22

Breaking the Code of Change

Observations and Critique

Roger Martin

"Breaking the Code of Change" was a great conference. It brought together a terrific mix of academics, consultants, and business leaders to tackle one of the most important business issues of our time. I enjoyed the conference throughout. However, for me the conference ended on a down note. When the final list of "to dos" went up on the board, I had, in the words of that great philosopher Yogi Berra, that "déjà vu all over again."

The Case Team Leader's Dilemma

After eighteen years of strategy consulting, I feel like I keep seeing the same movie over and over. The movie typically stars an earnest, brilliant Case Team leader who comes to me with a "workplan" several weeks into a consulting project. Not unlike the conference to-do list, the workplan has many items, each of which involves substantial work, some of it quite difficult, all of it time-consuming. Do an industry analysis. Do a literature search. Talk to industry experts. And so on.

It is hard to argue against any of these steps, just as it would be hard to argue against any of the items on the conference to-do list. They all have some utility. However, they distract from the real problem, the hard problem: cracking the case. By this I mean coming up with a testable causal hypothesis as to why the current problem exists and what might be a solution. Whenever I let the Case Team leader and his/her team race off and tackle the long list of items on the workplan, I get the same result: lots of *stuff*—some of it even interesting—but little advance in solving the true problem at hand. The data on this outcome is frighteningly consistent.

If, instead, I refuse to let the team do any work without first developing a testable causal hypothesis, I typically get two things. The first is enormous whining and complaining. The Case Team Leader doesn't want to engage in the exceedingly difficult task of coming up with a causal hypothesis; he or she would prefer to start on the workplan items and hope something good pops up. The second is remarkable progress on solving the case—because all the brilliant minds (which we have in abundance at the consulting firm) are working directly on the hardest part of the real problem *before* doing a bunch of relatively aimless *stuff*.

Hence the reason for my letdown at the end of the conference. That room was full of people who are as smart as the consultants with whom I have worked for the better part of two decades *and* who have enormously greater experience and knowledge bases. Like the Case Team leader, we faced a terrifically difficult problem: breaking the code of change. At the end, instead of putting our minds directly to the tough task, we put up a long list of stuff that will keep us busy. Like the time of our wonderfully hardworking consultants, I fear our time may be largely wasted on that long list.

What, you may ask, would be better? The answer, I believe, is to put these great minds to the task of creating a testable causal model for why change doesn't happen now and how to make positive change actually happen. This is hard work. I believe it will require some level of collaborating among the people in that room; because, to my knowledge, no single individual has come up with an integrative model of change.

To get this particular ball rolling, let me take a step back and define *testable causal model* by way of illustration. Consider this proposition:

Because winter in Canada is very cold and the sources of food are covered with snow, Canada geese gather in large flocks in the fall and migrate to the southern United States for the winter.

This is a causal model because it specifies a cause (coldness and inaccessibility of food) and an effect (migrating south). It is a testable causal model in that it can be falsified. We can find a flock of Canada geese and observe whether they indeed gather in the fall and fly south. We could even get more sophisticated in the testing: To make sure they don't migrate because of, say, lunar cycles, we could provide them with a heated environment and lots of food in the winter to see if they stop migrating south. Sure enough, as some city dwellers are finding to their dismay, these garbage-eating birds are finding the winters somewhat hospitable around Canada's big cities with their abundant garbage and waste heat.

In contrast, the following is not a testable causal model:

Good managers are more successful than bad managers are.

It is causal, in that it does contain a cause–effect relationship (between goodness and success); but it is not testable, because it is so general as to be not falsifiable (at least in any way I know). Hence, it is an untestable causal model, which is of limited value because we never can be sure that its prediction of effect is valid.

The model Andrew Van de Ven described in his conference presentation typifies still another type of model: the testable descriptive model. Van de Ven defined and described four types of organizational change models. I believe that this description is testable, in that it appears to provide sufficient detail on each of the models that several observers could independently watch an organizational change effort and consistently classify it into one of the four types. However, this model does not specify a cause-and-effect relationship. For example, Van de Ven did not say (largely because it was not his intention): "There are four observable models, and the most successful is the life-cycle theory, and the least successful is the teleological theory." This would specify a cause and an effect and could be made subject to falsification (if "success" were defined).

Michael Beer and Nitin Nohria take a valuable first step toward creating a testable causal model with their Theory E and Theory O concepts. These are models for change. At this point, however, Theories E and O are mainly descriptive theories; they describe differential ways in which Scott Paper Company, Champion International, and Asda Group PLC appeared to have engineered changes. Beer and

Nohria start down the path toward a testable causal model with their attempt to integrate Theories E and O into a combined causal model. This is an important step, because we need a causal theory that predicts that if we take these steps, we will produce those changes. If we have a causal theory, we can test it and refute or refine it. With sufficient testing and refining of a causal model, we can actually hope to succeed in breaking the code of change.

