hierarchy or based on other factors, such as their expertise or admirable character. Consider these examples:

- An investment firm in Atlanta, Georgia, has an “inner sanctum” with special offices, restrooms, and a dining room for senior executives. The entry door has an electronic lock which only members can access. Mid-level managers hold the title of “director” and eat in a separate dining room. First-level supervisors and other employees share a general cafeteria. Dining facilities and titles signal who has more power in the vertical hierarchy of the organization.

- At W. L. Gore, few people have titles, and no one has a boss. Rather than people having power based on their position, leaders emerge based on who has a good idea and can recruit people to work on it.²³

Control Systems. The final element shown in Exhibit 10.2 relates to control systems, or the inner workings of how the organization controls people and operations. This includes looking at such things as how information is managed, whether managers apply behavior or outcome control related to employee activities, quality control systems, methods of financial control, reward systems, and how decisions are made. Two examples of how control systems reflect culture are:

- At InBev NV, the Belgian-Brazilian brewing giant that recently purchased U.S.-based Anheuser-Busch, distribution center managers frequently start the day with a sort of pep rally reviewing the day’s sales targets and motivating people to get out and sell more beer. The company’s incentive-based compensation
system and its focus on increasing sales while relentlessly cutting costs are key elements of a highly competitive corporate culture.  

- Netflix lets employees make most of their own choices—even in how to compensate themselves and how much vacation to take. This freedom combined with responsibility reflects what marketing manager Heather McIlhany refers to as a tough, fulfilling, “fully-formed adult” culture.

Recall that culture exists at two levels—the underlying values and assumptions and the visible artifacts and observable behaviors. The rites and ceremonies, stories, symbols, organization structures, power relationships, and control systems just described are visible manifestations of underlying company values. These visible artifacts and behaviors can be used to interpret culture, but they are also used by managers to shape company values and to strengthen the desired corporate culture. Thus, the summary of cultural artifacts shown in Exhibit 10.2 can serve as both a mechanism for interpretation and a guideline for action when managers need to change or strengthen cultural values.

**ORGANIZATION DESIGN AND CULTURE**

Managers want a corporate culture that reinforces the strategy and structural design that the organization needs to be effective within its environment. For example, if the external environment requires flexibility and responsiveness, such as the environment for Internet-based companies like Twitter, Netflix, Facebook, or Flickr, the culture should encourage adaptability. The correct relationship among cultural values, organizational strategy and structure, and the environment can enhance organizational performance.

Cultures can be assessed along many dimensions, such as the extent of collaboration versus isolation among people and departments, the importance of control and where control is concentrated, or whether the organization’s time orientation is short range or long range. Here, we will focus on two specific dimensions: (1) the extent to which the competitive environment requires flexibility or stability; and (2) the extent to which the organization’s strategic focus and strength are internal or external. Four categories of culture associated with these differences, as illustrated in Exhibit 10.4, are adaptability, mission, clan, and bureaucratic. These four categories relate to the fit among cultural values, strategy, structure, and the environment. Each can be successful, depending on the needs of the external environment and the organization’s strategic focus.

1. **Top managers typically should focus their energy more on strategy and structure than on corporate culture.**

   **ANSWER:** *Disagree.* Smart top managers know that for the organization to be successful, the right culture has to support and reinforce the strategy and structure to be effective in its environment. Someone once said, “Culture eats strategy for lunch.” Managers can invest all the time and resources they have in defining a killer strategy, but if the cultural values are out of line, implementing it will be impossible.
The Adaptability Culture

The adaptability culture is characterized by strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages entrepreneurial values, norms, and beliefs that support the capacity of the organization to detect, interpret, and translate signals from the environment into new behavior responses. This type of company, however, doesn’t just react quickly to environmental changes—it actively creates change. Innovation, creativity, and risk taking are valued and rewarded.

A good illustration of the adaptability culture is Google, a company whose values promote individual initiative, experimentation, risk-taking, and entrepreneurship.

