CORPORATE INQUIRY AND STRATEGIC LEARNING: THE ROLE OF SURPRISES AND IMPROVISATION IN ORGANIZING MAJOR STRATEGIC CHANGES

by

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Submitted to the Department of Urban Studies and Planning, MIT, on April 24, 1989, in partial fulfillment of the requirements for the Degree of Doctor of Philosophy in Business Policy and General Management.

ACADEMIC ABSTRACT

Recent research indicates that corporations have great trouble making major strategic changes in time. Several authors have attributed this to the separation of two processes within an organizational setting: the design of strategy and its implementation. They advocate the idea of strategic learning -- an interaction between design and implementation as the company engages in change. Strategic learning takes the form of a prescription for rather self-evident and unproblematic learning.

While there is little evidence available on how companies actually learn new strategies under conditions of major change, some researchers did find that in the period prior to a major strategic change, companies have already great difficulties learning. This leads to the prediction that companies will have even more difficulties learning under conditions of change.

This dissertation addresses the mismatch between prescription and prediction. It explores how a very successful regional real estate development company actually organized itself under conditions of major change, and how and to what extent strategic learning occurred. The thesis presents an proto-typical case study of a recent major strategic change and also looks at the company's previous strategic changes.

The research took place at a time when the company was faced with a combination of unexpected strategic success and organizational failure, leaving many of its managers bewildered. The research focused on how managers dealt with surprises in their everyday practice when the company engaged in a major strategic change.

The case study is based on 1] in-depth interviews with 38 present and former senior company managers, 2] interviews with present and former consultants to the company, and 3] participation in a series of meetings in which top management addressed the predicament.

The major finding of the case study is that the interaction between design and implementation of strategy was limited when the company engaged in a major strategic change.
A separation between these two processes, that existed prior to change, was reinforced and will make future change even more difficult. The single most important factor contributing to this problem was the way company members dealt with surprises in their everyday professional practice.

Prior to change, the company was engaged in limited strategic improvisation and managers came to see surprises as "normal". They conducted only limited joint inquiry even though the surprises pointed to mismatches between the stated strategy and what was actually implemented.

When a process of strategic experimentation led to a redesign of corporate strategy, top managers tended not to fully appreciate the importance for the rest of the organization of a series of surprises in their transactions with outside actors and events.

During implementation of the new design, individual managers habitually kept surprises private that might have led to questions about the match between the new strategy and what was actually implemented.

When members of key groups in the organization eventually became aware of mismatches, they tended to unilaterally correct errors as they saw them, thereby creating nasty surprises for other groups.

These underlying organizational dynamics of change led to an escalating and eventually intolerable organizational conflict, which top management addressed by unilateral, structural intervention with tacit consent of the rest of the organization, rather than by joint inquiry. This type of intervention turned out to be a recurrent way of addressing organizational conflicts resulting from strategic change.

While structural intervention is at times necessary, it is however not sufficient as: 1) it does not to address the mismatches between a new strategy and what is actually implemented, 2) nor does it address the difficulties members have in dealing with surprises. On the basis of the case study, a map of a limited strategic learning system is presented which accounts for the increasing separation between design of strategy and its implementation as well as the limited learning of new strategies.

The key recommendation of this thesis is that in order for strategic learning to happen, key groups in a firm need to engage in a process of corporate inquiry. This is a form of joint inquiry in which key groups get access to their own practice by beginning to de-normalize surprises, and address mismatches between design and implementation of strategy prior to major change. This constitutes strategic learning in the sense of learning strategically.

Thesis advisor: Dr. Donald A. Schon

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CORPORATE INQUIRY AND STRATEGIC LEARNING: THE ROLE OF SURPRISES AND IMPROVISATION IN ORGANIZING MAJOR STRATEGIC CHANGES

Cambridge, April 24, 1989

Willem J.A.M. Overmeer
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Aan mijn ouders, Maria Oosterwijk en Willem Overmeer Sr. voor hun voortdurende steun voor mijn onderwijskundige projecten, in bijzonder tijdens het schrijven van dit proefschrift.

To my parents, Maria Oosterwijk and Willem Overmeer Sr. for their continuing support for my educational ventures, in particular during the writing of this dissertation.
PREFACE

This doctoral dissertation grew out of my work as a corporate strategist and management consultant in the beginning of the 1980s, when I experienced first hand the problems companies have in engaging in a major strategic change:

1] Firms have long periods of gradually declining performance,

2] some members in the firm have a sense of impending change but can not get their ideas across in the prevailing behavioral world of the firm,

3] as a result of delays, a viable strategy in the present form of the company is no longer available,

4] a crisis in performance precipitates action by top management,

5] this usually leads to drastic and painful structural intervention,

6] these interventions do not address the underlying problems contributing to the delayed reaction and difficulties of getting new ideas across.

Time and time again I was surprised in everyday practice by the difficulties companies had as they engaged in major changes. When consulting the literature on strategy at the time, I often found conceptual papers in European magazines and statistics-based papers in American magazines. Most of these papers were of surprisingly little help in the everyday practice of organizing major strategic changes. The exception to this rule was the work of Chris Argyris and Donald Schon, in particular Theory in Practice (1974) and Organizational Learning (1978). Their work addressed issues which I, as a concerned practitioner, personally experienced in everyday practice but could then barely frame. Intuitively, however, their ideas made a lot of sense to me, and after seeing their practice in several seminars, I decided to engage in a
doctoral research project so as to explore and reflect on problems I sensed in practice. Early on I came across the work of Joseph Bower, in particular *Managing the Resource Allocation Process* (1970), and later on *When Markets Quake* (1986). His work was not only based on field research in companies but also among the most articulate I found in the field of business policy and general management, and a source I often returned to amidst my studies.

During the first years, and prior to the actual research, experimental courses in the theory and practice of consulting with Argyris and Schon, at the Harvard's School of Education and MIT's School of Architecture and Planning, provided an indispensable groundwork for conducting the kind of in depth field research that forms the basis for the case study and which is at the core of this dissertation. The doctoral seminars of the D.B.A program at the Harvard Business School, combined with my work with Don Schon on frame reflective discourse were central to the design of the theory chapter. These experiences made clear to me that a fruitful approach to inquiry into the theory and practice of strategic management would draw on the Harvard Business School approach of case studies of intervention by the corporate level, and on the theory of action perspective developed by Argyris and Schon. I framed it as a "marriage".

Looking back, this doctoral thesis is a milestone in a much longer personal program of experimentation, intervention and inquiry, which began with a practical training during my engineering studies. Prior to my dissertation, some have been key to my personal, professional and academic development and helped shape what can be called an emerging career strategy.

After I received my M.B.A degree, I did a research and consulting project on public policy and private sector innovation with Professors Frits Prakke and Walter Zegveld of the TNO Applied Research Organization, in which I studied a great
variety of innovation projects all over the world.

Professor Lex van Gunsteren, as Director of Planning, Organization, Research and Development of the Boskalis Westminster Group gave me extra-ordinary access to its strategic management process. He was also open to my experimental mode in approaching the problems that I encountered in the company. Professor Mauk Mulder of the Small Business School in Rotterdam introduced me for the first time to the practice of inquiry and intervention.

Professor Harry Wagenmaker of the Department of Civil Engineering of Delft University helped me frame my disappointment with the quality of strategic management in practice as a platform for research into that process. The late Professor Harry ter Heyde of the Graduate School of Management of Rotterdam University helped me frame my doctoral studies as a form of intellectual entrepreneurship.

Early on during the research, the persistent comments of Professor Bernard Frieden, then the Director of MIT's Center for Real Estate Development, have been very helpful in writing my research proposal. At crucial moments during the research, the proposal was of great importance.

Unfortunately, the members of Citadel Real Estate Development Company have to remain anonymous. The access they gave me to the company's strategic management process as well as their willingness to discuss problems in their everyday work were crucial to the success of this research project.

In the early stages of writing, the never ending comments of a peer group of doctoral students made up of Christie Baxter, Francoise Carre, Sarah Kuhn, Andrew Laing, and Henk Wagenaar, were very important in understanding the difficulties involved in actually writing a dissertation. Later on Caroline Clark, Assia Khellaf, and Brenda Nielsen played a similar role. During the final months, Kalyn Culler's help in trying to understand how to present circular organizational processes in writing were key to drafting Chapter Seven.
Her help in editing the Summary was invaluable. Christie Baxter's persistent questions on what I meant by strategic learning were crucial to the framing of my core argument in Chapter Two. In addition, for more than two years during the writing process she was a real buddy.

Completing a doctoral study is very complex task and presents a multiple professional and personal challenge. All along my three academic advisors have expressed an unwavering support in the project while never ceasing to inquire into the central issues of design and implementation of the project. By their own educational and research practice, they have given the best examples for my own practice.

I am particularly grateful to Donald Schon. His remarks and questions would often surprise me and leave me without an immediate answer. Upon reflection and further exploration they would often shed a new light on what I was doing, set the stage for new understanding, and were central in keeping my inquiry moving into the theory and practice of strategic management. In addition, by being readily available at crucial moments and by helping to find funding, he provided indispensable support during the project.

I would also like to thank Dr. George Hauser and Mrs. Louise Hauser, who, for sixteen years have helped me greatly in making me feel at home in the Boston-Cambridge-Newton area, and experience the best of what it has to offer.

The project was in part funded by two grants of MIT's Center for Real Estate Development, one of which was made possible through the generous support of Mark Waltch. I am particularly thankful to its present Director of Research, Professor Lawrence Bacow, for understanding that doctoral research projects sometimes take longer than expected.

Finally, I would like to thank Jean Pierre De Monchaux, Dean of the School of Architecture and Planning of MIT, for his help in confronting the issues surrounding the anonymity of the case study.
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SUMMARY

The Problem

Throughout the 1980s, corporations have found themselves in uncertain, rapidly changing and increasingly complex competitive environments. Research on firm performance during these uncertain times shows that even mature companies with well-educated managers responded too late to shifts in the corporate context. This occurred even though some company managers early on sensed a need for change: their ideas did not come across in the prevailing behavioral world of the firm. Eventually, conditions forced top management in many firms to undertake a major strategic change, often after a sudden decline in corporate performance. But, by then, options were usually foreclosed and continuation of the firm's existing form was no longer possible. The only remaining option left to top management was a dramatic and frequently painful organizational intervention.

Delayed strategic responses, therefore, have drawn increasing attention from corporate researchers. They write that corporations habitually separate design and implementation of strategy. And they argue convincingly that this organizational separation, which creates corporate bureaucracies, prevents firms from responding in a timely fashion to a rapidly changing context. As a remedy, a variety of researchers, including Ansoff, Burgelman and Mintzberg, challenge the prevailing view that design and implementation of corporate strategy should take place sequentially and advocate an interaction between these two processes, which they call "strategic learning". They present the idea of strategic learning so far as an amendment to existing ways of
organizing -- they view it as a rather self-evident and unproblematic prescription for learning new strategies and they advocate or imply that it is useful for firms that need to respond to dramatic shifts in their environments. However, this group of researchers provides no evidence of how to put the idea of strategic learning into practice, in particular during major change.

This thesis argues that, although strategic learning is a promising idea, when faced with the need for dramatic change, it can not be merely an amendment to existing ways of organizing. Central to a company learning a new strategy is that its managers will encounter surprises -- unexpected events for which they do not have an immediate answer -- which, if inquired into, will reveal important information about mismatches between the new strategic design and its implementation. The result of such inquiries could challenge not only the way the company is trying to realize its new strategy but also the design itself. Appreciating the significance of these "surprises" for the firm as a whole and conducting an inquiry of this type are, however, skills that are uncommon among managers. Therefore "strategic learning" requires managers learning new skills, which means that strategic learning can not be merely an amendment to current practice.

The data behind this argument is a careful field study of a medium-sized real estate development firm that had successfully made a number of strategic changes and, at the time of this research, grew from a regional to a national firm. We sought a smaller firm where we could observe it developing its competence in making strategic shifts -- a competence central to becoming a mature company. Studying a firm of this size also allowed us to observe more of the total firm than would be possible in a large mature company, an approach also followed by other researchers such as Andrews and Mintzberg.
The thesis details how this company actually transformed itself in the 1980s and places this growth (and the strategic shift) in the context of this firm's two previous strategic shifts in the 1960s and 1970s. Focusing on the latest change, it describes how managers responded to surprises in everyday practice and what kind of inquiry they engaged in; it assesses whether and to what extent strategic learning took place; and it analyzes what would be required for this company to become better at strategic learning. Specifically, we approached two central questions:

1) What kind of inquiry does it take to bring about strategic learning?

2) How can we tell whether strategic learning has taken place?

In addressing the first question, we build on the work of a second group of researchers, in particular Argyris and Schon. They show that companies operating under steady state conditions have considerable trouble "learning" and tend to limit inquiry. Based on their work, we predict that under conditions of major change learning will be even more demanding and troublesome. If strategic learning is to take place, then firms need to learn to "learn" in the steady state, that is, they have to learn strategically.

In order to tell whether strategic learning actually took place during major change, our second question, we used the work of both groups of researchers mentioned above to establish the following criteria:

* Did top management change its thinking about how the company's resources matched its environment?

* Did the pattern of corporate behavior change?

* Did managers inquire into conflicts during the steady state, and if so, did the results prepare the company for change?

* Were managers in touch with 1) new interpretations of corporate strategy and 2) responses from the corporate environment that signalled ways in which it was shifting
and suggested new directions for corporate strategy. If so, were they able to use this information to help the firm "to get ahead" of the shifting corporate environment?

* Did the company realize the intended corporate strategy and inquire into incompatible norms for performance?

Research

Little research is available on how companies actually organize themselves and engage in strategic learning when undertaking major change. We therefore present a prototypical case study; a study of how a renowned real estate development company organized itself during a corporate transformation in the 1980s and during two earlier strategic changes in the last thirty years. We call the firm Citadel*.

At the time of the research, three years after beginning the latest process of corporate transformation, the firm was faced simultaneously with unexpected strategic success and unexpected organizational failure. Minor design changes in projects produced major organizational conflicts among key groups in the company. While managers were proud of the company's accomplishments, they were also vexed by the conflicts, which had become a feature of everyday practice. We took their bewilderment as a point of departure in interviews with 38 present and former members of the firm, ranging from top management to assistant project managers four levels down in the organization, as well as present and former outside management consultants. We also participated in a series of meetings where top management made plans to resolve the organization's conflicts. In order to show whether the criteria for strategic learning (enumerated above) were met, we undertook an active inquiry. We encouraged managers to discuss the private meanings they assigned to surprises encountered

* The case is thoroughly disguised at the request of the company.
in everyday practice and their actual responses to surprises.

The case study presents the results of the inquiry in a layered form -- we construct a description of Citadel in the process of strategic change from three different perspectives. First, seen from an "outside" perspective, we present a longitudinal study of evolving corporate behavior. This shows how the company experienced four extended periods of steady state strategic development punctuated by four brief episodes of strategic change. Then, seen from an "inside" perspective (the accounts of firm members), we focus on the episodes of change and show how, during these episodes, the company engaged in a rich process of experimentation leading to a new strategic design. Finally, we construct an "inside-in" perspective by examining how firm members were privately experiencing and proposing to deal with major organizational conflicts at the time of the research. We develop an image of the "corporate mind set" just prior to a structural intervention by top management, which was aimed at resolving escalating conflict among key groups in the firm.

Major findings
1] A major strategic change is not merely a one-time response to a shift in the environment but part of a continuous "strategic conversation" between the company and its environment. Corporate strategic development appears to be an active process of organizing and "strategic sense making" in which emerging local strategies interact with deliberate corporate strategy. Rather than "stable state" periods interrupted by sudden changes, corporate strategic development is a combination of limited improvisation in the "steady state" and brief episodes of more extensive experimentation. And, during an episode of experimentation, a creative improvisation may lead to a major strategic change.

During the steady state, this active process of organizing has three characteristics: 1] the company is engaged in
continuous but limited improvisation, allowing uninterrupted movement in an evolving context; 2) its managers address mismatches between design and implementation within the boundaries of a particular project; and 3) given satisfactory overall performance, there is little joint inquiry by the company's key groups into successes and failures of various projects. As a result of this way of organizing, there remain unaddressed mismatches between the design and implementation of corporate strategy. These mismatches become the source of corporate politicking and gamesmanship.

2) A major shift in the environment appears to lead to a dual predicament for top management. First, the company is confronted with a strategic predicament such as "the company is too big for housing projects and too small for downtown office buildings". This strategic predicament challenges the effectiveness of on-going improvisation -- the company threatens to come to a halt which moves top management into an active assessment of the corporate strategy. Second, top management begins, at the same time, to intervene in on-going projects with the intent of adapting these projects to top management's sense of the new environment. This upsets corporate politicking among key groups and leads to escalating conflicts. Top management, then, responds by undertaking a unilateral structural intervention aimed at deflating the conflicts -- they attempt to free themselves from conflict so that they can focus on design of a new corporate strategy. But, an unilateral intervention also distances them from the implementation of both the previous and the emerging strategy. By addressing their dual predicament in this way, design and implementation of corporate strategy become sequential processes carried out by different groups in the organization. Hence, strategic learning as an interaction between these two processes does not occur.
At the center of this organizational dynamic is the way managers deal with surprises. When, during limited improvisation in the steady state, surprises occur, managers tend to see them as "normal" and respond to them within the boundaries of a particular project.

Once the firm engages in major strategic change, managers continue to see surprises as normal. As a result, managers unwittingly engage in a process of "passing through surprises", thereby unnecessarily increasing the complexity of making a major strategic change. This process is outlined in detail below.

First, as the firm engages in corporate experimentation, its managers respond to surprising events as they respond during the steady state -- they continue to improvise and try to keep projects moving. During this process they do not fully appreciate the significance of their surprises for the rest of the organization. As a result, they tend to see full-scale corporate experimentation as a continuation of limited improvisation in the steady state. Therefore, they frame the new strategic design emerging from this experimentation as similar to what the company was doing before, e.g. "Hotels are a combination of housing units and office buildings".

Once the company begins to implement a new strategic design, managers throughout the company begin to privately experience surprises. If they were to inquire into these surprises, they might discover mismatches between the new design and what is actually being implemented. However, as they are not alert to how the new corporate strategy differs from the old one, they are inhibited from making sense of the pattern of surprises they are experiencing and are habitually withholding them from other groups.

Finally, when these managers eventually become aware that on-going work is mismatched to corporate strategy, they tend to act unilaterally as they address this mismatch. Their unilateral action often creates nasty surprises for other
groups, which begin unilaterally to protect themselves from what they see as "interference".

Key groups are "passing through surprises" to each other without being fully aware of it or being able to do anything about it. Their managers are, as a result, faced with a continuous flow of related surprises as the company goes through successive modes of design, implementation and intervention.

4] As a result of ignoring surprises, key groups in the company continue to use "old" practices that were well-adapted to a previous corporate context, but not the current one. Efforts to correct mismatches between "old" practices and the requirements of the new context tend to be unilateral and usually lead to escalating organizational conflict. To cope with these conflicts, groups begin to interact in a pattern of alternating dominance and create a collage of individual activities rather than a corporate effort.

When conflicts become intolerable, top management makes a unilateral structural intervention, often with the tacit consent of key groups, so as to relieve the organization of conflict, to regain a sense of control and to restore creativity. While structural intervention can be necessary as part of a process of strategic change, it is not sufficient; it neither addresses the mismatches between group practices and corporate strategy nor the difficulties managers have dealing with surprises.

5] Successive episodes of strategic change lead to an increasing separation of design and implementation. This, in turn, makes strategic learning more difficult with every major change. As a by-product of multiple strategic changes, the company begins to take on key features of a corporate bureaucracy in the negative sense -- an organization with a strict separation between design and implementation whereby mismatches between the two are the source of highly detrimental politicking.
Main Conclusions and Recommendations

A major strategic change exposes how stubborn the separation between the design and implementation of strategy is in actual practice. The underlying dynamic during major strategic change makes a company resistant to the prescription for strategic learning -- an interaction between design and implementation. Hence, strategic learning cannot be merely an amendment to existing approaches to organizing strategic change. The study of a medium-sized company shows how the separation of design and implementation has been reinforced through multiple strategic changes. This kind of programming in previous episodes makes it difficult if not impossible for larger, mature firms to bridge this separation when caught in a major shift in their environments. A normative theory of strategic learning, therefore, has to address how design and implementation become disconnected in the steady state.

In order to break out of the pattern of making strategic changes in a manner that makes it more difficult to engage in future changes, our overall recommendation is that companies need to learn strategically prior to a major shift in the environment. Specifically, managers need to learn to de-normalize the surprises they experience in the steady state and to appreciate them as signals for possible mismatches between design and implementation. This will help them to see improvisation in-between major shifts in the environment as an active design process which they build on during a shift. This will enable strategy designers not only to make a strategic design but also to design strategically.

The idea that strategic designing is a relatively continuous process is contrary to the prevailing belief among theorists and practitioners. They hold that the design process 1] has a discrete beginning and end, 2] is followed by implementation. It is within this framework that some researchers advocate an "interaction" between design and imple-
mentation, which they call "strategic learning". We maintain, however, that strategic designers do not fully appreciate the continuity of the design process in actual practice in which they themselves are engaged. As a result, when improvisation is challenged during a major change, they find themselves on the defensive and cut themselves off from ongoing implementation. In doing so, they not only cut themselves off from a valuable source of in-house information about the implementability of a new strategy, but also from ideas of "implementors" that may challenge their design. This reinforces the designers' belief that design is a separate activity from implementation. Hence, we question the seemingly self-evident separation of design and implementation in theory and practice and the consequent need for "interaction". Instead we argue that when managers begin to see designing as a continuous process, the boundaries between the design and implementation process will become permeable.

To reframe the design process, managers need to de-normalize surprises they experience during improvisation in the steady state. To help managers with this, we propose that key groups in the company engage in a form of joint inquiry which we call "corporate inquiry". Their managers need to take a "time-out" from the everyday pressure of a corporation-in-action and select a specific problem in one or more projects that is critical to the company as a whole. For example, the president of the company we studied wondered how a hometown hotel development project could come in one million dollars under budget -- while it could have been one million above -- and how he got to know about this only after the project was completed.

In the process of corporate inquiry, managers need to learn to make privately experienced surprises discussable with managers of other groups. In doing so, they make surprises "real", recognizable and subject to joint inquiry. As a result managers will begin to more fully appreciate the im-
portance of their surprises for other groups, and they are less likely to face nasty sunrises to which they then respond unilaterally. Central to the process is the development of a joint repertoire among groups for dealing with predicaments that often arise from addressing surprises in everyday practice and upon which the company can draw when it engaged in major strategic change.

Finally, the ability to conduct corporate inquiry is not within the repertoire of most companies. Therefore, their managers will, most likely, need the initial help from an outside consultant. As corporate inquiry is a new field, these consultants themselves need to become researchers of the practice of inquiry. And when helping a company to engage in corporate inquiry, they will be surprised when they bring their practice from one organization to another. These surprise not only provide material for the inquiry underway, but will also help to better frame the theory and practice of corporate inquiry.
The limits of corporate bureaucracy. During the nineteen eighties, major shifts are taking place in the patterns of competition of many industries in Europe, the USA, and Japan. As a result, corporations are increasingly faced with the need to engage in major strategic changes. For instance, companies are faced with persistent overcapacity, radical new technologies undermining core businesses, very successful foreign competitors (notably Japanese), and global markets forcing increasing internationalization of the firms' key practices. Recent research*, however, has pointed out that well-established companies are often slow to react and get stuck in gradually declining markets. This occurs even though competitors rarely launch a frontal attack and make major strategic mistakes themselves. Well-educated general managers appear to resist change and not to recognize the firm's strategic predicament. By the time top management addresses the problem, a successful competitive strategy is often no longer available. The same research also shows that early on some managers have a grasp of the firm's strategic problems but either feel that they can not openly discuss

their ideas as they are too tentative or too fragile, or meet stiff resistance in trying to change dominating frames of references. When markets finally "quake" and companies are forced to make long overdue changes under crisis conditions, these changes are dramatic, controversial and painful.

To be sure, firms have engaged in strategic change in the past. The compounding factor in the eighties, however, is the combination of the necessity for strategic change with the need for a major organizational overhaul. Existing organizations no longer provide the information needed to make major strategic changes. They have become stagnant corporate bureaucracies with detrimental politics, games, and battles between divisions and corporate level. In this situation, firms are only able to make changes within a zone of indifference, determined by central norms, strategies and assumptions, while a viable alternative would require them to go beyond this zone. As a result, these companies need to engage in strategic and organizational framebreaking, often with the help of outside consultants (Hermon-Taylor, 1985).

Several authors have indicated the limited ability of corporate bureaucracies to deal with major changes in their environment and have called for radically new forms of corporate organization. For instance, Bower (1986) favors eliminating layers of management and setting divisions in ways that match their specific strategic environment. Divisions would report directly to a small, flexible, elite cor-
porate center that would act as coach, sponsor, surgeon, and architect to them. Mintzberg explores alternatives to corporate bureaucracies such as the entrepreneurial firm (1982) and the adhocracy (1985), and introduces the idea of "grass-roots strategy making". Others have argued that even under steady-state conditions, corporate bureaucracies have difficulties dealing with even limited change. For instance, Schon (1983) proposes the idea of a "reflective institution" with flexible procedures, differentiated responses, a qualitative appreciation of complex processes, decentralized responsibility for judgement and action, and attention to conflicting values and purposes. In conjunction, Argyris (1985) shows what might be done to address ineffective interpersonal behavior that leads to layers of self-reinforcing and self-proliferating organizational defenses.

The stakes are high. Corporations are vehicles for the collective effort of a variety of professional practices, and indispensable for the conduct of society's business (Schon, 1983). If companies do not learn to make strategic changes more competently, governments might intervene through lawyers and economists that are less informed about the industry and have little experience in running a business (Andrews, 1980; Bower, 1986).

The promise of strategic learning. Despite its importance, how to organize major strategic changes is still in its infancy as a field of inquiry and practice. While corporate
transformations have become part of the experience of many executives (Pettigrew, 1987), little research has been carried out. With a few exceptions, little is known about how such changes actually take place within a company (Pennings, 1985; Pettigrew, 1987), and, in particular, how effective companies bring about major strategic changes.

Until recently, the field was mostly defined from two perspectives, one focusing on the formulating of a deliberate corporate strategy followed by its implementation, and one focusing on how newly emerging sub-strategies become part of the realized corporate strategy*. The essence of each view has been expressed through metaphors of art. The chief executive officer is "the architect of corporate purpose" (Andrews, 1980) or any person in the company can "craft a strategy" (Mintzberg, 1987). These descriptions imply that the knowledge for strategy formation is partly tacit and inaccessible. Both views also tend to explicitly or implicitly separate strategic design and its implementation within an organizational setting, in terms of the time frame and the people involved.

Increasingly, the intended and unintended consequences of this separation are being criticized. For instance, a disproportionate amount of research is focused on formulating

* The debate in the eighties is a reframing of earlier debates in the sixties between "synoptic planning" and "disjointed incrementalism", and in the seventies between "top-down" and "bottom-up" planning.
strategies while little research on implementation is available (Zajac and Bowman, 1985). Research on organizational change tends to be without attention to the history of the firm, the context in which it operates and the organizing processes that take place within it (Pettigrew, 1985). And when a strategy is not realized, some point to an erroneous design (Mintzberg, 1987) while others point to problematic implementation (Normann, 1985). Finally, both perspectives are largely untested (Mintzberg, 1985).

Faced with the demand for change and the limits of the two main perspectives for bringing it about, some researchers* have began to question the separation of design and implementation, and thereby one of the central tenets of the field. While coming to it from a different view point, they have introduced the idea of strategic learning as a way to bridge the gap between the design and implementation of strategic change. For all of them, "strategic learning" is a rather self-explanatory form of interactive learning, in which design and implementation feed on each other as the strategic change takes place. To them, it is almost as if it is an afterthought, a footnote to change, and an extension of existing frames of thinking. However, a closer look at the idea suggests that it is not at all clear what we mean by "strategic learning". In one view, it means that some executives of the company have changed their minds about the match

* See Ansoff [1984], Burgelman [1984] and Mintzberg [1987].
between the corporate environment and the company's resources; they express this through a stream of decisions. From another view, it means a change in the pattern of corporate behavior over time. But in the first case, we might wonder whether the company has actually learned a new strategy if some executives change their minds. How can we tell? Did corporate behavior actually change? In the second case, we might wonder when the company changes its behavior whether its individual members have learned a new strategy? Do they think differently about what they are actually doing?

If the field of how to organize a major strategic change is in its infancy, then the idea of strategic learning is still in an embryonic form. While the idea signals a promising break with previous thinking, there is no research available on how it takes place in a company engaging in a major strategic change. In particular, there is no research on strategic learning under conditions of pressure in everyday practice. The only research on learning of this kind in organizational settings is carried out by Argyris and Schon (1978) and indicates that learning is already problematic in a steady state.

Thus we face a contradiction between two positions: either strategic learning is a rather naturally occurring form of interactive learning during change, or learning is problematic even in a steady state and will be more troublesome if change occurs. To address this contradiction, we
need to take a look at how companies actually engage in stra-
tegic change and learn as they go long. The contradiction
is not merely academic but, as illustrated by the following
example, it is at the heart of escalating organizational con-
flicts under conditions of change.

**A drama of major strategic change.** An entrepreneurial
real estate development company experienced a steady state
period during which it pursued two different development pro-
grams. The firm built low-income housing projects that were
repetitive. It also developed one-of-a-kind offices pro-
jects. Since each project was a limited improvisation on a
previous one and strategic attention could be switched from
one program to the other because they were counter-cyclical,
the company achieved a steady pattern of corporate behavior
in an evolving corporate context, making it possible to deve-
lop a distinctive competence.

When both lines of business were called into question by
a series of unexpected and surprising events, executives
inquired into the predicament with a strategic planning
effort along the guidelines spelled out by Andrews (1980).
They defined the company's distinctive competence, made pro-
files of competitors, studied various markets, and tested
their sense of new opportunities for large-scale office re-
development. In all, they defined a deliberate corporate
strategy based on the idea of an investment-builder which
owns what it builds and manages what it owns.
When the planning effort revealed that the company was "stuck in the middle" and "too big for housing and too small for offices", senior executives decided the company needed to grow to exploit the expected opportunities for large-scale office projects. In order to be able to focus on those projects and to free themselves up from day-to-day architectural design and construction concerns, they changed the existing structural context of the firm. They introduced a project management group which would provide them with accurate information and "do the controlling" for them.

However, as soon as the company began to implement its new strategy by developing its first large-scale office project, the executives faced a new surprise. One of the buildings on the site that could not be demolished, could not be converted into an office building as intended. No matter what they did, they could not "make the numbers work". In order to proceed with the entire project and realize the new strategy, they decided to convert the building into a hotel. This was a type of development the company had neither intended nor ever done before and thus was a creative improvisation.

Through a series of unexpected events in the political and business environment of subsequent projects, the executives discovered that they could no longer develop the large-scale offices they had intended. The series of projects, however, made up a rich and complex process of corporate ex-
perimentation. Step by step the executives had reframed the meaning of the first hotel project from merely an anomaly to a strategic invention. They had a new window on what the company could do and on a new corporate context.

Finally, when the company ran out of work in both offices and housing, when its first hotel project made a surprising profit after its first year, and when the company's senior executives became aware of a large scale effort by a leading hotel chain to introduce a new hotel concept, they reframed the company's strategic intent. They decided to embark on a development program of repetitive hotel projects which would replace the housing program. Projects would franchised from the hotel chain. In order to implement the new program, a hotel group was set up with senior executives recruited from leading hotel companies. The group would plan and operate hotels, while the project managers group would build them.

Soon conflicts began to arise around those aspects of hotels that are different from offices. During the planning of hotel projects, the hotel group members began to dominate the development process and planned hotels as if they were still working for a hotel chain. Project managers, unable to challenge the group's knowledge of hotel, knowingly accepted construction budgets that were too low. However, during the architectural design and construction process of the buildings, the project managers protected the development process from what they saw as interference by the hotel group, and
built the hotels as if they offices.

As the hotel group got to know the market better and spotted competitive moves, it began to make changes in the business plan for the hotel program. In addition, when hotel general managers were recruited half a year prior to a hotel opening, they began to insist on changes in the hotel design so as "to hit the market right". The net result of both changes was a stream of redesign orders at a time when the "construction steamroller" was moving along rapidly. Attempts to impose design changes at this time, produced nasty surprises and led to active resistance and escalating organizational conflict between key groups. Members spoke of "burn-out with a smile on your face", of "cancerous spots" and of experiencing a "culture shock".

The company faced at the same time unexpected strategic success and organizational failure. While outsiders were in awe of the firm's accomplishments, its members were bewildered by the pride they felt about the corporate achievements and the conflicts they experienced in their everyday work. Each group held on to its own interpretation of strategic intent and to their old practices. The conflicts became framed as a clash between experienced and savvy hotel professionals and young, bright but aggressive novice project managers, and between the mismatched personalities of the group presidents.

In the meantime, senior executives at the corporate level
were busy securing new projects. They avoided the conflicts and were reluctant to get involved in the welter of day-to-day operations. Finally, when they got increasingly drawn into the conflicts, they invited an external consultant to advise them on the nature of the conflict and what to do about it. As a result of his inquiry, they began, to their surprise, to see a power struggle in which the daughter was taking over the mother, i.e. the hotel group was taking over the company as a whole. Top management unilaterally intervened in the formal organizational structure and split up the groups, creating new roles and recruiting a new type of project manager.

While this intervention relieved the company of conflict, gave its members back a sense of control, and restored its creative energy, it did not address the differing interpretations of the firm's strategic design, and the mismatched corporate practices, thus setting the stage for a new round of conflict.

Preliminary questions. This capsule description of a dramatic strategic change, which will be examined in more detail in the case study, illustrates a few key points. First, surprises are part of everyday professional practice in a corporate setting and take a prominent role in the strategic development of firms. However with few exceptions (Schon, 1983; Argyris, 1985), surprises in practice are mostly are ignored in research or taken out of their everyday
context*. Second, as a deliberate strategy is implemented over multiple episodes, it is challenged, even though it may be based on an accurate sense of the firm's distinctive competence and its evolving environment. This is largely ignored in the literature which focusses on one episode of change and assumes that problems during implementation do not lead to questions about strategic design. At the heart of most advice about a deliberate strategy is an attempt both to limit improvisation within the framework of a strategy and to prevent surprise. However, our example suggests that this is a too limiting a prescription for practice.

Third, the corporate realization of an emerging sub-strategy based on a creative improvisation can be a highly problematic process as seen from the inside. This tends to be ignored by those who focus on describing changing corporate behavior over multiple episodes from the outside. Fourth, rather than interactive learning between design and implementation, a major strategic change is apt to produce a major and escalating organizational conflict, as might be expected on the basis of "a theory of action perspective" as proposed by Argyris and Schon. Recurrent structural intervention to settle those conflicts does not address the mismatch between design and implementation. In fact, such interventions by themselves tend to aggravate the separation be-

* See for instance Harrison and March [1984] and Kay [1984].
tween strategic design and implementation. And instead of strategic learning, the capsule description suggests the emergence of a corporate bureaucracy with an increasing separation between design of a strategy and its implementation.

Fifth, the idea of strategic learning as proposed in the literature identifies two key organizing processes, design and implementation. However, the example suggests the need for a third process, i.e. inquiry into the mismatch between the two.

The capsule description of a major strategic change in the previous section also raises a number of important questions about the idea of strategic learning. First, some members did indeed begin to think differently about the corporate context which in turn affected resource allocation. However, there remained sharp and unresolved differences between senior managers about how they thought about the context and how to allocate resources. Can we speak of strategic learning if only some senior managers have changed their minds? Second, the company did change its pattern of corporate be-
behavior. At the time of this research, five hotels had been opened and five were under construction. But has a company that builds hotels as if they are offices really changed its pattern of behavior? Has the company as a whole and its members really learned a new strategy? Finally, with each major change, corporate practices became increasingly separated from an ever-evolving strategic design, aggravating problems for the future.

These questions lead to the core problem this study will address. According to the literature, strategic learning means that a company has learned a new strategy if its executives think differently about the match between the company and its environment, or if its pattern of behavior changes. On the basis of our capsule description, we may ask whether a company that has learned a new strategy, has learned strategically, in particular if learning a new strategy in the future has become more difficult.

Research design. In order to address these questions, we will present a case study of the Citadel Real Estate Development Company, which is renowned for its high standards for its corporate actions, and praised by fellow development companies, communities in which it is active, and academics who follow its performance. We will examine how this company, active in housing and office development, engaged in a major strategic change when it entered the hotel business and explore the questions: 1) how did the company get into the
hotel business, 2] how did it actually organize itself while engaging in change, 3] how do firmmembers say these things happened, and 4] how can we account for the difference between what actually happened and what individual members make of it? We will also look at previous strategic changes that took place during Citadel's forty year history.

We began the research project with the company three years after it had launched its hotel venture. By that time, its members were bewildered by unexpected strategic success and unexpected organizational failure at the same time. The company was about to make a structural intervention again in order to address escalating conflicts. Under these conditions members were very willing to talk forcefully and candidly about the problems they experienced in their everyday practice as professionals.

At the time of study, Citadel was a medium-sized regional company that was rapidly growing from a small company into a nationally oriented company. Thus, the company was not a large corporate bureaucracy of the kind studied by Pettigrew (1987), Doz and Prahalad (1987) or Bower (1986). It was more like the companies addressed by Andrews (1980) or studied by Mintzberg when he looked at Steinberg. The advantage of this size company is that the same dynamics are taking place as are reported in these larger companies (Weick, 1979). We can trace the emergence of the key dynamics of a corporate bureaucracy, such as the separation between design and imple-
mentation, and understand how these dynamics took place when the company was still in its entrepreneurial stage. This will make it possible to begin to understand and to address the limited learning that is taking place in the large bureaucracies studied by other researchers.

The major strategic change Citadel undertook presents a particular difficult challenge to a company as Porter (1980, p.250) indicated*. The firm not only made a major strategic change but also made a major organizational change when it grew from an entrepreneurial firm to a more professionally organized firm. But in addition, a second generation of the family took over the helm at the firm. While this was an extremely difficult corporate transformation, we believe that it is precisely under those conditions that we can get to know the company; as Kurt Lewin put it, "if you want to get to know reality, then try to change it". Under these demanding conditions we can see strategic learning in action as the company's central norms, assumptions, and strategies are challenged and need to be surfaced so as to reflect on their match or mismatch with the new corporate context.

