THE STRATEGIC FITNESS PROCESS

A COLLABORATIVE ACTION RESEARCH METHOD FOR DEVELOPING AND UNDERSTANDING ORGANIZATIONAL PROTOTYPES AND DYNAMIC CAPABILITIES

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Abstract: Organizations underperform and sometimes fail because their leaders are unable to learn the unvarnished truth from relevant stakeholders about how the design and behavior of the organization is misaligned with its goals and strategy. The Strategic Fitness Process (SFP) was designed to enable leaders to overcome organizational silence about the misalignment with the environment and chosen strategy. By enabling an honest, organization-wide and public conversation, senior management teams, working collaboratively with scholar-consultants and organizational members, have access to valid data (the unvarnished truth), can conduct a valid diagnosis, and can develop a valid plan to change the structure, processes, and behavior of an organization while at the same time developing commitment that ensures execution. SFP is also a research method. By applying SFP iteratively to new and challenging situations, scholar-consultants can invent new organizational prototypes as well as learn if a standardized and institutionalized organizational learning process like SFP can enhance dynamic capabilities. The SFP model is illustrated with an application to Hewlett-Packard's Santa Rosa Systems Division.

Keywords: Organization alignment; dynamic capabilities; organization design; organizational prototyping; organizational silence; organizational learning

It has been a long-held assumption, supported by substantial research, that a system of management – organization structure, senior team effectiveness, business processes, people (skills, attitudes, and behavior) and culture – must fit the organization's environment and particularly the firm's chosen strategy (Labovitz, 1997; Lawrence & Lorsch, 1967, 1969; Miles & Snow, 1978; Miller, 1986, 1987, 1990a). The process of aligning the organization and its behavior with strategy is a two-way process: the design must be adapted to fit the strategy, and the strategy must sometimes be adapted to the organization's capabilities and culture. There is also considerable evidence, however, that organizations are slow to adapt their design to fit changing competitive circumstances and emerging strategies (e.g., Miller, 1990b). One of the major causes is organizational silence, the reluctance of knowledgeable internal and external stakeholders to "speak truth to power" due to fear that the truth will threaten those in positions of power (Argyris, 1985; Beer & Eisenstat, 2000; Detert & Edmondson, 2011; Morrison & Milliken, 2000). Senior teams, therefore, may be prevented from learning in advance of problems or crises due to inadequate fit between organization design and behavior, and changing situational realities.

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Such conditions of misfit can have significant consequences. First, senior teams may be unable to respond in a timely way to performance problems, with consequent financial and human costs and perhaps business failure (Miller, 1990b). Second, senior teams and the scholar-consultants collaborating with them to solve performance problems are unable to make hidden barriers discussible, thus making it difficult for senior teams and their scholar-consultants to develop a valid diagnosis and to design an organization that fits the diagnosis. If we are to develop sustainable organizations, their designs must be based on valid data. Third, because designing organizations is a process of successive approximation – roles, responsibilities, and relationships are defined in action – senior teams must foster a continuous learning process that provides feedback from stakeholders about how well the newly designed system of management is working.

Lacking a continuous learning process, senior teams call in expert design consultants and academics. To break the organizational silence, these outside experts interview organization members and provide feedback to management along with recommendations for a new design. While this may lead to a good design in theory, it does not always lead to commitment by senior teams or organizational members. Lacking commitment, good design solutions become difficult to implement. For an organization to adapt and maintain internal and external fit, a method for continuous collaborative learning about the effectiveness of the organization is required. The data that motivates organizational diagnosis and redesign must be available to three key stakeholders in the redesign process: senior teams, employees and other relevant stakeholders, and experts who advise senior teams about redesign options. Unless all these stakeholders are involved in producing relevant data and redesigning the organization, the newly invented organization will fail due to low commitment. Its redesign will have been based on a diagnosis that both employees and scholar-consultants know is invalid – one that does not incorporate undiscussible issues such as ineffective leadership and management systems. These considerations are particularly important when the new design is a prototype from which managers and academics can learn. In other words, in designing prototypes it is important to eliminate the unwanted variance that comes from low commitment and resistance as well an invalid diagnosis.