Google founders Sergey Brin and Larry Page famously wrote, “Google is not a conventional company.” Indeed it isn’t. For example, every bathroom stall at Google’s corporate headquarters has a Japanese high-tech commode with a heated seat. Then there’s the flier posted on the door, titled “Testing on the Toilet,” that offers a quiz designed to challenge the brains of software engineers (the quiz changes every few weeks).

It is just another way Google keeps people thinking in unconventional ways to help the company keep innovating. Another way is by putting a premium on success but seeming to shrug off mistakes and failure. Consider what happened when vice president Sheryl Sandberg committed a mistake that cost the company several million dollars. After Page accepted her apology, he said, “I’m so glad you made this mistake... If we don’t have any of these mistakes, we’re just not taking enough risk.” Fortune magazine called it “chaos by design.” The Washington Post referred to it as a “culture of fearlessness.” Whatever you call it, Google’s culture works.

The atmosphere inside Google feels like a university, where brainy graduate students have fun, work long and hard, and engage in academic debates about ideas that are treated like matters of global importance. They can bring their dogs to work, do their laundry on site, work out in the gym, study Mandarin, Japanese, Spanish, or French, and eat at any of eleven free gourmet cafeterias. Engineers, the “big men” (and women) on campus, spend 20 percent of their time working on their own ideas. Everyone is encouraged to propose outrageously ambitious ideas often, and teams are assigned to explore whether they will work. A lot of them don’t, but some take off spectacularly. The innovative culture is visible throughout the campus. Glass-walled workrooms are jammed with groups of people, and whiteboards line the hallways so employees can scribble random thoughts.

The hiring process is designed to find out if the candidate is “Googley.” “It’s an ill-defined term,” says chief culture officer Stacy Sullivan, but it basically means “not someone too traditional or stuck in ways done traditionally by other companies.”

With rapid growth, Google’s culture is beginning to show signs of strain. The company zoomed from a few hundred people at headquarters to more than 20,000 in locations scattered around the world, and the processes needed to manage a large corporation hinder some of its creativity and flexibility. In addition, a global economic downturn has led to stronger top-down management and more control of risks and costs. Leaders are scaling back the anything-goes culture as they look for ways to ensure the company continues to thrive during hard times. Nevertheless, they are also consciously trying to keep the heart of the culture intact. As one said,
“Our unique culture is part of what makes Google Google.” Most Internet-based companies, like Google, use the adaptability type of culture, as do many companies in the marketing, electronics, and cosmetics industries, because they must move quickly to satisfy customers.

The Mission Culture

An organization concerned with serving specific customers in the external environment, but without the need for rapid change, is suited to the mission culture. The mission culture is characterized by emphasis on a clear vision of the organization’s purpose and on the achievement of goals, such as sales growth, profitability, or market share, to help achieve the purpose. Individual employees may be responsible for a specified level of performance, and the organization promises specified rewards in return. Managers shape behavior by envisioning and communicating a desired future state for the organization. Because the environment is stable, they can translate the vision into measurable goals and evaluate employee performance for meeting them. In some cases, mission cultures reflect a high level of competitiveness and a profit-making orientation.

InBev, mentioned earlier in the chapter, reflects a mission culture. Professionalism, ambition, and aggressiveness are key values. Managers keep employees focused on...
achieving high sales and profit levels, and those who meet the demanding goals are handomely rewarded. Bonuses and promotions are based on performance, not seniority, and top executives are unapologetic about giving special treatment to high achievers.32

**The Clan Culture**

The *clan culture* has a primary focus on the involvement and participation of the organization’s members and on rapidly changing expectations from the external environment. This culture is similar to the clan form of control described in Chapter 9. More than any other, this culture focuses on meeting the needs of employees as the route to high performance. Involvement and participation create a sense of responsibility and ownership and, hence, greater commitment to the organization.