* According to [Porter, 1980, p.250]: "In the transition from an entrepreneurially managed to a more professionally managed company, organization and systems must become more rationalized, formal and impersonal. Whereas this transition is difficult in itself, it is important to note that the organizational transition required to cope with industry maturity may also involve a different structure and different focal points for the key managerial systems, as a result of the changes in the competitive environment brought on by maturity. If these two transitions have to occur simultaneously in a company, it raises a serious challenge". 
The case itself has a few potential limitations. First, the company was a family-owned and closely-held company, and we had limited access to intra-family dynamics. Second, real estate companies are typically organized as limited partnerships rather than as public corporations. While this is an important legal distinction in particular for federal taxation, and has some ramifications which we will indicate as we present the case, the key groups of the company were very much organized as a corporate whole in order to achieve the company's objective of being "an investment-builder which owns what it builds and manages what it owns". Moreover, increasingly, publicly traded stock companies have began transforming themselves into limited partnerships so as to benefit from the 1986 Federal Tax overhaul.

Third, Citadel is a project-based rather than a product-based company of the kind so often studied by other researchers, and there are some differences between these types of companies. In theory, once a product is designed, its manufacturing is a highly repetitive activity taking place under highly controlled circumstances at the same location. Real estate projects, on the other hand are never identical, take place under changing circumstances at different locations. In actual practice, however, this dichotomy is less significant. For instance, product lines grow out of R&D projects, and both design and manufacturing processes are transformed over time as a result of feedback from the market place.
Also, real estate projects of the same development company are often strikingly similar in design and construction. In fact, it would be impossible for companies to build each project from scratch. Finally, repetitive projects often become a "product" for a development company.

More importantly though, it is because surprises and improvisation are key to strategic development that I chose to study a project-based real estate development company. Other researchers (Frieden and Sagalynn, forthcoming) had found that such companies operate in volatile project environments and are frequently faced with surprises during a development project to which they respond by improvisation.

The Citadel Company was initially intended as a pilot study after which several other companies would be examined. The extraordinary access in the case of Citadel and its real time problems, however, led us to expand the scope of the case as we went along. The case became a prototypical example, demonstrating 1) how escalating organizational conflicts are related to a major strategic change, and 2) how ineffective interpersonal and intergroup strategies prevent members from getting underneath their conflicts and addressing incompatible norms of performance. On the basis of this one case study, we believe that it is possible to challenge existing perspectives on strategic change. The case also indicates where to start and how to address the limited capacity for learning of corporate bureaucracies. Additional
cases are needed to further develop the perspective taken in this case and simultaneously test the kind of inquiry we shall propose in order to enhance strategic learning.

Finally, shortly after this research was completed, Citadel engaged in a major structural change as well as in the acquisition a hotel chain. Three years later, top management is considering the sale of the hotel group. Within the time frame of a doctoral dissertation, it was impossible to include an evaluation of these activities.

Collecting data. During our research project we covered three levels in the organization. First, we began our inquiry with the general partners making up top management. Second, we talked to group presidents and vice presidents, the key "men in the middle". Third, we interviewed development project managers, hotel general managers, and the liaisons between the hotel group and the development group. In addition, we had discussions with all other vice presidents. Finally, we met with former employees who had played key roles during previous strategic changes, former and present consultants to top management, and the principals of two architectural firms intimately involved with Citadel's development projects.

Altogether, we had forty-two interviews with thirty-eight people, many lasting between one-and-a-half and two hours. The interviews were conducted together with the corporate planner of the firm. We attended three meetings in which the
planner fed back her views to top management and an external consultant. All interviews were taperecorded and transcribed, making up some six hundred single spaced pages of transcript. The meetings were recorded through extensive note taking.

We opened interviews with a few leading questions about the background of the interviewee in the firm, followed with questions about what surprises s/he had experienced during the hotel projects, when they had occurred and how s/he had dealt with them. Under the prevailing conditions of escalating conflicts among groups, typically members of every group in the firm had things on their mind and were usually more than ready to discuss the particular problems they faced in their everyday work. Only one members showed a reluctance to discuss present problems, as a prior inquiry by a consultant had led to his demotion. Some managers would occasionally stop the taperecorder so as to address a problem they felt was particularly sensitive. During the interviews, we would ask a series of follow-up questions depending on the information given by firm members. We were particularly interested in what they were doing and what sense they made of it. We would confront them with inconsistencies in their reasoning, or provide them with data that might challenge their interpretation of events. Finally, we would test solutions invented by others so as to deal with organizational problems described by others.
**Lay-out of this study.** This study is made up of three parts. Part One, Theory, is made up of a chapter in which we will closely examine the idea of strategic learning and consider the form it might take within the context of three different frames of thinking about strategic change: 1) "implementing a deliberate corporate strategy"; 2) "the corporate realization of emerging sub-strategies"; 3) "the theory of action" perspective.

Part Two, Practice, presents the case study of the Citadel Company in four chapters. Chapter Three provides a longitudinal study of evolving corporate behavior as seen from the outside, somewhat in the tradition developed by Mintzberg (1982), but with more attention to inconsistencies in that behavior. This chapter gives an overview of the firm's strategic development and points to periods of steady state punctuated by episodes of experimentation and change. Chapter Four presents how the company made strategic changes in an entrepreneurial mode, and points to patterns that will return later. Chapter Five presents how the top management decided that the company needed to grow and professionalize, and how it entered into the hotel business. Chapter Four and Five tell a story about episodes of corporate experimentation as seen from the point of view of the members of the company. Chapter Six describes how members of key groups think the company made strategic changes as well as how they make sense of the escalating organizational conflicts, in particular the
conflicts occurring at the time of the research. This chapter maps the "mindset" of the corporation just prior to a new structural change.

Part Three, Learning, consists of two chapters. Chapter Six analyses the case and connects the three seemingly loosely coupled processes of strategic design, its implementation, and the inquiry into the mismatch between the two. It grounds the problems during strategic change in the steady state, and suggests that a particular form of inquiry, called corporate inquiry, is needed to address the separation of strategic design and implementation. Chapter Seven puts the analysis of the case within the context of our inquiry into the idea of strategic learning. It maps out how the way managers at all levels of the company deal with surprises leads to the creation of a limited strategic learning system, which generates an increasing separation between strategic design and implementation, and sets the stage for the emergence of a corporate bureaucracy. Finally, the chapter indicates how corporate inquiry and research in practice become interwoven activities geared to strategic learning and what this means for doing research.
PART ONE: THEORY

The Meaning of Strategic Learning under Conditions of Change

This part explores the idea of strategic learning under conditions of major strategic change. While the idea is appealing and seemingly self-evident, a first examination reveals that strategic learning has at least two quite different meanings: 1) "learning a new strategy" with the emphasis on strategy; 2) "learning strategically" with the emphasis on learning. A closer examination of the literature on organizing major strategic change indicates that this distinction is by no means trivial.

At the center of this part is the construction of three frames for organizing strategic change, based on the work of the most important authors in the field: 1) "implementing a deliberate corporate strategy"; 2) "corporate realization of emerging sub-strategies"; 3) "the theory of action perspective". By exploring the meaning of strategic learning within the context of each frame, this part defines five criteria for establishing whether strategic learning has occurred in actual practice. These criteria will guide an in-depth case study of practice, to be presented in the next part.
2.1. Exploring the Idea of Strategic Learning

Strategic learning as a good idea. With dramatic changes in many industries in the eighties, corporations have increasingly engaged in major corporate strategic change combined with major organizational change, often with the help of outside consultants. While such transformations are now in the experience of quite a few companies and can therefore be reflected on, little research into them has been carried out (Pettigrew, 1987). To the extent that practitioners and academics have looked at the problem, they seem to extend existing frames to the new phenomenon. Most ideas about how major strategic changes happen and should happen come from two traditions: 1] "strategic management" and 2] a broad group of researchers whom we call the "critics" of strategic management. Both traditions mostly confine themselves to looking at the adaptation of a company to an evolving context.

Over the last several years, a controversy between the proponents of these two perspectives has grown over how this adaptation occurs: whether through comprehensive corporate strategic planning and deliberate action on the part of top management, or through the emergence of new sub-strategies which become corporate at times of ecological adjustment.
(i.e. a mutation of corporate behavior matching a changed context). In this debate, some authors such as Ansoff (1984), Mintzberg (1987) and Burgelman (1984), when discussing the limits of the approaches they advocate, have begun to use the idea of strategic learning.

Strategic learning, like the idea of learning itself, seems at face value a good idea and very few would disagree with it. For instance, when I asked the CEO of Citadel, the company that was studied for this research project, whether he had learned from an unexpectedly troublesome project that the company had nevertheless made into a success, his immediate answer was "of course, I learn all the time, I am always learning". It was so self-evident to him that he was even surprised by the question. When asked how he had learned, he answered in the same vein, "I learn by doing it and making mistakes".

Interactively learning a new strategy. The few academics who have begun to explore the limits of the approach they advocate in the light of major strategic change, were all thinking in terms of a some form of "interactive learning" in which "planning", "thought", or "cognition" became interactively intertwined with action. This would undo the separation between a strategic design and its implementation; and in this context too, "learning" seems like a very good idea. For instance, Ansoff (1984, p.93-95), an advocate of deliberate strategy, states that:
"Complex and discontinuous reality and the speed of change make it necessary to anticipate and plan as far as possible, but the unpredictability also makes it necessary to make up for the shortcomings of planning by continually testing and learning from reality. Thus a synthesis of the opportunistic and planned approach is necessary [...]"

If the urgency [to find new SBAs] is high, then 'random search' is started. [...] it is best converted into trial entries which on the one hand do not require major resources commitment and on the other hand, permit quick strategic learning [...] in this way] the time honored concept that implementation follows planning disappears and is replaced by parallel planning and implementation."

Mintzberg (1987, p.69), an advocate of the idea of an emergent strategy, concludes that:

"In practice, of course, all strategy making walks on two feet, one deliberate, the other emergent [...] no organization [...] knows enough to work everything out in advance, to ignore learning en route [...] or is] flexible enough to leave everything to happenstance, to give up all control".

Burgelman (1984, p.5) studying "the interplay between action and cognition in strategy making" during internal corporate venturing that does not fit the concept or corporate strategy of a firm, finds that:

"Strategy content and strategic activities are intertwined, and [...] evolve in iterative fashion", "a social learning process" of "learning by doing", "learning from doing", and "retroactive rationalizing".

Finally, while not using the concept of strategic learning itself, Isenberg (1986) proposes a model of "strategic opportunism" as a descriptive and normative approach to managing under uncertainty, and calls it (p.40 and p.38):

"An attempt to fully integrate rational and intuitive approaches ... involving checking actions against an overall strategic framework, not only deriving actions from strategies."
All these authors believe that strategic learning is important when it comes to novel, complex, unpredictable problems, and all agree on some form of "interactive learning". But different authors mean different things by "learning". For Ansoff, it means that managers get to know a turbulent environment; for Mintzberg, it means a change in the pattern of corporate behavior; for Burgelman, it means making a selection from a variety of ideas for action and a change in the concept of corporate strategy; and for Isenberg, it means individual managers developing "mental heuristics". Although they are different, these perspectives do not exclude each other; in fact, they seem to complement each other with respect to the "what" and "how" of learning.

But how can we tell whether a company and its members have learned something? The perspectives presented before are underdeveloped in that they describe learning as an unspecified form of inquiry into the match between expected and actual outcome. In addition, they do not discuss the qualifier "strategic" as it related to "learning". Strategic learning is not the same as learning a new strategy, much as learning economics does mean the same thing as, and does not even imply, economic learning. Finally, while strategic learning seems like a good idea, none of the authors provides a description of how strategic learning actually takes place in everyday corporate practice and how it can be enhanced. What then, do we mean by "strategic learning" and how can we
tell whether a company and its members have learned?

Limits to learning. One of the most exhaustive, penetrating and challenging analyses of learning in organizational contexts has been made by Argyris and Schon (1978). According to them, learning involves the detection and correction of error -- a mismatch between expected and actual outcome of an action -- through a completed cycle of diagnosis, invention, production and evaluation. But in order to detect errors, the organization through its members needs to becomes aware of errors and conduct an inquiry. Organizations habitually go through cycles of diagnosis, invention, production and evaluation. But at times errors cannot be corrected within the frame that informs a cycle and the frame itself needs to be questioned.

Following Bateson (1972), Argyris and Schon distinguish between single loop and double loop learning. The former constitutes correction of error by changing behavior within a frame determined by a set of norms and assumptions, while the latter constitutes a change in central norms and assumptions, the frame itself. They found that organizations have notorious difficulties correcting double loop learning problems; to the extent that it happens, it usually occurs abruptly and through escalating conflicts, in the course of which the system ecologically adjusts to a changing environment.

These difficulties emerge from the fact that frames and habitual learning cycles of diagnosis, invention, production

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and evaluation, become internalized as a way of life, taken for granted. This accounts for a relatively flawless completion of these learning cycles, allowing the company to act in real time and under conditions of uncertainty. Typically "ongoing inquiry and learning" become problematic when central organizational norms become incompatible, a condition expressed through organizational conflict. Argyris and Schon conclude that recurrent double loop learning and "deutero" double loop learning (learning to double loop learn) is very difficult for organizations and very unlikely, given the predominant interpersonal behavior of most members of organizations when they are faced with novel, complex, and/or threatening situations. The work of Argyris and Schon on organizational learning has so far mainly focussed on problems occurring during the organizational steady state, with an emphasis on zero-order performance in which a certain level of performance is maintained, and first-order performance in which performance improves. But how shall we think about what happens and what to do when an entire company faces novel, complex, unpredictable and threatening situations (see for example Ansoff, 1984; Pettigrew, 1985b; and Bower, 1986)?

2.2. Organizing a Major Strategic Change

Corporate transformation. If we apply the work of Argyris and Schon to the phenomenon of a major strategic change combined with major organizational change, then we can predict that: 1] such a transformation will require recurrent
double loop learning; 2] the dominant traditions of "strategic management" and its "critics" will be inadequate to address those problems; and 3] if the steady state is already problematic and double loop learning is troublesome, then a corporate transformation will be even more problematic.

To be sure, some academics and practitioners have tried to find ways to address the dynamics examined by Argyris and Schon. Their approaches constitute special perspectives on organizational learning. For instance, Itami (1987) suggests that successful (often Japanese) companies introduce a dynamic imbalance between a new strategic goal and the resources available, so as to create a creative tension in the firm. Doz and Prahalad (1987, p.73) found that in the electronic firms they studied, some senior managers generated pressure in the organization by "creating a sense of impending crisis". And finally, Pettigrew (1985b) concluded that some senior managers in a chemical company who early on sensed a need for strategic change, quietly kept pushing, and backed off in the face of opposition, until "an environmental crisis precipitated a rapid change" and the company was "falling off the cliff". The central idea behind these strategies is that in a crisis situation, defenses and political games are suspended temporarily for the sake of survival and create a window of opportunity for change. But these authors also indicate that habitual organizational defenses and games return soon afterwards and get in the way of implementation.
In most of these cases, the costs of these strategies are very high (e.g. see the stories about chemical companies in Bower, 1986). The pattern that develops is one of a long decline in performance, of getting progressively stuck, in which competitive strategies no longer work no matter what the company does, until a performance crisis sets in after a business cycle has peaked. But the company does not have the information to develop radically new and adequate strategies. Prior to the crisis a "continucus battle" would take place between "production czars" and the corporate level. Corporate would get cost information that was biased and unreliable, according to Bower, because of the narrow self-interest of traditional engineers who do not think strategically, who are in love with equipment and satisfied when it does not blow up, who do not have the talent or disposition to question the premises of the business they are in, who fight for market share, and who tend to take their knowledge for granted. But these attitude, Bower acknowledges, were in part fostered by the corporate center. For instance, the center 1] would not give the "czars" the information they would need to think strategically, or 2] would give them a lot of information about problems over which they had no control, leading them to develop a negative bias against corporate information, or 3] had trouble measuring their performance. As a result, the corporate center needed outside consultants to provide it with adequate information about the industry and about
itself. But consultants have to rely on "the czars" and their people because they have information relevant to a new strategic design, and they are also the ones who are going to implement the new design. Part of Bower's solution is a "purge", and a major organization change from a corporate bureaucracy to a "small, flexible, elite corporate center that plays the role of coach, sponsor, surgeon and architect". But this type of structural intervention does not address the reasons that led to this situation and that made it difficult to engage in double loop learning. And, as Bower predicts, strategic trouble is unlikely to go away and will place new demands on the organization. Hence, the costs of not addressing detrimental organizational dynamics and of finding ways to temporarily circumvent them are truly staggering. These costs are 1] the costs of delayed confrontation of the problem, 2] the costs of finally addressing the problem, of cutting losses and "stopping the bleeding", 3] the future costs that result from limited learning.

**Delayed learning about a new strategy.** Strategic learning within the two prevailing perspectives means either 1] learning by a few people to think in a new way about the environment (the "deliberate strategy" advocates) or 2] learning a new pattern of behavior (the "emergent strategy" advocates). It means learning a new strategy, be it a new plan for action or the action itself. But strategic learning in these examples occurs in the form of delayed reaction to changes in the
environment because of organizational resistance, which adds a level of complexity as the major strategic change takes place. The result is abrupt ecological adjustment, even though changes in the environment had been visible for a long time (Bower, 1986; Pettigrew, 1985b; Doz-Prahalad, 1987; Mintzberg, 1987; Miller and Friezen, 1984).

Why, then, did strategic learning not take place earlier? These are some of the answers given: It took the CEOs a while to realize that no competitive strategy worked and that it was not their fault (Bower). They also did not have the right information for their organization (Bower). Internal politics required waiting for a crisis before acting (Pettigrew).

2.3. Dramatic Strategic Change and Strategic Learning

Strategic learning as learning strategically. If Bower’s and Pettigrew’s chemical companies had been better and more quickly able to deal with a changing corporate context, the advantages would have been enormous. Change would not have come as a dramatic shock, as happens when a company engages in change after a long delay. Such changes are preceded by prolonged periods of decline (Bower; Pettigrew). "Gestalt" shifts in the environment, whereby everything important seems to change at once, are critical but also easily detectable (Mintzberg, 1987). Competitors seldom launch frontal attacks and make strategic mistakes themselves, leaving time to react (Doz and Prahalad). The real challenge, according to Mintzberg, lies in detecting the subtle discontinuities that may
undermine a business in the future, that are unexpected and irregular, and essentially unprecedented. These can only be picked up by minds that are attuned to existing patterns yet able to perceive important breaks in them (Mintzberg, 1987). And some senior managers in the firm sense the need for strategic changes early on (Pettigrew and Doz-Prahalad).

Thus, the "dramatic" aspect of change when the company gets into a "turbulent" environment or is forced to face its "stuckness", is largely of the company's own making. We might say, that while such companies learn new strategies, they do not learn strategically. That is, they do not create a kind of inquiry that allows them to be on top of a major change in the environment. Given the picture painted by authors in the new field of major strategic changes, strategic learning should be pro-active, in the sense of learning about how the company learns about a new strategy and correcting errors in its way of learning (see also Normann, 1985).

Strategic learning requires not so much the "design of an idealized future" as such (Ackoff, 1981), but inquiry into what prevents the company from allowing those sensitive managers, who have some -- albeit vague and sometimes incorrect -- sense of coming changes, to be heard. It is not that most company members in divisions do not and cannot think strategically (Bower, 1970, 1986), but they might hold wrong assumptions or assumptions different from those of top management. In such cases, portfolio planning as an educational
tool (Haspeslagh, 1982, 1983; Hamermesh, 1986; Bower, 1986) will contribute to strategic thinking, if it is combined with an effort to surface, challenge and test ideas that managers already have. In doing so, those members who do not "thinking strategically", may begin to do so.

If a company could get into contact with the "strategic thinking" already going on among its own members, it would be in better and closer touch with environmental trends, see these in the context of the company's resources and act in a timely fashion. With more accurate ideas about the environment and a better flow of ideas, the company would be better prepared for changes and have better cost information. In addition, the company could introduce changes much earlier, getting ahead of and not merely reacting to crisis. That would constitute real strategic learning, which is what I shall call "learning strategically".

What kind of inquiry does it take? What prevents company members in an organization from getting access to strategic thinking that is already going on, and what kind of inquiry would it take? There are three possibilities for beginning such an inquiry.

First, in the steady state prior to a crisis, and as advocated by Argyris and Schon (1978), levels of trust and interpersonal competence can be established among key managers as well as a repertoire of action strategies to deal with detrimental organizational dynamics. When the company
faces threatening, complex, novel, and unpredictable change, company members are prepared to deal with the troublesome organizational dynamics that are likely to emerge. In addition, the company can get in touch with new ideas among its members (Pettigrew, 1985b; Doz-Prahalad, 1987), and address past "strategic errors" and "strategic sloppiness" covered up during periods of growth (Porter, 1980). But sometimes the steady state has taken place over such a very long period, and the company may have been so successful, that under gradually declining conditions, it clings to its "proven" recipes and becomes increasingly more brittle as an organization and unwilling to engage in inquiry.

The second possibility for inquiry into strategic thinking already going on is during a major change. However, change usually take place abruptly during brief episodes (Miller and Friezen, 1984), and releases a lot of internal pressure that has built up prior to change. Some groups may see their chance to unilaterally bring about long overdue changes as they see fit. Under those conditions, groups are unlikely to engage in the cooperation needed for inquiry as well as to create the time-out from day-to-day pressure to conduct it. On the other hand, the company may be caught by surprise and no group may have a ready answer. Under these crisis conditions, a form of on-line and real time inquiry is required.

Finally, after a major change and its accompanying
crisis, a victorious group may no longer see the need for inquiry because its members think that "they have it their way", while others groups may have developed an additional level of distrust. On the other hand, after a crisis the situation may be unclear and detrimental politics may re-emerge, especially if it had been suspended during a crisis.

**Questioning current perspectives.** The idea of strategic learning as an attempt of some authors to address the limits of the perspective they advocate is a "good idea" in that it represents a kind of learning in the first place. But strategic learning cannot just be an amendment in an attempt to "patch things up". In particular, when a major strategic change is at stake and learning becomes problematic, rather than accepting the separation of design and implementation and finding ways to correct it, we need to inquire into how this separation occurs before we can correct it. Therefore, we will inquire into current traditions in the literature, in particular, into the debate about a deliberate corporate strategy or emergent sub-strategies, which we call a controversy between frames. There is no learning without inquiry into mismatches between expected and actual outcomes; hence, we will inquire into how the dominant tradition and its critics see such an inquiry. Closely related to such inquiry is the idea of surprise, and learning through experiencing surprises, pleasant or unpleasant. We will conclude that the separation of design and implementation, of emergent sub-
strategies and their corporate realization stands in the way of such inquiry.

**Frames.** A frame is a way of attending to phenomena in practice, of setting problems, of inventing models, of producing solutions, and of evaluating performance that is internally consistent. The two major frames discussed here -- a deliberate corporate strategy that is then implemented, and emergent sub-strategies that become corporate -- are ideal types. Of all the authors we have discussed and will discuss, none has expressed one of the ideal types in its "pure" form. Thus, not every author neatly fits into one frame. Also some are actively groping for a connection to another frame and have taken up important elements of it. Nor are the advocates of one frame a homogeneous group, in fact, they sometimes seem to argue against one another. Nevertheless, there are groups of authors who share some key ideas that make them different enough from others, and this allows us to specify different frames.

When advocates of one frame develop their ideas, they have usually inquired into activities in practice that they see as highly problematic and which they wish to address. But often those very activities are seen by proponents of the other frame as virtues. For instance, the intuitive shaping of strategy is seen as highly problematic, or at best as very limited, by advocates of the deliberate strategy. Proponents of the emergent strategy, on the other hand, herald it as the
key to strategic change. Conversely, advocates of a deliberate strategy emphasize the importance of corporate strategic intent while proponents of an emergent strategy denounce such intent as "cheap" and unknowable. But at the same time, advocates of both frames express the view that a combination of deliberate and emergent strategy has the potential for powerful strategic learning.

We intend to get underneath these differences and show how each of these frames contains a way of separating strategic design from its implementation in time and place and how this separation leads to an under-appreciation of the importance of surprises, improvisation and inquiry into corporate dilemmas. In particular, we will explore the kinds of inquiry and strategic learning that are advocated or implied in each frame. We will address this peculiar controversy between the two frames by introducing a third frame that has been incubating for a while and which we believe requires serious attention. This frame, "the theory-of-action perspective", focusses on the mismatch between the espoused strategy of a firm and its actual strategy, and on reflective practice, interpersonal competence, and organizational learning. While not addressing the problem of major strategic change by itself, this perspective focusses on the problematic nature of everyday professional practice in organizational settings and points to the limited learning capacity of organizations, even in a steady state.
2.4. The Case for Implementing a Deliberate Corporate Strategy

Authors who contributed to the development of this frame come from three corners: 1] "planners" like Ansoff, Ackoff and Porter focus on a theory of formulation of strategy; 2] "administrators" like Andrews and Bower are more concerned with a theory of implementation, or administration if you like; 3] Pettigrew and Doz-Prahalad focus on the emergence in the firm of new managers with a new vision who are instrumental in bringing about strategic change. While the emphasis of these three groups is different, together they made up a frame which we call "implementing a deliberate corporate strategy". We will discuss how, according to this frame, 1] the challenge to the steady state leads to "dis-oriented" strategic actions, 2] in response to which the company needs to design a new corporate strategy, 3] which is subsequently implemented and not challenged, 4] while only limited inquiry into the mismatch between design and implementation is required, and 5] the task of strategic learning is split up between the corporate and lower management levels.

Challenge to the steady state. Advocates of this frame wish to address the chaotic state a company comes to after its steady state has been challenged by changes in the environment and is caught unprepared. During the steady state, the company could over a prolonged period adapt to an evolving environment by merely changing its behavior and not the
pattern of its behavior, its corporate strategy. At some time, the company is faced with "rapid, discontinuous change" and a "turbulent environment" (Ansoff, 1984), with an accelerating rate of change leading to solutions for problems that no longer exist in the forms in which they were first framed (Ackoff, 1981). Under such conditions, parts of the organization go different ways. According to Ansoff (1984, p.34):

"Established organizational traditions and experiences no longer suffice for coping with new opportunities and threats. Without the benefit of a unified strategy, the chances are high that different parts of the organization will develop different, contradictory and ineffective responses. Conflicts result, and re-orientation of the firm will be prolonged, turbulent and inefficient."

At the same time, according to Porter, "strategic errors" and "strategic sloppiness" were unchecked and unchallenged by market forces during a period of growth. When the industry matures and competition increases, companies find themselves "stuck in the middle", in that they follow neither a strategy of low-cost production, nor that of a quality leader, nor do they dominate a market segment; sometimes they go back and forth between two types of strategies. They show low profitability, a "blurred corporate culture" and "conflicting organizational arrangement and motivating systems". General managers in such industries tend not to recognize the need for change nor to accept it once it has been identified (Porter, 1980, p.253).

Andrews (1980) points to "freewheeling, intuitive, improvising" senior managers who mindlessly follow "formal plan-
ning, disjointed incrementalism, and blind opportunism" and, in doing so, "outstrip resources", "cause strategic drift", "squander competitive advantage" and "erode corporate competence". Bower (1970) points to a "chaotic situational context" for investment plans in which lower level managers are disoriented without guidance from the corporate level. They are "traditional engineers who do not think strategically i.e. do not 1) perceive major trends in environment 2) relate these to company resources, and 3) have a sense of timing". They accept erroneous or unchallenged strategic assumptions and, as a result, ill-defined projects emerge through various levels. These projects are often developed in a highly protective context within divisions and heavily delayed. They leave top management with saying "yes" to "faits accomplis" and lower level managers "running a business in a given industry rather than running a profitable business". Within such a context, "intervention" by top management is experienced at lower levels as "interference", decentralization comes to mean de facto abdication, and, as a result, a rather mechanistic, bottom-up capital planning process comes into being.

Both Andrews (1980) and Bower (1986) warn that the task for the CEO is of "daunting complexity" and that if the company does not competently address its strategic management process and guard its strategic integrity, government may intervene with "lawyers and economists less informed about
the industry and without experience in the particular business".

**Corporate strategic design.** Some advocates of the "deliberate strategy" frame see the "chaotic situation" as a "disease", see themselves as "doctors" engaged in "clinical" research, and come up with "prescriptions" for how the corporate office should address the patient (for an eloquent example see Bower, 1970). At the core of their prescription for dealing with the "daunting complexity" is the design of a deliberate and explicit concept of corporate strategy. Central to the prescription are a few decision rules: 1] no strategic action to take advantage of a new opportunity is taken before the (new) design is completed (Ansoff, 1984); 2] once the design is completed, no opportunities are exploited that do not fit the concept of strategy (Andrews, 1980); 3] if the company encounters a new and unexpected opportunity that does not fit the strategy and to which it is nevertheless attracted, then it should first go through a process of deliberation to see whether it can come up with a concept of strategy that fits the new opportunity; 4] if it can not formulate such a concept, then it should not take advantage of the opportunity.

A good example of how these decision rule could work is provided by Andrews (1980, p.21-22) when he discusses the acquisition of Hamm's Brewery by the Heublein Company. It turned out to be a failure and he suggests that the move was
inconsistent with Heublein's corporate strategy. Even though the concept of that strategy was not clear in the mind of the Chief Executive, Andrews hypothesizes that the concept was in his experience as well as in the pattern of the company's past decisions, and he therefore could and should have known it. He concludes that if Heublein had had a more explicit understanding of itself, it would not have made the move.

A concept of corporate strategy is formulated through a process of "search" and "analysis of alternatives", leading to an accurate perception of the company's distinctive competence, the expected opportunities in the evolving environment, and the weighing of alternatives based on the assessed risks and the aspirations of management. A "clear, coherent and consistent" concept provides a "simple practitioners theory" for addressing "the welter of day-to-day operations".

Porter (1980) adds that in order to get the company unstuck, it need to go beyond understanding its own experience. It needs to map the complexity of the underlying economic structure of the industry, understand its position and choose its own version of one of three generic strategies: cost leader, quality leader, or domination of a segment. This is followed by "sequential choice" among expected opportunities. One of the key assumptions underlying this way of thinking is that "one strategy is superior to all others on all dimensions and should dominate corporate activities" (Bower, 1970). The result is a long-term fit with a changing environ-
ment. If the company follows this prescription, it will eventually become aware of new opportunities, develop its distinctive competence and corporate identity, gain competitive advantage in defendable niches, and reap sustained profits. Bower adds that in the case of a highly decentralized company with highly specialized (often high tech) units, the corporate level sets broad financial goals and policies and provides its units with business information. Through a process of breaking down broad goals into unit goals, each unit designs its own strategy, in much the same way as the corporate level went about doing it.

Implementing the concept of corporate strategy. In order for the company as a whole to achieve a unique fit with its environment, to develop competence and a competitive advantage, its activities should be tightly coupled. Implementation is geared toward achieving "harmony" (Andrews) between the parts of the organization. Once managers of the organization have participated in the strategic design process (Ansoff, Ackoff, Andrews), and implementation has "inter-penetrated" design, then actual implementation is achieved through organizational design.

By changing the formal structure, the compensation systems, and the information and control systems, the corporate level can control and adjust the "structural context". Through a structural context that is congruent with the new concept of strategy, and by making sure it is internally
consistent, the corporate level can elicit "desired behavior" (Bower, 1970) and the rest of the organization will implement the new strategy. Against the background of the explicit concept, members can now begin to engage in limited experiments and improvise on the explicit strategy.

Inquiry into mismatches between design and realization. Advocates of the deliberate frame give limited attention to inquiry into the mismatch between strategic design and its realization. Their definition of strategy tends not to make a distinction between the concept of corporate strategy and the pattern of strategic behavior. They usually confine themselves to single episodes of change, and devote little attention to the question of whether the intended strategy is actually realized. An exception is Bower (1970) who acknowledges that the formulated strategy of a unit is the outcome of a political process. If the corporate level does not get the strategy it wants, then it may intervene by changing the structural context and key managers. But even Bower stops at the point when the strategy is formulated and does not inquire into whether the company actually realizes its strategy or how it deals with mismatches.

Strategic learning. Within this framework, strategic learning takes on a special meaning differentiated by organizational level. The corporate level "thinks strategically" and learns about the environment and the company's competence in view of the aspirations of its managers and their willing-
ness to take risks. The business units learn to produce "de-
sired behavior". Hence, we see a separation of strategic
thinking and doing, of strategic design and implementation,
both in terms of time and in place in the organization. In
addition, there is a partly implicit, partly explicit separa-
tion between "generalists" and "specialists", between busi-
ness strategists and engineers and other professionals, be-
tween professional management and other professions.

Discussion. From the point of view of inquiry and stra-
tegic learning, one implicit assumption of this frame is that
during implementation the strategic design remains unchal-
 lenged. Second, various error-inducing loops in the steady
state remain unaddressed and their presence will not affect
implementation. Third, as a consequence of these assump-
tions, the separation of strategic thinking and doing may be
a self-fulfilling prophecy.

First, by focussing on the formulation process during a
single episode of change and not clearly distinguishing
between a formulated strategy and a pattern of corporate
behavior, this frame leads to an under-appreciation* of the

* Ansoff [1984. p.25] discusses the idea of strategic surprises when the company's monitoring system of the en-
vironment missed a change in the environment. He prescribes
that if the company expects surprises, then it should set up
a "formal surprise management system" so that "when the sur-
prise arrives" it can deal with it. The problem with sur-
prises is that they are by definition unexpected and the com-
pany does not have a ready answer because it does not know
the nature of the surprise, and often it depends on scattered
information from all around the company in order to detect
and make sense of surprises.
role of surprises, of creative improvisations, of mismatches between design and implementation, and of challenges to a strategic design that occur during its implementation. In addition, there is also little or no attention given to the question of dealing with persistent "undesired behavior". Finally, under conditions of highly competitive pressure, a company may not have the time to go through an entire process of deliberation when it is confronted with an unexpected and attractive new opportunity.

Secondly, during the steady state all kinds of error-inducing loops are prevalent (Overmeer, 1983). For example, Bower reports how a vicious cycle emerged in which abdication of top management in a decentralized company led to dis-oriented behavior and a lack of strategic thinking at lower levels, in turn leading to ill-define projects that came in too late, and to which top management could only say "yes". Bower (1970) reports how both top management and lower management found ways to "beat" the cycle. The CEO had very indirect ways of saying "no", leaving the lower-level managers essentially "in the dark" (p.59-60), while low-level managers were able to get the capital investment of an entire plant approved on working capital budgets (p.15-16). These games are unlikely to go away, and they re-emerge as soon as either party feels in some way boxed in by "the system". Argyris (1985) has described these error-inducing loops in detail and called them "defensive routines".
Thirdly, the idea that lower-level managers do not think strategically might be a self-fulfilling prophecy. If, as Bower (1936) has suggested, the corporate level thinks strategically and "production czars" do not get enough information from corporate to judge their business in strategic terms, or they get a lot of information in financial statements about matters that are essentially beyond their control, then they begin to care less about concerns of the corporate level and devote their attention and energy to making sure that their "plant does not blow up". Their increasing ignorance of how their activities make sense from a corporate point of view, makes it less likely that they will make the effort to understand the figures anyhow. Efforts of corporate to curb the production czars' investment might easily lead to defensiveness ending in the "battles" that Bower reports. As a result the "czars" increasingly lose sight of the strategic aspects of the corporate context in two ways. They have less access to those aspects and frame information about the corporate context as coming from "the head office" in a pejorative sense of that term. This in turn reinforces corporate's ideas that "production czars" do not think strategically, inducing corporate to plan even more, which lower-level management sees, in turn, as further interference.

Finally, there is no evidence in the literature on how well prescriptions based on this framework. Ackoff (1981, p.240), for example, reports that when he introduces his
ideas about planning to a company, he gets reactions such as "we have already done that", "we don't have the time for that", and "we are different". How do researchers, consultants, and CEOs deal with such everyday responses?

2.5. The Case for Corporate Realization of Emergent Substrategies

Authors who contributed to the development of this frame, come in three groups: 1] those who advocate a form of "logical incrementalism" under non-crisis conditions, such as Wrapp and Quinn; 2] "quantum leap" proponents, mainly Mintzberg, Miller and Friezen, who suggest that corporate development takes place in occasional leaps and bounds; 3] "evolutionists" such as Weick, Burgelman and March, who seem a gradual adaptation to and a close fit with environmental changes. Within this frame, its proponents maintain that: 1] in the steady state too much design by the corporate level is a problem for creativity at lower levels, 2] emergent substrategies at lower levels are a source of creativity, 3] such strategies consequently become (part of) the realized corporate strategy. We will also see however that: 4] inquiry into problems of corporate realization is limited, and 5] any change might constitute strategic learning.

Too much design in the steady state. Most authors within this frame argue against what they see as the detrimental aspects of the frame of deliberate corporate strategy, in particular the rigid planning and control activities that spring from it. Hence we have labelled these authors "the
critics". For instance, Quinn (1980) observed that the most important and innovative projects -- the sources of strategic change -- take place outside the formal planning process, a finding confirmed by Haspeslagh (1982, 1983) and Hamermesh (1986) who are more disposed to the deliberate strategy frame.

According to Mintzberg (1987), one of the most outspoken critics, "the concept of strategy is rooted in stability" and "the very fact of having a strategy and especially of making it explicit creates resistance to strategic change". As a result, managers "cry wolf too often", thereby desensitizing the organization. The strategic process becomes "over-managed" and new, emergent activities are foreclosed by imposing an artificial consistency. But Mintzberg observes that strategic change typically only takes place intermittently, i.e. in leaps and bounds, and that it is often only temporary, or that it is not clear where it is leading.

According to Mintzberg, strategic failure occurs when managers are too obsessed with either change or stability. Similar concerns are echoed by Weick (1979) who warns managers against "meddling in subsystems" and "tampering with the structure. March et al (1972) and March (1981) observe that in the chaotic life of an organization -- "the garbage can" -- problems become solutions, (in part) resulting from attempts to "impose arbitrary changes" on an organization that is "an ecology of competent responses" to a changing
environment. Mintzberg (1987, p.67) goes a step further and maintains that the idea of a collective intent is impossible, and while it is habitually attributed to the CEO, it is unknowable. He wonders how we know what the intentions really were? And if they were made explicit, can we trust them? He concludes that "intent is cheap", that planning is devoid of action, and that if a strategy fails people say that it is the implementation that failed, while actually it is the formulation that is inadequate. Finally, Bourgeois and Brodwin (1982, p.25) suggest that CEOs fear to lose control over the strategic initiative if it is left to the lower levels.

Emergent strategies as the source of strategic creativity. Advocates of the idea of emergent strategies see the "chaos" at lower levels as a source of creativity. Quinn (1980, 1985) sees innovative projects taking place in a "chaotic .. random .. probabilistic setting" in which "you can't tell in advance" what will be successful. Also, divisions have a "different pace" and are in "different phases" with their innovative projects. Thus, it is nearly impossible to design a deliberate corporate strategy for the entire firm. Mintzberg and McHugh (1985) advocate a "grassroots" approach to strategy "formation" -- rather than formulation -- in which a strategy can develop anywhere in the organization. "Formula-

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tion rather than planned in advance. Somewhere in the organization, someone may begin to break away from an established pattern of action. It is only in retrospect -- after having done it -- that the fact can be established. The proliferation of the improvisation does not need to be managed.

