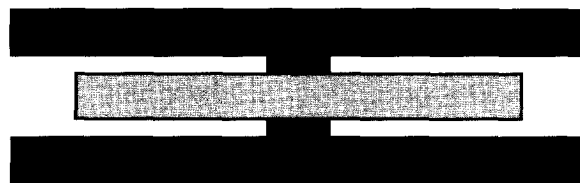
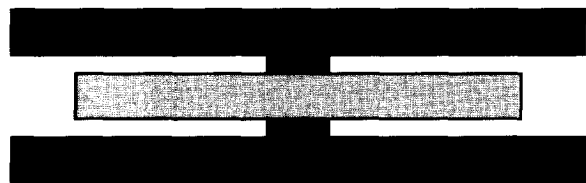


# The Learning Organization and Strategic Change

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## Introduction

Imagine that you are taking a journey into the mountains. The nature of the experience will vary considerably from one mountain range to another. There are two kinds of mountain ranges. One type, like the North American Rockies, is dominated by prominent peaks, their majestic summits rising silently and austere above the landscape. The foothills and smaller mountains, dwarfed in the foreground, dramatize the formidable scale of the highest peaks. On a trip, the summit dominates the horizon, an endpoint against which progress can be easily gauged.

But there is another type of mountain range, such as the Cascades in the Pacific Northwestern United States, composed of gradually rising peaks, the size of one peak not revealing itself until the last one has been conquered, the summit being but one final stage in the gradual ascent.

Aesthetically, each has an elegance and beauty — the first, awesome and inspiring, the second, mysterious and surprising.

Organizations also take journeys in their attempts to mount significant strategic change. Examples of these journeys include entering international markets, downsizing, forming strategic alliances, improving customer satisfaction, achieving quality improvements, pioneering new technical innovations, and introducing new products. Increasingly, a company's viability is being determined by its ability to make such systemic, organization-wide change happen, and happen fast.

Traditionally, firms have approached these journeys as if the business landscape resembled a mountain range like the Rockies. At the outset of the journey, the organization would scan the horizon and spot the summit. With the presumption of clear vision, it would set a goal

and develop a precise roadmap to achieve its end target. Clouds of resistance, fog banks of shortsightedness, or storms of crisis might obscure the final destination now and then. However, the summit would still be reached if only the organization maintained momentum and stayed on course.

In the highly uncertain business conditions emerging in the early 21st century, the topography of the business environment might be more like the mysterious Cascades than the majestic Rockies. Clouds of swirling technological, competitive, marketplace, social, economic, and political changes obscure the final destinations. Until an organization takes some action and mounts the first hill, the size and scope of the next peak cannot be foreseen. Business environments are too chaotic and organizational change too complex to establish firm objectives, fixed plans, and concrete programs of change.

Amid sometimes unpredictable, always uncertain, and highly turbulent business conditions, an organization's capacity to learn as it goes may be the only true source of competitive advantage. No longer able to forecast the future, many leading organizations are constructing arks comprised of their inherent capacity to adapt to unforeseen situations, to learn from their own experiences, to shift their shared mindsets, and to change more quickly, broadly, and deeply than ever before. In other words, to become learning organizations. According to Kiechel, the notion of the learning organization is . . . a very big conceptual catchall to help us make sense of a set of values and ideas we've been wrestling with, everything from customer service to corporate responsiveness and speed (1990, p. 133).

The idea of the learning organization has been around quite some time. It derives from Argyris' work in organizational learning

(Argyris & Schon, 1978) and is indebted to Revans' (1983) studies of action learning. It has roots in organization development (especially action research methodology) and organizational theory (most notably, Burns and Stalker's work on organic organizations). Its conceptual foundations are firmly based on systems theory (Senge, 1990a) and its practical application to managing a business has evolved out of strategic planning and strategic management (Fiol & Lyles, 1985; Hosley, Lau, Levy & Tan, 1994), which have recognized that organizational learning is the underlying source of strategic change (DeGeus, 1988; Jashapara, 1993). Much of the quality improvement movement of recent years, with its emphasis on continuous improvement, represented the first widespread, inchoate application of learning organization concepts (Senge, 1990b; Stata, 1989).

Learning organizations tend to have the following characteristics in common (Calvert, Mobley & Marshall, 1994; Watkins & Marsick, 1993):

- They provide continuous learning opportunities.
- They use learning to reach their goals.
- They link individual performance with organizational performance.
- They foster inquiry and dialog, making it safe for people to share openly and take risks.
- They embrace creative tension as a source of energy and renewal.
- They are continuously aware of and interact with their environment.

The label, "learning organization," is commonly used as if it represents a certain type of organization, implying that it is possible to designate certain firms as learning organizations and, at the same time, determine that others are not. In contrast, it seems more useful to think of the learning organization as a model of strategic change. In fact, the learning organization represents the fourth version in a series of strategic change models. The learning organization model is emerging to help firms plan and execute significant organizational change amid rapidly changing business conditions.

