

**TRANSFORMING A.I.D. FOR GLOBAL LEADERSHIP:  
SOME STRATEGIC MANAGEMENT TASKS**

**Report prepared for PM/TD  
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## EXECUTIVE SUMMARY

The new top leadership team at A.I.D. has approved several new program initiatives for the 1990s, as well as a special effort to improve Strategic Management. This paper discusses strategic management issues in A.I.D. and suggests options for addressing some of these. (A separate paper covers planning for organizational change at the Bureau or Office level.) It is assumed that the global leadership role which A.I.D. wishes to play in development assistance will require new systems and processes for continuously pursuing quality improvement and innovation in all areas. However, revamping internal systems may be hampered by management decision-making patterns which have been characterized as increasingly conservative and risk-averse. Therefore, an early task of top management is to start modifying the organizational culture to remove penalties and add rewards which encourage reasoned risk-taking and innovation by staff at all levels. This includes altering promotion and bonus schemes to better motivate and recognize staff accomplishments in quality improvement.

Strategic Management is concerned with ensuring an effective match between the organization's strengths and the demands/interests of critical external forces and parties. This means that senior managers must assess whether A.I.D. goals reflect the vital interests of the organization and its key stakeholders (e.g., Congress and the White House). Additionally, the Administrator will need to succeed in his plan to reduce the total number of Agency goals, if A.I.D. is to effectively focus its staff talent and other resources. Senior managers must also assess the "fit" between the new Agency goals and current organizational structures, procedures, and staff composition. For example, in past years, top management acted to eliminate most direct-hire technical program staff and rely on outside contract specialists. Consequently, most projects are designed, implemented, and evaluated by contractors. Moreover, the Agency now lacks adequate inhouse technical expertise in several areas for (1) identifying development needs and designing quality programs to address these or (2) providing quality oversight of contractors. Managers thus need to decide if new staff mixes are needed for the 1990s. To achieve desired levels of organizational innovation, managers will also need to make greater use of cross-functional quality improvement teams and special action projects.

To be effectively implemented, the new Agency goals and priorities must be understood and supported by staff in all parts of the organization here and abroad. Managers need to provide clear information to employees on the new approaches and be role models for program execution. Such modeling will be more effective if it starts at the top. Therefore, the Administrator's Office should hold all senior managers responsible for promoting specific quality improvements in their areas. Moreover, the annual work plans of all managers (political and career) should include targets for improving (1) programs, (2) organizational effectiveness, and (3) staff development. Precepts or guidelines for promotions and bonuses should be modified to give higher priority to actions which improve the quality of Bureau, Mission, or Agency outputs, rather than simply perpetuate existing routines. Managers must learn to constructively exploit organizational change and conflict, since these are increasingly normal events. Classroom training and structured on-the-job experiences can help provide interested managers basic concepts and skills for assessing innovation needs and then designing action efforts to address these.

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I. INTRODUCTION

A. Scope and Objectives:

This is the first of two consultancy reports on the following areas:

- (1) Strategic Planning and Management
- (2) Planning for Organizational Change

The reports reflect (1) recent organizational planning work with the new Asia and Private Enterprise (APRE) Bureau, (2) recent private sector research on organizational innovation, and (3) 30 years of direct and indirect personal involvement in A.I.D. program and management issues. The views expressed are personal and do not necessarily represent the position of PM/TD.

This first report outlines some options for A.I.D. managers to consider in their current efforts to improve the Agency's strategic planning and management. The focus is on increasing the organization's capacity to innovate, particularly in the areas of general leadership and management. *The assumption is made that A.I.D. plans to play a major global leadership role in development assistance during this decade and beyond.* To do this well, the Agency will need an effective organizational system and a critical mass of innovative managers at all levels.

B. Impact of Organizational Culture on Innovation:

A.I.D.'s history suggests that it has difficulties in sustaining certain types of management innovation. For example, A.I.D.'s extensive organizational development efforts of the 1970s had essentially disappeared by 1980-- along with most inhouse management training. New management training programs were started in the mid-1980's and are still operating. However, a 1982-83 effort to initiate quality improvement in AID/W under the W. E. Deming philosophy floundered, apparently because senior managers lacked interest. Similarly, A.I.D. has not been a very active participant in the current Federal Government initiative on quality improvement ("TQM"). Consequently, the Agency is some distance away from the goal of becoming the best-managed Federal Agency of its size by 1992--a goal announced in 1988 by Administrator Allen Woods.

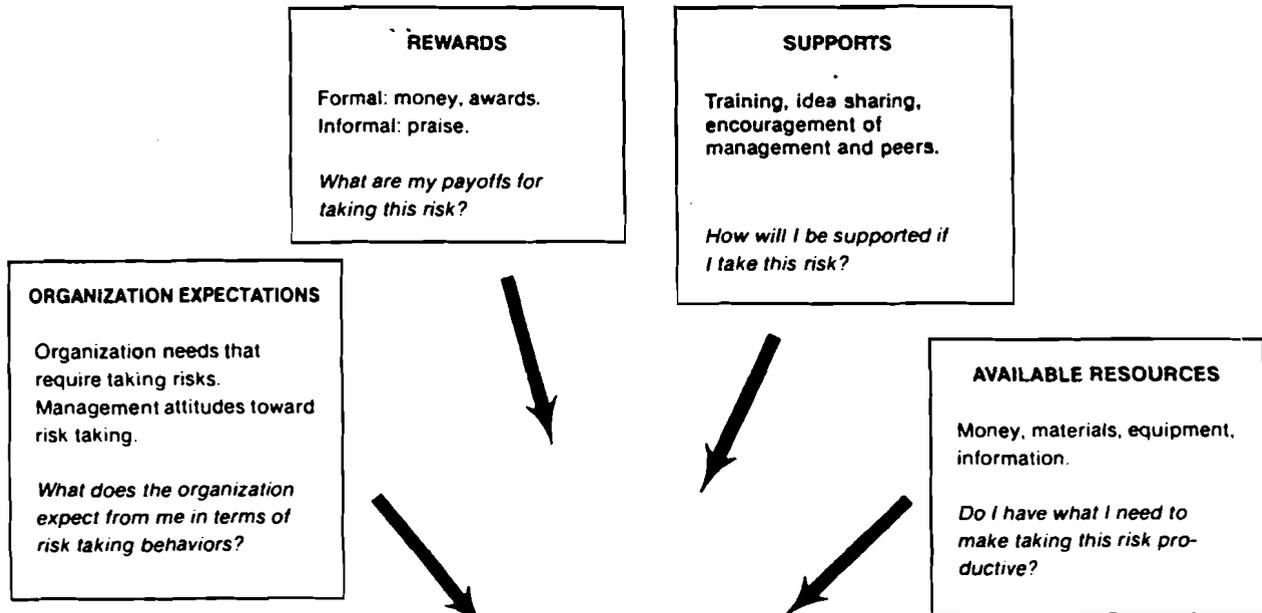
Some observers have suggested that the current decision-making patterns of many A.I.D. managers can be characterized as conservative and overly concerned with self-protection. The issue was well articulated by Ambassador Mark Edelman (then Acting Administrator) at an October 1989 meeting of the A.I.D. Managers' Network. Mr. Edelman observed that while A.I.D. had many talented people, it had poor management practices. He described managerial decision-making as often being cumbersome, slow, and exhibiting an almost slavish reliance on the A.I.D. Handbooks. Staff decision papers presented to the Administrator's office are often "mushy" because of excessive compromising in the clearance process. Moreover, too many decisions are pushed upward in the hierarchy because managers are reluctant to accept responsibility for taking action. 1/ (References are listed at the end of the report.)

