THE ROLE OF ENTERPRISE LOGIC IN THE FAILURE OF ORGANIZATIONS TO LEARN AND TRANSFORM: A CASE FROM THE FINANCIAL SERVICES INDUSTRY

Ken Dovey

Director: Information Technology Management Program (ITMP)

University of Technology, Sydney

Australia

Bryan Fenech

Director: Panthalassa Consulting

Sydney

Australia

FINAL COPY: 31st March 2006

Abstract

Dramatic changes in the global business environment over recent decades are foregrounding the need for new competitive strategies by organizations. The recognition that success in the era of knowledge capitalism depends upon the creative productivity of knowledge workers is focusing attention on the forms of intangible capital – in particular, social capital and morale capital – that underpin creativity, learning and innovation as sources of competitive advantage. In this paper, we argue that many organizations are failing to execute mission-critical change because their leaders fail to comprehend how such change is inhibited by the 'enterprise logic' of the organization. Through the case of an Australian financial services company, we show that the functional hierarchical structure - that underpins the prevailing enterprise logic and is still a characteristic of most large organizations – has embedded in it the strategic intention of managerial control. We argue that this, in addition to other features of the rational-legal culture perpetuated by this structural form, effectively prevents the execution of innovative competitive strategies based upon the generation and leveraging of crucial intangible capital resources. The key implication of our findings is the need for leaders to envision and develop a form of enterprise logic that is predicated on new structural forms that encompass the principles of co-ownership, lateral power relations, and distributed power bases.

Introduction:

Dramatic changes in the global business environment, brought about by advances in technology and politico-economic competitive pressures over recent decades, are foregrounding the need for profound change in organizations. The role of structure in either facilitating or inhibiting transformation has been widely recognized, and the concept of enterprise logic has proved useful in analysing the deep structure that informs every aspect of organizational practice. The prevailing enterprise logic of most organizations, a legacy from the era of industrial capitalism, is underpinned by a functional hierarchical structure that Max Weber described over a hundred years ago as one that promotes rationalism and inhibits personal engagement in organizational life. In this paper we argue for the creation of a new form of enterprise logic – one that will allow the creativity and learning capabilities of all staff to be developed and leveraged. This, we contend, is the key leadership task in the era of knowledge capitalism.

We begin with a definition and explanation of the concept of enterprise logic, and a critique of the role of the prevailing enterprise logic in sustaining an inappropriate managerial (or industrial) form of capitalism. We go on to draw attention to the particular forms of learning and knowing required in the era of knowledge capitalism, and the intangible capital resources that promote the necessary engagement in learning processes. Through the case of a failed change initiative at a financial services company, we explore how the prevailing enterprise logic, in hegemonic fashion, inhibits the requisite learning and knowledge creation practices. In conclusion, we argue for the development of leadership frames of reference that demystify the concept of enterprise logic, and thus the 'deep structure' of organizations, and thereby facilitate the structural transformation required for mission-pertinent learning.

The Role of Enterprise Logic in Organizational Performance

Enterprise logic has been defined as the 'overall logic shaping a firm's strategy, structure, and management processes into an effective whole' (Miles *et al*, 1997: 7). It refers to the *deep structure* (or ideological underpinning) of an organisation, and is based upon a set of shared assumptions, values and attitudes that are manifested in the taken-for-granted

everyday practices of the organisation. In order to operate at this subconscious level, enterprise logic must become part of the broad cultural expression of a society. This is a process in which structural arrangements are put into place (particularly with respect to principles and practices of power and resource management) and gradually become manifest in cultural norms (shared assumptions, or mental models, with respect to 'how the world works'). This ultimately leads to patterns of behaviour that reflect the hegemony of this logic. Over time, a range of institutional, organisational and individual (socio-psychological) practices, that sustain shared assumptions about the 'reality' of these ideological arrangements, become formalised.

Zuboff and Maxmin (2002:10) argue that managerial capitalism (what we refer to as industrial capitalism) has provided the standard enterprise logic across much of the world over the past hundred years. It replaced proprietary capitalism (and the form of enterprise logic that dominated that economic era) because it could better address the transaction economics of mass consumerism through new technologies, organisational forms and practices that delivered low-cost products and services. This required

> a new managerial hierarchy with a relentless internal focus on the control and measurement of production and distribution. Managers and engineers inherited the task of planning and overseeing a minute division of labour to accomplish the standardization, increased throughput, and reduced unit costs necessary to meet the new demands of mass consumption (Zuboff and Maxmin, 2003: 20)

The enterprise logic of industrial capitalism was built on the structural foundations of the functional hierarchy (bureaucracy). Over a century ago, Weber (1970 ed.) showed that this form was designed for explicit management control and was intended to denude the organization of individual passions in the interests of rational-legal administration. He argued that, within a bureaucracy,

> the 'objective' discharge of business primarily means a discharge of business according to *calculable rules* and 'without regard for persons'. ... When fully developed, bureaucracy also stands in a specific sense,

> under the principle of *sine ira ac studio* (without anger or passion). Its specific nature ... develops the more perfectly the more the bureaucracy is 'dehumanized'; the more completely it succeeds in eliminating from official business love, hatred, and all purely personal, irrational, and emotional elements that escape calculation. This is the specific nature of bureaucracy and it is appraised as its special virtue (Weber, 1970 ed.: 215-216 – our translation of the Latin phrase)

Weber (1970 ed.: 216) argued further that the bureaucratic structure thus requires personally detached and strictly objective *experts* – functionaries who are unmoved by human passion and who perform their function without emotion, gratitude or favour. Created to transform proprietary capitalist forms of administration into specialized administrative functions operating according to purely objective considerations, the functional hierarchical structure enabled the first wave of globalization and the era of industrial capitalism that underpinned it.

