

Performative organisation : Learning to Design or Designing to Learn ¹

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To Summarise

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Abstract

Performative organisation is capable of sustaining relational strategies both between operating units and their customers and also between the units themselves and the organisational centre. Enabling individual business units to exercise design control over the way they relate to their client/customers requires a different kind of (general) business architecture. This general business architecture must sustain a clear distinction between the 'macro' concerns of corporate process, which covers the design of appropriate relationships and structures within which the 'micro' concerns of SBU strategy process can be effectively addressed; and which relate to the specific issues of configuring business activities in a particular manner to achieve sustainable relationships with its customers. Being able to sustain relational strategies demands network-based organisation in which authority is built from alliances around addressing the needs of the client/customer.

¹ With apologies to Donald Michael (1968), who considerably earlier coined the expression *Planning to Learn or Learning to Plan* in his book on *The Unprepared Society*.

Introduction

In a recent special issue of the Strategic Management Journal, guest editors C.K. Prahalad and Gary Hamel (1994) drew attention to the process of industry transformation. Building on the evolution of the notion of the dominant logic within the firm (Prahalad and Bettis, Bettis and Prahalad), they focused in particular on the requirement to change this logic and the consequent need to rethink the unit of analysis for competitiveness. As previously recognised in the strategy literature, such issues can also be framed in terms of the overall decision processes within the firm. However, John Harvey-Jones is reported as observing (Pettigrew 1985) that during his time as the CEO of ICI, whilst the Board of the company took specific decisions every time they met, it proved to take many years to get them to address the question of how they took these decisions. To address such a question could be seen as merely the first stage in developing a critical understanding of the way in which particular corporate processes can support the realisation of competitive advantage. We suggest that, particularly in the larger firm, such issues can usefully be framed in terms of three specific aspects:

1. How are we to understand the role of the Centre?
2. Is there a different way of understanding organisation?
3. How is it possible to organise learning?

Design Control

An understanding of the role of the centre involves considering the nature of competitive advantage: for some time now, we have been developing an approach to understanding this in terms of *design control*. This views businesses as particular configurations of people, knowledge and assets, the organisation of which is a design response to customers' needs. The symbol Λ is a shorthand way of referring to this design control/response, which we choose because of its resemblance to levels of hierarchy. The exercising of this design control is expressed in terms of *knowledge domains* which describe the contexts in which the organisation's *competences* and *capabilities* can be deployed effectively.

The nature of this design response (Λ) can be formulated in terms of different levels of explanation concerning the what, how, for whom and why of the design: what does the business do (Λ_1), how is this organised (Λ_2), who organises it in relation to whom (which customers)² (Λ_3), and what are the why's and wherefore's of the business and its customers in assuming these designs³ (Λ_4).

All these levels of explanation are always present, but they are not always explicated by the organisation. The level to which they are explicated is a *strategy ceiling*. This ceiling limits the ways in which the organisation can explain to itself what it wants to do, and therefore sets a limit on the nature of the strategic options which the business sees as being available to it. Issues which arise

² What is later referred to as 'market organisation'. This concept is used in Wensley (1996) to distinguish between 'market structure' - the revealed nature of competition between offerings in the market as a whole; and market organisation as the overall relationships between firms and customers, including the nature of the network of inter-relationships between manufacturers, suppliers, other intermediaries, retailers and customers themselves.

³ What is later referred to as 'demand organisation'

above the ceiling are either resolved explicitly below the ceiling, or remain implicit above the ceiling in the personal processes which arise between those who have the power to resolve them.

The process of raising the strategy ceiling for a business enables it to *know* what its strategy is, and therefore to *commit* its management to that strategy: this is the *strategy process*. Being able to explicate all levels enables the business to describe itself in relation to the organisation of demand in the environment in which it is competing. This demand organisation is expressed not only in terms of the organisation of supply and demand which is embedded in it (the 'who for whom'), but also in terms of the nature and complexity of the configurations of knowledge domains which are constitutive of this organisation of supply and demand (the 'why's and wherefore's'). In this sense, we would wish to redefine somewhat the way in which Kay (1993) refers to demand organisation: he effectively restricts his attention to the internal and external contractual arrangements.

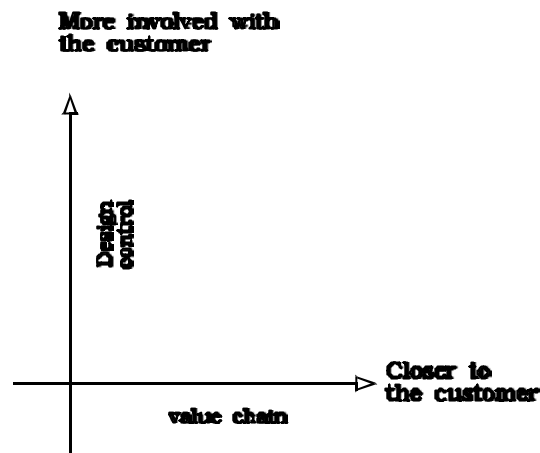
In some industries the rate at which these forms of design control (Λ) change is slow, and the strategic problems facing the industry can be formulated in terms of assets as they have been configured rather than in terms of the forms of design control themselves. The industry under these circumstances can be described in terms of *value chains*⁴, reflecting the particular way in which the assets have been configured. This description in terms of value chains has the advantage of enabling the strategy process to operate at a lower level (below Λ_4) in terms of positional strategies. Under these circumstances, a universal demand organisation can be defined, reflected in the particular form of the value chain, and reflecting the fact that the industry as a whole is formed under common why's and wherefore's (Λ_4). This universality was first clearly recognised in the academic domain by Spender (1989) with his articulation of 'industry recipes': common assumptions within the industry as to its nature.