Weick (1979) follows a similar line of reasoning when he states that "natural control and coordination" are built in "collective structures" that can become more complex than anybody can grasp. People are not aware of this control process, and don't need to be. Without access to their private "enactments", they tacitly and unintentionally build a loosely coupled system. Following this reasoning, Burgelman (1983a, 1983b, 1984) sees internal corporate venturing as "autonomous behavior" that does not fit the corporate strategy. Lower level managers engaged in corporate venturing learn by doing and learn from doing. After the fact rather passive corporate managers "rationalize (the venture) retrospectively" by incorporating it in the overall strategy. He calls this a process of "social learning".

**Corporate realization.** Central to the process by which emergent strategies become deliberate is Weick's metaphor of a "breeder" who "artificially selects" responses of the reproductive system after it has produced "mutations". While not all authors mentioned above use these terms, they seem to capture these authors view of the corporate realization of an emergent strategy. There are three versions on this theme.
First, according to Bourgeois and Brodwin (1982), strategic activities generate energy and managers have a natural inclination to develop new opportunities as they see them in their day-to-day activities. Following Bower, Bourgeois and Brodwin believe that this energy should be "harnessed". Different from Bower, they believe that CEOs have limited ability to elicit "desired behavior" but rather are dependent on projects to which lower level managers are committed. If such project were not allowed, managers would resign. Wrapp (1967) calls this sort of process "muddling through with purpose": a CEO deliberately appears imprecise, seldom challenges, walks through "corridors of comparative indifference", waits until a new corridor opens and as he goes along discovers "new combinations". Quinn (1980, 1985), building on such ideas, spells out "managing controlled chaos". According to Quinn, a CEO establishes broad policy goals, guides a process of "random" generation of multiple emergent innovations, and keeps track of each innovation as it incrementally progresses. The CEO studies the emerging pattern of innovations, refrains from committing himself, keeps his options open as long as possible in order to retain flexibility, and gradually specifies goals as the innovation progresses. At the latest possible moment, he commits himself, killing some other projects, and keeping some on a back-burner in case the selected project fails. In this process, "failures are hidden" (Quinn, 1985) and early ideas cannot always be
brought into the open because they are too fragile (Doz-Prahalad*, 1987).

A second way of thinking about corporate realization of emergent sub-strategies is proposed by Mintzberg and McHugh (1985) along with Miller and Friezen (1984). They take the reasoning of Bourgeois and Brodwin, Wrapp and Quinn, who described this process in non-crisis conditions, a step further. According to Mintzberg et al, an emergent strategy may remain dormant for a long time, until the "fit" between the environment and the present configuration of strategy and structure -- called a quantum state -- becomes obsolete. Quantum states are the result of "Darwinian forces" in the environment which allow only a few organizational forms to survive (Miller and Friezen, 1984). During a brief interval of revolutionary change, the company makes a "quantum leap", i.e. the emergent strategy becomes a (deliberate) corporate strategy, and the company settles into a new "quantum state". Old strategies remain available as a repertoire to be drawn on when necessary. Thus the company pays sequential attention to goals of stability and change and develops in leaps and bounds, with spurts and pauses. In the most effective companies, according to Mintzberg, the CEO frames an umbrella strategy, and leave its more specific formulation to im-

* Though their main contribution is to the "deliberate strategy" frame, some of their ideas pertain to the "emergent strategy" frame.
plementors. This image is confirmed by Pettigrew* (1985b) and Doz-Prahalad (1987). These authors describe "emergent" managers engaged in an "additive, intuitive, occasionally opportunistic conditioning process of small interventions through which they amplify natural organizational processes" and "mobilize the environment" to bring about a change by "creating a sense of an impending crisis".

A third way of thinking about the corporate realization of emergent sub-strategies is proposed by Weick (1979) and March (1981). They believe that it is possible for a company to keep a close fit with the environment. According to Weick, a breeder can become the artificial environment for the reproductive system. Such a breeder does not "tinker" with the structure of the system, but only with what he does himself. Through "deliberate, methodical, plausible and sequential interventions", he mediates between the natural environment and the reproductive system. That system does not always unfold by replication; at times it generates a "mutation" which is then selected and further fostered. Sometimes "unjustified behavior" of the "breeder" may lead to new responses. The decision rule for the breeder is "win stay, lose, change is enough", i.e. as long as his behavior is successful in mediation between the environment and the system, he continues. If he fails, then he tries something

* His main contribution is to the "deliberate strategy" frame, some of their ideas pertain to the "emergent strategy" frame.
else. Through this "winnowing" process the "breeder" may be able to combine old responses in a new way, or discover previously unnoticed responses. The core prescription is strategic "ambivalence": do not compromise between rival responses, but let them exist simultaneously in different parts of the system, or let them emerge sequentially in the same part. This prescription is thought to enhance short term adaptation and long term survival. Finally, March (1981) concludes that "change depends on a few stable processes", and that "locally adaptive changes may produce surprising outcomes when an incomplete model of causality is confounded by experiential learning". In his view, a "breeder" may "unobtrusively" influence the course of events by managing a change process, "by stimulating and inhibiting predictable complications and anomalous dynamics, by timing small interventions that are amplified by natural organizational forces on the basis of a few rules".

**Inquiry during the process of corporate realization of an emergent strategy.** There are several key features to the kind of inquiry advocated by authors contributing to the frame of "emergent sub-strategies". One of its central tenets is that "private enactments" (Weick, 1979), i.e. the ways individuals bring knowledge to bear, are inaccessible because individuals themselves are unaware of how they do it. Or, framed differently, "knowledge is tacit" (Mintzberg, 1987). Because of this assumption, individual behavior seems diffi-
cult to influence. Linked to this assumption are Quinn's recommendation that "failures are hidden" and Weick's maxim "win stay, lose, then change is enough".

Weick and March do not give descriptions of how their individual "breeders" actually go about doing their work, nor do they provide evidence about how their own prescriptions work in actual practice, or how and to what extent "breeding" works in a collaborative effort. Through the writings of Pettigrew (1985b) and Doz-Prahalad (1987), we get a sense of such "breeding" if it is not a collaborative effort. "Breeding" may end up in a long-protracted process of internal politics, in brittle organizational contexts. Hermon-Taylor (1985) describes this "higher order of political competence" that succeeds at times in "bypassing ... undiscussable changes", i.e. "changes that not only threaten" but also make people "uncomfortable" because they force people to "expose their reasoning for feeling threatened". But, according to Hermon-Taylor, going this route comes with a high price. The company ends up with a compromise after all. Few people have the competence to pull it off. It is easy to make a mistake. Mistakes are often fatal to forward movement. The process reinforces features of the organization that resisted change in the first place. Yet frequently an organization finds itself "stuck within the zone of indifference", i.e. "it has no viable strategy alternative left that satisfies the threshold of desirable or required change", a situation also described.
by Bower (1986).

**Strategic learning.** Within this frame work of emerging sub-strategies, strategic learning may take the following forms. "Formulation and implementation merge into a fluid process of learning through which creative strategies evolve", according to Mintzberg (1987). Strategic learning takes the form of doing something "without being able to tell" how, often in response to a change in the environment. Strategic learning might also mean a change in the pattern of corporate behavior after a "quantum leap". Or strategic learning might mean the learning by a "breeder" who understands the few stable rules that inform change. In all these cases, one is left with the unsatisfactory feeling that any change or understanding may constitutes "learning". What is missing, is a description of a process of inquiry that explains how an emergent strategy become corporate as well as an indication of how are we to tell what has been learned and how it has been learned.

**Discussion.** The advocates of this frame set themselves apart from the frame of a deliberate and explicit corporate strategy with their observation that "too much planning", "too much meddling", and "over managing" is taking place and that much innovative activity takes place outside the planning process in the first place.

But what is it in the way planning is conducted that causes both the corporate managers and the lower-level entre-
preneural managers to go "outside the system"? And if the entrepreneurial managers understand the rules of the game of the new guidance system after a few rounds, isn't that system liable to the same problems as the old planning system? This may be all the more so because failures remain hidden, some projects are killed, and other remain on the back-burner. Such are threatening to all participants and protective dynamics are likely to occur, followed by more guidance, etc..

Also, in its most "undeliberate" form advocated by Mintzberg, an emergent strategy might be one that has already been tried; someone may be "re-inventing the wheel". Finally, as Mintzberg himself suggested, it is hard to give in to every impulse. One would get a blindly improvising firm shifting with the winds in a harshly competitive environment, the kind of firm abhorred by Andrews.

Thus we see that the dynamics around projects that do not "fit" somehow are likely to lead to a separation between corporate strategic design and a series of emergent sub-strategies. This separation is grounded in the central idea of inaccessible tacit knowledge, or "private enactments" that leads to uninfluencable lower-level actions. Thus the core problem for authors working within this frame becomes the problematic intervention by the corporate level into activities at a lower level. At this level, activities are carried out by managers who feel vulnerable when they have to expose themselves with their ideas that only half formed and
that can easily be rejected. This problem is aggravated by
the fear of loss of strategic control by the corporate level
(Bourgeois and Brodwin, 1982).

2.6. A Theory of Action Perspective

The theory of action perspective for organizational
learning has been developed by Argyris and Schon (1978). In
addition, two distinct but connected "branches" have developed,
one about reflective professional practice (Schon, 1983),
and one about organizational defensive routines (Argyris,
1985). As mentioned in the introduction to this chapter, the
proponents of this frame focus, in contrast to the two frames
presented before, on the individual and organizational abili-
ty to learn about learning. Key to learning to learn is the
ability to spot mismatches between intent and realization, to
detect and correct error. While this frame focuses on steady
state performance issues and not on major strategic changes,
it is nevertheless relevant for our exploration of strategic
learning. In particular, the idea of deutero double loop
learning, in which an organization engages in a process of
learning to learn, is a necessary condition for strategic
learning in the sense of learning strategically.

Limited learning in the steady state. Like proponents of
the other two frames described before, Argyris and Schon
focus on the relation between the corporate and lower level
managers. In the case of Product X, an "implementation
problem", top management became aware of a serious problem
long after lower level management knew about it. An inquiry revealed that middle management "sanitized" memos of lower level managers memos and "prepared doses of bad news" for top management. As a result the messages of lower level managers never got to the corporate level. While top managers were still glowing about the new product, lower-level managers increasingly got bewildered and gave up. This "disoriented" behavior was produced by the collectivity of members without their being aware of how they did it. The behavior was not merely an "implementation problem" but the result of interactions between various levels of the organization, including top management.

When dealing with the problem of "corporate realization of an emergent strategy" in the Mercury Company, long term efforts to encourage the emergence of new creative strategies bore less and less fruit. A consultant's inquiry revealed that emergent strategies, in the form of new products, failed when they were not in line with the main corporate businesses, and stories about failure were buried. On the other hands, when products were successful, existing businesses had to be regrouped, which divisions resisted. This in turn led to new emergent strategies outside the scope of the main businesses, which were subsequently rejected. Nobody in the organization understood the reasons for not achieving intent. Information was buried, and scattered among many members, who each had only a fragment of the puzzle. Ineffective inter-
personal behavior under threatening circumstances, geared to unilateral control and protection of one’s own task, prevented members from engaging in collective inquiry. As a result, the company had no access to its practice of how emergent strategies were or were not becoming part of a deliberate corporate strategy. The mismatch between the company’s espoused theory ("this is how we get successful projects here") and its theory-in-use (successive failures of emergent strategies) was undiscussable. How could this happen?

Argyris and Schon propose that a company’s actual task system includes a collection of practices informed by theories of action with which the organization members try to explain, control and can predict organizational performance. Theories of action are divided into espoused theory (what members say is the case) and theory-in-use (what is actually the case). The collection of theories-in-use make up the company's distinct competence, which is embedded in the collective patterns of action of various professionals (and other members) in the firm. These patterns are internalized and to a large extent taken for granted, thus becoming a way of life. This allows the company to bring its competencies to bear on issues and problems in real time. It is this global, instrumental theory-in-use that accounts for the corporate identity and continuity.

Organizational theory of action has a few characteristics
central to an organization's capacity to learn: 1] the theory-in-use component is usually largely tacit; 2] members may not have access to it because they can do more than they can tell; 3] its incongruence with espoused theory may be undiscussable, and this undiscussability may be undiscussable; 4] a theory-in-use can change considerably over time without a deliberate effort, e.g. when members resign or new members are recruited, while the espoused theory remains relatively stable, and vice versa; 5] information about the effectiveness of a theory of action is usually scattered around the organization, especially if it has been a way of life for a prolonged period of time; 6] as a result of gradual and "natural" organizational processes of decay and entropy, serious inconsistencies in theories-in-use may develop, leading to incompatible norms for performance and a steady state that is not merely a matter of routines unfolding unproblematically (see also Weick, 1979); 7] incompatible norms come to the organizational fore through organizational conflict.

Prevailing norms, assumptions and strategies for interpersonal and intergroup behavior (the organization's behavioral world) may prevent members from addressing these conflicts, getting underneath their differences, and restructuring the theory-in-use in question. Members of the organization, as illustrated in Argyris and Schon's examples, may be unaware of the mismatch between an espoused theory and
the theory-in-use, and unaware of their unawareness. except perhaps for a gnawing feeling that something is wrong. Although this double unawareness does not prevent the learning or unlearning of new elements of a theory-in-use, it does prevent members from willingly changing the theory-in-use when it is required, e.g. in the case of a major strategic change. Such a learning process may work in a stable or slowly evolving environment, but it is a costly, relatively ineffective and risky way of learning in dynamic, unpredictable, complex, and novel environments.

Three kinds of inquiry. Argyris and Schon propose three kinds of inquiry to get access to theories-in-use of the firm. All three come down to individual and joint reflection on reflection-in-action, i.e. reflecting on thinking in action. In this sense, it is an answer to Weick's (1979) provocative question "How can I/we know that I/we think until I/we see what I/we do?". Argyris and Schon's answer to this question is: by inquiry into thinking while doing, on reflections-in-action.

First, according to Schon (1983), managers and other professionals in organizational settings not infrequently display an extraordinary competence in addressing unique problems under conditions of uncertainty in their everyday practice, called reflection-in-action. However, while practitioners can do it, they usually cannot tell how they do it. Hence,
* while reflection-in-action is practiced, reflecting on reflection-in-action is rare,
* their knowledge remains private and inaccessible to others,
* they have little access to their own reflection-in-action,
* hence they cannot describe it,
* hence they cannot teach it,
* thus transfer only occurs by "contagion".

Schon's findings are confirmed by Isenberg (1986), who found that when he just observed managers, their "behavior-without-words" seemed chaotic, "an undifferentiated stream of apparently random, brownian motion" (see also Mintzberg, 1973). But if he asked managers what they were doing, he heard "carefully orchestrated plans", "words-without-behavior". Finally, when managers were asked to account for the difference between the "chaotic action" and the "orderly plans", they were often at a loss. In organizational settings, a variety of professionals do work in collaborative projects such as internal corporate ventures in which access to their practice is of crucial important. Schon demonstrated through protocol studies that it is possible to get access to practitioners thinking-in-action when they are faced with unique and uncertain situations.

Secondly, Argyris (1985) studied the way consultants helped corporations design new strategies. He noticed that, at threatening moments during the design process, defensive routines are triggered instantaneously and automatically, which are taken for granted, but severely affect the quality of the design as well as its implementation. He summarizes
his findings roughly as follows:

* Key individuals agree on important causes and solutions to critical problems,
* but if they try to implement good intentions, it results in failure or mediocrity.
* They are able to describe the characteristics of a rigid organization, and
* they agree they must build a new one relatively free from those characteristics,
* but if they get the resources to do so, they recreate the same organizations.
* They have no trouble spotting defensive actions with others, but do not recognize the counter-productiveness of their own defensiveness.

Argyris demonstrates that it is possible to put a finger on defensive routines as they occur, that it is possible to stop and jointly inquire into defensive loops and reasoning processes, and that the ability to do this is learnable by others.

Schon's idea of reflection-in-action and Argyris' idea of defensive routines are connected, and in effect, two sides of the same coin. If practitioners have no access to their actual practice, then it becomes undiscussable. But professional practices are rarely if ever matched to novel, uncertain, complex situations in everyday organizational settings such as the shaping of the emergent strategy of an internal corporate venture. Unintended consequences need to be addressed. But if professionals have no access or limited access to their practice, then unintended consequences become very difficult to correct under the pressures of everyday organizational life and thus become threatening. This perceived threat becomes the source of an individual's defensive
routines, which in turn become embodied in the organization. Argyris speaks, for instance, of individual members as "carriers" of defensive routines and of organizations as "the hosts". Once an organization becomes "infected", it becomes a "carrier" too. Defensive routines, their cover-up in the form of mixed messages, and their bypassing, are like "pollution". Initially "pollution" can be ignored and shoved aside but this has unintended consequences. It remains in the "ecological system" and at times of major strategic changes comes to haunt the company.

Thirdly, Argyris and Schon (1978) emphasize that double loop organizational learning is only possible if members engage in joint inquiry so as to put together the scattered information pertaining to a theory-in-use. But such a task is novel, unpredictable and highly complex all by itself. Not only do members have to get access to their own practice: they also need the interpersonal competence to produce valid information based on free and informed choice, as well as to face the possibility of ingrained defensive routines and layers of bypass routines designed to cover them up, and cover up the cover-up.

**Strategic learning.** If members are able to engage in such novel, unpredictable, highly complex tasks, then this would seem an excellent preparation for an equally "daunting and complex" task of bringing about a major strategic and organizational change. It would also seem an excellent
training ground for general management, a problem of special concern to Andrews and Bower. Thus, the capacity to recurrently double loop learn and to learn about how to do that, is an important and necessary preambles to strategic learning in the sense of learning strategically.

From the point of view of the direction of corporate strategic development, there are additional lessons from Argyris and Schon. First, if theories-in-use are largely tacit and remain unexamined, then the corporation as a collectivity may acquire and lose components of its theories-in-use. This opens the possibility of undermining the implementation of a deliberate corporate strategy, as well as the possibility of inducing the emergence of new creative strategies that have little relation to the corporation's main business.

Secondly, and more importantly, the company might get stuck without being aware of it and without being able to change a strategic frame determined by theories-in-use to which it has no access (see, for instance, the idea of "strategic framebreaking" in Hermon-Taylor, 1985). Conversely, it may be forced into a strategic frame that it really does not want to be in. In addition, a tacitly changing strategic frame may lead to organizational conflicts of which members do not understand the source. In these cases, the formulator of a deliberate corporate strategy is out of touch with what is actually implemented; and as emergent strategies remain
inaccessible, the company may not get the corporate realizations it would like. Such a company has basically no control over its strategic direction and/or lacks strategic creativity, even though its espoused theory might sound very different.

Thirdly, getting and remaining in touch with theories-in-use through continuous inquiry, allows members to keep their fingers on how theories-in-use change, to see patterns of change emerge and to intervene early to make corrections, instead of making "arbitrary" interventions; or, to paraphrase Mintzberg and McHugh's call for grassroots strategy formation, "just let a thousand flowers bloom".

Fourth, once in touch, it is easier to remain in touch, and changes in the patterns of theories-in-use can become signals for a changing environment. To be in touch becomes a way for "getting ahead of change" and truly strategic learning, i.e. in the sense of learning strategically.

Fifth, both Schon (1983) and Argyris (1985) undo the separation between strategic design and implementation. Joint inquiry into a strategic frame by getting to know central theories-in-use can lead to strategic reframing. Such inquiry would involve the mapping of past strategic actions, the inference of patterns in organizational action, and the construction of strategic theories of action from those patterns. Such an inquiry might also include strategic experiments that might alter the company's strategic frame. In
this way, strategic action and thinking feed on each other, and strategic learning in the form of interactive learning may take place. Also, Argyris (1985) showed that defensive routines that plague implementation, are also active during strategic design. Through interrupting defensive routines and reflecting on them, implementation and design can become intertwined.

Discussion. A few closing remarks remain. First, Argyris and Schon not only challenge the idea of separation of design and implementation, implicitly and explicitly; they also challenge the separation between research and practice, an espoused theory at many business schools (Schon, 1983; Argyris, 1985; Argyris, Putnam and Smith, 1985). To do the kind of research in practice on practice that they advocate, the researcher must become a joint inquirer with practitioners. The only way a researcher can spot and test defensive routines is by interrupting them when he thinks he sees them, and testing his attribution. As a consequence, he changes the situation at hand and begins to undo the separation between design and implementation. In addition, getting access to professional practice requires practitioners to become researchers into their own practice.

Secondly, Argyris and Schon focus on the steady state of the company, and its inherent organizational dilemmas, paradoxes, and binds. While the kinds of inquiry they advocate would help prepare a company for strategic changes, and may
help it to get ahead of change, companies will likely still be faced with major changes. For instance, a stunning invention with a fifteen year patent, or a sudden invasion by a foreign competitor, may seriously affect an industrial sector, and may call for a major strategic and organizational change. More likely, companies that do not inquire into their steady state may be faced with major dramatic strategic changes of the sorts described by Bower and Pettigrew. To bring about such a dramatic change constitutes a practice all by itself, with its own theory of action.

Finally, Normann (1985) has suggested that single loop, double loop, and deutero learning may be distributed in the structure of an organization, respectively, to "operating decisions in a given framework", "single strategic decisions" and "strategic management". Deutero-double loop learning would a form of "statesmanship", found at the top of the organization. While it would certainly make for a better organizational learning system if top management had the ability to help the organization to learn about its learning, we believe that sub-systems and lower levels of the organizations may display the same kind of competence and act as cultures of learning in the larger organization.

2.7. Conclusions and Key Questions

Strategic learning as a "good idea". In this chapter we have begun to explore strategic learning as a "good idea" in the context of organizing major strategic and organizational
change. This idea has been used by some authors to bridge the separation between design and implementation, as they explored the limits of their approach to strategic change. But strategic learning as a way of interactive learning to bridge the separation cannot be just an amendment to existing approaches that are grounded in that separation. "You can not get there from here" and we wondered where did these authors come from? We discovered that the meaning of "strategic change" and "learning" very much depended on what an author meant by a strategy. If a strategy is some sort of a plan, then strategic learning means being able to change the plan, that is, to think strategically, and to have a sense of an evolving environment and of the kinds of resources a company possesses, as well as a sense of timing. If strategy means a pattern of behavior, then strategic learning means a change in the pattern of behavior and a retrospective change in the deliberate strategy. When we reviewed the two major frames that address the problem of how to bring about strategic change, we noticed the persistence of the separation between deliberate corporate strategic design and its implementation, and between emergent sub-strategies and their corporate realization. Both major frames lacked a special kind of inquiry: 1) in the frame of "deliberate" strategy, an inquiry into the mismatch between intent and realization, whereby intent may be challenged; 2) in the frame of "emergent strategies", an inquiry into intent and realization
whereby realization may be challenged. In both cases, surprises were mostly ignored. But both surprises and inquiry in response to surprises are ideas central to learning.

The frame of deliberate corporate strategy grounded itself in problematic on-going implementation, when, in a company out of touch with its environment, too little guidance comes from the corporate level and "disoriented behavior" occurs at lower levels. Its central tenets were 1] the collectivity should "think before it acts" and "not act before having thought", and 2] changing the structural context will enable the parts of the organization to generate "desired behavior". The focus here is on a single episode of change during which problems of implementation will not lead to challenges of strategic intent, and, therefore, little attention is paid to actual realization of the design.

The frame of emergent sub-strategies grounded itself in the problematic nature of on-going activities of strategic design, where major strategic activities take place outside the planning process, which is seen as too rigid and productive of too much interference, thereby stifling creativity. Its central tenets are that: 1] knowledge is tacit and inaccessible, and creative action precedes thinking and can begin anywhere in the organization; 2] one learns by doing and from doing and retrospectively rationalizing a deliberate strategy.

Each of these major frames was grounded in a specific
problem in the organizational steady state, either 1) not
enough intervention into and control of lower level activi-
ties for which it was important that a deliberate strategy
should be imposed; 2) too much intervention and too rigid an
imposition of a design. But in that case, a deeper problem
was not inquired into. In both cases, we can ask "what pre-
vented corporate managers from inquiring and intervening?" or
conversely "what prevented lower level managers from con-
fronting the stifling rigidity of the corporate level?" From
a theory of action perspective, it became clear to us that
tacit knowledge can become accessible and can made discus-
sable if people become researchers into their own profession-
al, interpersonal and organizational practice. This frame
enabled us to think of other meanings of strategic learning,
apart from a change in strategic thinking or in the pattern
of corporate behavior, namely: 1) learning to inquire into
organizational processes so as to get "unstuck" and be pre-
pared organizationally when a major strategic change is re-
quired; 2) keeping in close touch with the evolving theo-
ries-in-use of the company and correcting them by continuous
inquiry into mismatches between the company's espoused theo-
ries and its theories-in-use; 3) getting the strategy the
company wants by continually inquiring into its central theo-
ries of action.

Testing ideas. While these meanings of strategic
learning are also "good ideas" by themselves, they are un-
tested. Argyris and Schon (1978), Schon (1983) and Argyris (1985) provide grounds for these ideas, but do not concern themselves in their writings with major strategic changes. Besides, their work is still in the early stages of its development. The few other existing studies of corporate transformations do not take into account the problems of everyday professional practice, though Argyris and Schon have shown these problems to be important for learning strategically.

We predict that without inquiry into performance problems in the steady state of the kind described by Argyris and Schon, and without an organizational capacity to engage in double loop learning, a major strategic change is likely to produce important changes in the espoused theories of action and produce equally important mismatches with theories in use. Without the organizational capacity for sustained double loop learning, a major strategic change, be it the result of a deliberate corporate strategy or an emergent strategy, will produce numerous organizational conflicts. In either case, the company is likely to have difficulties in addressing these issues and we predict that the separation of design and implementation will only be strengthened.

**Questions.** Since no research study is available about how major strategic change actually takes place, and how a company actually organizes itself under conditions like these, this study will provide an in-depth case study. We will assume that 1) an emergent strategy may, but need not
necessarily, become a deliberate corporate strategy; 2) a deliberate strategy can be, but does not necessarily need to be based on an emergent strategy. The case study will focus on four key questions:

1] How did the company actually get into a particular business, and what was the role of improvisation in this process? We distinguish here between limited improvisations, which we define as improvisations on an existing deliberate strategy, and creative improvisations which do not necessarily match an existing deliberate strategy and which can be a candidate for an emergent strategy.

2] How did members of the organization actually organize themselves when the company engaged in the strategic change? How did the company inquiry into the mismatches between design and implementation, and in this process what was the role of surprises? A surprise, we define as an unexpected event for which the company, through its members, does not have an immediate response and which calls for some form of organizational inquiry.

3] How do members say they got into a business, and how do they see their organizing activities pertaining to the strategic change?

4] How can we account for the differences between what actually happened and what members now make of it?
PART TWO: PRACTICE

A Case Study Of The Citadel Group

This part of the inquiry into the organizing of major change presents a case study of how the Citadel Group*, a renowned and closely held family company involved in real estate development and property management, engaged in a major corporate transformation around 1980. It included:

1] rapid growth from a smaller regional firm into a medium-sized, nationally oriented company,

2] a major strategic change -- entering the hotel development and management business and abandoning housing development,

3] a change from an entrepreneurially organized firm to a more professionalized company,

4] the transfer of control over the firm from the founder to the second generation of the family.

Prior to this change, the company had made other major strategic changes. Founded as a construction firm in Philadelphia in 1945 by Joseph and Hank Hadrian, it engaged during the 1950s in housing and office projects. In the 1960s, the firm entered real estate development by doing large urban renewal projects. After the death of Joseph Hadrian in 1972, the firm focused throughout the 1970s on low-income housing

*) It is thoroughly disguised on request of the firm.

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development while developing two office projects.

Chapter Three presents a map of Citadel's corporate behavior over time. It demonstrates how the firm has learned new strategies in a changing context during prolonged periods of steady state punctuated by episodes of experimentation. Based on a view from the outside-in, this pattern of strategic development, competent as it is, also points to questions about the firm's ability to learn new strategies. The next two chapters, Four and Five take a closer look and give an inside-out view of Citadel's major changes, based on accounts of present and previous firm members as well as consultants.

Chapter Four analyzes two episodes of experimentation during Citadel's formation as an entrepreneurial company. It shows how, prior to the major change in the early 1980s, a mismatch already existed between design and implementation of strategy, pointing to a limited ability to learn strategically.

Chapter Five discusses how Citadel set the stage for a transformation toward a more professionalized company in the early 1980s. At the same time as it engaged in strategic change, the company also articulated the separation between the design and implementation of strategy. This separation further increased once the firm entered the hotel market.

Chapter Six presents how firm members were faced with unexpected strategic success as well as intolerable conflict at the time of this study. Their proposals for dealing with
the conflict, all forms of structural intervention, reinforced the separation of implementation from design. As a result, an organization began to emerge with the key features of a corporate bureaucracy.
CHAPTER THREE

LEARNING NEW CORPORATE STRATEGIES IN A CHANGING CONTEXT

Periods Of Steady State And Episodes Of Experimentation

3.1. How To Study Changing Corporate Behavior: One or Multiple Episodes?

To be able to say that a firm has learned a new strategy, its pattern of corporate behavior must have changed. Propo-
nents of the "deliberate strategy" frame confine themselves
to one episode of change, analyze the position of the firm in
its environment, and propose a "repositioning", i.e. a new
pattern of corporate behavior to be established within a
limited time. Proponents of the "emerging strategy" frame
describe actual corporate behavior over several episodes, fo-
cus on patterns emerging in the behavior of the firm and show
how these become responses to changes in the environment.

However, in both cases, as we have pointed out in the
theory chapter, any change in the company's plan or behavior
might be framed as learning and so we find ourselves on a
slippery slope. In this chapter we will begin to address
this problem by studying how the company learns a new strate-
gy and by indicating when and what it does not learn. From
the perspective of an outsider to the company and an insider
to the industry, we will present a map of its strategic deve-
lopment. Reading corporate behavior will lead to inferences
and questions that will guide the rest of the inquiry into
practice. By studying strategic changes over multiple episo-

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des, we will demonstrate that the company did learn new strategies, how it learned, and what the limits of its learning were.

In doing so, the chapter also addresses the validity of some persistent maxims voiced by many in the industry about the nature of their practice. For example, students in the real estate development program in a leading university were quick to point out that "all projects are unique", a professor in the program held that "all companies are very differently organized", and practitioners when ask about their success often claim "it is all location, location, location". Such views either lead to the conclusion that every project and every company is built from scratch or that projects are master strokes in unique situations. In both cases the knowledge informing practice is held to be inaccessible. As we shall argue in this chapter, projects are often limited improvisations on prior projects, allowing the company to bring to bear previous experience and to develop it.

3.2. Conducting A Strategic Conversation With A Changing Context.

Over the last forty years, The Citadel Real Estate Development And Property Management Company has built more than a hundred projects. Earlier projects involved the construction of small repetitive military housing projects near army bases. One of its recent projects, however, integrates offices, condominiums and a luxury hotel into a distinctive,
large-scale downtown redevelopment project. Clearly, Citadel's corporate behavior in terms of the types of projects it undertakes, has significantly changed (See Figures 1 and 2 on the next page).

Change, however, is not merely the result of the unfolding of one emerging strategy or based on a single deliberate corporate strategy conceived early on. Instead, Citadel shows a remarkable ability to engage in repeated strategic changes. Around the middle of every decade, Citadel took up a rather different corporate strategy, dominated by a new type of project. Nor are these strategic changes a set of disjointed emerging strategies or unrelated deliberate strategies. As we shall see below, each type of project developed was in response to changes in the company's context, e.g. changing federal and local government programs as well as the changing stance these governments took on public policy and intervention. Each type of project was also a limited improvisation on a previous type.

We will illustrate how Citadel's changing strategy is both a reflection of the evolving context and distinctive to Citadel. It suggests a remarkable ability to learn new strategies through what we will call "a strategic conversation". We will first present a bird's eye view of this conversation.

A nationally-oriented general contracting firm (1945-1960). Joe and Hank Hadrian started out in 1945 with minor shop remodelling jobs in Philadelphia. However, opportuni-
Figure 1: Similar projects grouped over time

Figure 2: Types of projects over time
ties for growth were limited as they not only faced a stagnant local market, but also a city in which Armenians were but a tiny minority among major contending groups of Irish and Italians, locked out of a lot of business. Against this limited local background, the brothers turned their attention by the early 1950s to New Deal and Cold War inspired federal programs that were gaining momentum. They successfully bid on smaller ($0.5 to 3 M), repetitive projects in neighboring states, ranging from military and public housing, to interstate highway tollbooths and restaurants, and to missile silos and remote radar stations.

These projects were awarded through ethnically blind procedures based on the lowest lump sum price. Citadel, however, avoided harsh competitive bidding based solely on price, by: 1] participating early on in federal programs and leaving them before "the masses came in"; 2] selecting special projects that required additional expertise they could provide; 3] bringing in "managerial" rather than engineering expertise; 4] being "a responsive low" bidder rather "the lowest" bidder.

By the end of the 1950s, Citadel did projects as far away as Nebraska and Puerto Rico. It was growing rapidly and on its way to becoming one of the hundred largest construction firms in the country. At the same time, however, it experienced project control problems in some of its out-of-state projects. In response, it retreated to Pennsylvania and
shifted its attention to negotiated contracts for housing and office projects with private clients.

**A regional urban renewal company** (1960-1972). One of the federal programs of the early 1960s funded the building of Social Security offices ordered by the General Service Administration. It involved a series of small buildings to be delivered "turnkey" and leased back to the GSA. Citadel responded early on, and throughout the 1960s worked on a series of these projects, mostly in states where it had worked as a contractor.

During the first half of the 1960s, the economy of Citadel's hometown began to revive. In response to the relocation of business from the inner city to the suburbs, Citadel pioneered the development of its first tiny suburban office building for its own account. This later became the nucleus of a larger office park.

In an effort to address the resulting decline of the cities and urban "blight", the federal government created financial assistance programs for comprehensive urban renewal. Citadel was once again in the vanguard, and in the late 1960s, it began development of three large-scale, very distinctive urban renewal projects in three Northeastern cities in two states. These projects were financed in part by pension funds and life insurance companies.

**A low-income housing development company** (1972-1979). In the early 1970s, an economic recession triggered a sharp
down-turn in real estate markets, causing the failure of many partnerships and the bankruptcy of a series of over-extended regional development companies. Pension funds and life insurance companies in turn became reluctant to finance real estate.

At the same time, cities were increasingly faced with strong anti-"big government" opposition groups, protesting against "the federal bulldozer" which had eradicated entire neighborhoods. As cities reconsidered their urban renewal policies, they turned to private initiatives for urban redevelopment regulated through zoning, approvals and permitting. Two of Citadel's three projects were failing and the company withdrew from large-scale renewal projects. Instead it settled on two medium-sized office projects; one in downtown Philadelphia and one in its suburbs.

In response to the critique of its comprehensive programs of the 1960s, the federal government created a new program to make low-income housing development more attractive with the idea of filling "spots" in the urban tissue. Characteristically, Citadel jumped in. By the middle of the 1970s, the firm produced a steady flow of medium sized repetitive housing projects in New England financed through private syndication.

An up-front federal subsidy of a million dollars per project helped Citadel refinance the two ailing urban renewal projects and buy out the family of one of the founders, Joe
Hadrian, after his death in 1972. Dave Vacarian, an adopted son from a second marriage of Hank and a Yale Law School graduate, succeeded Joe. Two of Hank's other sons, Dwight and Melvin, also entered the firm shortly thereafter.

A downtown office development company and a hotel development and operating company (1979-1986). In the second half of the 1970s, the federal government withdrew its subsidy of low-income housing development. At the same time, economic activity in Philadelphia increased and the local real estate market improved, in particular the demand for large-scale office projects. Pension funds and life insurance companies regained confidence in the real estate market. Citadel, with a track record of not walking away from ailing projects, could again attract funds. It retreated once more to Philadelphia and, during the first half of the 1980s, developed a series of increasingly larger downtown office projects as well as two suburban office projects. During this time, Hank Hadrian stepped back from day-to-day management and Dave Vacarian became president.

Philadelphia's economic revival was paralleled in other major East Coast cities and not only led to an upswing in the market for office space, but also increased the demand for luxury hotel space. Citadel discovered this demand in Philadelphia in 1980 and 1981 when planning its first large-scale office project. In order to develop the site, it was forced to renovate an existing office building into a distinctive
luxury hotel. When the company was exploring taking on additional hotel projects, it came in contact with a Canadian firm, the Royal Hotel Corporation.

Royal was one of several major hotel chains that was planning to capitalize on the limited and out-moded stock of hotels in the Northeast. It was exploring a hotel concept based on "exquisiteness" borrowed from Europe. Rather than a chain of large "grand hotels", Royal planned smaller but very exquisite hotels with personal service, aimed at the top echelons of private corporations and government agencies, as well as wealthy tourists, e.g. Arabs and Japanese. The idea was to create "a chain that was not a chain" of individual hotels, each having the aura of a "Ritz".

Through contacts with Royal, Citadel discovered the size of the US market and by 1982, it started a hotel program to replace its housing program. As a regional franchisee of Royal, it quickly entered the hotel market in a big way and started developing and operating repetitive (but "distinctive") hotels. The expansion was made possible in part by the deregulation of financial institutions. Citadel's traditional financiers were reluctant to underwrite its hotel projects, but new entrants into financial markets, such as credit card operations from retail and manufacturing companies, were willing to finance the more risky hotel projects. By 1985, Dwight and Melvin Hadrian became general partners in the company.
By 1986, Citadel had opened a batch of five hotels, three of which were "exquisite", and was constructing a second batch, while a third was on the drawing board. Projects were often in states in which it had worked previously as a general contractor, turnkey developer, and housing developer. It had transformed itself into a regional hotel chain company with an increasingly national orientation. However, the parallel expansion of the office and hotel programs had stretched the company to the limits of its financial and managerial resources.

Epilogue, after the study. In order to more quickly gain a critical mass and create a viable hotel chain in the face of vigorous competition, in 1986 Citadel acquired a West Coast-based family-owned hotel company which also used a hotel concept based on "exquisiteness". In addition, when economic expansion of its hometown began to level off in the second half of the 1980s, Citadel began renovating and managing some existing landmark office buildings.

By the end of the decade, Citadel was without new large-scale development projects in Philadelphia and, with an overbuilt hotel market, top management was considering the sale of its hotel division. The firm increasingly began to resemble an investment and property management firm.

3.3. Learning To Change Corporate Strategy.

This sketch in broad brush strokes indicates a remarkable ability to detect and draw on federal and local government
programs as well as private initiatives, and to learn new strategies in response to changes in the context. How is Citadel able to change its corporate strategy? By mapping its behavior, we can hold still a dynamic picture and infer stable patterns within the firm's changing behavior.