In short, the A.I.D. organizational culture appears to have increasingly become one in which managers have an aversion to risk-taking. In defense of present decision-making practices, some managers argue that the A.I.D. leadership climate does not encourage risk-taking or creativity. For example, there has recently been considerable turnover and instability in the top management ranks, so overall directions and program priorities have been unclear. Some staff also contend that A.I.D. auditors are obsessed with finding and reporting problems, rather than helping staff to prevent or solve them. Consequently, a fear of doing something "wrong" has contributed to a conservative and legalistic approach to program design and implementation. Some auditors respond that they are being unfairly used by managers as an excuse for not trying new approaches.

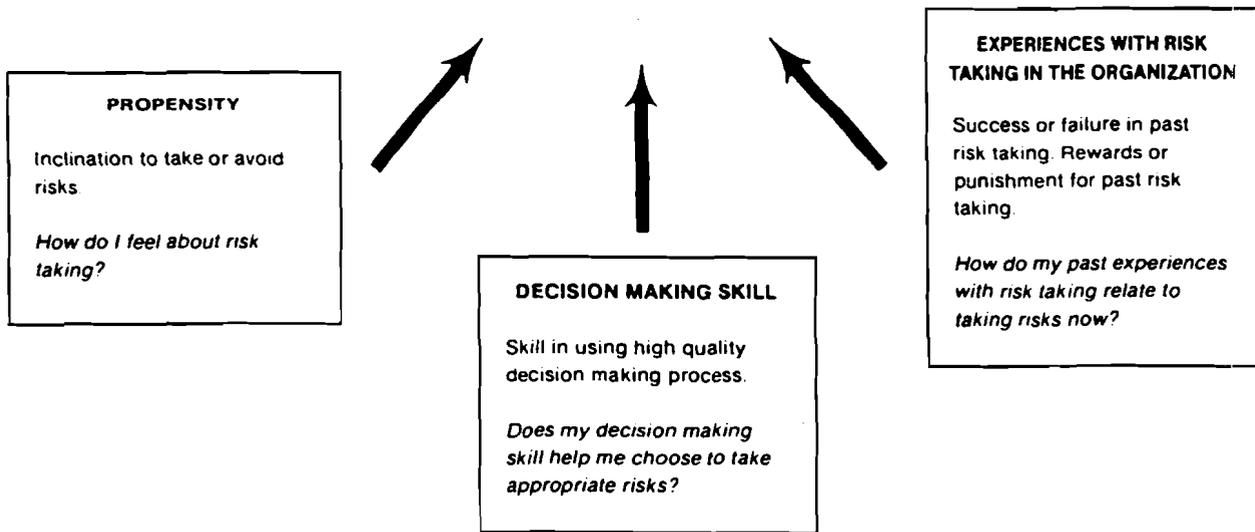
However, the Agency should now be able to start developing a new organizational culture which encourages and rewards reasoned risk-taking and innovation at all levels. A top management team is now in place and is defining new program initiatives. *If increased staff risk-taking and innovation are seen as critical to achievement of the new program goals, then top management also needs to issue specific statements which commit A.I.D. to support such behaviors.* It may be important to involve the Inspector General's office in this process, so that auditors can also make a positive contribution to increasing organizational competence? (Figure 1 shows some of the personal and organizational factors which may contribute to increased risk-taking by staff members.)

# Organizational Risk Taking: Contributing Factors

## Organization Structural/Cultural Factors



## Individual Risk Taker



## Individual Tendency Factors

Once the top level commitment to increased innovation is made, political and career managers at all levels need to team up and act to create an organizational culture consistent with this goal. Sustained management action over a long time period will probably be required for successful organizational or cultural transformation. One early task should be to alter the Agency's staff reward and recognition systems to support quality improvement and innovation. Rewards now tend to favor "correct" but routine decision-making over the more risky or creative decisions needed to blaze new trails in project/program design and management.

The "merit pay" system rewards people largely because they are in senior positions, not because they are particularly innovative or make significant contributions to increasing Agency competence. With the large pay raises recently given to senior executives, the merit pay funds can perhaps be more effectively and equitably used to encourage and reward innovation--especially among lower level staff.

#### C. Systems to Support Priority Programs:

The new Administrator, Dr. Ronald Roskens, is initiating new program initiatives and promoting better "strategic management" so that A.I.D. will have high quality programs, services, and management. A December 1990 A.I.D. statement on strategic management notes:

"...We must set bolder goals for transforming A.I.D. during this decade. If A.I.D. is to be truly relevant, to take a clear leadership role that builds on the Agency's successes and to become purposeful, flexible, and innovative--more powerful actions may have to be taken. In 1996 we will be a different Agency--more focused, leaner, more effective, with better development results." 2/

Often, employees dread reorganizations because of the disruption of predictable routines and interaction patterns. In A.I.D., the apprehension among some staff about the pending Agency-wide reorganization also reflects negative experiences with previous restructuring efforts of questionable value. Therefore, senior managers need to communicate a clear picture of the program and staff gains to be achieved through reorganization, so that people will be positively motivated. As John Gardner observes:

"...[To] maintain a high level of motivation it is essential that the largest possible number of individuals within the system feel that they share ownership of the problem (to use the currently popular phrase), and that they themselves are part of the solution. One of the root difficulties of large-scale organization is that those far from the top are insufficiently motivated....The large-scale organization must ask a great deal of its lower-level people. It needs their local knowledge, their initiative, their problem-solving skills, their intimate grasp of realities on the firing line...." 3/

The current management literature suggests that we need new ways of looking at organizational change. In fact, *the challenge is to institutionalize innovation processes*, so that they are normal and not disruptive activities. This means that managers must replace ad hoc strategies with more systematic and proactive approaches to organizational change and innovation. For example, the A.I.D. strategic management function should not only be concerned with setting sound goals for programs but also for organizational improvement and human resources management. A human resources strategy should give priority to selecting, developing, and rewarding a corps of managers at all levels who are able and willing to continuously pursue innovation.

Expressed in the current management jargon, A.I.D. may need more "transformational" leaders and fewer "transactional" leaders. Transactional leaders may be good at maintaining routine processes or making slow, incremental improvements, but their contribution to organizational skill is limited. Transforming leaders get people enthused and committed to achieving significantly new ways of doing business. Transformational leadership may be critical for developing the level of organizational competence needed by A.I.D. if it is going to be a more proactive and influential actor in U.S. foreign policy operations.

## II. CONCEPTUAL FRAMEWORKS FOR STRATEGIC MANAGEMENT.

***Definition:*** Strategic Management is the continuous process of analysis, planning, action, and learning which aims to keep the organization attuned to its environment. It seeks to (a) capitalize on organizational strengths and external opportunities and (b) minimize or avoid organizational weaknesses and external threats. Strategic Management is proactive and future oriented; it seeks to gain a competitive advantage for the organization.  
(Adapted from: D. J. Power, et.al., Strategic Management Skills)

"If you lack character, you need a system."  
...Albert Camus

A. Treating the Organization As An Open System:

Paradigms, models, or analytical frameworks can be useful as long as we do not take them too seriously. One of their primary values is helping us decide which questions to ask. Consequently, there are no neat or reliable models which will show A.I.D. managers what to do to keep their organizations or units effective. An "open systems" model or framework can thus be useful in analyzing an organization's internal operations and its interactions with key elements in its environments. This analysis can help identify areas needing improvement, but the manager must decide which areas and which improvements are to be targeted for action. An open systems approach would thus assume that the A.I.D. organization has certain characteristics:

(1) A.I.D. has been created to achieve certain GOALS through the conversion of INPUTS (resources) into OUTPUTS in specific environments (domestic and international). *Organizational effectiveness is thus measured by impact in the external world, not by what occurs internally.* This is significant because many USAID Missions have increasingly focused on internal processes and decreased external interactions. If the Agency needs to focus more on external actions and impact, then managers may need to revamp internal documentation and reporting requirements.

