

## ORGANISING TO IMPROVE COMPANY PERFORMANCE

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There is clear evidence of widespread but not revolutionary change in European companies. Some of the key features include changes in:

- **Structure** - decentralising, delayering and project forms of organising.
- **Processes** - investment in Information Technology (IT), horizontal and vertical communications, and new human resource practices.
- **Boundaries** - downscoping, outsourcing and strategic alliances.

High performance appears to correlate with implementing change in many of the 9 elements detailed in figure 1. Piecemeal changes - with the exception of IT, were found to deliver little performance benefit. Indeed, implementing singular innovations frequently produced a loss of performance. Though few European firms were found to exploit the reciprocal benefits of changing organisational structures, processes and boundaries, those that did enjoyed the highest performance premia. Innovating in carefully aligned sets appears to pay off.

The research shows that these developments are emerging everywhere in Europe but the direction and intensity of change is greatest in international and knowledge based firms. There are also some country differences - with German firms displaying more movement towards project structures and UK firms more likely to emphasise innovation in operational decentralisation and downscoping.

## NEW FORMS OF ORGANISING: THE MULTIPLE INDICATORS

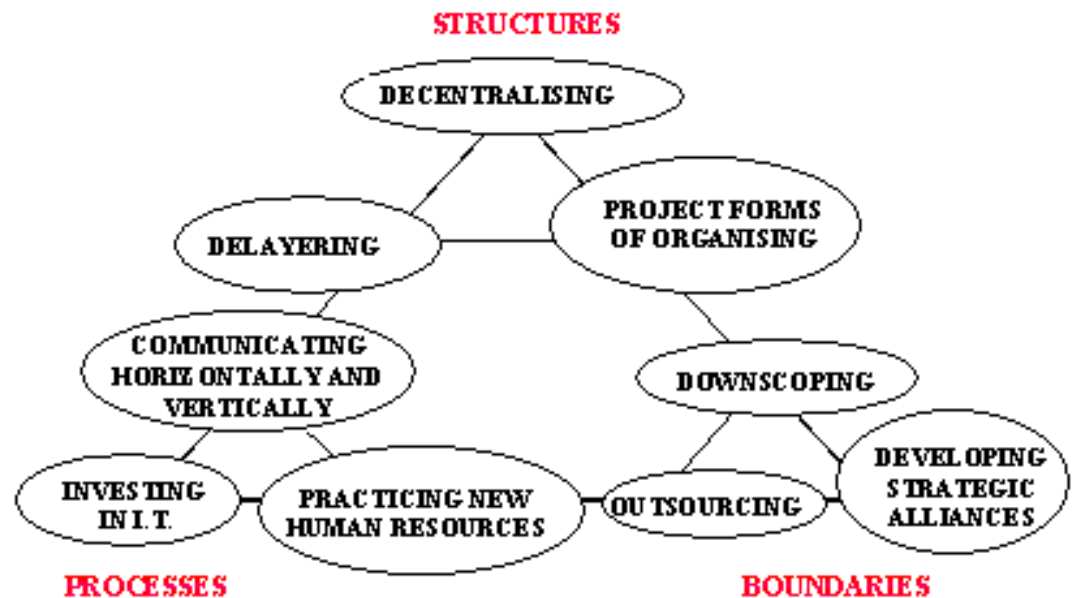


Figure 1: New Forms of Organising: The Multiple indicators

The use of the active word organising, instead of the passive term organisation is important. In the present competitive situation, few firms see organisational change as a move from one static structure to another. Rather, innovations in organising are seen as a strategic activity designed to improve the flexibility, creativity and responsiveness of the company. The active term organising thereby recognises the dynamic, perpetual and simultaneous character of the process of changing. Organising also entails a much more inclusive process, with alterations in structural form being continuously shaped alongside movements in organisation process and boundaries.

### New Patterns of Organising

The research compared new forms of organising in Europe between 1992 and 1996. Key changes in structure included:

- The average number of levels between the chief executive and the lowest manager with profit responsibility decreased from 3.5 to 3.2. Contradictory movements underlie this average. Although 30% of firms reduced the number of management levels (particularly firms experiencing the greatest increase in competition), 20% of firms increased them (especially the fastest growing companies).
- 61% of firms had a high degree of decentralisation of operational decisions, compared with 36% in 1992.
- 18% had a high degree of decentralisation of strategic decisions, compared with 12% in 1992.
- Project based organisation increased by 175% between 1992 and 1996.