In high technology and high service industries, however, where being able to exercise design control is central to establishing competitive advantage, this is no longer the case, because different businesses are competing on the basis of different perceptions of demand organisation. Under these circumstances, the particular dimensions along which design control is being established by the business are relative to demand organisation. But markets can only be at their most efficient when whole Sectors are operating under a common Λ_4 . Thus the pursuit of strategies which are based on differentiated Λ_4 s also creates market 'inefficiencies'. Under these circumstances, we speak of *value ladders*⁵. A value ladder is a description of the different levels at which design control can be exercised over the value chain. Thus the higher up the value ladder a business is competing, the more it is able to engage with the dynamics of its industry structure; and in terms of the

⁴ In Porter's terms (1985), the value chain for a firm is the particular design configuration of activities within the firm that are constitutive of its capacity to create margin. Industry structure is therefore described in terms of how these value chains link together.

⁵ Porter, in speaking about organisation structure (1985, pp60-61) says: "An organisational structure that corresponds to the value chain will improve a firm's ability to create and sustain competitive advantage. While this subject cannot be treated in detail here, it remains an important issue in the implementation of strategy". This is the traditional 'economics' view of organisation. The concept of value ladder inverts the relationship between organisation and its manifestation in the form of a value chain, so that it is organisation *qua* design configuration which is primary.

customer/client relation, whereas going 'downstream' means getting 'closer', going 'up the ladder' means getting more 'involved' with the customer/client's business.



Thus a fast-food counter or a bank teller might be very close to the customer, but not at all involved; whereas a barrister or a researcher might be very involved but not at all close: being in close physical proximity does not necessarily involve sharing meanings and concerns.

How are we to understand the role of the Centre?

Middle-out development of strategy

The current tendency to move decision making closer to those concerned with implementing decisions, in order to make use of their local market and customer knowledge, is timely. This tendency is reflected both in the shift away from broad strategic analysis and towards encouraging strategic thinking throughout the organisation; and in the emergence of more decentralised strategy development through Strategic Business Units. This raises new questions over the role of the Centre, and its capacity to add value to its SBU's.

For the SBU manager-in-the-middle who has historically had the task of relating the broad corporate strategies to the detail of delivering products and services to the customer, this shift in emphasis creates new stresses, for it is not possible for him⁶ to assume, even in the most established consumer goods companies, that the strategic development of such activities can be construed within the traditional marketing mix (4P's) framework⁷. He needs a framework which enables him to take account of the crucial interactions and dynamics going on within the market's infrastructure itself between customers, competition and channels (3C's) - to develop his own positioning (Boxer and Wensley 1986, Wensley 1995). In other words, a 3C framework is needed if market and industry dynamics have to be theorised.

If the SBU manager-in-the-middle is then to be effective in responding to his increasingly complex responsibilities in relation to such markets, where the technologies and customer requirements are

⁶ There is no particular reason why "he" should be of the masculine gender. We have chosen to refer to "him" as if this were the case throughout this text.

⁷ These were formulated by E. Jerome McCarthy in 1960 as Product, Place, Promotion and Price.

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being re-formulated, he must also be given the ability to manage the micro-organisational context within which he delivers products and services. This micro-organisational context is crucial because it determines the quality of the relationship that can be sustained with the customer. When this 'micro-organisational context' itself becomes a marketing variable, the SBU strategy becomes fully relational.

Does passing such power to take strategic initiatives from top-down to the middle-out necessarily reduce the residual 'top' to a kind of second-rate capital market and/or to the policing of business' performance? On the contrary. It requires top management (the 'Centre') to develop a completely new role for itself. The prime concern of top management becomes one of managing the development and deployment of new forms of knowledge through the ways in which managers are enabled to frame their business' activities. Thus, rather than assuming that strategic wisdom can be located in one place, top management has to expect that it will be dispersed throughout the business. As such, rather than being the embodiment of wisdom, top management has to manage the development of this dispersed wisdom together with new ways of capitalising on it.

The role of the Centre

This brings us to the question of the role of 'The Centre'. A Strategic Business Unit (SBU) will be formed under a particular Λ , and the question of the role of the Centre can be in terms of its relation to this Λ . We approach this question in terms of *corporate process*: what form of corporate process is appropriate?

The work Campbell and Goold did on 'Strategies and Styles' (1987) explored the role of the Corporate Centre in relation to its businesses. It made distinctions between three major styles in terms of two dimensions:

- the type of planning relationship
- the type of control exercised

The three major styles correspond to different balances between planning and control, so that "strategic planning", being effectively 'hands-on' the strategic development of the business, needs minimal controls; while "financial control", in which the business is assumed to know more about its development needs than the Centre, leaves the business to manage itself within a framework of 'output' criteria considered to be appropriate for its cost of capital etc. "Strategic control" then comes between these, where, in effect, a strategic framework is agreed with the businesses under which they are expected to manage, but it is left up to the business how it does this 'within the rules'.

In terms of design control and knowledge, we can interpret these as different (Idealised) forms of Corporate Process: (i) "Strategic Control" at its best reflects a consensual approach to strategic development where both the Centre and the SBU both know this Λ (ii) "Strategic Planning" reflects a situation where the Centre is in a position of knowing 'best', or at least of embodying at the Centre the 'best' knowledge; and (iii) "Financial Control" reflects the situation where the Centre works in relation to the SBU's understanding of its Λ in a process of stretching and motivating the SBU's performance in relation to that Λ . Where the capital markets know an SBU's Λ well because of the nature of the industry it is in and its approach to it, this financial control role of the Centre becomes of limited added value. The more obscure the Λ becomes, however, so the more useful becomes the mediating role the Centre takes in relation to the market.