Learning and Knowing in the Era of Knowledge Capitalism

While the functional hierarchical structure served the needs of industrial capitalism very well, profound political, economic and social change over the past three decades - fuelled by advances in technology and new competitive pressures - has led to the emergence of radically different criteria for organizational success. There has been growing recognition in the literature that organizational performance in the new era of knowledge capitalism depends increasingly upon the capacity of organizations to learn and to innovate. The distributed nature of knowledge in organizations requires that collaborative learning and knowledge construction activities be facilitated, cherished and celebrated. Making this point, Gee *et al* (1996: 58), state that,

> in the new capitalism it is not really important what individuals know on their own, but rather what they can do with others in a collaborative way to effectively add ‘value’ to the enterprise.

The creativity of knowledge workers has to be fostered, as does their passionate identification with the purpose and goals of the organization and their full commitment to enacting its core strategies (see, for example, Boyett & Conn, 1991; Gee *et al*, 1996;

Peters, 2003). Workers in the current era of knowledge capitalism are required to become psychologically and emotionally engaged in their work even if that attachment may be transitory.

Of particular importance in this respect are intangible forms of capital that are generated and leveraged 'in community' – in particular, *social* and *morale* capital. *Social capital* is a form of capital that is collectively owned by members of a 'network' characterized by strong relationship bonds and multiplex connections to other 'networks', and involves resources such as trust and voluntary cooperation between all those who hold a stake in the mission of the organization (Nahapiet & Ghoshal, 1998). *Morale capital* refers to resources such as passionate identification with, and commitment to, the purpose of the organization (Dovey & Singhota, 2005). These forms of capital consist of social resources that are constructed and leveraged through network relationships and without which the network would not be able to function at an optimal level.

The most critical of these resources is *trust*, as it underpins the capacity to leverage many of the other resources potentially available to the network either through its members or through its partner networks (connections). Learning and knowing are social capital resources because they are developed and leveraged through specific kinds of relationships (Leonard-Barton, 1995; Choo, 1998; Wenger, 1999; Lave & Wenger, 1991). Once trust - and the social norms of reciprocity and voluntary cooperation that go with it - is established, network members have access to vital *human capital* (knowledge and other resources that are embodied in individual members) and *morale capital* (resources such as passion, commitment, motivation, courage and resilience that are rooted in, what Nahapiet & Ghoshal (1998) call, 'identity resources'). The processes of learning and knowing depend heavily upon the availability of these intangible forms of capital within a network and upon the capacity of network members to leverage them. The unique aspect of these forms of capital is that they are not depleted but re-generated through their exploitation.

The mobilization of these resources, however, requires structural/cultural forms characterised by distributed power/authority bases and opportunities for enterprise-wide collaboration and learning (Dovey & White, 2005). Legacy structural forms, embedded in an outmoded form of enterprise logic, are clearly no longer appropriate. This began to become evident almost thirty years ago when Mintzberg (1979: xii) made the claim that 'structure seems to be at the root of many questions we raise about organizations'. In the digital era, structure has come under increasing scrutiny (Dell, 1999; Foster & Kaplan, 2001; Miles *et al*, 1997; Peters, 2003) and its role has been highlighted in specific areas of organisational performance, such as the capacity to innovate (Dougherty, 1999; Leonard-Barton, 1995; Barley, 1986); enact strategy (Davies, 1993); become more entrepreneurial (Miles *et al*, 2000); construct new knowledge (Lave & Wenger, 1991; Wenger & Snyder, 2000; Dovey & White, 2005); and meet customers' needs more effectively (Zuboff & Maxmin, 2002).

The role of structure and the difficulties faced by hierarchically-structured organizations, in terms of their capacity to compete in the digital era, have also been highlighted in a dramatic way by recent global political events. As Friedman (1999) points out, we are currently witnessing a new form of military/political competition in which a 'super-empowered' individual/group, using a decentralized, virtual, organizational form that effectively leverages exceptional levels of social and morale capital, and the new information and communication technologies, in the service of a passionately owned mission, has consistently trumped a global superpower, hamstrung by its hierarchically-structured military and government organizations. The effectiveness of *Al-Qaeda* in surviving the best efforts of the USA to defeat it over the past decade, has led Tom Peters (2003) to claim that this new global military conflict is not one that will be decided by weaponry but by organizational form (on this point, see also Grint, 2005).

The Need for a New Form of Enterprise Logic

It is becoming increasingly evident that global changes are impacting the hegemonic logic of industrial capitalism. In this respect, Zuboff & Maxmin (2002: 290) call for a new 'support' economy, based on relationship value and the principles of what they refer

to as *distributed capitalism* (what we call knowledge capitalism), to replace the transaction value of industrial capitalism. They argue that the emergence of a new economic paradigm generally requires that three conditions be met: new customer needs or market conditions; new enabling technologies; and a new form of enterprise logic through which changes in authority and power management practices can be legitimated. They go on to claim that two of the three conditions for a global economic paradigm change are now in place. Firstly, consumers (and knowledge workers) have new needs. They refer to these as *deep support* needs, which must be fulfilled in order to pursue a life of *psychological self-determination*, and contend that these needs cannot be met by organizations designed for the industrial capitalist era. Secondly, they argue that the new digital technologies are able to support the 'smart coordination and collaboration capabilities' and structural forms necessary to provide affordable deep support to millions of consumers. They acknowledge, however, that the third condition for a global economic paradigm change – the establishment of a new and appropriate form of enterprise logic – has not yet been met.