(2) A.I.D. depends upon EXTERNAL actors and "stakeholders" to provide the INPUTS (resources) needed to survive and maintain organizational health. Stakeholders include clients, employees, suppliers, and financial supporters. A.I.D.'s situation is somewhat unusual because its OUTPUTS are produced for overseas clients while its INPUTS (especially financial resources) come from its domestic stakeholders. The linkages between output and input levels are thus not always clear (e.g., a significant percentage of the Security Assistance budget for the Near East has little to do with A.I.D. program output levels).

(3) The organization consists of interdependent COMPONENTS (or subsystems) which interact to determine efficiency and effectiveness. The quality and level of staff inputs thus significantly affect the level and quality of organizational services and other outputs. Tinkering with one component of the organizational system can have unanticipated repercussions elsewhere in the system. In A.I.D., it may be important to assess the impact of recent changes in structures and staffing mix on the organization's capacity to address changing program goals.

(4) Organizational managers establish and use information FEEDBACK systems to (a) track progress toward goals over TIME and (b) monitor critical external trends and actors. Such feedback should be objective, timely, and focused on key results areas and issues.

While A.I.D. has elaborate formal evaluation systems for projects, less attention has been given to objectively monitoring or evaluating the (1) general country impact of Mission portfolios or (2) cost-effectiveness of A.I.D. internal functions (programming, design, policy coordination, accounting, auditing, legal counsel, etc.).

(5) Senior managers have the principal responsibility for: (a) establishing and communicating meaningful organization goals, (b) facilitating and controlling the conversion of inputs into outputs (including actions to maintain effective management subsystems), (c) and acting on information feedback to adjust internal operations (and sometimes change the organization's goals). Figure 2 is a general view of an A.I.D. bureau as an "open system" or input-output model. Table 1 lists some management tasks as seen from a systems perspective.

In the following sections, we will focus on components of the "management subsystem" since managers are responsible for maintaining a proper match between organizational competencies and changing environmental or external demands. In looking at strategic management tasks, we will use the "7-S" framework developed by the management consulting firm of McKinsey and Company. Research by McKinsey consultants and others on effective organizations suggests that managers need to establish and maintain appropriate relationships among the following seven organizational elements:

1. *Shared Values* (superordinate goals, visions)
2. *Strategies* (action plans & resource commitments)
3. *Structures* (how tasks and staff are organized)
4. *Systems* (policies, procedures, documentation)
5. *Staffing* (mix of staff talent)
6. *Styles of Leadership* (communications and behaviors)
7. *Skill* (overall organizational competence)

Figure 2: Components of an Organizational System (A.I.D. Bureau)

