Title of the paper: The Disruptive Organization

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The Disruptive Organization

Abstract:

"Disruption" as a: to break apart b: to throw into disorder.

Clayton M. Christensen (1997) describes an innovator's dilemma, which concerns the adoption of technologies so new and dramatically different they are characterized as disruptive technologies. Christensen and Mark W. Johnson had described the dynamics of "business model innovation" in the Harvard Business Review 2008 article "Reinventing Your Business Model".

The above concept of "Disruption" is applicable to all processes of the organization and specifically to those processes that concern its "People". This paper identifies organizational processes that have the potential to change radically using the "Disruptive" approach.

The term "Disruptive Innovation" has been lately used with path-breaking technological innovations that have created a new market for itself or have altered an already existing market for a similar product. Product innovations from the yesteryear Sony Walkmans to today's i-Phones can be categorized under the term of disruptive innovation. Organizations today have to identify their forte in a very clichéd marketplace. Sustaining a path-breaking innovation needs orchestrated alignment of all other functions in the organization, specifically those that touch the people side of the business. A Disruptive Organization aims at achieving that alignment.

How are organizations managing to do a trapeze artist stunt by balancing the act between having an informal culture at the same time nurturing an entrepreneurial dream among its workforce? Can a "Disruptive" approach to organizational re-engineering be sustainable in the long run? This paper attempts to answer these questions.

1.0 Introduction:

Organizations in today's turbulent times need to be agile to change. Traditional Organizational structures are slowly dissolving and re-emerging in a transformed manner.

The term "Disruptive" is used as in "Disruptive Innovations". The research paper purports to identify that disruption is a conscious process of organizations to embrace change at their end. To radically change its processes involves a change in the organizational culture. To be disruptive is to have an innovation based culture throughout the organization.

Objective of the study - This research paper aims at identifying the best practices that some organizations have invented to transform themselves radically today.

Approaches of the study – Best practices of some organizations are mapped with business models in order to understand its implication on the business strategy.

Limitation of the study – This study is based on secondary sources of data and only select organizations across various industry segments was studied for the purpose of this research.

Implication of the study - Best practices across industries globally can be used as a benchmark for further research in specific HRM areas that could be defined as being disruptive.

2.0 The DNA of an "Disruptive Organization":

As a first step to understand the DNA of a "Disruptive Organization" we use the Organizational Culture Mapping Model called as "The Competing Organizational Values Framework" developed by Robert Quinn et al (1983) (1999).
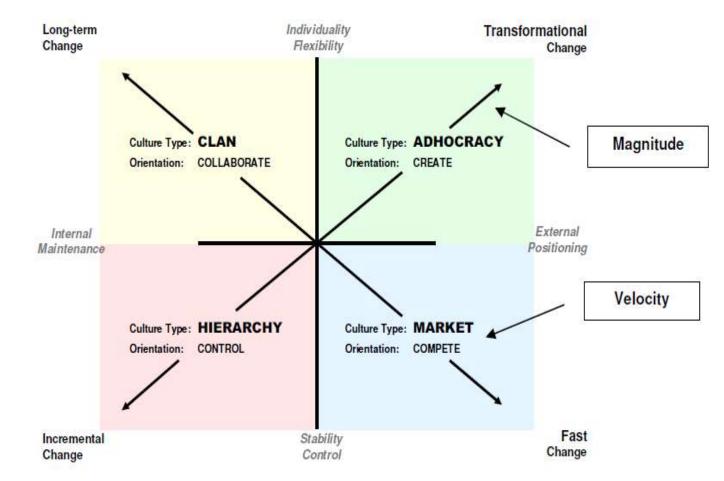
This model helps us to understand how organizations are poised to develop new skill sets at workplace as a response to their changing organizational strategy.

2.1 The Competing Organizational Values Framework.

The Competing Values Framework (CVF) was developed by Robert E. Quinn and Kim S. Cameron (1983) (2005). The CVF serves as a map for understanding many aspects of an organization in areas like Corporate Strategy, Organizational Culture, Value Creation, Core Competency, Decision Making, Leadership and Human Resource Practices.

The framework helps us understand the intricacies of change management process the organization adopts with its leadership styles. CVF helps evaluate the internal and external challenges that the organization faces during the change process and the juxtaposition of various roles, skill sets and the organizational structure during this process.