Contemporary pressures to innovate mean that the new enterprise logic would have to be characterised by new organisational forms that spawn cultural discourses reflecting a strong sense of ownership among all stakeholders of the organization. Such ownership would be underpinned by passionate commitment to the mission of the organization; the shared values of its stakeholders; and creative participation in its everyday activities. It would be characterised by, what Gee *et al* (1996: 58) refer to as, ‘non-authoritarian’ distributed power bases. In such an environment of decentralized authority, risk would be managed through the socialization of all members to cultural norms that dictate the framing of all decision-making by the mission and values of the collective. A *covenantal* culture would be created in which the destiny of each is viewed as being bound up with the destiny of the others. A consequence of this would be that learning would become viewed as an obligation to the collective. Because learning involves personal risk and potential vulnerability, and is thus highly sensitive to power management practices, it requires a 'negotiated order' in which power relations are governed democratically through a set of mutually-endorsed and personally-binding core values. However, the

realisation of the requisite new form of enterprise logic will be difficult to achieve under current organizational arrangements where authoritarian power relations, rooted in positional power bases, often serve specific functional and managerial purposes at the expense of the interests of the organization as a whole.

The Bases of Resistance to Change

While leaders in organizations are becoming aware that survival in the era of knowledge capitalism requires radical change, their articulation of change often remains at the rhetorical level. The idea of distributed ownership, leadership, authority, knowledge and responsibility, within cellular, network, or federal organisational structures, poses a considerable threat to those (managers and workers alike) who have internalised (or who have a personal interest in sustaining) the enterprise logic of industrial capitalism.

It is our contention that the primary source of effective resistance to change by managers is the functional hierarchical structure. When change is attempted it is usually on an *ad hoc* basis, within existing organisational arrangements, and seldom addresses the kinds of structural change necessary for the transformation of management processes and everyday work practices. As a consequence, structural and cultural inhibition of change persists in many organisations.

Case Study of a Failed Attempt at Organizational Transformation

In order to explore these issues against the backdrop of everyday practices in an organization, we present a study of a failed change initiative at a large Australasian financial services company (hereafter "the Company"). The case consists of a brief ‘strategic story’, in which the Company’s attempt to transform itself is outlined, followed by an interpretative analysis in which we apply our argument to explain how structurally-induced defensive behaviour by the Company’s leadership undermined the learning and innovation required to transform the Company.

The study was conducted as an action research project within the Company and was designed to include an 'insider' (Company-based researcher) and an 'outsider' (university-

based researcher) dimension. Bryan (the second author) initiated the research project when he was informed that he had been promoted to the role of the Project Management Office (PMO) manager. In order to ensure the success of the newly-created PMO at the Company, Bryan obtained permission from the Chief Executive Officer (CEO) of the Company to engage in an action research process through which he hoped to sustain the learning and renewal required for its success. Bryan asked Ken (the first author), who had previously supervised his postgraduate research at the University of Technology, Sydney (UTS), to co-manage this research project with him in order to provide an outsider perspective on what was essentially an insider action research project (for the benefits and disadvantages of insider action research, see Coghlan, 2003). As a participant-observer in the research process, Bryan kept an *Observations Journal* and a *Learning Journal* (that contained detailed reflection on his everyday practice and on Company events). In his professional role as manager of the PMO, Bryan had access to a broad range of official documentation that included the minutes of meetings, electronic and paper-based communications, and business data that included Company results. Ken's role can best be described as that of an 'external critic' (see Sarason, 1972): someone who is intimately interested in the project but who provides an outsider's perspective; who is independent enough to challenge the interpretations and analyses of the insiders; and who is respected enough by the insiders to be taken seriously by them. In addition to this role, Ken conducted interviews with a variety of insiders in order to access their interpretations of events and issues pertinent to the research project. Although the CEO distanced himself from aspects of the authors' analysis, he agreed to the publication of this research on condition that all identifying features of the Company are removed from any research papers.

The Company

Like many organizations operating in today's dynamic business context, the Company has adopted a 'management by projects' approach whereby much of its work is organized as a series of simultaneously executed projects (see Fenech & Dovey, 2005). This approach has facilitated the Company's aggressive new product development program that is focused on information products delivered through communications technologies.

A key challenge in such a multi-project management environment is the fact that the demand for projects usually exceeds the resource capabilities of the organization.

Historical Context

The Company came into existence as the result of a merger driven by the threat of entry into the Company's market of a much larger, better resourced, global business. While the parties to the merger possessed distinct histories, cultures, processes and systems, both found themselves in a similar predicament. After computerizing their operations during the 1980s, custom-building at great expense the core business applications that enabled them to leverage economies of scope and scale that their local competitors could not match, it became possible, post Y2K, to replicate these core business applications relatively cheaply. Thus, while technology initially gave each of the parties the means to create the barriers to entry that made their markets secure and profitable, soon thereafter technology razed those barriers leaving both parties vulnerable to attack from larger players.

Six months after the merger, fears of a much larger and resource-rich overseas competitor entering the market were realized and the Company's share price lost more than 40% of its value as investors anticipated that market share would come under increasing pressure. At this time, the Company announced a bold new mission to become the 'leading provider of choice' in Australasia. The Company's strategy outlined a vision of operational excellence (with statements such as 'achieving lowest cost best practice'; 'world class IT enablement'; and 'building organizational capability') and signalled intentions of cultural transformation (with slogans such as 'passion, values and recognition'; 'performance-based rewards'; and the 'encouragement of innovation').