### **The First Three Versions**

On an individual basis, each organization learns how to change by taking action, encountering obstacles, and discovering over time how to overcome them. Each version of this cycle

(taking action, confronting problems, and adjusting course) is an opportunity for learning. In this process, organizations — at varying speeds and to differing degrees — become more sophisticated in their ability to introduce strategic change.

On a collective basis, organizations have also learned how to change over the past several decades. It is possible to identify three broad versions of this learning process, each of which is dominated by a generally prescribed model of strategic change. This model indicated the preferred methods of how companies can best go about introducing fundamental changes in their business.

### **The First Version — Formal Planning Focused**

The first model focused almost solely on the planning of strategic change by senior management. Strategic planning, as traditionally practiced, reflected this first version approach to change, assuming that if executives came up with excellent plans, the plans would be easily executed, and successful strategic change would result (Gluck, 1986; Morrissey, 1996). This model emphasized the creation of formal, fixed planning documents through a staff-driven, once-a-year event restricted to the most senior executives. Underlying conventional strategic planning was a "predict and plan" premise, which presumed that incipient trends could be detected through the use of sophisticated environmental scanning methods. Based upon such advance warning signals, the organization could get a jump on the competition, formulating and implementing plans that would result in a competitive advantage when the predicted waves of change hit the shore.

This planning-dominated model of change has been seductive for several reasons. The approach is rational and unambiguous, rooted in the quantitative analytical tools of management science. Moreover, it is consistent with traditional command-and-control forms of management, reserving planning to an elite echelon of top management. Perhaps most important, it promises quick action and concrete results as specified by the planning document.

Over the years, even when companies used the most sophisticated scanning and profound planning methods, and even when the plans reflected brilliant and insightful approaches to future competitive positioning, they often

failed. In reality, plans frequently stayed on the shelf. When it came down to the details of implementation, the desired changes were often much more complex than originally imagined, requiring more time and resources than previously thought. Speed was also an issue. Many business environments were themselves changing at rates exceeding the capacity or organizations to implement their plans (Henkoff, 1990). Finally, the actions of middle managers, rather than the words of top management, often determined how well plans are implemented. Because middle managers were not usually involved in the planning process, they were often not committed to the plans and, in fact, may not have fully understood them. Moreover, these same middle managers frequently had essential ideas and information that, when not taken into account, weakened the integrity of the plans.

### **The Second Version — Implementation Focused**

A new model emerged in the late 1970s and early 1980s as an attempt to overcome the limitations of the planning-dominated approach. It recognized that coming up with great plans was often not sufficient. Detailed attention needed to be paid to how the plans were to be implemented (Fusch, 1997). For the first time in many companies, middle managers were included in the formulation of strategic plans, and in many cases, detailed execution schemes were developed. Often these implementation plans speculated about potential problems and made contingent plans to overcome them. Increased consideration was also given to the resources (financial, technical, human, and time) needed for plans to happen. A new emphasis was placed upon communicating strategic direction to all affected employees, including detailing any new responsibilities and tasks needed to be performed. Moreover, greater attention was paid to following up on plans, tracking progress, uncovering problems, and resolving impediments at the earliest possible point.

Nevertheless, companies still encountered many of the implementation problems identified earlier, such as unexpected delays, inadequate progress, and organizational resistance. Strategic change was clearly more complex than previously imagined. Broad systemic issues (culture, rewards, norms, policies, management

styles, etc.) often affected implementation. Moreover, strategic change frequently called for skills and resources that could not be quickly developed in the narrow gap between planning and implementation. Senior executives often let short-term obstacles and internal considerations obscure their ability to provide strategic direction to the firm. Middle managers were occasionally resistant to the radical upheaval of past practices because they were often rewarded for short-term operational results, not long-term strategic successes. Front-line employees who execute the plans often did not understand the need to do things differently. They were ignorant of the competitive forces, technological changes, and marketplace demands that were combining to make their organization's environment so unpredictable and threatening. Nor were they aware of the strategic objectives the firm had established to deal with these uncertainties.

### **The Third Version — Readiness Focused**

Second-version approaches often paid painstaking attention to the details of making strategic change happen. Still there were problems. Short-term considerations frequently diverted attention from long-term strategic goals. In many cases, broad-scale resistance to change persisted, prohibiting the initiatives from taking hold. Implementation often continued to take longer than planned, with new problems arising that no one could have anticipated, given what was known at the time.

Why? Why after involving middle managers in developing a plan for change? Why after fully communicating the new strategic direction to everyone involved? Why after creating detailed action plans for implementation that included contingency measures? Why after assigning sufficient financial, technical, and human resources? Why, after taking all of these steps did so many change efforts based upon the second iteration model still encounter major obstacles?

