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**The Organization of the Future:**

**Strategic Imperatives and Core Competencies for the 21st Century**

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Poised on the eve of the next century, we are witnessing a profound transformation in the very nature of our business organizations. Historic forces have converged to fundamentally reshape the scope, strategies, and structures of large, multi-business enterprises.

Driven by new competitive demands and fueled by an abundance of capital, companies have massively rearranged their portfolios, adding and discarding businesses to sharpen their strategic focus. Those discreet and dramatic portfolio plays, characterized by the high-profile mergers and acquisitions of the past three years, have provided a constant flow of front page news. But beyond the headlines lies a more subtle story, one with greater long-term significance than the acquisition appetites of auto makers and telecom giants. Heading into the new century, the most important business development is the pursuit of competitive advantage in an uncertain world through new approaches to organization design.

These new approaches should lead those of us concerned with the theory and practice of organizational design to reconsider those ideas still grounded in the post-War, pre-Internet world that lasted through the 1980s. As this remarkable decade draws to a close, it's appropriate to reflect on the state of organization design and to distill those timeless ideas that will guide us in designing the effective organization of the future.

Our purpose here is first to present our perspectives on the most relevant lessons of organization design. We'll then examine the challenges of the new environment and their implications for tomorrow's organizations. Next, we'll identify six new strategic imperatives that flow from this reshaped environment. We'll conclude by proposing a set of organizational challenges that encompass the most critical design issues for the organization of the future.

**A PERSPECTIVE ON ORGANIZATION DESIGN**

What we think of today as "organization design" began to evolve in the aftermath of
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World War II. Building on the research of the 1920s and 1930s and the experience of the 1940s, the notion of the "organization as machine" gave way to a more subtle perspective on the social and technical aspects of the organization. Much of our contemporary thinking can be traced to the landmark work Organization and Environment by Lawrence and Lorsch, (1969), which introduced several profound ideas. The first was "contingency theory"—the notion that organizations are most effective when their design characteristics match their environment. The second major idea flowed from the first; if two units of the same organization operate in different environments, each should take on different characteristics. That creates a dual demand for both "differentiation" and "integration," or the capacity to link different units within the same organization.

The twin principles of "integration and differentiation" are more relevant than ever, given the complexity of modern organizations. The new challenge is to effectively manage dramatically different businesses that overlap or even compete against one another within a single, strategically focused enterprise. What’s more, there will be a growing need for integration patterns—joint ventures, alliances, etc.—that extend beyond traditional corporate boundaries.

We believe there are four core lessons of organization design that will retain their relevance in the coming decade:

1. The environment drives the strategic architecture of the enterprise, either through anticipation of, or reaction to, major changes in the marketplace. Every industry evolves through cycles of incremental change punctuated by turbulent periods of disequilibrium that call for radical or discontinuous change. The organization’s capacity to understand its environment and to make the right kinds of strategic changes at the appropriate point in the cycle will determine its competitive strength.

2. Strategy drives organizational architecture, a term that describes the variety of
ways in which the enterprise structures, coordinates, and manages the work of its people in pursuit of strategic objectives. Over the years, we have described this concept as the Congruence Model of Organizational Behavior (Fig. 1). This model views the organization as an open system that transforms input from the external environment into output of various types. The organization, consisting of the formal and informal arrangements, the people, and the core work, is driven by an articulated strategy. The more closely each component of the organization is aligned with the others—and with the strategy—the more effective the overall performance. Consequently, effective organizations design patterns of formal and informal structures and processes best suited to their strategic objectives.

3 The relationship between strategy and organization design is reciprocal. How an enterprise is organized will influence its focus and time horizons, either encouraging or restricting its people’s ability to develop creative strategies.

4 The basic dilemma of organizational design remains unchanged. This raises several questions: How do we design and manage both differentiation and integration? How do we group people, processes, and operating units in ways appropriate to their unique competitive environments and strategic requirements, while maintaining their link to the larger organization? How do we encourage both divergence and cohesion? The key to effective design requires an appreciation of the underlying duality of this challenge.