Organizational Structure

The Company restructured itself into five strategic business units focusing on different market segments, and five functional silos (Group Finance, Group IT, Human Resources, Legal and Administration, and Group Sales). Group IT was sub-divided further into four functional silos (Client Services, Infrastructure Services, Product Services and Practices).

Product Services, the area primarily responsible for project management and the undertaking of project-based work (predominantly of a cross-functional nature), was also structured as a traditional functional hierarchy consisting four sub-departments (Solution Delivery, Solution Design, Solution Development and Solution Assurance).

History of Failure to Execute Innovative Strategies

Driven by the need to accelerate the integration of the two merged businesses and to engage its new competitor by rapidly developing new products and services, the Company extended itself well beyond its organizational capacity, by over-committing to projects. The Company failed to complete a series of projects (known as the *Quick Win Projects*) that aimed to accelerate the integration process, within their scheduled six-month time-frame (some of these projects were still active eighteen months later). With most projects experiencing slippage against plan, the 'hump' of project work that needed to be surmounted was pushed back month after month as new projects were approved and initiated. Estimates for key projects were reported as 'highly at risk' due to an inability to secure the human resources required to undertake critical project tasks. Several of these key projects failed to meet their delivery dates with the result that their anticipated contribution to the Company's EBITDA for that financial year was not realized, and the Company was criticized, with respect to its profit predictions, in the financial press after twice lowering its earnings forecast.

A Bold Strategic Initiative and its Collapse

At this point, the Company responded by undertaking a program (the Program), initiated by the manager of its Program Management Office (PMO), aimed at extending the function of the PMO to include a more proactive and strategic role in the Company's project selection decisions. Specifically, the PMO would manage the legislative framework created by a Program Governance Board (Steering Group) comprised of senior executive managers and the manager of the PMO, with the purpose of ensuring an explicit and transparent basis for project selection and investment decisions. The framework was based on a project portfolio selection methodology (PSM) whereby a portfolio of projects would be selected 'from available project proposals and projects

currently underway, that meets the organization's stated objectives in a desirable manner without exceeding available resources or violating other constraints' (Archer and Ghasemzadeh, 1999: 208).

This methodology, recognized globally as *best practice* with respect to managing investment decisions in a multi-project environment, produced significant business benefits over the six months that it was in operation. These included:

- increased project throughput compared to the previous twelve months;
- increased return on investment in projects compared to the previous twelve months;
- stopping several projects that were of dubious value resulting in cost savings and the freeing up of resources to work on more valuable projects;
- establishing an overall plan that sequenced projects over a six-month period according to relative value, subject to organizational and environmental constraints;
- reducing the Company's portfolio of major projects to a more manageable number – from fifty down to twelve;
- building project management competency in project teams.

Despite this success, after six months of operation the Company announced the retrenchment of the PMO Manager and the disbanding of the PMO on the grounds of 'reducing a management overhead'. Without the PMO there to drive it, the project portfolio selection methodology was from that point no longer followed and the Senior Executive Managers ceased meeting as a Steering Group.

Subsequently, over an eighteen-month period, the Company failed to deliver a $15M program of work aimed at re-engineering its core business applications and processes (the largest it had ever attempted), spending most of its capital budget in the process, and the CEO was replaced by the Board. Thereafter, the Company re-established the PMO function, expending significant effort and cost on hiring new personnel, retrieving and

reviewing the disused project portfolio selection and related process documentation, and attempting to re-introduce the abandoned work practices.

Resistance to the Program

At the outset of the Program, project owners and project managers viewed the new requirements to provide information about their projects to the PMO as ‘more red tape’ and as ‘preventing them from doing their real job’. In the past, such requirements had been spoken of as ‘snake oil’ and exhortations to ‘just do it’ would be made, even in the case of large international development projects, with the consequence that contracts were signed that committed the Company to delivery dates without prior feasibility planning. This attitude was reflected in extremely poor reporting, both in quality and timeliness. However, within three months of the introduction of the Program this resistance had dissipated. A training session provided by the PMO was well received by project owners and project managers and one particularly ardent and vocal critic, who had previously refused to comply with the project portfolio selection methodology, became a champion of the process. By the fifth month of the Program's operation, the standard of reporting by project owners and project managers was excellent and, without exception, they had become passionate supporters of the project portfolio selection methodology and the expanded role of the PMO.

In contrast, resistance from functional managers was much slower to arise; however, when it did arise it effectively led to the termination of the Program. Initially, functional managers accepted the Program, following the lead of the CEO who endorsed it at a rhetorical level as ‘the way we now do things here’. However, as they became aware of its implications for power management practices within the organization, the new work practices and the mandate of the PMO were challenged, with some managers encouraging their staff to refuse to cooperate. Ironically, the project portfolio selection methodology began to be criticized as being ‘bureaucratic’ and ‘prescriptive’ by those who had helped define it and the PMO labelled a ‘roadblock’ by those who had participated in setting its Charter. Over time, human resources were unilaterally re-allocated from projects by their line managers contrary to project selection decisions

made by the Steering Group. Line managers began ignoring meeting requests, telephone calls and emails from project owners and project managers seeking information about human resource availability. In one particular conflict between a project manager and a line manager, the latter asserted 'the right to pull [the resource] off any project, regardless of the project impact'. Personal attacks were made on the PMO Manager and, in contrast to the training sessions delivered to project owners and project managers, training sessions delivered by the PMO to functional and line managers were openly sabotaged.

Reassertion of Positional Authority.

