

Preface

Excellence is about change. We would not have said this in the 1980s or perhaps even in the 1990s. Today it almost goes without saying. Most organizations simply cannot sustain excellent performance unless they are capable of changing.

In the 1980s, the best-known management book was *In Search of Excellence*. It identified a number of companies that were excellent performers. By the late 1980s many of them had ceased to be excellent performers. It was not that they had lost the ability to do what they had done; it was simply that what they had done no longer fit the demands of the business environment.

In the 1990s, the leading book on organizational excellence was *Built to Last*. Contrary to many people's perceptions, *Built to Last* was not about high-performing organizations, although the authors report that their visionary companies outperformed the market. Their purpose was to identify the principles that allow firms to endure.

Foster and Kaplan, in their book *Creative Destruction*, make a strong case that surviving is not the same thing as performing. They note that only 29 of the firms in the original 1917

Forbes 100 list made it to 1987. The survivors earned a long-term return during the period that was 20 percent less than the market. Similarly, they note that of the firms in the 1957 S&P 500—a list that contains both *Built to Last* visionary companies and their paired counterparts—only 74 remained on the list in 1997 and only 12 of them outperformed the S&P 500 index over the same period. Foster and Kaplan's analysis shows that many of the *Built to Last* visionary organizations were never consistently high performers, just really good survivors.

It is interesting to note that over the last decade about half of the *Built to Last* companies have not been able to sustain a high performance level. It is about the same percentage of *In Search of Excellence* companies that struggled in the decade following the publication of Peters and Waterman's best-selling book.

The frequent decline of high-performing organizations makes a sobering point: successful management approaches and business strategies often have an expiration date. As a result, we have not written a book about patterns and principles we found in studying companies that have been highly successful. Nor have we created a list of high-performing companies to emulate. Instead we have written a book about a useful and internally consistent vision of how organizations should be designed so that they can be successful *and* change. Our belief is that by looking forward we have identified what organizations can do to achieve and maintain excellence.

As the rate of change in the business environment continues to increase, the premium on organizations' being able to change is growing ever more significant. Senior managers in particular need to constantly ask themselves whether they are providing the kind of leadership and direction to their corporation that will allow it to change when needed.

For several decades, we have been interested in why organizational change efforts so often fail. Like many others, we have been intrigued by the various change models that have been offered. Most of them suggest that with the right interventions, most, if not all, organizations can make significant changes. We are not at all sure that this is true. If it were, more of the *Built to Last* companies would still be excellent performers. Many of them tried to change and had the resources to change but still fell short.

We believe that some, maybe even most, organization change projects are doomed to failure from the beginning. The type and amount of change that is being attempted is simply beyond the ability of most organizations to adopt successfully. Admittedly, some organizations have made amazing transformations. Nokia, for example, has become a successful global electronics company, even though its roots were in a different technology and a local market. But the reality is that most change efforts in established organizations fail to meet expectations because the internal barriers to change are so strong. We believe that the only way to ensure that organizations will be able to change is to *design* them to change, to create organizations that love to change.

There is a great deal of research today on organization effectiveness and organization design that provides invaluable information about how to build an organization that is ready to change. We also can identify a number of examples of companies that have successfully managed to change time and time again. In many respects this is a book about those organizations, one driven by them and based on their successful change efforts. It is about how Procter & Gamble, Johnson & Johnson, Limited Brands, and Toyota have managed to respond to a

changing business environment. The contrast between them and companies that have failed to change is dramatic. GM continues to lose market share; Toyota gains it. Sears has struggled while the Limited has grown. Proctor & Gamble and Johnson & Johnson have both shown that they can nimbly adapt to a notoriously changeable world.

This book is not focused on the kind of transformation that AT&T needed to make, and failed to make, when it was suddenly faced with deregulation. Even if AT&T had been designed to change, it is doubtful that it could have successfully made the transition from a regulated monopoly environment to today's crazily competitive telecommunications world. In short, the company was probably doomed to fail; it was just a matter of time before it did. Enron is a high-profile example of just what can happen when a transformation fails. It was transformed from a regulated public utility to a financial trading organization. In some respects, this was actually a successful transformation, but it ended in disaster because Enron moved too far away from its core identity and lost touch with reality.

Although we are pessimistic about organizational transformations of the kind that AT&T needed to make and the kind that Enron tried to make, we are optimistic that organizations can be built to change. Our optimism is based on the ability of some companies to do this and on research that suggests the right policies, practices, and organization designs can make a company "change ready."

In many respects, the ultimate competitive advantage in today's business environment is the ability to change. *Built to Change* focuses on how organizations can develop this advantage. We have chosen to focus on identifying practices and designs that organizations can adopt in order to be able to

change. Through examples, we show how some organizations have successfully used pieces of a built-to-change approach. We have chosen not to identify a set of built-to-change (b2change) organizations—in part because an organization's past success, the usual criterion for identifying excellent companies, is not a sufficient basis for identifying companies that are likely to be successful in the future.

We recognize that it is increasingly difficult for senior executives to think very far into the future because of the tremendous pressure placed on current operating results. Thus, as we look at practices and designs that make an organization ready to change, we also consider whether they contribute to current organizational effectiveness. The optimal practices and designs are those that create high-performance organizations that are ready and able to change. There are enough of these practices available that organizations can—with only a little additional investment in change readiness—be both high performance and built to change.

A word about our title is in order. It plays off the mistaken notion that *Built to Last* was about organizing for stability. Collins and Porras clearly suggest that the study was not about stability but about the principles of survival over long periods resulting in truly iconic companies. Collins suggests, in his Preface to the 2004 edition, that *Built to Last* is the sequel to his 2001 book *Good to Great*. We see *Built to Change* as the sequel to *Built to Last*; it represents what organizations need to do once they have developed the foundation for survival and want to increase their effectiveness over time.

We begin our discussion of b2change organizations by identifying the determinants of organization effectiveness and providing a way to think about these determinants. We then

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look at the various required elements in the design of a b2change organization. These include the strategy and the ability to change the strategy, as well as the processes, structure, leadership behaviors, human capital, and reward system of the organization. In each case, we focus on practices that both support current high levels of performance and facilitate an organization's ability to change.

We conclude by discussing the challenges involved in creating a b2change organization—a difficult journey and one that not all organizations are likely to be able to measure up to. We believe that those companies that do make the transition will thrive, because they will be able to respond effectively to an uncertain and often unpredictable future.

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