Assuming these are the relevant lessons that should continue to guide us, our task in the remainder of this paper is to address three key issues:

1 What are the key characteristics of the changing business environment? What are the critical changes that will drive new thinking in strategic and organizational architecture?

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2 What are the strategic imperatives that flow from the environmental changes we’ve identified?

3 What organizational challenges will be created by the new strategic imperatives? How will effective organizations translate strategic imperatives into new organizational architectures and new leadership priorities?

To answer these questions, we begin by considering the historic trends that have already begun to reshape the competitive environment.

**THE NEW BUSINESS ENVIRONMENT**

In many ways, today’s business environment has changed qualitatively since the late 1980s. The end of the Cold War radically altered the very nature of global politics and economics. In just a few short years, the triumph of capitalism has spawned a variety of trends with profound consequences: the opening of markets, true global competition, widespread industry deregulation, and an abundance of accessible capital. We have experienced both the benefits and perils of a truly global economy, with both Wall Street and Main Street feeling the pangs of economic dislocation half a world away.

At the same time, we have fully entered the Information Age. Startling breakthroughs in information technology have irreversibly altered the ability to conduct business unconstrained by the traditional limitations of time or space. Today, it’s almost impossible to imagine a world devoid of intranets, e-mail, and laptops. With stunning speed, the Internet is profoundly changing the way we work, shop, do business, and communicate.

In less than ten years, the changes wrought by new information technology have been phenomenal.

As a consequence, we have truly entered the Post-Industrial economy. We are rapidly shifting from an economy based on manufacturing and commodities to one that places the greatest value on information, services, support, and distribution. That shift, in turn,
places an unprecedented premium on "knowledge workers," a new class of affluent, educated, and mobile people who view themselves as free agents in a seller's market.

Beyond the realm of information technology, the accelerated pace of technological change in virtually every industry has created entirely new businesses, wiped out others, and produced a pervasive demand for continuous innovation. New product, process, and distribution technologies provide powerful levers for creating competitive value. More companies are learning the importance of destructive technologies—innovations that hold the potential to make a product line, or even an entire business segment, virtually obsolete.

Another major trend has been the fragmentation of consumer and business markets. There's a growing appreciation that superficially similar groups of customers may have very different preferences in terms of what they want to buy and how they want to buy it. Now, new technology makes it easier, faster, and cheaper to identify and serve targeted micromarkets in ways that were physically impossible or prohibitively expensive in the past. Moreover, the trend feeds on itself, a business' ability to serve sub-markets fuels customers' appetites for more and more specialized offerings.

IMPLICATIONS OF ENVIRONMENTAL CHANGE

We all know that change has become an inherent part of business. What's more significant is the rapidly accelerating velocity of change. More specifically, the lifespan of product, process, and distribution technologies has contracted with breathtaking speed.

The critical issue is time. The rapidly increasing velocity of change warps organizational time and space, bending the very shape of the enterprise. It's not just simply a matter of doing the same things, only faster; it's more like the difference between checkers and three-dimensional chess. The massive demands imposed by time compression will force organizations to:

- Compete and innovate simultaneously in multiple venues and in overlapping time frames; and
- Find creative ways to design and implement new organizational architectures in half the time required by current processes without sacrificing the benefits traditionally associated with deliberate planning and appropriate participation.

Together, these changes in the business environment challenge our fundamental assumptions of organizational design. Historically, the purpose of organizational structures was to institutionalize stability; in the organization of the future, the goal of design will be to institutionalize change. In that sense, we stand in the midst of a profound shift in the design and purpose of organizational design.

