The Productive Organization:
Survival of the Fittest

by Ted Thomas, Kevin Gentzler, and Billy Miller

> ***If I had asked people what they wanted, they would have said faster horses.***
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> ***—Attributed to Henry Ford[1]***
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> ***It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change.***
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> ***—Attributed to Charles Darwin[2]***

Organizations come and go. Sears, at one time, was the largest retailer and employer in the United States. Sears dominated the retail industry for decades. In 1991 Sears lost the title as the largest U.S. retailer but still seemed unconcerned about the future.[3] During its more than 100 year reign as the leader of the retail industry in the United States, Sears massive economies of scale dwarfed its competition enabling it to withstand any challengers. But, after the growth of Wal-Mart, and now Amazon and others, went unacknowledged as a threat by the leaders of Sears a new future was upon the doorstep.[4] By 2017 the company needed to raise $1.5 billion just to stay in business even after shuttering stores and selling off decades old Sears brands such as

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Craftsmen tools.[5] Between 2010 and 2019 Sears lost $1 billion annually.[6, 7]

Eddie Lampert, the billionaire hedge fund manager became majority owner of Kmart, combined Kmart with Sears in 2005 to create the largest retail merger of its time. His goal was to better compete with Walmart and Home Depot and keep Sears competitive within the changing retail industry. Part of Lampert's change plan was to turn Sears and Kmart into a tech company to compete with upstarts and other rapidly growing companies. Instead of turning the business around, he secluded himself from the rank and file, took briefings over video teleconferences, would not invest in the company's core brands, and developed a vision and direction that neither customers nor employees believed in. In only a few short years Sears, a 100+ year old icon of America and long time industry leader, came to a breaking point. Sears leaders failed to efficiently and effectively respond to challengers, changes in the marketplace and correct an errant and failing strategy. These missteps eventually pushed the company to bankruptcy and the complete downfall of the one-time king of retail.[8]

To last, to thrive, and succeed organizations must be both efficient and effective.

To last, to thrive, and succeed organizations must be both efficient and effective. An emphasis on one or the other without balance eventually leads to failure. We propose a model to help leaders develop organizations that stay effective and efficient, while recognizing threats from other institutions within the business environment. All organizations, whether business, government, or military, must see and respond to threats through learning processes while concurrently affecting timely and accurate change. We define both efficiency and effectiveness, present a model relating the two, and discuss the need to establish a culture of learning to change at a level sufficient to stay ahead of the competition or defeat an adversary.

Efficiency and Effectiveness

Efficiency focuses on doing things better, faster, and cheaper. It is measured in time, effort, money, and resources. As Peter Drucker, the founder of modern management, once said, efficiency is "concerned with doing things right"[9, 10] by looking inward at the organization to improve its costs, processes, programs, and routines. Efficient organizations concern themselves with incremental changes to improve what the organization is already doing. However, even the most efficient organization will not survive if the leaders are doing the wrong things. Dr. Stephen Covey uses an analogy of a ladder to describe organizational efficiency. If the people in the organization are climbing the wrong ladder or the ladder is leaning against the wrong wall, they can maximize their speed in getting up the ladder while being very busy and very efficient, but the journey only ends at the wrong place faster.[11]

Effectiveness focuses on the long term strategy.[12] Most people measure effectiveness by the end results. Drucker made an important distinction when he said, effectiveness is concerned with "doing the right things," instead of doing things right.[13] From our perspective, an external focus on threats and opportunities is the primary idea of effectiveness. Leaders anticipate the future to influence the direction of the organization. Effectiveness is concerned with having the ladder leaning against the right wall.