In a clan culture, an important value is taking care of employees and making sure they have whatever they need to help them be satisfied as well as productive. Companies in the fashion and retail industries often adopt this culture because it releases the creativity of employees to respond to rapidly changing tastes. Wegmans, a family-run chain of seventy-one supermarkets, has succeeded with a clan culture. Employee commitment and satisfaction is considered key to success, and Wegmans invests heavily in employee development and support programs. The company pays good wages, sends employees on learning trips, and offers college scholarships for both full- and part-time employees. Employees are empowered to use their own initiative and creativity in serving customers.33

**The Bureaucratic Culture**

The *bureaucratic culture* has an internal focus and a consistency orientation for a stable environment. This type of culture supports a methodical approach to doing business. Symbols, heroes, and ceremonies reinforce the values of cooperation, tradition, and following established policies and practices as ways to achieve goals. Personal involvement is somewhat lower here, but that is outweighed by a high level of consistency, conformity, and collaboration among members. This organization succeeds by being highly integrated and efficient.

Today, most managers are shifting away from bureaucratic cultures because of a need for greater flexibility. However, Pacific Edge Software (now part of Serena Software) successfully implemented elements of a bureaucratic culture to ensure that all its projects stayed on time and on budget. The husband-and-wife co-founders, Lisa Hjorten and Scott Fuller, intentionally implanted a culture of order, discipline, and control. This emphasis on order and focus meant employees generally went home by 6:00 p.m. rather than working all night to finish an important project. Although sometimes being careful means being slow, Pacific Edge managed to keep pace with the demands of the external environment.34

Some people like the order and predictability of a bureaucratic culture, whereas other people would feel stifled and constrained by too much discipline and would be happier working in some other type of culture. Complete the questionnaire in the “How Do You Fit the Design?” box to get an idea of which type of culture—adaptability, mission, clan, or bureaucratic—you would be most comfortable and successful working in.
Chapter 10: Organizational Culture and Ethical Values

Culture Strength and Organizational Subcultures

**Culture strength** refers to the degree of agreement among members of an organization about the importance of specific values. If widespread consensus exists about the importance of those values, the culture is cohesive and strong; if little agreement exists, the culture is weak.13

A strong culture is typically associated with the frequent use of ceremonies, symbols, and stories, as described earlier, and managers align structures and processes to support the cultural values. These elements increase employee commitment to the values and strategy of a company. However, culture is not always uniform throughout the organization, particularly in large companies. Even in organizations that have strong cultures, there may be several sets of subcultures. **Subcultures** develop to reflect the common problems, goals, and experiences that members of a team, department,
or other unit share. An office, branch, or unit of a company that is physically separated from the company’s main operations may also take on a distinctive subculture. For example, although the dominant culture of an organization may be a mission culture, various departments may also reflect characteristics of adaptability, clan, or bureaucratic cultures. The manufacturing department of a large organization may thrive in an environment that emphasizes order, efficiency, and obedience to rules, whereas the research and development (R&D) department may be characterized by employee empowerment, flexibility, and customer focus. This is similar to the concept of differentiation described in Chapter 4, where employees in manufacturing, sales, and research departments studied by Paul Lawrence and Jay Lorsch developed different values with respect to time horizon, interpersonal relationships, and formality in order to perform the job of each particular department most effectively. Consider how the credit division of Pitney Bowes, a huge corporation that manufactures postage meters, copiers, and other office equipment, developed a distinctive subculture to encourage innovation and risk taking.

Pitney Bowes, a maker of postage meters and other office equipment, has long thrived in an environment of order and predictability. Its headquarters reflects a typical corporate environment and an orderly culture with its blank walls and bland carpeting. But step onto the third floor of the Pitney Bowes building in Shelton, Connecticut, and you might think you’re at a different company. The domain of Pitney Bowes Credit Corporation (PBCC) looks more like an indoor theme park, featuring cobblestone-patterned carpets, faux gas lamps, and an ornate town square-style clock. It also has a French-style café, a 1950s-style diner, and the “Cranial Kitchen,” where employees sit in cozy booths to surf the Internet or watch training videos. The friendly hallways encourage impromptu conversations, where people can exchange information and share ideas they wouldn’t otherwise share.