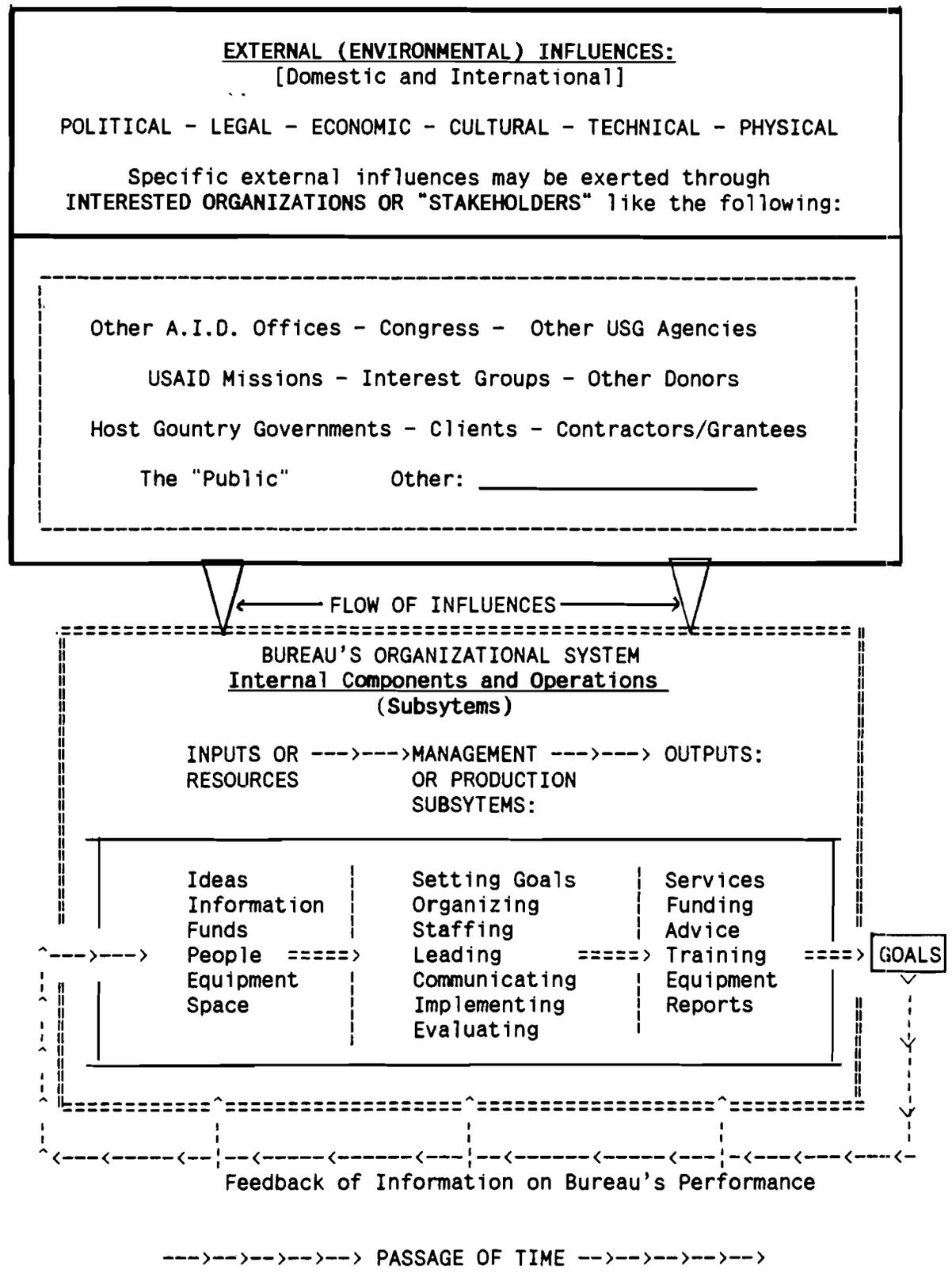


Table 1 - BASIC SYSTEMS MANAGEMENT TASKS

1. **SYSTEM DEFINITION:** Define the boundaries of your organizational system and the major internal components. Then identify and assess current and projected external trends/organizations which can have a significant impact on your organization.
2. **ORGANIZATIONAL FIT WITH ENVIRONMENT:** Assess match or "fit" between (1) current organizational goals and capacities and (2) demands/needs of key external groups ("stakeholders"). Then revise organizational plans and goals as needed to address current and future needs.
3. **MANAGER'S ACTION AGENDA:** Establish your personal Action Agenda which defines the specific tasks and resources needed to achieve continuous improvements or innovations in (a) programs, (b) the organizational set-up, and (c) staff training and development.
4. **SPECIFIC WORK PLANS:** Using Manager's Agenda and other guidance, work with staff to (a) set medium and short term goals and (b) make annual work plans for each unit and individual. Plans at each level should include some specific quality improvement and innovation goals for (1) programs, (2) organizational development, and (3) staff development. Plans should include specific target dates for reaching progress benchmarks or milestones.
5. **RESOURCE BUDGETS:** Commit financial, human, and other resources needed for implementing plans.
6. **PROGRESS MONITORING:** Assign responsibility to specific units/persons for monitoring and reporting on (1) key external trends and key stakeholders or competitors and (2) progress of organization toward goals.
7. **QUALITY IMPROVEMENT TEAMS:** Create and empower teams at all levels to improve quality of services. Provide teams with training and facilitator services needed to organize and operate effectively.
8. **LEADERSHIP:** Review and improve leadership styles and behaviors of managers and supervisors so that these provide a climate which encourages staff creativity and innovation. Stress importance of managers' daily actions in increasing mutual trust and cooperation.
9. **REWARD SYSTEMS:** Link performance evaluation and reward systems to each unit's or person's progress on achieving improvements and innovations.
10. **OPEN COMMUNICATION:** Ensure that organizational communication flows are sufficiently fast, open, and accurate--to facilitate organizational learning and decision-making. As needed, create special modes to facilitate communication and action on improving operations (e.g., get independent feedback on organizational performance and impact).
11. **REVIEW AND REVISION OF SYSTEM:** Schedule regular reviews of internal progress/problems and external impact (meeting needs of clients, employees, and other organizational stakeholders). Always have disinterested parties as "devil's advocates" in important reviews (to keep discussions realistic and avoid excessive group conformity or "group-think"). Act on feedback and review information to make needed changes in goals, programs, or internal operations and staff.

This "7-S" framework treats *Organizational Skill* or competence as a dependent variable since it reflects how the other six elements are handled. In looking at these factors as they affect A.I.D., we will draw on recent studies of U.S., British, and Japanese firms. 4/ The reader can decide which suggestions are relevant to A.I.D..

### III. SHARED VALUES AND OVERALL GOALS

***Definition:*** Shared Values are the significant guiding concepts or basic beliefs which organizational members have in common. These should be reflected in the organization's goals and the daily decision-making of senior managers.

***Question:*** Is there currently a shared belief among A.I.D. staff in the need for extensive and continuous organizational improvement and innovation? Or, are they satisfied with things as they are?

#### A. Vision Statements and Beyond:

This should be a propitious time for A.I.D. managers and staff to determine what the Agency should achieve and become over the next decade. Recent studies of management training impact within A.I.D. suggest that a new climate of concern for pursuing better management is evolving, although action lags behind verbalization. Moreover, the new top management team has issued basic statements on A.I.D.'s mission and new program initiatives. While it is normal for managers to focus on setting program goals, specific goals are also needed for (a) organizational improvement and (b) staff development (including management development).

Clear strategic direction is important for properly channelling staff energies and other resources over the long term. This means that the overall visions and goals promulgated by top management must be understood and accepted at all levels of the organization. As one current book on strategy observes:

"...The entire management team must work to ensure that the concept of a strategic vision becomes woven into the very fabric of the organization and becomes an integral part of the management culture....A clear strategic vision allows the enterprise to establish its highest level goals and to formulate the plans necessary to achieve these goals. Communicating the vision is as important as formulating it. Many a strategic vision has failed to materialize because it was not effectively communicated to those who were required to implement it...." 5/

This suggests that the Agency's broad strategic goals must be translated into more specific operational objectives, plans, and budgets at lower levels of the organization. There should also be an appropriate fit among goals, organizational competencies, and resource availabilities. While the responsibility for coordinating this goal-setting process lies with the top political and career managers, provisions should be made for active staff participation at all levels. Figures 3 and 4 are basic values statements for General Electric and Honda Motors.

One intractable problem of strategic management in A.I.D. is the accumulation of too many program goals and priorities over the years. During a meeting between a previous A.I.D. Administrator and his senior staff to better focus A.I.D.'s efforts, the Administrator reportedly wanted to add new goals, but refused to eliminate any of the many existing goals--because "they are all important". Unfortunately, if everything is important, then nothing is important? A management task is thus to make choices and rank priorities if resources are not to be dissipated. The new top management team has indicated that A.I.D. must concentrate its efforts on fewer goals if it is to do quality work. Hopefully, it will be more successful than its predecessors in reducing Agency commitments. Figure 5 illustrates possible elements and linkages in an A.I.D. strategic planning and management cycle.

#### B. Promoting Innovation as a Basic Management Task:

The tasks of managers can be grouped into the following three categories:



## GE Value Statement

### BUSINESS CHARACTERISTICS

#### *Lean*

- What** — Reduce tasks and the people required to do them.  
**Why** — Critical to developing world cost leadership.

#### *Agile*

- What** — Delayering.  
**Why** — Create fast decision-making in rapidly changing world through improved communication and increased individual response.

#### *Creative*

- What** — Development of new ideas— innovation.  
**Why** — Increase customer satisfaction and operating margins through higher value products and services.

#### *Ownership*

- What** — Self-confidence to trust others. Self-confidence to delegate to others the freedom to act while, at the same time, self-confidence to involve higher levels in issues critical to the business and the corporation.  
**Why** — Supports concept of more individual responsibility, capability to act quickly and independently. Should increase job satisfaction and improve understanding of risks and rewards. While delegation is critical, there is a small percentage of high-impact issues that need or require involvement of higher levels within the business and within the corporation.

#### *Reward*

- What** — Recognition and compensation commensurate with risk and performance— highly differentiated by individual, with recognition of total team achievement.  
**Why** — Necessary to attract and motivate the type of individuals required to accomplish GE's objectives. A #1 business should provide #1 people with #1 opportunity.

### INDIVIDUAL CHARACTERISTICS

#### *Reality*

- What** — Describe the environment as it is— not as we hope it to be.  
**Why** — Critical to developing a vision and a winning strategy, and to gaining universal acceptance for their implementation.

#### *Leadership*

- What** — Sustained passion for and commitment to a proactive, shared vision and its implementation.  
**Why** — To rally teams toward achieving a common objective.

#### *Candor / Openness*

- What** — Complete and frequent sharing of information with individuals (appraisals, etc.) and organization (everything).  
**Why** — Critical to employees knowing where they, their efforts, and their business stand.

#### *Simplicity*

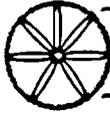
- What** — Strive for brevity, clarity, the "elegant, simple solution"— less is better.  
**Why** — Less complexity improves everything, from reduced bureaucracy to better product designs to lower costs.

#### *Integrity*

- What** — Never bend or wink at the truth, and live within both the spirit and letter of the laws of every global business arena.  
**Why** — Critical to gaining the global arenas' acceptance of our right to grow and prosper. Every constituency: share-owners who invest; customers who purchase; community that supports; and employees who depend, expect, and deserve our unequivocal commitment to integrity in every facet of our behavior.

#### *Individual Dignity*

- What** — Respect and leverage the talent and contribution of every individual in both good and bad times.  
**Why** — Teamwork depends on trust, mutual understanding, and the shared belief that the individual will be treated fairly in any environment.



# HONDA

## HONDA MOTOR CO., LTD.

### *Company Principle*

"Maintaining an international viewpoint, we are dedicated to supplying products of the highest efficiency yet at a reasonable price for worldwide customer service."

## HONDA MOTOR CO., LTD.

### *Management Policy*

- Proceed always with ambition and youthfulness.
- Respect sound theory, develop fresh ideas, and make the most effective use of time.
- Enjoy your work, and always brighten your working atmosphere.
- Strive constantly for a harmonious flow of work.
- Be ever mindful of the value of research and endeavor.