THE NEW STRATEGIC IMPERATIVES

We believe that the changing environment we've just described creates six strategic imperatives for the organization of the future. It will be required to:

1. Increase Strategic Clock Speed. From a strategic standpoint, speed is quickly becoming a critical success factor. In a strategic context, speed involves an organizational capacity to understand, anticipate, and respond appropriately to those external changes that fundamentally alter the rules of engagement and the sources of value in a given industry or business segment. Examples abound: the deregulation of telecommunications and other utilities, the emergence of new technologies such as wireless communication, the development of e-commerce, and the rise of "category killer" outlets in consumer segments such as home improvement (The Home Depot) and toys (Toys' R Us). Vir-
tually every industry has seen vast changes in the way it designs, produces, or reaches the market with its offerings.

Timing is everything. During periods of radical, discontinuous change, the first movers enjoy significant advantages. Those who perceive the early signs of discontinuity in the environment and then rapidly fashion an appropriate new strategy are infinitely more successful than those who miss the warning signs or delay their response. Those who move slowly find must react to competitors; those who wait too long find themselves struggling for survival.

2 Focus Portfolios, with Various Business Models. Over the past 40 years, there’s been significant change in the underlying strategies that defined our large and complex business enterprises. Through the mid-1960s, the classical form or organizational architecture consisted of companies with a single dominant business design that was largely duplicated down through the pyramid of divisions and operating companies. These shared designs allowed for tight linkages and a sense of consistency. The mid-1960s saw the rise of the conglomerate. Driven by a thirst for growth, a fundamental belief that “bigger is better,” and a desire to offset the cyclical downturns in specific industries, companies diversified their portfolios in unprecedented ways. Within each corporation, there might be dozens of companies with wholly unrelated strategies and entirely different business designs. The holding company model involved only the most minimal linkages across the enterprise, with each business operating essentially as an independent agent in pursuit of financial goals dictated from above.

Now we’re witnessing the emergence of the new “strategic enterprise.” The changing marketplace no longer rewards unfocused growth and gross market share. Instead, companies are reshaping their portfolios in the pursuit of strategic focus, concentrating on those businesses where they can create sustainable value by applying their core competencies to provide competitive advantage. They are spinning off or selling businesses that either dilute focus, in terms of resources and managerial energy, or whose potential value cannot be leveraged within the larger enterprise. In effect, companies are breaking up and reassembling the traditional value chain.

This sharpened focus is leading companies to seek new ways to compete within a given competitive space, operating simultaneously in mature, emerging, and future segments of the same markets. Consequently, we’re going to see more and more variations in business design within a single enterprise. In this context, we use the term “business design” as defined by Slywotzky and Morrison as encompassing four dimensions: which customers to pursue, how to capture value (i.e., profit), how to maintain a unique value proposition, and what scope of activities to pursue.

For example, consider the case of Lucent Technologies, a spinoff created by AT&T in 1995 from four of its businesses and much of Bell Labs. As part of AT&T, those businesses were locked in a strategic dilemma created by deregulation: In order to realize their full value, they would have to do business with AT&T’s widening array of direct competitors. That created major conflicts for everyone concerned. Once Lucent became independent from AT&T, its value as a manufacturer and supplier of telecommunications equipment and systems skyrocketed; its profits more than quadrupled between 1995 and 1998, and its stock price rose from $13.50 a share in 1996 to nearly $120, adjusted for splits.

But it wasn’t long before Lucent realized that it, too, would have to reshape its business design. Just a few years after the spinoff, Lucent exited the consumer business, where it lacked the front-end linkages—sales, distribution, customer base—to sufficiently leverage its back-end technology and production strengths. Instead, Lucent chose to focus exclusively on business communications. In early 1999, it acquired Ascend Communications Inc., a move that represented a $20 bil-
lion bet on data networking—a business involving substantially different technology than Lucent’s traditional circuit switching. Now, the challenge for Lucent is figuring out how to manage these two different—and, in some ways, directly competing—business designs.

3 Abbreviated Strategic Life Cycles. Each industry progresses through a fairly predictable life cycle. There may be huge differences in the duration of that cycle depending upon the industry segment, but the pattern of cycles is consistent. Understanding those cycles is essential for leaders. Different stages in the cycle of industry evolution—the well-known “S-curve”—demand different strategies at various points along the curve.

