

CONTEXT IS KEY

Why organisations fail to become more innovative and flexible and what we can do about it

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DISCUSSION PAPER

OSCA

Osca's mission is to increase the social impact of our institutions. We believe that too many of our organisations, from governments, to corporations and charities, work in ways that do not serve them or society. From having out-dated top-down management structures to very poor understanding of the real social impact they are having. How we help is by supporting them to work better with their people: staff, stakeholders, publics and customers; and giving them real data on the social impact they are actually having.

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ORGANISATIONAL CHANGE IN A DATA RICH WORLD

The need for organisational change is nothing new. Successful businesses have always been good at spotting opportunities. Shell started life, as its name suggests, as a shell importer. Toyota was a textile manufacturer. Moving with the times isn't unusual; it's just sound business sense. But there do seem to be an increasing number of organisations grasping this nettle in directive ways, understanding innovation and change as integral business processes, rather than the result of individual judgment or good luck. Many consultancies we've spoken to have reported that since 2010 they have seen an increase in demand from organisations seeking to 'fundamentally' change their ways of working to incorporate innovation and agility on a company-wide basis. This has been accompanied by a surge in media interest in and coverage of organisational change¹.

Some of the organisations seeking change are public sector bodies facing big cuts, others are companies being disrupted by new technologies, cheaper international competition or who feel out-manoeuvred by new nimble businesses. There is a widespread belief² that a coming together of globalisation, the fall-out from the financial crisis and new technologies is making the world less predictable and that organisational development is a big part of the answer to this phenomenon.

So when organisations speak about wanting to change, as far as we can tell what they mean is that they want to become more flexible and innovative to cope with these changing needs. The trouble is that we can find very little evidence that organisations embarking on such organisational change manage to achieve the innovation and agility they set out to develop, and to spot the new opportunities that turn shells to oil wells and looms to cars.

So what's the problem? At Osca we have been looking hard at the practice of organisational and leadership development³, and we have been surprised by what we've found. As far as we can tell the vast majority of organisational change programmes are undertaken in the complete absence of any evidence-based definition either of the project objectives or the operating context. So what often happens is that imprecise aspirations such as "we want to become more flexible" are met with off-the-shelf activities, such as 'innovation labs' or restructures, that are intended to produce this flexibility. No one is really sure that they do produce it, and even fewer people are moved to check.

¹ Gallagher, J. (2015), *NHS reorganisation was disastrous, says King's Fund*, BBC News [online], available at: <http://www.bbc.co.uk/news/health-31145600> [Accessed 9 Jul. 2015]. Parker, G. (2015), 'Culture of entitlement' infects city of London, says Archbishop Financial Times [online], available at: <http://www.ft.com/cms/s/0/035e9b28-ae84-11e2-8316-00144feabdc0.html#axzz3ef90IQEM> [Accessed 9 Jul. 2015].

² Deimler, M. and Reeves, M. (2011), *Adaptability: The New Competitive Advantage* [online], available at: <https://hbr.org/2011/07/adaptability-the-new-competitive-advantage> [Accessed 9 Jul. 2015].

³ Townsend, T. and Wilson, R. (2015). *Catching the Wave: The State of Local Authority Innovation in the UK and the Creative Councils Programme*. [online] Available at: <http://osca.co/publications/> [Accessed 9 Jul. 2015].

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We think this approach lacks focus and rigour and that it doesn't work.

There's an odd sort of incongruity at play here. The 'scientific' approaches to business analysis that are predicated on increasing amounts of cheap data are driving the new movement of systemic organisational change by switching the focus from the hunches of talented individuals to the dedicated number-crunching of computers. You could call this the 'Moneyball' effect⁴, the idea that new statistical data can transform the fortunes of businesses. This makes it all the more surprising that data itself plays so little part in the design, implementation and evaluation of organisational change programmes. This really is empty rhetoric. It's data-driven change without any data.