## HONDA MOTOR CO., LTD.

### *Operating Priorities*

In all areas of manufacturing operations, Honda of America Manufacturing, Inc., observes the following priorities:

1. Safety
2. Quality
3. Production

## HONDA MOTOR CO., LTD.

### *Operating Principles*

#### Quality In All Jobs

Learn, Think, Analyze, Evaluate, and Improve

#### Reliable Products

On Time, with Excellence and Consistency

#### Better Communication

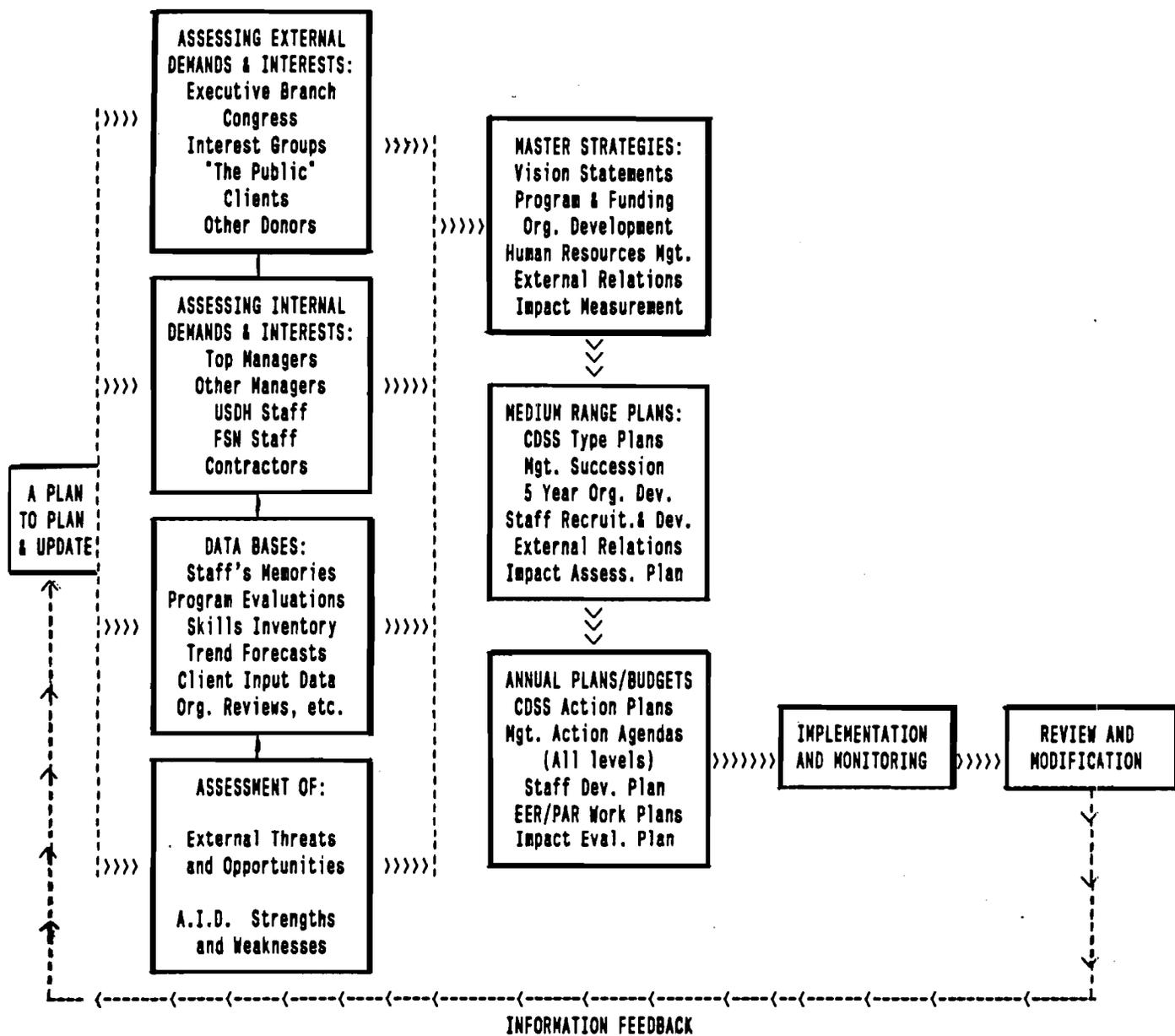
Listen, Ask, and Speak Up

### 1988 SLOGAN

"Quality for the world from our hands and minds."

SOURCE: Value statements for General Electric and Honda are from: Richard Tanner Pascale, Managing on the Edge (Simon and Shuster, 1990)

Figure 5  
OVERVIEW OF STRATEGIC MANAGEMENT CYCLE IN A.I.D.



(1) Routine or recurring tasks: doing the same things that you did last year and the years before that.

(2) Problem solving tasks: correcting deviations from performance standards or lapses in performances.

(3) Innovation tasks: doing things in significantly new and better ways.

*The survival and growth of most modern organizations depend upon their managers being continuously engaged in some innovation tasks. Therefore, while some routine and problem solving tasks may be important, they must not be permitted to deter managers from also pursuing innovation and quality improvement. Innovation may be intrinsic (internal in origin) or extrinsic (something new which is adopted or adapted from outside). Either type is fine, as long as the result is a better way of doing things.*

The pace and scope of innovation are often dictated by changing external trends. Even though an organization is making incremental improvements, these may be inadequate if others are breaking new ground in technologies, marketing strategies, or management systems. For example, some American automobile makers are still striving to reduce basic mechanical defects in their cars, while their foreign counterparts have moved on to a new playing field where quality is taken for granted and competition is based on such considerations as car-driver ergonomics or internal aesthetics. *Therefore, organizations which rely on sporadic or piece-meal improvements may find these are not meeting the changing expectations and needs of key clients or stakeholders, particularly if competitors are innovating faster.* In A.I.D., an important strategic management task is to assess the perceptions of key external stakeholders of the Agency's effectiveness as a foreign aid instrument (in comparison to other U.S. or multilateral agencies or private sector entities). Such an assessment should help A.I.D. to decide on the scope, speed, and intensity needed in its own efforts to innovate.

Actually, many managers intellectually accept the idea that continuous innovation is needed to cope with the rapid pace of change in today's world. However, they often lack the emotional commitment needed to effect change. They are comfortable with their daily routines, while improvement and innovation are often associated with stressful risk-taking and uncertainty of outcomes. As John Shaw observes:

"So much of the business literature and the substance of motivational seminars extols the virtue of innovative thinking; it makes one wonder why all companies are not more innovative. The answer is straightforward: risk and the status quo. The comfort and security of what is known and a fear of the unknown are powerful deterrents against innovation. Without a willingness to change, innovation strategies can be neither formulated or executed." 6/

Many recent studies of innovation in American and other firms conclude that the active involvement and positive support of the top management is critical to success. One report notes that the Chief Executive promotes a set of basic values and beliefs which manifest themselves in an organizational commitment to innovation and improvement. As suggested earlier, A.I.D. senior political and career managers must take the initiative in establishing a suitable organizational climate for innovation.

