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## IMPLEMENTING ORGANIZATIONAL LEARNING PROCESSES VS. TOP DOWN APPROACHES

Ulrich Schwelker & Rüdiger Reinhardt

Dr. Ulrich Schwelker  
Consultant  
Weberstraße 5  
D 6800 Mannheim 1  
+621 / 44 86 96

**Abstract:** This paper describes a case study of applying organizational learning principles to the strategic change of a large German automotive company which seems to be a successful alternative to the usual top-down approaches. Different models of implementing change processes are discussed, and their adequacies are assessed regarding to the degree of supporting self-transformational processes within the organization.

### A CHANGE PROJECT TOWARDS A CUSTOMER ORIENTED LEARNING ORGANIZATION

We want to present a case study of the first phase of a change project in the sales and marketing division of a major European car manufacturer. The report will follow theoretical considerations on conceptualizing complex change processes towards a learning organization based on system dynamic thinking. We will present a mixture of analyses, discussions, assumptions, insights, experiences, questions. There will be no logical order in our material that should instead be put together into a holistic picture like the pieces of a puzzle. We will start with the current situation and its development to understand the functioning of the system of organizational units, then focus on different considerations on changing the system, and finally will discuss some effects of interventions. The project was started last year, and we had the pleasure to participate as external consultants to the responsible manager. Dr. Schweiker felt responsible for the conceptualization of the whole project, since years ago he had been employed with the company and was therefore familiar with the structural and cultural forces that would accompany any change the consulting team would initiate.

### UNDERSTANDING THE OLD FRAME OF REFERENCE

Before we think about change we need to understand the functioning of the system/organization and the interpretation that guided the managers and employees as their old frame of reference.

The company looks back on more than fifty years of successful business in the car industry. The success had been based on technical engineers who were always leading the technological developments, on skilled workers who were always producing with high quality, and due to a good distribution network of dealers and service station managers on the good image as #1. In all relevant aspects the distance to the #2 was always sufficient so that the term competitor never became a meaning to the managers and employees of the company. These circumstances remained relatively stable over the last decades, and consequently an adequate structure, culture, and leadership could develop. In our vocabulary that is: there was definitely a commonly shared implicit understanding of the situation. There was, however, not an explicitly discussed and agreed upon shared mental model. We have even some hints that the open discussion was kind of a taboo in order not to endanger the positive picture of the heavenly economic world the company lived in.

Though it might sound ironic: the engineers invented, the skilled workers produced, and the sales personnel distributed the cars to the waiting customers. And the money they earned was enough



processes so that they either did not notice or denied what experts outside the company perceived as warning signs: the external world was changing dramatically. The technological developments in the car industry could not keep pace with the speed in other branches of industry. Other companies could learn to produce cars of almost the same technological genius, the same quality, and lower prices. And they could concentrate on new production technology, and could successfully speed up their development and production process resulting in faster satisfying the changing customer demands.

### Tacit Assumptions: The Success System

The original simple model, represented in the lower part of figure 1 "R&D At Highest Level ==> Purchasing Materials As Cheap As Possible ==> Manufacturing With Highest Quality ==> Distribution To Dealers ==> Selling To Customers ==> Earning Money ==> Investing In More Personnel ==> Continually Improving/Differentiating All Divisions" had ruled all thinking and acting in the company for several decades. And as long as the business was good there were no problems deriving from this perspective. A feedback loop as included in the upper part of figure 1 that could detect changes in the demands of the customers was **not** necessary and therefore was not established. If at all learning took place it was single loop learning.

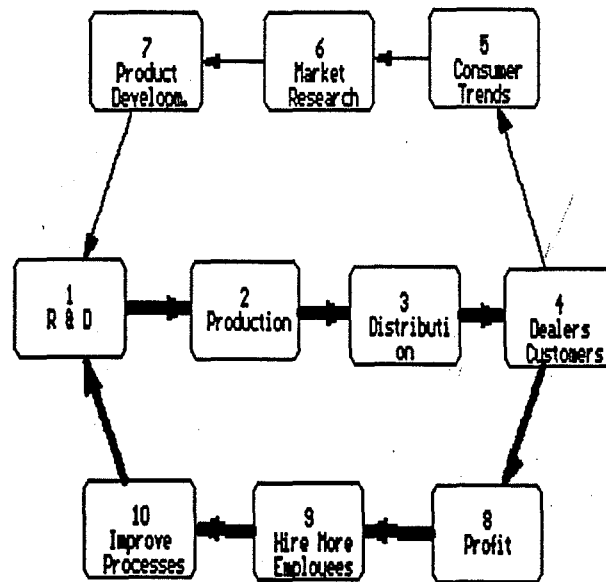


Figure 1: The implicit mental model

### Organic Growth by Cell Division

During the decades the organizational units of the company were growing; the normal organic way of growth was cell-division biologically speaking, or systems differentiation in the sense of General Systems Theory. That is: units were divided into sub-units; and then these sub-units were divided in even more sub-units. An example should illustrate that (figure 2):