The most extreme examples of this phenomenon of 'mediation' are to found in situations in which the markets themselves are emerging, for example in the way IBM mediated the emergence of the PC market. In other areas where there are questions of public good in the way the market operates, for instance, such as the NHS, a central strategic issue is the characterisation of the 'market' itself: the role of the Centre becomes much more clearly not just one of mediation but one of design also. In the flurry of recent debates not only about NHS structures but also about privatised utilities, it has become very clear that the organisation of the market that is established has very significant impacts on future outcomes.

Beyond Parenting: The Boundaries of Box 4

A matrix can be developed to characterise Centre-SBU relations based on the Campbell and Goold work:

	SBU knows Λ	SBU doesn't know Λ
Centre knows Λ	Strategic control	Strategic planning
Centre doesn't know Λ	Financial control	'Box 4'

In this matrix we have identified a critical domain in which there is a gap in their analysis of the relationship⁸: How does the Centre operate in this Box 4? This is the antithesis of strategic control, and the process is explicitly developmental. Existing formulations of design control/response are being called into question in a *critical process* in which the limits of what both Centre and SBU know are being 'pushed': the aim is (organisational) learning. If the other three forms of corporate process are concerned with adding value to existing positions/ Λ's, then 'Box 4' is concerned with creating new formulations.

In their more recent work, Campbell & Goold have been exploring the nature of the 'parenting' relationships between the Centre and businesses (Goold, Campbell and Alexander 1994), making a further distinction between:

'vertical' parenting, in which the Centre governs the strategic development of its businesses on the basis of its superior knowledge and understanding over that of the business; and

⁸ One could argue that their more recent work on corporate 'parenting' takes them into this domain as well, but it seems that their notion of such parenting represents, as we will discuss later in this paper, a rather less developmental perspective than the term might imply.

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'horizontal' parenting, which is paradoxical in the sense that the business 'knows' as much as or more than the Centre, so that the major sources of its strategic development lie elsewhere - through horizontal linkages.

'Vertical' parenting then is based on relationships of *affiliation* with the Centre; and 'horizontal' parenting is based on relationships of *alliance* with other sources of knowledge and experience.

The move away from 'change programs' towards network-based forms of intervention therefore appear to characterise this 'Box 4' approach best. These are interventions that work through building networks of alliance and cooperation around particular tasks, and which depend on building common understandings and interests.⁹ This is a characteristic of the best of Financial Control as well, however, except without the same agenda for change. The Centre's insistence that the SBU delivers performance which is consistent with what it says is possible, forces the ceiling to be raised in the SBU's Λ . There is an important shift therefore in the nature of the role of the Centre from the Centre knowing (vertical parenting) to one of not-knowing (horizontal parenting).

In practice horizontal parenting is easily confused with vertical parenting in which the definition of and relationships between SBU's are re-formed in the likeness of the Centre's view of Λ . (This may be different from the existing *tacit* Λ .) Consultants are frequently used to support this kind of intervention, in which one tacit Λ is being over-written by another explicit Λ , the weakness of which (as with all top-down change programs) only arises when it encounters different views of what-is-going-on which are experienced as "resistance" or "blocks to implementation".¹⁰

Two kinds of process can, however, support an effective intervention to address questions of horizontal parenting and therefore in effect to shift the boundaries of Box 4. Firstly, an examination of the forms of demand organisation being addressed by different SBUs to see how they relate to each other, and in the process how each suggests different ways of formulating the other SBUs' competitive advantage. In effect this is a *macro-process* in which the diversity and variety of Λ 's are being used as a basis for suggesting new positions/SBU's - it is the corollary of questioning the systems of control which go with exercising financial control. The role of information, and the ways in which it is or is not used to support new forms of thinking, whether as a learning or a control process, becomes crucial at this stage.

Secondly, an examination of the fine grain of the way the SBU exercises design control itself - exactly how is it a response to the customer's needs. This is in essence a *micro-process* which calls into question the Λ from 'underneath'/bottom-up. Of course these two processes inform each other. The macro-process is questioning the forms of knowledge and understanding of the Centre, and the micro-process that of the SBU's - each approaches 'Box 4' by pushing the edges of 'what is known' by SBU (micro-process) or Centre (macro-process).

⁹ See Charan's article on how networks reshape organisations (1991).

¹⁰ See Peter Scott-Morgan's book on "The Unwritten Rules of the Game" McGraw-Hill 1994 for an approach to understanding the implications of this tacit Λ coming up against top-down Λ .

Macro-process

A financial control regime is only effective if the businesses have internalised a capability for their own strategic control. The businesses will at least have a positional approach to their competitive advantage. Once the developmental dimension is opened up however, this positional approach must become relational, as the businesses develop new linkages and re-invent themselves in relation to new markets. *Strategic Architecture* is a way of referring to the Corporate context in which these processes take place. It is at least the Corporate context in which the business is operating, but goes wider than that in describing the whole competitive context *as it relates to the business*. It is at least the corporate context in which the business is operating, but goes wider than that in describing the whole competitive context¹¹ *as it relates to the business*. The shift from positional to relational strategies demands that this architecture shifts from a *specific* architecture - one in which SBU strategy is 'hard-wired' into organisation - to a *general* architecture.