During the operation of the Program, the functional managers of the Product Services Department released new project management and systems development methodologies that contradicted those introduced through the Program. At the expense of best practice in project management and systems development, these methodologies sought to embed into process standards – by enshrining rational legal processes governing the conduct of all project activities and decision making – power relations that favoured functional and line managers over project managers. A 'waterfall' model was imposed in which project activities were organized into phases that corresponded to the functional boundaries of the Product Services Department, and, rather than entrust projects to autonomous cross-functional teams led by project managers, a serial assembly line process was imposed which required each department to perform its 'phase' of project activities in isolation before handing over to the next department. Under this model, authority for prioritizing activities, allocating specific human resources and approving deliverables lay with functional and line managers, with project managers stripped of the decision-making authority delegated to them by the Program.

Retreat from Transparency.

As functional managers began to understand the implications of the Program for their personal and functional power bases, they increasingly reverted to covert and sectarian strategies - recreating an atmosphere of secrecy and mistrust in the process. An example of this is provided by an excerpt from the *Observations Journal* of the PMO Manager

that relates to his request to obtain a copy of the new project management and systems development methodologies shortly before their release:

> I then requested a copy of the document from the Group IT Manager (Product Services) explaining that the CIO had given me his approval. He directed me to the Solutions Assurance Manager who was in possession of the master documents. I then sent an email to the Solutions Assurance Manager. He replied by email directing me to a Consultant who was coordinating the process definition activities, with the suggestion that it was not appropriate for the document to be released outside of IT while it was in draft form. This reply was copied to the Consultant. I then emailed both the Consultant and the Solutions Assurance Manager and explained that I had been given authority to access the document by both the CIO and the Group IT Manager (Product Services). The Consultant then called me to discuss how I would use the document and to extract an assurance from me that I would not let the document be seen by anyone either inside or outside the IT function; specifically asking me not to let the document be seen by any of the project managers. To this I agreed. A copy of the document was then sent to me by email by the Solutions Assurance Manager with a covering note emphasizing 'FOR YOUR EYES ONLY' and 'ONLY A DRAFT'.

To Learn or Not to Learn

Shortly before the disbanding of the Program, semi-structured interviews conducted with senior functional managers, project owners and project managers revealed significant differences in attitudes toward the Program and the learning gained from it. Despite the business results obtained through the new work practices, senior functional managers expressed a preference for the traditional approaches to managing projects (approaches that had been proven inadequate in the Company). For example, there was a strong preference for the traditional functional organizational form and its sequential assembly line approach to managing projects, over the autonomous cross-functional team approach

supported by the Program and generally recommended within a multi-project environment. One executive manager stated that "for the bulk of projects, I would rather the assembly line approach …unless it's something like … where I think it's such a major project that it requires 100% commitment from people on the project itself". Another claimed preference for the assembly line "because of the matrix and the resourcing that's required behind it, because we always have more projects than we have people available". Preference was also expressed for curtailing the autonomy of project teams and integrating them back into the functional operational structure. One manager stated that "project teams should not be autonomous. They should be part of the operations side of the business. Exceptions may be major projects that are going to go over a twelve-month period where you're probably better off to isolate them so that you do develop a culture within the project team. But I believe that most projects should be part of business operations." Significantly, a number of responses by executive managers reflected an apparent lack of understanding of basic procedural aspects of the project portfolio selection methodology in which they had been participating over the previous six months.

In contrast, at the project team level, project owners and project managers questioned the need for strong functional line management – such as that imposed by the Product Services Department through its project management and systems development methodologies – in an enterprise where most work is organized as projects and where these projects are prioritized, scheduled and coordinated by a Steering Group. Consistent with best practice, they favoured greater autonomy for tightly-knit cross-functional teams, and resented intrusions by functional and executive management. In a focus group setting with project managers, the view was strongly expressed that "the selection methodology and the PMO protect the process from petty squabbling". This group exhibited a sound understanding of the project portfolio selection methodology, the roles of the PMO and the Project Governance Board, and possessed strong opinions about these approaches being superior to what had previously been in place in the Company.

Analysis of the Failure of the Company to Introduce an Innovative Management Practice

The case of the Company illustrates how, rather than foster lateral power relations and engage in enterprise-wide mission-pertinent learning, functional managers were able to undermine the innovative practices introduced by the Program. Initially, while still unsure of the Steering Committee's commitment to the Program, they operated on an *ad hoc* basis, making arbitrary decisions to reallocate resources assigned by the Program to project teams. However, as the reluctance of executive managers to face the political consequences of the Program became apparent, functional managers more aggressively re-claimed authority with respect to project decisions and resource management. They did this via two specific methods of power management:

- Managing power ‘downwards’ by re-asserting bureaucratic protocols and procedures that have been taken-for-granted in the Company for decades. The 'logic' of these practices appears to be so embedded in the cultural life of the Company that few employees protested the actions of line managers in arresting the change process at the expense of superior business performance and recognised best practice. Similarly, there was no protest from staff at the destruction of the nascent culture of trust and enthusiasm that the Program was beginning to foster, by the re-introduction of these protocols and procedures. By leveraging the structurally-induced mental models of staff with respect to *power* and its sources of legitimacy in organizations, functional managers were able to sabotage the new work practices in open defiance of the new democratic decision-making processes that had been introduced through the Program.
- Managing power ‘upwards’ through the threat of political disharmony. The re-instatement of traditional strategies-in-action (bureaucratic protocols and procedures and traditional project management methodologies) by functional managers exploited prevailing cultural values regarding competitive individualism, short-term thinking, and the pre-eminence of individual and sectarian interests. At the same time, it effected a revival of the cultural phenomenon of *false consensus* in functional hierarchies. In this ‘game’, all members of the enterprise (wittingly or unwittingly) participate in the charade of strategic planning while tacitly knowing that the prevailing strategies-in-action