**Inquiry and moving on in a changing context: on-going design of strategy.** Citadel appears to be following a limited number of rules for designing a corporate strategy and has internalized with them a particular kind of context.

First, the company is always involved in only two development programs (Figure 3); before 1980, low-income public housing and luxury private offices, and after 1980, luxury offices and exquisite hotels. Second, these programs are

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**Figure 3:** General types of projects over time
geared to more or less counter-cyclical domains of development, in particular prior to 1980. Citadel switches strategic attention depending on the momentum in a domain.

Third, the firm keeps moving in a changing context by responding to changes through developing series of similar projects which in turn make up a type of project typical for Citadel, e.g. good quality low-income housing. Four, the two development programs are broad envelopes or more general types of projects developed by doing several similar types of projects. For instance, Citadel's housing program involved military and public housing construction in the 1950s, private housing construction in the 1960s, low-income housing development in the 1970s, and luxury condominiums in the 1980s. Through each successive type, the company developed existing practices and acquires new ones related to housing, like how to find markets, how to finance, develop and construct housing, how to find tenants, etc. Such a repertoire of practices makes it easier to undertake new types of housing.

Five, against the background of general types, specific types are limited improvisations on earlier projects rather than designs from scratch. This makes it possible to draw on previous experience in the face of change. Six, Citadel stages overlapping projects within the framework of a type of project rather than doing them one by one, or all at the same time. At any one time, it has projects in different phases.
of development; one is being planned, another is under construction, a third one has just opened. In doing so, learning during the first project can immediately be brought to bear on the next project, while the partners can focus on the first phase and delegate other phases to assistants.

Finally, new types are developed against a semi-stable core of three to five on-going types to which it adds new types or drops existing ones. This reduces the overall risk for the company in case of a failing new project. The composition of the core gradually changes over time (see Figure 4 and table below).
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In conclusion, these rules for on-going strategy design permit consistency of corporate behavior over time, focus strategic attention and indicate persistence of intent in a changing corporate context. These rules allow Citadel's members to remain in close touch with new initiatives in a familiar domain of real estate development. They get to know what is going on, gain a sense of direction, get an idea of Citadel's possibilities and limitations, and find new project opportunities. In turn, this allows Citadel to engage early on in initiatives, usually after an initial phase of experimentation in a program, and to withdraw when too many competitors become attracted. Series of projects are thus probes of a continuous inquiry into a changing context, as well as moves to realize a strategy design.

**Internal growth: complementary styles of development.** In addition to rules making an ongoing strategic conversation possible, Citadel's two development programs are always complementary style of practice (Figure 5) generating internal growth. Housing and hotel projects (with two exceptions) are
repetitive, while office and integrated (i.e. "mixed use") projects are one-of-a-kind projects. Firm members speak of "cookie cutter" and "unique" projects. These two styles have very different planning, design and construction processes. For instance, parameters for low-income housing development were heavily constrained up-front by technical and financial specifications set by the federal government and subject to approval by HUD. Office buildings, in contrast, are "one-of-a-kind" projects, distinct from one another, each a "batch-of-one". While the firm has developed an extensive series of rules for the lay-out, design and construction of its office projects, the development of each building is a much more open-ended process, in which the design is part of on-going negotiations with various stake holders in the project.

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One-of-a-kind  Repetitive

Figure 5: Two styles of real estate development

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Repetitive and one-of-a-kind development projects feed on each other in various ways. Office projects challenge the company because they are designed with the highest quality -- the "Cadillacs" among competitors. They are a special kind of R&D under real time conditions of actual practice and set standards for the following series of repetitive projects. The profits on repetitive projects, on the other hand, at times play a crucial role in financing one-of-a-kind projects and even bail them out after failure. As a result of this combination of styles of practice, Citadel has been able to develop increasingly larger and more complex projects at a more rapid pace and in larger numbers in an increasingly more complex real estate environment.

Internalizing ownership as a way to gain control over the development process. Finally, over a period of four decades, Citadel has changed the way it relates to its project environment (Figure 6):

* from being a general contractor without ownership in the 1950s,
* to temporary ownership of turnkey projects in the early 1960s,
* to full ownership and management of projects by the end of the 1960s,
* to operating a hotel business in the early 1980s

There were no abrupt changes, and the various forms of ownership co-existed, at times, in parallel to one another. By internalizing new forms of ownership, Citadel has increased its control over the development process, extending it over the entire life cycle of projects.
Project control is further enhanced by working largely on its own and for its own. Citadel rarely shares control over the process or relies on the control of others. It never acquired other development firms and shows a great reluctance to have its own construction and management group work for other development firms. It acts as "an investment-builder which owns what it builds and manages what it owns".

A strategy for on-going change. The entire set of rules shaping Citadel's corporate strategy, described above, is inferred from its actual corporate behavior over time, and we might call it "the design-in-use". It is a strategy for on-going change or adaptation to a changing context. The Citadel organization has internalized the design and its members may be to a greater or lesser degree aware of it. This
design has held remarkably constant over four decades, and through it, the firm achieves a close and dynamic match between the changing context and its evolving competence. The design-in-use is central to the firm’s ability to learn new strategies.

3.4. Limits To Learning New Strategies

While the pattern of corporate behavior shows remarkable consistency over time, it also displays a series of discontinuities in terms of geographical spread, sales, and portfolio of projects. These discontinuities were particularly prevalent around 1980, when Citadel made a major strategic change that stood out among its previous changes and which is the subject of this study.

**Geographical expansion and retreat.** When the firm’s projects are mapped by location (i.e. by state), a remarkable pulsing pattern of expansion and retreat emerges (see figure 7). Altogether the company went through three complete cycles of expansion and retreat. At the time of this study, it was undertaking a fourth expansion beyond its home state, mostly, but not entirely, propelled by its hotel program.

Expansions (1950-1959, 1963-1967, 1975-1980, 1983-1988) are directly linked to particular types of projects (respectively, public / military housing; turnkey Social Security buildings; low-income housing development; hotel development and operations). By and large, Citadel initiated one-of-a-kind projects within its region, followed up with an
Figure 7: Regional Expansion And Retreat

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expansion of a repetitive type of project beyond its region. Each expansion took the firm to states where it had already been before. At various times, the company stood at the threshold of becoming a nationally oriented company, most recently at the time of the study.

This pulsing geographical pattern can be read in a number of ways that are not mutually exclusive:

1] The firm is adept at diversifying and reducing its dependency on its regional market.

2] It has a shrewd sense for staging a series of projects and surfing on the crest of governmental programs.

3] Attempts at expansion failed because of a wavering public sector.

4] Top management may be unable or unwilling to undertake the decentralization required for a national strategy.

5] The firm cannot learn a strategy fast enough to remain ahead of the change in the context.

6] The firm failed to capitalize on its expansion and could not transform its initial impulse -- an emerging strategy -- to reach beyond the region.

Fluctuations in sales. The figures of total sales\(^*\) per year also show discontinuities [see Figure 8]. Prior to 1980, Citadel had five jumps in sales\(^*\), each followed by a significant decline, in absolute terms. The magnitude of the

\(^*\) Sales figures are approximated by dividing the construction price of each of projects over the year of completion of the project and the year prior to it. These figures do not include rental income from housing and offices projects.

\(^*\) In the first and second half of the fifties, in the first and second half of the sixties, and in the second half of the seventies.
quantum leap in sales from 1980 to 1985 is unparalleled.

The jumps in sales are directly related to the emergence of new series of projects -- housing construction, large scale urban renewal projects, low-income housing development, and hotels. The fluctuations in sales correspond to the pattern of regional expansion and contraction, and reinforce the idea of a company which attempted to jump on several occasions and fell back each time, and which finally "took off" on its fourth attempt.

An increasing portfolio of completed projects. As an investment builder which owns what it builds and manages what it owns, Citadel retains completed projects. As a result, its pattern of behavior shows a third discontinuity -- i.e.
an increasing portfolio of property. A growing portfolio (Figure 9) has several strategic implications. First, it can act as a buffer in bad times. Rent provides a source of income to offset declines in real estate development. The portfolio of completed projects can also be refinanced and provide an additional source of capital, in particular if its real estate value increases over time. Second, with a larger and diversified portfolio, the company becomes more visible, in particular in its hometown. As a landlord of low-income housing projects and a proponent of public-private partnership, it has built a reservoir of goodwill which may offset politically more controversial projects. Finally, a growing portfolio also serves the development of new projects as it is an extra source of information about the state of the real estate market and about the economic and technical performance of properties.

But such a portfolio also has some unintended consequences. As projects get older, more maintenance, repair, capital improvements, renovations and refinancing are required. This creates a whole new set of increasingly more important tasks in the company. This is an issue for the 1980s, when Citadel's first development projects are some 20 years old. As a result, the balance between new development and completed projects is affected. The property management function will become more and more important, undoubtedly affecting the long-term power distribution in the firm.
Figure 9: The Increasing Portfolio Of Completed Projects.
The shifting balance between development of new projects and management of existing properties points to an inconsistency in Citadel's concept of itself and to latent or manifest strategic dilemmas. If the company wants to retain its emphasis on development, it might have to sell off projects so as to keep a balance between development and property management, or it might do more development. Curiously, in the early 1980s, when property management began to gain in importance, Citadel engaged in a major strategic change when it entered the hotel business and began to develop very large-scale projects, leading to a flurry of development. Although this might postpone the question of "what kind of company is this, a development company or a management company?", the issue will have to be addressed sooner or later.

Experimentation when the strategy for on-going change is challenged. Citadel's strategy for on-going change creates prolonged periods of steady corporate development. Discontinuities in its pattern of corporate behavior, in particular the retreat to its hometown combined with a dip in sales, indicate that this strategy has been challenged in the early 1960s, 1970s and 1980s. These three brief episodes, combined with the episode in the early 1950s, stand out.

* during early 1950s, 1960s and 1980s the firm responded to challenge by beginning a series of new types of projects
* during the early 1970s, the firm responded by abandoning types*

During these episodes (with the exception of the one in the early 1970s), Citadel engaged in what we will call corporate experimentation that led to a significant change in the pattern of corporate behavior. By the middle of each decade, Citadel displayed a stable pattern of corporate behavior and shows what we might call a full blown corporate strategy. Thus, the company went through prolonged periods of steady state development punctuated by brief episodes of experimentation (Figure 10) leading to strategic change.

* But as we shall see it also engaged in experimentation that did not lead to completed projects.

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The last episode stands out as it set the stage for a quantum leap, leading to a major corporate transformation:

1] the company grew rapidly from a smaller regional firm into a medium-sized, nationally oriented company,

2] it made a major strategic change by entering the hotel development and management business, and abandoning housing development,

3] it changed from an entrepreneurially organized firm to a more professionalized company,

4] the founder transferred control over the firm to the second generation of the family

3.5. Central Issues In Organizing A Major Strategic Change

In this chapter we have given a bird's eye view of a remarkable strategic conversation between the Citadel and its changing corporate context. Over multiple periods, strategies emerged, became full blown and decayed. Underneath this seemingly fluid picture, we discovered a more steady pattern of behavior. By studying continuities and consistencies, we inferred that the firm had learned to change strategy by internalizing a set of design rules. The resulting periods of steady state behavior made possible growth and increasing control over its project environments. By focussing on discontinuities in the firm's geographical expansion, sales, and portfolio of completed projects, we identified possible limits to learning new strategies as well as brief episodes of corporate experimentation when on-going design was challenged.

The episodes of experimentation, punctuating periods of
steady state behavior, are central to our inquiry into the practice of organizing major strategic changes. Kurt Lewin stated long ago that if you want to get to know reality, try to change it. Episodes of experimentation are precisely such moments in which the company's strategy making is challenged either by itself, or by events in its context. They are natural experiments in practice, through which we can get to know how the company organizes itself for change.

Prior to the major change that took place around 1980, we need to ask ourselves how the firm was organized:

* What led it to halt expansions and not transform strategic impulses or emerging strategies into more deliberate corporate strategies at a national level?

* Is there a relation between the way it organized itself and the limits to learning new strategies?

* Were the retreats to its hometown and the corresponding dip in sales a result of not learning strategically?

During the major change, the questions will focus on how experimentation takes place:

* What led Citadel to break out of its pattern of ongoing change and to engage in corporate experimentation?

* What did an episode of experimentation look like? What did the firm actually do?

* When a pattern of ongoing change is challenged, how did the company organize itself?

* How did experimentation lead to strategic change?

After the episode of experimentation had taken place, the central questions revolve around implementation:
* How did the founder-entrepreneur transfer his knowledge to the rest of the organization and what were the personal and organizational dilemmas involved?

* How did the organization internalize a new context and change its practices?

* How did the family try to keep control over an expanded base of professionals? How did both sides deal with dilemmas of growth and control?

These questions for further inquiry cannot be addressed by merely looking at corporate behavior from the outside. We need to shift our perspective to the inside and get the accounts of members of the firm.
Cast of Characters in Chapter Four:

* The entrepreneurs, Joe and Hank Hadrian, who founded the Citadel Construction Company in 1945. Joe died in 1971. Hank resigned as President in 1982 and became Chairman of the Corporation. Within the privately held company, they were called General Partners, GPs.

Over the years, Hank Hadrian has shown a great interest in the Armenian heritage. Early on he became a member of the Board of Trustees of an Armenian Institute that sponsors scholarly research on the past and contemporary Armenian culture. He became a major contributor to research on Armenian architecture and made funds available for an Armenian Community Center in Philadelphia. These activities kept him in close contact with the academic world.

* The two most important construction managers (CMs) hired in the second half of the fifties: John Gregorian (1954-present) with a M.S. from Carnegie Mellon in Civil Engineering and Paul Vincent (1957-1972) with B.S. from a local engineering college. Both came straight from school.

* Three business development assistants (BAs) hired in the second half of the sixties: Richard Carey (1965-1976), Ron Radovits (1966-1982) and Bob Guchi (1969-present). All were recruited after they received an M.B.A. from Wharton Business School.

* Dave Vacarian, Hank Hadrian's adopted son from a second marriage, joined in 1971 after Joe died. He became general partner in 1974, and President in 1982. He has a Columbia Law School degree, worked in a law firm and helped Hank with the succession.

* Doug Hapogian, a consultant to the brothers (1971-1979) and a professor of civil engineering at Carnegie Mellon.

Of those who left Citadel, Paul Vincent and Ron Radovits set up their own development firm, while Richard Carey took over the real estate firm of his father.
4.1. Organizational Conflicts Frozen In A Time Frame

To get to know how the firm organized itself prior to the major change in the early 1980s and to construct an inside-out perspective, we set up a series of talks with key members and consultants to the firm during those days, some of whom are still with the firm. We asked them, some fifteen years later, how the company got into particular businesses, what actually happened, how the firm organized itself, what problems were encountered, and what they made of it.

During our talks, it appeared that conflicts between them were still alive and they continued arguments that had bothered them then. For instance, when confronted with each other's differing interpretations, they would say "I know where he is coming from" or "he is a typical -- person". Clearly, it was not a conversation between them, and more remarkably, it was as if no time had elapsed, as if the conflicts were frozen in time. How to account for this?

We will discuss two episodes of experimentation and inquire how the corporation organized itself during each case:

* during the early 1960s, when the firm got into real estate development,
* during the early 1970s, when the firm developed two failing projects.
The chapter provides a map of problems which were already there prior to the change in the early 1980s and which became amplified once the firm began to transform itself. The chapter also serves as a capsule description of the more complicated dynamics after the major change in the early 1980s.

EPISODE ONE: FRONTING IN A NEW CONTEXT (1960-1963)

4.2. Redesign Of Corporate Strategy: From Repetitive Construction To One-of-a-kind Real Estate Development Projects.

Corporate strategy prior to the episode. By the end of the 1950s, Citadel had been pursuing a growth strategy for almost a decade. It had gone through three stages:

1] 1945-1950: local construction
2] 1951-1955: regional sub-contracting

Its dominant line of business had been the construction of small repetitive housing projects within the context of military and public housing programs. In addition, there were occasional one-of-a-kind projects, e.g. an experimental water treatment plant and missile silos. It tried to avoid the industry-wide practice for dealing with open, competitive bidding on federal programs. Rather than first outbidding competitors and then, once a contract was awarded for a low price, trying to exploit every change or error in the design or contract, it would try to be the "responsible low bidder" by:

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1) following programs closely and entering early after a process of experimentation,
2) selecting the more difficult projects and offering some extra expertise in terms of design and management,
3) backing out when too many competitors entered the market.

With a small team of construction managers (CMs), the firm would expand into other regions by replicating projects locally within the parameters of these national programs. It would set up long-term working relationships with local subcontractors who would "open their books" to Citadel so that in combination they could be extra competitive. The firm had built a track record of completed quality construction projects. By the end of the 1950s, Citadel was among the 150 largest construction firms in the country and was active in 16 states, with a regional office in Chicago.

**Challenges in two lines of business.** By the end of the decade, Citadel suffered surprises in its repetitive as well as its one-of-a-kind projects. This in turn challenged its strategy.

In a public housing project in Michigan, the superintendent siphoned off materials to build his own houses and a usually profitable military housing project did not yield the expected returns. During a missile silo project in Nebraska, ethnic tensions on the job and local resistance by suppliers aggravated a difficult situation when Citadel was asked to speed up production. The project eventually led to a claim on the government which affected the company's
balance sheet for years and made financing much more dif-
ficult.

Citadel had reached the limits of its strategy. According
to Paul Vincent, construction manager (CM) at the time:

"We got stretched out to the point that we lost control
on several projects and got into financial trouble and
realized we were not capable of being spread out all
over".

The lack of project control indicated that expertise was no
longer as easily replicable in other parts of the country.
Moreover the construction industry remained a harshly com-
petitive world in which the company remained "at the mercy"
of others in the awarding of projects, leading to consid-
rable fluctuations in revenues.

Responding by corporate experimentation. With signs of
revitalization of the local economy, Citadel retreated to its
hometown, Philadelphia. As a general contractor that offered
"something extra", the firm had developed expertise in the
design, financing and management of building projects. This
made it possible to consider new types of projects. During
this episode, 1960-1963, the company experimented simul-
taneously with a series of projects, each of which con-
stituted a possible way of addressing its central strategic
problems.

1] Rather than make open competitive bids for public con-
tracts, it became a selected bidder with negotiated con-
tracts for local development and manufacturing firms.

2] It went beyond "pure" contracting by bidding on small,
repetitive Social Security Offices to be delivered "turn
key" and to be leased back to the GSA.
3] It bought and converted a few unprofitable hotels into apartment buildings.

4] It took a number of options on local sites with the intent to develop them.

5] It undertook the development of a small office building, Thornton, on a risky site in the suburbs of Philadelphia.

Thus, while Citadel continued with general contracting, it made a series of moves that were each a form of real estate development and explored what was possible in the local context and which form matched best with Citadel's expertise.

A prototypical project. Amidst all these more or less successful moves, one initially unsuccessful project, Thornton Office One, stood out and gave the company a pre-view of what it might do next. This move became a second kind of experiment all by itself as it challenged core corporate practices.

The project was done for Citadel's own account. Without the supervision of a federal program, CM Paul Vincent "cut the heart out" of e.g. the air conditioning system to save money on construction, savings which in turn determined his bonus. While initially earning money for the company, the practice backfired when tenants began to complain about the temperature. No matter what he promised the client, he was surprised to find himself unable to address the problem. In addition, he was surprised by his own ignorance of the new business:
"We had no idea what [the client] needed. We were new in the business, we did not know what he looked like, who he was, what he was going to demand".

Word spread around in the community and the building was difficult to lease. Citadel was forced to address the problem and did not back off. It upgraded the project and spent triple the amount of money initially planned.

**Learning lessons for the next projects.** Hank Hadrian, the General Partner (GP), intervened and began to inquire into the project in close cooperation with CM Vincent. Lessons from the first project were plugged back into the design of the second small office project on the same site.

* He provided the input of tenants to the architect,
* He inquired into drawings with the mechanical engineers for better solutions,
* He set up a management company when tenants kept complaining about the cleaning of the building.

GP Hank Hadrian and CM Vincent created a feedback loop from users to designers that Citadel had been excluded from as a contractor.

In this process, Citadel's managers discovered a latent local demand for luxury offices that are very comfortable and well maintained. The existing business system of fragmented industrial practices -- owners, architects, mechanical engineers, management companies, and users -- did not provide buildings with such standards. The second and third Thornton Office buildings, together forming an office park, became moves that were part of a third kind of experiment in which Citadel tested its understanding of the business system.
Into a new context. Citadel's efforts in the suburbs were noticed by the city planner of Philadelphia, a savvy innovator in the field of comprehensive urban development planning. He saw these suburban offices as a threat to downtown development and began to push for a large-scale downtown renewal project, called City Square. It would have to be "an essay in civic architecture". The City Council rejected his first choice -- a hand picked, local, and traditional development company -- as a "sweetheart deal" and opened up the bidding process. Within the prevailing political climate other firms hesitated to come forward, and Citadel ended up being the only serious contender.

As a result the Thornton projects became, in part, experiments for this much larger project. According to Hank,

"We spent more time on design, and recognized situations for City Square that came after that. We spent a lot more time to make sure to provide comfort conditions".

The City Square itself was broken up into three parts so that 1) lessons from one part could be transferred to the next part, and 2) financial risks could be minimized.

A new design of corporate strategy. By the middle of the 1960s, Joe Hadrian formulated a new corporate strategy:

"... to continue the transition from a construction company working for third parties into an integrated real estate firm with a foundation in construction".

Through a rich and complex process of corporate experimentation made in various and partly simultaneous stages, Citadel had come to redesign its corporate strategy from con-
structuring small repetitive housing projects for others to developing large-scale one-of-a-kind urban renewal projects for its own account.

4.3. Implementing Strategy: Emerging Conflicts Between "General Contracting" and "Development Contracting".

Organized through special relationships. Citadel's growth in general contracting had been organized through special relationships between the two brothers as well as between assistants and the two brothers.

The Hadrian brothers had different personalities, Joe was "more out-going and warmer" and Hank was "more reserved" and a "much cooler personality". They had different tolerance levels for particular problems in the firm and focused on complementary tasks. Joe was "the outside man" and the "deal getter", while Hank was the "deal implementer" and more concerned with the "follow-through". He also had the final say on the bid price. However, the brothers did not focus exclusively on their own tasks. They had, according to assistants, "an ability to look at a problem, approach it in different ways, come out with the same decision by going back and forth with each other, and then go on from there".

They would take new key tasks first upon them themselves, and then delegate these to new young assistants such as construction managers (CM) and business assistants (BA). Through this process, new roles emerged in the organization.

Each of the brothers attracted assistants with whom they built a close and affectionate relationship, acting as a com-
bination of second father and mentor. For instance, Paul Vincent mentioned:

"I am very fond of Hank, he taught me the business. I was a young man coming off the farm in Maine and spent 20 years with him. I looked to him as a father, have run my life very similar.. I was so close to him, he taught me "put your right foot forward, put your left foot forward, this is such and such. It sticks in my mind."

However, while these young assistants would deal with both brothers, they focused on one of them and did not harbor these close feelings for the other. They also did not have such a special relationship with other assistants and, by their own accounts, did not know much about what was going on in the projects of other construction managers.

Joint inquiry. Central to the redesign of strategy after Citadel's initial failure with the airconditioning system of Thornton Office One was the close cooperation between GP Hank Hadrian and his CM Paul Vincent. When the two addressed the mismatch between the unintended consequences of Citadel's general contracting practice and the demands of the tenants, they reflected on prevailing development practices, became aware of a local niche and developed a new vision of real estate development. It was an extraordinary process in which they reframed their own set of practices from "general contracting" to "development contracting".

Special knowledge, professional arrogance and rivalry. Learning to see his practice in a new way so as to be able to develop one-of-a-kind office projects, had been a formative experience for CM Vincent and he claimed a special expertise
as a result of it in comparison to other construction managers:

"There is no substitute for sitting in Thornton Office and having a client beating the shit out of you. You have to have that experience, you have to do it, and that's the way to learn".

In the meantime, CM John Gregorian had taken the practice of general contracting for small repetitive housing projects and had brought it successfully to bear on the turnkey delivery of small repetitive Social Security Offices throughout many regions. His strength was to "buy out a job" and "to expedite the work and see it got done", i.e. to build projects on time and within budget, and he never failed to produce profits.

A rivalry emerged between these two CMs in which Vincent insisted on a caricature of a general contractor -- he thinks "here is a plan, you (the client) want a pink wall? You'll get it!" -- and would hold that Gregorian "does not understand what makes a development company tick". Gregorian, on the other hand, caricatured a development manager and stated that Paul Vincent did not produce any profits on construction while he, John, did, and that therefore he should get a larger bonus.

**Strategic change and core conflicts.** Two conflicts emerged when Citadel moved from repetitive general contracting to one-of-a-kind real estate development.

One of Citadel's distinctive competencies in contracting was its ability to control budgets within the parameters of
repetitive projects and make a profit, or "at least not lose money". This competence could not be brought to bear unchanged on one-of-a-kind development projects because these were much more open ended and budgets changed as the project went along. How could demands for flexibility be coupled with control? What would a new, more flexible budgeting practice look like?

Second, while development managers did not produce construction budgets, they did produce real estate value for the firm. Vincent wanted a percentage of a project he worked on for himself. The Hadrian brothers thought that would be "unfair" to Gregorian. But was it not equally unfair not to differentiate compensation systems for different activities?

Firm members like Vincent, Gregorian and Hank Hadrian did not address mismatches between new corporate strategy and old practices during implementation. They did not engage in a form of joint inquiry that would get beneath conflicts, and allow them to address incompatible norms of performance and design new practices. Instead, twenty years later they were still caught in their arguments. As we shall see, the problems did not go away and would come back to haunt the firm.


4.4. Redesign Of Corporate Strategy: From One-of-a-kind To Repetitive Development Projects.

Corporate strategy prior to the episode. By the end of the 1960s, Citadel's major line of business was urban re-
newal. Its large-scale and one-of-a-kind projects were intimately tied to the comprehensive urban development movement that was trying to revitalize large cities. Efforts often came from strong mayors supported by innovative and savvy planners. Citadel was in the vanguard of the movement and had gone through several stages of growth:

1) from a few small suburban offices in Philadelphia in the early 1960s,
2) to a large-scale downtown project in Philadelphia during the middle of the 1960s, built in three parts
3) to one large-scale downtown project in Harrisburg, in joint venture with a famous shopping mall development company at the end of the 1960s.

Citadel aimed at the highest quality in its projects and had become a renowned regional urban renewal company. As general partners, the brothers acquired equity in projects in return for their entrepreneurship and were often financed by pension funds and insurance companies. In addition, a new strategy for repetitive projects was emerging after Citadel had developed two medium-sized low-income housing projects, financed through private syndication. Finally, while the firm had stopped construction for third parties, it had retained the construction group as an in-house capacity.

In many ways, the company was still a construction firm and each of the large-scale one-of-a-kind projects made a major claim on the company’s resources.

A big failure and the limits of strategy. By 1971, Citadel reached the limits of its strategy for doing urban renewal when a large project became a big failure. Its Harris-
burg project suffered from extensive cost overruns, office space that could not be leased, a shopping mall with "the atmosphere of a library" and an overdesigned parking garage.

The failure was due to an accumulation of several factors. Citadel had been invited as a "good corporate citizen" to Harrisburg, a second-tier city in Pennsylvania. Its Town Council had been impressed by urban renewal in Philadelphia and its effects on that city. The town promised to deliver three local banks as tenants, reduce taxes considerably, reroute public transportation, and provide seed money through local banks. Based on those promises, the brothers spent $50,000 on a famous New York architect even before having signed a contract, and once the project was awarded, they budgeted a tiny $350,000 for cost overruns on a project of $50 million.

During the design stage, Hank Hadrian was put under pressure to "upgrade" the project by "adding a few bays". Despite a market study by a very experienced consultant, who had warned that "absorption" of the project by the city was questionable, Hank went ahead. Business assistant (BA) Carey remembered,

"One day, Hank said: "The building would look better if we would add another 20,000 sqft to it. What do you think?" I said, "Hopefully it will rent," and he said, "I think you are right, hopefully it will rent". None of us looked at the market."

In addition, the town insisted on top-of-the-line department stores rather than Sears and Hank agreed relying on "the
savvy" of his famous joint venture partner. Sears responded with a competing mall within a few miles with free parking. Finally, one of the department stores insisted on being in the middle of the mall rather than one of the anchors on the corners. This set shopping patterns askew.

Also during the design process, two local banks walked out of the project and developed their own office towers, and under their pressure, the town did not reroute public transportation. Despite advice from his assistants, Hank did not renegotiate the contract with the town. The town also did not honor its tax agreement, in fact taxes tripled. These issues hit hard. The projects had been financed entirely through private capital as there were no Urban Development Action Grants (UDAGs) available from HUD. Around the same time that the design failure became visible, project costs turned out to be $70 million rather than $50 million.

The situation for Citadel was aggravated when the problem of overdesigning happened a year later with a second large-scale project in Taunton, New Jersey. In addition, the economy suffered from a severe downturn. And finally, both Joe Hadrian and the joint venture partner died in 1971, and their estates had to be bought out. Taken together, these problems created a financial crisis by 1973, jeopardizing Citadel's continuity. In the words of BA Carey:

"It was a period more of consolidation, protecting the down side, and frankly the financial viability of the company [so as] to make sure that it did not go under"
Stumbling into a new and changing context. The failure of the two large-scale projects indicated that Citadel's strategy was mismatched with the context it had stumbled into. Unlike the situation in its hometown in the middle of the 1960s, it could not count on a strong mayor organizing political support, on a skilled city planner who could promise and deliver, on a receptive market that could absorb extra space, and on private financing.

When negotiating for new projects with other cities, Hank Hadrian began to insist they "tie all of the city together" and he backed out of two projects when cities could not deliver that. According to BA Carey:

"Bigger was not better, smaller buildings had an appeal to the market. The institutions down there did not want to hear that".

Citadel's managers began to see that cities heralded the firm as the white knight to help them bring about something they either had not done themselves, did not know how to do, or could not do. Citadel was put in the position of a private version of a public redevelopment authority, without its authority but nevertheless financially at risk. City governments abdicated their responsibility as a forum for bringing together the body politic, and Carey noted that these projects "went beyond urban renewal".

The failures also showed a change in the context of urban renewal. An active federal government and an interventionist local government had practiced comprehensive planning in a
team effort to fight the war on urban decline. They had leveled entire districts and replaced them with monumental "civic architecture". But in the early 1970s, cities began to waver in view of strong anti-big-government movements. Eventually they turned to far less draconian strategies such as picking only the worst spots and relying on regulating private initiative for much smaller projects.

As a construction firm engaged in real estate development, Citadel had not fully understood the urban renewal context in its hometown. As a result, it had not understood the difference in context in Harrisburg, and the changes in political support in the overall context for comprehensive planning. The inexperience of second-tier city administrators and Citadel's own ignorance set the stage for failures.

A new episode of experimentation. The firm responded much as it had done a decade earlier with a flurry of new activities that were, in part, moves in a process of corporate experimentation.

* It stuck with its completed projects, invited key employees to become financial partners, and declined invitations for new urban renewal projects.
* It returned to small-scale suburban office development and acquired a second suburban office park as part of a deal to find a tenant.
* It engaged in condominium conversion but deemed the political costs too high.
* It switched attention to low-income housing development where it already had "a strategy going", and each project would provide $1 million up-front subsidy which was used for "fancy financial footwork" related to its "workout"
* It studied possibilities in the emerging shopping mall market.
While the previous episode had led to reframing of core prac-
tices and the discovery of a new context, this time the com-
pany turned to an emerging strategy of medium-sized repeti-
tive low-income housing. It was a familiar business that was
booming. According to BA Ron Radowits,

"The heyday of housing was from 1969 to 1975. Agencies
were flush with money, relaxed about regulations and
loose about the environment. If it looked good and you
did well and were within budget, they would leave you
alone".

In addition, the federal subsidy of one million dollars per
project helped to re-finance the two failing projects. By
the mid-1970s, Citadel had turned from large-scale, one-of-a-
kind urban renewal projects to doing medium-sized repetitive
low-income housing projects at a pace of one a year.

4.5. Implementing Strategy: Escalating Conflicts Between
Development Assistants and Construction Managers.

The Harrisburg project suffered from two major problems,
it was overdesigned and its costs went far over budget. Fif-
teen years later, company members still framed it either as a
"marketing problem" resolved by the establishment of a
leasing department, or a "project cost control problem"
resolved by the appointment of a business assistant super-
vising the construction budget. While redesign of an organi-
zational structure more suited to the business at hand is im-
portant, such a response accepts the problem as it is framed
and creates new roles. However, as we will show, underneath
an old unaddressed problem re-emerged in a new form.
"A marketing problem". Central to the marketing problem created in Harrisburg was an event early on in the project and remembered by BA Carey. While having information on his desk about the "low absorption" rate in town, he failed to confront Hank Hadrian who was pressured to "add a few bays". If he had confronted him, Hank might have challenged the architect. And when the two local banks began their own development projects, Hank might have confronted the town fathers up-front and learned about the wavering political support and even the inexperience of administrators. He might have renegotiated the deal or abandoned the project.

However, Carey did not have a mentor relationship with Hank that would allow him, like Vincent, to acknowledge his uncertainties about the project and his own lack of knowledge on the matter at hand. Instead, he saw Hank's brother Joe as "a second father, an individual that I lived with 12 to 14 hours a day for five years" and Hank as "more reserved" and "a very calculating individual". Hence, Citadel's way of organizing through special relationships among the brothers and with their assistants reached its limits under circumstances that required members, who were not close to each other, to inquiry jointly.

"The project cost control problem". Carey, with an M.B.A., had been recruited as a business assistant to Joe Hadrian to monitor construction costs and watch the financing of the project. He was warned early on "not to frighten or
threaten" construction managers and he felt he "always" had to be very careful as he had "absolutely no engineering background".

CM Vincent was bothered by the division of labor. Once a deal was made, he had noticed, the business assistant lost interest in the project and went on to the next deal.

"The engineer thinks in terms of budgets and numbers. Business students do not think that way, they don't want to plough back the numbers every month, like "we figured this much, it is costing us that much, and here is the net result". As a result, it does not happen and you lose control. if you take a construction guy, you can stretch him but you can't stretch a Carey".

For Carey, on the other hand, all CMs were the same. He spoke of "a typical construction individual" who wanted "to do things in a certain way", who did not have "a little bigger picture of the world and how things piece together", and who could not translate his skills into other areas.

The rivalry was framed as a problem of who is in control of what?

* Should the CM be responsible for monitoring project costs, measuring them against a set budget, and presenting the partners with the results?

* Or should the BA monitor costs against a changing budget and link them to the financing of the project, so that the partners are not faced with sudden cost overruns that jeopardize the project?

Underneath the conflict are, again, incompatible norms for performance -- flexibility and control -- but Vincent and Carey never got to those norms. Instead they cast each other as caricatures, even 15 years later.
4.6. Intervention Into Escalating Conflicts.

**Structural intervention.** How did top management respond to the failures of Harrisburg and Taunton? In 1971, Hank Hadrian asked Doug Hapogian, a professor in civil engineering at his Alma Mater, Carnegie Mellon, to help him reorganize the firm. Hapogian thought Citadel was still an unstructured construction firm doing development. The firm had to be structured as a development firm with a construction branch. His diagnosis was that business assistants were "opportunist- tic" and focused on deal making with little attention to the implementation of projects. The system was "dangerous and inefficient".

Hapogian proposed a matrix organization in which all construction activities were concentrated in one group, and business assistants would act as development project managers. The idea was to "focus their attention on project activities and... to create project accountability", and "to break the habit of running after new projects". In 1973, an outside board was created which would require quarterly plans and budgets and "make Hank and Dave accountable to outsiders".

**Planning and control.** By 1974, the company hit the bottom when "control and coordination were breaking down" and there was a slump in the market. The company was "out of control" as there was no budgeting.

"Nobody knew how much they were spending on the project, there was no up-front planning, it just happened, and there was no monitoring".

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Hapogian's new diagnosis was that "personalities could not be changed over night" and that members felt threatened by a matrix organization they were not used to. Members with "segregated talents" in the real estate development process were "running their own show". "Nobody saw it through" and "the ball was dropped in the middle". For instance, in one housing project $150,000 was spend on a feasibility study without assured finance. Hapogian's solution was twofold: 1] Members had to learn to play "service roles"; 2] The company needed to take planning seriously and use computers for project "control and forecasting".

A strong development project manager. Dave Vacarian became the corporate planner and controller, and a Management Information Systems department was created, in addition to departments like Business Development, Leasing, and Accounting. However, according to Hapogian,

"people thought planning was not worth doing and too much effort. They did not like planning and resisted it".

By the middle of the 1970s, Hapogian saw as the problem that the company was a "breeding ground" for entrepreneurship and that "personalities did not fit the matrix". The question became how to implement planning and control so as "to get it into the minds of these entrepreneurs, who care about financing but not about ending a project". The resistance against planning was to be overcome by a strong project manager. Bob Guchi, with a Wharton M.B.A. and an engineering degree, became the first development project director.
4.7. Limited strategic learning limits the ability to make strategic changes.

The first episode of experimentation in the early 1960s led to Citadel’s entry into real estate development. It also led to the dilemma of, on the one hand, having a flexible budget that can be adjusted to an evolving design and, on the other hand, controlling project costs. The dilemma surfaced as a conflict between CM Gregorian and CM Vincent. They were unable to address the problem then. The issue re-emerged in the late 1960s between CM Vincent and EA Carey and came to haunt the company in the second episode in the early 1970s. At that time, addressing the "marketing problem" and the severe cost overruns of the Harrisburg project required a lot of management attention. So much in fact, that managers did not have the time to learn from its joint venture partner about the context and practice of developing shopping malls. Yet this was a movement about to sweep America in the 1970s, and it would have been a natural new strategy for Citadel. According to President Vacarian,

"We did not learn as much from the Harrisburg project as we could have. We were preoccupied with the financial aspects. Shopping centers are clearly a lost opportunity for us. We did not have the capital resources at the time".

Thus, prior to the episode of experimentation in the early 1970s, Citadel’s key practices -- design and budgeting -- were already mismatched to its context. Members could not get underneath their conflicts over those mismatches and

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their ideas got frozen in time. When the firm stumbled upon a new and changing context, mismatches and the limited ability to address them created such problems for the company that it was unable to transform its large-scale urban development strategy into a shopping mall strategy.

Hence, while Citadel demonstrated a remarkable ability to learn a new strategy in the early 1960s and to shift strategic attention in the early 1970s, it developed at the same time second-order effects that began to undermine this ability. Limited learning resulting from limited inquiry prior to change got in the way of learning a new strategy during and after a change. And, while, structural intervention was necessary at the time, it did not address 1) the mismatches between design and implementation of strategy, nor 2) the limited ability of members to address these mismatches.

