

Theory into Practice

Use high differentiation to enable different functions, departments, and units in an organization to develop their own responses to their particular goals and unique competitive environments.

Paul Lawrence and Jay Lorsch's classic study, *Organization and Environment* (1967), defined the dynamics and challenges of differentiation and integration.⁸ Highly differentiated designs, they found, become reinforced not just in terms of distinctive processes and procedures, but also in terms of cognitive and emotional orientation of employees. Comparing one highly differentiated unit to another, they found that individuals within those units not only worked differently but also thought and behaved differently. Individuals who work in functions such as manufacturing, engineering, marketing, and finance, for instance, think differently about how to approach problems and evaluate potential solutions. These differences should be embraced rather than avoided; they are part of what helps an organization think and act in a creative way.

Goals	A sales function may have the goal of increasing revenues, while a manufacturing function may have the goal of reducing costs.
Time orientation	A research department will likely have a long-term orientation toward research and development, while a sales function will want new products that it can sell by the end of the quarter.
Interpersonal style	Research scientists might believe that they can maximize creativity and contribution by focusing all their individual attention on their task, while manufacturing managers might desire to create rich interpersonal relationships among key individuals to maximize quality.
Formality	An assembly operation is more likely to be governed by tight rules and strict procedures, while a research and development laboratory would find such rules stifling to creativity.

Exhibit 4-2 Dimensions of Differentiation.

Because of the particular and differing nature of the tasks, each unit develops its own way of working, of thinking, and of behaving. Exhibit 4-2 presents the four distinct dimensions of differentiation. In complex organizations, differentiation relates not just to functional distinctions but also to product and/or geographic divisions. We saw that in SAP America, where consultants within each region developed their own patterns of thinking and behaving in response to local customers.

Differentiation is necessary, even helpful. It does raise its own challenges, however. After all, the differentiated parts must also work together if the overall organization is to perform at an exceptional level. Here's one example. With Christmas orders poured into a large retail toy business over the Internet, the traditional functions of logistics, warehousing, and distribution strained to the breaking point, causing a near disaster in customer relations. The manager of the e-business unit was stunned that the rest of the organization was surprised. "They acted as if they weren't expecting a Christmas surge," complained the e-business managers, while "they"—the managers of the more traditional functions—retorted, "It would have been helpful if they would have kept us in the loop."⁹ High levels of differentiation had not been matched with requisite integration.

Integration refers to the required level of coordination across differentiated functions, units, and divisions. Collaboration among differentiated units must occur, conflicts must be resolved, and unity of effort must be achieved. Within business units, differentiated functions can, and often do, fail to achieve the required level of integration. The same is true for multiple divisions in large corporations where poor coordination across business can hamper efficiencies.

Building a Vocabulary of Change Integration
the required level of coordination across differentiated functions, units, and divisions.

	Low	High
High	Low differentiation hampers an organization's responsiveness to a complex environment	In highly complex, dynamic environments, effective firms operate here
Low		SAP America's consulting service was operating here
Integration		Differentiation