In today's data rich world getting this kind of information is easier than ever. Many organisations will already have useful data sets on internal factors such as staff behaviour or management protocols, and external factors such as changing income streams, user satisfaction and service performance. Some gaps may need to be filled, but the principal point here is that even some evidence is better than none, and in fact we are in a relatively rich data environment that could be put to much better use.

This paper outlines how to create that evidence base to support making organisations more flexible and innovative using an evidence-based approach.

³ Harthill, Osca, PWC, (2015). *The Hidden Talent: Ten ways to identify and retain transformational leaders*. [online] Available at: <http://osca.co/publications/> [Accessed 9 Jul. 2015].

Osca research for ELMAG, *Transformational Leaders in FE* (2015)

⁴ In the case of the film which the phenomena is named after, little known Oakland Athletics baseball team used new data to compete with the richer teams in the major league.

WHY ORGANISATIONS STRUGGLE TO BECOME FLEXIBLE & INNOVATIVE

We have identified five principal reasons why organisations struggle to become flexible and innovative:

1. FOCUS ON CUTTING: although much organisational change work aims to support innovation and flexibility, in practice it has focussed on cost reduction and stricter cost management. This focus on strict financial management often also comes with much tighter management practices than before with few or no measures to support flexibility or innovation explicitly. We suspect that such measures may well have the effect of de-prioritising attempts at flexibility or innovation. This is most particularly so when they lack the specificity or rigour of more well established financial tools.

2. LIMITS OF THE PRODUCT INNOVATION MODEL: innovation theory has entered the management mainstream, with books like Christensen's 'The Innovator's Dilemma', Drucker's 'Innovation and Entrepreneurship' and 'XLR8' by Kotter becoming professional bestsellers. These books and many like them focus on a private sector (often technology based) product development innovation model, that goes something like: 1) Framing 2) Brainstorming 3) Prototyping 4) Refining. So far so good, these models have proved valuable in providing frameworks to help organisations become more creative. The trouble is that many traditional service based organisations like local authorities or charities have struggled to integrate these ways of working with their existing management processes. So instead, many have opted for parallel structures such as innovation hubs and labs. Innovation hubs and labs can be a good way of generating stand alone innovations, but they tend not to make the core operations more flexible or innovative. Which is fine if what you need are new ideas or a new service or product, but if you need to change how you deliver that service or become more flexible at a strategic level then you need to change your core operations, and product innovation models are not designed for that.

3. STATIC RESTRUCTURES DON'T WORK: most Organisational Development (OD) processes do not take account of the on-going nature of change. Instead they involve the replacing of one fixed way of working with another fixed way of working. The standard OD process goes something like this: 1) an analysis of the external environment, 2) resetting service objectives and 3) a consequent restructure of people and management processes. There are three principle reasons why this is a problem: Firstly because the processes identified (e.g. new business models) are, most of the time, untested at the time of implementation and there is no clear understanding of whether they will work. Secondly because the top-down restructures of this nature can risk negatively impacting on the organisation's culture and staff morale. Thirdly the pace of external change is likely to continue, so that another reconfiguration will most likely be required in the near future. What this does is hard-wire into the organisation a kind of managerial rigidity which is the opposite of the move to a more flexible way of working that is usually sought.

4. ORGANISATIONAL ‘PING’ BACK: many of us involved in trying to change organisations will have noticed that a common outcome of an innovation or organisational development project is for the organisational practices to ‘ping’ back to the prior routines. This seems to be because habit and inertia are too deeply ingrained across the organisation for an individual innovation or leadership project to have lasting influence. The institutional inertia which lies at the heart of ‘ping’ back helps explain the frustration so many of us feel when new projects and ideas struggle against the tide of established routines. The only way to address this is to seek to understand the organisational routines and either change or work with them.