Why architecture? Because architecture can be designed and engineered, and still leave it open to the business how it 'lives' within that architecture. So a concern with architecture is a concern with creating the conditions in which it is possible to create new configurations¹². The macro-process is the principle of sponsorship that extends to creating this architecture within which businesses can develop.

Micro- process

The SBU is itself a design configuration of business activities. As we have seen, fundamental to the concept of 'position' here is *design control*. A position represents a particular way of configuring business activity in relation to competitors, customers and knowledge. The consulting interaction, insofar as it is alliance based, approaches the business not in Ideal-based terms of knowing better, but as one approaches a design problem facing a design team... A "lets see how we can come up

¹¹ Porter (1990) in his well known framework describes this context in terms of 4 factors:

- the firm strategy, structure and rivalry;
- demand conditions;
- related and supporting industries; and
- factor conditions (basic and advanced; generalised and specialised: human, physical, knowledge, capital, infrastructure)

The first two of these we can address in terms of *supply* and *demand intensity*. The definition of the third describes the value chains 'upstream' of the SBU. The last of these we define in terms of *knowledge domain intensity*, insofar as the knowledge domains involved reflect advanced and/or specialised factors. A general architecture makes it possible for an SBU to configure these factors in the particular ways it needs to secure competitive advantage. The role of the Centre becomes one of creating the conditions in which this is possible.

¹² Christopher Alexander goes so far as to suggest this is a key concern of the building architect:

" Each one of us wants to be able to bring a building or part of a town to life.. those of us who have been trained as architects have this desire perhaps at the very centre of our lives: that one day, somewhere, somehow, we shall build one building which is wonderful, beautiful, breathtaking, a place where people can walk and dream for centuries" (1979:9)

Architects argue the same specific:general distinction in terms of the relative emphasis given in a design to function and form.

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with a quality response to this together by pooling what we know". It is these micro-processes which create the future.

There are obvious links between this view and much of what is implied in both Business Process Re-engineering and Quality Function Deployment. Both of these techniques require a functional definition of customer requirements, although in practice, they seem to be based on internal teams responding to a rather broad and generic categorisation of customer requirements. Even when these requirements are expressed in more refined terms such as order-qualifying and order-winning criteria, they tend to be formulated in terms which are more positional than relational. A true quality process at the micro-level requires a recognition that customer's themselves are active participants in the relationship: that they too should exert a significant degree of design control.

The quality of the micro-process is therefore the key to Corporate Process. The only challenge the Corporate Process faces is in creating the conditions in which micro-process can achieve its effects.

Is this a different way of understanding organisation?

'Front-line' complexity vs 'value-chain' complexity

Recent writing has begun to emphasise the importance of looking at businesses in terms other than the asset-based/economic ones. In the case of core competencies (Prahalad and Hamel 1990)¹³, we have a competency of the organisation as a whole which can be applied to a number of different customer situations to add value. For the knowledge-creating company (Nonaka 1991), the processes whereby tacit knowledge becomes explicated and codifiable for the organisation casts greater light on the nature of the processes which might generate core competencies. And capabilities take this concept further by describing the dynamic capabilities of the business in its very organisation - for example logistically (Stalk, Evans and Shulman, 1992).

What unites these approaches is an emphasis on *design*. Design is being used here not in the narrow sense of 'designer' suits, but in a broad sense of the overall design configuration of people,

¹³ However, we should also recognise that even in the eyes of some of those who support this development, such as Rumelt, the concept of corporate core competence remains to be properly tested:

" this clarity of view (of the focus on SBU structures) was purchased at a cost. Perhaps most costly were the lost opportunities for co-ordination and resource sharing. For co-ordination - across functions, across regions , across products and across time periods - is at the heart of strategic advantage. The clarity of measurement achieved by extreme profit-centre decentralisation also reduced the gains from scale and scope in particular functions and technologies, reduced the coherence of the corporation as a whole and enmeshed senior management in a world of administrative processes with little or no business context.

It is to this sense of lost coherence that Prahalad and Hamel's work on core competence has been responsive. Their framework has produced a resonance with all those who recognise that corporate management must be more than an exercise in control, more than the construction of portfolios. The challenge to academics is to recognise the validity of this resonance and to attempt to test, refute, extend and improve on the concepts offered. There is grist here for the research mill (for instance, the proposition that competition over competence is more fundamental than competition over product-market positions can be refined and tested. It seems likely that in some contexts, market position may have more to do with performance than corporate core competences)" (1994: xviii-xix)

know-how and resources - a systemic view of the organisation¹⁴. Particular configurations of assets associated with positions of competitive advantage are seen as the consequence of exercising *design control*. A value chain is therefore the result of de-composing an end-users 'design problem' into a series of subordinate problems, each one of which demands particular forms of design control. The level at which this design problem is being addressed we described earlier as the level on the value ladder.

In stable markets based on physical processes, this design approach is not strictly necessary - the value chain is taken as a 'given', and competitive strategy is organised around the nature of the specific positions along the value chain. As meeting customers' needs comes to depend increasingly on software instead of hardware, however, and technologies introduce more and more possibilities for alternative design approaches, so this design-based approach becomes more crucial if any sense is to be made of the 'market'. Nowhere is this more true than in the service and media industries. The competitive emphasis shifts from providing better versions of a product from a value chain, to one of developing value chains which are better able to provide products tailor-made to customers' needs: from occupying positions along a value chain to competing 'up the value ladder'.