However, even the most effective organization fails if its opponents copy the effective organization's ideas and do it more efficiently. In July of 2018, journalist Shane Harris reported on attempts by Chinese and Russian companies to steal proprietary information and use it to improve their countries' production capacities and capabilities. In effect,

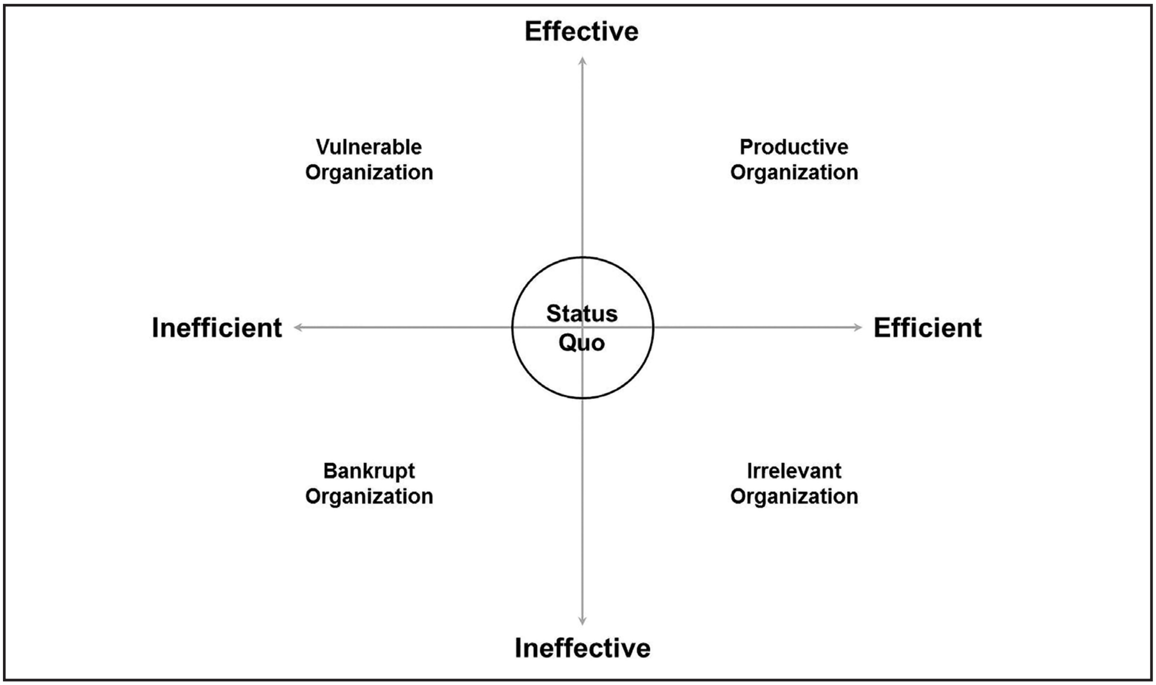

Figure 1. The Importance of Efficiency and Effectiveness in Organizational Culture

these countries became more efficient and effective by reducing or eliminating research and development time and costs, and by adopting newer and better technology. Both countries used this stolen information to boost their economies and grab market shares from the U.S. and other countries. Iran also targets U.S. firms to steal information on missile and space programs, seeking sensitive military technology to help them create their own weapons.[14]

We contend that survival of an organization depends on understanding the relationship between efficiency and effectiveness. Graphing efficiency and effectiveness on an x-y axis creates a four quadrant figure. The efficiency axis includes programs, processes, stability, and management. The effective axis concerns vision, disruption, people, and leadership. Efficiency is more oriented toward quantifiable, measurable, and predictable items, the "science of management." Effectiveness is directed towards the assessment of organizational matters that are qualitative in nature, the "art of leadership."

Efficiency and effectiveness reflect ideas in Craig Christensen's book, *The Innovator's Dilemma*. The question for organizational leaders is whether to take a short-term or long-term perspective. In the short-term, improving existing products and maintaining current income streams keeps customers happy and makes the organization efficient. Taking a long-term perspective increases the risk of losing customers and money by pursuing disruptive technologies that appeal to a different market or a smaller niche market. These disruptive technologies potentially improve effectiveness and take over the existing market.[15] Becoming more efficient seems the safer route, but it can lead to failure.

The graph shown in Figure 1 reviews a number of organizational case studies. The studies identified commonalities between organizations concerning efficiency from a managerial perspective and effectiveness from a leadership perspective. They determined what happens to an organization if both elements are, or are not, part of the organizational culture.