5. LACK OF CONTEXTUAL UNDERSTANDING: in all the OD projects we have observed, there has been no systematic attempt to understand the operating context, and the consequent flexibility or innovation required to fit that context. Even ‘The Practice of Flexible Leadership’ by Harvard Professors Heifetz and Linsky who have perhaps done more than any others to put the need for flexibility on the map, does not make a single mention of how to define and measure appropriate flexibility within an organisational ecosystem. We believe that this may go to the heart of why so many of our organisations have so far failed to embrace flexibility and innovation. We believe that different organisations will need different types and levels of flexibility or innovation dependent on their environment. The traditional law firm is likely to need less than the tech start-up for example. Without systematic attention given to better understanding context we are in danger of treating all organisations the same, as opposed to sensitively creating bespoke organisational capabilities based on an in-depth understanding of their operational needs.

We believe this final point of a need for greater contextual understanding is key to address all five challenges. Many of the OD projects which default to financial cuts do so in part because financial management is a mature and well developed field with clear indicators and evidence that are both widely understood. So for those projects to give due weight to innovation and flexibility we need ways of measuring and acting on this. Similarly many of the product innovation models are good, but developed in very different contexts to the traditional organisations who are now adopting them. We don’t think it’s possible to simply transfer models from Silicon Valley to Salford and expect them to be just as useful. Rather we need to understand the context in Salford and adapt the Californian models to the Mancunian context. Finally the fact that static restructures are still the mainstay of most OD interventions is in itself symptomatic of a failure to address the fundamental need many organisations have to operate in an increasingly unpredictable context.

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Not all organisations need to be flexible or innovative. Law firms like Linklaters or tailors like Ede & Ravenscroft have operated successfully for hundreds of years with relatively minor changes to their business models. The level of flexibility and innovation you need therefore depends both upon the specific characteristics of your operating context, as well as your organisation's mission.

We believe that different organisations will need different flexibility and innovation capabilities. This is where we think Assemblage Theory can help. We at Oscala have been working with Assemblage Theory for many years⁵ and it's what we use as the foundation for our organisational change work.

Assemblage Theory observes that every organisation operates within an external context within which it has an interdependent relationship.

Assemblage Theory understands entities as identifiable groupings that are able to express themselves within an environment: an individual bee is an assemblage of cells and a hive is an assemblage of bees in much the same sort of way as an individual person is an assemblage of cells and an organisation is an assemblage of people; so far, so much sociology. The insight that comes from Assemblage Theory for our purposes is in the theoretical underpinning of the porous and fluctuating identity of assemblages and the kinds of forces that firm up their boundaries and break them down. This theoretical insight helps us to understand the ways in which an organisation is both working towards coherence and stasis, and at the very same time entertaining dissension and change.

Every organisation has both these sets of forces at work at one and the same time. The question for anyone implementing organisational development initiatives is to understand where inertia is accruing and rebellion being fomented and ensure that both are productive and effective for that organisation: that there is an appropriate balance of opposing forces.

We have translated the insights of Assemblage Theory into a more workmanlike system that allows us to analyse levels of organisational flexibility and environmental predictability in such a way as to guide an organisation towards that balance.

⁵ Maitland Hudson, G. (2009), *Rescuing Autonomy – Identity, Society and the Practices of Freedom, Identity*, 9(4), pp.273-306.

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The value of this way of thinking becomes more obvious when you take a specific example. In Table 1 on page 8 below we outline some simple ways you can measure internal flexibility such as ‘staff tenure’, ‘diversity of services’ and ‘location and virtual working’. We also outline ways to measure contextual predictability such as ‘technological changes’, ‘customer expectations’ and ‘budget changes.’ In Figure 1 on page 11 we describe how three types of organisation can be viewed in this way. A law firm’s environment is highly predictable and therefore needs very limited flexibility. A tech start-up operates in a highly unpredictable world, with new software available daily and unforeseen competitors emerging and disappearing rapidly, consequently many of these firms have developed highly flexible operating models to cope with the lack of predictability they face. Finally we have a government department whose environment is changing rapidly but whose ways of working remain mostly inflexible, meaning it struggles to adapt to its new environment.