The dynamics presented here will return and become amplified once the firm faced its third episode of experimentation in the early 1980s.
Cast of characters in Chapter Five:

* **Hank Hadrian**, senior general partner (GP) and President of The Citadel Real Estate Development Company. In 1982, he stepped back and became Chairman of the Corporation.

* **Dave Vacarian**, Hank’s adopted son from a second marriage, junior general partner from 1974 to 1982, when he became a senior general partner and President of Citadel.

* Two sons of Hank Hadrian, **Dwight Hadrian**, who worked in business development, and **Melvin Hadrian**, who worked in design and construction. Both entered the firm around 1975, and became junior general partners in 1985.

* Two business development assistants (BAs), **Bob Guchi**, who worked on office projects, and **Ron Radowits**, who worked on housing projects. Guchi became Citadel’s first development project manager in the mid-1970s and in the 1980s became Vice President of Finance. Radowits left the firm in 1982.

* The head of the Construction Group, **John Gregorian**.


* The Hotel Group President **James Campbell** and Vice President **Robert Laing**, both hired in 1982. They came from the Royal Hotel Corporation.

* **Chris Quinn**, Hotel General Manager of Kensington Three since 1985.

* **Ben Colar**, the Head of Purchasing, and **Lester Goodman**, Head of Hotel Administration and Operations. Both were liaisons between the Hotel Group and the Development Group, and were hired in 1984.

* Corporate staffgroups: **Sarah Surabian**, Corporate Planner and head of MIS since 1982; **Martin Gordon**, Vice President of Accounting and Controller since 1975; **Andrew Miller**, Vice President of Leasing since 1972.
CHAPTER FIVE

SEPARATING DESIGN AND IMPLEMENTATION OF CORPORATE STRATEGY

The Transformation Into A More Professionalized Company

5.1. Dilemmas Of Learning When Making A Major Transformation

When Citadel again engaged in an episode of corporate experimentation at the end of the 1970s, this became part of a much larger process of transformation, involving:

1) A major strategic change by
   a) starting an entirely new development program in the hotel business, including operating hotels,
   b) making a leap (rather than a jump) in terms of scale and complexity of projects, and the number and pace of projects that were built.

2) A major organizational change by
   a) handing over the stewardship of the firm to the second generation of the Hadrian family,
   b) attracting senior executives to run major parts of the company, and professionalizing management.

To make such a corporate transformation, the company faced a set of conflicting requirements:

1) How to transfer the extraordinary competence of the founder-entrepreneur-owner Joe Hadrian to a second generation that lacked his talents and experience?

2) How to delegate responsibilities to newly recruited senior professionals who, unlike in the past, have knowledge the partners do not have, while the family tries to retain control?

3) How to change knowledge embedded in corporate practices that are already mismatched to strategic design, while engaging in a process of redesign?
While these conflicting requirements present multiple organizational dilemmas, as we have seen in previous episodes the firm tended to engage in only limited inquiry when its managers were faced with conflicting norms of performance. In this chapter, we will see how a limited ability to learn strategically prior to transformation got in the way once the company engaged in change, and led to an organizational separation between the processes of the design of corporate strategy and its implementation. Existing problems returned and emerged in new forms, making inquiry even more difficult. Rather than learning a new strategy through an interactive process, major change led, as we shall see, to an increasing separation between design and implementation, and as a consequence to the limited learning of a new hotel strategy.

5.2. The Impetus For Transformation And Setting The Stage

The need for transformation. By the end of the 1970s, Citadel's major line of business was the development of low-income housing in the Mid-Atlantic and New England regions. Its minor line of business was the local development of medium-sized office buildings. The company produced a steady flow of about one project a year and was usually engaged in three projects in different stages of development. It can be characterized as a small entrepreneurial developer with a medium-sized construction branch.

This steady pattern of corporate behavior was challenged
in a variety of ways. The context for regional housing had gradually changed and become less attractive. For instance, the subsidy from the federal housing program was cancelled and scandals rocked the Program. The result was more regulation and a reduction in the size of projects. In addition, to the surprise of management, Citadel was unable to obtain financing and public approval for a "sure" project. And finally, a new generation of local non-unionized spin-off construction firms had emerged and provided stiff competition. Citadel's medium-sized construction branch with expertise in heavy construction had too high overheads and was really too large for housing. When the firm tried to address the problems, it ran into new difficulties. According to Business Assistant Radwits:

"You can't go from a union company to a non-union company. You need a non-union mind in the company, however, in non-union companies supervision is a problem".

The context for local office development had also changed. After a recession, the local economy was improving, and increasing inflation made real estate again attractive. An up-swing of the local market was expected, in particular for large-scale office projects. Because Citadel had stuck to its two failing projects and worked out the problems, it had gained a good reputation among financiers. However, at the same time, much larger out-of-state and foreign competitors had entered the local market, and private initiative for urban development was guided more and more through zoning and
approval regulation. Citadel, as a small development company, was too small to compete for these offices projects.

According to General Partner Hank Hadrian:

"You are either very very small or quite large. In between is not efficient. There are many government regulations and internally you need a management information system".

Citadel was in a strategic predicament. It was too large for housing and too small for offices and could not switch attention from one development program to another, hence, one of its central rules for designing strategy did not work. It also could not get smaller by getting rid of the construction branch because this group was central to its distinctive competence. Nor did top management want Citadel to do any more projects in joint ventures after a few troubling experiences. Therefore, top management decided Citadel needed to grow in order to compete for large-scale projects and would have to rely on professionals able to deal with government regulation and provide management with reliable project information.

**Escalating organizational conflict.** Reliable information had become an increasing problem for top management in both lines of business, leading to contained conflicts.

During the development of projects in the housing program a typical dynamic had emerged. The task of the Construction Manager was to keep construction within a budget that was approved by the GP and monitored by a BA. The CM’s bonus was dependent on it. Early in the housing program and without informing the BA, the CM began to overbudget to make sure he
would remain within the budget. As a result the BA would have to go to federal agencies and "fight" for more money. To his surprise, the BA began to discover that projects were overbudgeted, which led to embarrassing situations with the agencies which in turn undermined his credibility when negotiating the next project. The BA concluded that the CM was protecting himself and GP Hank Hadrian reacted by cutting 20% from budgets he receives from the CM. The CM, in turn, began to add 20% to the budgets before submitting them. The end result, according to the BA, was that "everybody did second guessing and we did not believe the numbers" and with unreliable data, the computer-based MIS did not work. According to consultant Hapogian:

"The computer system was there! But you can tell it whatever you want, use it as a protective shield, and prevent control through computer systems".

In addition, the junior GP, Dave Vacarian, lacked Hank's technical background and could not evaluate the reliability of the figures.

During the firm's first local downtown office project in ten years, conflicts came to a head. A newly appointed development project manager, Bob Guchi, could not determine the actual construction costs. He found his role impossible and "was not even pretending to do it".

"My attitude was \'he [CM Gregorian] is running construction, so let him run it\' and \'I am doing the financing and I am much more interested in the leasing and the strategic decisions and how they impact\'. I viewed it as a division. He viewed it as if he was running the whole thing."
As a result, according to senior GP Hank Hadrian, CM Gregorian ended up being project director "by default", and no matter what he did, he could not get the construction information either.

"... [Gregorian] played it very close to the vest, nobody else could know what he was doing".

As additional problem was that Hadrian disapproved of the way Gregorian "would bulldozer his way over architects and act as if he understood it all".

Mismatched practices. Hank Hadrian was on the line as GP and was even more closely involved in this one-of-a-kind project because of some special features of the project, such as its architectural complexity, its proximity to a subway tunnel, a troubled relationship with the joint venture partner, and new and changing zoning and approval regulations. Gregorian, on the other hand, had difficulties with Hank's close involvement,

"It was different working in the hometown than outside. It was a high-visibility project in the city, so Hank was much more involved. Oversight was closer. Anything the architect wanted to do was approved by Hank".

Underneath this conflict was the problem that project redesign led to questions about the control over the construction budget. It was a problem Gregorian as a construction manager had faced in previous projects with BA Radowits and had not been able not to address, much like the problem CM Vincent and BA Carey faced earlier in the decade. Gregorian himself had for the past twenty years developed repetitive
projects far away from Citadel's hometown without much oversight while Hank Hadrian had been developing one-of-a-kind local projects. The Project Manager, the Construction Manager and the General Partner could not get beyond their conflicts grounded in the incompatible norms of performance of the two styles of development.

*Structural intervention.* When Hank Hadrian consulted Hapogian, the latter advised him to make yet another structural change. With the expectation of more projects and the need for more project managers, he felt that,

"if we really want to institute change, then we need a director of directors with a strong technical background".

One BA mentioned that, at the time, the promise of the appointment of such a director: "numbers in time" for the GPs with "honest reporting" and the possibility for the GPs "to reach deep down" into the development process of a project.

Hadrian also consulted Simon Barsemian, a professor of organizational psychology at Wharton Business School with a psychoanalytical perspective, about how to address the problem of a family that wants to remain in control of a firm and yet wants it to be professionally run. According to Barsemian, the question was how "to create the maximum leverage for the second generation" which lacked Hadrian's construction expertise. He saw as the major difficulty "a dependency relationship" in which the developer was the "captive" of the Construction Group, because he did not have
access to cost information in the head of an intuitive estimator. "Endless hard bargaining" and "getting angry over minutia" led to an "intolerable situation", which became framed as a "tyranny" and a "power struggle", "undermining the creative position of the development people".

In order to "break the dependency", "to break the pattern of hard bargaining" that "sapped energy", and to "free up creative energy", Barseman proposed that the development project managers act as a third force who could challenge the CMs on their construction budget figures and who would become a "memory device" for the Partners. The PM would also act as a "containment vessel" for conflicts and interrupt the flow of action when necessary so that the GPs could "come in and make decisions when they have to".

Hank Hadrian saw the new group of project managers as "an intervention to rationalize the development process", "a group interposed" between GPs and CMs, "extending his role" "so as to increase the capacity and ability to control projects", and to "separate development from construction", "so as to have a clear definition of what is supposed to be done in the development process as opposed to what is done in the construction process".

**Separating design and implementation of strategy.** Looking back, the separation between design and implementation of strategy goes back some fifteen years. After the first episode of experimentation in the 1960s, the problem of practices that were mismatched to strategy had emerged and cen-
tered around project redesign and the construction budget. Mismatches had steadily increased after the second episode in the 1970s. When Citadel's on-going design of strategy was again challenged in the early 1980s, conflicts surrounding these mismatches became intolerable.

The General Partners faced a core organizational dilemma. They had to focus on increasingly complicated project environments and neither had the time (Hank) nor the expertise (Dave) to deal with escalating conflicts. By the beginning of the third episode, they decided to make a structural intervention. This relieved the company (temporarily) of conflict, gave members a sense of control over their tasks and restored creative energy. However, structural intervention did not address the mismatches between design and implementation, nor did it address what prevented members from getting underneath their conflicts and addressing incompatible norms of performance. Rather than setting the stage for interactive learning between design of strategy and its implementation, through the structural intervention, top management in effect separated the two processes at the beginning of an episode of experimentation.

EPISODE THREE: FROM CREATIVE IMPROVISATION TO A NEW STRATEGY

5.3. Redesign Of Corporate Strategy: From Counter-Cyclical to Parallel Development Programs.

Around 1980, Citadel engaged in a process of corporate experimentation that led to a major redesign of its corporate
strategy. In previous episodes, the firm had entered into a new context (1960-1963) by experimenting with various types of projects, or backed into a new context (1971-1974) without being aware of it. This episode was different altogether. Citadel repeatedly failed in switching strategic attention between domains, a core rule for on-going design of strategy, while, at the same time, its top managers learned about a new context, the hotel business. They eventually decided to enter it. However, as we shall see, soon after the creation of a hotel program the corporate and divisional level began to disconnect as the program was further developed. The key features of this separation in part resembled processes described in earlier episodes, and, in part, differed because of the repeated failure to switch strategic attention.

Enacting its design-in-use when challenged. As we have seen, by the late 1970s, the general partners Joe Hadrian and Dave Vacarian had decided that Citadel should grow so as to take on large-scale office projects in the reviving Philadelphia downtown area.

However, when Citadel began to realize the new intent, it brought to bear its on-going practice of strategy design, (its design-in-use), and enacted a set of rules that had emerged over the last 20 years, such as:

1) switching strategic attention (from housing to offices)
2) retreating to its hometown
3) improvising on a familiar type of project, (medium-sized downtown office projects)
Hence, while the GPs espoused growth, in actual practice that growth took the form of expansion into a familiar context with a familiar type of project, only larger.

Local surprise, creative improvisation and an anomaly. During its very first large-scale office project, the forty-story City Square Skyscraper, the GPs faced a surprise right from the beginning. No matter how hard they tried, they could "not make the numbers work" for an old landmark building on the site which they intended to renovate into a modern office building. The landmark was part and parcel of the entire project and could not be split off. Alternative uses were considered and it turned out that a luxury hotel would work. Citadel had never developed a hotel before, and had not intended to develop one. However, this creative improvisation at the margin of a much larger project was within a zone of indifference as it made possible the central part of the project, the skyscraper. Initially, the hotel part of the project was merely a minor anomaly in Citadel's pattern of corporate behavior.

A major surprise and a major predicament. As the hotel project was developed, Citadel's managers experienced a series of additional surprises. For instance, the British Westminster Group, invited to manage the hotel, was less experienced than expected (in part because it was their first U.S. project). This forced the GPs to become more involved in operational problems, and, as they began to learn about
the hotel business, they began to like it. Finally, contrary to expectations in the industry, the hotel was profitable after a year. It turned out that Citadel's managers had discovered a local niche for luxury hotels.

Meanwhile, Citadel faced a major surprise during a second large-scale office project in Philadelphia. No matter what it did, the company could not get the project through the city approval and permitting process. The GPs concluded that their unwillingness to make illegal contributions to the political campaign of the mayor, was the major factor and that they would have great difficulties obtaining further local large-scale projects. Hence, while the company had become a major actor downtown, additional jobs in its hometown seemed inaccessible. The GPs were once again faced with a strategic predicament as the housing program was rapidly withering away and the office program was stalled.

Switching project-region and a new strategic predicament. Citadel reacted to this predicament in late 1980 in three ways. First, its managers had discovered not only that they could do a hotel, they also enjoyed the hotel business and liked the results. Having done the project provided them with a window on a new context and on themselves, and they began to consider doing more hotels. Hence, the meaning of the first hotel changed from being merely an anomaly in a pattern of corporate behavior into a strategic invention.

Second, GP Dave Vacarian continued to enter local com-
petitions for large-scale office projects which now also included hotels. By persisting, he created a public record and raised questions in the city as to why a renowned company like Citadel did not win competitions. By developing projects on paper rather than in mortar and brick, Dave also gained experience in the real estate development process and, according to managers around him, he "matured".

Finally, Dwight Hadrian switched a part of Citadel's attention to Washington D.C.. He looked for large-scale downtown offices in a booming market while other managers searched for suburban office projects that could be renovated. Dwight also began to search for hotel renovation projects, Citadel's newest skill. In doing so, he came in contact with a major Canadian hotel chain -- The Royal Hotel Corporation.

Royal was considering the renovation of one of its existing luxury hotels into a very exquisite hotel, based on a new hotel concept coming from Europe. The idea was to develop hotels which were smaller than usual, and had a European exquisiteness. They would be part of "a chain that wasn't a chain", with highly personalized service, aimed at business travellers from the higher echelons of companies and governments as well as wealthy tourists. Some called it "designer hotels". Eventually however, Royal's President vetoed the project.

By 1982, Citadel's local as well as its Washington strategy had failed. Switching attention had not worked and the
company was faced with an acute strategic predicament: the housing program was virtually coming to a halt and it was running out of work on office projects. It began to lay off people, which violated a core value of a family company and undermined its core expertise.

Entry into an unfamiliar context. With its back against the wall, Citadel reacted again in a variety of ways. First, its construction and property management group began to work for other owners. Second, it began the development of an addition to its suburban office park in Philadelphia. Finally, through contacts with Royal, Citadel’s top management became aware that the local niche for luxury hotels extended over the entire Northeast and beyond, and that Royal was about to embark on a large-scale effort to develop the "Kensington Hotel" chain, a series of small exquisite hotels.

When one of Royal’s key internal product champions let it be know that, in order to better position himself financially for the "wave of the future", he might be available, Citadel decided to enter the hotel business, to become a regional franchisee and to invite him to set up a hotel group. At the center of this decision-making process was the persistence of top management in switching strategic attention between domains, a core rule of its on-going design of strategy. While this process had led to repeated failure in the early 1980s, as an unintended consequence, top management discovered a new opportunity.
Seeing an unfamiliar context as familiar. When Citadel set up a new hotel development program, it entered an unfamiliar context. However, top management made a series of crucial assumptions about the nature of the hotel program from which we can infer that they saw it as a familiar context. At the corporate level, the GPs assumed that hotel projects were a combination of housing and office projects, a combination of what Citadel already knew how to do, i.e.,

1] Hotel projects were "repetitive" like housing.
2] Hotel operation was like managing office properties.
3] The hotel market was "counter-cyclical" to the office market.

In addition, the GPs assumed at the program level that the new hotel program would be a virtual sure fire strategy:

4] The Kensington hotel concept was "revolutionary", a "unique product" and the "wave of the future".
5] Citadel could enter the market "big and quick" so as to "pre-empt" other regional development companies and spread the overhead of a hotel division.
6] Citadel would get "exclusive" franchise agreements from Royal.

Hence, from the very beginning, there was an inconsistency in top management's framing of what it was about to do. On the one hand, Citadel had never managed a hotel, let alone a chain. At best, the GPs had had some exposure to the new context through their first hotel. On the other hand, faced with repeated strategic predicaments creating a highly uncertain and complex business situation, top management enacted what it already knew how to do, i.e. set of rules of on-going design of strategy, leading it to frame the newly discovered context as familiar.
Discovery of dissimilarities and a new strategic predicament. When Citadel began to realize its hotel program, central programmatic design assumptions were challenged:

* Royal was very reluctant to franchise as it decided to develop itself rather than rely on regional franchisers.
* Other hotel chains fought back by upgrading their service and lowering their prices.
* Citadel was forced to develop other types of hotels as a result of negotiations with Royal and various cities*.
* Negotiation delays and other unexpected problems created a batch of five simultaneously developed hotels rather partly overlapping projects in various phases of development as Citadel had planned.

The most troubling dissimilarity played itself out on the corporate level. GP Dave Vacarian had persisted in competing for local large-scale office projects. By 1983, after nine attempts, Citadel won a very large-scale, integrated project, that was four times the size of its previous project, City Square. In addition, the firm was about to undertake a second even larger project, also in downtown Philadelphia. With the challenges to the hotel program, Dave Vacarian wanted to switch strategic attention back to the local office program.

However, the hotel program was aggressively pushed by Dwight Hadrian and could not be cut back easily. Unlike housing, the hotel operations were part of a chain. Citadel had to keep on pursuing its "big and quick" entry into the hotel market, because,

*] By late 1985, Citadel, as a new small hotel company, was engaged in four different types of hotels.
* It needed to pre-empt other regional development companies.
* It needed to gain a critical mass so as to spread overhead costs over many projects.
* There appeared to be only a brief window of opportunity for exquisite hotels.
* Citadel had recruited senior hotel managers with the promise it would grow and they had bet their careers on Citadel's commitment. Breaking the promise would mean that these managers would walk away, taking with them crucial expertise.

Hence, by the end of 1983, Citadel was once again faced with a strategic predicament. Vacarian acted as if the new corporate context was similar to the old context with its counter-cyclical domains of development in public housing and private office projects. He wanted to switch attention back to the office program as Citadel had successfully done over the past twenty years. However, while hotels were a repetitive program, the hotel market was not counter-cyclical but rather in phase with the office market. As a result, Citadel's practice of on-going strategy design was mismatched to its new context.

**Inquiry into a strategic predicament: establishing the corporate mission.** The problem of parallel development programs was very touchy. Each program was aggressively pushed by a second generation family member, with Vacarian overseeing the office program and Dwight Hadrian overseeing the hotel program. Their professional identity was strongly linked to one program, e.g. Vacarian had considerably "matured" when competing unsuccessfully for office projects, while Dwight Hadrian saw the hotel program as a "personal
challenge". And while Vacarian was already President and senior general partner, Dwight Hadrian was being groomed to become (junior) general partner.

Against this background, Simon Barseman, "the family consultant", was called in in May 1983 to head a "strategic planning exercise", which, based on a rather traditional format, would address questions such as:

* What business is Citadel in? What factors really make the difference between success and failure in this business? Where does Citadel stand with respect to these factors?
* What are the unique advantages of Citadel and its competitors? How can Citadel most effectively employ the advantages it has, counter those of its competitors and acquire or develop greater competitive advantage?
* What will it require in terms of "product" development, marketing, financial backing and other tools? Is it worth it? Can Citadel afford it? What must be done to implement the strategy and plans?

During three meetings in 1983, the strategic planning group -- made up of the four family members, the controller and the head project manager -- discussed various possible mission statements for Citadel without coming to a conclusion. The group struggled in particular with two central issues: 1] how to square short-term, "opportunistic hits" with long-term efforts; and 2] how to reconcile an "entrepreneurial" focus of operating groups such as Property Management Group without corporate having to face a situation of "the tail wagging the dog"? The group did not come to a conclusion. In the end, the choice of mission was settled when Joe Hadrian offered his version.
"The Citadel Company is an entrepreneurial real estate company. Its mission is to create and maximize real estate values through development, acquisition and operation of major properties and related business. The company is committed to the objective of creating real estate value while maintaining the highest standards of quality, integrity and opportunity for personal growth of its staff".

Hence, Citadel's strategic predicament was not framed as a problem of an old practice of strategy design mismatched to a new corporate context. Rather, the rivalry emerging around competing development programs was framed as a problem of corporate identity to be addressed by redefining the company's mission.

A sense of urgency. By the end of 1983, the issue of competing programs had become an urgent strategic issue for the planning group. Attention continued to be focused on the hotel program and the questions it provokes:

* What is "the critical mass" required to spread cost?
* What "rate of growth" is required to reach it?
* Could Citadel take the financial "risk and exposure"?
* Would it result in "a balanced portfolio"?
* Could the hotel group "handle it organizationally"?

Reading the documents from these meetings, one gets the distinct feeling that most participants thought Citadel could not support parallel programs. As a way out, the group discussed how the acquisition of a low-budget hotel chain that happened to be for sale could be used "to cool off" the hotel program. However, such an acquisition raised new questions:

* Would a tax loophole remain unchanged making the acquisition very attractive?
* Was this an example of a "quick hit" mismatched to a long term effort?
In addition, while not addressed by the group, it raised the question of how to account for Citadel’s quest for quality with these low-budget hotels? Finally, Citadel had always been working on its own and for its own, and had never before acquired a firm.

Under these condition, the GPs decided to hire a strategy consultant from the outside. Citadel’s planner illustrated the dramatic point at which the firm had arrived when she wrote to the consulting firm that Dwight was prepared to move "aggressively" on the acquisition and that this "would have serious implications for the company .. we are indeed at a crossroad".

Apart from identifying erroneous assumptions in the hotel program design, the consulting firm focused on an "unhealthy internal growth imperative" that would "outstrip market opportunities": 1] the hotel group had raised overheads requiring a higher pace of development, and 2] the incentive and compensation of the hotel group top management were tied to operations profits and not to real estate values. The consultant firm proposed change in the organizational structure:

1] separating hotel development from hotel operations,
2] adjusting the incentive and compensation for the hotel executives.
3] considering a new division of labor among the GPs

This advice did not lead to any immediate action. Instead, by April 1984, the Royal Hotel Corporation informally promised the GPs that Citadel could build twenty new hotels, and the attention of management turned to finding new hotels.
prospects and dealing with the two large office projects.

A recurrent pattern of organizing in the face of strategic predicaments. Reviewing this process of strategy design that took place at the end of 1983 and the beginning of 1984, we conclude that when top management was faced with a strategic predicament, it chose to act in the following way.

First, faced with the problems caused by two competing development programs, top management sought first to establish the company’s mission, then considered an escape by acquiring another hotel chain, and finally avoided addressing the issue. However, by the end of 1985, the pursuit of both programs had led to an unexpected amount of work, the company was stretched to its financial and managerial limits. It was troubled by escalating organizational conflict centering in part around the scarcity of internal resources.

Second, top management chose to act on its own and excluded major internal groups which might have contributed to solving the problem. In particular, the senior hotel group managers were not invited to the strategic planning meeting, a mistake in the minds of some key members of the firm. And while the mission statement was intended to be distributed throughout the firm, by early 1986 this had not happened.

Third, under conditions like those described above, top management had a tendency to look for structural solution. However, around the same time, as we shall see in the next section, there was evidence available that a structural
intervention based on limited inquiry would have a limited effect.

The re-emergence of an old problem: the withholding of information. In 1980, structural intervention had led to the creation of the Development Group, a group of project managers to guide the building process on a daily basis for the GPs, and, in particular, to control the Construction Group. By 1984, with a series of new projects in the planning stage, the new PMs began to experience the same trouble as the GPs had experienced at the end of the 1970s: the Construction Group was withholding information. The strategy consulting firm found widespread agreement among managers throughout Citadel that:

"The flow of information between the construction group and the rest of Tower is limited [and] whatever its causes ... the construction group's reluctance to share information with the rest of Citadel is a major problem and one that reduces the value of the construction group to Citadel."

According to the consulting firm, the corporate level thought the construction group had:

"a reluctance to provide the corporate level with estimates which it may not be able to meet" and "a tendency to put all sorts of contingencies into the estimates".

The construction group, on the other hand, maintained initially that:

"playing it close to the vest has historically been a way of doing things in the construction business" and "there is a natural tendency to build in contingencies".

This is the same issue that troubled Citadel in the late 1970s and that led then to structural intervention and the
creation of the Development Group.

The statements reveal that the construction firm saw itself as if it was still a general contractor working for an outside client, even though, there is no apparent reason for an in-house construction to work under a veil of secrecy. One could say that the construction division was still holding to practices the firm had used some two decades before when it acted as an outside general contractor. These practices were mismatched to Citadel's new strategy design, and its recurrent structural interventions did not address them.

The relation between the corporate level and the construction division was aggravated by the unilateral nature of the structural intervention in the late 1970s and the secrecy that surrounded it. The consultant's report quoted construction managers as saying:

"If the corporate level gets all [our] current project cost data and historical data, they won't need us."

The report revealed the fear that the corporate level would sell the Construction Group or close it down.

These fears were not without grounds. Corporate management had indeed considered selling the group at the end of the 1970s. For instance, one of the reasons top management let the group work for outside clients in the early 1980s was that it thought the group would become more competitive and could then be sold. But top management could not communicate that message to the Construction Group, because its managers
might have become even more reluctant to share information and / or leave the company. Therefore the corporate level had sent indirect messages to Construction. For instance, according to the corporate planner, top management tried to convey its lack of confidence in the group's competence by arranging for a construction joint venture with an outside general contractor for Citadel's first large-scale project. Not inviting the Construction Group into the new corporate headquarters, signalled the group's diminished importance in the company.

The construction group managers maintained that they were "frequently unaware of the development project managers' role and responsibilities and how the requested data would be used". Indeed, the intent of the corporate level in creating a development project management group was to make the tacit estimating knowledge of the construction group explicit through an internal bargaining process. Finally, according to the corporate planner, the Construction Group's reluctance to part with information was in response to the reluctance of corporate to involve the construction group early on in the development process.

By 1984, however, Citadel was swamped with work, and the GPs needed the group for a variety of reasons:

* As a check on outside contractors' prices during a boom,
* As a group that consistently could both deliver quality and do it within schedule and budget,
* As a group that could "bail them out" under extreme conditions without taking advantage of the situation.
By mid-1984, the GPs made another structural change and decided that the Construction Group and the Development Group would be combined into one group. The head of Development became President of both groups, called Citadel Core.

In conclusion. Over a period of twenty years, Citadel had developed a practice of on-going strategy design based on a set of design rules. These rules had reasonably matched the company's strategy to its context, and the organization had internalized them. When in the first half of the 1980s, Citadel's design-in-use and, in particular, its switching rule, was challenged repeatedly in a series of projects, the organization continued to bring to bear its design-in-use. It was as if the company assumed it was still working in its old context. The mismatch resulted in repeated failure as well as the discovery of a new context. However, top management framed the new context as similar to the old one.

After a while, a mismatch between the old practice of switching and the new context occurred and expressed itself through rivalry within the top management group. Top management did not have access to its own practice of strategy design and could not get underneath its conflict. The conflict was tied to the erroneous assumption that the hotel program, like the housing program, was both repetitive and counter-cyclical to the office program.

Under these conditions, top management pulled back on its own and excluded key groups that might have made a contribu-
tion in getting access to its strategy design practice, which in turn might have helped it to get underneath its predicament. Rather, when attempts to define Citadel's mission did not resolve the conflict, top management avoided dealing with the problem altogether. In doing so, it allowed the mismatch between corporate design and what was actually implemented to persist and created a separation between the corporate and programmatic (or divisional) design process. In the next part we shall see that this had high costs.
5.4. Implementing A New Programmatic Strategy: A Troubling Stream Of Design Changes During Project Development.

In 1982 Citadel began implementing the hotel strategy by actually doing projects. To oversee the development process, the GPs drew in particular on the project managers of the Development Group (created in the late 1970s). By 1986, the key groups in the organization -- i.e. the Development Group, the Construction Group, the Hotel Group and the General Partners -- experienced unexpected organizational failure. A stream of minor design changes in individual projects, often in response to changes in the hotel environments, led to major organizational conflicts. This failure became the single most important limiting factor in learning the new hotel strategy.

In this part, we shall see how these dynamics built up over a couple of years, how they were very similar to the dynamics of the late 1970s, and how the old dynamics began to interact with the new dynamics, compounding the organizational problems. In short, we shall see how the failure to learn strategically prior to, during and shortly after the major strategic change, led to limited learning of a new hotel strategy. We will look at the development process from the point of view of the PMs in their everyday practice. These PMs were brought in as "an extension of the GPs" in the development process and were Citadel's key invention for addressing earlier organizational problems.
The force field for project management in real estate development. Around 1980, Citadel saw itself as "an investment builder which owns what it builds and manages what it owns". Central to its distinctive competence was the integration of the entire development process through the GPs. While they had carved up the development process into three phases -- planning, building and operations -- as entrepreneurs, they were supervising each phase of each project. Primary responsibility for a phase was delegated to key organizational groups. The Business Group planned projects which involved finding sites as well as attracting financiers, major tenants and city approval. Planning resulted in:

* A program defining the scope of the project,
* A deal with underwriters arranging project financing,
* A budget (called a "pro forma") for building the real estate.

Only after these commitments were in place, would Citadel go ahead with actually building a project. Thus, Citadel was not a speculative real estate development company.

Building a project involved design and construction and was guided by a PM from the Development Group. Outside architects and engineers would do the design and Citadel's in-house Construction Group would act as general contractor, sometimes in a joint venture. After completion, a building would be managed by the Property Management Group.

As a builder of investment properties, Citadel's expertise in delivering projects within budget, schedule and quality was a crucial part of its distinctive competence.
Commitments obtained from major stakeholders after the planning process were honored upon completion of the project. Thus, during the construction period, the General Partners were most at risk and for this, they would get a part of the equity in the project.

During the building process, the GPs had to manage two central design dilemmas grounded in contradictory requirements. The first dilemma concerned managing the relation between long-term real estate value and short-term construction gains. The GPs wanted, on the one hand, top quality buildings which would yield the highest rents and the largest increases in long-term real estate value. On the other hand, buildings had to be constructed within budget and schedule determined by the financial set-up of the project. In order to get the best of both world, the GPs had created an adversarial relationship between the outside architects and in-house constructors, in which the owner had the final say. In the past, Hank Hadrian had resolved conflicts in the field as the project went along. Now the PMs would have to inform the GP about such conflicts so that he could "step into the situation" and decide between the conflicting values of long-term real estate value and construction costs.

The second dilemma concerned keeping options open during the development process and securing a relatively uninterrupted construction process. During the delivery, predictions about key design parameters of a project might change. For
instance,
  
  * Construction cost might be higher than expected,
  * General real estate market conditions may deteriorate,
  * Competitors may build competing projects nearby,
  * Activist groups may delay the work.

To deal with these uncertainties in the project environment, the GPs followed two contradictory strategies:

  * Build a "minimum scope" building to which options can be added during the construction process or even afterwards,
  * Build "fast-track", i.e. as fast as possible with PMs keeping the construction process moving. This requires a careful planning in advance based on a complete design.

These strategies were intended to adapt the project to uncertain and changing factors in its project environment as it developed and make it as competitive as possible. They also resulted in numerous design changes during the design and construction process, for instance,

  * The program may change,
  * Mistakes may be discovered in the design,
  * Options may be added,
  * Parts of the design may be filled in,
  * Tenants may have new demands, etc.

While the GPs tried to keep options open as long as possible, the Construction Group wanted to settle as much of the design as possible prior to construction so as to have an uninterrupted fast-track construction process. Construction also parcelled out parts to sub-contractors and tried to get the lowest possible bids. However, once the construction process started and the "subs" were hired, any change was apt to lead them to take advantage of their position, driving up the ultimate construction costs and thereby affecting the
bonus of the Construction Group.

In this field of opposing forces of GPs and Construction Group, PMs were introduced as a third force, as we have seen at the beginning of this chapter. PMs were to challenge the Construction Group and obtain reliable cost information up-front. They would also monitor daily spending during construction so that GPs, in essence, would not be surprised by sudden mismatches between financing and spending during or after a project.

The genesis of project management in practice. During its first large-scale downtown office building, the City Square skyscraper, Citadel ran into a series of surprises:

* The addition of its first hotel project,
* Vertical transportation emerged as a bottleneck during the construction of the skyscraper,
* It experienced severe cost overruns,
* The real estate market improved dramatically.

These issues were not immediately clear from the beginning, they presented themselves as extra work to the GPs and the Project Director Guchi. Newly recruited PMs were asked to take on ill-defined tasks resulting from these surprises and to fill the cracks.

The PMs were often recruited very late when the problem was pressing but unclear. They were surprised by what they saw in practice. For instance, Christie, who worked as an assistant for the hotel part, reported "an amorphous vacuum", "an undirected situation", and "total chaos from the beginning". The hotel operator was "completely disorganized" and

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provided "inadequate numbers" and this had "deleterious" effects on the process. The experience had been "so overwhelming" that five years later, she still had difficulties framing "what the problem really was".

"You just don’t know what you ought to do. What is really important, no one took control, there were disasters ..."

Harry, assistant for the skyscraper construction, was amazed how little design work had been carried out when construction began. The lobby, the elevator shafts, the glass wall were all "budget items, no real designs". At the same time, a system to keep track of design changes was completely lacking,

"They did not have a pending change order system, they did not know how to manage claims, to track design changes, and what the costs were".

As a result, when the real estate market improved and options were added, design changes were "pretty devastating" for the construction process. Harry called the strategy of adding options onto a design of minimum scope "squeeze first, free up later". Finally, Karl, the assistant for tenant improvements, was faced with tenants frustrated with delays due the limited capacity of vertical transportation on the site. Tenants threatened to hire another contractor which would have only created a tighter bottleneck and be "a nightmare". Surprised and at times overwhelmed by the chaotic situations they had to face, PMs called what they did "marshall, manage and drive decisions", "coordination", and "keeping track".

Their situation was complicated by the return of old games surrounding the construction process. For instance,
when the estimate of the Construction Group came in, according to Christie, "numbers were discounted" and an "independent estimate" was made. The problem was illustrated by the costs assigned to the atrium. The original idea was to build a nine-story skylight atrium. When it appeared to be too expensive, the height was reduced to two stories and the price put at two-ninth of the original estimate, while it should have been half. According to Christie,

"There was an illusion of getting down in cost that did not reflect real costs. There was not an awareness that when you do estimates like that there are lots of big numbers because you are covering some things that you don't know about."

Harry mentioned how, on the basis of a sketch design, construction costs were estimated for the construction loan agreement "at a very high level of precision", resulting in loans that were,

"constantly out of balance from a construction standpoint ... it made my job difficult because I kept coming back to the partners and [reporting] the cost".

The effect on him was that "it looked like I did not know what I was doing, which was also true".

These dynamics were further aggravated by the construction joint venture between the in-house group and an outside contractor. According to one of the assistants,

"The construction contract had a lot to do with the positioning of the principals of each of those organizations."

Problems in design and construction were pushed to the level of the principals, and,
"Once you push it up to that level, decisions are made there and it was difficult to bring them back down."

These "old" problems were virtually replicated between the new head of the PMs, Kelvin Parigian, and the new President Dave Vacarian. According to some PMs, Vacarian "was going through this enormous struggle for his own identity"; he felt "insecure" and wanted to establish his authority in the company. Within this context of challenge at the project level, organizational strain and individual insecurity, conflicts arose between Parigian and the partners right from the beginning. An early incident was indicative.

During a job meeting about the rehabilitation of the hotel project, the question arose as to whether bars had to be removed from a window at a cost of $12,000. As Vacarian was not present, Parigian was the "representative of the owner". When it appeared that the window would have curtains, he decided to leave the bars in place, and save money for the company. In a following meeting, Vacarian decided to remove them. Parigian was stunned by what he interpreted as insensitivity, and five years later recalled with indignation,

"He overrode my decision, he didn't say to himself 'Well, a junior person made a decision, I have to support him regardless'. Instead he said, 'I don't care what he did, I am just going to cut him off'".

Christie, who was present at the job meetings the two attended, recalled how there were ...

"all sort of issues about power between Kelvin and the GPs, this was not the right job to handle that issue, it was a lose-lose proposition for Kelvin to try to fight back."

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Hence, from its very inception, the new group of PMs was faced with construction cost control problems, the very same issues that had plagued Citadel all along. In addition, the problem between the GPs and the PMs was aggravated by the "old" problem between the GPs and Construction. To be an "extension" of the GPs prior to the set up of the hotel program had already been problematic, as we argued before. However, it produced defensiveness and no joint inquiry took place to get underneath the problem.

Extension of the organizational design with the creation of the Hotel Group. When Citadel created its Hotel Group to be responsible for hotel development and operations, its senior managers had come together and had decided on a design for the hotel development process based on the following assumptions. First, the process would be carved up in 1] hotel development, 2] delivery of hotels, and 3] their opening and operation. During the building process, a FM would have primary responsibility, "implement" the development program, and, upon completion, hand "the asset" back to the Hotel Group. Second, the Hotel Group and the Development Group of PMs would engage in an "adversarial process, managed at the top" in which "the owner gets the best of both worlds" by "balancing" real estate development and hotel operations concerns. A "series of conflicts" were expected and the process would be "treated with great respect" and "complete candor" at the top. Third, conflicts were expected at the
end of the construction process when the Construction Group would be in high gear to finish and the hotel General Manager (GM) would want to prepare for the opening of the hotel. Therefore, the GMs would be separated from the development process and take over once the project was completed.