The graph places efficiency and effectiveness on opposing axes and describes the presence of each element in the organization as either high or low. The upper right quadrant indicates an organization that is efficient and effective. Found in this area of the chart is the *productive organization*. To survive in a changing and volatile environment, productive organizations must be both efficient and effective. To thrive in a competitive environment, leaders must focus their efforts on improving current products and processes, seeking better quality, reducing costs, gaining a larger market share through pricing strategies, or timely delivery to customers. Organizational leaders operating in a business context need to anticipate market changes. Government and military leaders must anticipate changes in the political or operational environment. Both groups must take chances on new, disruptive technologies and methods to improve effectiveness within the respective spheres of influence or operations. Even the best leaders and companies are not always highly successful, but do have enough success to stay productive and competitive. Companies determine their destiny by how they respond to market changes and threats. Organizations that don't respond or respond incorrectly to these changes allow others to determine their fate.

...an organization that is effective but inefficient...[is] a *vulnerable organization*.

Google, Amazon, and Apple are examples of productive companies. Each had failures in product launches, but their successes far outweigh their disasters. As Jeff Bezos, the founder and chief executive officer of Amazon said, "You need to be making big, noticeable failures. The great thing is that, when you take this approach, a small number of winners pay for dozens, hundreds of failures, and so every single important thing we've done has taken a lot of risk, risk-taking, perseverance, guts, and some have worked out. Most of them have not."[16] Amazon, as a company, is a master at making the small changes to make things cheaper, better, and faster; more importantly, they constantly look for disruptive marketing approaches to force other companies to adapt or fail.

The upper left quadrant describes an organization that is effective but inefficient, which creates a *vulnerable organization*. If an organization does not take advantage of new technology, or a competitor steals the idea and improves efficiency in production and marketing, the original company loses to its competitors. Based on still employing outdated paradigms, the original innovator, though ahead of its peers in development, is vulnerable to outside threats and market changes. The organization may have the correct concept and leads at the turn, but loses the race because of a failure to see the future clearly and runs into a hazard instead of staying on course. By inventing the digital camera and failing to see the importance of the concept in future applications Kodak empitomoizes the vulnerable organization.

Kodak pioneered many fields with numerous different patents. They introduced the first camera over a century ago, but the digital camera, which its engineers invented in 1975, put Kodak out of business because of the failure of leaders to recognize the potential of digital photography and adequately market the product. The leaders failed to pursue digital photography because it threatened Kodak's dominance of the lucrative film business. Digital cameras threatened Kodak's primary income stream of selling film and other products. Pursuing digital technology required a change in paradigms and reduced profits in the transition years. "Like many other companies on the East Coast, Kodak has been phenomenal in research and patents and not so good commercializing things…"[17] Kodak effectively innovated but did not effectively market their innovations. Kodak's leaders did not want to disrupt their existing business model. Instead, they allowed other companies to disrupt the industry and ultimately forced Kodak to lose dominance.

The lower right quadrant—efficient but ineffective—illustrates an "irrelevant" organization. This is an organization that technology passed by. An irrelevant organization continues working on building a better typewriter, floppy disk, or DVD when the technology moved to laptop PCs and cloud-based solutions. When an organization's leadership has no vision, the organization becomes complacent and focuses on keeping its current customer base happy by making existing technology better, faster, and cheaper. These organizations become are irrelevant as new, disruptive, and/or emerging technologies and innovative products upend the status quo and put them out of business.

Blockbuster is a prime example of a company dedicated to an income stream that dried up and left them bankrupt. Reed Hastings, the founder of Netflix, originally went to the CEO of Blockbuster to develop a partnership. Blockbuster dominated the marketplace with thousands of retail locations and millions of customers. They could not see a need to try something different, especially when that something threatened their current sources of revenue. Six years before filing bankruptcy, the CEO of Blockbuster realized Netflix was a threat to his business and tried to change the model to reflect more of what Netflix was doing. Blockbuster dropped late fees, a major source of income, and invested in digital platforms to reach customers, imitating Netflix. This caused a lag in profits and led to the firing of the Blockbuster CEO. The new Blockbuster CEO went back to an efficiency model to increase profitability. Five years later, Blockbuster declared bankruptcy. "The irony is that Blockbuster failed because its leadership had built a well-oiled operational machine. It was a very tight network that could execute with extreme efficiency, but poorly suited to let in new information."[18] Blockbuster was one of many companies with very efficient operations, but no vision of the future. Without a vision, Blockbuster became irrelevant when other companies disrupted their business.

