

# Why and how systemic change overcomes ineffectiveness

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## Michael Beer, from Harvard Business School, provides insight into why and how systemic change overcomes ineffectiveness in organizations

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According to leading academics and consultants, seventy percent of corporate transformations are failures. The organization is stuck in neutral, ineffective, and unable to make systemic change in order to perform better.

Strategy changes follow changes in the competitive environment. The system of organizing, managing, and leading must then be realigned with the new strategy or friction and conflict between groups that must coordinate for the organization to survive will arise. A decline in effectiveness and performance will begin.

Firing people or creating new programs to re-educate them doesn't work. Edward Deming, the quality guru who taught the Japanese how to compete on quality, found that "94% of problems in business are system driven and only 6% are people driven." When confronted with strategic inflection points, 7 silent capabilities must be confronted through honest conversations. Most managers do not, however, know why or how.

### Making systemic change work for your organization

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An organization is a social system composed of many facets that shape organizational behavior and performance. Seven are critical to organizational effectiveness. We call them organizational silent killers. Like hypertension and cholesterol in the human biological system they cause organizational heart attacks – poor performance. Lower levels fear reporting them to the top for fear of career consequences. Top management can't learn about them and transform the organization.

They were revealed to top management through the Strategic Fitness Process, a structured method I and my colleague Dr. Russell Eisenstat invented, in collaboration with management at Becton Dickinson and Company. They enable an honest conversation between leaders and, their teams, and key people below the top about what frustrated their efforts to implement the organization's strategy.

The following critical facets of the organization were consistently revealed when leaders enabled honest conversations. We learned that the following silent barriers are critical to organizational effectiveness and performance.

1. Top management team members operate in their own silos and fail to reflect and discuss selflessly and openly the effectiveness of their system of organizing, managing, and leading. That causes:
2. Lack of clarity about the organization's direction – purpose, strategy values, priorities – prevents resource allocation across groups needed to facilitate coordination and teamwork.
3. Top management team ineffectiveness affects their ability to improve strategy implementation by reorganizing how the enterprise is organized for frictionless teamwork across value-adding activities.
4. Inadequate delegation of authority and decision rights affects the organization's agility – its speed of response to new circumstances.
5. Human resource policies and practices regarding recruitment, selection, evaluation, development, and termination of people affects depth of talent particularly development and depth of leadership talent.
6. The top leader's ability to confront affects the extent to which problems are confronted, and people involved solving them.)
7. Truth must be able to Speak to Power (top management team) about the effectiveness of the 6 silent killers and other facets of the organization that need change to improve their effectiveness.

Corning's Electronic Products Division (EPD) was one of those businesses stuck in neutral. Revenue and profits lagged due to a cut in defense spending. EPD, therefore, began to sell its passive electronic components to manufacturers in the rapidly growing Electronics and Color Television market. To succeed, EPD had to change its strategic task to rapid new product development, but it failed to do so. No new products had come out in five years, and performance continued to be poor.

Don Rogers, a new VP and General Manager, began cutting costs to restore profitability. While it stopped the bleeding, according to him, it did not improve the effectiveness of his organization. Despite a widely acclaimed leadership development program attended by virtually all of EPD's managers initiated by Rogers's top-down predecessor two years later, performance was in slow decline.

Rogers called me for help, an unusually courageous act, given that in doing so, he was admitting he had problems he did not know how to solve. This is something few leaders have the courage to do. Here is what he said:

“Our business continues to be very competitive, morale is low, there is a lot of conflict between groups that we can't seem to resolve. There is a lack of mutual confidence and trust. The organization is just not pulling together, and the lack of coordination is affecting our ability to develop new products. The conflicts might be due to the pressures we are under but more likely they indicate a more fundamental problem. Can you and your group determine if the conflict between groups is serious and if so, what I might do about it.”

## **Systemic change to EPD's system**

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The Strategic Fitness Process (SFP) has not yet been developed, so members of my staff and I interviewed key people and recommended organizational changes to Rogers and his top for discussion. EPD's business unit had served Defense contractors with high reliability components needed in missiles they were building.

When U.S. Defense budgets were cut, EPD's revenues and profits began to decline. EPD's managers instinctively began selling their components to companies in the rapidly growing computer industry and color television market. In these markets, the rapid development of new products demanded by customers became a must. It became EPD's highest-priority strategic task.

Following a discussion of our recommendations, Rogers and his team accepted our diagnosis and our recommendations and changed the EPD's organization as follows:

- They met as a whole team to clarify the strategy and agreed on priorities among the 12 new products under development. They changed the unwieldy 30-person new product development (NPD) meetings where constant calls to lower-level people were being made to learn about the latest progress on a given new product. Instead:
  - Twelve NPD teams, each composed of people from value-adding functional departments, were created to coordinate the development of each new product.
  - Marketing specialists were appointed leaders of each NPD team.
  - EPD's top team was assigned to review each team's progress only quarterly to delegate decision-making authority to teams and speed up the NPD process.
  - Consultants were assigned to each team to provide coaching to NPD team leaders and their team's process.
  - Intergroup meetings were designed to work through conflict, define new roles, and improve relationships.

Before the change was launched the whole senior team held one-day meetings in 15 different parts of the organization, including corporate functions. The senior team explained their diagnosis and how they planned to reorganize EDP in response to the feedback they had received. They asked those below them for yet more feedback on their plan. Rogers himself did something quite unusual but powerful in these meetings. He shared publicly the feedback he had received about his management style.

After two years of major changes in how EPD was organized, managed, and led, Rogers presented me, his organization development consultant, with an award; an oil can, one with a big spout used to oil machinery, was filled with good alcohol and labeled "The Emotional Oil Can." The conflict had dissipated, teamwork was much better, and EPD was performing better. It had developed five new products in those two years compared to none in the previous five. And EPD was operating as a unified team with an upward performance trajectory.

## **Transformation of EPD: The end results**

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EDP's story ends differently from most. Two years later, Rogers presented me, his consultant, with an oil can with good whiskey labeled the "Emotional Oil Can," symbolizing the change in culture. The good news was the progress EDP had made on the very issues Rogers had outlined to me in our first meeting. EDP's ability to execute its own strategy changed dramatically, and so did its health, culture, and performance.

There is more trust, coordination, teamwork, and commitment to executing the leaders' strategic aspirations. The "Emotional Oil Can" reflected the transformation of EPD from a culture of anger and blaming to one of positive and productive relationships. It was now a community of shared purpose with a system of organizing, managing, and leading fit to compete.

Thus, EDP's surprisingly rapid and successful realignment with its new strategy emerged from open discussion and reflection on the truth. The process Roger and his team carried out is an example of what I call an honest, conversation now embedded in the Strategic Fitness Process.

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