Consider the case of Hewlett Packard's Santa Rosa Systems Division (Beer & Rogers, 1997). Two years after it was created in 1992 by HP's senior management to develop a new frequency measurement systems/solutions business for the rapidly growing telecommunication industry, the business unit was not meeting expectations for revenue and profit growth. The functional organization SRSD's senior team adopted was modeled after other divisions in the Test and Measurement Sector where those executives had worked. It was not producing the cross-functional coordination required to develop new solutions or the strategic management process needed to prioritize and reprioritize projects and then reallocate resources based on the promise they showed. In addition to poor business results, a noticeable symptom was conflict over scarce resources, resulting in distrust and low morale among the division's members.

Key people in all functions below the senior team as well as senior team members knew the business was in trouble, and each person had his or her own diagnosis and ideas for organizational redesign. While apparent, these issues could not be openly discussed within the senior team or raised by lower levels due to low trust and fear that the senior team would become defensive with negative consequences for the bearers of bad news. The fact that the division's general manager was perceived as conflict averse, and the senior team as ineffective, was a major barrier to a much-needed dialogue. Realizing the urgent need to improve performance or face career consequences, the general manager and his senior team decided to employ the Strategic Fitness Process (SFP) developed by Beer and Eisenstat (2004) to guide senior teams through an organizational diagnosis and redesign. SFP ultimately led to a matrix design, a new strategic management process, and a much more effective senior team – all despite the fact that matrix designs ran counter to the existing organizational culture at Hewlett Packard (HP had succeeded for five decades with a divisional structure) and SRSD's senior management was keenly aware that their bosses would challenge their design choice. Within three months, the new organization was up and running. SRSD's performance improved dramatically in the years that followed and an organizational prototype new to HP

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and solutions businesses in general had been developed (Beer & Rogers, 1997).

In this article, I describe the Strategic Fitness Process model and discuss how it can be used to redesign an organization. I also offer insights into how the SFP model can aid in the development and testing of organizational prototypes as well as in understanding an organization's dynamic capabilities.

STRATEGIC FITNESS PROCESS

The Strategic Fitness Process is a collaborative inquiry and action learning process that involves the senior team, key employees throughout the organization, and scholar-consultants who facilitate the process and work collaboratively with senior management as experts in organizational diagnosis and redesign. The process begins with the senior team committing itself to an organization-wide inquiry intended to foster an honest conversation about organizational strengths as well as barriers to strategy execution that are causing under-performance. Below is a description of each of the nine steps in the process as they were used to redesign HP's Santa Rosa Systems Division. See Figure 1.
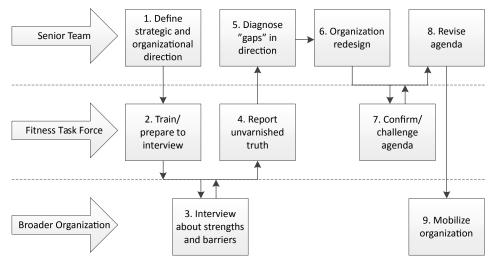

Fig. 1. Strategic Fitness Process

1.   *The senior team formulates strategic direction.* Senior teams meet for a day (or more if needed) to create a statement of strategic direction: competitive strategy, the capabilities required to enact the strategy, and the values and culture the senior team wishes to guide leader and organizational behavior. In one day of intensive discussion, senior team members at SRSD formulated a statement of strategic and organizational direction. They reaffirmed the ambidexterity of their business strategy (March, 1991) – *exploit* for profit existing technologies through one-off mission-critical solutions delivered by the Custom Systems Group, and *explore* a mass customization strategy through the development of new technology platforms aimed at market segments with similar solution requirements. The senior team appointed an eight-person task force composed of high-performance and high-potential people one to two levels below them to collect data about the organization's effectiveness.

2.   *Consultants train the task force.* The task force meets for a day to be trained by the scholar-consultants in data collection through interviews and rigorous analysis of the data. The general manager or CEO, not the VP of HR or some other senior executive, meets with the task force to present and explain the statement of strategic direction and, importantly, reinforces his or her desire to hear the truth. With guidance from consultants, task force members select approximately 100 people in key positions across all parts of the organization and other relevant stakeholders inside or outside of the business to be interviewed. Recognizing that they will undoubtedly hear about problems that will threaten the senior team, task forces often voice anxiety about the task they have been assigned. The SRSD task force was no exception. After members were briefed about

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how SFP is designed to provide psychological and career safety, the task force came to see the assignment as a singular opportunity to transform the organization.