I don't have a fully refined causal theory to offer at this point, but I can offer some framing comments to get the ball rolling. My intent is to start from first principles to lay a foundation for causal theories. I will use the Scott, Champion, and Asda cases to illustrate where feasible, and the reference citations that follow are to those Harvard Business School cases.

What Is Change?

If we are to build a robust causal model of change, we need a robust definition of change in order to provide testability. To change is to take different actions than previously. To take different actions than previously means to make different choices. Different choices produce change. The same choices produce sameness, a reinforcement of the status quo.

To define change robustly, we must take heed of Chris Argyris's distinction between espoused theories and theories in use. To espouse a different operating principle (e.g., we have decided to become customer focused) from the past does not represent change. Only if different choices lead to action on the different operating principle will change be produced. As Argyris observes, there is often a substantial gap between espoused theory and theory in use.

A case in point is Asda, which Beer and Nohria assess as representing a productive combination of Theories E and O. That is, the Asda story represents a combination of the economic value–oriented, top-down, incentive-driven, consultant-intensive Theory E model of change, and the learning-oriented, high-involvement, commitment-driven, internally driven Theory O model of change. This is in contrast to Scott, which is assessed to be pure Theory E.

However, Asda's level of Theory O is primarily, if not entirely a function of espoused theories, not theories in use. In his first address to

senior management, Archie Norman espouses a dramatically changed CEO operating model:

> Finally, a few words of warning about me and my management style. First, I am forthright and I like to argue. Secondly, I want to discuss issues as colleagues. I am looking for your advice and your disagreement. I want an organization that is transparent. That means sharing knowledge, plans, and intentions. (Asda (A1), p. 2)

However, across the Asda cases (A, A1, B, C) there is no concrete evidence to corroborate anything espoused by Norman in the statement above, and there is a huge weight of clear evidence to the contrary. For example, one of Norman's first actions was to bring in a consultant/psychologist friend from his Kingfisher days to interview and assess the top thirty or forty managers, because *"a number of them, Norman believed, were clearly burned out"* (Asda (A1), p. 3). He did not want to perform the interviews directly, however, because *"he felt that it might be a little less intimidating if he did not do it himself"* (Asda (A1), p. 3). Intimidating indeed, to be interviewed with a secret rationale, a hidden hypothesis about burnout, and opaque evaluation criteria. Hardly forthright or transparent! Or consider Norman's treatment of Richard Harker, the head of marketing and buying: *"Norman recalled, 'I knew that it was very unlikely that there would be a role for Harker in 12 months' time, but I needed him for that 12 months'"* (Asda (A1), p. 3). There is no hint that Harker was informed in a spirit of forthrightness and transparency of his impending fate.

To me, the Asda model in use features centralization, top-down control, intimidation, and hard-edged incentives, while espousing the opposite. From forced soccer games (*Leighton: "I think the other directors felt they had to play or we would think they were too old and fire them"* [Asda (B), p. 5]) to forced behavioral change (*Styles: "Managers would have to support the changes we were making and be capable of implementing them or be replaced"* [Asda (B), p. 9]) to firing on the basis of performance on tests (*There was a perception [among managers] that the test results alone decided the fate of some GSMs who had good store performance* [Asda (B), p. 11]), the command-and-control operating style stands out.

My point is not to accuse Norman of consciously duplicitous behavior. I suspect that he believed his espoused theory and simply was not sufficiently skilled to produce a theory in use that matched the high ideals of his espoused theory. In fairness, the challenge of living up to his espoused operating philosophy was enormous. If anything, his error was to espouse a set of ideals that he was incapable of enacting.

Rather, my point is that action—real choice—not espoused intention must be the measuring stick. In many respects, if we were forced to ignore all the rhetoric in both cases and look only at the actions; it would be very difficult to distinguish the change model of Asda from the change model of Scott. In both cases, hordes of consultants engaged in unilateral testing and analysis, the result of which was widespread firing of managers. We can credit Norman with having a heavy heart as he fired, whereas Al Dunlap appeared to be somewhat gleeful; to this case reader, however, the results and key aspects of the procedures appear eerily similar. So I would argue that the Asda case provides an excellent illustration of the need for us to focus on changes in actions, which are produced by changed choices, rather than on changes in espoused intentions as we build a causal model for change.