Underlying these structural changes were considerable process changes:

- Firms are investing strongly in improving their vertical and

horizontal communications - the vertical to strengthen hierarchical lines of accountability - the horizontal to encourage greater knowledge transfer and integration sideways.

- At the same time, 82% of firms were increasing their investments in the various information technology infrastructures capable of sustaining the strengthened vertical and horizontal links.
- The hard infrastructure of IT development is being underpinned by soft investments in new human resource practices such as team-building and cross-company training events and mission building activities. These human resource innovations are designed to provide the skills and glue to make the flatter and more horizontal organisations work.

The scope and **boundaries** of firms are also changing:

- Outsourcing increased markedly from 1992 to 1996, with 65% of firms claiming increases.
- At the same time, firms were resorting extensively to alliances with 65% claiming the formation of long term alliances over this period.
- Diversification trends were complex and the net de-diversification was small with just 11% of firms reporting abandonment of strategies of unrelated or conglomerate diversification.

The novel patterns of organising are also being conditioned by business and national differences. Thus:

- Highly internationalised firms display the greatest increases in decentralising and alliance formation.
- Knowledge intensive firms meanwhile resort most to project structures, strategic decentralising and downscoping.
- British firms are more likely to emphasise operational decentralising and downscoping. Whilst German companies emphasise strategic decentralising and human resource innovations.

## Performance Improvement

Some firms are innovating simultaneously in many of the elements of our three areas of structure, process and boundaries. Those that do tend to be the high performers.

High-performers are doing more things together than low performers, and not leaving anything out. Amongst low performers, high commitment to IT is noticeably left outside the potential web of interconnected change.

Not only are high-performers doing more things, they are mixing them differently. Thus amongst the high-performers, increased out-sourcing is at the centre of a cluster of relationships especially downscoping, operational and strategic decentralisation, high reliance on projects, investment in both new human resource practices and information technology and strategic downscoping and alliances. Amongst the low performers, by contrast, outsourcing appears to be associated only with

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downscoping.

We classified the firms in our sample according to whether they were:

- Changing Structures (A)
- Changing Processes (B)
- Changing Boundaries (C)

50% of the firms were making boundary changes, 28% process changes and 20% structural changes.

We then examined four systems of changes:

- System 1 (ABC) 4.5%
- System 2 (A+B) 9.3%
- System 3 (B+C) 14.3%
- System 4 (A+C) 11.2%

Interestingly, only 4.5% of our sample adopted System 1 and were simultaneously changing their structures, processes and boundaries. 9.3% adopted System 2, 14.3% System 3 and 11.2% System 4.

While only a few companies carried out the full multidimensional raft of innovative practice, these System 1 firms enjoyed significant performance benefits, with a performance premium of more than 60 per cent.

On the other hand, those firms that combined only parts of this full system of theoretically complementary practices tended to obtain no significant performance pay-offs from such incomplete efforts. Indeed, just combining structural and boundary changes without complementary process changes (System 4) was found to have negative effects on performance. IT investment is the only innovation taken singly which offered positive performance benefits over and above those available to the full system.

The biggest performance benefits are obtained by firms that align themselves with their strategic objectives through a system wide set of complementary changes.

## **Managing Dualities**

This statistical analysis suggests considerable complexity in the process of change towards the modern, high performance organisation. The benefits from practices urged in some of the contemporary management literature depend very much on their interaction with other simultaneous changes. Downscoping, delayering, horizontal networking and team working and so on are not unconditionally 'good things'. Indeed, it is often the permanently failing organisation - constantly in catch-up mode, which snatches at endemic problems and makes singular fashion-driven attempts to innovate. The managerial implication is that change initiatives should not be piecemeal, but advance across several fronts in careful alignment. This is likely to take very considerable top management awareness, confidence, commitment and skill, qualities that our survey findings

suggest may still be rare.

Our research findings raise other important implications for the successful management of innovation and performance. Central to these is the recognition of the dualities present in many of the innovations taking place in the modern organisation. Figure 2 summarises these dualities:

## **FIGURE:2 MANAGING DUALITIES IN THE MODERN ORGANISATION**

Organising also entails a much more inclusive process, with alterations in structural form being continuously shaped alongside movements in organisation process and boundaries.