The reason was a fundamental lack of readiness for strategic change in the company. Rewards often reinforced the status quo. Management styles often clashed with the imperative to involve people in making change happen. People from throughout the company were often unaware of the need to change. And strong norms and culture prohibited change

from taking form.

In response to these problems, a new model of strategic change developed. This third version placed as much emphasis upon the creation of readiness for change in the organization as it did upon planning and implementation. This new model of strategic change recognized the importance of three elements — readiness, planning, and implementation.

According to the third version, any successful strategic change was viewed as dependent on a certain degree of readiness for the change within the organization. As a result, it was proposed that any attempts to introduce significant organizational change should be prefaced by a series of steps to enhance readiness. These steps often included the following:

- Building awareness of the need for and communicating a vision of the desired change.
- Creating a climate that is supportive of the desired change by realigning organizational culture, rewards, policies, procedures, systems, and norms to support such change.
- Equipping people throughout the organization with the skills needed to participate meaningfully in planning and implementing strategic change (Barger & Kirby, 1995).

Planning tended to be seen as a more open process, with an emphasis on establishing general goals and direction and using pilot programs to build commitment within the organization. During implementation, there tended to be more concern for engaging front-line employees, as well as suppliers, customers, and other key stakeholders, in working out how plans should be executed.

Most quality improvement efforts of the late 1980s and early 1990s illustrate the third ver-

sion. Quality improvement programs generally start with ambitious preliminary preparations designed to create the readiness for change in the organization. A major focus is to build awareness of the critical importance of quality improvement and to convey top management's commitment to a radical new vision of the organization's future, a vision characterized by continuous improvement, employee involvement, and world-class leadership in quality. Another major target of readiness activities is to build a climate conducive to quality improvement by helping managers make a fundamental shift in their management practices, adopting more participative and facilitative styles that support employee involvement in the continuous improvement of quality. Still another target of preliminary readiness activities is the retooling of the workforce through intensive, up-front education and training in quality improvement philosophies and techniques.

#### Toward the Fourth Version

Each version of strategic change efforts emerges from the problems encountered in the previous version (see Table 1). So it is that, as a result of the limitations inherent in quality improvement programs and other third-version efforts, a new, fourth version of strategic change is taking shape: the learning organization.

Many quality improvement efforts have been highly successful. Numerous firms have achieved breakthroughs in product and service quality, significantly enhancing customer satisfaction and greatly strengthening their competitive positions (Watkins & Marsick, 1993). But there is also a dark side of quality. Several studies are showing that the quality improve-

**Table 1** Versions of Strategic Planning

VERSION	PURPOSE	EMERGED
First — Formal Planning Focused	Formal, Fixed Planning Documents by Senior Managers	1940s–'50s
Second — Implementation Focused	Complex Implementation of Strategic Change Plans	1970s–'80s
Third — Readiness Focused	Creation of Readiness For Change Along With Planning	late '80s–early '90s
Fourth — Integrated Organizational Learning Focused	Integrates Readiness, Continuous Planning, Improvised Implementation, and Action Learning	mid-1990s

ment programs started over recent years, based upon the examples of Baldrige winners or the prescriptions of quality gurus, are experiencing a high mortality rate (Hosley, Lau, Levy & Tan, 1994; The Quality Imperative, 1991; Garvin, 1998). Even Florida Power & Light, the once-heralded example of world class quality improvement, hit the rocks. Its Deming Award-winning quality program was dismantled, and its president, the architect and champion of the effort, left the company under pressure (Main, 1991). In fact, studies indicate that change efforts, when treated as established programs and not unfolding processes, almost always fail (Beer, Eisenstat, & Spector, 1990; Fusch, 1997).

Over the years, even with full management support and substantial investments of time, people, and money, many third-version change programs are being designated failures, even by the people who initiated them (Barger & Kirby, 1995). This seems to be increasingly true for many total quality programs, for several reasons. First, the activities designed to create readiness also established unrealistic expectations that momentous change would happen, and happen fast. In addition, despite eloquent protestations to the contrary, many total quality initiatives were still introduced as fixed programs with short-term objectives. In many cases, organizations also failed to achieve a fully integrated, systemic approach to quality improvement, often neglecting the relationship of quality to business strategy, company structure, and information systems. Maybe most important, many quality programs have been primarily internally focused and past-driven — inducing incremental improvements in past procedures and products rather than the discontinuous disruptions needed to weather tempestuous and turbulent business environments.