> are the way ‘the world really works’. In functional hierarchies, the process of formulating 'espoused strategies', which cannot be executed, is as much an accepted part of management routine as are the 'strategies-in-action', which are usually not made explicit, but which are easily executed courtesy of the enterprise logic. This results in a situation of strategy-contradiction. When faced with an open rebellion from functional managers, the executive management of the Company very quickly chose political harmony over business transformation and superior results. As salaried leaders, they appear to have viewed such a strategy to be in their own interests. Interestingly, this reversion of the entire executive management contingent to the traditional order occurred without questions about the legitimacy of their strategic turn-around from anyone in the Company other than the PMO manager[i].

The constraints imposed upon strategy execution by the taken-for-granted structure and culture of the organization, are invisible because of the socialization of staff to the prevailing enterprise logic. The socialization process reifies structural and cultural conditions, so that they are perceived as ‘natural’. On this point, Zuboff and Maxmin (2003: 21) argue that,

> the standard enterprise logic has become so deeply taken for granted that it is no longer visible. People do not question assumptions that they no longer see. … Change management would not be the industry it is if organizations were changing. Change management is huge precisely because organizations are *not* fundamentally changing. … the standard enterprise logic is organized to reproduce itself at all costs, even when it is commercially irrational to do so. It is through these processes, so often undiscussable, that organizations defy change, even when they say they are changing.

As the explicit logic of the Program contradicted the tacit enterprise logic of the Company, its validity in the minds of all staff was tenuous at best. This was evident throughout the Program. For example, during training workshops and when attempting to

encourage compliance with the Program, the PMO Manager found it necessary to identify with the managerial hierarchy in order to ensure his legitimacy in the minds of the workshop participants. A consequence, therefore, of the functional hierarchical structure is an organizational culture wherein the link between espoused strategy/values and strategy/values-in-action has been mystified, enabling leadership failure to be easily rationalized (see Sarason, 1972; Gardner, 1965). In this kind of organizational culture, salaried executive managers are able to protect their self-interest through risk-averse and conservative practices.

Functional managers, at first guided by assumptions that the change initiative would fail as many previous change programs in the Company had failed, tolerated the new order until it became clear that this change was being driven by someone (the PMO manager) who was resolute about its implementation. From our observations, once measured business benefits began to be explicitly documented and tabled at the Steering Group meetings, the moment for open rebellion by functional managers had arrived. At that point they realized that unless stopped immediately, the Program would permanently transform the old order of the Company. Through veiled threats by some, and less subtle forms of aggressive confrontation by others, line managers initially attempted to persuade the PMO manager to allow 'greater flexibility' in the operation of the new practices – a tactic that would have undermined the integrity of the Program and thus destabilized the new order. When this failed to stop the progress of the transformation, the only remaining action left was to sabotage the Program and ensure that the PMO manager was retrenched. Thus, because the logic of the Program could not be resisted on rational business grounds by the executive management of the Company, it brought into play the full range of insidious defensive mechanisms available to those who have a vested interest in undermining change in organizations structured as a functional hierarchy.

Transforming Structural Form in the Interests of Learning

In spite of the increasing signs that functional hierarchical structures are inhibiting mission-pertinent learning in organizations, this organizational form persists, and functional 'experts' – who Sullivan (quoted by Peters, 2003) describes as 'very expensive

microchips' – continue to dominate decision-making in organizations. Little heed has been taken of statements, such as that of Deprez & Tissen (2002: 1) that 'the organizations we created have become tyrants. They have taken control, holding us fettered, creating barriers that hinder rather than help our businesses', and the prediction of Boyett & Conn (1991: 109) that 'in *Workplace 2000*, rigid hierarchies will be dismantled, as will ceremonial trappings of power', seems naïvely optimistic in retrospect. As Jacques (2003: 137) points out, over 85% of the workforce in economically developed nations is still employed in hierarchically structured organizations.

The transformation of the 'deep structure' of organizations - change that 'alters the basic structures and therefore affects every premise, assumption and activity that derives from or depends upon those structures' (Zuboff and Maxmin, 2003: 19) is clearly a difficult task. The relatively recent introduction of the so-called matrix structure with the claim that it offers 'the best of both worlds' by preserving 'the benefits, such as information sharing and continuity, of the functional department structure, while enabling cross-functional coordination on a project basis' (Payne, 1993: 240) seemed for a while to offer organizations a way to 'have their cake and eat it'. By combining functional specialization with cross-functional business product or project specialization, and superimposing a product or project structure on an existing function-based structure (with resources assigned from vertical units to horizontal units - see Alsène, 1999 and Van Der Merwe, 2001), it was hoped that the constraints of the functional hierarchical structure could be overcome. However, as the case study demonstrates, functional silos continue to dominate decision-making and power management practices in such hybrid structures (Alsene, 1999; Bishop, 1999; Miles *et al*, 1997; Payne, 1993). As Bishop (1999: 9) argues, 'it is the functional departments (that often control the resources and information vital to the success of the cross-functional team) that can and often do sabotage the efforts of the cross-functional team'. Thus the emergence of the matrix structure can be seen as an example of 'adaptive' rather than 'deep' change, enabling leaders of functional hierarchies to successfully accommodate pressure for structural transformation without fundamental change to the political *status quo*.