But waves of change in industry leadership suggest that firms must engage in both incremental and discontinuous technical change, as well as architectural innovation—taking the same product and taking it to different markets. Thus in photolithography for disk drives, leading firms were unable to take known technologies and move to new customers. Dynamic capabilities seem to be rooted in shaping streams of different types of innovation in a given product class.

The consequences of the sweeping and rapid changes in the environment discussed earlier have had the effect of substantially shortening those evolutionary cycles for every industry. In the past, companies large and small, including AT&T, General Motors, and even IBM, could get along for a decade, and sometimes longer, without any fundamental changes in strategy. Those days are gone. Rather than thinking in terms of decades, the pace of change in the environment will require the organization of the future to significantly change its underlying strategy on a regular basis of between 18 months and five years, depending upon the industry. Indeed, it’s not uncommon to hear executives, as they talk about strategic cycles, talk in terms of “Web years,” signifying a compressed timeframe of three months rather than twelve.

4 Create “Go-to-Market” Flexibility. The fragmentation of markets, one of the significant changes in the environment, has enormous strategic implications for organizations. In order to reach each market segment in the most effective way, companies have begun focusing more intensely than ever before on the rising demand for “go-to-market” variability. Various market segments offer widely divergent demands for the same core product or service in terms of pricing options, sales and service support, speed of delivery, customization, and so forth. Today, no organization can succeed with a “one size fits all” approach to the marketplace.

The most highly publicized changes, of course, have involved the Internet and the emergence of so-called “e-commerce”; by some accounts, sales of goods over the Internet rose from being barely measurable in 1996 to more than $4 billion during the 1998 Christmas season. Waves of change in distribution channels are coming faster all the time. It was only a few years ago that independent booksellers were wilting under the pressure of the book superstores, such as Barnes & Noble and Borders. Then, practically overnight, Amazon.com reshaped the industry, putting the leading competitors on the defensive and forcing them to follow the upstart onto the Web, despite their enormous investments in brick-and-mortar outlets.

Implicit in the notion of “go-to-market” variability is the potential it creates for conflicting internal priorities. Consider the auto industry. By some estimates, we are quickly approaching the point when more than half of all new car buyers in the US start out by searching the Internet for information, comparing models, options, prices, and financing alternatives before they ever set foot in a showroom. What many shoppers are looking for is a vehicle’s factory invoice price, the essential number that equips them to bargain knowledgeably with the local dealer. That’s not good news for the dealer; but at this point, the auto companies have no choice but to cater to the demands of sophisticated customers for more and better information. At the same time, reeling from assaults by Car-
Max and other high-volume used-car chains, the auto companies have to think seriously about starting their own used-car outlets—an historic shift in distribution that would put a further squeeze on profits of their own franchised dealerships.

Enhance Competitive Innovation. It has practically become an article of faith that innovation provides a critical source of competitive advantage. But the accepted definition of “innovation” is too narrow; we would argue that the scope of innovation must be expanded to include the full range of an organization’s capabilities.

Innovation traditionally focused on products and processes. More recently, distribution has attracted attention as an area where significant innovation can lead to dramatic gains. But the combination of product, process, and distribution still fails to capture the full potential for organizational innovation.

We believe the successful organization of the future will also develop exceptional skills to innovate in two other areas: strategy development and organization design. If the most critical characteristic of the new business environment is the accelerating pace of change, then the ability to quickly and creatively develop and implement new strategies and the organization designs required to make them work will become a major source of competitive differentiation.

Manage Intra-enterprise Cannibalism. What we call “purposeful cannibalism”—the need to develop and support new strategies, product lines, and distribution channels that might eventually dry up existing revenue streams—is not a new idea. Visionary business leaders have done it for years. But two elements of intra-enterprise cannibalism are new.