PBCC traditionally helped customers finance their business with the parent company. However, Matthew Kisner, PBCC’s president and CEO, has worked with other managers to redefine the division as a creator of services rather than just a provider of services. Rather than just financing sales and leasing of existing products, PBCC now creates new services for customers to buy. For example, Purchase Power is a revolving line of credit that helps companies finance their postage costs. It was profitable within nine months and now has more than 400,000 customers. When PBCC redefined its job, it began redefining its subculture to match, by emphasizing values of teamwork, risk taking, and creativity. “We wanted a fun space that would embody our culture,” Kisner says. “No straight lines, no linear thinking. Because we’re a financial services company, our biggest advantage is the quality of our ideas.” So far, PBCC’s new approach is working. In one year, the division, whose 600 employees make up less than 2 percent of Pitney Bowes’ total workforce, generated 36 percent of the company’s net profits.

Subcultures typically include the basic values of the dominant organizational culture plus additional values unique to members of the subculture. However, subcultural differences can sometimes lead to conflicts between departments, especially in organizations that do not have strong overall corporate cultures. When subcultural values become too strong and outweigh the corporate cultural values, conflicts may emerge and hurt organizational performance. Conflict will be discussed in detail in Chapter 13.
Culture can play an important role in creating an organizational climate that enables learning and innovative response to challenges, competitive threats, or new opportunities. A strong culture that encourages adaptation and change enhances organizational performance by energizing and motivating employees, unifying people around shared goals and a higher mission, and shaping and guiding behavior so that everyone’s actions are aligned with strategic priorities. Thus, creating and influencing an adaptive culture is one of a manager’s most important jobs. The right culture can drive high performance.38

A number of studies have found a positive relationship between culture and performance.39 In Corporate Culture and Performance, Kotter and Heskett provided evidence that companies that intentionally managed cultural values outperformed similar companies that did not. Some companies have developed systematic ways to measure and manage the impact of culture on organizational performance. At Caterpillar, leaders used a tool called the Cultural Assessment Process (CAP), which gave top executives hard data documenting millions of dollars in savings they could attribute directly to cultural factors.40 Even the U.S. federal government is recognizing the link between culture and effectiveness. The U.S. Office of Personnel Management created its Organizational Assessment Survey as a way for federal agencies to measure culture factors and shift values toward high performance.41

Strong cultures that don’t encourage adaptation, however, can hurt the organization. A danger for many successful organizations is that the culture becomes set and the company fails to adapt as the environment changes. When organizations are successful, the values, ideas, and practices that helped attain success become institutionalized. As the environment changes, these values may become detrimental to future performance. Many organizations become victims of their own success, clinging to outmoded and even destructive values and behaviors. Thus, the impact of a strong culture is not always positive. Typically, healthy cultures not only provide for smooth internal integration but also encourage adaptation to the external environment. Nonadaptive cultures encourage rigidity and stability. Strong adaptive cultures often incorporate the following values:

1. **The whole is more important than the parts, and boundaries between parts are minimized.** People are aware of the whole system, how everything fits together, and the relationships among various organizational parts. All members consider how their actions affect other parts and the total organization. This emphasis on the whole reduces boundaries both within the organization and with other companies. Although subcultures may form, everyone’s primary attitudes and behaviors reflect the organization’s dominant culture. The free flow of people, ideas, and information allows coordinated action and continuous learning.

2. **Equality and trust are primary values.** The culture creates a sense of community and caring for one another. The organization is a place for creating a web of relationships that allows people to take risks and develop to their full potential. The emphasis on treating everyone with care and respect creates a climate of safety and trust that allows experimentation, frequent mistakes, and learning. Managers emphasize honest and open communications as a way to build trust.

3. **The culture encourages risk taking, change, and improvement.** A basic value is to question the status quo. Constant questioning of assumptions opens the gates to new opportunities and innovative solutions.
to creativity and improvement. The culture rewards and celebrates the creators of new ideas, products, and work processes. To symbolize the importance of taking risks, an adaptive culture may also reward those who fail in order to learn and grow.