The unit DISTRIBUTION - originally one organizational unit - was subdivided into the two units HOME MARKET and EXPORT. Since the EXPORT unit could no longer handle the increasing number of cars that had to be exported day by day the unit was divided into DISTRIBUTION EXPORT EUROPE and DISTRIBUTION EXPORT OVERSEAS. Then, later on, these units were sub-divided again, the EUROPE unit for example into SOUTHERN, CENTRAL, and NORTHERN. Then, for example the SOUTHERN unit was divided into FRANCE, SPAIN/PORTUGAL, ITALY/MALTA, and GREECE. It is easy to understand that typical career paths developed within these growing hierarchies. Employees as well as managers stayed mostly within their original units. This resulted - over the decades - in only little communication between the sub-units horizontally. To name but one resulting problem of this development: If international corporations nowadays want to be supplied with corporate cars on a world-wide distribution plan they have dozens of different communication partners within the sales division, and consequently they prefer other car manufacturers with different, more flexible distributive ways.

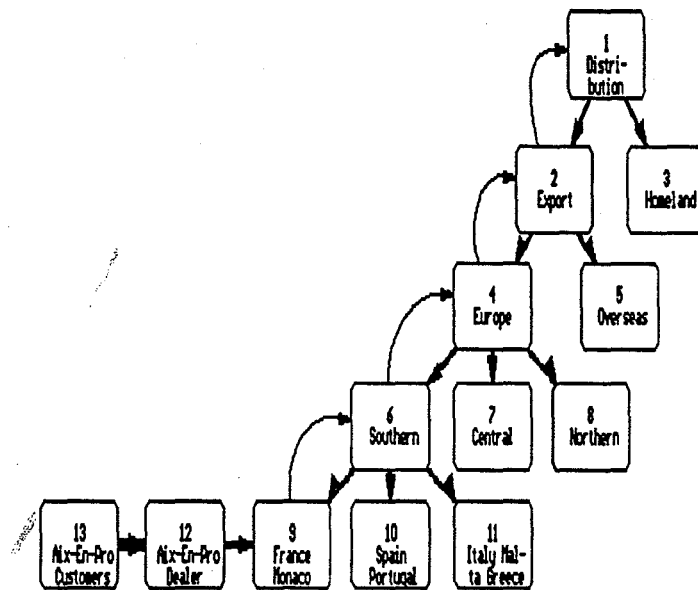


Figure 2: Communication within a traditionally grown hierarchy

### Vertical Communication In Hierarchies

Hierarchies result in a strong structure and culture that supports vertical communication. If hierarchies have too many levels the structure and culture prevent an efficient communication flow top-down or bottom-up. Instead most of the communication takes place between the directly linked units up and down. With the customers confronted for the first time with reasonable alternative offers from other companies some managers of the company realized the need for a complete re-orientation. The demands of the customers - that have to be fulfilled to guarantee customer satisfaction - should become the guiding aspect of all activities within the company.

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## INITIATING CHANGE

Each member of the board of directors started a change project in his division to create a customer orientated organization. We were asked to conceptualize the change process in the sales and marketing division: about 4,000 employees in about 100 organizational units. The goal: each participant in the long-lasting success-game had to learn a new role; and all organizational units had to re-define their tasks in terms of customer orientation. This meant that the top managers (and we as their consultants) had to initiate ways to re-consider and re-frame the function of each individual's job and each organizational unit, and beyond that: to teach and make each individual understand the necessity to develop a new **common Interpretation** of the situation of the whole company. In our vocabulary: exchanging the prevailing implicit mental model with an explicitly shared mental model.

The following aspects of the report are from the consultants' perspective. The consultants conceptualized the change process as one that would result in a learning organization. The internal managers were not willing to participate in such an "abstract" goal: They mostly preferred the simple idea that the change within the company would result in a more flexible reaction to future market changes. According to our ideas presented in the Reinhardt & Schweiker paper we had to start a process aiming at the change of the mental model of the whole system, or of more than 4000 persons in more than 100 organizational units through communication processes.

### Top Down

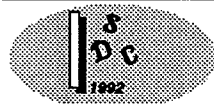
Within the context of a classical hierarchy in a large corporation the traditional top down procedure is not effective enough to implement such a process. If each individual manager has an individual interest that is not 100 per cent identical with the other individual managers' interests it makes no sense to start only on top of the hierarchy.