The value chain complexity therefore becomes subordinate to the 'front-line' complexity - ie the design approach deployed opposite the customer's needs - and the level (on the value ladder) at which this is being addressed. An extreme case of this would be the design and building of Canary Wharf determining the logistical and supply infrastructure needed to support that project rather than vice versa; another would be the design and execution of programmes determining the production and supply infrastructure needed to support programme-making (rather than vice versa).

Defence contracting shows another example of this. The ways in which the end-user requirement (the military) formulates its demands is affected by the ways in which their needs are mediated by available technologies. New technologies make possible new ways of formulating needs as demands. As a result of this, new 'front-line' design approaches can be developed which in their turn give rise to whole new value chain infrastructures.

Another example would be the car manufacturers, who, through developing new design formulations of their products and services, re-structure the existing value chain infrastructure supporting them, and create new infrastructure. This has created notable and substantial effects in the UK for instance, in terms of arrangements for dealerships and their relationship with manufacturers, for example Nissan and Daewoo.

A third example would be in FMCG retailers, food retailing and financial services, where a trade-off has to be made between 'de-skilling' the front-line operation with compensating increases in the complexity of the supporting infrastructures (Dixons, MacDonalds, Lloyds). Not all of the loss of 'front-line' complexity is compensated for in this way however, so that shifts in the way such trade-offs are made may result in a significant increase in the amounts of shadow work (Illich 1981) left to the consumer of the service. Where the supplier has a local monopoly or strong market position, this is likely to go unnoticed, at least in the short-run. In other cases, in the name of customer flexibility, there is also an effective transfer of work to the customer from the supplier, such as, most

¹⁴ this systemic view of the organisation. particularly informs Senge's (1990) approach to organisational learning.

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obviously in a number of self-service contexts. The irony of this is that research suggests that customers sometimes prefer this form of service because of the degree of autonomy and choice that is available.¹⁵

Finally, the whole problematic of pollution and environmental sustainability can be understood in these terms. The environmental effects of the business are considered to be part of the front-line complexity which the business is (or is not) including in its definition of its relationships with its environment¹⁶. In the recent Brent Spar incident, it became clearly apparent that Shell's relationship with its customers could not be neatly divorced from their response to the environmental impacts of some of its commercial decisions, even when they had apparently followed proper international legal procedures.

The consequences of this are that the identity of the SBU, however large or small it is, has to be capable of being called into question as new configurations of business unit activity have to be considered in response to new competitive conditions. Thus a relational approach to the market increases the need for 'horizontal' processes capable of creating value in new ways.

Developing a relational view of organisation

At the very least, individuals may depend on an organisation to provide them with a paid job. Beyond that, individuals may depend on an organisation for a sense of who they are, as far as it becoming a means of having an influence in the world. If we consider the reverse side of this - of not having a job, not having their work valued, or not being able to 'act in the world' - then we would expect this reverse side to cause anxiety. In this sense, an organisation can be said to function as a defence against anxiety for customers and employees through the ways in which it provides support for relations between people-and-things which individuals can live with.^{17,18} These relations supported by organisation are spread across time, both with respect to short-term and long-term time horizons. And they are also spread across 'space' in terms of the particular forms of design configuration (Λ) they reflect.¹⁹ Thus organisation describes the bringing of complex configurations of behaviour into relation with each other; and it persists over extended periods of time despite considerable variations in what-is-going-on. A fundamental issue which has to be faced when

¹⁵ Although there are signs that this is changing in the competitive environment of the 90's as retailers go beyond the dictates of achieving category and format dominance to consider new ways of achieving *catchment dominance*, not through depending on the effects of local monopoly, but rather through enhancing the product-service mix in ways which is catchment specific and targeted at influencing shopping behaviour. e.g. the development of Sainsbury's services as an alternative to price-cutting..

¹⁶ For an interesting example of corporate response to environmental issues see the 3M example in Shrivastava (1995).

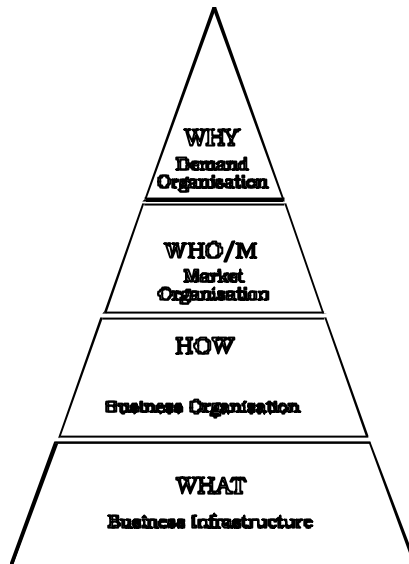
¹⁷ This is a view of organisation which follows on from that established in the Tavistock tradition. (Menzie Lyth 1988, Hirschhorn 1988, Kets de Vries 1991).

¹⁸ The organisation of a business can be viewed as a defence against anxiety, not only for the individuals who work in them, but for all its other stakeholders and customers. Elliott Jacques (1976, 1989) started elaborating this approach to organisation based on his Kleinian approach as a psychoanalyst in the form of Stratified Systems Theory (SST). Gillian Stamp (1978) has continued to do so with Career Path Appreciation (CPA).

¹⁹ A good introduction to systems thinking about organisation, and managers' experience of them, is in McCaughan and Palmer 1994.

introducing change, therefore, is managers' ability to cope with the anxiety it generates and/or releases²⁰. It is for this reason that the quality of leadership becomes so important during times of change.