Figure 1.1 - The Competing Organizational Values Framework

Long-term Change | Individuality Flexibility | Transformational Change

Culture Type: **CLAN**
Orientation: COLLABORATE

Culture Type: **ADHOCRACY**
Orientation: CREATE

Magnitude

Internal Maintenance

External Positioning

Velocity

Culture Type: **HIERARCHY**
Orientation: CONTROL

Culture Type: **MARKET**
Orientation: COMPETE

Incremental Change | Stability Control | Fast Change

(Adapted from the Competing Values Framework: Creating Value through Purpose, Practices, and People by Kim S. Cameron, Robert E. Quinn, Jeff DeGraff, Anjan J. Thakor, 2008)
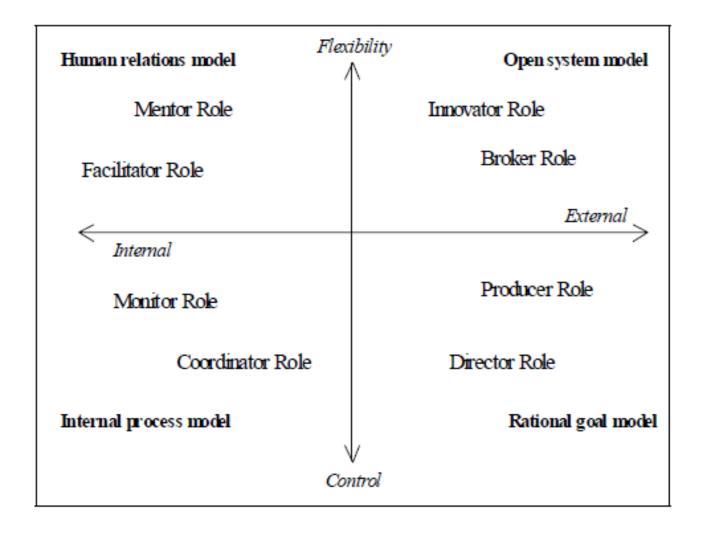
The CVF tries to understand the organizational culture on two dimensions of effectiveness for value creation. The first being the focus of the organization on a continuum having at one end the need for maintaining human relations, productivity and Research & Development and on the other end the compelling conditions to maintain harmony with the

market conditions, regulatory affairs and customer focus. This dimension is called as the internal v/s external focus of the organization.

The second dimension is a continuum on flexibility of operations and empowerment of people in decision making while the other end defines its need for maintaining the status quo and control of decision making within the organization. This is flexibility v/s control focus of the organization.

Maintaining a balance between these two dimensions requires paradoxical capabilities and skill sets in the human resources of the organization. Most organization in their endeavors to manage change process finds that they are constantly being pulled by these two dimensions and they have to perform a trapeze art of balancing their Human Resource Capabilities by constantly upgrading their skill sets and by adopting flexible human resources policies. We look at the changing skill sets at workplace in the following figure.

Figure 1.2 – CVF – Changing Roles in Organizations

CVF – Changing Roles in Organizations diagram showing a four-quadrant model with Flexibility/Control vertical axis and Internal/External horizontal axis:

- **Human relations model** (top-left): Mentor Role, Facilitator Role
- **Open system model** (top-right): Innovator Role, Broker Role
- **Internal process model** (bottom-left): Monitor Role, Coordinator Role
- **Rational goal model** (bottom-right): Producer Role, Director Role

Adapted from Quinn (1988)

- In the human relations model: The "facilitator" encourages teamwork and cohesiveness, and manages interpersonal conflict. The "mentor" is helpful and approachable, and engages in the development of people through a caring, empathetic orientation.

- In the open systems model: The "innovator" is creative and facilitates adaptation and change. The "broker" is politically astute, persuasive, influential, and powerful, and

is particularly concerned with maintaining the organization's external legitimacy and obtaining external resources.

- In the rational goal model: The "producer" is task-oriented and work-focused, and motivates members to increase production and to accomplish stated goals. The "director" engages in planning and goal setting, sets objectives and establishes clear expectations.

- In the internal process model: The "coordinator" maintains structure, schedules, organizes and coordinates staff efforts, and attends to logistical and housekeeping issues. The "monitor" checks on performance and handles paperwork (Quinn, 1988).

Managers are expected to play all of these roles and to simultaneously consider and balance the competing demands that are represented by each set of expectations (Quinn, 1988).