#### IV. STRATEGY AND RESOURCE COMMITMENTS

**Definition:** *Strategy refers to the organization's general goals, policies, action plans, and resource commitments to get it from where/what it is now to where/what it wants to be in the future. This includes finding its "market niche" and considering its strengths and weaknesses in trying to fill that niche.*

**Question:** *How do A.I.D. managers develop strategies for organizational improvement which elicit strong support from employees and other key stakeholders?*

The effective organization has *specific written strategies for pursuing desired innovations* (including commitments of staff, funds, and other resources). Innovation strategies are also proactive; the organization does not wait to react to what others are doing. A recent Washington Post article on Japanese economic aid suggested that the Japanese strategy is less concerned with development or humanitarian objectives than in identifying and exploiting LDC markets in behalf of Japanese business firms. The article notes that:

"Japan's seemingly clear-eyed emphasis on its economic self-interest contrasts with a U.S. aid program that appears to be in a state of confusion, shrinking in size and uncertain of its purpose." (Washington Post, January 13, 1991, page H1)

Some observers have suggested that we need to copy the Japanese approach. While we can learn from the Japanese, IBRD, or other aid donors, A.I.D.'s strategy needs to be consistent with certain American ethical and cultural mores. Before adopting other donors' strategies, A.I.D. also needs to identify and build on its own unique organizational strengths and positive staff values. Managers need to make clearer decisions on the relative emphasis to be given to each of the following program areas: humanitarian aid, economic development, political development, support for the U.S. commercial or PVO/NGO sectors, and war rehabilitation (after the Gulf War ends). As indicated earlier, the Agency cannot achieve excellence by trying to be all things to all people. On the other hand, giving top priority to the narrow interests of a particular domestic group (ala the above-mentioned Japanese program) might also prove disastrous. Some surveys suggest that the American public is most supportive of humanitarian assistance. If these data are valid, would this affect the priority and publicity given to such programs in the total organizational strategy?

As suggested earlier, translating chosen strategies into results requires the creation of a *hierarchy of aims* ranging from long term Agency goals down through Bureau/Office/Mission objectives to annual work objectives for each unit or individual. Since management time is a valuable resource, managers should also use their weekly/daily appointment books to commit specific time blocks for quality improvement and innovation tasks. Otherwise these latter tasks can quickly get displaced by routine or unexpected ("crisis") activities.

#### V. THE IMPACT OF STAFF SKILLS ON EFFECTIVENESS

***Definition:*** *Staff Mix* refers to the types and quantities of human resources in the organization. A basic strategic management task is to ensure that the current/projected staff mix is consistent with the organization's changing goals and priorities.

***Question:*** How good is the fit between A.I.D.'s staff mix and its program priorities?

In setting strategic goals, managers should be sensitive to the fit between these goals and the staff competencies available to pursue them. A.I.D.'s staff mix has been significantly altered over the years and this has affected organizational skill, particularly in development assistance operations. For example, several years ago, senior A.I.D. managers decided to replace direct-hire technical specialists with contract staff. Consequently, most A.I.D. projects are now designed, implemented, and evaluated entirely by outsiders. Contractors often fear that being candid in describing implementation problems could jeopardize future contract opportunities, so this has affected the quality of A.I.D. decision-making on projects.

With the abolition of many technical positions, A.I.D. now lacks high quality inhouse competence in several areas to (1) assess development needs and recommend effective programs to address these or (2) provide technical oversight of contractors. The current direct-hire staffing mix is one which reflects a predominance of program generalists and process specialists ("design" officers, economists, lawyers, auditors, etc.). Consequently, process has sometimes displaced substance in many areas of development assistance. Moreover, the pressures to comply with fund obligation deadlines and documentation requirements are much greater than pressures to produce high quality projects and programs. This approach is reinforced by the staff assignment and reward systems.

Senior managers thus need to decide whether the current staff mix will produce the high quality technical and other performance needed for the new program initiatives. If increased inhouse technical competence is deemed important, then some shifts in staffing and recruitment are needed. It may not be possible to have adequate numbers of direct-hire technical or development specialists in key program areas. However, A.I.D. probably needs a core group of outstanding technical generalists in all areas where it aspires to provide international leadership in development assistance.

Once the needed skills mix is defined, various tactics will be needed to achieve it over time. These may include special inhouse and external programs to retrain current staff for new roles, recruitment of new types of staff from outside sources, detailing staff from other USG agencies, or contracting. Getting more slots for technical staff can be achieved in part by eliminating generalist jobs whose direct contribution to Agency competency is not evident. To attract and retain the types of specialized talent needed to achieve excellence in development, A.I.D. should develop dual or multiple career tracks, instead of perpetuating outmoded position classification and promotion schemes which force competent specialists and professionals to become "managers" or "chiefs".

## VI. ORGANIZATIONAL STRUCTURES

**Definition:** Structure refers to the ways in which the organization relates people, authorities, and tasks. The organization chart defines the hierarchy through which official decisions and communications are supposed to flow. Informal structures are those not officially promulgated by management; they may support or undermine the official set-up.

**Question:** Are A.I.D.'s basic structures outmoded?

A. Impact of Structures on Innovation: The structure or form of an organization should be determined by its goals and functions. However, over time organizations can take on a life of their own, unless action is taken to keep them responsive to changing needs. In innovative organizations, structures are developed which focus staff energies and other resources on producing high quality outputs or services. *People are thus oriented outward rather than inward.* Innovative organizations also tend to decentralize responsibility and authority to those units closer to operations and clients, because such units are in a better position to respond to changing needs.

Although a major restructuring is already underway in A.I.D., senior managers might pause to reflect on present or planned structures and then ask what changes will be best for implementing new and continuing priority programs during the coming years. Which arrangements will permit the best use of critical human and other resources to produce continuous innovation and improvement? For example, let us assume that our economic development assistance should first and foremost be concerned with *fostering creative answers to significant host country problems.* This suggests that A.I.D. should be structured like an applied research and development organization in which staff are relatively unhampered by bureaucratic restrictions as long as they are productive. This organizational approach would facilitate the *use of staff from all areas as integrated teams* to produce a steady stream of innovations to address client needs.

Program managers would have authorities and responsibilities which cross traditional functional lines. There would also be multiple career channels which permit talented professionals to be promoted and rewarded without having to become program officers or managers.

However, the current organizational structure of A.I.D. may be closer to that of an obsolete factory in the Rust Belt? People are placed in traditional bureaucratic hierarchies and one's position in the hierarchy largely determines his or her rank, pay, perks, etc.. Generalists dominate the system and specialists have little chance of advancing up the hierarchy unless they are willing to become generalists. In such structures, a manager's career progress is affected more by the numbers of people or contracts/grants supervised, rather than the number of operational improvements or innovations introduced. In fact, managers who seek to innovate must often discover how to circumvent the formal structure and its attendant obstacles to change.

Interestingly enough, A.I.D. formerly pioneered in the design and use of new institutions and structures for implementing innovation abroad, but it has done little to adopt such models for internal use. Flexible structures like Project or Product Organizations, Matrix Organizations, Profit Centers, etc. have thus either been ignored or changed beyond recognition in their application to the A.I.D. situation. Although "projects" have been the basic instrument for providing economic development assistance, A.I.D. project officers have had minimal authority, status, or recognition. The current literature on innovation stresses the use of strategies and structures which should be familiar to A.I.D. managers. For example, many organizations use special projects for developing and testing improved products, services, and delivery systems. However, A.I.D. managers need to change their thinking about project structures and use them in ways which will really facilitate internal innovation. Following are some possibilities:

1. *Systematic use of pilot, experimental, or developmental projects to test new approaches in Washington and the field.*

The Project Manager's role needs to be strengthened so that he/she can perform effectively and be held accountable for results. Project teams should be truly cross-functional and include specialists from various USAID or AID/W offices as regular and continuing team members. All concerned staff (Controller, Legal, "Design", Economics, etc. ) offices should be assigned specific responsibilities for making a project succeed; they should not be permitted to function as sideline critics.