The Asda case also illustrates the need to develop a clear definition of successful change. We are not interested in any change, but rather in change that produces results superior to those from the status quo. Although Asda is portrayed as a great change success, both in Asda C and in Allan Leighton's presentation at the conference, the data is more ambiguous. At the time of the cases, the U.K. grocery retailing market has four key players (Tesco, Sainsbury, Safeway, and Asda) occupying a market in which most commentators though only three could prosper. If we compare Asda's results in 1996, the fifth year of Norman's tenure, to 1991, the last year before Norman's takeover, the key numbers are no better. For example, in the grocery business, firm-level sales are important because of economies of scale in buying and advertising. In 1991 Asda was third among the four players at 65 percent of the size of the leading Tesco. In 1996 Asda was still third and was 52 percent the size of Tesco. Profit margin on sales illustrates the strength of a chain's economic model and its ability to produce profit on sales. For Asda, 1991 profit margin was in third place at 72 percent of first-place Sainsbury. By 1996 it had dropped to fourth place at 66 percent of Sainsbury. Finally, sales-per-square-foot figures demonstrate the strength of the store concept and location to produce traffic.

On this dimension Asda showed modest improvement between 1991 and 1996, from fourth place at 56 percent of Sainsbury to third place and 72 percent of Sainsbury.

There is no question that Norman and his team arrested a decline. That is a significant and commendable achievement. Perhaps arresting a long-term decline in competitiveness is enough to qualify a change effort as successful. However, I would be inclined to utilize a higher standard of tangible success. In the case of Asda under Norman, by far the greatest tangible successes were in increasing sales, increasing customer visits, and increasing the stock price. In all three of these areas, the turnaround statistics benefited from extremely low bases at the time of Norman's arrival. For example, in the two years before Norman's arrival, the stock price had dropped to one sixth of its prior value. Interestingly, it rose six times in the six years following Norman's arrival, to return to its level of eight years earlier. Sales per square foot were lowest among the four key competitors, 11 percent lower than those of the firm that was next worst when Norman arrived.

So at best, Norman could be credited with bringing about changes that moved Asda from last place among four players in a three-man game into a tie for third (and nowhere close to second) over the five-plus years of the case study. This should be seen as success in the sense of turning negative momentum into positive momentum, but only as modest success in the sense of taking a highly untenable competitive position and converting it into a not-quite-tenable competitive position.

To overcome the ambiguities of the Asda case as we build a causal model of change, we therefore must be clear about how we define success in producing change in choices and actions.

Why Are Things the Way They Are and Not Some Other Way?

Having defined change as an alteration in actions that is produced by changes in choices made, not intentions espoused, I will assert a first principle about change that helps me consider a causal model for change:

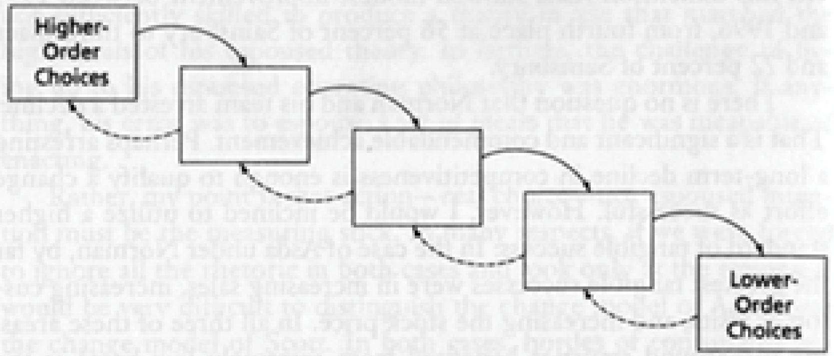

Figure 22-1 The Status Quo: A Cascade of Choices

To understand change, we must first understand the status quo.

The tragic error of many change agents is that they fail to understand the status quo well enough to overcome it, and their failure to understand the status quo undermines their change effort. The reason for this phenomenon is that individuals take up the mantle of change agent precisely because they despise the status quo. Because they hate the status quo, they don't respect it enough to understand it. A great recent example is the case of Hillary Clinton and the U.S. health care system. I would argue that Mrs. Clinton hated the status quo so much that she didn't bother to understand why it was the way it was—that is, why the U.S. public loved a system that was expensive and bureaucratic in many respects and left a significant fraction of the population without coverage. While she was busy creating a new health system, the health insurance industry was running the wildly successful "Harry and Louise" television commercials portraying a middle-American couple fretting about losing the patient–doctor relationship they so coveted. The health insurance industry understood the status quo, in which the patient–doctor relationship was extremely important; Mrs. Clinton did not understand it, and meddled with the patient–doctor relationship. And the health insurance industry succeeded, whereas Mrs. Clinton most assuredly did not.

How, then, can we conceptualize and understand the status quo? I find it useful to conceptualize the status quo as *a set of cascading choices*, which cascade from the top of the organization right to the bottom as

diagrammed in figure 22-1. In this conception of the organization, everybody in the organization makes choices and, on the basis of those choices, takes the actions that define the status quo. A CEO may make a typical higher-order choice, such as in what business the firm should compete. A frontline employee may make a lower-order choice, such as how to serve the customer standing at the counter.