The first change is that cannibalism has been rare. Business historians praise Tom Watson Jr. for his foresight in developing the IBM 360, which held the potential to wipe out many of the company’s best-selling product lines. His willingness to put a major revenue stream at risk was remarkable in large part because it was so uncommon. In the successful organization of the future, the idea of cannibalism will become routine, an accepted part of each company’s strategy.

The other change relates, once again, to speed. In the future, it won’t suffice to make one big bet each decade. The pace of innovation and the abbreviated strategic cycles will force companies to place multiple bets on an ongoing basis, acknowledging that a new product may be well on its way to obsolescence by the time it reaches the market.

Lucent Technologies’ $20 billion acquisition of Ascend, which we mentioned earlier, involved more than a strategy of multiple bets on alternative technologies. There’s a good chance that the newly acquired data networking strategy based on packet switching may actually displace the circuit switching technology that now provides the bulk of Lucent’s profits. And before long, it’s entirely possible that Lucent will have to invest in alternative packet switching strategies as new technologies come along and require new business designs.

ORGANIZATIONAL CHALLENGES

The six strategic imperatives described above create a compelling need for some new and unconventional organizational architectures. As we said earlier, organizational architecture throughout much of this century was generally viewed as a way to institutionalize and manage stability. But today, the challenge is to design organizational architectures that are flexible and adaptive, that enable the organization to perform effectively in the face of uncertainty—not just day-to-day, but in the broader context of profound discontinuous change.

In our view, the new strategic imperatives create a corresponding set of challenges for the organization of the future; to succeed, organizations will be forced to become proficient in eight core competencies.

Increase Organizational Clock Speed. The strategic imperative of timely anticipation
and speedy response to change will require the design of organizations with the capacity to do everything faster. The ability to configure the organization in ways that ensure a constant and acute awareness of impending changes in the marketplace will become an essential capability that will separate the leaders from the laggards.

Beyond that, organizations will have to find creative ways to achieve unprecedented speed in all their operating and support processes. They’ll want to significantly reduce their time to market and time to volume. They’ll want to accelerate decision-making up and down the line. They’ll need to substantially cut the time it takes to design and implement strategic and organizational changes. Enlightened leaders already understand that speed doesn’t mean operating the same way as in the past, only faster; they know that radical improvements in speed involve doing things differently. In order to increase strategic clock speed, organizations will face three challenges.

First, senior leaders will need a much deeper understanding of the quickening cycle times in their industries. They will have to alter their assumptions about large-scale change, both in terms of the frequency and speed of major change initiatives. Once upon a time, CEOs were expected to be the stewards of stability. Through the 1980s, a CEO might expect to lead one or, in extreme cases, two episodes of radical change. Today, and in the coming decades, leaders of complex organizations should enter their jobs with the expectation that they might well be required to reinvent their organizations three, four, or even more times over the course of their tenure. That will require a fundamentally different attitude about the role of the CEO as an agent of change.

Second, successful enterprises will need to develop sensitive organizational antennae—the roles, structures, and processes that will significantly enhance their ability to detect the early warning signs of value migration. In particular, they will have to keep close watch on minor players and industry outliers, the frequent sources of major innovation. They are the ones to monitor most carefully; they are the ones most likely to employ new technologies and distribution patterns to nullify the dominant conventional business designs.

Finally, companies will need to redesign their organizational architectures in ways that encourage the “capacity to act” in response to indications of environmental change. In too many organizations, managers lack clear accountabilities, support from above, adequate resources, and sufficient information; faced with major opportunities or challenges, they freeze in their tracks. The growing demand for speed in every facet of the business will require organizations to fashion the formal structures, processes, and roles as well as the informal operating environment necessary to encourage managers throughout the enterprise to act swiftly and independently.

2 Design Structural Divergence. The changing environment is requiring enterprises to employ a variety of business designs as they develop multiple ways to achieve value within a defined competitive space. The organizational challenge will be to master the art of designed divergence—the ability to create, support and link, where necessary, a wide variety of related businesses that use dramatically different architectures to pursue varying and sometimes conflicting strategies.