If a business is described in terms of the configuration of activities crucial to maintaining the viability of its organisation, then *levels* can be identified whose relation is one of embedding the organisation of task in larger and larger contexts of organisation. These levels correspond to different kinds of



explanation of the organisation of the business. Four types of level can be identified²¹:

- WHAT: business structure (what the business actually consists of)
- HOW: business organisation (how are the structures of the business organised)
- WHO/M: market organisation ('who' is the business in relation to a 'whom' of customers/clients)
- WHY: demand organisation (what is the framework of technologies organising the desires and needs which are constitutive of the forms of demand which the supply-and-demand relations of the market organisation support).

As different levels of explanation, all these levels are always present. But if we understand the strategy ceiling of a business as being defined as that level below which it is able to make *explicit* what its strategy is, and below which it is therefore able to commit its management to that strategy, then all levels are not always explicated by the organisation: senior management may keep to itself

²⁰ A very good elaboration within the Tavistock tradition of the nature of these issues in Human Service Organisations is to be found in Obholzer & Roberts (1994).

²¹ A recent elaboration of levels which parallels these four, but in terms which preserves the primacy Jacques originally gave to timespan can be found in Luc Hoebeke's book on "Making Work Systems Better" (1994). As a result, his four domains - Added-Value, Innovation, Value Systems and Spiritual - very much emphasise a universal societal 'reading' of these levels. The book is interesting because it represents a reading which remains within the paradigm of second order cybernetics, and contrasts with the third order cybernetics paradigm being assumed here (Boxer and Kenny 1992), which leads these 'levels' to be read rather differently.

implicit definitions of the levels above the strategy ceiling as a result of the ways in which they define the lower levels.

Thus, although the strategy ceiling may limit the ways in which the organisation can explain to itself what it wants to do, and therefore may set a limit on the nature of the strategic options which the business sees as being available to it, it may also reflect the level above which issues of identity are held *a priori* - as being constitutive of the nature of the organisation itself. Issues which arise above the ceiling are either resolved explicitly at lower levels, or remain implicit in the personal processes which arise between those who have the power to resolve them. The exact formulation of these levels therefore depends on how the identity of the business is formed. Thus "raising the strategy ceiling" involves changes in the ways in which individuals vest their identities in the organisation - ultimately a question of power and politics²².

Raising the strategy ceiling step-by-step

The debate about task fundamental to the viability of the organisation, and the basis of its competitive advantage, is logically prior to the definition of 'levels'. Equally, however, a low strategy ceiling may mean that the current definitions of task cannot be called into question. Thus, if there are dynamic changes taking place in the structure of the market environment in which the business is competing, too low a strategy ceiling may mean that the business is unable to engage with the competitive challenges facing it - other than through the intuitive grasp and leadership of its top management.²³

The significance of these levels for the business can be appreciated by considering the different *orders* of marketing involved as more and more levels become variable in response to competitive pressure.²⁴ Thus marketing within a stable market organisation is a very different activity to marketing where demand organisation is not only changing, but can be actively influenced by the

²² Jacques has since modified his views (1995), so that rather than viewing organisations as having been concocted by individuals as a defense against anxiety, he argues instead that badly organised social systems arouse psychotic anxieties and lead to their disturbing acting out and expression in working relationships.

This argument suggests that both perspectives can be true, so that the former view would hold for individuals in positions 'above the ceiling'; while the latter view would hold for individuals in positions 'under the ceiling'. Thus most people's experience of work organisation would be from the latter point of view.

²³ This "intuitive grasp and leadership" may well be adequate to the challenge, and much strategic consultancy is aimed at 'refreshing those parts of top management's thinking which internal processes cannot reach'. But the more complex the changes facing the business, and the more intertwined they are with the very fabric of the way business is done, the more important it becomes for the strategy ceiling itself to change. "The Future of Identity" (Boxer 1994) elaborates some of the dilemmas facing top management in seeking to raise the strategy ceiling.

²⁴ M. Treacy and F. Wiersema describe the implications for these different levels of relationship with the market in terms of three different kinds of *value discipline* - operational excellence (what-how), product leadership (what-how-whom) and customer intimacy (what-how-whom-why). ("The Discipline of Market Leaders" Harper Collins 1995.)

business (eg through new technologies²⁵ or lobbying for changes in legislation). The more a business has to be relational in order to respond to competitive pressures, the more critical it becomes to be able to address the higher levels - both in its own organisation and in the level on the value ladder at which it engages with its client/customers. This movement through a series of forms of organisation, as more levels are included in the explicit processes of the organisation, can be represented as a step-by-step process. Responding to competitive pressures demands that the organisation moves to the right; and a movement 'up' reflects a new level of explicit ability to sustain the coherence of its identity²⁶:

Operational	Functional or Professional	Positional	Relational	
			7	IV - why
		5	6	III - who/m
	3	4		II - how
1	2			I - what

There is therefore an important relationship between the Strategy Process of the SBU (micro-process) and the nature of the Corporate Process being pursued by the Centre (macro-process). Micro-process moves 'across', and macro-process moves 'up', under the ceiling. The challenge for top-management is to relinquish implicit forms of power and control and replace them with explicit forms which can be articulated within the macro-process. This each change in the 'level' at which strategy is formulated is associated with a change in the 'order' of Corporate Process.