There are a few key aspects to note about this conceptualization of the status quo.

The Imaginary Dichotomy

First, in this conceptualization, there is no dichotomy between strategy formulation and implementation. The traditional definition holds that leaders at the top of organizations think deeply and carefully about the broad choices facing the corporation and make choices in order to *formulate* strategy. Often they collect data broadly and even consult down through the corporation on the choices. But they make the choices; and once made, the choices are given to the organization to *implement*, to carry out, to do. In this world, the choosers choose and the doers do. However, this traditional definition prompts the question: How would I know implementation if I saw it, and how would I distinguish it from strategy choice?

Conventional wisdom suggests that strategy entails choosing among mutually exclusive options. So if I see an individual considering options—for example, *Should we win on the basis of customer service or on the basis of product-line breadth?*—I can safely assume I am observing a strategy activity. But if I see the individual, for example, providing customer service, then I know that I am looking at implementation. The dilemma for me, however, is that when I observe people providing customer service, I typically see them making choices; for example, as to what combination of activities would define good service for the particular customers standing in front of them. Yet if I ask these individuals if they are setting strategy, they tend to reply with shock that no, they are just doing their job.

The imaginary dichotomy between choosers and doers is highly counterproductive, because it denies the reality that there are no simple executors, no choiceless doers. Every employee, right down to the frontline customer-facing employee, faces and makes choices every day regardless of how detailed the "strategy" handed down may be. Each time that a frontline employee responds to a customer request or question, he or she is making a choice about how to represent the corporation, a choice on the fundamental value proposition the corporation is offering. However, in a world in which the employee's job is categorized as one of *execution*, not *choice*, he or she makes the choice based on an interpretation of what management would regard as faithful execution, not based on what would be best for the customer within the broad bounds of the "strategy" of the corporation. This limits the employee's options and choices and makes the employee appear to the customer as a bureaucrat. In fact, he or she has little choice but to be a bureaucrat.

Upstream versus Downstream Choices

Second, though every employee makes choices that define the status quo, not every employee makes every choice, nor are the choices unconnected to one another. The choices tend to cascade from the top of the corporation to the bottom, with each upstream choice setting a context in which the choice immediately downstream is made. Within this cascade of choices, executives at the top of the corporation make the more broad, abstract choices involving large, long-term investments, while the employees toward the bottom make more concrete day-to-day choices that impact on customer service and satisfaction.

Where in the hierarchy of the corporation choices get made is a function of a tension between choice-making skills and access to data (in particular, what Michael Jensen refers to as "specific knowledge"). Typically, the higher one moves in the organization, the greater one's decision-making skills—that is, the greater one's ability to process more complicated data in more difficult contexts and to make difficult decisions. However, as one moves higher, one typically becomes more and more distant from the data that are critical to making strategic choices—for example, how customers think and react in the moment, what competitors are actually doing in the marketplace, how the product actually gets produced on the shop floor. Many of these data literally must be seen to be understood fully.

So ironically, those with the greatest skills and experience in decision making are most distant from the data on which to make those decisions, especially in today's large corporations. This creates a natural tension in how to structure the cascade of choices. *Access to data* drives the choices downstream, whereas *choice-making skill* drives the choices upstream. Typically this tension is decided in favor of the upstream, with choices made disproportionately by skilled but data-starved senior executives. This resolution in favor of the upstream both results from the separation of strategy choice from implementation and reinforces its continuance.

The Two-Way Cascade

Third, the choice cascade should work both ways. Managers making upstream choices set the context for and constrain downstream choices. However, sometimes these upstream choices inadvertently make the downstream choices impossible or suboptimal. In such cases, for the optimal set of choices to be made downstream, the chooser must flow the dilemma back upstream to encourage the upstream chooser to reconsider and modify the upstream choice. In the most efficient choice cascade, downstream managers feel comfortable asking upstream managers to revisit their choices, and upstream managers respond productively to such requests.

Under the strategy-versus-implementation dichotomy, however, the upward flow of insight tends to be curtailed, because the frontline employees, who are considered simple executors of strategy despite the reality that they must make difficult choices daily, feel disconnected from senior managers. This overall sense of disconnectedness tends to cause them not to collect or deliver customer data to more senior managers. As a result, senior managers are starved for the best source of customer data: their own frontline employees. Consequently, they are required to work around their own organization to get the data they need in order to make decisions. Because these data come from outside the organization, typically from consultants, senior managers often produce choices that are inexplicable to frontline employees, who are then reinforced in their views that they are disconnected from their own corporation (and, as Dilbert would tell us, are working for idiots).