The last quadrant reflects the inefficient and ineffective organization, this is the *bankrupt organization or* one which will soon fail. Many organizations lie on the dust heap of history because of poor leadership, poor management, and a culture resistant to change. As competitors move forward, the "inefficient and ineffective organization" remains complacent, stuck in their paradigms of past success, unable to visualize progress.

> **...efficient but ineffective — illustrates an "irrelevant" organization.**

Sears is an example of a company with poor leadership, poor management, and a culture resistant to change. When Sears merged with Kmart in 2005, they had 3,500 stores, and 14 years later they are now below 900. In six years, they lost $10 billion. Their CEO, "thought he could turn around both companies simply by cutting costs and selling the real estate where underperforming stores were located."[19] He focused on efficiency by merging the two troubled retailers to cut costs and redundancies. Sears cut costs by ignoring infrastructure and ending up having stores with leaking roofs, cracked floors, and empty floor space where products should be. The CEO's vision was to turn Sears into a fast-growing tech company, similar to Apple or Microsoft. The employees did not believe in the CEO's vision and neither did their vendors, who canceled orders while their customer base turned elsewhere to shop.[20] Sears failed to become more efficient or more effective, and filed for bankruptcy in October 2018.

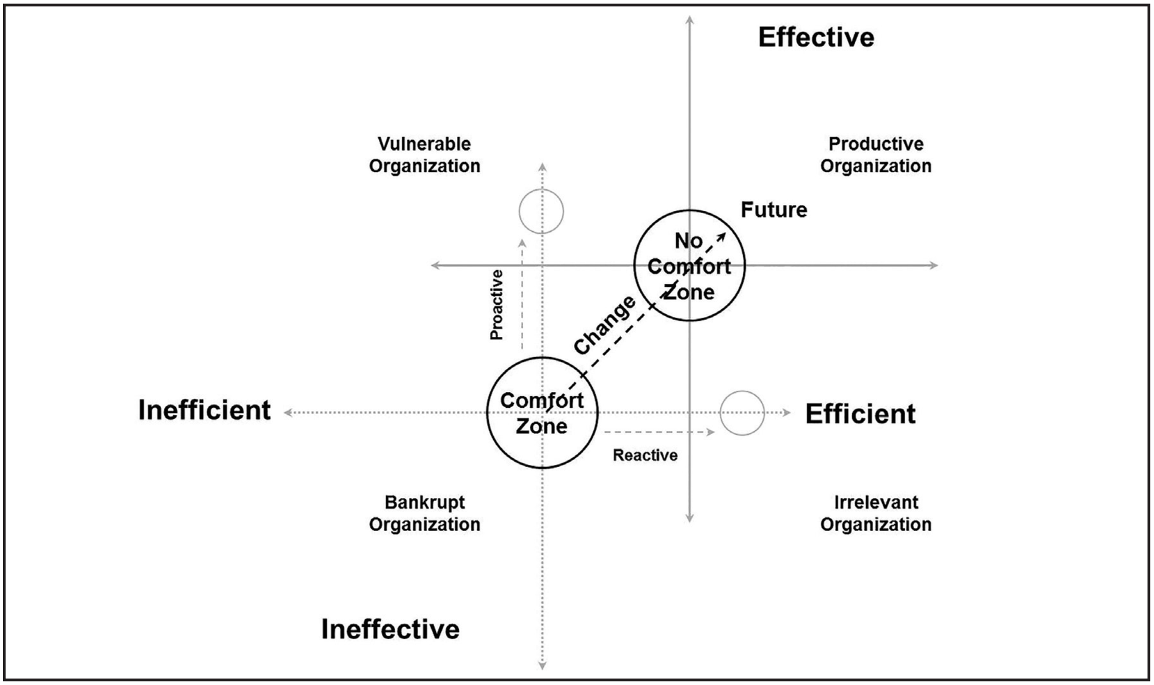

Figure 2. Moving Outside the Comfort Zone to Affect Positive Change

If the intersection of the lines in Figure 2 represents the current state of the organization, then over time, that intersection must move up and to the right as the environment becomes more efficient and effective. Conversely, organizations that do not change with the times and are comfortable with the status quo drift into one of the other quadrants. If they fail to change, they remain in their comfort zone where the income stream is secure. There is no growth and the organization goes out of business. If they change in one dimension only, such as in becoming more efficient or more effective, but not both, then the organization becomes vulnerable or irrelevant, and eventually drifts into bankruptcy. An organization focusing on effectiveness may have great vision and leadership, but will be overcome by others who are more efficient. Organizations that focus on efficiency without a good organizational vision and the associated direction become obsolete and irrelevant as they continue to improve old, outmoded ways of doing things. The end state for both is closed locations and out-of-work employees.

Change

What keeps organizations from becoming more effective and efficient? Resistance to change is a leading cause and occurs when a leader challenges the comfort of the group. Complacency, fear, worry that change causes more work or possibly makes their job obsolete are all common concerns. People usually prefer the security of the status quo rather than the unknowns of change which require them to move from their comfort zones and increase personal risk.

Leadership involves changing behaviors.[21] Often, the members of the organization cannot see a need for change, have no belief in the proposed change, or do not buy-in to the change and may subtly try to subvert the change. People are comfortable performing familiar tasks. Moving people from their comfort zone creates unknowns, risks, and elicits fear. There is an unwritten assumption of what worked in the past will continue to work in the future. Developing an effective, efficient organization takes a strong, visionary leader to overcome natural resistance to change.

