Management and the task force were distracted by slumping sales as competitors introduced hits like Star Wars and Pokemon toys. This slowdown occurred partly because OFP had not been explicitly linked to Mattel Canada's strategic goals, so managers did not perceive it as a means of addressing their immediate business problems. OFP was revitalized in year three, however, and employees and management alike agreed that the process had become a permanent part of

Mattel Canada's operations. This commitment was symbolized by giving the process a new name, and an accompanying "Making it Better" logo based on Mattel's own logo.

**Overall Outcome of OFP at Mattel Canada**

The OFP process led to significant improvements in almost all of the dimensions of the organizational fitness model.

- **Coordination**

An important problem raised repeatedly in the first profile was poor coordination and a lack of cooperation between departments. Many employees felt that OFP experiences like being in focus groups with people they didn't normally talk to, and working with people from other departments on process improvement teams, dramatically increased communication and cooperation. Employees from all departments agreed that coordination had improved through OFP. One employee summarized,

> "I think that we are far more understanding of what each other does and what our impact is on each other as you move your way through the task chain or job chain… as a result of that knowledge people feel a greater commitment to do their piece and help do what they can to make it easier for the folks that they hand off to."

- **Communication**

One of the key issues raised most frequently in the first profile was communication problem. Communication increased dramatically, between "the carpet" and "the floor", between top management and employees, and among the different functional "silos".

- **Conflict management**

This improved communication also lead to much more effective conflict management by allowing employees to openly and honestly discuss problems.

- **Recognition**

Because of highly variable sales and very demanding customers, there were frequently employees at Mattel who went "beyond the call of duty" in doing their job. OFP interviews complained that too often these employees went unrecognized, and that there was a strong perception that rewards were distributed unfairly. Sales and Marketing seemed to receive the lion's share of both small rewards like toy samples from trade

shows, and larger rewards like performance bonuses. A rewards and recognition was formed and met biweekly to address the recognition issue. Soon outstanding employees began to receive awards like gift certificates for music or dinners for two. The team also sought to address the problem of "unfair" perception by making sure that employees in less glamorous departments like the warehouse and finance also received rewards.

- **Competence**

Many profile comments addressed a culture of ineffective meetings at Mattel that reflected a lack of some basic business skills. To address this problem, the executive team created a training budget and spent about $250 thousand with a local training company called Gilmore to conduct a comprehensive training program. Many managers said the training was particularly effective because of OFP. Virtually everyone received training in various programs to. As a result, Mattel Canada employees increased their competence, particularly in planning and holding effective meetings.

- **Capacity management**

While managers and employees in all departments agreed that capacity and overwork issues had improved, they varied in their opinions for how much of the problem persisted. Lower level employees, especially in the warehouse, were a little less enthusiastic about the degree of change. They expressed frustration at the increased workload resulting from layoffs and high turnover, and said that some employees had left Mattel because they were unable to cope with rapid change and the strain of a higher workload.

One change that was frequently pointed out an OFP success was an end to the practice of "buying quarters". In attempting to meet quarterly sales goals, Mattel had often offered its customers discounts of up to 10 percent to take shipments early. Customers eventually learned to game this system by pretending that they did not want early shipments and demanding discounts in order to receive them in the quarter. The discounts cost Mattel literally million of dollars in profits, and the results on the warehouse floor were even worse. Serious shipping errors occurred, and employees morale suffered tremendously.

OFP produced the data and the organizational momentum that led the company to improve its capacity management by ending its practice of "buying quarters" which resulted in saving about $4.5 million a year in discounts, and making warehouse operations dramatically efficient.

**Turnover**: Turnover was another problem mentioned frequently. Managers felt that they spent a lot of money getting good people and training them, only to lose them a year or two later. Mattel had always had high turnover, but recently the problem had been aggravated by a healthy Canadian economy with low unemployment, making it easier to switch jobs.

A focus group was formed to address the turnover problem. One of the first initiatives was to improve new employee orientation, which in the past had been minimal. The focus group specifically tried to make sure new employees were trained not only in their own job, but also with an understanding of the other parts of the company. Most managers felt that the turnover problem had improved somewhat as a result of OFP. Interestingly, many managers mentioned their belief that a certain amount of turnover was still a good thing, bringing fresh energy and ideas into the company.