## 2. *Special staffs or units to foster innovation.*

Small units may be created or transformed to concentrate on the specific tasks of developing innovations and/or assisting other units in their innovation efforts. One early task of such units could be to review and improve Agency processes which now impede operational flexibility and innovation, perhaps starting with the A.I.D. Handbook system. These units should report directly to top management at each level and top managers must actively and constructively participate in their work. As suggested above, top managers must also act to change cultural values and reward systems to ensure that the best staff talent is attracted to the more risky tasks associated with improvement and innovation.

## 3. *Structures to facilitate Organizational Learning.*

A.I.D. has had limited success in developing organizational systems for learning from experience, with the notable exception of efforts of the CDIE (Center for Development Information and Evaluation). CDIE's cross-project and cross-country assessments are valuable in constructing better conceptual foundations for programs. The uneven quality of some assessments has made it difficult to generalize about lessons learned in some sectors. There are also many differences among projects and locales, so some people feel that it is impossible to generalize about successful development approaches. (Of course, the same thing is said about management research!!) However, to misquote Alfred North Whitehead, we need to try and learn from our past or we are doomed to repeat the same mistakes.

CDIE has also made progress in disseminating information to interested development workers on projects or programs completed or underway. Managers need to assure that new staff and contractors do not plan or initiate new efforts without trying to learn what has been done on similar tasks by colleagues in other places and times. A.I.D. also lacks a system for collecting and using the collective management wisdom which floats around in the heads of its experienced staff. While some exchange of management knowledge occurs through the participation of managers in training programs, a more systematic effort is needed so that strategic and other management planning will reflect lessons learned in the past.

## 4. *Decentralization and Innovation.*

Over time, numerous efforts to decentralize program leadership to field managers have been initiated in A.I.D., but then often altered through a formal or de facto recentralization of authority in Washington.

The natural reluctance of central staffs to relinquish authority stems from such factors as (1) a concern that field staff will err without the input of central staff or (2) a fear that the value of certain central staff positions will be questioned if the incumbents are not intensively involved in field operations. However, some field staffs are happy to let headquarters units make decisions, since this divides the responsibility (and the blame if something goes wrong).

Some problems also reflect a failure to define what "decentralization" means and how it will change the roles of field and headquarters staffs. Decentralization does not necessarily mean that headquarters staff no longer have an active role to play. But, it may mean that some AID/W units should shift their focus from review and oversight of specific field projects to providing strategic guidance and logistical support for Missions. Moreover, since many Mission staffs are so small that outside expertise is often needed, the central staffs can help provide this. Headquarters staff can also help field staff to understand current Agency-wide or Bureau-wide goals, priorities, and constraints in given program areas. Both field and headquarters staff should recognize the need to maintain high levels of information sharing, so that A.I.D. can effectively respond to various requests and demands from Congressional or other sources.

##### *5. Special Structures for Stakeholder Relations.*

To better control the acquisition and management of funds and other resources, A.I.D. needs to maintain positive relations with key domestic supporters or "stakeholders" (e.g. Congress, White House, other USG agencies). Feedback from Congressional staff often suggests an inadequate understanding on the Hill of current A.I.D. program priorities or successes. The communication through budget hearings or similar formal modes may be inadequate to evoke the needed level of Congressional understanding and support. *Therefore, A.I.D. may need to develop a more precise agenda for stakeholder relations and then create the additional structures needed to implement the agenda.* The burden for this should not be placed solely on the external or legislative relations staff, but divided up among concerned units. People in A.I.D. working in certain areas could thus cultivate and maintain contacts within a framework acceptable to the external/legislative relations staff. Special task groups could be established to communicate A.I.D.'s new strategic initiatives and the changes which must be made in other programs in order to implement these. Such flexible and proactive arrangements for external relations are important if A.I.D. is to get adequate support for needed changes in program management.

## VII. INTERNAL SYSTEMS AND PROCEDURES

**Definition:** *Systems refers to the internal policies, procedures, and processes used to control normal or regular decision making by organizational members.*

**Question:** *Which current A.I.D. internal processes encourage staff creativity and innovation?*

Internal systems often lag behind organizational goals and impede new ways of doing business. The A.I.D. position classification rules are a good example of the problem, since they usually lag 5-10 years behind program changes. When the Asia Bureau was staffing new programs in the areas of energy and environment, there were no titles on the books for such new jobs, so we were forced to use existing but inappropriate job descriptions (Our chief energy officer was thus classified as a "community development officer").

Effective organizations use loose-tight systems for controlling and coordinating personnel, finance, and other internal processes. Such systems provide enough control to prevent serious errors, but not so much control that staff initiative is stifled. Budgets and program designs are thus flexible enough to provide some organizational slack to facilitate experimentation and innovation. Companies like 3-M thus permit managers to use up to 10% of program or product allocations for working in new ideas or innovations.

A.I.D. formerly had more flexible systems which permitted a higher level of program experimentation. Project and program designs were not cast in concrete and could be adjusted to meet changing conditions. Moreover, many Mission Directors had small special funds which could be used for important activities not in the regular program (this "special development authority" no longer exists). Currently, many A.I.D. staff appear reluctant to do anything not strictly defined in the project/program documentation. The extensive hierarchy of staff oversight and IG audits are cited as reasons for not being more creative or venturing into new areas.

However, a few innovative Mission Directors do support projects with designs flexible enough to permit action on unanticipated development opportunities (even if this sometimes requires them to overrule conservative staff reviewers). Flexible internal systems and procedures may be a prerequisite for success in A.I.D.'s new program initiatives. Some actions to change internal systems have been discussed in other sections, so there is some duplication in the following list of suggestions:

1. Top management should clearly commit itself to the support of staff innovation and improvement at all levels of A.I.D.. Managers should then behave every day in a manner which gives credence to that commitment. This includes action by the Administrator's Office to hold senior managers responsible for fostering specific innovations in their units. (See item 3, below, on managers' work plans.)

2. Recognition and reward systems (formal and informal) should focus on encouraging and supporting innovation and quality improvement in all areas of A.I.D. operations (from top policy formulation tasks down to the most common clerical chores). The precepts and guidelines, on promotion, merit pay, and assignments should include greater recognition of efforts to innovate. Employees who take reasonable risks to develop new approaches should not be penalized when they fail to achieve all of their objectives. Innovations are more difficult and more long term tasks than routine or continuing activities.

3. The workplans of all managers (political and career) should include specific improvement and innovation tasks. It is not enough for senior managers to include only routine or problem-solving tasks in their work plans; some energy must be devoted to upgrading programs, strengthening organizational systems, and promoting staff development.

4. An effective employee suggestion system should be established and publicized. This is basic to any effort to tap staff creativity, but the operative word is "effective". A.I.D. officially had a suggestion system for many years, but it was not effectively managed. While central staff units could provide logistical services for the suggestion system, reviews/recommendations on specific employee suggestions should be made by special panels chaired by interested senior managers. Time deadlines for responding to staff suggestions should be defined and strictly adhered to. Tangible and intangible rewards should be given for useful ideas. Some recognition should be given to all bonafide proposals, even those not adopted.

5. Management training and development programs need to include more coverage of strategies and techniques for increasing organizational improvement and innovation. Line offices need to assume more responsibility for systematically developing managers. On-the-job experiences are more powerful for learning than formal training programs. However, formal training programs have an important role to play in disseminating general approaches and concepts of management development. The Training Staff can also facilitate assistance to line managers on structuring on-the-job management development experiences for current or potential supervisors and managers.

### VIII. LEADERSHIP STYLE

***Definitions: Leadership Style*** refers to the manner in which the organization's senior managers regularly communicate, behave, and share authority with subordinates. This style is an important element in shaping the organization's dominant values and beliefs.