3. *The task force collects and analyzes data.* Over a two to three week period, task force members conduct semi-structured interviews, asking three key questions: Does the strategy make sense? What organizational strengths will enable strategy implementation? What barriers stand in the way? Task force members always interview people outside their functional, business, or geographic home. Upon completing the interviews, task force members meet for a day to analyze their data and agree on key themes to be fed back to the senior team. Consultants interview the senior team and do a similar analysis. A content analysis of results across many organizations found that task forces almost always identify six silent barriers (Beer, 2009; Beer & Eisenstat, 2000). They are:
   - Unclear strategy, values, and conflicting priorities
   - An ineffective senior team – not working as a real team
   - Leaders who exhibit top-down or laissez-faire behavior that prevents engagement and constructive conflict
   - Poor coordination across the value chain due to poor organizational design and un-collaborative culture
   - Inadequate number of effective down the line leaders and leadership development
   - Closed vertical communication – direction not clearly communicated downwards and lower levels unable to speak truth to power.

These barriers impede an effective strategic management process: developing consensus within the senior team about strategic direction, communicating it effectively, redesigning the organization, developing/selecting managers who can lead strategic initiatives or new business units, and enabling honest upward feedback about the effectiveness of the organization and its leadership (Beer, 2009).

4. *The task force reports the unvarnished truth (Day 1 of Fitness Meeting).* Task force members, sitting in a "fishbowl" facing each other, with the senior team sitting and listening in an outer ring, feed back the "unvarnished" truth to the senior team. Each theme is illustrated with anonymous quotes and examples of difficulties in executing strategy given to them by interviewees. The feedback is powerful and rich and generally takes from four to six hours to report. The senior team is presented with ground rules that constrain them from acting defensively. These arrangements have been found to enable truth to speak to power safely and productively, and we consider them an essential element in making the functioning of the organization transparent. SRSD's task force identified all six silent barriers listed above in their own language and embellished them with grounded examples. The task force then departs and does not participate in organizational diagnosis and redesign at the next stage. Consultants then feed back their findings from interviews to the senior team, though this is typically anti-climactic given the rich and powerful data fed back by the task force. Our experience is that in most cases senior teams' perceptions of organizational effectiveness issues are not that different from that of task force members, though not communicated with the same sense of urgency as task forces report, suggesting that organizational silence is indeed a barrier to organizational adaptation.

5. *The senior team diagnoses the organization as a system (Day 2 of Fitness Meeting).* The senior team conducts a diagnosis of the data. They are assigned to do this individually the night before, using an alignment model such as the Star Model (Kates & Galbraith, 2007) or McKinsey's 7S model (Pascale & Athos, 1986), and seek to develop a consensus view. SRSD's senior team, like most others who have undergone the process, knew about most of the problems intellectually. The task force's feedback underscores the sense of frustration with the current state and motivates the senor team to act. Because the task force has employed an unstructured interview protocol, a rich and systemic picture of the organization emerges.

6. *The senior team redesigns the organization (Day 3 of Fitness Meeting).* The senior team develops a general redesign of the organization. Presented with alternative organization designs and their advantages and disadvantages by the consultants, SRSD's senior team chose a business by function matrix, redesigned the senior teams' role to support

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the matrix, and developed a strategic management process that would allow rapid reallocation of resources to the fastest-growing businesses.

7. *The task force confirms and challenges the redesign.* Having developed a change plan, senior team members present it to the task force. The task force meets alone to critique the plan and prepare its feedback. SRSD's task force was very concerned about several aspects of the senior team's change plan including aspects of the proposed matrix design.

8. *The senior team revises the design of the organization.* The SRSD's task force feedback to the senior team was challenging and emotional. They were not only feeding back substantive concerns about the design but were testing the senior team's commitment to collaboration. The dialogue that emerged led to changes in the design of the matrix by the senior team and to better understanding by task force members of senior management's design logic.

9. *Mobilize the organization to change.* In a meeting of all those involved in SFP – the senior team, the task force and all those interviewed plus other key people who may not have been interviewed – the senior team reports what they heard from the task force and presents their change plan. The larger group is then engaged in discussion and provides further feedback.