As illustrated in Exhibit 10.5, adaptive corporate cultures have different values and behavior patterns than nonadaptive cultures. In adaptive cultures, managers are concerned with customers and employees as well as with the internal processes and procedures that bring about useful change. Behavior is flexible, and managers initiate change when needed, even if it involves risk. In unadaptive cultures, managers are more concerned about themselves or their own special projects, and their values discourage risk taking and change. Thus, strong, healthy cultures help organizations adapt to the external environment, whereas strong, unhealthy cultures can encourage organizations to march resolutely in the wrong direction. A strong, adaptive culture has been a competitive weapon for biotechnology firm Genentech since it was founded in the mid-1970s.

IN PRACTICE

Genentech, the world’s first biotechnology company, seemed to come out of nowhere to become a major force in the pharmaceuticals industry. Founded in 1976, Genentech became profitable three years later and has remained so ever since. The secret ingredient, most people agree, is the corporate culture. When Art Levinson became CEO, he set about strengthening Genentech’s adaptive culture through a series of moves, such as persuading the board to invest 50 percent of revenues back into research, focusing the company on “meeting significant unmet needs,” and breaking down boundaries by insisting that fiefdoms like product development and basic research work closely together. He also did away with projects and people that didn’t fit the strategy and values.
People at Genentech feel less like employees and more like partners in a great cause. Employees don’t get work assignments, they get “appointments.” Every milestone is celebrated with a party, and people are encouraged to goof off and have fun. However, scientists and researchers also go through a rigorous process of defending their work before a review board in order to uncover flaws, avoid dead ends, sift out politics and favoritism, and hold people accountable.

Genentech is characterized by values of collaboration, accountability, creativity, and egalitarianism. There are no special dining rooms or assigned parking spaces. Everyone in the company is considered vital to success. Job candidates often go through as many as twenty interviews because Genentech wants to be sure it gets people with the right values. “We’re extremely non-hierarchical,” says Levinson. “We’re not wearing ties. People don’t call us doctor.” Candidates who ask too many questions about salary, title, and personal advancement are quickly weeded out. Genentech wants people who care about the science and about the company’s mission to find drugs for curing big diseases like cancer. Status is conveyed not by fancy offices or titles, but rather by taking big chances in the name of “making drugs that matter.”

ETHICAL VALUES AND SOCIAL RESPONSIBILITY

Of the values that make up an organization’s culture, ethical values are now considered among the most important. Widespread corporate accounting scandals and ethical lapses among leaders in business and government have filled the news in recent years. A study of business news related to the 100 largest U.S. corporations found that a whopping 40 percent of them have recently been involved in activities that can be considered unethical. And the problem isn’t limited to the United States. Business leaders in countries such as Germany and Japan have also been reeling in recent years from one headline-grabbing scandal after another. Top corporate managers are under scrutiny from the public as never before, and even small companies are finding a need to put more emphasis on ethics to restore trust among their customers and the community.

Sources of Individual Ethical Principles

Ethics refers to the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong. Ethical values set standards as to what is good or bad in conduct and decision making. Ethics are personal and unique to each individual, although in any given group, organization, or society there are many areas of consensus about what constitutes ethical behavior. Exhibit 10.6 illustrates the varied sources of individual ethical principles. Each person is a creation of his or her time and place in history. National culture, religious heritage, historical background, and so forth lead to the development of societal morality, or society’s view of what is right and wrong. Societal morality is often reflected in norms of behavior and values about what makes sense for an orderly society. Some principles are codified into laws and regulations, such as laws against drunk driving, robbery, or murder.

These laws, as well as unwritten societal norms and values, shape the local environment within which each individual acts, such as a person’s community, family, and place of work. Individuals absorb the beliefs and values of their family, community,
culture, society, religious community, and geographic environment, typically discarding some and incorporating others into their own personal ethical standards. Each person’s ethical stance is thus a blending of his or her historical, cultural, societal, and family backgrounds and influences, as illustrated in Exhibit 10.6.

It is important to look at individual ethics because ethics always involve an individual action, whether it be a decision to act or the failure to take action against wrongdoing by others. In organizations, an individual’s ethical stance may be affected by peers, subordinates, and supervisors, as well as by the organizational culture. Organizational culture often has a profound influence on individual choices and can support and encourage ethical actions or promote unethical and socially irresponsible behavior.