With suitable frames of reference regarding the relationship between structure and mission accomplishment, leaders need to explore the range of organizational forms that are emerging as appropriate alternatives to the functional hierarchy. Such forms include *cellular* (Miles *et al*, 1997); *federal* (Handy, 1994); *hypertext* (Nonaka & Takeuchi, 1995); *communities of practice* (Wenger, 1999) and *network* (Lipnack *et al*, 1994) structures. At the core of each of these alternative structures is the concept of stakeholder co-ownership and an emphasis upon lateral power relations between them. These principles, however, may constitute the biggest challenge for leaders groomed in hierarchically structured organizations, as these leaders are required to sponsor the process of their own disempowerment – to empower others by transforming the structure of the organization in ways that facilitate the development and liberation of the entrepreneurial capabilities of all staff (Foster & Kaplan, 2001; Boyett & Conn, 1991). The political culture embedded in organizations historically structured as functional hierarchies, makes most business leaders deeply *suspicious* of such a strategy. In a study of the introduction of cross-functional project teams in functionally and hierarchically structured organizations, Bishop (1999: 7) argues that,

> ... in many cases, the culture of the firm encompasses decades of established business practices and formal functional reporting structures and … going to a team culture could be personally counterproductive for [it's] leaders, who are the very people who need to sponsor the activity to change the organizational culture!

We have argued that in functional hierarchical organizations management control is a more powerful need and entrenched mental model than the need for business results. Thus, it may take dramatic events and crises in organizational performance, such as those predicted by Peters (2003), before such mental models are re-visited. In addition, it may require the same level of publicity and transparency of the results of business organizations as is the case with elite sports teams, for business leaders to elevate the need for results above that for control. Even with the (cognitive) support of the leader, structural transformation is difficult, in that, at the first sign of a crisis, the leader's old mental models about structure, authority and control are likely to be re-asserted and the

inappropriate power management practices that emanate from them to be re-enacted (Kim, 1993; Kets de Vries, 1993). In this respect, drawing on Sarason's (1972) concept of an 'external critic', Dovey & White (2005) argue the need for an extra-organizational role through which the power of those with formal authority in business organizations can be mediated effectively in the interests of relevant organizational transformation.

Conclusion

In this paper, we have explored the role of the prevailing enterprise logic in the inhibition of the transformational learning required in organizations that are attempting to compete through innovation. We go on to argue for a new form of enterprise logic – one characterized by emergent structures, shared ownership, and broadly distributed 'non-authoritarian' power bases – through which the creativity and learning capabilities of all staff can be built and leveraged.

We have attempted to outline some of the difficulties involved in the transformation of the enterprise logic in organizations. In particular, our argument has focused upon the irony that the factors that made the functional hierarchy so successful as a structural form in the industrial capitalist era – namely the 'de-humanization' of the workplace through the principle of *sine ira ac studio*; the functional division of work; and the establishment of hierarchical power relations – are at the heart of its inhibition of the creativity and learning required for success in the era of knowledge capitalism. Through the use of a case study, we have shown that the transformation of this legacy structure (and the learning-averse culture that it spawns) is a very difficult task – one that many conventional leaders in organizations are ill-equipped to manage.

The key implication of our findings is the need to broaden the concept of leadership in organisations to incorporate the role of 'structural architect'. Given the distributed nature of knowledge and the other key intangible resources necessary for creativity and innovation in organizations, the orchestration of organizational change requires the identification and implementation of new structural forms to underpin the development of a more appropriate form of enterprise logic. This, we show, is a complex and difficult

task that requires managers to ‘give away’ their power in order to realize it in new shared forms – something that it is unlikely to happen in organizations where the prevailing, and taken-for-granted, enterprise logic militates against such action.

We recognise that action research – and particularly insider action research - is vulnerable to bias and unconscious distortion with respect to the political and knowledge interests of the researcher(s) (see Coghlan, 2003). Thus our portrayal of the dynamics of organizational transformation in the Company may well have been influenced unwittingly by our roles and interests – especially those of the PMO manager. Furthermore, given the privileged relationship the ‘external’ action-researcher enjoyed with the PMO manager (whose postgraduate research he had supervised over several years), as opposed to his relationship with other senior managers in the Company, and the politics surrounding the retrenchment of the PMO manager, it is possible that such circumstances unintentionally influenced the analysis of the case study. While not necessarily undermining the validity of our analysis, issues such as these endorse the need for further research – particularly action research - into the complex role of, and relationship between, enterprise logic, ownership, and leadership in organizations that are seeking to innovate as a competitive strategy. However, while the 'deep insights' facilitated by insider action research are crucial to gaining a clearer understanding of these complex relationships, such insights need to be evaluated against a backdrop of broader methodological perspectives. In offering a detailed analysis of one company’s failure to transform, we hope to provoke further research and debate around the role of enterprise logic in an organization’s capacity to learn and innovate.

---

[i] In the Australian context, the pervasive assumption of hierarchical structures as 'the way the world works' is an unfortunate consequence of the colonial history of the country and the fact that most large organizations in Australia are still externally owned (see Mintzberg, 1983).

References

Archer, N. & Ghasemzadeh, F. (1999) 'An Integrated Framework for Project Portfolio Selection', *International Journal of Project Management* 17(4): 207-216.

Alsene, E. (1999) 'Internal Changes and Project Management Structures Within Enterprises', *International Journal of Project Management* 17(6): 367-377.

Barley, S. (1986) 'Technology as an Occasion for Structuring', *Administrative Science Quarterly* 31: 78-109.