Overall, then, the status quo is a result of the myriad of real choices made by members of the organization across the choice cascade. The quality and success of the status quo will be determined by the functioning of the choice cascade. So, to understand change and produce change, I argue that we need to understand first why the current set of choices is made the way it is made now. That is, we need a causal model for the choice cascade of the status quo.

What Maintains the Status Quo?

I don't claim yet to have a robust causal model for the status quo, but I will posit several factors that influence the myriad choices made across the choice cascade that produces the status quo. I will posit three factors that I consider more direct and one factor that is more indirect, in that it influences the status quo primarily through influencing the three direct factors. I will illustrate these influencing factors using data from the prechange period in the three case studies (i.e., Champion prior to the retirement of Andrew Sigler, Scott prior to the arrival of Al Dunlap, and Asda prior to the arrival of Archie Norman).

Aspirations

Aspirations influence choices made throughout the choice cascade. Managers' choices will be influenced by what they and their organization hope to accomplish. For example, the aspiration of Champion was to be an organizationally innovative firm. Hence, choices were made in support of that aspiration. Choices were not made in support of other aspirations, such as having a distinctive and productive competitive strategy. The result was a set of choices throughout Champion that produced an organizationally innovative firm that struggled competitively.

Similarly, in the case of Scott, being an upstanding, stable Philadelphia firm seemed critical, and the choices were consistent with that aspiration. Like Champion, Scott did not make choices consistent with gaining competitive advantage. In the case of Asda, the original aspiration appeared to be to change grocery retailing in the United Kingdom by creating a new format and a new positioning

(big store, low price). However, the original aspiration appeared to migrate and get muddled as Asda diversified into a broadly based retailing conglomerate.

Aspirations alone do not determine choices, however; they influence choices in conjunction with other factors.

Insight

A second factor influencing the status quo is insight. Managers don't know what they don't know; they will make decisions based on the level of insight they have at their disposal. The insight in question may concern something more micro, such as the theory of warehouse location/sizing, or something more macro, such as the dynamic evolution of industries.

For example, in the case of Champion, its managers seemed to have very little insight into theories of competitive strategy, or customer needs, or changing competitive dynamics. However, in part because of their aspirations and in part because of interaction with outside consultants, they had insight into organizational dynamics, the function of teams, and so on. So Champion managers made what appear to have been intelligent decisions about the inner workings of Champion while ignoring vast tracts of territory that a manager with competitive strategy insights would have found salient. At Champion, aspirations and insights lined up quite nicely: The company had aspirations for things about which it had insights. But Champion was hurt by the fact that it had few insights in the territory in which it lacked aspirations; and when its aspirations changed in 1996–97, the company had little in the way of insight to power changes in the choice cascade.

In the pre-Norman era, Asda also appeared to possess few insights into the competitive dynamics of U.K. grocery retailing. It appeared not to understand the scale dynamics of the industry at the firm level or the competitive dynamics of the southern England market. It appeared to think that by virtue of its success in the grocery business, it could succeed in various other businesses. These gaps in insight helped produce a troubled but stable choice cascade by the late 1980s.

As seen in the case of Champion, aspirations and insight go together. Aspirations help define what insights are valuable, and such insights are pursued to the exclusion of other insights. In the case of

Champion, management appeared to spend enormous time and money on organizational development consultants who helped them achieve a refined level of insight on organizational dynamics, because such organizational dynamics were central to the aspirations of the firm. Thus, insight on organizational development was heightened, but insights elsewhere did not take shape.

Incentives

The third factor influencing the choice cascade of the status quo is incentives. Even with an unambiguous aspiration and clear insights, employees at whatever level will make choices that are consistent with the aspirations and within the capabilities of the insights only if the prevailing incentives encourage rather than discouraging such choices. The incentives in question are both monetary and nonmonetary. As Michael Jensen suggests, the level, composition, and shape of the rewards for behavior will influence choices made.

At Champion, choices consistent with the Champion Way were encouraged, and choices not appearing to be consistent were severely punished: *"Over time, those managers who did not change their style left the business. Some left on their own or retired; many were asked to leave. Between roughly 1987 and 1989, the top manager at each of Champion's 14 major mills was replaced, along with many other managers within the mills"* (Champion International, p. 7). This represented a very hard-edged incentive, with an unclear performance measurement system. The Champion Way statement contains no reference to competitiveness and only one passing reference to customers (*"and strengthening customer service"* [Champion International, Exhibit 4]). In this context, it is not surprising that there was no hint of pursuit of competitiveness in the entire case and, in contrast, much indication of Champion Way behavior (though whether espoused behavior or real behavior is somewhat of a question).