The 1-2-3 (viability) series above ends up with a business which is viable, and is capable of 'planning' on the basis of a detailed knowledge of **how** the business works. The role of the Centre -

²⁵ For a recent discussion on the impact of technology on the nature of competition see Bettis and Hitt (1995). However we would argue that their conclusion only really represents the starting point for the discussion in this paper:

"At the conceptual level strategic response capability must incorporate the abilities to rapidly: (1) sense change in the environment; (2) conceptualise a response to that change; and (3) reconfigure resources to execute the response (1995:16)

²⁶ This progression evolved out of Mintzberg's work on forces and forms in effective organisations (1991). Each strategy ceiling reflects a particular way in which the organisation balances forces of cooperation and competition in the formation of its identity. The significance of the shaded areas (i) are that to go too far across before going up introduces too much competition into an organisation for it to be able to hold itself together; and (ii) to go up before going across is to try and introduce changes top-down in ways which have not been developed out of the emerging logic of greater differentiation in the business' activities: it doesn't work (Beer, Eisenstat and Spector 1990).

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if it exists - is not differentiable from the SBU in strategy terms, because there is a single source of authority operating.

The second (autonomy) series 3-4-5 ends up with a business which can say **who** it is, and **for whom**. It can place itself in a market organisation which is its competitive environment; and the Centre is a guarantor of the rigour of the analytical processes through which it went in order to arrive at those conclusions, including providing the experience in how to interpret those rules in practice.

The third (performativity) series 5-6-7 ends up with a business which is capable of re-designing itself in relation to its competitive environment, of articulating the **why** of the business. The role of the Centre here is certainly to act as support for this process by helping the business not only to be rigorous in the application of its current understanding of the market, but also to call that very thinking into question. In this case, however, its role is also to create the conditions in which the dynamic effects of businesses pursuing changing strategies can be included. "Performativity" then because the Centre has to enable the Corporation both to add up as a whole, and to do this in a way which enables different businesses to deliver performance differently.²⁷

How is it possible to organise learning?

Organising learning

By 'lifting the strategy ceiling' in a way which is appropriate to the individual business, we enable the SBU to internalise, over time, a strategic capability. It is clear that the shift away from a strategic planning relationship with the Centre to one of financial control is a necessary condition for a shift from depending on relationships of affiliation to depending on relationships of alliance. But it is not a sufficient one.

The Centre continues operating a regime of financial controls which determine 'membership' of the community of businesses under that regime, but paradoxically it also seeks to be in a relationship of developmental alliance with the businesses. To resolve this paradox the Centre needs to differentiate its various roles in relation to its businesses. For example, internally, in the differing agendas pursued by Finance and Human Resource activities, or, externally, in the way the large accounting firms need to engage differentially with clients on an auditing basis and in the provision of consultancy support for strategic development.

At this stage we need to distinguish between two important and generic types of control. These two types can be summarised by the question as to whether the controls are established *a priori* (control), or *extemporary post* (performative), having worked through a process of strategy formulation. If the latter, then "control" becomes less appropriate, and financial **contracting** would seem to be a better description of what is going on - a contracting between the providers-of-funds and the SBU.²⁸ The question therefore becomes one of how businesses under financial control use

²⁷ The concept of performativity comes from the philosophy of speech acts developed by J.L. Austin ("How to do things with words", OUP 1962.) The performativity of a speech act referred to the conditions in which that speech act was able to produce its effects in speaker and listener.

²⁸ As we shall argue later on, this distinction between a priori and extemporary corresponds to the difference of approach between contingent and relational contracting.

consulting or learning processes in support of their strategic development if they do at all²⁹. There has, of course, been considerable controversy over whether or not organisations such as BTR or Hanson³⁰, actually generate development activity at all, or are simply excellent at end-gaming existing competitive positions.

The essential issue about the organisation of learning therefore is that it is *as if* it uses a financial control approach, except that it leaves the control to one of mediating the effects of market processes and the capital markets, and concentrates primarily on the developmental aspects of this (alliance-forming) approach. This means that its primary concern becomes one of building strategic and tactical alliances both within and outside the organisation.

Where does knowledge come from?

We believe there is a case to be made for differentiating styles of intervention in a way which matches these different styles of the Centre, and which provides a way of resolving the paradoxical nature of the development process of 'horizontal' parenting in the case of financial control (Boxer and Palmer 1994). The differences lie in the differing conceptions of 'knowledge' and 'learning' that are involved.

Consider the following three bases of authority³¹:

sovereign, in which there is a person or persons who *know* personally by virtue of their particular learning and experience;

judicial, in which *knowledge* resides in a particular system of thinking and juridical practice, commonly associated with frameworks, models etc

performative, in which knowledge becomes *savoir-faire*, that which is seen to work in practice.

The nature of the 'knowing' in the sovereign and juridical approaches are similar, except that in the latter the knowledge becomes codified and abstracted from the person(s) who know in the former. Both of these approaches involve appealing to an Ideal. Performativity is different, however, in that knowing here is defined primarily by reference to 'fittingness' or appropriateness-in-the-context. If there is an Ideal functioning here, it is immanent rather than transcendent.³²

²⁹ Some might argue that we have merely rediscovered that original but ill-defined notion of 'loose-tight linkages to be found in the original Peters and Waterman book!

³⁰ With the advantage of hindsight, it is interesting to reconsider the rather public debate between Hanson and the Board of ICI during the failed take-over bid. It is certainly possible that a number of moves such as the demerger of Zeneca were encouraged by a process of 'thinking like Hanson'. Ironically more recent events at Hanson itself have reinforced questions as to how far 'thinking like Hanson' does actually create additional long-term economic value. As is often the case in strategy process, it may be more realistic to say that any particular approach can add value at a particular time and in a particular context but is unlikely to be fully generalisable as a means to add value.

³¹ These distinctions owe their origin to Foucault's work on govern-mentality (1978), and are further elaborated in "The Future of Identity" (Boxer 1994).