Hotel planning. From the outset of the cooperation between the Hotel Group and the Development Group, the latter were on the defensive. Their position was, in part, of their own making. For instance, when Campbell, the President of the Hotel Group set up his group, he invited Karl, the senior PM, to join him trip to familiarize himself with existing exquisite hotel projects. While Campbell explained "this is what works, this is what sells", Karl thought to himself that the buildings were "lousy", "little things" which had "absolutely no class" and were "sort of tacky buildings, tasteless". He was not interested in them, nor did he think that this was what Citadel was all about. While he was caught in an "internal conflict", Campbell was "teaching me without me knowing it" and Karl was "providing absolutely no feedback, I was sort of absorbing". He also believed Campbell "was not interested in my feedback", for instance why Karl thought a hotel built by Citadel might be a little more expensive.

He called Campbell's approach "the marketing approach" as opposed to "the development approach" and touched on the difference between repetitive hotel and one-of-a-kind office
projects (which he had been engaged in until then). However, he felt defensive and withheld from Campbell his privately experienced surprises which might have had an importance beyond that particular practice.

Once hotel people began to acquire sites for hotels, they did this without consulting PM Karl on technical issues such as drainage. As this might cost the company dearly, he confronted them, but he found that,

"It is like nobody understands the technical issues, nor do they care. It does not matter, 'don't worry, we can overcome it, it is part of the deal'."

When the construction costs were budgeted, Karl considered the figures "a joke from the beginning". However, rather than initiate joint inquiry, Karl accused Campbell of playing politics,

"He had every incentive to give me the idea that these things were relatively inexpensive to build so that I would work to [reach his cost estimates]."

At the same time, Karl was faced with hotel budget items such as furniture, fixtures and equipment. He had "no idea how to challenge that number, it [was] a given". On the other hand, Campbell called the construction budgets "crazy", because the figures received from Karl were much higher than what he was accustomed to in the Royal Hotel Corporation. It became, according to Karl, "a total miscommunication".

Eventually, Campbell began to address Karl as his "cranker", cranking out his routine budgets. While meant as an endearing term, Karl "resented it, the perception was hierar-
chy, it is there but you don't need to articulate it".

Then, as more and more hotel projects were planned, Karl requested new PMs. However, Royal was wavering about granting franchise agreements and top management was reluctant to recruit PMs. When Campbell could not give him key information on the design of hotels, and the Royal Hotel Corporation's technical assistance was inadequate, Karl felt he was "going nuts" and almost "burned out". Under pressure, he knowingly put up with cost figures that he did not agree with,

"What do I know about these other bits and pieces that I have no experience with? We are not going to spend the time to find out how to budget!"

**Hotel design.** When new PMs were finally hired, they came in very late in the process. Much like the first PMs, the new young PMs, Mike and Don, reported "chaos" and "scrambling". Only one older PM, Ken, saw the relations between the Development Group and the Hotel Group as "buddy-buddy" and as "novices hand in hand".

The new PMs faced a serious problem right from the beginning. They needed very specific information for the architectural design to be submitted to the city early on in order to obtain key approvals. Without those approvals, a lot of design work might be in vain or misdirected, and once approved, the company would be committed to the "shell" and the "floor plan". However, whatever the PMs requested, they could not get from the Hotel Group the technical information they needed, e.g. about the specific measures of key spaces.
The situation was compounded as several key assumptions underlying the hotel program were challenged. For instance, while repetitive, hotels were not mere replications of Royal's prototype, and architectural design was not just a matter of using a computer program. Stringent zoning regulations required very different floor plans, and different structural material required subtle but important design changes. And finally, as the hotel type was also new for the franchiser Royal, that company could not provide adequate technical assistance to Citadel.

The PMs began to frame the problem as "a lack of definition" on the part of the Hotel Group. However, that Group knew in its own terms what it wanted, and could specify what needed to go into hotels. But, as one PM admitted, the Hotel Group senior managers were "not really good at visualizing", i.e. they could not express what they wanted through the media of the building professionals and could not read sketches and drawings. The PMs had a growing lack of confidence in the competence of the Hotel Group and claimed that "it was apparent that no one knew how to operate these hotels". It was compounded by distrust in the head of hotel operations, "We knew right away we were in trouble. He is like a bowling ball, a totally different personality style from Citadel, he tells mean jokes and stretches the truth".

The PMs stuck to framing the Hotel Group approach as "the marketing approach" in which hotels were specified on the basis of a "computer program". They devalued the competence
of the Hotel Group top managers who they saw as coming from a "top-down organization", not used to communication, and "depending on others to execute" after having specified a plan. Indeed, the head of the Group described how in his former job he had sought a separation of planning and building hotels,

"... when you could come in [...] review the market from a macro standpoint, identify without looking at the issues what the ultimate strategic plan should be in the market and .. then the real estate people could simply execute against this strategy".

By framing the problems with the Hotel Group as one of a lack of competence and trust, the PMs could not address it. Instead, they began to rely on a hotel architect, who had worked with the Hotel Group people when they were still working for Royal, and on an interior designer. These design mediators spoke "the same language" as the hotel people and also "spoke ... design". They helped to make "the translation". A newly hired and experienced purchaser of hotel interiors became "a driving force" in making decisions, and the situation was somewhat eased when the Hotel Group appointed a liaison.

When senior PM Karl summarized what he made of the experience, he focused on the fact that all participants had been "rookies all the way through" and that it was "silly" that they had not known about the difficulties up-front. He did not see that the problems of the PMs were to a great extent of their own making by keeping surprises private and not jointly inquiring into events.
Construction and set-up of hotel operations. During the construction process, two sources of design changes emerged. First, the hotel program strategy was changed, for example, the restaurants became profit centers rather than cost centers, and in order to be more competitive, the hotels were made even more luxurious. Second, nine months before completion, hotel general managers (GMs) were recruited. As the GMs prepared to open the hotel and "hit the market right", they studied its design and budget and not only found mistakes and omissions, but also sensed changes in the market. Some design changes became "musts" in order for them to accept "bottom line responsibility for operations".

PMs like Mike would challenge the design changes and tell the senior VP of hotel operations, "Robert, you approved it. Whenever you change and the later [you change], the more it costs". However, Robert would claim that he needed the change for "marketing reasons", making it difficult for the PMs to confront him.

These design changes, according to senior PM Karl, undermined the PM's position in the field. First, they had put up with a budget they did not believe in, then they had defended the "minimum scope" in job meetings, arguing that they had to stay within a tight budget. However, the "stripped down" projects had a design "that nobody wanted". Then when options such as greenhouses, bay windows, and marble floors, were "thrown in", participants in the job
meetings sensed "there was ample money" and the PMs felt they had lost their authority.

"It totally destroys the PM's ability to control costs. It is very difficult, you lose all credibility with the designer, the contractor. [The PMs are] left with a feeling of being out of it."

Finally, some of the design changes were reversed once in place, "it was like salt in the wound" according to PM Ken.

But again, this was in part of their own making. In response to being called "a cranker", PMs had developed, what they called, the "scepter theory". PMs were keeping a sort of an imaginary account of "the amount of non-expressed trust" that each had accumulated in the firm. The amount of trust bestowed on a PM, his "scepter", depended on whether somebody in the firm "gets in his way and says 'no!'" Trust, according to Karl, was "one of those things you know, you just feel". With regard to his own "scepter, Karl had compared himself with other people in the firm and concluded that "I probably had as much knowledge as the next person". Therefore he felt "comfortable making decisions and not telling people". However, in doing so he made himself vulnerable for inevitable interventions of GPs in the on-going development process. By assuming trust that he knew what he was doing and was left alone, interventions by the GPs became in Karl's thinking instances in which they expressed that they did not have that trust in him, leaving him bewildered.

In response to their troubles in the development process, the PMs had began to learn their own lessons. They felt
"reasonably seasoned" and sensed that they were beginning to understand "the anatomy of the process". They thought that the GPs were being "snookered" by the hotel executives, each of whom had a favorite area -- such as the health club or the kitchen -- about which he had no real expertise. The PMs came to see design changes in these areas as giving in to "fads" that would die away. In addition, they saw design changes as "hiccoughs at the tail end of construction", which "once the steamroller gets going [are] the last things you need". Finally, the PMs began to "dig in" and refuse to make design changes by claiming there was no money. Ken illustrated the changing attitude of the PMs in the case of a outdoor sign that the Hotel Group wanted to instal.

"Two years ago we would have seen it as "hey, it's all one organization" .. but now .. boom, we stop our responsibilities, it is yours".

These reactions were a defense against what the PMs saw as interference and interruption, unchecked and unchallenged by other groups. The PMs began to make their knowledge undiscussable much as hotel people had done earlier.

A special project. One of the batch of five hotels that Citadel was developing became a special project and set the stage for increasing organizational failure. This project was delayed because the city had challenged the architectural design, and contaminated soil had been found on the site. The GPs were very concerned about the firm's reputation in the community and, as it was a hometown project, they supervised
it closely.

According to PM Don, troubles had started at the outset. After a "good basic clean up", the budget was 10% higher than the financial deal allowed for. Because of the delays, Citadel was "pushing a very aggressive schedule"; construction had to start before the end of the fiscal year so that investors could reap tax benefits. Therefore cuts were made through "slight of hand" with "savings to be agreed upon later". The cuts however required a major redesign and, at the same time, the fast track construction process "developed its own momentum, came back and shouted for information, drawings, details, final solutions". According to the PM, Citadel should have stopped and cleaned up the design, however,

"we failed to do that and failed to recognize how much rework was going to be required".

Although "the schedule for financing drew the project askew from the beginning", PM Don put up with the pressure. In doing so was caught between the Hotel and the Construction Group,

"so you had construction moving ahead quickly and the program definition coming slowly".

The PM's predicament was aggravated by the deteriorating dynamics in the field which were in part the result of his own handling of the situation. He had knowingly "passed the buck" to the architect by giving him "unrealistic objectives", for instance, to cut costs by 10% without changing
the volume of the building. The project architect, already troubled by the pressure of fast track construction, tried to "dig out" of meetings. The PM sensed a "lack of commitment". and began a process of "daily harnessing" of the project architect (i.e. reining him in) until the latter resigned in the middle of the process, taking with him a lot of valuable information. The loss of the project architect was felt even more when Citadel changed the structural materials from concrete and masonry to steel to save money even though steel had already been ordered. According to the PM, the architectural firm "literally cut and pasted" details out of other hotel projects and "assumed them to work because it was just another hotel". The architect's firm was surprised by overspending when the fifth hotel project appeared not to be a replication of previous projects. In order to save money, the firm decided not to replace the project architect and left design conflicts to people in the field.

The situation in the field was further aggravated when all kinds of design changes were ordered during the construction. The Construction Manager (CM) was incensed and maintained that, while the GPs were surprised about rising construction costs, he was not surprised at all,

"They played a game with the millwork. First they cut away and then they added later because they want a classy job".

He ended up with 400 design changes, "a change a day and often after something had been completed. Everything seems
to be done by crisis".

To make matters worse, the Development Group began to implement a new administrative system for design changes, called "change orders and approvals", to replace the old "time card" system, with the idea of better controlling construction costs. Rather than just adding all design costs up at the end, the intent of the new system was to stay within the allocated design budget. Every change would have to be approved up-front. But the system was not well received in the field. A principal of the architectural firm found it very troublesome,

"You can't just pick up the phone and answer questions and say "why don't you zip zap it the other way, okay?""

While the PMs insisted on the system, the CMs of the same company tried to circumvent it,

"... instead of doing all the paper work, we watched the ball while it was going".

The architectural firm was slow to react to Citadel demands and, according a principal of the firm, the relations with Citadel deteriorated as the CM was

"pretty rednecked most of the time, demanding things up-front and early [while] his comments were embarrassing"

When the principal talked with the CM's supervisor about the new style, the latter promised a change. When it nevertheless continued, the principal assumed it was part of the new approach and "things built up to something we never had before". While he was concerned, he had stopped inquiring.

The relationship in the field between the PM, the CM and
the architect were further complicated when the leading architect of the firm, Kim Lee, used his close relation to Hank Hadrian to address problems. In the past, Hadrian and Lee would quietly "thrash out the problems" on the basis of mutual respect. When they continued their practice, Citadel's new team -- President Dave Vacarian and the new head of the Development and Construction Group, Kelvin Parigian -- saw Hank's involvement as interference undermining their efforts to set up an administrative system, and they required Lee's withdrawal from the project. It was precisely interventions such as these which had aggravated the Construction Group in the past, and had led them to withhold information and "protect Hank against himself". According to Lee however, Hadrian could, as no other developer, make decisions in the field,

"the people that are nowadays in the field can't do that, they don't have the experience".

For Lee, that was the key difference between the previous and the new "modus operandi". It is "like the railroads and the post offices: the decisions get diffused".

A mini case: feedback from hotel operations. Because of the delays in the fifth hotel project, it opened nine months after the first four projects. Information about market position and technical systems from earlier hotels became available, as well as moves by competitors. This led to further design changes on top of an already overburdened and up-tight development process. Minor design changes -- such as the
procurement of a thirty-gallon soup kettle -- escalated into major organizational conflicts with an unprecedented intensity. Problems mostly evolved around "the back of the house", such as kitchen, restaurant, and laundry -- those parts of hotels that are different from offices. These conflicts emerged between the PM (Linda) in charge of development and the GM (Chris) in charge of opening and operating the hotel, and would soon escalate into personal conflicts that had to be brought to the attention of higher levels of management. They would then become wrapped up in organizational politics, provoke deeper emotions and end up in a contest of wills between the management of two key groups. Due to the escalating conflicts, GPs were increasingly asked to settle the problems early. One prototypical example was still fresh in the minds of most firm members during our study and was referred to by them when they advocated solutions to organizational conflicts that were becoming intolerable. At the heart of this case is interaction between strategy design and its implementation.

The first hotels showed disappointing occupancy rates and the Hotel Group attributed this to the time of the year the hotels were opened and to competitive moves by other luxury hotels. The Group decided to open the fifth hotel a couple of months earlier, which required that an already fast-track construction process would be speeded up further, and to upgrade the service by providing more sheets and towels.
Around the same time, the GM discovered that the laundry of one of the sister hotels could "just do the food and beverage laundry" during low occupancy in a hotel with fewer rooms. He did a time study and concluded that he would have to run the laundry with at least two shifts a day to meet demand. Extra labor costs would affect the operating income of the hotel (and his bonus), which was already uncertain because of lower than expected occupancy rates.

When the GM went to the VP of operations, Robert, the latter had just decided that in order to stem the flow of conflicting design changes, he would "push the issues back to the field". This was contrary to company policy which said that conflicts would be dealt with "at the top, with respect for the process". Robert did not inquire into how to account for the fact that other hotels did not seem to have laundry problems. As the GM was "a real expert", he asked the GM to come up with a solution, thereby involving the GM in development, which was also contrary to company policy. The GM was strengthened in his ideas when the head of purchasing told him that he was "aware of .. the disaster" and "prepared to deal with it".

The GM recruited a consultant who advised him to install another more expensive brand of ironer and the folder machine that would save one shift of labor. As the laundry room had not been built, the GM proposed the solution to the PM. However, the PM rejected the proposal as "inadequate" because it
did not provide detailed drawings of how to install the equipment. She hired her own consultant who told her that the equipment in the sister hotel "ought to work" because it worked in other places. When the PM discussed the matter with the GM, she only focused on the technical specifications of the machine and cost problems, rather than asking him how he could account for the fact that other hotels were doing well with the same equipment that he rejected.

There was now a situation in which both the PM and GM claimed that they represented the owner's best interest and could judge about aspects of the case within each other's domain of expertise. The GM claimed he knew about construction because he had been involved in renovating hotels in the past, and the PM claimed she was a generalist who could "understand when you are given .. not good stuff". Both had their positions backed up by expert consultants. Rather than joint inquiry into how to account for the functioning of other hotels or how to account for conflicting claims regarding the owner's best interest, under a lot of time pressure, they went to their superiors, who, equally pressed for time, quickly lent their support to each of them.

When a fire broke out in the laundry of the troubled sister hotel, the GM saw it as evidence that the faulty equipment "had to work too hard". However, an engineer found that an improperly installed duck had caused the fire. The engineer also discovered that the hotel staff was untrained
and, with some help, the volume had already increased significantly.

When the PM heard the story through the grapevine, she concluded that it was "perhaps too embarrassing" for the Hotel Group to admit a problem to her directly. The fire also reinforced her position and "made me even more strong about keeping what we had speced". Because the head of the PM's, Kelvin Parigian, was no longer on speaking terms with Robert Laing, the VP of operations, she spoke to the VP herself but found that he "did not give [my advice] material value". When the GM heard her recommendation, he was stunned.

"I could not believe it, we had done the actual timing with a stop watch ... [it's] a mistake, now let's get it changed, it was eminently changeable".

The GM found himself "in a situation of having to explain and teach her about laundries and convince her something was necessary". And given that the PM "doesn't claim to know anything about laundries", he concluded:

"Why would I spend my time trying to convince someone who is essentially a processor, someone who is in the flow to make sure things are coordinated, passed upwards and passed downward".

The GM went back to the VP of Operations. According to Robert, when the GM was telling him "you are holding my feet to the fire", he concluded that the GM had bottom-line responsibility and supported him. Robert also thought that it was "very difficult to handle emotions" that come with these conflicts and as he went along with the GM, he rationalized his decision by

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"Once in a while, [I] have to give [the GM] a ... deci-
sion. If you keep saying 'no' to him all the time, and if
he keeps saying 'I need this' then, at some point, you
have to give him something".

Robert went to GP Dwight Hadrian who oversaw the entire hotel
program and made a plea for the GM's case. When, according
to the GM, the design change was "shot down again", he
concluded that

"The only way we are going to make this happen is if we
take it directly to GP Dwight, not screened by the PM or
someone else".

The GM did a calculation for the GP which "showed the savings
were phenomenal" if his proposal for another machine would be
accepted.

The PM, in the meantime, was working very closely with
another GP, Hank Hadrian, who had increasingly become
involved in the project. Concerned about the opening date,
he had personally asked the Construction Group to speed up
the process even more. As the PM believed the equipment
proposed by the GM would not be delivered in time, she "dug
in her heels". She was also afraid to go to the construction
field superintendent,

"The field superintendent is going to roar ... I hated
going to those guys who were working seven days a week
for months and saying "here is one more thing guys, one
more change". They developed .. .ack of enthusiasm after
a while."

The GM saw her stance as "interpreting dogmatically GP Hank's
saying that there would be no more overruns, "that was her
mission in life."

After having been cut out of meetings for a while, the PM

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and the senior PM were invited to meet with GP Dwight. Prior to that meeting, they had distanced themselves from the problem. They felt "worn out", "had a million other thing to do", and agreed that "if [the hotel group] persists, we'll just do it" because "we did not have as much of a vested interest as the operator, he was going to live with the machine", and "it would cause some confusion to us and the schedule, [but] we could accommodate it without too much trouble".

Dwight was very puzzled by the way the conflict got solved, even weeks later.

"I am still mystified, I did not say anything [...] I don't know what happened, apparently everyone disagreed before the meeting and now everyone was agreeing".

With many new hotel projects to secure for Citadel, he had changed his "management style" and had purposely stayed away from certain issues. And as hotels were more complex than offices,

"I certainly wouldn't feel confident challenging ... how ... laundries [should] work, and simply relied on consultants".

Learning lessons. The contest of wills left both the PM and the GM exasperated. According to the PM, she could not understand the relationship between "the overall picture" of the company and the work she was doing. While she did not mind disagreements, "this one really upsets me". She felt like "a chicken with its head cut off" and concluded that decisions were made on "an irrational basis". She stated
that "I dug in my heels" and learned that  

"not to fight with the Hotel Group, [and to] avoid contest".

For the GM, opening the hotel had been far more challenging than he expected. He had taken it on as "a crusade" but it turned out to be "the most frustrating experience I’ve ever been through in my life". Following the laundry incident, the GM then tried to cut the PM out of the decision making process for a thirty-gallon soup kettle that had been left out of the original budget. He tried to solve the problem with the field superintendent of the Construction Group but the latter informed his superiors. Consequently, the president and vice president of the Construction Group came to his surprise his office and "kicked me up one side and down another". He realized that he could correct what he called the blindness of the developers only "precious few times".

The intensity of the conflicts had risen so much that the liaison between the Hotel Group and the PMs, Lester Goodman, had given up inquiry into these types of problems. For instance, against city regulations, the panel for the fire alarm system had been installed far back in the hotel instead of at the front desk, forcing front desk people to walk a long distance during an alarm. It had produced "hours of headache" and he had concluded that the hotel group had to put up the money for the change.

"There does not seem to be any way out [...] It is not  

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right and you know it is not and you know we can't fix it, so we have to live with it for the time being unless we choose to go back and do something with it ourselves. There is probably no end decision in a situation like that, you just exist."

He had looked into the decision-making process that had produced a fire system panel at the wrong place.

"It seems to be everybody's fault, they all had a piece to do. Nobody ever completed their piece because you could never get anybody to make a total decision on it, and because it lacks importance [in comparison] to everything else, nothing happens."

While the situation had been very frustrating and upsetting, Goodman had decided not to do anything about it.

"Personally I find it most frustrating because it is still an unresolved question out there, not that I am going to lose any sleep over it. It could be made an issue, [but] it is probably not worth doing something about. [It's] the ones we miss that upset me sometimes."

"Hopefully", he concluded, the Construction Group will gain more experience in building hotels so they get "an operational perspective".

In summary. During the development of five successive hotel projects, PMs increasingly began to withhold surprises in everyday practice, felt increasingly defensive and became increasingly protective of their activities. Unilateral attempts by the Hotel Group to correct errors led to escalating conflict and a contest of wills. A pattern of alternating dominance among key groups over "their" parts of the development process emerged, increasingly resistant to the needs of other groups. Less and less joint inquiry into troubling events was accompanied by increased politicking. At the end,
inquiry after the fact into failing parts of the project had become more and more difficult because it generated the same intensity of conflicts as it had during the process.

A stream of changes in the design of the fifth hotel project reflected learning on the part of some groups about errors and omissions or adaptation to changing market conditions. However, the organizational process between various key groups had become a limiting factor in the implementation of these changes. Rather than an interplay between strategy design and its implementation, an increasing separation took place between the two processes. The organizational process of shuttling up and down between strategy and operations which had been intended to weave the two together had become the bottleneck in strategic change. And limited joint inquiry into mismatches resulted in limited learning about the new strategy.
CHAPTER SIX
THE EMERGENCE OF A CORPORATE BUREAUCRACY

Further Separation Between Strategy Design and Implementation

In the third quarter of 1985 after the fifth hotel had been opened, while this organizational study was taking place, Citadel experienced escalating organizational conflict that put extra demands on an already stretched-out company. In addition, the context of its two development programs -- in hotels and offices -- was changing. Its members were facing at the same time unexpected strategic success and unexpected organizational failure. While proud of the projects the company undertook, they were also bewildered by the problems they experienced in their everyday professional practice.

As it turns out, Citadel, faced with the increasingly intolerable conflicts described in the previous chapter, was about to make yet another structural intervention. This time, however, as contrasted with previous structural interventions, I could actually "tap the corporate mind set" just prior to such an intervention. I got first-hand, on-line accounts of the reasoning and actions that informed organizing under real time conditions.

At the heart of the organizational conflict in 1985/6 were incompatible norms for performance, embodied by different groups. Citadel, till that time, had been a development
company focusing on the long-term real estate value of its projects. However, with the creation of a hotel chain, the company got involved in hotel operations, an unfamiliar type of ownership with its own requirements. As we shall see, senior managers in the firm understood their conflicts to be about incompatible norms but vacillated between attempts to unilaterally protect their own group's activities and control the activities of other groups, or to give up control altogether over activities central to their concern. When neither solution worked, members mainly advocated changes, minor or major, in the formal organizational structure. Some of them mentioned solutions like getting to one "united policy" or exercising "non-threatening" leadership. What prevented them from getting underneath their conflicts and addressing incompatible norms? We will take a look at the reasoning and actions of Citadel's three key groups and the way the GPs in the end dealt with the problem.


The Hotel Group's President, James Campbell, was surprised about a series of Citadel's practices that seemed to him incompatible with pursuing a hotel program.

First, he was surprised by Citadel's project financing in which all corporate overheads were "loaded onto projects". While he thought that it was a "brilliant" real estate development strategy, he was concerned that it "overloaded pro-
jects" during the first five years and that they might not survive. It also undermined his expectation that he would be "well off during the rest of his life" after the first five projects.

In addition he was surprised that Citadel did not have an explicit corporate financing strategy. Royal was still wavering about franchising its exquisite hotels and had pushed Citadel into secondary markets for exquisite hotels, e.g. Baltimore instead of New York. Campbell had decided that he would focus on those secondary markets, but, once he found them, he would also search for possibilities for other types of hotels so as to gain "a critical mass" of projects. To evaluate which opportunities were attractive, he asked the Finance Department for the company's financial strategy but found it could not articulate one. When Campbell inferred the strategy from Citadel's financial practice, he concluded,

"Basically we just go where we think is the best way to go, and worry about financing later".

He attributed to the GPs deliberate withholding of the strategy and assumed that "the art of development" was to obtain some equity in a project, even 1%, regardless of income from operations. Important as this attribution was, he had not checked it with the GPs. He believed that they were not willing to articulate a policy aimed at getting equity in real estate for the rest of the company, because "it may cause [managers] to develop more inefficient products" in terms of operations. Nor did he himself want to share it with his own
team "otherwise they might do more of those deals". At the same time, he privately called for more "candor" about the financial strategy. Hence, he recognized the incompatible norms for performance of real estate development and hotel operations, but his reasoning about inquiry with other key groups prevented him from addressing the problem.

Second, Campbell was also surprised about Citadel's pursuit of structural quality in the hotel projects, a pursuit which had "taken on a life of its own". The costs that came with it did not affect the "see-feel-taste-touch" of customers yet they were "automatically" part of the design. He called it "a construction mentality" which was at odds with the "consumable commodity mentality" that should govern hotel design. He wanted to "compromise" on the quality but had been surprised by the PM's reaction when he tried to amend the budgets and trade off development items for operation items. According to Campbell, when the hotel group drew up a budget at the outset of the development of a project, it included guesses about broad categories and "fine guesses" about items within those categories based on experience and historical data. But "all guesses are wrong to a certain degree". Hence, when the project was completed, the costs of some items were more than budgeted and others were less, but added up, they evened out. Therefore, the hotel group should have the discretion to shift budget items within the overall budget.
However, once the budget was handed over to the PMs, they would freeze the individual line items in an attempt to control the overall development budget.

"They attempt to draw fine boxes around that budget and all its categories, and they try to lock all line items in a box as soon as possible and never change it."

In addition, PMs would begin to question line items and to trade them, including those involving "see-feel-taste-touch" issues about which the GM were most concerned. According to Robert Laing, the VP for Operations, the GMs felt second guessed in terms of their "management expertise [...] what you have trained for your entire career". There was on the part of "young, bright, immature, aggressive and inexperienced" novice PMs a lack of "respect" for "mature, seasoned, savvy, experienced and professional" GMs. PMs should "trust and not challenge" professional judgement of GMs, "that kind of authority should be given to him". Laing saw it as an inability of the PMs to establish professional peer relationships.

Campbell knew that Parigian, the head of the PMs, was trying to gain control over the overall development budget (in the face of Citadel's past problems with cost overruns). But he felt that the PMs had "no business" interfering at the "micro" level. Hence, he thought it self-evident that he would try "protect" his discretion regarding the "see-feel-touch-taste" items. As a result, professional discretion had become a major issue of who controlled hotel development budgets. According to Campbell,
"Parigian wants control over the entire budget so that he can have the internal budget discretion to add and subtract from individual items without having to change the overall budget. Of course that is what we want."

Initially, most of the Hotel Group managers were not surprised by the conflicts around the budget. They had come from a large hotel chain and considered themselves "savvy" and "experienced in politics", "it was easy for us, we see them coming". They had anticipated the problem by initially "trying to relate to each other socially, separate from the issues, so that if the issues become conflicts we survive."

However, they had been surprised when the PMs "entered into a frozen loop" when they wanted design changes during the construction process close to the opening of hotels. For the Hotel Group, the initial hotel budget had been "a guesstimate. Markets are fluid and vibrate, and hotels are life assets. You don't know what posture the market is going to be in two or three years into the process."

Their concern was "to hit the market right" because once a hotel has been opened, it was difficult to change market perceptions. The Hotel Group senior managers saw themselves as both owner and manager, able to make the trade-offs between development and operations. They could not understand the resistance to what they saw as reasonable design changes which would cost a lot more to live with once the hotel was opened or if changes had to be made after completion. "It is the same pocket, so why make a bad decision?" they reasoned.

As resistance to their design changes grew, it became for
Campbell "a cancerous" situation in which people "burn out". Eventually, he had come to see Parigian as "an insecure leader" who did not "act as a partner" and he "gave up educating" him, as he lacked time and energy.

"I pushed the issues to the field. Let them do it. It reduces the issues, they make the trade-offs in the field. They cross-fertilize; nobody knows how, nobody cares."

Hence, while still wanting "to hit the market right", Campbell had, in practice, given up on making the design changes that he wanted because he could not be sure whether he would get what he wanted once he pushed issues down the field. Instead Campbell advocated giving the GM a contingency capital budget for design changes. In addition, he thought the Hotel Group should have its own PMs for repair, maintenance and renovation. In essence, this structural solution would make the Hotel Group more autonomous from the Development Group and create "a new way of living and working" in Citadel. It implied that the Hotel Group would first put up with mistakes that were literally cast in mortar and brick and then correct them.

To his surprise, Campbell found Citadel's top management "unwilling to listen" to his concerns about the small budget items resulting from changes in the market or from design mistakes. "Pulling them over" and to see his concerns about hotel operations had been very frustrating, like "pulling wisdom teeth", "very slow, very agonizing" and with "a very defensive posture". According to the VP for Hotel Opera-
tions, the construction mentality of being within schedule and budget is a "thought process that can get you in trouble" within two to four years on the operating side.

The Hotel Group senior managers had begun to wonder whether Citadel's top management understood what it took to set up a hotel chain. They themselves had come to Citadel in 1982 with the idea that the company's resources were geared to that objective alone. They had never been invited to corporate planning meetings in which the GPs had discussed the importance of the office program, and memos of those meetings had never been distributed to them. By 1986, senior Hotel Group managers still believed that the set-up of the hotel program was the sole corporate strategy.

What is most striking is that Campbell assumed the practices that he carried over from a large hotel group to a much smaller development company to be self-evident. And when he experienced surprises and his practices were challenged, rather than joint inquiry, he resorted to unilateral protection of the Hotel Group practices and tried to control the practice of his counterpart, the Group of PMs. These actions were equally self-evident to him, and so were the solutions he proposed to resolve the conflicts that stemmed his actions. We might say, the hotel managers were planning hotels as if they were still working for a large hotel corporation.
6.2. Project Managers Faced With A New Practice In A Familiar Corporate Context.

6.2.1. The head of the PMs.

Dealing with the Hotel Group. Kelvin Parigian, President of the Development and Construction Group to which both the Project Managers and the Construction managers belonged, sensed the unilateral nature of the behavior of the Hotel Group and interpreted it as playing corporate politics and gamesmanship. It was

"positioning and manipulating the process, trying to get their costs on our accounts, not sharing the credit."

Rather than working for "the good of the owner" based on cooperation and trust, he was appalled by what he saw as "power people" acting primarily out of self-interest. He saw himself as someone who "always went out of my way to help people" and not as a "major political player". He thought the Hotel Group was "the cancer" of the company, with "bombastic" personalities, trying to "outflank" his people. He was also no longer on speaking terms with its senior managers.

At the same time, there was an escalation in the struggle about what kind of company Citadel was. First, GP Vacarian -- in charge of the office program -- had convinced Parigian that the two newly awarded very large scale office projects were "the real risks". Parigian began to focus on the office program and distanced himself from the hotel program. Second, he did not want the firm to become a hotel development company because "they are the most narrow-minded people I have
met. I don't want to deal with them". He did not want Citadel to do -- what he called in a derogatory fashion -- "cookie cutter hotels" "all its life".

Third, he was afraid that the Hotel Group managers might get more interested in "unique" projects such as resort and convention hotels. Therefore he did not want "to institutionalize anything"; he wanted to keep "a flexible dynamic organization" with members who "want to grow", who "are expansive and creative" and "who see life as a challenge". If not, he would be "dead in the water" if the Hotel Group changed its strategy. Finally, when Citadel was awarded two large-scale office projects, he had made the hotel projects a training ground for PMs.

Important as these evaluations were, he had not shared them with the Hotel Group. In fact, there is no evidence that the Hotel Group actually wanted to change strategy and no evidence that they knew that hotels had become a training ground for assistant PMs.

Dealing with the GPs. Parigian also faced a problem with the GPs who complained that his PMs were not strong enough in their relations with the Hotel Group. However, he found that the GPs "did not want strong people as their agents". Whenever they would "try to take a strong position, the GPs would undercut them". In addition, he was hired as a "homeroom teacher" for the PMs and PMs who need a teacher are not the power players the GPs said they were looking for. He called
his own position "self-defeating" and felt the GPs had done "their best to emasculate me over a long time".

He had tested his theory about the GPs' recruiting practice when he was about to hire new PMs. He had the GPs interview a number of graduate students of a regional real estate program. When the GPs did not select, what he called the more "aggressive" and "entrepreneurial" type, that became a confirmation of his theory. He also began to train PMs to take a strong stance against the GPs and only tell them what they wanted to them to know. But he noticed the GPs were beginning to test the PMs to see who was going to tell them what.

**Solutions.** To halt the politics of the Hotel Group and the undercutting of the GPs, Parigian saw two structural changes as the solution. First, the company should "reorganize one more time" and make operating groups "satellites with their own bottom line" "at arm's length distance" from the corporate office. Second, because the current PMs were like square pegs in round organizational slots, a new type of PM should be hired that was more mature and experienced.

6.2.2. The PMs' response.

**Bewildering surprises.** The PMs had also been troubled by the organizational dynamics surrounding the stream of design changes. Their situation had been aggravated because

* They were novices in the field and newcomers to the company.
* They had an ambiguous role. Were they merely an
extension of the owner doing what he told them to do
or a representative with discretion in the field?

* They got involved late in extremely challenging
projects.

They were caught in an escalating organizational conflict in
which their superior was not on speaking terms with his coun-
terparts in the field. The design changes often surprised,
bewildered, and overwhelmed the PMs and led them to perceive
chaos and irrational behavior on the part of others.

In response to these perplexing organizational situations
which they saw as beyond their control, each of them had
found some form of accommodation. While varying within a
wide range, all solutions had in common that they did not
address the PMs' problems in relation to other groups through
joint inquiry.

The field solution. First, some PMs had worked out solu-
tions in the field and bypassed the guidelines from cor-
porate. For instance, PM Harry had observed that with each
new project, the guidelines in the contract for subcontract-
tors became tighter. It reflected the need of corporate
office to gain more control over project costs, but as a
result the contract had become inoperable in the field.

"It is unworkable, it is burdensome, ... we muddle our
way through, it takes a long time".

The result was that he would negotiate a compromise in the
field or "start a job without signing a subcontract",

"We set aside the parts that are unworkable, and work out
our own accommodation with the sub".

Christie reported how she, the purchaser, and the GM of
the hotel had beaten the "deleterious" hotel company in Citadel's very first hotel project by

"Creating this little group that forced decisions to go the way we wanted them to go".

Harry had not reported to his boss, Kelvin Parigian, that the contract Parigian designed was unworkable in practice. Earlier he had tried to point out to Parigian "a couple of flaws" in a contract. When Parigian had become "very defensive", Harry had concluded that he did "not take criticism well". As a result, he had framed their relation in terms of a contest,

"It is hard for me to beat him in terms of arguments and articulation. He is a very clever and bright guy; he does his homework".

Senior PM Karl echoed a similar kind of reasoning when dealing with GPs. The stream of design changes "destroyed the PM's ability to control costs" and the PMs "lost all credibility" in job meetings. When Parigian tried to teach him to take a stand against the GPs, he answered,

"Why should I state a position when they are just going to kill me? Why bother saying anything?"

In response to these situations, as we have seen before, the PMs had developed "the scepter theory", holding that when nobody confronts them on their job, they are accumulating more and more trust and discretion, and hence their "scepter grows". But this made them even more vulnerable to design changes.

As a result, both Harry and Karl were dissatisfied, if
not outright frustrated, with their situation. They both saw the relations to their supervisors as impediments to their own professional growth and autonomy. For instance, Harry found that a tight contract reduced his discretion too much, making it hard for him to learn to make deals himself and to prepare to become an executive.

"It aggravates me ..., I wish that everything wasn't solved at their level, I want to make a deal and have leeway". He also wished he had "a more interactive feedback loop" with Parigian, so that he could learn to write his own contracts.

Their own lack of learning became an acute issue when the GPs began to hire more experienced consultants to cope with more complex regulatory and political project environments. Karl had seen these environments as a growth chance for himself and was taken aback by the new hires: "just as you see yourself grow, you hit the base". He had fallen into a passive response with the consultants, "I sort of sit back and ask him "so what's next?" While, according to GP Dwight, these new advisors were merely consultants, in Karl's judgement they were acting as de facto PMs. Karl had not confronted Dwight on this difference because "Dwight truthfully feels" that the new recruited are just consultants. Karl had concluded that if he only had an MBA he would have "a leg up in understanding the jargon" of real estate development and could have "an intelligent conversation about it".

Projects out of town. The PMs had found a second type of solution to overwhelming problems in their everyday profes-
sional practice. They would search for repetitive projects far away, where the PMs would not have to put up with what they saw as interference by the GPs. Karl illustrated this with a "perfect example". When GP Hank Hadrian had become concerned about the opening date of the fifth hotel, he had become very active on the site, in effect a PM, spotting problems and calling the architect. While Karl did not confront Hank on it, he thought "what kind of a way to run an airline is this?". He had concluded that

"You have a whole lot more independence being out of the city as opposed to being next door where the GPs can look out of the window (and see what you are doing)."

PM Mike, who had done a few projects out of town, confirmed the idea.

"It is out there by itself. It is a long way away. It is a satellite by itself .. so it does not get such scrutiny of details."

Mike was particularly troubled by the interventions of the GPs that were the result of lobbying by other groups, causing surprises for his project management. He thought the GPs should leave much more discretion to the PMs even though they were young and lacked experience,

"The PM has a very limited perspective, I don't know everything, but I can see what is critical in my project, [the GPs] have to reduce their day-to-day involvement".