Scott and Asda provide little explicit data on the incentives under the status quo. Reading between the lines, however, the incentives appear highly supportive of choices that reinforce the continuation of the status quo.

The Three Direct Factors in Combination

The three direct factors—aspirations, insight, and incentives—influence choices made by everybody throughout the choice cascade. And the three factors influence one another. New insights can produce new aspirations, as in the case of Dennis Didier at Champion. Didier, a newly appointed plant manager, attended a training program, which provided him new insights on the market that he was serving. This insight raised his aspirations concerning customer service (Champion International, p. 9).

Similarly, incentives influence insight. At Champion incentives to pursue the Champion Way influenced the hiring and involvement of organizational development consultants, which in turn raised the insight of managers on organizational issues throughout Champion.

The three factors can best be thought of as a mutually reinforcing system that produces and reinforces the status quo cascade of choices.

Learning Capacity

A fourth factor, learning capacity, influences each of the three factors and thereby also influences the choice cascade. By *learning capacity* I mean the capacity of members of the organization to detect and correct errors and to seek new insights that would enable them to make choices that better produce outcomes that they seek. If learning capacity is high, members of the organization have a better chance of adjusting to changes in their marketplace. If learning capacity is low, they will find themselves making choices that are less capable of matching the aspirations they hold, and having difficulty adjusting to changes that present themselves.

Learning influences the setting of aspirations, as in the case of Dennis Didier at Champion, who learned new insights about customers at a training program and raised his aspirations as a result. Had Didier been closed to learning, he would not have raised his aspirations. Learning capacity also influences the level of insight. As Asda experimented with superstores, its managers developed new and proprietary insights into the operation of large-format stores in the U.K. market. Finally, learning capacity influences the incentive system. As

Champion learned about shareholder value in response to investor complaints about the languishing share price, Champion management altered the incentive system to encourage choices consistent with shareholder value maximization.

In the context of the choice cascade, learning capacity is enhanced when the choice maker above promotes a learning dialogue with the choice maker below by

1. specifying a choice and the rationale for that decision;
2. describing the nature of the next-level decision that the choice begets;
3. offering to assist the choice maker below in making the resultant choice, to the extent that the next choice maker desires assistance; and
4. offering to revisit the choice if the choice maker below finds the choice above to be counterproductively constraining of his or her resultant choice.

Learning capacity is further enhanced when the choice maker below promotes a learning dialogue with the choice maker above by

1. specifying a choice and the rationale for that choice;
2. if necessary, describing the way in which the choice above constrained the choice below in ways that are counterproductive for the overall organization; and
3. encouraging the choice maker above to revisit his or her choice to improve the overall choice cascade.

In pre-Norman Asda, there is incomplete information, but indications are that the organizational learning capacity was quite low. The Asda case stresses the formal hierarchy, the separateness of management, the lack of questioning of authority, the intimidation, the imperious buyers, and the lack of feedback from the store level (Asda (A), pp. 6–7). Not surprisingly, there appears to have been modest learning about the changing environment in which Asda operated. This is no surprise, because as managers within Asda made choices, the dialogue and the data sharing appear to have been highly limited. Certainly, the

corporate environment would not have produced a flow of market insights up the choice cascade. As a result, the status quo embodied modest aspirations, narrow insight, incentives consistent with the modest aspirations, and little learning capacity. Such a configuration resulted in a sticky status quo in which all the individual microchoices along the choice cascade served to maintain the status quo, even in the face of substantial environmental changes and declining performance.

The Scott case data is more sparse on this point, but the pattern seems similar to that in Asda. There appears to have been little fundamental learning even when things started to go bad. There were successive waves of layoffs and write-downs, but no fundamental rethink of the base business, no change in aspirations, insights, or incentives. Rather, the status quo choice cascade continued to remain entrenched until the arrival of Dunlap.

The Champion case is quite different with respect to learning. There is evidence of considerable learning, but in a narrow range. There is learning about how to work in teams, learning about one another, learning about the Champion Way. But there is little or no learning about the outside world. To quote new CEO Richard Olson in 1997:

> It is amazing how little we knew about the business. To some extent, Andy (Sigler) sheltered us all from the outside world. We were internally focused—we seemed to think we could make what we wanted, that we had good quality and service, and good facilities. What we discovered is that the external world has changed a lot. My greatest learnings have come through interfacing with the outside world. (Champion International, p. 16)

The narrowness of learning inadvertently constrained development of important insights, left aspirations too low, and provided incentives only in a narrow range of choices. In the end, Champion was shown to have a choice cascade powered by narrow insight and narrow learning.