***Question:*** Which leadership styles are more likely to evoke staff support for quality improvement efforts?.

Senior managers are a critical force in shaping organizational leadership styles and practices. Their personal success in mobilizing staff support for key goals also often depends upon the style of leadership they use in given situations. Much of the research on innovation suggests that the senior managers in successful organizations maintain direct control over important innovation activities. However, while they are visible and actively involved in innovation, they delegate sufficient authority to subordinate staffs to let the latter effectively implement the new efforts. *Effective leaders organize action teams and empower them to pursue needed improvements.*

The dominant leadership style of a manager may be labelled autocratic, democratic, or laissez faire. In general, an autocratic leader makes most decisions, a democratic leader involves his staff extensively, and a laissez faire leader tries to avoid decisions where possible and let the group wing it. The effectiveness of a particular style depends upon the operational situation at a given point in time. This means that a manager must be skilled in adjusting personal styles to such things as the work tasks, staff composition and skill, time pressures, etc.. However, subordinates also need to be able to predict their leader's behavior to some extent, if they are to effectively do their jobs. The A.I.D. manager who constantly changes personal supervisory styles and work priorities will probably be unable to get the quality of staff support needed for achieving important goals.

Leadership problems can also develop when individuals are appointed or promoted to management jobs above their personal competence level (application of the "Peter Principle"). When they are appointed as senior managers in A.I.D. (and State), some managers become autocratic in dealing with subordinates, perhaps because they are personally insecure and fear that showing a lack of knowledge in any area will be seen as a sign of personal weakness.

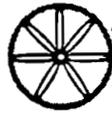
Managers who are personally insecure may also try to exclude negative or threatening information in their deliberations. If this becomes a dominant pattern in an organization, decision-making can be defective because it is not related to reality. The organization is then characterized by a malady which Irving Janis and others have called "Group Think". A small tight-knit clique dominates critical decision-making and develops a feeling of group superiority and infallibility. Deviant individuals and communications are excluded from the group's considerations. The result of Group Think in government has been such disasters as the Bay of Pigs Invasion and the Iran-Contra Plot. Managers can learn how to prevent such problems, providing that the personalities involved are amenable to change. 7/

#### IX. ORGANIZATIONAL SKILL AND COMPETENCE

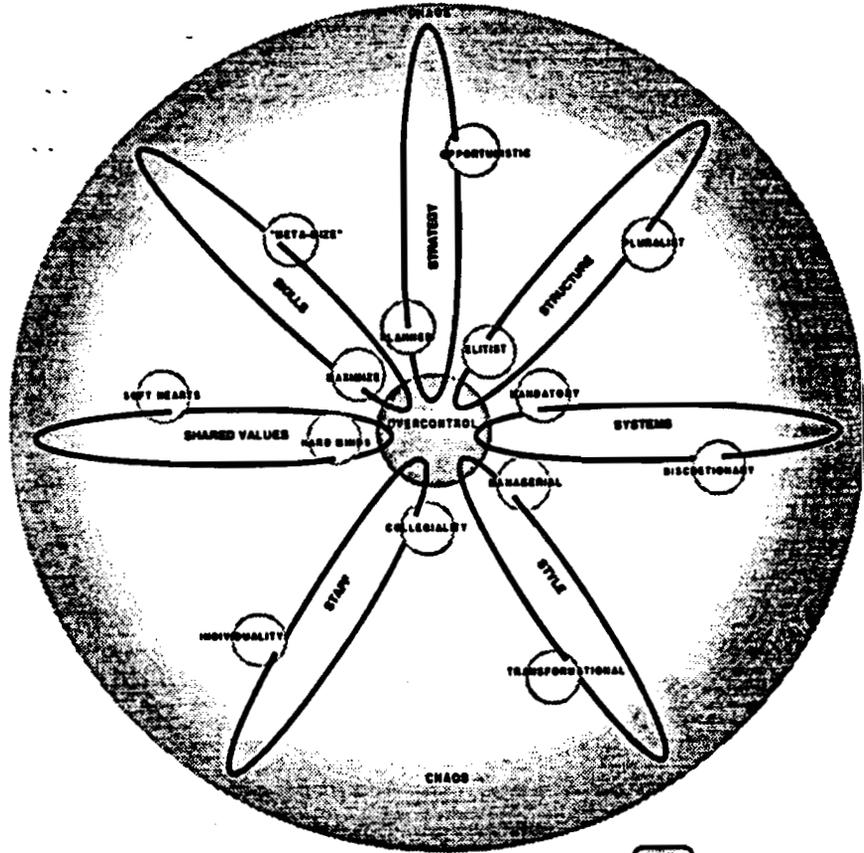
**Definitions:** *Organizational skill refers to the organization's unique overall strengths and competencies. This skill reflects the success of managers in handling the other six components in the 7-S framework.*

**Question:** How can A.I.D. managers balance the organizational tensions and demands over time to maintain high levels of organizational effectiveness?

One of the biggest challenges to managers is to effectively balance the competing demands being made on the organization while wisely using scarce resources to achieve critical goals. Like organizational change, organizational conflict is a way of life and innovative managers learn to approach it in a positive manner. Richard Pascale argues that managers in effective organizations know how to use constructive conflict as a source of organizational vigor and improvement. A competition of ideas among different elements can thus generate better action options. Managers are also continually trying to steer an appropriate course among among the options available to them in the areas covered by the 7-S framework. For example, in the area of Strategy, the manager may have to pursue a middle ground between overly detailed plans (*overcontrol*) and an excessively opportunistic or ad hoc approach (perhaps resulting in organizational *chaos*). Figure 6 reproduces Pascale's diagram of some of the opposing forces affecting performance in the 7-S areas.



Relation of Components in Constructive Tension



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Source: Richard Tanner Pascale, Managing on the Edge.  
(Simon and Shuster, 1990)

The organization's overall skill or competitive advantage is constantly changing as external and internal conditions change. Therefore, the manager's task of promoting quality improvement or organizational innovation is never finished. Unfortunately, the A.I.D. manager often expends so much time and energy on daily routines, problem solving, and crisis-control, that little time may remain for the innovation tasks. This is why senior managers need to take specific actions to institutionalize innovation processes and complementary systems for reward and reinforcement. If the demands of daily routines and crises predominate, past gains in organizational competence will soon atrophy and the Agency will fall behind. I hope that some of the suggestions in this report will help A.I.D. managers to prevent this.

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Reference Notes:

1. Presentation and discussion by Mark Edelman, Acting A.I.D. Administrator, at Meeting of A.I.D. Managers' Network, October 10, 1989.
2. A.I.D. New Initiatives Paper, "Toward Strategic Management," December 1990, page 5..
3. John W. Gardner. *On Leadership* (The Free Press, 1990). pages 90-91.
4. The 7-S framework has been described in several books on "organizational excellence", including Tom Peters and Robert Waterman, *In Search of Excellence* (Harper and Row 1982). Axel Johne and Patricia Snelson use the 7-S framework in their study: *Successful Product Development: Lessons from American and British Firms* (Basil Blackwell, Ltd., Oxford, UK and Cambridge, Massachusetts, 1990). Richard Pascale expanded the framework in his study of American and Japanese companies: *Managing on the Edge: How the Smartest Companies Use Conflict to Stay Ahead*. (Simon and Schuster, 1990).
5. Kenneth I. Primozic, Edward A. Primozic, and Joe Leben. *Strategic Choices: Supremacy, Survival or Sayonara*. (McGraw-Hill, 1991). Page 11.
6. John C. Shaw. *The Service Focus: Developing Winning Game Plans for Service Companies*. (Richard D. Irwin, Inc., 1990). Page 120.
7. For suggestions on avoiding "group think" and other problems in policy decision-making, see Irving L. Janis, *Crucial Decisions: Leadership in Policy Making and Crisis Management*. (The Free Press, 1989).