Disruptive Organizations DNA can be identified by the strategies adopted by them to balance on the continuum on these two dimensions. Adapting quickly to the changing conditions by revamping its internal skill sets require agility akin to a trapeze artist. Organizations performing these stunts can be identified as being "Disruptive" in their approach. We take a closer look at one such organization here.

Toyota can be identified as one such "Disruptive Organization". Toyota Motor Company's value creation is based on highly efficient production systems by following the Just-in-time and lean production processes and on the other hand coming up with innovative models to
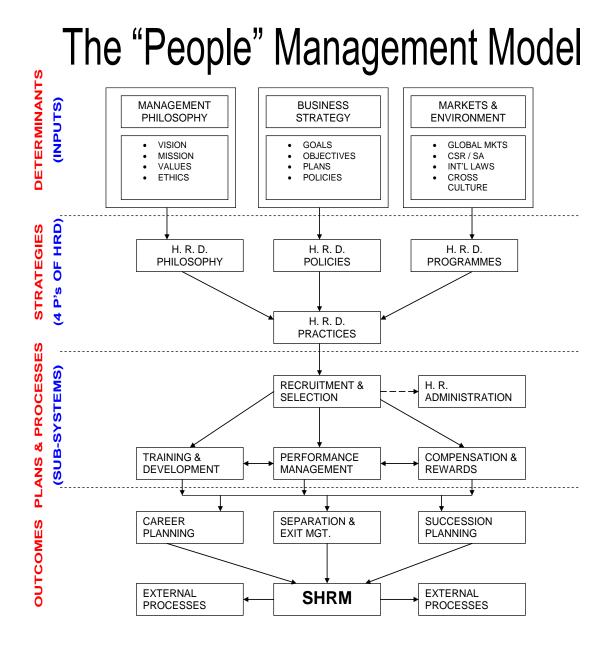
address the needs of customers globally. Their launch of Lexus model for the US market is the testimony to this. Toyota has also introduced a Global Flexible Manufacturing Platform by taking its manufacturing and assembly plants from Japan to other locations across the world. This helped them in combating the changing market conditions with respect to currency fluctuation globally.

Toyota can be mapped on figure 1.1 as having exhibited high levels of Velocity and Magnitude at the same time. The company has managed to respond to change by being radical at the same time being incremental with a short term and long term view of its future. The velocity being the speed of change and magnitude being the scope of such a change initiative. The velocity and magnitude in the case of Toyota is the rapid speed of change with a global impact on all its markets and operations.

From the changing skill sets point of view we can identify that Toyota required "Facilitator" roles for its TQM initiatives in Lean Production Processes at the same time its external focus required Toyota to have "Innovator" roles as well. The Global Production Processes required the roles of "Broker" and "Director". The "Coordinator" role for its global logistics and supply chain initiatives is required. The success of the Toyota Way has proved that it could maintain a balancing act of a trapeze artist in its change management process. The DNA of Toyota is of a "Disruptive Organization". How has Toyota managed to become disruptive? A highly focused people processes involving Self Managed Teams (SMT) and Quality Circles (QC) coupled with empowered workers at the shop floor levels have helped Toyota achieve this feat. A shop floor worker is empowered to stop the entire assembly line to eradicate a defective vehicle from reaching the end point of the production process.

The new roles and skill sets required by the organization poses a challenge to the existing HRM processes. The existing processes need to be revamped and aligned to the new strategy of the organization. The revamped HR Strategy aims at aligning the key people processes to the organization's business strategy in order to sustain innovation throughout the organization.

The following figure 1.3 illustrates the Strategic HRM processes and its linkages to the corporate business strategy.

Figure 1.3 – The "People" Management Model – Strategic HRM Processes

The "People" Management Model

DETERMINANTS (INPUTS)	**MANAGEMENT PHILOSOPHY** • VISION • MISSION • VALUES • ETHICS	**BUSINESS STRATEGY** • GOALS • OBJECTIVES • PLANS • POLICIES	**MARKETS & ENVIRONMENT** • GLOBAL MKTS • CSR / SA • INT'L LAWS • CROSS CULTURE

STRATEGIES (4 P's OF HRD)

H. R. D. PHILOSOPHY	H. R. D. POLICIES	H. R. D. PROGRAMMES

H. R. D. PRACTICES

PLANS & PROCESSES (SUB-SYSTEMS)

RECRUITMENT & SELECTION	H. R. ADMINISTRATION

TRAINING & DEVELOPMENT	PERFORMANCE MANAGEMENT	COMPENSATION & REWARDS

OUTCOMES

CAREER PLANNING	SEPARATION & EXIT MGT.	SUCCESSION PLANNING

EXTERNAL PROCESSES	**SHRM**	EXTERNAL PROCESSES

We look at the industry best practices in each of the key areas of the HR processes that deliver innovation.