Resistance to change is natural and pervasive in organizations. Overcoming this resistance requires enough dissatisfaction with the status quo to make the struggles and effort associated with change worthwhile. Successfully changing an organization requires a vision of what the change will bring and a plan to accomplish it. Without these elements, the leader may attempt to simply force the change. Without member commitment, it may only last long enough for the members of the organization to subvert the change initiative and cause it to fail. Another factor that influences the acceptance of change is complacency.

The Beer's Model gives a partial explanation of how to make lasting change happen. While this model is written as a formula, C (change) = D (dissatisfaction) x M (vision) x P (plan) > R (resistance), it is not mathematical. There are no change units or vision units to multiply, but it does relate critical components needed for change to occur. The model's formula suggests that for change to occur there must be enough dissatisfaction with the status quo, accompanied by a vision or desirable future state, and a plan to achieve the change to overcome the natural resistance to change that exists in any organization.[22]

Michael Beer is not the only author to recognize the difficulty of overcoming the seeming overwhelming inertia of the status quo and complacency. John Kotter dedicated a chapter in his book *Leading Change*,[23] and later an entire book, *A Sense of Urgency*, to overcoming the resistance to change. Individual change is difficult, but organizational change is a monumental challenge. Due to the difficulty of organizational change, leaders must take an active role in the process. Leaders must reduce resistance to change and engender commitment from the organization's members to overcome complacency.[24] Authors Ron Heifetz and Marty Linsky said leadership is disappointing people at a rate they can handle.[25] In other words, leadership overcomes complacency to create change in a manner and a rate that followers accept.

Learning Organization

Becoming a learning organization is one antidote to ineffectiveness. Learning organizations (LO) exist to solve an existing problem, contend with competitors, improve the product delivered by the organization, or meet a newly identified need.[26, 27] An effective LO culture requires both leaders and followers to take part in the learning. Leaders in an LO encourage members to take time to reflect on events or experiences and make meaning from that reflection.[28] Reflection is central to one's ability to learn and grow in skills and abilities. Members of an LO must see their leaders as willing to adapt to and adopt the new knowledge created, resulting in wide acceptance of change.[29] Leaders must also contribute to the development of an LO culture through communicating a shared vision or understanding the necessity of becoming an LO.[30]

In a true LO, learning occurs at three levels: individual, team, and total organization.[31] Individual members of organizations must turn their personal or tacit knowledge, into useful information that is important to improving or developing his or her own expertise or abilities. Teams should learn collectively through meaningful work and share new knowledge between teams. Finally, the entire organization must collect information and distribute it effectively to develop shared understanding. Individuals and teams use shared understanding to develop new methods or processes, which improve both efficiency and effectiveness and lead to improved productivity in the field or market of that organization.