In recent years, we have argued the case for ambi dextrous management—the ability to maintain superior performance in established businesses while managing innovation in targeted areas. The organization of the future will have to be more than just ambidextrous; in a sense, it will have to become polydextrous. Rather than operating, in essence, in both the present and the future, polydextrous leadership will also require an ability to coordinate businesses that are both complementary and competitive in the current marketplace (Fig.2). That will require a fundamental rethinking of the form and purpose of organizational architecture. The framework we have developed over the past 20 years, the Congruence Model, is generally synonymous with consistency. It implies that effective
organizations maintain a consistent architecture, with minor variations, throughout the enterprise. We now believe that the organization of the future will seek congruence at the enterprise level, providing an effective framework that successfully melds a broad array of different architectures at the business unit level and beyond. Rather than seeking blanket consistency, leaders will come to perceive internal architectural divergence as a powerful source of evolutionary strength.

The most critical issue will be to figure out the appropriate linkages across a broad range of very different businesses. The challenge involves an inherent balancing act: minimizing linkages in order to maximize the focus of independent business units while, at the same time, capitalizing on potential sources of leverage to create value from the joint ownership and management of multiple businesses. In other words, leaders will have to learn when it's best to encourage autonomy and differentiation, and how to create value through the selective use of linking structures and integrative processes.

In reality, the choices are somewhat limited. Businesses can be linked on the back end, through common technology architectures. They can be linked in the middle through infrastructure—manufacturing processes, supply chains, etc. And they can be linked on the front end, through shared customer relationships, distribution channels, sales and service operations, and so on (Fig. 3). The more points of linkage, the more diffused the focus. So the issue is to start with a clean slate, to weigh the marginal costs and benefits of each potential linkage, and to arrive at the correct scope and intensity of linkage at each point in the value chain. Corning Inc., for example, has come to the conclusion that its various businesses—photonic
devices for telecommunications, stepper lenses for photolithography (for creating chips), ceramic substrates for catalytic converters—offer no leverage on the front end, minimal leverage in the middle, and considerable leverage on the back end, where common technologies provide innovations with applications across its businesses.

**3 Promote Organizational Modularity.** The growing prevalence of abbreviated strategic life cycles will require ever-faster development and implementation of appropriate organizational designs. That requirement clearly calls for both product and process innovation in the domain of organizational design. The implications may be far-reaching, indeed.

In recent decades, we have rejected the notion of “off-the-rack” organization designs. We have steadfastly argued in favor of “custom designs.” Our thinking was based on two fundamental beliefs; first, that each design should be suited to the unique demands of the organization—its environment, its strategy, its people and its culture; and second, that the very process of designing the appropriate structures, processes, systems, and roles held inherent long-term value for the organization and the individuals who took part in the process.

As valuable as it has been, it may well be time to rethink that approach. The transforming requirements of speed might well dictate situations in which there is simply not enough time to engage in a conventional organization design process. We may be approaching a time when theorists and practitioners ought to develop a set of design principles that will allow organizations to quickly select an appropriate architecture for a given strategy.

Many organizations will no longer be able to afford the luxury of spending six or nine months creating and implementing a new design; few companies will be able to wait that long to address the imminent changes in their environment. So the notion of starting each design process with a blank slate will soon become obsolete. The chal-

![Figure 3](image_url)
lenge will be to devise a streamlined process, employing modular design, that still retains some of the important benefits—the learning, insight, team-building and ownership—that we attempt to create through the customized design approach.

4 Structure Hybrid Distribution Channels.
The strategic imperative for go-to-market variability will require organizations to develop different kinds of structures that will enable them to simultaneously manage different channels of distribution in order to serve highly fragmented markets. Xerox Corp.'s early 1999 restructuring—its third in less than a decade—illustrates the kind of new, creative designs that will be required by the organization of the future.