To sum up, the status quo is a product of the choices and actions of members of the organization from top to bottom. The choices people make take the form of a cascade in which the choices above set the context for and constrain the choices below. I posit that that four factors influence the choices made along the choice cascade. Three factors are direct; the fourth influences the other three, which in turn influences the choice cascade. I suggest that to change the choice cascade, we have to first understand the current set of choices and what made those choices what they are today. In each of the cases—Scott's as of April 1994, Champion as of October 1997, and ASDA as of December 1991—the status quo can be understood in terms of the influencers of the choice cascade. In each case the company's troubles could have been predicted and are not surprising.

What Can We Learn from Changing the Choice Cascade at Scott, Champion, and Asda?

Change then requires alteration of the choice cascade throughout the organization. The tools are the one indirect and the three direct influencers of choice. We can predict that if we alter these factors, we can influence the choice cascade and produce real change. Further, if we develop dexterity at adjusting these factors, we can produce change in a direction we desire. That is the assertion. Let's look at the three case studies through the lens of the four influencers to see whether the changes are predictable based on the manipulation of the factors.

Scott

Al Dunlap entered the picture and quickly changed aspirations to focus on shareholder value maximization. He changed insight by replacing the old management team with a new team and by making intensive use of consultants throughout the operation. Finally, he changed the incentives of the senior management team to be totally aligned with share price appreciation. In particular, the incentives rewarded a short-term share appreciation and the sale of the company, because of the provision for immediate vesting under change of control.

However, Dunlap did not change or improve learning capacity at all. Trusted colleagues were brought in as senior managers to make predetermined changes. Consultants were employed to identify and bring about cost savings with little participation by managers. New senior executives and consultants, both in possession of absolute authority, were not about to learn through dialogue with managers or to impart their insights to managers.

I suggest that the overall choice cascade didn't change much. The change model employed required centralized control by powerful and non-learning-oriented executives and consultants. It also required centralized stock market incentives, limited to the key decision makers.

The results are what we would expect. There was centrally driven cost cutting designed to improve profitability, followed by a decision to sell, which triggered the change-of-control provisions and locked in huge gains for the senior management team (dramatically accentuated by an upward turn in the pulp and paper price cycle).

Kimberly-Clark, a formidable global competitor in sanitary tissues, bought Scott for purposes of total assimilation rather than for any managerial or choice-making capabilities. It is widely reported that Kimberly-Clark found Scott to be a disappointingly stripped-down shadow of the former great firm and experienced substantially higher integration costs than anticipated.

So in many respects the change model at Scott avoided the competitive test through capital market exit. I would have predicted a great crash at Scott, had Kimberly-Clark not rescued it, because of the lack of development of learning capacity and the absence of incentive changes for the vast majority of the choice cascade. However, that is not a fair criticism of Dunlap, because the Scott board created an incentive environment for him that made his strategy optimal for himself and for the shareholders—though only because he executed the sale before the pulp and paper price crash of 1996.

Champion

In 1997, Olson changed aspirations at Champion to focus on shareholder value and changed the incentives throughout the organization to align with the creation of shareholder value. However, there was no change to insight; in particular, insight with respect to competitive strategy, the historical blind spot of Champion. The three-pronged "strategy" announced by Olson in October 1997 is simply not a strategy: *"One—Focus on businesses where it can create shareholder value. Two—Improve the profit potential of ongoing business. Three—Exercise strong financial discipline in all areas of spending."* This is a statement of the generic tenets of any modern corporation, not a specific strategy designed to help Champion *"become the best paper company in the world,"* the aspiration stated by outgoing chairman Sigler. With respect to capacity for learning, the case is unclear. There may have been a greater level of discussion and dialogue that may have advanced learning, but that is unclear at the moment (Champion International, pp. 15–17).

I predict that Champion will change, based on the changes in aspirations and incentives, but that it will not come close to achieving Sigler's parting aspiration without dramatically increasing insight into competitive strategy. Otherwise, Champion will continue to perform at the level of the average North American large pulp and paper company, which will yield disappointing returns for the shareholders and for Richard Olson.

Asda

Asda represents the trickiest diagnosis. It is the subtlest of the three cases. The components are there, but the overall picture is unclear, and the Asda story has been truncated by the Wal-Mart acquisition.

Aspirations changed with the arrival of Norman. Insight, too, was dramatically changed and enhanced with the arrival of Norman, an experienced strategy consultant and retailing executive, as well as numerous new executives and a veritable phalanx of consultants. Incentives were changed with a compensation system heavily weighted toward share appreciation.

However, the impact on learning capacity was less clear. A number of formal mechanisms were introduced, suggesting a focus on greater learning (e.g., saunas, PAGs, and SHITMs; see Asda (B), pp. 12–13). But it is unclear whether these formal mechanisms represented real dialogue and learning or pro forma rituals, given the centralized control and intimidation I discussed earlier. It was clear that managers had to be seen to be participating and seen to be following the Asda Way of Working (AWW) or face dismissal. As a result, it is hard to determine from the case whether actual exchanges of ideas and learning dialogue that changed managers' insights took place.