The following illustration (figure 3) shows that if each arrow means but a loss of 10 % of energy and willingness to agree upon the higher officers' opinion only little energy is transported to those employees who are most important to the implementation of the changes initiated on the top. It is almost impossible to run a top-down process in such strong hierarchical pyramids successfully. Top managers are not able to define a "context of meaning" for the whole company, since shared meaning can only be spread by direct communication. We should discuss more thoroughly the real functioning of top managers defining and communicating corporate visions, philosophies, etc. for the company's life.

**Bottom-up processes** are also ineffective. Normally it is only possible to manage a flow of information and the creation of a common understanding over about three levels. If there is a span of five managers directly reporting to their superiors on each level this means already thirty persons to have dialogue-communication with. In order to develop a new frame of reference for a new shared mental model it is necessary to implement processes that have to overcome only three hierarchy levels.

The question in our example to illustrate this is: ***who will initiate and be responsible for the editing of an information brochure on the 50 white sport cabriolets that will be available at the spring festival in Aix-En-Provence?***

In multi-level hierarchies change processes do obviously have to have different starting points to be successful.



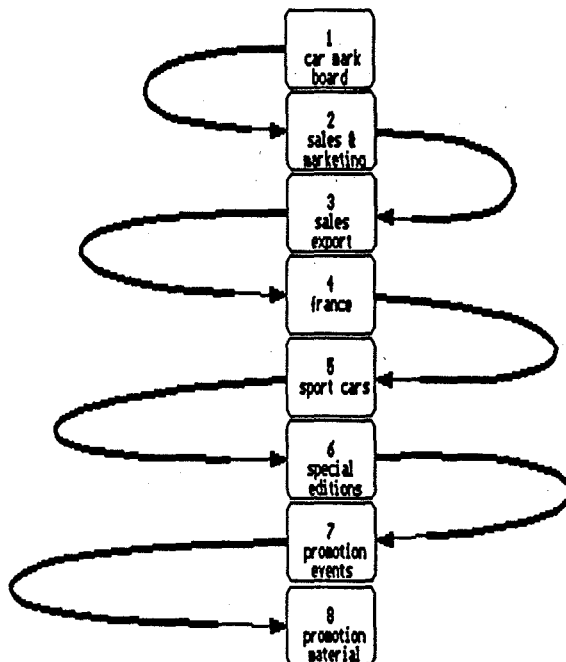


Figure 3: Communication in an organically grown hierarchy.

### Jumping Over Hierarchy Levels

To spread any message and to influence a complex organization we need more successful procedures. One common way that has become increasingly popular in the last years is to make managers communicate with more than one level of hierarchy as figure 4 illustrates.

If the export manager here places the idea to make better usage of the production of special editions the probability that white cabriolets will be available at the spring festival and the appropriate information material will be also printed on time is very high. If such communication processes have become normal reality some day it may happen that the Provence dealers directly place their interest in having a special offer at the spring festival at the right internal place.

Of course, this procedure speeds up the communication, and the direct loss of information and energy is smaller; this procedure captures, however, a lot of time which is a high-value aspect, especially if high-level managers are involved.

And besides, only a small number of managers is capable of acting in such a process with personal trustworthiness. The old fashioned traditional hierarchy symbols that are still in the mind of managers - and their employees - demand a longer period of re-learning together the new way of communication. Imagine that in our example lower level managers may start action *without* further agreement with the managers two levels above. Especially with the goal in mind to establish stable feedback loops over the hierarchy levels this procedure, however, is a long lasting but promising approach.

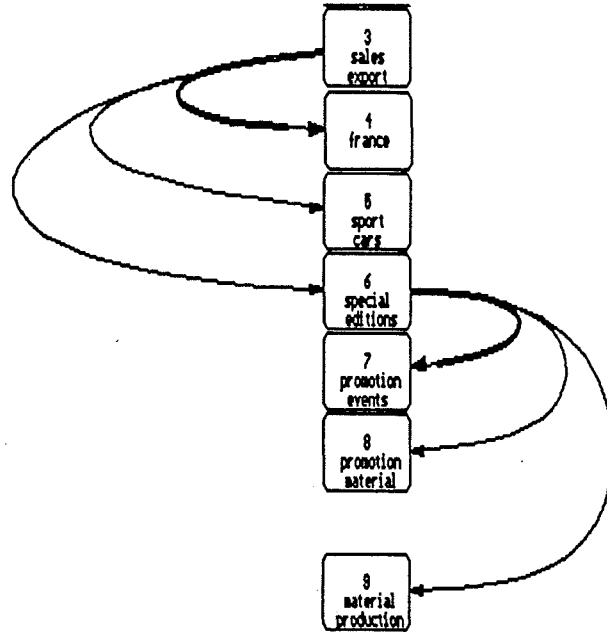


Figure 4: Communication with more than one level of hierarchy

#### External Help to Spread the Message

Another way is to make use of trainers or consultants - internals or externals - as multipliers who transport the message - beyond the common communication channels (figure 5):

This procedure is not very satisfying since the managers in the middle lose their original function. The fear of the middle management to become obsolete is nourished. To be honest: We believe that many top managers and many top management consultants mis-use the lean management argument to perpetuate their own obsolete positions.