An LO is led by an individual or group of leaders who accept the importance of learning to stay relevant.[32] These leaders develop a culture that values learning or incorporates the importance of learning into the beliefs and the underlying assumptions of the organization. When culture is infused with the importance of learning by individuals, teams, and the entire organization, a supportive climate materializes and freedom to change becomes the custom. This customary climate in the LO is conducive to a free exchange of ideas, to candor and dialogue.[33] Individual members working in this environment take tacit knowledge and make it explicit knowledge for their team or teams. The team, armed with new knowledge, shares it across the entire organization, or with other teams that may benefit from the knowledge, ultimately helping to achieve the organizational vision and make desired improvements.

If the leaders are complacent about learning, it is likely the members are complacent too.

LO processes benefit the organization by enabling continuous improvement and change within necessary areas, increasing relevancy in the market, or rapid responses to competitor changes. For the organization to truly benefit from the LO processes, the leaders must develop a systems approach to the input, transfer, and retrieval of information that enables and encourages using established learning processes which become an extension of the organizational culture.[34] If the system is not easy to use and readily available or does not meet the expected level of value of the individual, then organizational members avoid or neglect the system, which reduces the effectiveness of learning and results in decreased efficiencies across the organization.

One aspect of success in change efforts is unlearning. For more efficient and effective organizations, members and teams must unlearn the things that prevent improvement or decrease flexibility and stand in the way of adaptation to changing environments and competition. Often, new ways of doing things and changing market conditions necessitate learning new methods and procedures to continue the ongoing work. Sometimes old beliefs and values are no longer accurate or necessary and must be unlearned or replaced. At other times the operational environment changes with such quickness and depth, the underlying assumptions become invalid. When this occurs simply changing methods or processes is ineffective. New underlying assumptions must be developed based on the changed environment. In situations such as these, learning requires new ways of thinking about the problems. Existing mental models or paradigms no longer represent reality and when used result in poor decisions and judgment reducing the organization's ability to efficiently and effectively respond to the situation. Unless the organization establishes a climate and culture that allows for change, innovation, and adaptation, they fall behind the competition and become bankrupt or irrelevant.

Complacency is a confounding factor in organizational life. If the leaders are complacent about learning, it is likely the members are complacent too. Complacency of leaders results in mismanagement or missed opportunities.[35] Complacency among the members at the lower organizational levels results in reduced efficiencies in production or outdated methods and processes. Even worse, complacency contributes to decreased safety, injuries, and death. Complacency is a key identifier of an organizational climate or culture that is not supportive of learning.[36] Complacency has no place in a learning organization or in a productive one. It is the leader's job to eliminate complacency, even when it is uncomfortable for the leader and the member. There has to be a level of discomfort to encourage people to grow and organizations to change. It is said there is no growth in the comfort zone and no comfort in the growth zone. LO processes and concepts contribute to developing a growth zone that is an area of comfort if led correctly.

Conclusion

Leaders focused on both doing the right things (effectiveness) and doing things right (efficiency) are necessary to survive in today's volatile and turbulent market. Only agile and adaptive companies who change quicker than their competitors and adversaries have the resiliency to survive. Leaders need to recognize the seeds of their organization's destruction lies in success, due to the resulting complacency and concentration on efficiency. Successful companies are vulnerable to new upstarts with a vision that disrupts and changes the industry. In our increasingly automated world, the intersection of efficiency and effectiveness is shifting up and to the right quicker and quicker. Efficiency to adapt and effectiveness to innovate are both key to an organization's survival in today's world. ***IAJ***

Notes

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