Despite the espoused theory that *"The heart of the Asda Way of Working is very good communication between everyone—up, down, and sideways!"* (Asda (B), p. 10), there is significantly more evidence of senior management not listening than listening:

1. The first meeting with the senior management team at Asda: *"The meeting took 30 minutes. After Norman finished there was no discussion or questions"* (Asda (A1), p. 2).
2. Norman replacing the CFO: *"Having decided to replace the CFO, Norman saw no sense in delay. The meeting consisted of Norman informing the CFO and managing his departure"* (Asda (A1), p. 2).
3. Observation of Norman by a manager in the field: *"Usually Archie said he wanted something to happen, and it did"* (Asda (B), p. 10).

These are not bad management practices per se and may have been appropriate in each case, but they do not form a pattern of dialogue aimed at increasing the learning capacity of members of the organization.

Even listening alone is not particularly conducive to building learning capacity. It can be a highly unilateral activity. For example: *"A store manager explained that Norman was known to show up unannounced at a store with a blank pad of paper, just start talking with colleagues on the floor, and leave a few hours later with pages of notes"* (Asda (B), p. 10). This is a positive example of Norman's showing learning capacity by listening to a store manager so as to build his own insight and thereby make better decisions as a CEO. However, this is a far cry from building the learning capacity of the organization, beginning with that of the store manager who provided the thinking captured in the notes. Norman could have engaged in joint decision making and mutual learning with the manager in question, rather than asking enough questions to fill a notepad and retreating to the executive suite with the insights garnered. Had he done so, he would have enhanced the learning and learning capacity down the choice cascade rather than simply enhancing the learning at the top.

There may be a great deal of evidence not included in the case study that would suggest genuine dialogue and learning across the organization. In that case, Asda would represent a constructive pulling of all four influencing levers. But if the case study represents a reasonably random sample, then the behaviors of senior management, in particular those of Norman and Leighton, are in-consistent with building the learning capacity of the organization. As such, I see the Asda case as a story not of producing profound change in the overall choice cascade, but rather of muscling the top end of the cascade with superior senior management insight and power.

As I mentioned above, Asda's sale to Wal-Mart truncates the experiment to a great extent. At this point it is unclear whether Asda attained or was even on the path to attaining a sustainable competitive position in the U.K. grocery-retailing environment. Now we will never know, because Wal-Mart will undoubtedly engage in total assimilation and conversion of the Asda chain, as it has done with acquisitions in countries such as Canada. Wal-Mart wants the store locations, the initial market share, the distribution apparatus, and about nothing else.

Where Do We Go from Here?

So where are we now? My crude causal model posits the following things:

1. The status quo is manifest in and maintained by a choice cascade that pervades the organization, ranging from the highest-order to the lowest-order choices.
2. Employees throughout the organization from top to bottom who make real choices and take action define the status quo.
3. Their choices are influenced directly by aspirations, insight, and incentives.
4. Aspirations, insight, and incentives are influenced by learning capacity, which thereby influences the choice cascade indirectly.
5. To bring about change, one must change the choice cascade.
6. Espoused theories and intentions do not produce change.
7. Changes in the choice cascade at all levels of the organization are important.
8. Changes at the top of the choice cascade can be undermined by lack of change lower down in the cascade.

9. Change agents have four levers to pull: aspirations, insight, incentives, and learning capacity.
10. A robust model of change utilizes all four levers in coordination.

I have been working in earnest on this causal model for the past two years, using a methodology suggested at the conference; that is, combining the efforts of academics, consultants, and practitioners. I have been working collaboratively on the model with two firms, a very large bank and a very large consumer products firm. As part of the effort, I have assembled a team consisting of three academics, a handful of strategy consultants from Monitor Company (most of whom are involved in the work with the two clients), an organizational development consultant, and two members of the client firms. The team has met over the course of the work to reflect on the consulting work and did the model in real time. Working with two members of the clients as partners rather than clients has been a wonderful aspect of the experiment. These individuals are actively involved in the model building, not just passive recipients of the output. The fact that their organizations are paying substantial amounts for the work encourages them to enforce on the work a rigorous and objective measure of success. The inclusion of academics ensures that we are maintaining academic rigor in the process.

So where do we go from here? As a learning community, we need to develop and refine alternative causal models of change. They require scrutiny, testing, and refinement by academics, consultants, and business executives. In this chapter I have put forward a crude causal model, which I have developed in conjunction with the team above. I am continuing to refine the model and pilot it in the two firms. I would call for other conference participants to provide a critique of this model and to introduce other models to the group.