This adaptation of Assemblage Theory is helpful as it starts to move us towards an evidence-based approach to organisational change and away from evangelical ideas such as ‘innovate or die,’ ‘flatten hierarchy’ or ‘embrace agility’. Not all organisations need to innovate, indeed some may actively need to restrict their levels of ‘new’ in order to better meet environmental priorities: Uber is a good example of a rapidly growing disruptive organisation that is facing new pressures to implement stricter processes and procedures and ‘settle down’. Assemblage Theory tells us to expect exactly that. It shouldn’t come as a surprise.

A FRAMEWORK FOR UNDERSTANDING CONTEXT

Table 1 on page 8 outlines a simple framework containing 12 indicators that can be easily measured by any organisation to give a sense of an its balance of organisational flexibility and contextual predictability.

For each factor, we have only described what one extreme of the spectrum (e.g. a 1 rating or a 5 rating) would indicate as the other will naturally be its opposite. We have described the inflexible extreme in internal indicators (1 rating) and the unpredictable extreme in external indicators (5 rating), for completeness.

For each factor, we have used a 1-5 scale:

- 1 indicates a highly stabilising force
- 5 indicates a highly destabilising force

Here we focus on flexibility, partly because it's one of the two key capabilities many organisations want but don't have, but also because in our experience there is a high degree of overlap between organisations' flexibility and innovation capability. It's important to state here though that innovation and flexibility capability are not the same. There are many highly innovative organisations that are not flexible, some of the large biotech firms fall into this category. There are also many very flexible organisations that are not particularly innovative such as contract cleaning firms or catering firms. So innovation and flexibility are not equivalent.

A FRAMEWORK FOR UNDERSTANDING CONTEXT

Organisational Flexibility (internal contributing factors)

Contributing factor / indicator	Description of scale 1-5 (1 = high inflexibility, 5 = highly flexible)
Staff tenure	1 = very high staff tenure and hence inflexible force because of inertia
Level of prior training / expertise	1 = high level of prior training / technical expertise meaning an inflexible, established and traditional approach
Diversity of services / products	1 = low level of diversity of products / services without much change over time
Location and Virtual working	1 = centralised location(s) meaning large groups and lots of face time agreed approaches / processes
Management / decision making processes	1 = rigid management and decision-making processes with clear hierarchy
Procedures and protocols	1 = large number of established processes and protocols, inflexible approaches

Contextual Predictability (external contributing factors)

Contributing factor / indicator	Description of scale 1-5 (1 = high inflexibility, 5 = highly flexible)
Technological changes to potential service & internal workings	5 = high levels of technological change enabling / requiring new approaches, compared to previous history
Citizen / customer expectations products / services	5 = changing expectations of citizens requiring new services / products on an on-going basis
Budget / market changes	5 = big changes in budgets / market size compared to history
Diversity of income sources	5 = large numbers of income sources / high proportional increase
Legal / political structures governing the sector	5 = very little legal and political structure governing approach
Data availability	5 = increasing data availability in new forms and ever larger volumes challenging processing ability and analysis

Table 1: Simplified Organisational Responsiveness Framework: Indicators of External Predictability & Internal Flexibility

THREE TYPES OF ORGANISATION

Although in practice every organisation requires a subtly different level of innovation or flexibility capability, and within larger organisations different divisions will have very different innovation needs; we think it can be instructive to think of organisations in terms of these three overarching categories of innovation or flexibility requirements:

1. **INNOVATION OR FLEXIBILITY NEEDED** (e.g. government dept., charity, bank) – probably larger, older and more traditional organisations facing significant external pressures, e.g. shrinking budgets and changing political and citizen needs / expectations
2. **INNOVATION OR FLEXIBILITY CAPABLE** (e.g. tech start up, social enterprise) – probably smaller, younger, more modern organisations, often with low overheads and a young work force in a new and growing business niche, with a comparatively new team
3. **INNOVATION OR FLEXIBILITY IRRELEVANT** (e.g. law firm, tailors) – well-established organisations in old sectors with very long standing client and competitor relationships. Very well established team with some people working there for their entire careers.

It may well be that your organisation does not fit into any of the categories above, they are purely for illustrative purposes.