**Change in Organizational Levers**

Based on the feedback form the OFP process, Mattel Canada also made changes to all of the various OFP levers.

- **Leadership behaviour and style**

Many employees felt that top management was not just uncommunicative but just plain unfriendly. They complained that CEO Geof Massingberd did not even respond when greeted with "good morning" in the hall.

Employees felt that the Geof showed his commitment to OFP immediately by going out of his way to be more friendly, leaving his corner office more frequently to talk employees, and smiling when people greeted him. The CEO also initiated a "lunch with Geof" program so that several employees each week would have the chance to sit down informally with Geof and talk about anything they wished.

Many other executives instituted similar programs, increasing communication with their department and announcing an "open door" policy. Employees felt that these programs made a tremendous difference in the feel of the company. "Nowadays", said one employee, "You can talk to almost anyone".

- **Management process**

Mattel Canada dramatically improved its financial planning, warehouse management processes, and created processes for many areas that formerly had none. Top management articulated their strategy into "Five Pillars" and made sure that everyone in the firm accepted and supported these goals.

- **Work System**

Comments from OFP also led to dramatic improvements in the computer tools used in the finance department. Before OFP, there were employees in the finance department who did not have Excel spreadsheet software or access to "The Wave", a Mattel intranet that featured company and market information. Besides giving everyone these tools, the finance department also updated its old accounting system to a new "real time" system, making information instantly available, and eliminating the 2-3 day process of "closing the books" each month. Finance also implemented "gap analysis" tools that helped managers to quickly see when sales revenues or margins were not meeting budget.

- **Principles and culture**

OFP brought about cultural change in the financial department that extended to other departments. "What I learned from OFP was a lot more need to share numbers", said one executive, "which I think we've done". Financially information and decision making tools were shared throughout the company instead of being kept inside Finance. Sales & Marketing in particular benefited from the increased information flow and was able to make better pricing decisions, increasing margins.

**Fun:** Several comments from the profile complained that Mattel did not have near enough "fun" at work. "After all", said one employee, "this is a toy company". An informal fun committee was established to plan more festive events for Mattel employees, and the executive team created a budget for fun activities and allowed each department to spend it on whatever activity they wished.

- **Human Resource System**

One department that received especially strong criticism in the profile was the HR department. One of the task force members stated that HR "really got waxed…everything from they couldn't keep a secret to just complete, total non-competency". Several executives felt that the criticism of HR was unfair, since HR had essentially done what they were asked to by the executive group. The previous top team had used HR to "bear

bad news" like layoffs, and to "spy on employees" to gather information on what was happening in the company.

The public posting of the raw "stickies" data severely aggravated the problem of employees perceptions of HR. In the year following the fitness profile, all the members of Mattel's HR department left the company. Although there were also personal conflicts between the HR director and a member of the executive team, most executives agreed that the HR director left primarily because of the effects of the fitness profile.

A new head of human resources was hired and as result of OFP's success HR became to be viewed as strategic resources rather than an administrative function. The HR manager participated in strategy discussion, and was viewed as an important strategic resources through the training and development of employees.

- **Corporate Context**

In the first year there was some disagreement on how well Mattel Canada had connected OFP to its strategic business context – one of increasing buyer power and rising importance of technology.

**The Success of OFP at Mattel**

> *"Fitness profiling, as I explained to everybody when we adopted the process, is not a one year wonder. We will do this every single year. So it really promotes continuous improvement, and dollars continue to fall out in savings on every front year after year. Things change; market, technology…you get the opportunity to address them in a hurry through fitness profiling."* Mattel executive.

In the beginning Mattel Canada has an insular and even combative culture that was not interested in or open to change, despite the glaring problems in its organization. In the second year of OFP, Mattel faced serious business problems including shrinking revenue, a sinking stock price, and layoffs only a month before OFP interviews began. The process did slow down as a result, but OFP survived, and is growing and solidifying in year three. Our research findings categorize four factors that contributed to Mattel OFP success: Mattel OFP process factors; Mattel Canada internal factors; Mattel Inc. factors; and external industry factors.