The GPs' involvement undermined his sense of control over a project. Even though they may be "unhappy with the way it comes out", the opening will at least take place in "an orderly fashion",
"Plan it out and it won't be a lot of panic. You should not have surprises if you do it right. Surprises symbolize to me that something is wrong".

The politics around hometown projects. However, scrutiny and intervention were at times inevitable, in particular during distinct, very large-scale projects and in hometown projects. Some PMs thought that issues should stay with the lower level managers of in each group. PM Don for instance had been surprised at how "things escalate very quickly" and how he would find himself "suddenly involved in an executive decision". He thought it was due to the fact that the PMs dealt with two "very centrally focused authorities" (the Hotel Group and the Construction Group). Because "the GP gets himself quickly involved", he prevented the managers of the two divisions "from learning to work things out". The GPs should "push the issues down to the field", (although he could not think of any example where it had happened) and lower level managers should agree on a norm to keep issues among themselves.

Other PMs thought the PMs should take a firm stance against the Hotel Group. For instance, PM Ken, an older PM, found that while groups were part of "one family", they had become affiliates of a corporation, each pursuing its own objectives. As they had become less "buddy-buddy, can you do me this kind of a favor?", each group should "really defend its charge and its position in the company". Therefore, PMs should "dig in their heels".
However, digging-in had led to defeat as we have seen in the previous chapter and some PMs had concluded it was best to avoid contests altogether. For instance, when a younger PM, Linda, had followed Ken's advice, she had been "bowled over" and had concluded "not to fight the Hotel Group and to avoid a contest". She felt decisions were made on an "irrational basis" and had found the position of the PM "very difficult, (prone to) burn-out, professionally thankless". She had noticed that even though the PM should control the budget, in practice, "the budget is approved with a stamp" and "everybody spends at his or her whim". She concluded that because there are no spending projections, there will always be nasty surprises when actual spending is retroactively compared to the budget.

Ken himself had learned to avoid public confrontation. When the GPs set up owner's meetings to coordinate decision making among groups, Ken would withdraw from those meetings.

"I don't want to use the forum to put somebody from [that group] up against the wall"

PM Christie had avoided dealing directly with the Hotel Group altogether. When she became PM for a large project that included a hotel, she had "set it up so that I don't have to deal with the Hotel Group" and had delegated the hotel part to Pam, an assistant PM.

Eventually some PMs began to learn to beat the Hotel Group. For instance, PM Christie had instructed Pam to go through "a more gradual process of reviewing", "get them to
articulate their program", and record the process in the
minutes of the meetings, even though the Hotel Group people
would never say "yes, we approve".

In addition, Pam had been doing a lot of research on the
specific aspects of the hotel project that were different
from Citadels' offices such as a health club. Trained as an
architect, Pam also used her knowledge of buildings as a way
to make her position uncontestable and as an excuse for not
making design changes.

"I've been able to put a lot of things to rest technical-
ly by saying they are not feasible. I use that argument
as much as possible. It is not that I don't want them to
do things, it is just that certain things are so disrup-
tive that they are not worth doing".

Finally, Christie and Pam had learned that if they did
pick a fight with the hotel group, they should not do it by
themselves. Parigian had told Christie and Pam early on that

"You are a total nothing. You can't get anything done on
your own because of who you are"

Therefore, they were looked for "allies" such as the interior
designer who they would use for "impacting overall quality".
If the fight got beyond their control, they said "I'll look
into it and figure out who should do it for me". Therefore,
they kept in close contact with GP Vacarian, their main ally,
who "took charge", "ran the project", and "was in control".
When things got "tough", they would rely on him as their
"hatchet man" who would "grill" hotel managers.

In conclusion. Clearly, as one PM mentioned, they had
made "an anatomy of the process" and learned their lessons.
Rather than trying to get underneath their conflicts and address the incompatible norms of making last minute changes "to hit the market right" and of "keeping the construction steamroller going", they had begun to learn strategies for unilateral protection of the construction process. These strategies, however, went largely unchecked and unchallenged and, as a result, PMs were building hotel projects as if they were office projects.

6.3. The General Partners: Inquiry and Intervention

By the third quarter of 1985, the GPs faced two major problems. On the one hand, the company was unexpectedly successful in the local office market as well as in the regional hotel market. As a result the GPs faced a new strategic complexities which required a lot of their attention. On the other hand, the GPs were drawn into escalating conflicts, and they had to deal with unexpected organizational failure. The conflicts put extra demands on a company that had reached the limist of it financial and managerial resources.

The failing switching rule. At the strategic level, the GPs faced the consequences of having avoided addressing the predicament of parallel development programs. Citadel was developing projects with a complexity and scale, and at a number and pace that was unprecedented. Neither program could be easily tempered which led to an increased financial exposure of the firm. In addition, the hotel program was
faced with a still wavering franchiser, changes in the Federal tax code that closed key loopholes, disappointing occupancy rates at some hotels, and uncertainty about the performance of the Hotel Group. The local office program was faced with a cap on downtown development by city government, increasing demands of city planners with regard to the overall design, and the elimination of preferential treatment for real estate in the federal tax code.

Faced with two successful and competing programs that were stretching the company’s resources, the GPs differed on how to deal with the problem. GP Dwight Hadrian, who supervised the hotel program, thought that its strategy had not been challenged by the issues described above, and that Citadel should develop hotels in sufficient numbers so that the few inevitably unsuccessful projects would be compensated for by a series of successes. Hence, the firm should not limit its hotel expansion even though it might lead to dominance of the program over other activities. GP Dave Vacarian, who supervised the office program, thought that since that Citadel had regained access to the protected local office market with its high rents, the firm should switch its strategic attention to this traditional interest and strength. Hence, for Vacarian, the office program was and is the dominant program. Finally, GP Melvin Hadrian, thought that since markets go up and down for both programs, Citadel should not be dependent on one program. It should have the readiness to switch pro-
grams and could only do so if one program were not dominant over the other. Growth had been in hotels, and now the "pendulum" should swing to the other side so as "to keep the forces in the middle".

Clearly, the GPs were divided over how to deal with Citadel's strategic predicament which was grounded, as we have seen, in the failure of its switching rule, one of Citadel's key rules for on-going strategy design. However, the GPs did not frame the problem as such and did not get underneath their differences. As we have seen, they had avoided the problem for more than a year while competition and frustration among them had increased. By the end of 1985, as a way out of their predicament, they were considering the acquisition of another hotel chain, called "Escott", the only other chain apart from Royal that was building hotels based on European exquisiteness. Escott was, like Citadel, a family-owned company and it had built around ten projects in California and Hawaii, where it catered to Japanese businessmen and tourists.

A troubling stream of design changes. At the organizational level, the GPs faced a second major problem. An escalating conflict between the Hotel Group and the Group of PMs had come to the fore during the fifth hotel project and centered around the "back of the house" issues. Rather than healthy conflicts between hotel real estate development and hotel operation, through which the owner would get the best
of both worlds, the GPs saw "a lack of respect", "a lot of friction on personality issues" and conflicts carried on in a "destructive manner". They saw it as a problem of the "handover" from construction to operations but had avoided dealing with it. According to Hank,

"we had recognized the problem for a long time. We avoided it and dealt with it on an ad-hoc basis". They had tried to address the problem of integrating group efforts by setting up owner's team meetings for each project.

"They can bring up anything that requires the authority of the GPs and since everyone is there, we can make quick decisions"

But the meetings had become "a medium for exposure" and a "popularity contest" for PMs. According to Hank,

."We should have fewer and more meaningful meetings, healthy conflict with mutual respect".

The GPs had different remedies for the problem of "handover". Hank Hadrian found that the PMs needed to consult with the Hotel Group when they were "laying and fitting out" because a plan is not "finite". GP Melvin, working in the Group of PMs, had found that the Hotel Group liaison did not have the authority in job meetings to make decisions and was holding up the flow of work. Therefore he thought the PMs should just go ahead with what was in the plan. If information was lacking, they substitute it with their own ideas, even though he admitted the PMs were no hotel experts.

GP Dwight Hadrian took the position that if the matter at issue did not concern a fundamental mistake, at some point in
time during the construction process, "you just have to shut things off", "some rigidity is awfully important" even though it can be "frustrating" for GMs. He wanted to protect the PMs from "looking unreasonable" by having to say "no!" all the time. Therefore, top management of the Hotel Group should address non-fundamental design changes by letting them go,

"Mr. GM forget it, don't talk to me about that. I approved the thing, it is done. On to the next issue. Whatever it is, we have to live with it".

For GP Dave Vacarian, a hotel opening was not a matter of "hitting the market right". Rather, hotels were never finished and there would always be "incompletes". Additions could be made later. The PMs should have a sense of "closure" and there is a need "to limit the representation of ownership". Also, he believed the Hotel Group wanted to develop "five star hotels" on a four star budget. Finally, he concluded that GP Hank Hadrian "does not respect budgets" and "cuts across roles", jeopardizing control over the process,

"We lost control of the budget of the fifth hotel. We saved a million but it could have been the other way around".

This was a hotel in Philadelphia, the "backyard". He wondered what might happen if Citadel began to develop hotels far away in places like Minnesota.

The GPs saw the conflicts between the two groups as "inevitable" given "the way the company is set up" and the
conflicts convinced them even more that the GMs should be
kept out of the real estate development process. Even though
GMs "have something to offer", they were "too concerned about
the day-to-day" and "operating people do not have the tem-
perament to cut when developing".

"Unless you are directly involved [in the development
process], you never fully understand and appreciate what
it means to make changes."

"Culture" and "power" differences. Eventually, the GPs,
and with them many in the firm, had framed escalating con-
flicts between the two groups as a mismatch in "culture" and
"power" in which the PMs were seen as,

"young and very bright. They come right out of school
and don't have too much experience. They do an exceptio-
nal job, but they lack experience and have no feel for
the construction process and how to relate to other
groups".

While on the other hand the GMs were invariably portrayed as,

"seasoned, mature personnel, who had been exposed to ups-
and-downs of the business, who have been frustrated, who
have been in the real world, who have been sometimes
exposed and treated by mean and strong managers, who have
operated in different frameworks, and who are bright and
capable".

The GPs split into two groups on how to deal with the
conflicts. GP Dwight Hadrian wanted to show PMs "a type of
leadership" for dealing with GMs in a "non-threatening way".
For instance, a new PM came to him with a "very sophisti-
cated" financial analysis that even he could not understand,
she was going to show it to the Hotel Group. Dwight Hadrian
evaluated it was "too threatening" but also did not "want to
dampen initiative". He just wanted to make her "aware and

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sensitive" and suggested to her,

"Why don't you put what you did away [and] ask them about how things are done. They will be more than happy to talk to you [...] if you are [then] still interested in what you did, go back [with your analysis]".

Within a contentious atmosphere between the two groups, however, such an approach was likely to seem suspicious.

As Dwight Hadrian was now involved in the planning of new projects, he had no time to provide this leadership and had began to "purposely stay away from certain issues". Instead he advocated that changes ought to start at the level of the general partners. If they could agree on "the fundamental message" that "we are really one company" and speak with a "unified voice", then there would be less conflict.

The other two GPs, Hank Hadrian and Dave Vacarian, looked at the mismatch between the groups in terms of a "power difference". They wanted the group of PMs to become more powerful through a threefold structural intervention that would "create an environment in which the PMs can function". The plan was to

* Recruit more experienced PMs;
* Create a new role which would oversee hotel operations from the perspective of the owners; and
* Create a maintenance department in the Hotel Group reporting directly to the GPs.

Inquiry by an outside consultant. By early 1986, the GPs called again on Simon Barseman, their outside consultant. Based on initial feedback by the corporate planner, he concluded that the PM's aggressiveness toward the GMs was "a method of getting around accountability".
"Younger people want to nit-pick everything to death, because if something should go wrong, they have left a trail".

On the other hand, hotels are "cookie-cutter" projects, and GMs should

"take responsibility for learning from their mistakes and take the initiative in involving the PMs in evaluating the projects so they get PMs learning from their experience"

Barseman thought that if the GMs saw the PMs as young and inexperienced, they would not be too keen on teaching them. It was up to the hotel people to convince others "to think with them"; if they did not, then they were "hording" information and playing "a power game". Part of the problem, he suggested, might be in the differences in the incentive system between the Development group and the Hotel Group.

Barseman explained that his approach was based on a few central ideas:

* "An individual carves out a vision ... and builds an organization that will help him to do it".
* Organizations grow out of people and if somebody is insecure, they will simply make the structure protect them.
* "If we can understand where the sensitivities are, the nature of their defenses, we could begin to see some degrees of freedom emerging and how [we might induce] change .."

Hence, he focused on personality aspects and tried to achieve "an alteration in the defensive structure". He thought that the core problem for Dwight Hadrian was "to whom could he give away some responsibility for operations?" He thought Dwight Hadrian should "step in to light the fuse" and address the structure of the Hotel Group top management. But accord-
ing to Barseman, Hadrian had to overcome some psychological boundaries and work on himself before he could work on the hotel group. Against this background, Barseman interviewed Campbell and Laing, the President and Senior Vice President of the Hotel Group.

Structural intervention. In order to get a sense of the problems, the GPs set up a series of three meetings. They invited the corporate planner Surabian*, the outside consultant Barseman, the Controller Martin Gordon, and the researcher. The GPs wanted the planner and the outside consultant report. They did not include any of the Presidents of major groups in the company as, according to Hank Hadrian, they wanted to know "the current perceptions whether they are facts or not" and to have "a very candid discussion, so we can discuss personalities in an open fashion". During the meetings, participants took the following positions.

Barseman concluded that the two Hotel Group senior executives were acting as a pair in collusive protection of one another. He judged they were "insecure" and lacked "maturity" themselves.

"They worry about their authority and when it is questioned by the PMs it hits raw nerves. They come across as strong and assertive to cover up their insecurities". He did not believe they had the "seasoned background" they pretended and that they themselves knew it. They also wanted

* She had participated in the interviewing for this study and was acting as an internal consultant to the GPs
"the golden brass". He thought they would create an increasingly strong block that could not be tolerated because it would be more difficult to undo it in the future.

"They have bravado now, they are a fortress. In the future it will be harder to penetrate. They are a siamese twin requiring surgery before it is too late".

Dave Vacarian saw "chaos in the company". He was not sure that Dwight Hadrian could handle hotel operations part and the Hotel Group top management. The first batch of hotels had been open for a year, and it was "the moment of truth". Yet he did not have confidence in Campbell and Laing as they lacked a track record in Citadel and did not show good judgement. The controller added that the company was "vulnerable on operations" and that the hotel top managers had "lost their objectivity". Vacarian listed as his evidence:

* With regard to the program as a whole, they were naive to expect to be well off after five projects.
* During planning and design they proposed a non-quality restaurant in a luxury hotel.
* During the opening of the fifth hotel they did not know how to solve the marketing problems.
* During operation of other hotels, they had tried to solve trade union conflicts without involving the GPs.

He had attended a project team meeting and had observed that Campbell did not have "a sense of role" and "no notion of what is being built, only generalizations" and was "not directed". Senior PM Karl "blew it" because he did not confront Campbell. Taken together, "they are not accountable" and "decisions are made by default". The result was that the owners were faced with additional costs. The GPs gave them "blank checks for operations" and "the real estate values are
diluted because we don't have control". Hank Hadrian wondered in this context whether the Hotel Group had learned from its previous projects.

Vacarian concluded that the Hotel Group was not ready for "management by exception" and needed "close supervision". He was troubled by a number of factors.

* Hotel Group VP Laing did not show respect for him.
* Members of the Hotel Group have an "absolute loyalty" to its senior managers.
* Members carried "inflated VP titles" giving them "a one-up" on PMs.
* The Hotel Group produced "propaganda".
* The Group had a "para-military organizational structure".

The group of PMs and, with it, the whole organization, "got battered" and Vacarian thought that the GPs were losing control.

"It looks like the daughter is taking over the mother. They forget that they work on our reputation, they borrow it".

Vacarian thought the GPs should protect themselves and make a legal corporation of the Hotel Operations rather than a limited partnership.

Dwight Hadrian took the position that the development process was "designed" and that the Hotel Group implemented programs and budgets he approved and controlled. He gave the Hotel Group top management "good ratings". While he did not want to go to the job meetings, he promised to give more supervision.

"They need to understand that they are part of the organization, I will give more supervision ... and discuss issues candidly with them".
He then focused on the PMs, who he thought might do a good job inside the company but were too young to deal with the complexities of the regulatory process. He also found that the head of the PMs, Parigian, did not see a need to talk to him, and that he was "political", "defensive", and "inexperienced".

During the meetings Barseman unfolded his advice to the GPs. He noted that his usual advice was to change attitudes, in this case he found himself advocating structural change.

* Separate the planning of hotel development from hotel operations and have each report separately to the GPs;
* Change the focus of responsibilities within the board whereby Dwight Hadrian would focus on hotel development and leave the operations to Dave Vacarian;
* Separate distinct luxury hotels from repetitive hotel projects and have the GM of the luxury hotel report to Vacarian.

Barseman suggested that Vacarian should begin to participate in Hotel Group top management meetings but "don't talk about splitting up". By the last meeting the GPs had made up their minds. According to Vacarian,

"The GPs should be unified and uniform in their point of view regarding basic policy issues. If they smell [otherwise] then we get a struggle for the palace power".

When the researcher asked the GPs what decision they had reached, Vacarian replied "it is a matter of metaphysics" and the corporate planner informed him that "it is a family company".

In conclusion. When Citadel entered the hotel market, the Hotel Group kept on planning hotels as if they were still
working for a large hotel chain. Its members carried over a set of "old" practices into an unfamiliar corporate context. The group of PMs was trying to enforce lessons about project control learned prior to entering the hotel market and build repetitive hotel projects as if they were large scale office projects. Its members too carried over a set of "old" practices to an unfamiliar corporate context.

Both groups brought to bear practices that were mismatched to the new context and the two sets of norms for performance governing each practice were incompatible with each other. Incompatibility surfaced privately for members of each group through a series of related surprises. However, managers tended to define each situation for themselves in such a way that they were prevented from engaging in joint inquiry with other key groups.

As a result, groups continued to bring their old practices to bear in the new context, and, unable to get underneath their differences, they behaved increasingly in a unilateral fashion. The result was a collage of groups rather than a corporate effort, in which groups cared less and less about the consequences of their behavior for other groups, while they put up with the consequences of the behavior of other groups, and avoided addressing the organizational problems.

The escalating conflict and the contest of wills among groups became intolerable during a special project, the fifth
hotel. New, strategy driven changes in project design came on top of an already troubled and up-tight intergroup process for project development. That process became a bottleneck that effectively blocked the interplay between the process of strategy design and implementation. The state of that process inhibited inquiry into mismatches between design and implementation and, thereby, inhibited strategic learning.

Changes in the structural context -- including changes in the formal organizational structure, formal procedures and personnel -- were undertaken as a last resort in an attempt relieve the organization of intergroup conflict, to return a sense of control over the groups' tasks, and to free up creative energy. However, structural intervention was mostly a defensive measure and did not address incompatible norms nor what prevented managers form addressing them. As a result, it reinforced an already existing separation between design and implementation of strategy which resulted from previous structural interventions.

Hence, repeated structural intervention fostered the emergence of a corporate bureaucracy, both in the traditional sense of a formal separation between design and implementation, and a pejorative sense of detrimental politicking around the mismatches between design and implementation.
PART THREE: LEARNING

Analyzing And Generalizing From The Case Study

Having inquired into the theory and practice of organizing a major strategic change in the preceding parts, in Part Three we present our learning about strategic learning.

Chapter Seven analyzes the phenomenon of an emerging corporate bureaucracy described in Part Two. It identifies a largely unexamined organizational dynamic generated by the way members of the company deal with surprises. Chapter Eight returns to the frames about strategic learning constructed in Part One. It looks at these frames in the light of the case study, and generalizes the findings of the case in terms of a model of limited strategic learning.

Each chapter also gives recommendations on how to address the kind of troubles experienced by Citadel's managers in practice. Chapter Seven focusses on the role of consultants and Chapter Eight focusses on the implications for researchers interested in making a contribution to practice.
CHAPTER SEVEN
LIMITED INQUIRY AND LIMITED LEARNING OF NEW STRATEGIES
On-Going Improvisation and Normal Surprises

7.1. A Largely Unexamined Organizational Dynamic.

Recapitulating the questions at the outset of the case study. Our inquiry into the practice of organizing major change was grounded in a predicament that a successful and renowned company experienced as it was engaged in such a change. Three years into the process of change, Citadel's top management experienced simultaneously unexpected strategic success and unexpected organizational failure. Our point of departure for inquiry was the bewilderment experienced by individual managers in the company. They were both proud of the overall accomplishments of the firm and vexed about conflicts in their own everyday professional practice. Reflecting their accounts, we started out with a simple model of strategic change, made up of three loosely coupled central organizing processes (see figure below):

1] The design of corporate strategy,
2] Its implementation,
3] Inquiry into the mismatch between the two.

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We paid special attention to how firm members dealt with surprises as the company improvised, before, during and after change. We defined a surprise as an experience in which an actor faces an unexpected situation for which s/he does not have an immediate answer, and which requires some form of inquiry that can vary from a quick search for an answer and response, to a longer and more complex process of problem setting.

**Major findings.** Our overall conclusion is that the way Citadel's members deal with surprises is central to understanding:

1) how the company got caught in its predicament of unexpected strategic success and unexpected organizational failure, and

2) how that predicament might be addressed.

The response of managers to surprise is the single most important problem that faces the company when making strategic changes and it accounts for an increasing separation between the design and implementation of strategy.

In particular, we found that as Citadel engages in strategic change, its members typically face three kinds of surprises, each of which is related to one of the three central organizing processes that shape strategic change (the design of strategy, its implementation, and the inquiry into the mismatch between the two). We will first briefly summarize how Citadel's managers tend to respond to these surprises and then present a fuller analysis of the organizational dynamic.
that results from their responses.

During the (re-)design of strategy, Citadel's members face what I call "first-order surprises" when they deal with outside actors and events. These surprises in the transaction between the company and its corporate context have a meaning for the rest of organization and beyond a particular project. They may lead to questions about the validity of central assumptions and norms that company members hold about the corporate context and strategies the company is pursuing. For example, when Citadel was developing its first large-scale downtown office building, top management was surprised to find that no matter what it did, it could not "make the numbers work" for a minor part of the project. While top management never intended to build a hotel and the company had no experience with this type of project, management decided nevertheless to develop a hotel. An exploration of the architect showed that the numbers for such a project added up and this allowed the company to go ahead with the entire project. The hotel project turned out to be a first move in a process of corporate experimentation that led the company into the hotel business. Top management is largely unaware of the richness and complexities of this process, typically under-appreciate the significance of a series of first-order surprises during this process for the rest of the organization, and a result frames a new corporate context as being similar to the old context.
During the implementation of strategy, Citadel's members face what I call "second-order surprises". These are surprises in the everyday practice of company managers which may lead them to question the match between a specific practice and corporate strategy. For example, when the President of the Hotel Group asked for the firm's financial policy against which he could decide which projects he should pursue, he was surprised to find out that the Financial Department could not state such a policy. When he inferred the firm's policy from its actual behavior, he wondered whether it was suited to the set-up of a hotel chain. Citadel's managers habitually withhold second-order surprises from members from other groups. They tend to "sit" on these surprises and in doing so create a tacit distribution of privately-held surprises throughout the organization.

Finally, when members of one group inquire into mismatches between the design of strategy and its implementation they frequently face what I call "third-order surprises" resulting from the unilateral actions of another group within the firm. For example, the General Manager of a hotel under construction was worried that a part of the design would negatively affect his bottom-line. Contrary to company policy and without consulting the Development Project Manager supervising the project, he lobbied with the field superintendent for a design change with the idea to correct what he called the "blindness" of the Developers. To his surprise, the Head
of the Project Managers came down to his office and "kicked me up one side and down another". The responses to a series of third-order surprises usually lead to a pattern of alternating dominance in which one group tries to unilateral protect its central tasks while trying to control the tasks of other groups. The end result is a collage of individual groups rather than a corporate effort.

The way in which Citadel's managers frame and deal with surprises connects the three key organizing processes, even though, we infer from their accounts, they see these processes as loosely connected. Their responses to surprises generate a largely unexamined organizational dynamic underlying the process of strategic change. Central to this dynamic is that managers tend to frame surprises as "normal" and deal with them within the context of the project in which they occur. While surprises are often indicators of mismatches between the design and implementation of strategy and should require joint inquiry, managers tend to respond with corporate politicking and limited inquiry. As a result, the company does not learn strategically prior to change and the separation between design and implementation of strategy remains unaddressed. When the company then engages in a major change, this separation cannot be overcome easily and limited interaction between the processes of design and implementation of strategy leads to limited learning of new strategies.
We will now take a closer look at the underlying organizational dynamics of change by examining how Citadel's managers dealt with surprises

1) During the steady state prior to change and when this state got challenged as a result of a changing context,

2) When the company began to redesign corporate strategy through a process of corporate experimentation,

3) When the company had decided on a new corporate strategy and began to implement a new development program,

4) When the company was faced with escalating conflict during implementation and the partners intervened.

7.2. Steady State Corporate Strategy Development And Its Challenge

A bird's eye view of Citadel's corporate strategic development reveals that the firm experienced prolonged periods in which corporate behavior changed in response to changes in an evolving context while the pattern of corporate behavior, its corporate strategy, remained steady. Steady periods were punctuated by a few brief episodes of corporate experimentation in which the pattern of behavior changed (see Figure 11).

To understand how Citadel engaged in a major strategic change is to realize that prior to change, strategy making was already organized, in particular, the way key groups inquired into their organizational conflicts. The way in which the company organized itself during change was an extension and in part an amplification of organizing processes that
were already present in the steady state. Prior to change, the company had on-going processes of design of strategy, its implementation, and inquiry into the mismatches between the two. These processes were carried over from a steady state period into an episode of change and stretched to their limits.

On-going design of corporate strategy. Over its entire life time, the firm has continued to move on and to inquire into a changing corporate context by undertaking new types of projects in a timely fashion. In this strategic conversation, new strategies were both a reflection of an evolving context and distinctive to Citadel. The success of this con-
versation was largely, but by no means exclusively, grounded in the entrepreneurial partners. They followed a few rules for the on-going design of corporate strategy as we have seen:

1] focusing on only two development programs that had complementary styles of practice,

2] switching strategic attention depending on the momentum in each domain of development,

3] limiting improvisation through similar types of projects within the envelope of more general types of projects.

Under steady state conditions, corporate behavior changes while the pattern of behavior does not change. Top management faced reduced strategic uncertainty and less complexity in the corporate context (which we defined as the set of forces that shape project environments, such as federal programs and economic recessions). The rest of the organization too experienced relatively predictable, albeit volatile, project environments (which we defined as a set of forces that determine the design of a project, such as the prevailing rent level). Overall, the company was prepared for unexpected events, faced few surprises, and achieved a considerable degree of predictability in everyday work which made it possible to bring to bear experience from previous projects and to develop distinctive competence. As a result, Citadel developed increasingly more complex projects, at a larger scale, in higher numbers, and at a faster pace, while achieving top-of-the-line quality.
On-going implementation. Citadel's distinctive competence was made up a set of key corporate practices such as project financing, budgeting, designing and construction. These practices were closely tuned to each other and geared to project management that could deliver high quality projects within schedule and budget. Corporate practices emanated mostly, but not exclusively, from the entrepreneurial general partners. In order to better compete, they would often take on new tasks which they would do themselves before asking assistants to take over. For instance, one of the partners did the financing of the first turnkey project for the GSA but left most of the financing of subsequent projects to his Business Assistant. In this way, the organization internalized practices, allowing the GPs to focus on new aspects of project environments and to respond in time to changes.

The ability to respond in real time was however not without problems. With their professional reputation and personal wealth on the line, the general partners often responded to unexpected events by ordering usually minor design changes within the framework of a project. In order to cope with volatile project environments, they followed two rules: 1) the company would build projects as fast as it could ("fast track") so as to minimize the financial risks on the construction loan, 2) yet, as the project went along and new information about the project environment and construction process became available, the partner would also make design
changes adding options to "a minimum scope" design. While this development strategy was indispensable and gave the company a rather unique competitive edge in volatile environments, these two requirements were contradictory. In everyday practice they often led to unaddressed and unresolved dilemmas of project redesign between key groups.

These dilemmas centered around the question of what kind of design changes were acceptable in which stage of the project, and, in turn, led to issues of unilateral control and protection of interests between GPs and PMs. For instance, during the 1970s, a dynamic emerged in which the Construction Group began to protect itself against cost overruns in the housing projects by overbudgeting 20%. When the Business Development Assistant discovered this "hedging", he felt embarrassed because he had to "fight" with federal agencies to get extra money for projects. The partners responded by deducting 20% from budgets received from the Construction Group. When the construction managers discovered that the partners had discounted their budgets, they began to add an additional 20% to the budgets. This led to a situation in which nobody was sure about which figures to trust. When the general partners responded by creating a MIS department, Construction fed unreliable information into the computer.

Limited inquiry. From examples like this, we can infer that the in-house Construction Group was still acting as if it was an outside general contractor (a role that Citadel had

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played during its first twenty years in business). As a result, the company's construction practice was mismatched to its corporate strategy of developing real estate with the help of in-house construction branch that made it uniquely competitive. However, during a steady state period, overall performance was satisfactory and managers were not forced to get underneath their conflicts, confront their differences and address the mismatch.

Hence, in the steady state strategy making is already organized. While conflicts among key managers about design changes pointed to an existing mismatch between corporate strategy and its implementation, managers only engaged in limited joint inquiry. There was already a de facto separation of the design of strategy and its implementation prior to change.

**Challenge to the steady state.** Limited joint inquiry became a central problem when significant changes in Citadel's corporate context challenged the continuation of both development programs. First-order surprises in several projects had indicated to the partners that they faced a strategic predicament: the company had become "too big for housing and too small for offices" and could no longer switch attention between its two domains. However, at the same time, when one of the partners, Hank Hadrian, began to intervene in the development process of an on-going project to make it more competitive (Citadel's first local downtown office project
after two failing projects), he upset an already existing but contained conflict among key groups in the company. As a result, organizational conflict escalated.

When challenged on two fronts, top management dealt separately with them, i.e. they dealt with them sequentially and involved different parts of the organization. While the partners focused on the strategic issues, they undertook a structural intervention with the help of an external consultant. In doing so, they distanced themselves from the organizational conflict, disconnected themselves from implementation, and reinforced an already de facto separation between design and implementation of strategy.

7.3. Redesign of Strategy: The Elusive Episodes Of Corporate Experimentation.

Being disconnected from implementation, the partners lacked a challenge from the rest of the organization during the design of a new strategy while they under-appreciated the meaning of first-order surprises during the design process for the rest of the organization. As we will see in this section, this had serious consequences for the way the partners framed the company's new strategic intent and, as we will see in the next section, for the way the rest of the organization went about implementing the new design.

The company can do more than its members can tell. At the end of the 1970s, top management faced the predicament of a company that was "too big for housing and too small for
offices". However, the company continued to follow the same rules for on-going strategy making as during the steady state. In particular, the company continued to improvise on its existing types of projects and switch strategic attention between different region. The recurrent failure of these rules led to a rich and complex process of corporate experimentation in which top management reframed the meaning of Citadel's first hotel project. From being regarded as an anomaly resulting from a creative improvisation, the project became the basis for an entirely new hotel development program. Hence, under conditions of change, uncertainty and complexity, the company showed a remarkable competence. The failure of what the company already knew how to do led to a window on a new context and on itself.

The partners, however, had only limited access to how the company came to redesign its corporate strategy, even though they had been key actors in the process. When they were asked how Citadel got into various businesses, they presented three different views and it appeared that the fact they had experienced the episodes of experimentation had eluded them altogether. For instance, Hank Hadrian, Chairman and Co-Founder, framed Citadel's strategic development as "evolution with a grand plan". It was like reaching a moving goal,

"You establish a certain goal, and you approach it, and then you move the goal ... You never reach it, you do it in steps".

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The entries into new markets were "not very calculated types of decisions" and "not pre-planned". He maintained,

"Sure you can plan, but you can't plan everything in a certain way."

He (and his brother Joe initially) merely "reacted" to opportunities and "were trying to see where we might be going" while continuing existing business. Much as he described Citadel's entry into real estate development, he described its entry into the hotel business in a casual way.

"On a Saturday morning, I walked around and wondered what we could do with the site. I had sketches made by the architect and talked to the bankers, then I purchased it. The architect produced various alternatives and one day he called and said "how about making a hotel out of it?""

He called his approach "taking advantage of opportunities" that continue to offer themselves and for which one had to be "organizationally and mentally ready". It was "a philosophy" he had learned early on. Projects were sometimes "learning experiences" leading to "indoctrination" and "education" into a new business. However, he insisted that no surprises had taken place, even in the case of failing projects. He explained that "I am always learning, I learn by doing it and making mistakes". At best, "it did not develop the way we expected, maybe we did not plan it correctly".

* Hank's "philosophy" went beyond corporate life and had parallels in other realms of his life. For instance, he recently illustrated his thinking in a local newspaper story about how he had built up an impressive art collection. According to the paper, Hank said that he did not exactly remember when he had seen a first piece of art "that whetted my appetite". But afterwards "he had acquired a few more examples, and then more and more". He had come to the romance of
The President of the firm, Dave Vacarian, on the other hand, emphasized the idea of "planning". Past failures had been "faux pas" and "strategic errors" "baptizing" the company with learning about the down side of projects. Anomalies had been "adventures", "opportunistic" "quick hits" that were not "thought through". Although the "amount of business" was unexpected, the entry into the hotel business was planned,

"It was not by accident, it was planned, it was a program, a repetitive activity, counter-cyclical to offices"

Finally GP Dwight Hadrian saw the entry into hotels as a return to the "aggressive" and "progressive" attitude of Hank and Joe in the 1960s when they showed a willingness to take risks. The Kensington hotel concept was "a unique product" and Citadel's hotel program was "a personal challenge" and a move away from the "rather conservative approach" of the 1970s. In order to be successful, Citadel needed to develop "multiple products and a large number of products".

"You can't be right all the time, and you can't be precise, and you can't have a perfect view of the future". While setting up the hotel program had been a "staggering" venture, he had experience no "macro surprises".

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date "not unlike when you've just started dating a girl and you don't know where it is going". "There was no great plan, no grand obsession beyond the quiet mania of the hobbyist". Eventually, "almost by accident", he had assembled in the closets of the company, probably the world's largest private collection of this particular art. By that time, Hank thought "Gee, I have those pieces", and by now the collection is on display in one of the hotel projects.
While the GPs captured in their descriptions parts of the process of experimentation, they did not mention episodes of experimentation. For instance, Hank only became aware of periods of corporate development during an interview with the researcher. He carved the firm's history up in the following way: 1945-1960, 1962-1972, 1972-present. Prototypical projects that were central to the discovery of new contexts, were merely another opportunity in an on-going flow of opportunities to him. Dave, on the other hand, dismissed some key projects as merely "errors" and other anomalous projects as merely "opportunistic". Finally, Dwight looked at all the hotel projects together and averaged out the results of them.

Clearly, the GPs appear to have been unaware of the richness and complexity of an episode of experimentation in which they themselves played the key roles. Hence, under conditions of strategic uncertainty, complexity and change, the company could do more than its managers could tell.

Under-appreciating first-order surprises when reframing strategic intent. The GPs either downplayed surprises that had an importance beyond a specific project by claiming that "no macro surprises" occurred, or ignored them by calling them "errors", or denied them by stating that the company was "organizationally prepared" and the GP had "the mental desire". Altogether, the GPs under-appreciated the role of what we have called first-order surprises in Citadel's strategic development. They saw unexpected events as expected,
and were not surprised by surprises. At best, they saw surprises as, what some members called, "normal surprises", and saw episodes of experimentation as continuations of the ongoing improvisation that characterized steady state periods. Thus, in addition to the separation of design and implementation of strategy, the practice of design of corporate strategy becomes disconnected from the thinking of its designers. As a result, the GPs continued to frame the new hotel program as similar to what Citadel had already done. That is:

* Hotel development is a repetitive program in a domain that is counter-cyclical to the office market much like housing.
* Hotel operations are much like the management of office buildings.

The under-appreciation of the importance of first-order surprises led its GPs to see the new context as if it were the previous context.


Without the guidance that might have resulted from appreciating the importance of first-order surprises for the rest of the organization, implementation of a new strategy became unnecessarily and increasingly complex. The company went through a series of partly overlapping steps, each of which "upped the ante" in a growing organizational conflict.

Step one: withholding second-order surprises. Key members of major groups in Citadel -- presidents, vice presidents and senior PMs alike -- early on faced surprises in their every-
day professional practice that had significance in the corporate setting beyond their own practice. If they had inquired into these second-order surprises, they might have discerned mismatches between design and implementation of strategy. Instead managers of all groups tended to "sit on" these surprises while they wondered what to make of them. That is, they habitually kept them private, or at best within his group. It was as if there was a tacit agreement among key managers to withhold their experience of second-order surprises. This led to a tacit distribution of surprises throughout the organization. The result was a scattering of evidence about mismatches and fragmented learning.

This situation was aggravated by the GPs' framing of the hotel business. Because they saw it as similar to Citadel's old business, they did not alert key members in the company about the possible dissimilarities. As a result, key groups carried over their "old" practices into the new corporate context and continued to enact previous contexts. For instance, the Hotel Group kept on planning hotels as if its members were still part of a large hotel chain. The group of Project Managers kept building repetitive hotel projects as if they were large-scale one-of-a-kind downtown office projects. The general partners themselves acted as if the hotel business was counter-cyclical to the office business (much like housing had been in the past), and as if managing hotel operations was similar to managing office properties. As
late as the end of 1985, the president and vice president of the Hotel Group believed that Citadel was entirely geared to setting up a hotel chain. Newly recruited hotel general managers who were about to open a hotel were not told about the importance of the project managers in the phase prior to opening.

Key groups brought to bear "old" practices governed by norms for performance that turned out to be incompatible in the new situation. For instance, the Hotel Group's need to "hit the market right" led to a stream of design changes toward the opening date of a hotel. At the same time, the PMs' need to "keep the steamroller going" toward the end of the construction process led to cutting off the possibility of making design changes at the moment they were most needed, according to the Hotel Group.

Step two: change in real time, the multiplier effect. As managers were implementing the hotel program, a surprise rarely occurred alone. In fact, most of managers were confronted with a flow of second-order surprises. Typically, one particular surprise led to questions about more than one practice, and conversely, a series of different surprises pointed to one specific practice. For instance, the Hotel Group President's surprise at the lack of an explicit project financing policy was connected to the budgeting process, to the design of high quality buildings, and to design changes during construction. When managers kept surprises private,
they were soon confronted with other surprises, all connected in a complicated web to which they had only limited access. The flow of surprises called into question a set of interwoven practices that constituted Citadel's distinctive competence. This competence seemed incompatible with the establishment of a hotel chain. However, the longer managers waited, the more overwhelming the task of addressing these surprises seemed, and the more defensive their posture became. Under these conditions of increasingly complexity under time pressure, it became increasingly difficult for a manager to get access to how he was thinking about what he was doing. In the face of multiplying surprises, he was more likely to give up inquiry all together, for instance, one project manager said when he thought the construction costs of one of the first hotels were too low while also feeling the pressure to accept them, "We are not going to worry about it and just do it". Managers increasingly saw a process, as McLuhan said, as if they were looking at it in a rear view mirror while driving forward.

