Theory E – Theory O
Understanding the anatomy & physiology of change
Two dramatically different approaches to organizational change are being used in the world today.

**Theory E** has as its purpose the creation of economic value, often expressed as shareholder value. Its approach is planned, programmatic change, based on formal structure and systems; driven from the top with the help of external consultants and financial incentives.

**Theory O** has as its purpose development of the organization's human capability to implement strategy and learn from experience. It depends on a high commitment culture in which change is continuous & emergent. Change is enabled through participative process which relies less on consultants and incentives.

“… major change requires both high-level programs that affect the entire organization and programs that touch each individual person”

*Adapted from Beer & Nohria, 2000*
“... Every entity always returns to yin after engaging yang. The fusion of these two opposites births the Vital Energy that sustains the harmony of life ...”

The Principles of Transformation
Lao Tzu; The Tao Te Ching; Verse 42
The Tyranny of the “OR”

“The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function”

F. Scott Fitzgerald

- Change OR Stability
- Conservative OR Bold
- Low cost OR High Quality
- Creative Autonomy OR Consistency & Control
- Future Investment OR Short-term success
- Methodical Planning OR Opportunistic experimentation
The Genius of the “AND”

Purpose beyond profit AND pragmatic pursuit of profit
Fixed core ideology AND vigorous change movement
Conservatism around the core AND bold, risky moves
Clear sense of direction AND opportunistic experimentation
Big Hairy Audacious Goals AND incremental, evolutionary process
Community steeped in core values AND community that seeks to change
Ideological control AND operational autonomy
Tight culture (almost cult-like) AND ability to change, move & adapt
Investment in the long term AND demands for short term performance
Philosophical, visionary, futuristic AND superb daily execution
Org. aligned with core ideology AND Org. adapted to its environment

Adapted from Collins & Porras, Built to Last 1997 p 43-45
“Contrary to popular wisdom, the proper first response to a changing world is not to ask “How should we change?” but rather to ask, “What do we stand for and why do we exist?”. This should never change. And then feel free to change everything else.”

Collins & Porras, Built to Last 1997 p xiv
Opposites Co-exist

“.. A highly visionary company [school] doesn’t want to blend yin and yang into a gray, indistinguishable circle that is neither highly yin not highly yang; it aims to be distinctly yin and distinctly yang – both at the same time, all the time”

Collins & Porras, Built to Last, p 45

How can we create an administrative structure which is BOTH an authentic expression of self-administration AND meets the real-time demands for transparency, consistency, efficiency, fairness and fiscal responsibility that define our contemporary environment?
Theories E and O of Change  

<table>
<thead>
<tr>
<th>Quality</th>
<th>Theory E</th>
<th>Theory O</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Maximize Economic Value</td>
<td>Develop Organizational Capabilities</td>
</tr>
<tr>
<td>Leadership</td>
<td>Top-down</td>
<td>Participative</td>
</tr>
<tr>
<td>Focus</td>
<td>Structure &amp; Systems</td>
<td>Culture &amp; Values</td>
</tr>
<tr>
<td>Planning</td>
<td>Programmatic</td>
<td>Emergent</td>
</tr>
<tr>
<td>Motivation</td>
<td>Incentives lead (Extrinsic)</td>
<td>Incentives lag (Intrinsic)</td>
</tr>
<tr>
<td>Consultants</td>
<td>Large/Knowledge-driven</td>
<td>Small/Process-driven</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Analogy</th>
<th>Anatomy</th>
<th>Physiology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planetary Type</td>
<td>Mars (Heroic)</td>
<td>Venus (Nurturing)</td>
</tr>
<tr>
<td>Gesture</td>
<td>Linear - Straight</td>
<td>Curved - Round</td>
</tr>
<tr>
<td>Perspective</td>
<td>Mechanical Universe</td>
<td>Living System</td>
</tr>
<tr>
<td>Attempt to ..</td>
<td>Control</td>
<td>Enable or Allow</td>
</tr>
</tbody>
</table>

Analogy: Anatomy vs. Physiology
Planetary Type: Mars (Heroic) vs. Venus (Nurturing)
Gesture: Linear - Straight vs. Curved - Round
Perspective: Mechanical Universe vs. Living System
Attempt to ..: Control vs. Enable or Allow
Between Form & Freedom

**Cosmic Form – Vision, Purpose & Identity**

The middle space is where we freely enter into relationship so we can freely share information.

Through dialogue, we establish first interest then trust in each other

**Earthly Form – Structures, Systems & Agreements**

The role of the consultant is to create and hold a safe space within which members of the community can do their work
“Reality is co-created by our process of observation, from decisions we the observers make about what we choose to notice. It does not exist independent of those activities. Therefore, we cannot talk people into our vision of reality because truly nothing is real for them if they haven’t created it. ... It is the participation process that makes the plan come alive as a personal reality. People can commit themselves because it has become real for them”.

“The greatest generator of information is the freedom of chaos, where every moment is new. Of course, such freedom is exactly what we try to prevent. We have no desire to let information roam about promiscuously, procreating where is will, creating chaos. Management’s task is to enforce control, to keep information contained, to pass it down in such a way that no newness occurs. Information chastity belts are a central management function. The last thing we need is information running around loose in our organizations. And there are good reasons for our stern, puritanical attitudes towards information; unfettered information has created enough horror stories to justify frequent witch hunts. But if information is to function as a source of vitality we must abandon our dark cloaks of control and trust in its need for free movement, even in our own organizations”