LIVING WITH AND MANAGING HIERARCHIES AND NETWORKS

GREATER PERFORMANCE ACCOUNTABILITY UPWARDS AND GREATER HORIZONTAL INTEGRATION SIDEWAYS

EMPOWERING AND HOLDING THE RING

CENTRALISING STRATEGY AND DECENTRALISING OPERATIONS  
STANDARDISING AND CUSTOMISING

THE DISCIPLINE TO IDENTIFY KNOWLEDGE AND THE GOOD CITIZENSHIP TO SHARE KNOWLEDGE

BALANCING CONTINUITY AND CHANGE 'TO CHANGE THE WORLD ONE MUST LIVE WITH IT'

CONTINUOUS INNOVATION REQUIRES SOME PLATFORMS OF RELATIVE STABILITY

DELIVERING A COMPLEMENTARY AND CONTEXTUALLY APPROPRIATE SET OF INNOVATIONS AND NOT THE LATEST MANAGEMENT FAD

Thus research shows that our sample of firms are simultaneously building hierarchies and networks; seeking greater performance accountability upward and greater horizontal integration sideways; and attempting to centralise strategy and decentralise operations.

Sophisticated leaders are aware that attempts to devolve authority and relax some controls in order to encourage creativity and build commitment, can only occur when a firm has a clear and well communicated strategic framework. Empowering is only wise when the centre firmly holds the ring.

Firms experienced in change management know also the virtues of simultaneously standardising the broad vision for change and permitting degrees of freedom to decentralised units to customise the pace, sequencing and even the language of the change journey.

Increased global competition, the speed of technical and market change and the rise of information and communication technologies are all driving the knowledge economy and firm. Those changes are in turn encouraging greater networking and collaboration in firms and more alliance formation and partnerships between organisations. In these processes, knowledge transfer is a pressing requirement. But knowledge management creates its own dynamic and its own duality: the discipline to identify knowledge and

the good citizenship to share knowledge. Our case study findings show that the incentive systems of most organisations are often remarkably misaligned from corporate attempts to build good citizenship in organisations where competition and collaboration have to co-exist.

One of the sounder aphorisms in the practice of managing innovation is that 'to change the world one must live with it'. Although our high-performing organisations were innovating in sets, there are always strategic choices to be made about the scale, pace and sequencing of changes. Managerial judgements about where to start the innovation process and how to balance continuity and change are often fateful to longer term success.

Finally, our research results signal again the dangers of precipitative action buoyed up on the latest management fad or fashion. Beware of attempts to improve performance through simple and singular changes. Leading innovation and performance is about delivering a complementary and contextually appropriate set of innovations and not the latest management fad. The quick fix is for the magician and there are few successful magicians in politics, business and the public sector.

## Research Aims

Our research had three aims:

- The progress question - to examine the extent to which new forms of organising have been implemented among large and medium sized firms across Europe, USA and Japan.
- The performance question - to test the performance effects of adopting new organisational forms.
- The process question - to examine the managerial processes of moving from more traditional organisational forms.

We carried out four surveys in the UK, Continental Western Europe, Japan and the USA. This Hot Topic reports the findings from the UK and European surveys. The Japanese and USA results are currently being analysed and will be published later in 1999.

In addition to these four surveys, 18 detailed case studies are being carried out in major UK and European firms. These cases will provide a dynamic analysis of the what, why and how of the managerial processes of moving from more traditional forms of organising. The case studies will be published in November, 1999 in a book to be edited by Andrew Pettigrew and Evelyn Fenton and titled *Process and Practice in New Forms of Organising*, London, Sage Publications. About this study

This Hot Topic combines the findings from a number of different research studies carried out by the Centre for Creativity, Strategy and Change at Warwick Business School.

The survey findings reported here form part of the INNFORM project on innovative forms of organising for the 21st Century. This international

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project is led from Warwick Business School by Professor Andrew Pettigrew and involves collaborating scholars from the Said Business School, University of Oxford, five European universities and universities in the USA and Japan. The research has been funded by the Economic and Social Research Council, PriceWaterhouseCoopers, the consortium members of the CCSC, Warwick Business School and the institutions of the participating researchers.

### **Further Information About this Topic**

Detailed technical papers on this research project listed below are available by writing to the Hot Topics Office, Warwick Business School, University of Warwick, Coventry CV4 7AL

Change and Complementarities in the New Competitive Landscape: A European Panel Study, 1992-1996, by Richard Whittington, Andrew Pettigrew, Simon Peck, Evelyn Fenton and Martin Conyon. To be published in Organization Science, July, 1999

Success and Failure in Corporate Transformation Initiatives by Andrew Pettigrew, in Information Technology and Organizational Transformation, (Eds) R. D. Galliers and W. R. J. Baets, John Wiley, Chichester 1998.

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