**Managerial Ethics**

Many of the recent scandals in the news have dealt with people and corporations that broke the law. But it is important to remember that ethical decisions go far beyond behaviors governed by law. The *rule of law* arises from a set of codified principles and regulations that describe how people are required to act, that are generally accepted in society, and that are enforceable in the courts.

The relationship between ethical standards and legal requirements is illustrated in Exhibit 10.7. Ethical standards for the most part apply to behavior not covered
by the law, and the rule of law applies to behaviors not necessarily covered by ethical standards. Current laws often reflect combined moral judgments, but not all moral judgments are codified into law. The morality of aiding a drowning person, for example, is not specified by law, and driving on the right-hand side of the road has no moral basis; but in acts such as robbery or murder, rules and moral standards overlap. Many people believe that if you are not breaking the law, then you are behaving in an ethical manner, but this is not always true. Many behaviors have not been codified, and managers must be sensitive to emerging norms and values about those issues.

**Managerial ethics** are principles that guide the decisions and behaviors of managers with regard to whether they are right or wrong. Examples of the need for managerial ethics are as follows:

- Top executives are considering promoting a rising sales manager who consistently brings in $70 million a year and has cracked open new markets in places like Brazil and Turkey that are important for international growth. However, female employees have been complaining for years that the manager is verbally abusive to them, tells offensive jokes, and throws temper tantrums if female employees don’t do exactly as he says.

- The manager of a beauty supply store is told that she and her salespeople can receive large bonuses for selling a specified number of boxes of a new product, a permanent-wave solution that costs nearly twice as much as what most of her salon customers typically use. She orders her salespeople to store the old product in the back and tell customers there’s been a delay in delivery.

- A North American manufacturer operating abroad was asked to make cash payments (a bribe) to government officials and was told it was consistent with local customs, despite being illegal in North America.

As these examples illustrate, ethics is about making decisions. Managers make choices every day about whether to be honest or deceitful with customers and suppliers, treat employees with respect or disdain, and be a good or a harmful corporate citizen. Some issues are exceedingly difficult to resolve and often represent ethical
An ethical dilemma arises in a situation concerning right and wrong in which values are in conflict. Right or wrong cannot be clearly identified in such situations. For example, for a salesperson at the beauty supply store, the value conflict is between being honest with customers and adhering to the boss’s expectations. The manufacturing manager may feel torn between respecting and following local customs in a foreign country or adhering to U.S. laws concerning bribes. Sometimes, each alternative choice or behavior seems undesirable. Ethical dilemmas are not easy to resolve, but top executives can aid the process by establishing organizational values that provide people with guidelines for making the best decision from a moral standpoint.

**Corporate Social Responsibility**

The notion of corporate social responsibility (CSR) is an extension of the idea of managerial ethics and refers to management’s obligation to make choices and take action so that the organization contributes to the welfare and interest of all organizational stakeholders, such as employees, customers, shareholders, the community, and the broader society. Ninety percent of companies surveyed by McKinsey & Company in 2008 said they were doing more than they were five years earlier to incorporate social responsibility issues into their core strategies.

CSR was once seen as the purview of small, offbeat companies like Patagonia or The Body Shop, but it has moved firmly into the mainstream of organizational thinking and behavior. Ernst & Young lends out employees to provide free accounting services to nonprofit organizations or struggling small businesses around the world, paying their salaries and travel expenses. Burger King has made a commitment to begin buying eggs, pork, and poultry from companies that use humane methods of raising and slaughtering animals. Giant corporations from Wal-Mart to General Electric have announced ambitious environmental responsibility goals. More than 1,000 companies around the world have published reports proclaiming their concern for employees, the environment, and their local communities.