If we want to facilitate the company to learn how to change according to its own references the use of experts that have no defined role within the normal work of the company should be limited. This is, of course, not very popular to discuss with either those managers who live on consultants, i.e. the human resource and training managers, or external consultants who live by substituting internal managers. A theoretical concept, however, that implies a continuous dependency on consultants is not very promising for companies - but promising for consultants.

Accordingly the normal argumentation is that the top managers themselves have to become network specialists who facilitate the common learning process of their teams. This function, however, has been traditionally the function of the middle managers and therefore we should discuss more thoroughly the role or even the necessity of top managers instead. Especially in a strong hierarchical pyramid as it exists in the sales and marketing division of the company we consider here the role of the middle management has always been to keep things running.

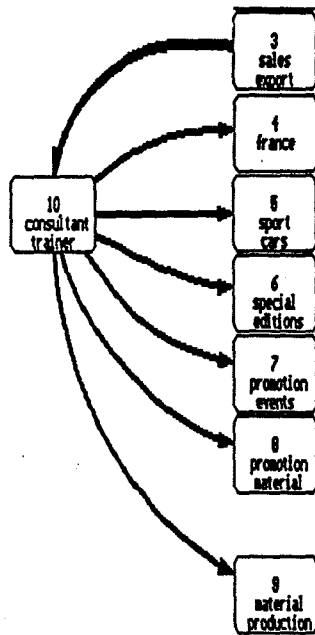


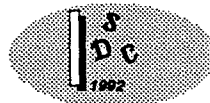
Figure 5: Communication through multipliers

As was shown in the top down model the top management did not have or could not have the role to co-ordinate the functioning of the middle hierarchy levels though this argument was used in public and was part of the commonly shared self-concept of the company. We suppose that this results in a decreasing psychological responsibility of middle managers which is good since they live in a very complex surrounding where responsibility cannot be taken for any action and the resulting effects. Top managers, however, can more easily take the responsibility since they cannot be blamed for something specific due to their abstract role and their commonly assumed best intention. And the responsibility of top management consultants equals zero anyway.

The procedure with consultants and trainers can only be used for some time, since one of the negative side effects is that it teaches the middle managers as well as the employees that they are not capable of establishing the necessary communication, so that communication specialists have to be taken. In the long run this way definitely results in de-motivation.

#### Implementing Networkers to Communicate

A better way is to implement network managers whose task it is to communicate beyond the traditional channels and speed up the solution of certain specific questions. If these network managers are members of the long existing management team - as job rotators - this method is the most promising. This approach means to make a complex hierarchy even more complex (figure 6).



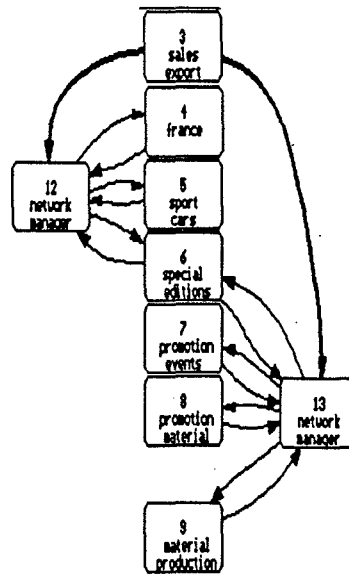


Figure 6: Network managers at work

#### CONSEQUENCES: COMBINING DIFFERENT CHANGE STRATEGIES

Within the expert team of change specialists we discussed the different approaches. We even modelled them mathematically and simulated the flow of information and energy. As a result we decided to use a mixture of the models to implement a steady change towards a learning organization in the more than 100 subunits of the sales and marketing division. We discussed the situation and the necessary changes with several top managers and lower levels opinion leaders, e.g. union representatives, and used them as multipliers. This perturbation led to the following activities of the division:

- \* A dozen top down initiatives were started at different levels of hierarchy within different sub-divisions.
- \* Simultaneously a dozen special task forces were initiating problem-solutions horizontally across the borders of the organizational subunits.
- \* Internal functions started to discuss alternative structures and human resource strategies to establish the initiatives and task forces as normal institutions of the future.
- \* They implemented new communication means like electronic mail to change the culture of handling information neglecting the traditional role of hierarchy levels.
- \* They started a special training programme for managers to learn on the job how to question assumptions and construction principles of shared mental models, of structures, and cultures.

Now, one year and one million ECU later, we can observe that the company has started a very slow change process that may once result in what we would label a learning organization.