For years, Xerox basically sold a range of generic products through a sales force that called on companies, built relationships, and helped customers to learn about the features and benefits of those products. But changes in the environment battered the business design that had served Xerox so well. Early in the 1990s, Xerox reorganized into business units that focused on selling particular products to corresponding segments of the office market. But after just a few years, that design, and its later refinements, failed to keep pace with the continued fragmentation of the market. The digital office, the proliferation of small businesses and home offices, the demand for new ways to purchase and service equipment, the unique document requirements of specific industries—they all served to fragment the market for office equipment and solutions.

In many cases, companies were no longer satisfied with just "the box," a freestanding copier sitting in a side office. As the digital office became a reality, more customers demanded a networked, multi-function machine to help them solve production, distribution, and archiving problems; others wanted the software and systems design to make the whole set-up work seamlessly. And in extreme cases, they wanted Xerox not only to supply the system, but to design and operate it as well. At the other end of the spectrum was the so-called SOHO market (Small

![FIGURE 4](image-url)
Office/Home Office), whose customers were primarily interested in products that were inexpensive, high quality, easily installed and operated, and quickly ordered, often by phone or over the Internet. And in the middle was still a substantial conventional market, businesses that were happy to keep dealing with the traditional sales force.

Early in 1999, Xerox reconfigured the front end of the organization to focus on customer segments (Fig. 4). These segments recognized the geographic distinctions markets in varying stages of economic development and the specific needs of customers in various industries. Facing these customer segments were an array of targeted operations and business groups. General Markets Operations, for example, was aimed at the lower end of the market, and consequently required the structures, processes, culture, and clock speed needed to meet the demands of the small customer. On the other hand, Industry and Solutions Operations focused on solutions rather than products, and was further segmented by industry on the principle that systems solutions in financial services and pharmaceuticals, for example, must be unique and custom-tailored.

The Xerox organization design leverages the back end of the value chain, the common technologies. It involves an uncommonly complex design on the front end, however, one that recognizes that Xerox must provide immense variety in the ways it goes to market if it is to compete successfully in a marketplace characterized by the fragmentation of sub-markets.

5 Design metrical Research and Development. The strategic imperative of competitive innovation will require the organization of the future to design the structures and processes that guide research and development in some new and creative ways.

Today, different companies design their R&D processes in different configurations, but in the end, there tends to be a single innovation model patterned around the basic business model. That model is entirely inconsistent with the notion of design divergence. Within the same enterprise, businesses and operations with very different strategies will
require dramatically different innovation streams, or processes for turning ideas into marketable products. Organizations that insist on applying a single innovation process symmetrically across the enterprise will inevitably run into trouble.

The problem is that competing simultaneously in both the present and the future requires a range of R&D processes, structures, priorities, and behavior. In a mature business, the emphasis in innovation is on the right solution—the absolutely right solution. The marketplace will accept nothing less. Particularly if you’re among the market leaders, you can follow a highly structured process with strictly enforced priorities, deadlines and resource allocations.

The picture is entirely different in emerging markets. There, the priorities are speed and flexibility. If you can be first to market, a roughly right solution is better than none; in the extra time it might take to find the absolutely perfect solution, the market could well pass you by. And in those early stages of product life cycle, the customer calls the shots; R&D operations need the flexibility to respond swiftly to unexpected opportunities and challenges.

Consequently, companies whose strategy requires a range of business designs cannot employee symmetrical innovation processes and hope to succeed. There will still be value in a core R&D function; allocating all R&D to the business units eliminates an important potential source of leverage. But the processes by which R&D operates in relation to each business unit—goal setting, funding mechanisms, conflict resolution, etc.—need to be customized and asymmetrical.

6 Construct Conflict Management Processes. In the past, as we’ve mentioned, an important role of organization design was to preserve consistancy, stability, and perhaps even a degree of harmony within the organization. But as we look to the future, organizations that use design to impose an artificial sense of stability in the face of sweeping environmental change will become their own worst enemy.