**Step three: contained politicking and conflict.** Once managers finally discovered some of the mismatches between their practices and the new context, there was no established climate of joint inquiry in which the mismatches could be examined. Instead, groups began to protect their own activities. They tried to control the activities of other groups and correct of errors unilaterally. For instance, the
Hotel Group tried to get capital expenses for hotel operations on the development budget. The PM of the fifth hotel tried to harness the architect to do an impossible design task that he knew to be infeasible.

Correcting errors led to a stream of design changes which triggered corporate politicking and created contained conflict. That is, conflict remained with a range of tolerance. Groups were not entirely blind to what was happening and began to understand performance norms were incompatible. For instance, the Hotel Group President understood very well that the important issue for the project managers was one of control over the overall development budget. But decreasing trust led to decreasing inquiry, increasing politicking and growing conflict. Groups were increasingly unable to get underneath their differences to address incompatible norms. PMs, for instance, would refuse to make up for clear omissions in the original design even though they knew they were unreasonable at some level.

Step four: new solutions interact with old problems. Some two years into the process of strategic change, the old problem of the Construction Group withholding information returned, as PMs who were supposed to provide the solution to that problem, found that the Construction Group was withholding information from them. In addition, the PMs themselves began to try to withhold information from the GPs. And a year later, the GPs felt that the newest group, the
Hotel Group, was also withholding of information.

The company can do less than its members tell. As a result of the processes described above, key groups kept on doing what they already knew how to do. To the extent that they were able to correct errors, they did so within the framework of their prevailing practice. Instead of a corporate effort, a collage of groups emerged with limited ability to change its corporate practices when implementing a new strategy. Clearly, the company could do less than its members told.

7.5. Inquiry and Intervention: Protecting Entrepreneurial Creativity and Controlling Strategy.

Third-order surprises, a contest of will and alternating dominance. When groups belatedly discovered errors and tried to correct them unilaterally, this led to third-order surprises for other groups. These surprises were usually nasty and often occurred around the "back-of-the-house" parts of hotels, i.e. those parts where a hotel differs from an office building, such as the kitchen, the laundry, the restaurant, the guest room and the lobby. For instance, a hotel General Manager was exasperated by the "frozen loop" that a PM would enter into when design changes were needed. So he tried to circumvent the PM by directly asking the Construction Group Field Superintendent to make a design change in the kitchen. However, the Superintendent informed his own superiors, and, when faced with a nasty surprise, they came down to the GM's
office. To the GM's surprise they "kicked me up one side and down another".

Decreasing trust led to decreasing inquiry and willingness to give someone the benefit of the doubt. Incidents as the ones described above became contests of will, and a pattern of alternating dominance emerged. Groups began to exercise rather rigorous control of those aspects of the development process that they were primarily responsible for, and cared less and less for the consequences for other groups, even though they had a sense of those consequences.

The bottleneck during a special project. Under these conditions, mechanisms initially agreed on for control of conflicts no longer worked. For instance, the presidents of two key groups not only had given up educating each other, but they even stopped talking. Other members had given up inquiry into how mistakes occurred because it only aggravated conflicts. The policy of dealing with conflict at the top was abandoned unilaterally and design issues were pushed to the field where groups made trade-offs that "nobody knew and nobody cared about". The bonds between senior executives purposely encouraged through social gatherings failed and a new type of "client-owner meeting" produced the same detrimental dynamics as before.

During one special project, the fifth hotel, these organizational dynamics escalated to an intolerable level. Extra demands for design changes were made by the GPs in order to
keep up with a volatile project environment. The ability of
the GPs to occasionally reach deep down into the organization
and change the direction of a project while it was being
developed had traditionally been one of Citadel's key
strengths. For instance, Hank Hadrian personally talked to
the superintendent of the fifth hotel project to urge him to
speed up its already "fast track" construction so as to open
the project in the fall rather than in the low season of the
winter, a lesson learned from the first few hotels. And in
the period between the completion and the opening of the
fifth hotel, Hank walked on the site to make sure that no
problem was left unattended, leaving the PM wondering "who
was the real PM"?

In reaching deep down into the organization and imposing
new design corrections on an already strained inter-group
process, the GPs upset the contained group politick.ng and
conflicts. This was particularly the case if the GPs were
drawn in by one group in its struggle with other groups.
Minor changes in the design of a project led to major escalat-
ing organizational conflicts. In each case, the GPs got
reluctantly but increasingly drawn in. The inter-group
process for real estate development became very strained and
the central bottle-neck for making strategy driven project
design changes. Under those conditions, a tacit consensus
emerged among key groups, not just the GPs, that changes in
the structural context were needed, i.e. changes were needed
in the formal organizational structure, procedures and systems, and personnel.

Entrepreneurial creativity and strategic control. When the GPs could no longer avoid the organizational conflicts, they called in an outside consultant, as they had done in earlier episodes, such as in the early and late 1970s. In each instance, the consultant concluded that a power struggle was taking place between key groups, that the GPs were "captive" or "dependent" on other groups, and that "habits needed to be broken". At the same time, the GPs were faced with increasing strategic uncertainty and complexity; some hotels did not perform as well as expected, other hotel chains made competitive moves that hurt, and the hotel concept was not as revolutionary as was assumed initially.

The general partners, with the help of the external consultant, began to frame the central organizational issue as one of protecting entrepreneurial creativity and control over strategy. Underneath this framing was a fear of "chaos" and a "palace struggle" and so they engaged in a process of inquiry that excluded key members in the company, such as the Presidents of the Development Group and the Hotel Group. Much as in early instances, top management made a unilateral structural intervention as a last resort to address escalating organizational conflict. This led to a temporary relief from conflict, the return of a sense of control over task, and a freeing up of creative energy.
Strategic change and organizational conflict. This case amply demonstrates that organizational conflicts are closely connected to strategic change. Strategic change leads to escalating conflict around the already existing mismatches between strategy and practices that have been tolerated prior to change. Change also results in incompatible norms of performance between the new context and old practices. If the mismatches prior to change are not addressed, then they begin to interfere when new mismatches surface. Structural intervention by top management may at times be necessary, even as a way to address escalating organizational conflict, however, it is not sufficient. It does not address the mismatches between design and implementation of strategy nor does it address the inability of groups to get underneath their differences.

7.6. An Emerging Corporate Bureaucracy Limiting New Strategy. An increasing separation of design and implementation of strategy. Citadel's top management has used structural intervention repeatedly as a way of dealing with organizational conflicts. However, there is evidence available that the effects of this type of intervention are limited. For instance, as we mentioned before, when the GPs faced conflict with the Construction Group on the issue of withholding information in 1979, it set up a Group of PMs. However, the PMs experienced similar issues with the Construction Group in 1983. By 1984, the GPs began to experience the same problem
with the PMs, and by 1985, the GPs saw the Hotel Group as "a fortress", withholding information.

The repeated and exclusive use of structural intervention as a way of dealing with conflict also produces unintended learning in the organization. First, it leads groups to expect and wait for such interventions to resolve their organizational conflicts rather than address these themselves. For instance, at the end of 1985, there was a surprising consensus among key groups in Citadel favoring structural intervention even though they disagreed on what change was required. Second, top management may get drawn into conflicts earlier and more often, making it more difficult to focus on strategic issues, and leading to more structural intervention. Third, as mismatches are not addressed, the result of repeated strategic change is that key corporate practices are increasingly left mismatched to new designs of strategy. Finally, unilateral structural intervention by top management usually leaves at least one group with a profound feeling of injustice and with an increasing feeling of defensiveness. For instance, the VP of Construction refused to work with the corporate planner after one of her assignments for top management had led to an organizational change in which he was demoted.

Groups become increasingly resistant to intervention and change. The result is a set of corporate practices that increasingly reflect previous contexts and that are time
capsules. The company begins to show the key features of an emerging corporate bureaucracy -- that is, in a traditional sense, it has a formalized separation between design and implementation, and, in a more pejorative sense, it has a set of compartmentalized practices embedded in detrimental politicking.

**Unintended consequences for learning new strategies.** The increasing separation of design and implementation of strategy has a series of long-term consequences for the learning of new strategies.

First, a competitive strategy is not realized fully when it is undermined by mismatched practices, when groups care less and less about the consequences of their behavior on other groups and produce in a series of on-going compromises in the field, and when errors are only corrected after being cast in "mortar and brick". Hotels will most likely become more expensive, thus affecting Citadel's competitiveness in the market place. In addition, detection of significant errors in a project may come too late and have a great impact on the performance of the company as a whole, a perennial fear of top management in project-based companies.

Second, the organizational dynamics leading to the separation of design and implementation of strategy affect the direction of strategy development. For instance, in the early 1970s, top management had to pay a lot of attention to two failing large office projects. Unable to learn from a
joint venture partner who managed the shopping centers in these projects, the company could not enter the shopping mall business which was about to take off. In the early 1980s, when Citadel was engaged in a process of experimentation that would lead the company into the hotel business, top management became disconnected from implementation, under-appreciated the first-order surprises during this process, and framed the hotel business as similar to what the company already knew how to do. Consequently, this way of framing the business prevented the GPs from addressing in a timely way the problem of having to run two development programs in parallel rather than in a counter-cyclical fashion. The increasing separation between design and implementation when learning a new strategy may also explain the pattern of geographical expansion and retreat combined with the fluctuation of sales, which led us to hypothesize in Chapter Three that the company may be unable to transform a strategic impulse beyond its region in a timely fashion and that top management may be unwilling to give up control.

Third, an increasing separation of design and implementation of strategy makes future major changes more difficult as key groups increasingly become frozen in practices carried over from previous contexts. While they will change their practice, such a process will take place through often unwitting contagion and will take a much longer time than permitted by the real time conditions of strategic change.
In brief, one of Citadel's key strengths was its ability to spot and engage in new initiatives and then leave them when a great number of competitors entered the market. This ability is undermined by the dynamics described above. As the company grows in size, the GPs will be more dependent on information from elsewhere in the company to act quickly and decisively. An increasing separation between design and implementation will hamper the flow of information. In addition, with more expensive hotels, the company will have to leave the market earlier. Finally, with inadequate cost information, hotels may turn out to be less competitive after they have been built.

Hence, the organizational dynamics separating design and implementation of strategy tend to limit the learning of new strategies and the company gets caught in a paradox resulting from two evolutionary processes: On the one hand, it has an extraordinary ability to keep on moving in an evolving context and to make major strategic changes. Yet, on the other hand, with every change it becomes more difficult to make future change because the by-product of change is the increasing institutionalization of the separation. In the end, the company will take on the key features of an emerging corporate bureaucracy, with its formal separation of the processes of design and implementation of strategy and its informal politicking around mismatches between these two processes.

Against this background, one could wonder why the Citadel
company is still in business. First, Citadel has demonstrated an ability to make design changes in volatile project environments that is much better than many of its competitors, and it takes time for this ability to erode. Second, this ability is the cornerstone of its corporate reputation and the company is awarded projects on the basis of it. Third, Citadel often has privileged and timely access to information. Four, its competitors, especially its larger ones suffer from similar problems. Finally, its corporate practices do change, albeit often through a much slower process of contagion. Given sharp fluctuations in the level of activities in the real estate market with its booms and busts, the organization may in fact catch up in periods with a lower level of activities.

7.7. Major Recommendations

Surprises as opportunities for joint inquiry. In the case study, we tried to find out how to understand and address Citadel's predicament of unexpected strategic success and unexpected organizational failure. We focused on the bewilderment of its members who were proud of the company's overall achievements but vexed by the conflicts in their everyday practice.

In this chapter, we have framed the problem as one of an increasing separation between the processes of design and implementation of strategy. Thus, we did not frame it in terms of a problem of design or implementation of strategy,
but rather as one of an increasing disconnection between these two processes, brought about by the limited joint inquiry of key groups into mismatches between design and implementation.

The single most important cause for limited joint inquiry is the way members deal with surprises. Rather than taking their own practice as self-evident and engaging in politicking when mismatches with corporate strategy occur, members in key groups need to learn to see surprises as opportunities to get access to their own practice and to learn to set up joint inquiry into corporate practices that result from their own practice. Members of key groups have to learn to engage in what I call corporate inquiry, that is, in the joint inquiry into and reflection on group practices with the intent to (re)design corporate practices in such a way that they match a (new) corporate strategy. This kind of inquiry is called "corporate" because it needs to go beyond the practices of individual key groups and focus on getting access to corporate practices resulting from an amalgam of often more or less disconnected group practices.

Learning to deal with surprises within a corporate setting, to address mismatches and to begin to undo the separation between design and implementation is best carried out prior to a major strategic change. Under steady state conditions, conflicts have not yet escalated, there is less distrust among groups, and joint inquiry is less threatening.
However, the case demonstrates that there were ample opportunities to begin a process of learning corporate inquiry, for instance, early on, when the Hotel Group and the Development Group began the development of the first hotel project. It is only under conditions of intolerable tensions among groups during escalating conflict, that such a learning process is difficult. Even at the time of this study, when tensions in the company were quite high, it would have been possible to begin a process of corporate inquiry with the guidance of a consultant.

It is also best if top management is included in the effort to bring about an interplay between design and implementation. However, the Hotel Group and the Development Group, individually or together, could have started a process of inquiry into troubling experiences and get access to their group and corporate practice. Such a process might have expanded later on to include top management and the Construction Group.

What can managers themselves do? Top management needs to go beyond unilateral structural interventions which include changes in the division of labor within top management, changes in reporting relationships between top management and key groups, changes in the structure of key groups, the separation of existing roles, the creation of new roles, and the recruitment of new types of people. This kind of solution leads to a further differentiation of roles and groups with-
out addressing their integration.

The boundaries between the design and implementation of strategy can be made somewhat more permeable through a number of, what some call, "integrating devices" such as regular project management meetings with all key actors in the company. These may allow for a slightly faster process of diffusion between the design and implementation of strategy. For instance, based on the case study, top management may decide to act in a less exclusionary fashion when dealing with policy issues and begin to invite presidents of key groups into some of their meetings at an early stage. This may alert the presidents to some erroneous assumptions they hold about corporate strategy. Top management may even decide to attempt some form of team building. As a result of these activities, some structural changes might be made in a collaborative fashion.

Key groups, such as the Hotel Group, may start to compare and contrast experiences with existing hotel projects and invite general managers of these hotels to become consultants during the definition of programs for new hotel projects. The Hotel Group may reconsider its decision to keep a general manager altogether out of the design of the project that he is ultimately going to manage and allow a "window" during the development process in which a GM can discuss his views on the design of the project. The project managers in the Development Group may begin to compare and contrast one-of-a-
kind and repetitive projects and see whether lessons from the former, in which design changes are accepted late in the process, can be brought to bear on the latter. Finally, the Hotel Group might begin to invite senior project managers to their planning meetings, and vice versa.

While these actions toward making formal boundaries more permeable might lead to better information and understanding, their impact is likely to be limited since these solutions tend not to address the mismatches between design and implementation and the way members deal with surprises. And as we have seen throughout the case study, to the extent Citadel introduced new "integrating devices", games and politicking continued. This is also the case when systems and procedures are changed so as to be in line with a new corporate strategy, for instance, when in the 1970s a computer-based management information system was created.

Organizing corporate inquiry. Clearly, the company needs help from an outside consultant or externally trained consultant to help learn how to organize corporate inquiry. If the company could have done it by itself, it would have done so. The stakes, as we have pointed out in the previous section, are high enough. However, a consultant cannot stay one step removed from action. S/he cannot only give advice in terms of a set of rules for how to deal with surprises. One cannot simply tell a manager to appreciate first-order surprises more, to report second-order surprises more quickly and to
confront third-order surprises less unilaterally and expect change in entrenched practices. Nor can the consultant merely produce case studies that describe how the separation of design and implementation occurs because such studies do not address the actual mismatches in practice. Nor can the consultant participate with the client in inquiry and merely provide information about mismatches and how they might be redressed because the process fails to address what prevents members from doing it themselves.

Thus, the consultant needs to step into the actual practice of the firm, engage with its managers in their problems and to actively help them organize their inquiry. Based on preliminary lessons from our studies, the contours of such an inquiry might look as follows. The central idea is that surprises point to mismatches that need to be addressed in a "time-out" from the relentless pressure of everyday work so that managers can become researchers into their own practice. Surfacing surprises makes them "real", recognizable, and subject to inquiry. By focussing on surprises, members can get access to largely tacit frames that inform their practice and of which they are only partly aware. Getting access to one's practice is the basis for reframing that practice, for inquiry into corporate practice, for becoming aware of the mismatches with corporate strategy, and for jointly redesigning corporate practice.
In collaboration with the client, the consultant should conduct an inquiry focused on a concrete and specific problem in one or more project that has a relevance beyond those particular projects. For instance, the starting point can be the puzzle posed by Citadel’s President Dave Vacarian which had several related parts. First, after the completion of the fifth hotel, he wondered how to account for the fact that the hotel came in $1,000,000 under budget, and that he only knew this after the project was completed. Second, the problem was particularly troubling because his assessment was that the project might as well have been a million dollar over budget. This would have had a major impact on the profitability of the project, and possibly on Citadel’s ability to raise money for further expansion of the hotel program. Finally, the fifth hotel project was in Citadel’s "own backyard" and he wondered what would happen with projects that were far away. As we have seen in the case, this is a problem that involved the practices of key groups in the company, that is highly relevant for the future of the company, that has been troubling the company for a great many years, and that centers around the problem of making real time design changes which reflect learning about the project’s environment and the business context as the project goes along.

**Diagnosis and feedback.** At the center of the process of corporate inquiry is that members should learn to jointly inquiry into surprises and not dismiss them as "normal" and
address them within the narrow parameters of their own practice. The first step in a process of "de-normalization" of surprises is a diagnosis by the consultant of how company members actually deal with surprises at present. What are the kind of surprises members run into? How do they deal with them? What are the cumulative consequences for corporate practices? What prevented those affected from inquiry surprises occurred? The result would be a limited number of mini case studies (not unlike the one presented at the end of Chapter Five) and an analysis of the patterns of how members deal with surprises.

Such a diagnosis will likely demonstrate two features of the way members deal with surprises: an extra-ordinary competence when dealing with uncertain, complex and fast moving situations, combined with a tendency to keep surprises private. The analysis should also indicate which ways of dealing with surprises are more successful. Central to the process of diagnosis is providing an accurate overall picture relatively quickly rather than a very precise analysis that takes a long time to produce.

The next step is feeding back these studies to the company. In doing so, the consultant tests his or her own understanding and also may elicit an effort by members to come up with better descriptions of the events. During this process, the consultant will advocate early on how members might become more effective in dealing with surprises and
test the commitment of company members to a process of inquiry into their own practice. The "back talk" will also provide the consultant with new information about how members deal with surprises on-line and he may revise the original diagnosis. S/he can also begin to address defensive routines that prevent members from addressing their own surprises. The idea of early feedback is to begin to bring about an interplay between design and implementation of the process of joint inquiry among the client and the consultant.

As we have said, the process of learning to engage in corporate inquiry is best started during a period of steady state prior to a major change. Hence, initially, the focus will most likely be on the withholding of second-order surprises. The central questions are "what kind of surprises are withheld", "under what conditions" and "what prevents members from making them discussable"? Inquiry will lead to the discovery of incompatible norms of performance embodied in various group practices as well as concrete situations in which these predicaments are experienced by members on the line and under time pressure.

For instance, the project manager of the fifth hotel, project manager Don, mentioned that "the schedule for financing drew the project askew from the beginning". Looking back, he said:

"In retrospect, what we should have done is [this]. Financing forces us to accept a cloudy cost picture ... at that point we should have said "stop, wait three or four months to clean up the design and get a new cost worked
out and then start construction". We failed to do that and did not recognize how much rework was going to be required".

What prevented Don from saying "stop?" What did he do and how did he reason about what he was doing? And how might he have gone about telling others about the predicament he was in? How did members of other groups react in that situation and how might they have responded so as to address the predicament? The question is not so much to search for a procedure or an organizational structure for preventing incompatible requirements from occurring but rather to learn how to act in real time when such a predicament emerges. Members may begin to carry over lessons drawn from past projects and explore how they might go about addressing current predicaments, thus changing the focus from backward looking to forward looking.

De-normalize surprises. Corporate inquiry will have a two-fold effect. First, by learning to surface second-order surprises managers get access to their own practice, become sensitized to surprises, and will earlier recognize and appreciate first-order surprises in their projects. This may lead to early inquiry and research to build a theory about what is going on, and result in joint experimentation with and redesign of practices. Being engaged in the design process can, in turn, alert others in the company to second-order surprises. In addition, learning to deal with second-order surprises may not only reduce third-order surprises but also give members a confidence in getting access to corporate
practices that will be a solid basis for learning to deal with inevitable third-order surprises.

Second, jointly designing alternative ways of dealing with surprises -- alternative in the sense of avoiding corporate games and politics -- will prepare key members for surprises in projects to come. Facing surprises under steady state conditions will establish a climate of trust and inquiry, and a repertoire of ways to deal with the inevitable conflicts as change begins to occur.

Through this process of joint inquiry, managers can learn to de-normalize surprises, to become surprised about their own surprises, to rekindle creativity, and begin to undo the scattering of creative efforts that result from withholding of surprises. In doing so, they prepare themselves for strategic change and begin to undo the separation between strategic design and implementation.

While the consultant conducts his or her inquiry and helps a client organization to conduct its own inquiry, s/he further builds and tests a theory about what kind of surprises company members encounter under conditions of change, how s/he recognizes that members have surprises, how s/he intervenes so as to help them to surface their surprises, and how effective s/he is helping managers. Crucial in this process are his or her own surprises.
8.1. Strategic Learning in Practice

The contradiction. In this thesis, we set out to explore the theory and practice of organizing a major corporate strategic change. While this new field of inquiry has great relevance for practice, little research has been carried out about how such changes actually take place. Most descriptions and prescriptions come from established perspectives and include an explicit or implicit separation of strategic design and implementation. Recently some authors have begun to question this separation, in particular in the context of organizing a major strategic change. As a remedy for bridging the separation, they introduced the idea of strategic learning, which they saw as an amendment to the existing frames of thinking (Ansoff, 1984; Burgelman, 1984; Mintzberg, 1987).

Some researchers have seen strategic learning as an interactive form of learning through which design and implementation would "intertwine" with each other during a strategic change. Other researchers, however, found that companies have great difficulties learning, even in the organizational steady state (Argyris and Schon, 1978). Thus we faced a contradiction. Those who studied major strategic changes, have advocated strategic learning as a self-evident but un-
tested idea; while, based on work about organizational learning in the steady state, we can predict that strategic learning would be troublesome and very problematic during change. In order to address this contradiction, we have provided an extensive description and an in-depth analysis of how a specific company actually engaged in major strategic changes. We have contrasted how the firm organized itself in practice with how its members said the firm acted and we inquired into the mismatch between the two.

**How to tell whether strategic learning took place?** On the basis of the available literature, we have constructed in Chapter Two three frames for strategic change and learning:

1] "implementing a deliberate corporate strategy";

2] "the corporate realization of emerging sub-strategies";

3] "the theory of action perspective".

While these frames contain different notions about strategic learning, they do not exclude one another.

Within the first frame, strategic learning means a change in the way some "strategically thinking" members of a company think about the strategy of the firm. "Strategically thinking" here means having a sense of evolving opportunities in the environment and available corporate resources, and being able to match these up in a timely fashion. Within the second frame, strategic learning takes the form of a change in the pattern of corporate behavior over time. Within both these frames, strategic learning takes the form of learning a new
strategy, be it a plan or pattern of behavior.

Within the third frame, strategic learning means "learning strategically" or "learning to learn", and can take three closely related forms:

1) learning to inquire into organizational processes so as to get "unstuck" and be prepared organizationally when a major strategic change is required;

2) keeping in close touch with the evolving theories-in-use of the company and correcting them by continuous inquiry into mismatches between the company's espoused theories and theories-in-use

3) realizing the strategy the company intends by continuous inquiry into its central theories of action

Thus, we have altogether identified five possible meanings of strategic learning. These provide a set of criteria against which to establish whether, in a given instance, strategic learning has actually taken place.

Learning a new strategy without learning strategically.

In our case study, we have seen "strategic learning in action" and can therefore say, according to either of the first two frames, that the Citadel Company "learned a new strategy". However, some important questions remain.

First, although senior members of Citadel indeed changed their thinking about the corporate context in ways that affected their allocation of company resources, there were also considerable differences among them about what the actual strategy was and should be. For instance, senior hotel group executives wondered whether top managers really understood what it would take to create a hotel chain. On
the other hand, the head of development assumed that the hotel planners would get bored with "cookie cutter" hotels and was anticipating this through project management recruitment policies. Such differences among key actors about a deliberated corporate strategy, led Mintzberg (1987) to state that "intent is cheap" and led him to focus instead on changes in realized corporate behavior.

Second, although the pattern of corporate behavior indeed changed dramatically over a period of five years as the company engaged in some fifteen hotel projects, escalating conflicts about the "back of the house" components of a hotel (the parts that are different from offices), suggests that the company had been building hotels as if they were offices. It is difficult to establish by examining corporate behavior alone, to what extent Citadel's actual hotel projects were unwitting compromises. Does building hotels as if they are offices constitute an actual break in the pattern of corporate behavior in Mintzberg's sense (1987)? In addition, such a compromise is troublesome from the perspective of a "deliberate corporate competitive strategy" because the company does not implement what top management intends.

Third, by 1989 Citadel was considering the sale of its hotel group, which raises the question, can the firm organization learn a new, long-term, nationally oriented strategy? In the past, it had retreated from three other expansions: 1] general contracting of low-income public housing in the fif-
ties, 2) turnkey post offices in the sixties, 3) low-income public housing development in the seventies. All four strategies involved "cookie cutter" project development. The previous three expansions came to an end when federal programs on which Citadel was "piggy-back riding" came to a halt. Citadel retreated to its home town and never transformed its particular strategic impulse into a platform for sustained expansion. In the light of this pattern in Citadel's way of changing its corporate behavior, can its members get underneath the inevitable incompatible norms of retaining some form of corporate control and the need for decentralization when expanding? Or does top management actually not want such an expansion, in which case there is a substantial difference between what it has espoused and what has actually happened.

According to the criteria derived from the third frame, "the theory of action" perspective, we can say that the company, through its members, did not learn strategically and did not learn to learn. The evidence suggests that, for related reasons, the company has regressed and will have more difficulties in the future in learning a new strategy and learning to learn one. First, while the company relieved itself temporarily from escalating organizational conflict, it got more stuck in problems of the steady state performance. For instance, members had given up inquiry into "headaches", important mismatches between project design and implementation, fearing that inquiry would generate stifling con-
similar to what the company had been doing in the past.
Secondly, once the hotel group was set up to shape the
strategy, its executives lacked access to important top mana-
gement meetings, were not challenged on their practices,
considered their knowledge self-evident and tried to repli-
cate the practices of the large hotel chain they came from.
Each group began unilaterally to correct errors in the hotel
strategy as they saw it, which led to nasty surprises for
other groups, and to conflicts among groups. This triggered
interpersonal and intergroup strategies that prevented either
group from questioning the effectiveness of its own prac-
tices, getting underneath the conflicts, and exploring the
incompatibility of norms in their joint practice. As a
result, the emerging strategy-in-use was out of the joint
control of Citadel's members; by the time of the third all-
suites hotel, changes in the corporate context had led to
escalating, intolerable conflicts.

Thus, while it may be true that during a creative im-
provisation the company can do more than its members can
tell, this does not mean that the company cannot gain access
by inquiry into what it is doing. The company may make its
knowledge inaccessible and, in doing so, make corporate
realization of strategy problematic.

8.3. The Role of Surprises in a Limited Strategic Learning System

Kinds of surprises. The lack of interactive learning,
and the persistent separation between strategic design and
its implementation during strategic chang. account for Citadel's limited strategic learning. While the company learned a new strategy, it did not learn strategically. We might say then, that Citadel has limited strategic learning capacity. However such an ability is not a mere "given", it results from active organizing in the steady state. At the very core of this issue is the way in which Citadel's members deal with surprises. A surprise is an important unexpected event, that may or may not be the direct consequence of the actions of an actor, for which s/he does not have an immediate response. It requires inquiry, which may make the actor aware of a mismatch between the expected and actual outcome of his actions.

In each of the three organizing processes (design, implementation and inquiry) that occurred during strategic change, Citadel's members were faced with surprises. During strategic design, members tended to under-appreciate the pattern in a series of first-order surprises, that is, surprises in transactions with the corporate context which had a meaning beyond a specific project in which they occurred. For instance, senior executives did not appreciate a process of experimentation that was resulted from the recurrent failing of a core action strategy (the switching of attention between regions). During implementation, members tended to keep private a series of second-order surprises, that is, surprises in everyday professional practice that may indicate a
mismatch between a new design and "old" practices. For instance, the President of the Hotel Group was surprised when he noticed that Citadel's financial policy seemed to be that Citadel would take on any project as long as it held some equity in it. Finally, when groups began to discover errors in their practices, they would try to correct them unilaterally. Such actions would often present third-order -- often nasty -- surprises for other groups. For instance, when a hotel general manager discovered to his surprise that the project manager continued to object to his proposals for design changes which he believed to be in the best interest of the company, he tried to cut her out of the decision making process. Typically, members did not inquire into a series of second-order surprises, or set up a limited inquiry in the case of third-order surprises.

The normalization of surprises. The way members dealt with surprises during strategic change was grounded in the way they dealt with surprises during steady state performance.

During on-going implementation, for instance, Citadel's business developer had fought hard with a federal agency for adequate financing of a housing project. Afterwards he experienced a third-order surprise when he discovered, to his embarrassment, that the construction group had protected itself and overbudgeted by 20%. In the next project, he subtracted 20%. When this was discovered by the Construction
Group, they added 20% to the budget of the third project. In the end, nobody knew the exact cost figures. But in the steady state, the company otherwise functioned satisfactorily and profitably. No effort was made to get underneath this dynamic, except for the creation of a Management Information System Department, which consequently ran into the same problem.

The way surprises were handled during the on-going design of corporate strategy was not very different. In a risky, uncertain and complex world of real estate development, members would face surprising events during the planning, construction, or leasing of projects. As these events could stop a project dead in its track, firm members dealt with these surprises at a project level. During Citadel's first downtown office building (in 1976-1977), taking place in a sensitive political hometown environment that was new to the company, the general partner, Hank Hadrian, closely supervised the project and frequently intervened to the surprise of the head of construction. In response, the latter, who was accustomed to working largely on his own, would try to unilaterally control the work, e.g. by withholding information about its progress. This in turn would lead to closer supervision and more intervention by the partner, etc..

Finally, in 1972, when the company faced severe problems in the Harrisburg project, members did not jointly inquire into how the failure occurred. Instead they framed the fail-
ure as a marketing or cost control problem, and top manage-
ment set up a department to address the problem in the
future. Even 15 years later, members denied during inter-
views that there had been any surprises.

Under all these conditions, members had learned to live
with surprises, that is, they had become accustomed to normal
surprises. During the strategic change, top management denied
having "macro" surprises while at a project management level,
members had surprises "all the time". Thus, members through-
out the company kept on normalizing surprises.

Citadel's members presented through their stories an
image of a loosely coupled organizing process of strategic
design, implementation and inquiry, an image confirmed by our
analysis of persistent separation of design and implementa-
tion. However, there was an underlying dynamic, determined
by the way members dealt with surprises, that tightly con-
ected these organizing processes. Normalizing surprises in
the steady state leads to under-appreciation of first-order
surprises during strategic redesign. This leads to assuming
familiarity between the new and the old corporate context.
This in turn leads to second-order surprises experienced in
implementing a new strategic design. When after a while
errors are suddenly discovered and corrected, this leads to
third-order surprises between groups. Third-order surprises
in turn tend to fragment inquiry and reinforce the normaliza-
tion of surprises.
This dynamic is at the core of a limited strategic learning system. It is depicted in the following two figures.

**Figure 12: The Core of a Limited Strategic Learning System:**

Generating a "numbness" for surprises that have corporate relevance.

Normalization of surprises in the steady state contains its own dynamic:

**Figure 13: Limited Learning in the Steady State**
Thus, the normalization of surprises leads to the passing through of surprises, from first-order surprises in transactions with the corporate context, to second-order surprises in the personal context, to third-order surprises in an intergroup context, which lead in turn to the normalization of surprises. The result is a numbing of corporate sensitivities to surprises relevant to the company as a whole. At the same time, third-order surprises lead to a "culture shock", addressed by structural interventions that fragment inquiry and normalize surprises further. This active collective organizing is a defense against individual experiences of surprise, which are, paradoxically, very much of the members' own collective making. Finally, while we have focussed on the corporate level, the same dynamic is at work in the relations between a group and its individual members. For instance, with the inner corporate environment as the context for a group, the second-order surprises of a member of a group can be seen as a first-order surprise for the group.

A map of a limited strategic learning system. The key to the normalization of surprises under conditions of steady state performance is that members deal with surprises at a project level and that performance remains within a satisfactory range. However, changes in the corporate context may challenge the steady state through first-order surprises that lead to a strategic predicament, such as "We are too big for
housing and too small for office projects", which triggers a process of strategic [re]-design. In addition, as top management faces threats that might push project performance out of range, it begins to intervene in on-going implementation in order to correct errors. This leads, as explained before, to third-order surprises, escalating organizational conflicts, unilateral structural intervention and further separation of strategic design and implementation, setting the stage for problems during strategic change.

We are now in a position to summarize our main findings by presenting a map of how a limited strategic learning system works. The process is one of organizing that leads to increasing separation of strategic design and implementation, and eventually to corporate bureaucratization in the pejorative sense. This map (see Figure 14) reads from left to right, starting with the organizing of steady state performance. After a challenge to the steady state the company can either return to the steady state or enter a [re]-design loop and engage in major strategic change. After limited inquiry into the mismatch between strategic design and implementation, the company can either return to the steady state, or once again face a challenge. Finally, the upper part of the map describes what the company and its members are faced with, and the lower part describes how they deal with it and what the unintended consequences are.
Figure 14: A map of a limited strategic learning system
8.4 Corporate Inquiry, Strategic Learning and Research in Practice

Corporate inquiry. In this chapter, we have made the point that strategic learning, in the sense of interactive learning between design and implementation, is not a self-evident idea, and that strategic learning will not automatically take place when a company engages in a major change. The company needs to get access to its strategic design-in-use, i.e. the design expressed through what is actually implemented in everyday corporate practice as the result of the combination of various (professional) practices shaped through previous contexts.

The key to getting access to corporate practices is a form of research in practice. Rather than the limited learning that may occur when each sub-group only inquires only into its own practice with top management addressing escalating conflicts among groups, a company needs to engage in corporate inquiry. Through joint inquiry, key groups must get access to the corporate practice that results from their own interactive practices. They need to get underneath their conflicts and inquire into incompatible norms for performance, surface their strategic assumptions shaped through previous contexts of practice, articulate their premises about the present context, reflect on the mismatches between strategic design and organizational practices, and restructure the strategic design-in-use.

Corporate inquiry needs to begin with a description of
how a company actually goes about implementing its strategy, and how its strategic design-in-use may differ considerably from its espoused design. Such inquiry should start at the level of very specific problems around which conflicts occur, such as the laundry in the third all-suites hotel. Underneath these conflicts lie incompatible norms, for example budgeting norms for real estate development and for hotel operations on which the two groups continually compromise in actual practice. Such incompatible norms are not confined to one project, but are likely to return in other projects.

Corporate inquiry can best begin prior to a major strategic change. Under those conditions, it is possible to take time out from the relentless pressure of everyday on-line practice. During the escalating conflicts that often lead up to a strategic change, there is seldom the willingness to take time out to reflect on practice. After a strategic change, there is an added level of distrust and trauma among groups that needs to be overcome. By inquiry into steady state performance prior to a strategic change, the organization maybe able to get itself unstuck and begin to address the likelihood of future third-order surprises. It may prepare itself for change by 1] matching design and implementation, 2] creating a level of trust between groups, and 3] developing a repertoire of ways of effectively dealing with the conflicts that are bound to arise when the company engages in change. But in addition to getting in touch with
its design-in-use, company members may also begin to see how the design-in-use is changing over time. Second-order surprises begin to make sense, and members can intervene to correct their practice, or interpret the changes as cues of an environmental change to come. In doing so, they are not only prepared for change, they begin to appreciate first-order surprises, and the company can get ahead of the change. In short, members begin to de-normalize surprises, and learn to deal with them. The company as a whole engages in strategic learning in the sense of learning strategically.

Research and practice. Corporate inquiry is not something companies can easily do by themselves once they are provided with a set of prescriptions for good management or with rich descriptions of actual practice. These are the typical remedies proposed by advocates of the two major frames -- the "deliberate corporate strategy" and the "emerging sub-strategy" -- discussed in Chapter Two. But these remedies are not in and by themselves helpful in getting underneath incompatible norms in every day practice. If companies could have done it, then they very likely would have done it. The stakes are high enough. However, information about the effectiveness of corporate practice tends to be scattered around the company, and in part, buried. Such knowledge tends to be kept private. To the extent that members are aware that they face incompatible norms, they do not know how to get underneath their conflicts or how to jointly
inquire into their interactive practice. In order to engage in such corporate inquiry, companies need, at least initially, help from outsiders. As consultants begin to inquire into the strategic design-in-use, for instance, by collecting scattered information and feeding it back to the client, they may begin to undo the separation between strategic design and implementation. In particular, when they surface defensive routines during the design process they address intergroup dynamics that would otherwise compromise the quality of the design and undermine its implementation (Argyris, 1985).

While corporate inquiry based on "the theory of action perspective" is promising, it is also in its infancy, in particular with regard to the responses of client organizations to negative feedback. Thus, when consultants undertake this kind of inquiry, they must become at the same time researchers into their own practice. When professionals and groups within the client organization try to gain access to their corporate practices through reflection on their own practice and ways of implementation, the boundaries between research and practice become permeable, much as the boundaries between design and implementation may become permeable during the steady state (Schon, 1983). Researchers and practitioners become collaborators by actively inquiring into corporate practice and begin to undo the separation between design and implementation. Much like the practitioners in the client organization, consultant/researchers will experience sur-
prises that require reflection on reflection-in-action. Such reflections not only become a basis for understanding particular corporate practices, but also form a springboard for further research in practice. This thesis project was just such an undertaking for the author in becoming a consultant/researcher.
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