**Does It Pay to Be Good?**

Why are so many companies embracing CSR? For one thing, customers and the public are paying closer attention than ever before to what organizations do,
and managers recognize that being a good corporate citizen can enhance their firm’s reputation and even its profitability. The relationship of an organization’s ethics and social responsibility to its performance concerns both managers and organization scholars. Studies have provided varying results but generally have found that there is a positive relationship between ethical and socially responsible behavior and financial results. For example, one study of the financial performance of large U.S. corporations that are considered “best corporate citizens” found that they have both superior reputations and superior financial performance. Similarly, Governance Metrics International, an independent corporate governance ratings agency, found that the stocks of companies run on more selfless principles perform better than those run in a self-serving manner. Top-ranked companies such as Pfizer, Johnson Controls, and Sunoco also outperformed lower-ranking firms on measures like return on assets, return on investment, and return on capital.

As discussed earlier in the chapter, long-term organizational success relies largely on social capital, which means companies need to build a reputation for honesty, fairness, and doing the right thing. There is evidence that people prefer to work for companies that demonstrate a high level of ethics and corporate social responsibility, so these companies can attract and retain high-quality employees. Sarah Antonette says she joined PNC Financial Services rather than two others companies that offered her a job because of PNC’s strong employee volunteer program. One vice president at Timberland says she has turned down lucrative offers from other companies because she prefers to work at a company that puts ethics and social responsibility ahead of just making a profit. And a survey of 13-to-25-year-olds found that 79 percent say they want to work for a company that cares about how it affects or contributes to society.

Customers pay attention to a company’s ethics and social responsibility too. A study by Walker Research indicates that, price and quality being equal, two-thirds of people say they would switch brands to do business with a company that makes a high commitment to ethics. Another series of experiments by Remi Trudel and June Cotte of the University of Western Ontario’s Ivey School of Business found that consumers were willing to pay slightly more for products they were told had been made using high ethical standards.

Companies that put ethics on the back burner in favor of fast growth and short-term profits ultimately suffer. To gain and keep the trust of employees, customers, investors, and the general public, organizations must put ethics and social responsibility first.

**HOW LEADERS SHAPE CULTURE AND ETHICS**

In a study of ethics policy and practice in successful, ethical companies such as Johnson & Johnson and General Mills, no point emerged more clearly than the role of top management in providing commitment, leadership, and examples for ethical behavior. The CEO and other top managers must be committed to specific ethical values and provide constant leadership in tending and renewing the values. Values can be communicated in a number of ways—speeches, company publications, policy statements, and, especially, personal actions. Top leaders are responsible for creating and sustaining a culture that emphasizes the importance of ethical behavior for every employee. When Vic Sarni was CEO of PPG Industries, he often called
himself the chief ethics officer. Sarni didn’t believe in using special staff departments to investigate ethical complaints; instead, he personally headed the firm’s ethics committee. This sent a powerful symbolic message that ethics was important in the organization. However, it is important to remember that employees are often influenced most by the managers and supervisors they work with closely, rather than by distant top leaders. Managers throughout the organizations need to espouse and model ethical values. Formal ethics programs are worthless if leaders do not live up to high standards of ethical conduct.

The following sections examine how managers signal and implement values through leadership as well as through the formal systems of the organization.

**Values-Based Leadership**

The underlying value system of an organization cannot be managed in the traditional way. Issuing an authoritative directive, for example, has little or no impact on an organization’s value system. Organizational values are developed and strengthened primarily through **values-based leadership**, a relationship between a leader and followers that is based on shared, strongly internalized values that are advocated and acted upon by the leader.

Every act and statement of managers has an impact on culture and values. For example, a survey of readers of the magazine *The Secretary* found that employees are acutely aware of their bosses’ ethical lapses. Something as simple as having a secretary notarize a document without witnessing the signature may seem insignificant, but it communicates that the manager doesn’t value honesty. Employees learn about values, beliefs, and goals from watching managers, just as students learn which topics are important for an exam, what professors like, and how to get a good grade from watching professors. Actions speak louder than words, so values-based leaders “walk their talk.”

“Just saying you’re ethical isn’t very useful,” says Charles O. Holliday Jr., chairman and CEO of DuPont. “You have to earn trust by what you do every day.”