**Advantages of OFP at Mattel**

"*What I Like about OFP is that it's driven from support at the top, execution at the top, then support at the bottom and execution at the bottom. You are really asking for data, they buy into it, and give it to you, and help you fix the place." Tony Dadante.*

- **OFP gives greater authority to create change**. Because task force members interview outside of their own department, OFP helps to build personal relationship that contribute to better understanding and cooperation between different parts of the company.

- **OFP makes employees, not external consultants, the architects of change**. This helps to create buy-in, especially when the OFP process includes everyone as it did at Mattel. It also gives employees the sense that they are trusted and valued. As one executive explained, the message to employees is, learn our business, and have them go away and tell us what to do. Nobody knows your job, your responsibilities like you do…we're doing it internally, you guys will be the solutions to the problems that we articulate".

- **OFP creates accountability**. Because OFP gives employees the opportunity to report problems directly to management, management can no longer claim ignorance. Executives who use OFP ask for and receive direct information on problems in the company. They put themselves in a position where they must tackle those problems or immediately lose credibility.

- **OFP helps to prioritize issues**. OFP's method of gathering data directly from employees also makes it powerful not only in identifying problems, but also in identifying *which* problems are the most important. One Mattel executive commented, "..you go from 'yeah we knew it was a challenge' to 'holy smokes we got 60% of the business team saying that's the most important issue on the plate.' You might have had awareness, but you don't really understand the depth to which people are impacted by the fact that it's not accurate, so what [OFP] does is raise it higher on the priority list."

- **OFP allows extremely rapid learning**. Because OFP gathers a large amount of first-hand information and presents it directly to executives in just a few weeks, it helps executives to learn about problems in the company very quickly. This strength of OFP makes it particularly powerful in a modern rapidly-changing

business environment. It also makes OFP particularly useful for new executives. New executives at Mattel commented that OFP had allowed them to learn several months worth of information a few days.

- **OFP is data based**. Because OFP used data gathered directly from employees, its conclusions are automatically "true". Perception is reality – even if employees' perceptions are colored or biased, executives know that the problems raised in OFP are real because they come directly from employees data. OFP's data focus is so clear that it may actually prevent some companies form using it. As Tony explained, "It's confrontative. There's no place to hide."

- **OFP helps to build coordination between different departments**. Because task force members interview outside of their own department, OFP helps to build personal relationships that contribute to better understanding and cooperation between different parts of the company.

- **OFP strengthens bonds among the executive team**. The experience of sitting silently in a fishbowl while your leadership style is criticised can be harrowing. Going through this difficult process together encourages executives to rely on each other for emotional support. As one Mattel executives stated, "…I think the fact that some of us had been through it, and were able to coach those who had just their proverbial kick in the head for the first time, brings everybody closer." OFP also encourages the same executives to cooperate on solutions, because they as a team are accountable to crate change.

- **OFP builds listening skills among the executive team**. A common complaint (at Mattel and many other firms) is that executives are not able to truly listen to and act on important information from their subordinates. Through listening to problems in the fishbowl and cooperating with the task force to implement solutions, executives build a vital skill that will help their own and their company's success. OFP also builds these listening skills in the organization as a whole.

- **OFP often promotes powerful, even transformational personal growth**. Many executives and task force members spoke of OFP as a powerful personal experience that had literally changed them. Many mentioned a new ability to receive tough criticism and benefit from it. Others described an exciting new

sense of empowerment, of being able to influence what happened in their company. In a sense OFP mirrors the personal process of psychotherapy; it forces a company to recognize its faults and take responsibility to correct them. The results can be painful, but transformational.