3.0 Linking Human Resources Strategy to the Organization's Business Strategy

1. Compensation and Rewards Systems

   - Organizations are moving to a skills based pay as compared to a job based pay. In the IT and ITES industry "Hot" Skills or the "Cutting Edge" technical skills attract a variable pay component in the compensation structure. Technical personnel get this variable component in their pay structure till such time these skills are needed by the organization in various on-going projects. This ensures that the employees continuously add value by acquiring new and latest skills required in their job profile.

   - Global MNC organizations use Skills Inventory across their geographical presence. This helps in competency mapping globally for strategic HR alignment and assessments

   - Competency based pay done be mapping as set of broad competencies required by an organization for a job. In ERP (Enterprise Resource Planning) implementation firms competencies are mapped for consultant profiles where domain knowledge expertise along with life cycle implementation experience is considered. This helps in recruiting the right resources as well as in designing their compensation structure.

2. Staffing Practices (Recruitment, Selection and Career Systems)

- Raymond Miles and Charles Snow (1978) had developed a framework to identify a firm's business strategy and to align its staffing practices with the strategic orientations. Miles and Snow identify four types of firms as per their strategic intent.

  - Defenders – Organizations tend to focus on improving production efficiency in relatively stable product markets.

  - Prospectors – Organizations which attempt to be the first to market with new products and services. They exploit new market and product opportunity. These firms focus on Product Innovation.

  - Analyzers – Firms that closely monitor their innovative competitors for getting new ideas and then quickly develop similar products efficiently using low cost production and distribution techniques.

  - Reactors – Firms that follow no consistent strategic approach and try to react to changes in the business environments in which it operates.

As per the above framework the disruptive organization would have a "Prospector" orientation. Such firms are characterized by being the first to enter new markets with innovative products or services. These firms are agile and flexible in their staffing practices. The career systems are aligned with their innovations. One good example is Google Inc. Google can be mapped as a "Prospector" for its various innovative products and services like Google Maps, Google Docs and the various services offered using its search engine to the entire global community.

Google has a policy of 20 % time offs to all its employees. Employees are encouraged to ideate their own projects and present the same to the senior management for approval. Employees have the freedom to choose their own areas of research and develop their ideas into new products or as a plug-in for their existing products. Many of Google's innovative ideas like Google Mobile and Google Docs are a result of the 20 % time off policy.

- Recruitment and selection using Social Media is another characteristic to identify a disruptive nature in organizations. Using professional networking sites like LinkedIn for identifying talent pools and tapping the same using social sites like facebook have given a cutting edge to many organizations. Identifying latent talent (who are generally passive job seekers) proactively helps organizations in the war for talent. Having an e-recruitment strategy goes a long way in aligning people strategy to the corporate strategy.
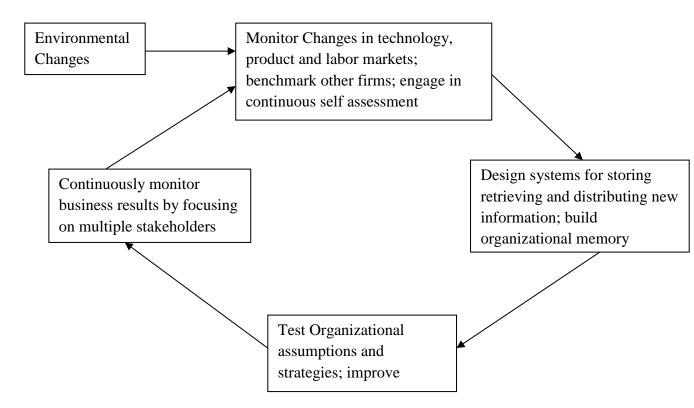
3. Organizational Learning Systems
   - Knowledge Management is the backbone of organizational learning. Transforming the tacit knowledge into explicit knowledge is one of the biggest challenges facing organizations today. Knowledge Management Systems drive this change in several organizations. Infosys is one such organization to manage this transformation.