³² This is a distinction which is rooted in a Lacanian reading of Freud, and concerns what is given the status of truth by the subject (which might be stated as 'how the object-relation is constituted'). The shift from a sovereign or judicial relation to truth to one that is performative is a shift from a truth founded on a relation to an Ideal to one founded on a relation to what is lacking in the constitution of the subject - to a want-to-be or to a

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The significance of these distinctions comes when we examine the nature of the relationship in learning alliances. In the first two, it is clear where the 'knowledge' is coming from - many consulting firms have become very rich on this basis. In the case of the performative alliance, the learning is very much jointly owned - it arises out of the nature of the process itself. What is at stake here then is learning organisation - the organisation of learning.

What is special, then, about an organisation of learning concerned with performativity? The Centre cannot operate a sovereign or juridical approach to the businesses which choose to operate on its 'patch'. And insofar as financial control is applied, it is applied by reference to the organisation of the capital markets and banking system. So the Centre has to work on the basis of alliances, both within and without the 'formal' organisational boundaries, focusing on the performativity of the interventions it makes.³³

This focus on alliances inevitably relates to the wide interest in networks and network structures. Hakansson and Johanson (1993) indeed claim that networks provide the opportunity to combine stability and change.³⁴

Further analysis of the link between the network notion of markets and the legal nature of relational contracting from either perspective raises interesting and challenging questions about both the nature of governance, but also the very notion of firm based competitive advantage.³⁵ Hakansson and Johanson (1993), for instance, raise very explicitly the issue of the network itself as a governance structure, particular under conditions of major technological change:³⁶

what-is-left-to-be-desired. Thus this notion of 'fittingness' or appropriateness-in-the-context is ultimately a question of a particular relation to desire which is also a way of understanding an Ethics of Psychoanalysis (Boxer 1994)

³³ This is a problem which Charles Sabel talks about in "Moebius-Strip Organisations and Open Labor Markets; some consequences of the reintegration of conception and execution in a Volatile Economy" (1991). In it he argues that, from the point of view of the 'Centre' the Corporation becomes more a federation - a 'meta-corporation'. Relational contracting becomes the tie which binds the network of alliances, and the efforts of the 'Centre' have to be directed towards "creating institutions in which the distinction between learning and monitoring is reduced to the point of imperceptibility." (p33)

³⁴ " The network does not, in other words, solely make possible the combination of stability and change, it makes use of the combination too, From an industrial point of view, this aspect is of critical importance, for it allows the combination of efficient production methods requiring stability with changing demand and business conditions" p.48

³⁵ Our own work on relational contracting suggests that the process involves making the firm itself a variable, so that what is being designed is a constitution under which the relationship may be governed. Under these circumstances, 'the firm' comes to be seen as an effect of the constitution.

³⁶ In a parallel development, it is interesting to note that there has been an increasing interest amongst analysts of the law in the nature and implications of so-called relational contracting. Some time ago, Macneil, for instance, concluded that:

"Somewhere along the line of increasing duration and complexity.. the contractual relation escapes the bounds of the neo-classical system...moreover the substantive relation of change to the status quo has now altered from what happens on some kind of market external to the contract to what can be achieved through the political and social processes of the relation, internal and external... at this point the relation has become a mini-society with a vast array of norms beyond the norms centred on exchange and its immediate processes" (1978:901)

" we posit that network governance is an effective and viable structure, or mode, if there are many, changing, strong specific activity interdependencies. Consequently, when technological change and multiple technological dimensions are important, the network type is effective". p.47

This approach links closely with the idea of moving from a value chain to a value constellation perspective as described by Normann and Ramirez (1993)

“ To win, a company must write the script, mobilise and train the players and make the customer the final arbiter of success and failure, To go on winning, a company must create a dialogue with its customers in order to repeat this performance over and over again and keep its offerings competitive. Companies create value when they make not only their offerings more intelligent but their customers and suppliers more intelligent as well.. companies must continuously reassess and redesign”

This continual process of reassessment and redesign therefore takes place within a context which is much wider than just the firm itself and involves both commercial partners and actual and potential customers.

In conclusion

Hence we identify an underlying ambivalence in many current normative approaches to strategy. For various good reasons, there has been a shift towards a focus on sources of competitive advantage which are variously described as inimitable, intangible and/or tacit. The relevant knowledge bases for such sources of competitive advantage are seen to be diffuse and only partly codifiable within the routines and procedures of any one organisation or group of organisations. Thus, paradoxically for those concerned with normativity, as these knowledge bases become increasingly diffuse and uncodifiable, they also become seen as closer to the sources of competitive advantage. The ambivalence arises, then, when the desire to extract normative forms of knowledge from the practices of management finds itself coming up against a limit: managing the processes of learning and knowledge acquisition in a strict and formal sense proves to be an impossible task. Focusing our attention instead on designing organisational architectures which encourage and facilitate performative action may be rather more fruitful.

Finally, in this context, it is important to note that many would argue that the central notion in the network perspective is one of exchange rather than transaction:

"exchange relationships do not have to involve an economic component. There are other dimensions along which exchange can take place. These dimensions could include those that have been identified as forming bonds of different types in parallel with economic bonds in economic exchange relationships i.e. technical. planning, knowledge, social and legal. As examples, competitors can exchange or share technical equipment, complementary suppliers may have to plan and coordinate their logistical activities; communication networks usually overlap industrial networks; social relationships within a network are not confined to buyer-seller relationships; and legal ties in the form of contracts or ownership can bind network actors who are not otherwise linked in terms of strictly economic exchange" (Easton and Araujo 1992:66)

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