- **OFP is inexpensive**. Although Mattel's cost to implement OFP lower than normal due to the services provided free by Tony Dadante, Mattel executives agreed that even with an outside consultant the cost would have been extremely low compared to the benefits they received. One executive commented, "it was very inexpensive to us, and I think a lot of that was circumstantial due to Tony. But even it's external consultants, so what's the $25K bucks or 5 consulting days throughout the course of the year? It's peanuts. So anybody looking to use this process, or something like it, financially it's not going to be a stopper."
- **OFP is simple**. The simplicity of OFP's processes makes it less threatening, and easier for ordinary employees to understand and implement correctly.
- **OFP can be easily integrated with other change management theories and processes**. Most importantly, what's relevant to the field of strategic management is that OFP can be easily integrated with other strategic management theories and tools. Mattel achieved tremendous process improvements in their operations by combining OFP and quality techniques "borrowed" from Xerox. OFP documentation itself integrates other organizational behaviour theories and concepts like "double loop learning" from Chris Argyris.[xxvii] OFP's ability to work in combination with other methods gives it flexibility and makes it useful for a wider range of companies.

**Wrong applications of OFP**

- The top team plans advocate change to address the problems uncovered by the OFP. Too frequently, however, the top executives do not reengage the members of the organization to inquire about the efficacy of the organizational changes they have made. Leaders particularly avoid inquiring into whether they have been successful in adopting the leadership behaviours required to support organizational changes. When inevitable inconsistencies between what leaders advocate and their actual decisions exist, commitments diminish and momentum is lost, leaders capacity to elicit commitment to changes in the future is also reduced.

If organizations are to be adaptive, their leaders will have to adopt a disciplined organizational learning process that "enforces" a continuous cycle of advocacy and inquiry throughout the life of the organization.

- Companies often employ external consultants to carry out the OFP process and conduct interviews and anonymous surveys of tens of thousands in order to ensure objectivity and comprehensiveness. The assumption is that only outsiders or an anonymous survey can surface objective truthful information. The problem is that the very means thought to create objectivity also creates distance between those who see and experience problems and the senior team that must lead organizational change. More importantly, external consultants lack of power to discipline the OFP process.

  First, the appointment of internal task force to conduct the OFP process is important. Secondly, top teams must understand that if they do not listen and accept the feedback and take action their credibility and legitimacy as leaders would be seriously damaged.

  Thirdly, from over a decade-long researches on the OFP application, we have to learn that the number of interviewees should not be more than 100. In a unique case, such as Mattel Canada, where the total number of employees is 130, all can be interviewed.

- Some companies exclude key customers, suppliers and other stakeholders from the OFP process and often miss important opinions and the external perception.

## A robust organizational fitness approach for strategy reinvention: managerial guidelines to develop robust organizational capabilities

Robust organizational fitness is built on two symbiotic *fitness* processes. The first *fitness* process is the capacity to continually upgrade capabilities to achieve incremental improvements of the existing business. Fitness profiling enables this continuous upgrading of organizational capabilities in a systemic way. By systemic, we mean it is not only one organizational component that is upgraded, but it is a total interactive solution change throughout the organization – i.e. change in leadership behaviour, work system and structure, management processes, human resources system, principles and culture, and business context to develop capabilities to reinvent its strategy to fit its changing context. This part of the

*fitness* aims to refine existing operations incrementally to achieve ever-improving competitive advantage.

The other process of organizational fitness is driven by the potential to co-shape the future through a reinvented business model. Continuous and dynamic *fitness* enables the organization to develop sense-making abilities that can sink deeply into emerging trends and latent demands in order to identify various possible futures for proactive change. This *fitness* focuses on creating a range of robust capabilities to explore and activate likely profitable industry futures. Robust capabilities may range from small trial-and-error experiments that do not place the whole organization at risk, for example, creating a new Internet marketing company, to big-budget experiments that are risky but attempt to transcend the traditional industry by leap-frogging the competition – in effect making the existing competitors irrelevant until emulators eventually arrive.

To effectively use the two fitness processes simultaneously, a sound understanding of the basic features of robust strategy approaches are necessary.

**Basic features of robust strategy approaches**

Five basic features of robust strategy approaches have been observed.[xxviii]

- **Focused versus multiple strategy applications**

  A focused strategy to dominate a niche is necessary in the short-term, but not enough in the long-term. In fast-changing industry landscapes, strategies must also be robust - that is, capable of performing well in a variety of possible future environments.