Quality improvement efforts are teaching an important lesson. Change cannot be transplanted. It must follow its own natural cycle of planting, growth, and harvest in each organization. To do so, the ground needs to be prepared in advance; old soil must be churned and nourished. These seeds of change need to be sown on the organizational topsoil — the immediate issues facing the organization. These seeds then gradually sprout deep roots that wrap around the firm culture — its management practices, business strategies, structure, and information systems. As it grows, the final fruit takes shape over time. The emerging change is continuously

pruned and shaped both by the natural forces of the environment and by the vigilant attention of the gardeners, who water and feed — not on a preplanned schedule, but through personal judgments formed from experience and experimentation. That is the fourth-version model of strategic change, and that is what is meant by the learning organization.

### **The Fourth Model — The Learning Organization**

Today, a fourth model of strategic change has emerged to compensate for the limitations of the earlier versions — the learning organization. The learning organization can be defined as one in which everyone is engaged identifying and solving problems, enabling the organization to continuously experiment, change, and improve, thus increasing its capacity to grow, learn, and achieve its purpose (Daft & Marcic, 1998). Some authors agree that learning organizations start with the assumption that learning is valuable, continuous, and most effective when shared and that every experience is an opportunity to learn (Calvert, Mobley, & Marshall, 1994; Watkins & Marsick, 1993).

In one sense, becoming a learning organization increases the size of a company's brain. Employees participate in all thinking activities, including strategy, with few boundaries among employees in different departments or between the top and bottom. Everyone communicates and works together, creating enormous intelligence and flexibility to deal with rapidly changing environments.

There are four defining characteristics of the learning organization: constant readiness, continuous planning, improvised implementation, and action learning.

**Constant readiness.** Rather than building readiness for a predetermined change, the organization exists in a constant state of readiness, preparing itself not for any specific change, but for change in general, attuned to its environment and willing to question its fundamental ways of doing business.

Unlike the third version, readiness is no longer a one-time event designed to prepare the organization for a specific change. Instead, readiness consists of a perpetual state of preparedness for change since, amid highly turbulent conditions, the organization needs to be equipped to deal with anything and to reevaluate past assumptions and future directions.

**Continuous planning.** Rather than the creation of fixed plans by a few senior executives, the learning organization develops open, flexible plans that are fully shared and embraced by the entire organization. In learning organizations, the act of planning differs greatly from earlier versions, which often relied on formal, written, detailed programs and procedures. In learning organizations, “revision” may be more important than “vision,” with rigid, fixed plans supplanted by flexible, open strategic directions. These plans are not merely top management visions and programs, but are fully embraced and shared by the people involved in making them happen.

**Improvised implementation.** Rather than executing plans by the numbers, the learning organization improvises change, encouraging experimentation, rewarding small wins, and institutionalizing success throughout the organization.

No longer does implementation consist of the note-by-note execution of a prescribed plan. Just as in jazz improvisation, where every performer is a composer, in the learning organization, every member — whether on the front line or the executive suite — is a strategic partner. In the fourth version, individuals and teams act in creative and autonomous ways to interpret the strategic direction and make the plans happen. The actual nature of the change gradually reveals itself through the spontaneous and creative actions of people throughout the organization. They coordinate and collaborate with others in the organization who are also experimenting with change. Over time, successes and accomplishments are reinforced and institutionalized, modifying the formal structures, rewards, procedures, and systems of the organization.

**Action learning.** Rather than reevaluating change efforts only at once-a-year planning sessions, or waiting for the slow learning that derives from experience or the traumatic learning that occurs from crisis, the learning organization takes action, reflects, and adjusts course as it goes, seeking to enhance the speed and effectiveness by which it learns how to change.

In the fourth version, learning is not some-

thing that just happens. It is made to happen. Learning begins when those involved in an activity stop and examine how things are done. In learning organizations, attempts are made to provide frequent, ongoing opportunities for such action-based learning. Learning organizations do not wait for problems to emerge or for crises to arise to compel reevaluation. Reflection becomes part of “the way we do things around here” and is built into the implementation of strategic change. Through this process, they question the original assumptions and search for deep, system (“double-loop”) solutions to the problems.

That organizations can learn to change is a captivating idea, with the potential to revolutionize our understandings of competitive positioning, strategic planning, and organizational change. There is a danger, however, that the learning organization will become the newest addition in a long succession of management fads, producing its own generation of quick-fix solutions in a box. That would be both sad and ironic, since what distinguishes this new model of change is the recognition that any fixed program or plan of change is doomed to failure. There is also the hazard that the learning organization will be prescribed as the ultimate cure for afflictions such as stagnancy and surprise. However, even the learning organization model, when perfectly implemented, will not be a panacea for all organizational ills. Companies will still experience problems in making change happen, and time will assuredly expose significant limitations of this fourth model of strategic change. Instead, the learning organization is best understood as part of a broad, fast-moving current of learning that is gaining speed as it heads downstream. The first version led to the second, the second to the third, and the third to the fourth. The fifth version is just around the next bend.

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