SRSD's senior management decided to apply SFP every year as part of the annual planning process to learn how the new design was working. This led to strengthening and/ or modifying the organization's design. For example, the organization developed a dual performance appraisal system, a process for filtering new business opportunities and sizing them to available resources, and a process for developing program managers. In effect, SFP proved to be a powerful ongoing learning process for adapting the organization's design and the skills, attitudes, and behaviors required to support it.

ORGANIZATIONAL PROTOTYPES AND DYNAMIC CAPABILITIES

New organizational designs succeed or fail not just on their merits but also on the capacity of the organization to enact a new design. New designs such as that introduced at SRSD require commitment to let go of old management practices and embrace new ones. They also require new skills and capabilities to enact new roles and responsibilities and develop new relationships. A "standardized" approach based on well-researched and understood principles for leading change such as SFP enables a truer test of the hard components of prototypical designs. Why? The large variance in softer components such as leader effectiveness in making a valid diagnosis, and in developing commitment to the design, is essentially eliminated. Moreover, when a standardized process like SFP is used, ongoing learning enables continuous improvement in the organizational prototype and better understanding of the multiple facets of the organization that must change to support the new prototype. In effect, SFP is a leadership platform for diagnosis and redesign that will reduce variance in executing the design and reveals the conditions necessary to enact the new design effectively. Thus, the organization itself becomes a laboratory that enables the development and testing of new, more effective designs and requisite behaviors.

By applying the SFP in organizations in various industries and with different strategic challenges, the SFP model can enable a deeper understanding of the circumstances that demand a new design and the best solution for those circumstances. This, in turn, would enable a more comprehensive and detailed understanding of strategy-organization archetypes (Miles & Snow, 1978). For example, what would an action researcher learn from systematic application of SFP in challenging circumstances such as the health care industry or joint ventures? While random examples of success and failure can always be found, a standardized organizational redesign process like SFP applied across many organizations facing common strategic challenges provides a systematic understanding of the barriers to effectiveness and a valid comparison of alternative designs. In this way, researchers would be able to discover the best prototypical design for a given strategic circumstance.

An organizational learning process such as SFP also sheds light on the problem of dynamic capabilities (Teece, Pisano, & Schuen, 1997). Zollo and Winter (2002: 340) define dynamic

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capability as "a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness." The Strategic Fitness Process model helps an organization to generate and modify its operating routines. By applying SFP in different business circumstances and organizational cultures with different leadership patterns, scholar-consultants can develop a grounded dynamic capability theory and test it. For example, through an analysis of twelve SFP applications, we have begun that research (Beer, 2012). By comparing the extent to which each of the twelve organizations in the sample successfully employed SFP as an ongoing learning process, we were able to reach the preliminary conclusion that the kind of high commitment servant leadership culture at Hewlett Packard (at the time) enabled SRSD's leaders to ask for and accept honest feedback annually, thereby building SRSD's capabilities.

CONCLUSION

Dramatic and rapid changes in the environment of for-profit and not-for-profit enterprises require innovation in organizational design, and they require the development of dynamic capability – the capacity of the organization to reinvent itself over and over again. Unfortunately organizational silence, the inability of truth to speak to power, makes it difficult for senior leaders to learn in a timely manner from lower levels about barriers to effectiveness. Consequently, organizations go from crisis to crisis. Revolution rather than evolution is the primary means for change with resultant opportunity costs to the business and its leaders. The Strategic Fitness Process, a collaborative action research and intervention process, was developed to help senior teams invent and reinvent their organization. It has been employed successfully in several hundred organizations at the corporate, business unit, and operating unit level. Changes in organization structure, leadership team design and behavior, and the strategic management process have been made with subsequent improvements in organizational effectiveness and performance.

SFP is a standardized and collaborative leadership and change platform that allows a valid diagnosis and the development of a valid design to which senior managers, organization members, and scholar-consultants are committed. When applied by scholar-consultants in new and challenging situations, SFP can be a powerful action research process to invent organizational prototypes. Because it is a standardized process, researchers can eliminate variance in leadership and change effectiveness thereby making it possible to attribute success or failure to the design itself. When SFP is applied iteratively over time in the same organization scholars can conclude whether a learning process like SFP can be a means for developing dynamic capabilities. When applied across many organizations, SFP can enable scholars to learn about the cultural characteristics that underpin organizational learning and the development of dynamic capability.

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