- **Competitive advantage versus continuous adaptation**

  Long-term superior performance is achieved not through emphasis on sustainable competitive advantage only ('running faster' than competition), but also by continuously developing and adapting new sources of temporary advantage and thus being the 'different runner' in the race. In effect, the rules of the race is redefined, providing a new basis of performance.

- **Conservative operator versus radical innovator**

  In a complex adaptive system, an organization that is resistant to change and not adaptable and creative will have low fitness, and so, conversely, will an organization that is oversensitive to shifts in its environment and constantly making radical responses. But between these extremes of 'stasis' and chaos lies a region - the so-

called ‘edge of chaos’ where fitness is maximized. Being at the edge of chaos means something more subtle than pursuing a moderate level of change. At the edge of chaos, one is simultaneously conservative and radical. Evolution is adept at keeping alive things that work while at the same time making bold experiments.

- **Routines versus diverse strategies**

Another feature of robustness in evolutionary systems is a rich pool of possible strategies. But between this rich diversity and a routinized system, a certain level of standardization is beneficial. Evolution strikes a balance, standardizing designs that work but creating enough variation to provide a basis for future innovation and adaptation.

- **Scale versus flexibility**

A simple system with relatively few parts and interconnections is not highly adaptable: the number of states it can manifest is small compared with the number of situations it might encounter. As the system grows bigger and more complex, the number of states it can manifest, and thus its repertoire of possible responses to changes in its environment, grows exponentially. However, beyond a certain level of scale and complexity, its adaptiveness drops off rapidly and becomes more conservative. Companies can reduce the effect of complexity catastrophes through strategies and organizational changes by creating new small, innovative businesses that are free from the constraints of corporate bureaucracy, for purpose of experimentation and development.

In fast-changing landscapes, a focused strategy with related organizational fitness capabilities to dominate a market or industry might be necessary for temporary survival, but is not adequate in the long run. In fast changing landscapes, strategies and organizational capabilities have to be robust - that is able to perform well in a variety of possible future environments. A case in point is Microsoft, a company that managed to evolve through a range of robust organizational capabilities, as indicated in the box below.

**Microsoft's robust organizational fitness capabilities**

In the late 1980s,with the DOS operating system approaching the need of its useful life, Bill Gates focused on moving the industry to another Microsoft product, Windows. Appreciating the uncertainty of this development and its possible risk of acceptance in the business ecosystem, he hedged his bets by also investing in Window's competitors: Unix, OS/2 and the Apple Macintosh system. In addition, his company developed generic capabilities in object-oriented programming and graphical interface design-skills that would be useful no matter which system won in the ecosystem, even if it were a compete unknown. Gates' approach of pursuing several paths simultaneously is intrinsically complex, and also confusing to both existing customers and employees.

Robust strategy differs from traditional industry and scenario analysis in that it does not presuppose an ability to identify the most or least likely outcomes. Being robust calls for the capability to pursue a range of potentially conflicting strategies at the same time. In the case of Microsoft, it included major *shaping* 'bets' (support OS/2), and 'no-regrets' dynamic capability moves that are valid regardless of environmental outcome (building object-oriented programming skills). Microsoft operates more like a complex adaptive business system, with a range of strategies that cover a spectrum of possibilities and co-evolve with other organizations in its ecosystem over time.

Source: Beinhocker, E. D (1999).

The challenge for many companies such as Microsoft that are facing fast-changing landscapes is to develop robust organizational fitness to enable them to manage the tension between the current need for efficiency, and requirement to be capable for future adaptation and reinvention. Guidelines to achieve this center on establishment of flexible structures, and applying simple, guiding rules.

**Developing flexible structures for robust organizational fitness development**

Organizational Fitness Profiling is one good means to institutionalize organizational learning activities in which opportunities are captured from the rich information gathered in the profiling process. The managerial challenge is to respond to those opportunities by developing and institutionalizing robust organizational fitness capabilities. Robust organizational fitness capabilities can be developed by a) creating internal variety in the system; and b) maintaining internal coherence in particular ways.

a) **Creating internal variety**

OFP is an important tool to create variety in the system. The 'task force' creates different cross-functional groups and other informal groups for various purposes. One of the possible means to build *robust organizational fitness* is to creatively convert informal groups into *communities of practice.*[xxix] Community of practice is defined as *groups of people informally bound together by shared expertise and passion for a joint enterprise*. With the help of leaders and consultants, informal networks of people with the ability and passion to develop an organization's fitness further (or to create new ones) come together and form a voluntary association of experts. The group organize themselves and selects their own leadership. The members may or may not have an explicit agenda to meet. Instead, they share their experiences and knowledge in unconstrained, free-flowing, creative ways that foster new approaches to organizational opportunities and challenges, but cohered through a set of common values and simple rules (see below).