     Infosys has developed an online Knowledge Management portal K-Shop which acts as a central repository around which all knowledge sharing

initiatives are built. K-Shop allows on-line searching and sharing of contents on their corporate intranet. Infosys as a part of the project closure dictates that all team members share their experiences on K-Shop. It is meant to be a central repository of experiential knowledge that can be tapped by the rest of project teams. This has brought about many process improvements at Infosys.

- The Renewal process as a form of Organizational Learning.

This is illustrated in Figure 2.1 below.

Figure 2.1 – Renewal Process as a form of Organizational Learning.

(Adapted from Human Resource Strategy by Dreher and Dougherty, 2002)

4. Performance Management Systems

- Measuring what matters – Going from Micro to Macro Perspectives of Performance Management Systems. Disruptive organizations follow the concept of Total Performance Management (TPM) to achieve a fit between individual oriented performance management and measuring organizational productivity.

  The TATA Business Excellence Model (TBEM) is a case in point. TBEM is a 'customized-to-Tata' adaptation of the globally renowned Malcolm Baldrige model. The TBEM philosophy has been molded to deliver a combination of strategic direction and concerted effort to maximize business performance. The model focuses on seven core aspects of operations: leadership, strategic planning, customer and market focus, measurement, analysis and knowledge management, human resource focus, process management and business results. Performance is measured in absolute points; TATA companies have to achieve a minimum of 500 points (out of 1,000) within four years of signing an agreement with the parent organization. Achievements are awarded by recognition across the Group. TATA Quality Management Services helps Tata companies use the model to gain insights on their business strengths and opportunities for improvement. This is managed through an annual process of assessment and assurance. The

model, through its regular and calibrated updates, is used by Tata companies to stay in step with the ever-changing business environment.

(Source: http://tqmswebsite.tataquality.com)

These HR processes deliver sustained innovation in people processes which are linked to other processes in the organization's system like marketing and sales, information systems, operations, finance and administration. HRM practices can help a firm achieve sustained competitive advantage in the marketplace.

We use the model given by Wright, McMahan and McWilliams called as the resource based view of a firm. The VRIO framework provides an integrated HRM practices linked to the corporate strategy of the firm which delivers it Sustained Competitive Advantage.

V – Valuable

R – Rare

I – Inimitable

O- Organization is ready and organized to exploit these resources

<u>Valuable</u> – Advanced Strategy Performance Management Tools like the Balanced Score Card (BSC) approach given by Robert Kaplan and David Norton (1996) define the four perspectives for measuring the value of key human resources for a firm.

a. Financial Perspectives – How does the Human Resource contribute to the bottom line of the firm?

b. Customer Perspectives – How do the customers view the HR of the firm

c. Internal Processes of the firm – How are the people contributing to making the internal business processes more robust to meet market challenges and

d. Learning and Growth – How is HR groomed to develop a Learning Organization culture in the firm that delivers Innovation. (Kaplan & Norton, 1996)

<u>Rare</u> – In today's Knowledge era the most important asset of any firm is its people. Are the skill sets available with the organization "Rare" i.e.: it should be in short supply and only available to the organization for having a competitive edge. A case in point is of Infosys Inc. where it develops leaders at its Infosys Leadership Institute (ILI) located at Mysore. Top leaders like Narayana Murthy and Nandan Nilekani donned the roles of mentors for young leaders in the making. The philosophy and value system they pass on to the next generation of leaders groom them to address specific needs of the organization. Any organization can groom or procure a Project Manager but cannot replicate the culture of an organization like Infosys. It has developed business leaders with a rare blend of technology understanding and of