Instead, effective leaders will actually use organization design to import the conflict and competition of the marketplace into the very structure of their companies. But as the proliferation of internally competitive strategies becomes commonplace, what are the implications for organizations and their leaders?

In short, conflict management will become an essential organizational capability. Today, an extremely short list of companies—Inte1 usually tops the list—have established reputations for their ability to creatively manage internal conflict. What is a rare talent today will become a standard requirement before long. The successful organization of the future will need to develop the processes, cultures, and behavior capable of accommodating and resolving conflict in ways that benefit the customer and strengthen the value proposition.

So far, we’ve been describing organizational challenges that directly correspond with the new strategic imperatives. There are two additional organizational challenges that apply to the full range of strategic imperatives: the changing nature of organizational coherence, and the magnified role of executive teams. Both address the issue of how to manage the organization of the future as it changes to address the growing demands of speed, variable business design, abbreviated strategic cycles, greater go-to-market variability, competitive innovation and intra-enterprise cannibalism.

7 Organizational Coherence. In recent years, we’ve witnessed a growing recognition that values, culture, and shared goals are replacing formal structures as the glue that holds organizations together. That trend will rapidly accelerate as the result of the strategic and organizational changes we’ve discussed here.

As business units and operating companies become increasingly autonomous, to the point of becoming outright competitors with one another, the very nature of organizational coherence will undergo a radical transformation. Job titles, formal structures, and bureaucratic procedures will have less and
less importance to people whose primary loyalty will be to their own business group and, even more narrowly, to their own professional discipline. Organizational coherence at the enterprise level will become increasingly difficult to maintain, and will rest almost entirely on a common goal and a small number of shared values—not the formal rhetorical flourishes that are the organization’s espoused values, but those few values that truly embody the way people think of themselves and their enterprise.

In that context, the notions of “brand” and identity will assume growing importance within the enterprise. The dominant cultural norms—the H-P Way, the feistiness of Sun Microsystems, the insistence on winning at Lucent Technologies, Intel’s creative conflict, or Microsoft’s self-image as the best and the brightest—these will be the understood, though not always explicit, values that will hold divergent enterprises together. The so-called “soft stuff” will, over time, become the essential stuff.

Executive Teams. Where will the leadership come from to generate this intangible coherence while managing the tangible hardware of the enterprise? The answer will lie in the executive team.

Consider the degree of complexity we’re envisioning for the organization of the future. In a sense, what we’re talking about is the capacity to manage paradoxes. Large organizations will have to be managed as if they were small; they’ll have to be both global and local; they’ll need to promote both internal conflict and overall coherence. It’s virtually impossible to imagine how a single person, in the form of the CEO, could possess the staggering combination of leadership skills, managerial talent, and technical knowledge required to meet these assorted strategic and organizational challenges. It’s absurd to expect that of one person.

Instead, it will fall more and more to the executive team to become the key mechanism for managing the organization of the future. That does not diminish the role of the CEO; to the contrary, the effective CEO will have to become a deft leader of the executive team, a major job in itself. It will require the combined efforts of the CEO and the executive team, working together, to truly understand and anticipate the changes in the environment. It will be up to them to make the critical strategic decision. It will require their combined efforts to understand the timing and guide the implementation of the constant refinement and tuning the complex organization will demand—redesigning the structure to add focus here or to provide more leverage there.

These sophisticated tasks will require the combined intellect of senior people who share a commitment to the common good of the enterprise. Indeed, the enormity of the challenge suggests that senior leadership will need to be expanded for certain types of work, drawing upon the skills, knowledge and insights of people who haven’t traditionally been viewed as members of the senior-level inner circle. One of the challenges for top leaders will be to determine when, how, and in what situations to make the top team more inclusive rather than less.

What is clear is that the organization of the future, in order to succeed, will become less dependent on the independent actions of disaggregated individuals. To succeed, organizations will have to develop a competency in the design and leadership of executive teams, a collective skill that will be just as important as the ability to design innovative strategies and organizational architectures.
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