When opportunities for new business are captured as a result of fitness profiling, or communities of practice craft new and viable business concepts that are either too small or too different to incorporate within the mainstream business, the company could *spin it out as a new venture.* With the physical and intellectual support of the company, the new venture can outperform start-ups that lack resources in the emerging and small markets. The new ventures need to be autonomous in terms of resource allocation and people. In addition, the people must own a significant share of the business. The creation of such new business could potentially transform the traditional organization to a new level.

**b) Maintaining coherence**

Substantial internal variety in the organizational system could be a dangerous situation if management does not develop coherence mechanisms to navigate the creative process of different ventures and teams. Four rules for developing coherence mechanisms can be instituted:

- Identity: an organization's purpose must reside in the heads and hearts of its members - a shared concept of what the organization fundamentally is, reason for its existence, basic shared values, and overall goals. These can act as powerful coherence mechanisms for its diverse activities.
- Knowledge exploration and utilization: knowledge provides the medium through which an organization relates to its environment, and knowledge exploration and

utilization enable individuals, in relating to each other, to react to external changes, as well as to proactively influence and shape the environment.

- Modularity and co-evolution: structures based on loosely-coupled, semi-autonomous modules possess considerable adaptation advantages over more tightly integrated structures. Modular structures are particularly useful in reconciling the need for close collaboration at the small group level with the benefits of critical mass at divisional or organizational levels, while co-evolving with external stakeholders.
- Network coupling: responsiveness to a wide range of external circumstances necessitates every individual to have a wide range of connections to other individuals, with the potential for unplanned connections. For example, the use of intranets and extranets to link together the different parts of the organization and outside companies as well as customers, has the effects of blurring the boundaries between internal units and external companies. The flexibility of linkages in e.g. communities of practice across corporate and traditional industry boundaries enables the capabilities resident within intrafirm networks to be reconfigured in order to adapt quickly to external change.

**Applying simple, robust fitness-enabling rules**

To enable organizations to simultaneously move higher on its established fitness 'peak' in its traditional industry, and also be able to make larger 'leaps' towards new, higher fitness peaks, thereby leapfrogging competition and creating a new business model and even a new industry – while avoiding the danger of falling off the fitness edge of chaos – a number of simple guiding rules can be instituted. These rules are relatively simple and robust, in providing general direction but do not confine activities and behaviour unduly. Five categories of guiding rules have been identified:[xxx]

- Boundary rules: 'rules of thumb', for example how to screen opportunities.
- Activity rules: 'how-to' rules that designate a common approach for a team or organizational entity to approach and exploit opportunities.
- Priority rules: rules to determine priorities in e.g. resource allocation.
- Timing rules: rules to lead and schedule times.
- Exit rules: termination and disengagement rules.

According to Teece, et. al.[xxxi], dynamic organizational fitness capabilities are the firm's capability to integrate, build and reconfigure internal and external competencies to address changing environments. Developing flexible structures and applying simple, guiding rules are essential to create the requisite internal variety and to maintain necessary coherence of diverse activities.

## Conclusion

In an environment characterized by fast-changing industry environments and rapid organizational reinvention, the requirement for robust organizational fitness assumes new and heightened importance. The concept and application of organizational fitness are often misperceived, due to the deficiencies of traditional strategic management approaches that undergird many companies' thinking and activities. With the concept of organizational fitness properly understood and applied as a range of robust capabilities that can handle a wide spectrum of adaptive and reinventive activities, new approaches to strategic management to deal with systemic and disruptive change will be adopted. The process of building robust organizational capabilities can be enabled with guiding fitness models and fitness profiling methods, with flexible processes and simple rules.

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