understanding the subtle nuance of values and culture for sustained organizational growth.
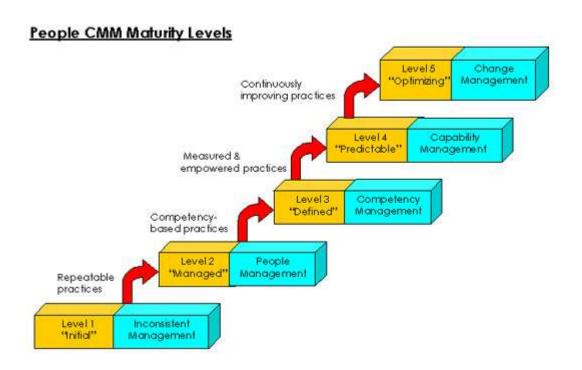
Inimitable – If the HR practices of a firm could be replicated easily by another firm then the sustained competitive advantage no longer remains with that firm. Even if the competitor takes away the key personnel from the firm the competitor should not be able to retain them due to the cutting edge of HR practices adopted by the firm. This is the story behind Southwest Airlines. An example of having an inimitable HR practices is of Southwest Airlines in the USA. Southwest has developed a strong values based customer centric culture that has been the core values of its strategy implementation. Being a low cost carrier Southwest did not lower its standards of customer service. In fact it is well known for having achieved "Excellence" in customer service because of its excellent human resources. The CEO of Southwest once claimed that many Airlines may compete with Southwest on the cost front and on specialized services offerings but it would be difficult for them to replicate the "Southwest Culture". That was their competitive advantage.

Organization – The organization is ready and organized to exploit these resources. The organization should be driven by a business model that aligns the Human Resources processes to the organizational processes considering the maturity and lifecycle of the organization.

One such model adopted by many technology firms in the IT and Telecom industry is the People Capability Maturity Model (P-CMM) developed by the Software

Engineering Institute (SEI) at the Carnegie Mellon University, USA. In India Tata Consultancy Services has successfully adopted this model. This is illustrated in the figure 2.2 below.

Figure 2.2 – People CMM Levels

People CMM Maturity Levels

(Source: http://www.iqmsglobal.com/people_cmm.html)

A People CMM is an organizational change management model. It brings in the required change by developing and enhancing the capability of the organization's workforce. The model defines the organizational maturity and the workforce capability at 5 levels of hierarchy.

The first level is the initial level that the organization operates from. This is the lowest level of maturity with the organization's systems in the rudimentary phases.

The second level is the managed level where managers take responsibility for developing their people. The systems are just being formulated in the organization

The third level is the defined level where organizational processes and systems are properly defined and are linked with each other. The situation is managed and competencies for the organization are defined.

The fourth level is the predictable level where the firm collects data and measures workforce competency against performance norms already in place.

The fifth level is optimizing level where the firm is in the mode of continuous improvements in the people processes. Continuously improving capability by workforce innovation and aligning workforce performance to business performance.

People Capability Maturity Model aligns key people processes to the organizational strategy. Every level in the hierarchy defines the workforce maturity for embracing change in technology and business processes.

4.0 The making of an "Disruptive Organization".

Clayton M. Christensen and Michael Overdorf in their article in Harvard Business Review titled " Meeting the challenge of Disruptive Change" mention three aspects of an organization that define its change management momentum a. its resources b.

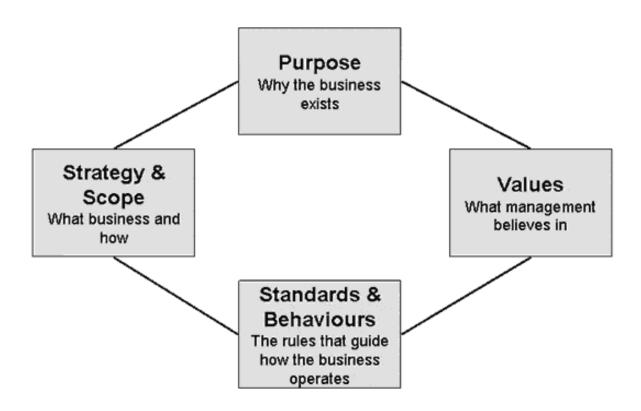its processes and c. its values. These are the areas where the organization's capability resides.

Disruptive Innovation brings in radical change. A radical change in people's skill sets as well as mindsets along with changes in the organizational structure and processes. This change needs to be sustained over a long period of time. The core values of the organization act as a glue to bind the new people processes, disruptive technology and the other organizational processes together. The organization's core values form its culture. This organizational culture brings in the radical change through transformation in the mental models of all employees at all levels of hierarchy in the organization.

A classic case is of Johnson & Johnson, USA during the crisis of its famous drug "Tylenol" being contaminated with cyanide poison in most of the drug stores in the USA. To contain the disaster   J & J not only called back all the stock from all the drugstores across the US but also changed the technology used in manufacturing the drug, moving from a capsule form to a caplet form. This was possible due to its strong belief system – its core values which is called as its "Credo". J & J could satisfy all its stakeholders in the aftermath of this incident. The entire pharmaceutical industry followed the example set by J & J and completely switched to caplets form for manufacturing such drugs. The US Food and Drugs Administration (USFDA) also mandated this move later.