For the scale 1-5, we have created a simple colour spectrum to illustrate the match between internal and external factors and to show where an organisation is successfully achieving an appropriate balance. Each indicator is assessed for each example and given a colour.



THREE TYPES OF ORGANISATION

Organisational Flexibility (internal contributing factors)	Needed	Capable	Irrelevant
Staff tenure			
Level of prior training / expertise			
Diversity of services / products			
Location and Virtual working			
Management / decision-making processes			
Procedures and protocols			
Contextual Predictability (external contributing factors)	Needed	Capable	Irrelevant
Technological changes to potential service & internal workings			
Citizen / customer expectations of products / services			
Budget / market changes			
Diversity of income sources			
Legal / political structures governing the sector			
Data availability			
	Needed	Capable	Irrelevant
AGGREGATION INTERNAL			
AGGREGATION EXTERNAL			

Table 2: Organisation types and their internal flexibility & external predictability

THREE TYPES OF ORGANISATION

For each of the examples, we have aggregated each indicator together to give an overall picture of relative internal flex and external predictability. As stated in the original paper, **the notion of 'fit for purpose' is for the internal level of flex to roughly equal the external level of predictability**, i.e. for there to be a colour match illustrating a balance of internal systems and practices and external influences. For example, if there is a great deal of external change, one would need healthy levels of flexibility internally to be sufficiently flexible.

Figure 1: Organisation types and their internal flexibility & external predictability



GATHERING DATA ON YOUR ORGANISATION

Through reading this discussion paper you will have your own ideas of how our organisational change framework may be of use to you. We tend to use it in five principal ways:

- **Innovation Culture Creation:** providing evidence of organisational behaviour and culture
- **Creating a Flexible Organisation:** providing a clear plan for building organisational flexibility capacity
- **Data Capturing & Analysis:** on-going for continuous strategic review
- **Organisational Development & Transformation:** providing practical suggestions on how to change the behaviours and systems of an organisation
- **Organisational Strategy:** providing evidence and insight in how to practically build more flexible and innovative organisations.

If you do decide to use this framework, in one of the ways above or for another reason please do let us know and tell us how you got on.

GETTING STARTED

The first steps to explore the potential of this process might be:

- **An initial conversation:** to map the internal and external situation from the perspective of stability and instability, and to establish the importance / role of increased adaptability to be 'fit for purpose'
- **Profile your organisation:** ask us to help you create your organisation's innovation or flexibility profile
- **Analyse your existing data:** (quantitative and qualitative) and how this could easily map onto understanding the stabilising and destabilising indicators
- **Define your needs:** what level and type of innovation or flexibility do you need
- **Simple immediate changes:** identify opportunities for changing how you work and methods of measuring the impact
- **Start measuring:** how can you start using your current data better and simply fill some gaps.

If you would like to talk to us about our approach, please contact Jo Weir: jweir@osca.co



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Since 2010 more organisations than ever have wanted to change how they do business. Driven by new technology, international competition, public demands or reduced income, organisations are seeking to be more innovative and flexible. However in practice it would appear that many fail to create the change they want. Context is Key explores why this is the case and suggests that what's missing is a deeper understanding of organisations' operating context.

What often seems to happen is that aspirations such as "we want to become more flexible" are met with off-the-shelf activities, such as 'innovation labs' or restructures that are intended to produce the desired results. Nobody is really sure that they do produce the desired result, and even fewer are moved to check.

Context is Key argues that there is an incongruity at play here. The 'scientific' approaches to business analysis, that are predicated on increasing amounts of cheap data, are driving the new movement of systemic organisational change by switching the focus from the hunches of talented individuals to the dedicated number-crunching of computers. This makes it all the more surprising that data itself plays so little part in the design, implementation and evaluation of organisational change programmes. This really is empty rhetoric. It's data-driven change without any data.

In today's data rich world, getting this kind of information is easier than ever. This paper outlines how to create the evidence base needed to support making organisations more flexible and innovative using an evidence-based approach.

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Osca is a social impact consultancy.