Bishop, S. K. (1999) 'Cross-functional Project Teams in Functionally Aligned Organisations', *Project Management Journal* 30(3): 6-10.

Boyett, J. & Conn, H. (1991) *Workplace 2000*. New York: Dutton.

Choo, C.W. (1998) *The Knowing Organization: How Organizations Use Information to Construct Meaning, Create Knowledge, and Make Decisions*. Oxford: Oxford University Press.

Coghlan, D. (2003) 'Practitioner Research for Organizational Knowledge: Mechanistic- and Organistic-oriented Approaches to Action Research', *Management Learning* 34 (4): 451-463.

Davies, R. (1993) 'Making Strategy Happen: Common Patterns of Strategic Success and Failure', *European Management Journal* 11(2): 201 – 213.

Dell, M. (1999) 'Maximum Speed', *Executive Excellence* 16, 1: 15-16.

Deprez, F. & Tissen, R. (2002) *Zero Space: Moving Beyond Organizational Limits*. San Francisco: Berrett-Koehler.

Dougherty, D. (1999) 'Organizational Capacities for Sustained Product Innovation', *Advances in Management Cognition and Organizational Information Processing* 6: 79-114.

Dovey, K. & Singhota, J. (2005) 'Learning and Knowing in Teams: Lessons for Business from Professional Sport', *Development and Learning in Organizations: An International Journal* 19(3): 18-20.

Dovey, K. & White, R. (2005) 'Learning About Learning in Knowledge-Intense Organizations', *The Learning Organization* 12(3): 246-260.

Fenech, B. & Dovey, K. (2005) 'Evaluating Project Management Maturity Models: An Analysis of Business Needs'. In *Proceedings of the 2005 PMI Global Conference – Asia Pacific*. Newton Square (Pennsylvania): Project Management Institute.

Foster, R. & Kaplan, S. (2001) *Creative Destruction: Why Companies that are Built to Last Underperform the Market – and How to Successfully Transform Them*. New York: Currency Books.

Friedman, T. (1999) *The Lexus and the Olive Tree*. London: Harper-Collins

Gardner, J. (1965) 'Education for Renewal'. Occasional Papers 101. Boston: American Association of Collegiate Schools of Business.

Gee, J., Hull, G., & Lankshear, C. (1996) *The New Work Order: Behind the Language of the New Capitalism*. Sydney: Allen & Unwin.

Grint, K. (2005) *Leadership: Limits and Possibilities*. Basingstoke (Hants): Palgrave.

Handy, C. (1994) *The Age of Paradox*. Boston: Harvard Business School Press.

Jacques, E. (2003) 'Ethics for Management', *Management Communications Quarterly* 17(1): 136-142.

Kets de Vries, M. (1993) *Leaders, Fools and Imposters: Essays on the Psychology of Leadership*. San Francisco: Jossey-Bass.

Kim, D. (1993) 'The Link Between Individual and Organizational Learning', *Sloan Management Review* 35(1): 37-50.

Lave, J. & Wenger, E. (1991) *Situated Learning: Legitimate Peripheral Participation*. Cambridge: Cambridge University Press.

Leonard-Barton, D. (1995) *Wellsprings of Knowledge: Building and Sustaining the Sources of Innovation*. Boston: Harvard Business School Press.

Lipnack, J., Stamps, J. & Wight, O. (1994). *The Age of the Network: Organizing Principles for the 21st Century*. New York: Wiley and Sons.

Miles, G., Heppard, K., Miles, R. & Snow, C. (2000) 'Entrepreneurial Strategies: The Critical Role of Top Management'. In Meyer, D. & Heppard, K.(Eds) *Entrepreneurship as Strategy*. Thousand Oaks (California): Sage.

Miles, R., Snow, C., Mathews, J, Miles, G. & Coleman, H. (1997) 'Organizing in the Knowledge Age: Anticipating the Cellular Form', *Academy of Management Executive* 11(4): 7-20.

Mintzberg, H. (1983) *Structure in Fives: Designing Effective Organizations*. Englewood Cliffs (NJ): Prentice-Hall.

Mintzberg, H. (1979) *The Structuring of Organizations: A Synthesis of the Research*. Englewood Cliffs (NJ): Prentice-Hall.

Nahapiet, J. & Ghoshal, S. (1998) 'Social Capital, Intellectual Capital, and the Organizational Advantage', *Academy of Management Review* 23(2): 242-266.

Nonaka, I. and Takeuchi, H. (1995) *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation*. New York: Oxford University Press.

Payne, J. (1993) 'Introducing Formal Project Management into a Traditional Functionally Structured Organisation', *International Journal of Project Management* 11(4): 239-243.

Peters, T. (2003) *Re-Imagine: Business Excellence in a Disruptive Age*. New York: Dorling Kindersley.

Sarason, S. (1972) *The Creation of Settings and the Future Societies*. San Francisco: Jossey-Bass.

Van Der Merwe, A. P. (2001) 'Project Management and Business Development: Integrating Strategy, Structure, Processes and Projects', *International Journal of Project Management* 20(5): 401-411.

Weber, M. (1970 ed.) *From Max Weber: Essays in Sociology*. Gerth, H. and Wright Mills, C. (Eds). London: Routledge.

Wenger, E. (1999) *Communities of Practice*. Cambridge: Cambridge University Press.

Wenger, E. & Snyder, W. (2000) 'Communities of Practice: The Organizational Frontier', *Harvard Business Review* 78(1): 139-145.

Zuboff, S. & Maxmin, J. (2002) *The Support Economy: Why Corporations are Failing Individuals and the Next Episode of Capitalism*. New York: Allen Lane.