Radical change is possible when organizations change their business processes and culture without changing its "Core Values". Core Values should never be compromised at any point of time. It is non-negotiable and should be reflected in all the strategies of the organization.

We use Ashridge Mission Model in the following figure 2.3 to understand this.
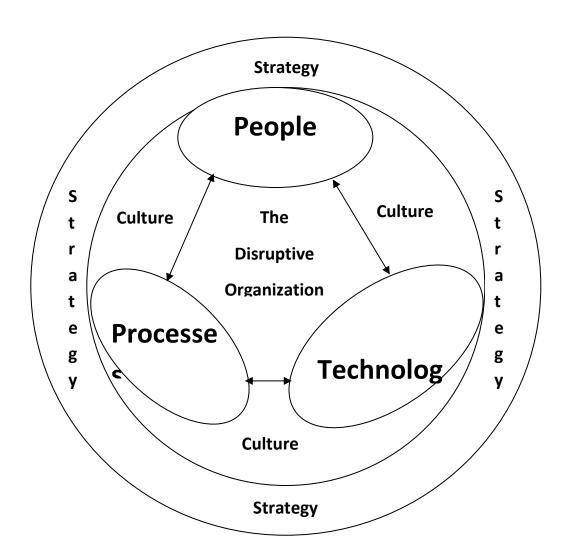
Figure 2.3 – Ashridge model for Mission Statements

- Purpose - Why does the business exist? Is it to create wealth for shareholders? Does it exist to satisfy the needs of all stakeholders (including employees, and society at large?)

- Strategy and Strategic Scope - A business' strategic scope defines the boundaries of its operations. These are set by management. For example, these boundaries may be set in terms of geography, market, business method, product etc. The decisions management make about strategic scope define the nature of the business.

- Policies and Standards of Behavior - A mission needs to be translated into everyday actions. For example, if the business mission includes delivering "outstanding customer service", then policies and standards should be created and monitored that test delivery. Standards of employee behavior generally called as "Code of Conduct" underline the guidelines of their behavior in organizations

- Values and Culture - The values of a business are the basic, often un-stated, beliefs of the people who work in the business. These would include:

  - Business principles (e.g. social policy, commitments to customers)

  - Loyalty and commitment (e.g. are employees inspired to sacrifice their personal goals for the good of the business as a whole? And does the business demonstrate a high level of commitment and loyalty to its staff?) (Campell and Yeung, 1990)

Thus the organization's Mission statement should be the driving force behind the radical change. The transformation process of such organizations can be explained by an analogy of

the "Metamorphosis" process where the ugly caterpillar transforms into a beautiful butterfly. The caterpillar first turns blind and then its many legs fall apart. Later it spins a cocoon around itself and finally it breaks out of the cocoon and emerges as a beautiful butterfly.

The "Disruptive" Organization also follows a similar transformation in its processes and technology. This radical change can be sustained by the organization by aligning its people processes to its long term strategy. This is illustrated in the figure 2.4 below.

Figure 2.4 – The People, Processes and Technology from People CMM

Thus a disruptive organization encompasses its people processes along with its other organizational processes and its disruptive technology aligned with its strategy. This can be achieved using People Capability Maturity Model (P-CMM) for mapping the people processes.

Conclusion:

In the next few years, most businesses worldwide are going to witness "Disruptive" innovations across industry segments. Not all organizations are going to sustain these disruptive innovations. One of the key factors distinguishing such organizations from those that would sustain these innovations is embracing radical change in its people processes and aligning the same to its changing business strategy. Organizations managing to do so, without compromising on its "Core" Values would have a sustained competitive advantage (SCA) at marketplace.

Some Key Drivers for such organization would be:

1. An online Knowledge Management System (KMS).

2. Enterprise Resources Planning System (ERP) in place.

3. Using Social Media for Employee Engagement and Sourcing.

4. Balanced Score Card Approach (BSC) to performance management.

5. Proactive stakeholder engagement for corporate governance.

6. CEO's mentoring future leaders in the making.

7. Inculcating the "Core Values" of the organization through socialization processes.

8. Empowering people using Self Managed Teams (SMT) and Quality Circles (QC).

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