John Tu and David Sun, co-founders of Kingston Technology Company, illustrate values-based leadership in action. For them, business is not about money, it’s about relationships. When the two sold 80 percent of Kingston to Softbank Corp. of Japan for $1.5 billion, they set aside $100 million of the proceeds for employee bonuses. Despite this amazing generosity, when employees talk about why they like working for Kingston, they rarely mention money and benefits. Instead, they talk about personal acts of gentleness or kindness performed by the two top leaders. There are many stories of these leaders quietly offering money, time, other resources—or just genuine concern—to employees who were dealing with family or personal troubles. This approach to leadership creates an emotional bond with employees that builds mutual trust and respect.

Employees learn from and model the behaviors of people they admire. In many cases, employees look up to their managers, so values-based leaders serve as ethical role models. For example, Kathryn Reimann, senior vice president of global compliance at American Express Company, says she learned how to be a values-based leader by watching the actions of a highly respected senior executive she worked with early in her career. When this executive learned that another senior manager was mistreating employees, he publicly fired him—even though the manager was a very strong performer and the company was facing a tough competitive situation. Reimann remembered his courage in firing such a high
performer, even in bad times, and his behavior shaped her own ability to stand up and do the right thing. 73

Exhibit 10.8 outlines some of the characteristics that define values-based leaders. 74 Values-based leaders treat others with care, are helpful and supportive of others, and put effort into maintaining positive interpersonal relationships. They treat everyone fairly and with respect. Values-based leaders accept others’ mistakes and failures and are never condescending. They hold themselves to high ethical standards, continuously strive to be honest, humble, and trustworthy and to be consistently ethical in both their public and private lives. However, they are open about and accept responsibility for their own ethical failings.

Values-based leaders also clearly articulate and communicate an uncompromising vision for high ethical standards in the organization, and they institutionalize the vision by holding themselves and others accountable and by putting ethics above short-term personal or company interests. They continuously strengthen ethical values through everyday behaviors, rituals, ceremonies, and symbols, as well as through organizational systems and policies.

**Formal Structure and Systems**

Another set of tools leaders can use to shape cultural and ethical values is the formal structure and systems of the organization. These systems can be especially effective for influencing managerial ethics.
**Structure.** Top executives can assign responsibility for ethical values to a specific position. This not only allocates organization time and energy to the problem but symbolizes to everyone the importance of ethics. One example is an ethics committee, which is a cross-functional group of executives who oversee company ethics. The committee provides rulings on questionable ethical issues and assumes responsibility for disciplining wrongdoers. By appointing top-level executives to serve on the committee, the organization signals the importance of ethics.

Today, many organizations are setting up ethics departments that manage and coordinate all corporate ethics activities. These departments are headed by a chief ethics officer, a high-level company executive who oversees all aspects of ethics, including establishing and broadly communicating ethical standards, setting up ethics training programs, supervising the investigation of ethical problems, and advising managers on the ethical aspects of corporate decisions. The title of chief ethics officer was almost unheard of a decade ago, but recent ethical and legal problems have created a growing demand for these specialists. In the five years after the collapse of Enron, membership in the Ethics and Compliance Officers Association, a trade group based in Waltham, Massachusetts, soared 70 percent to 1,260 members.

Ethics offices sometimes also work as counseling centers to help employees resolve tricky ethical dilemmas. The focus is as much on helping employees make the right decisions as on disciplining wrongdoers. Most ethics offices have confidential ethics hotlines that employees can use to seek guidance as well as report questionable behavior. One organization calls its hotline a “Guide Line” to emphasize its use as a tool for making ethical decisions as well as reporting lapses. According to Gary Edwards, president of the Ethics Resource Center, between 65 and 85 percent of calls to hotlines in the organizations he advises are calls for counsel on ethical issues. Northrup Grumman’s “Openline” fields about 1,400 calls a year, of which only one-fourth are reports of misdeeds.

Disclosure Mechanisms. A confidential hotline is also an important mechanism for employees to voice concerns about ethical practices. Holding organizations accountable depends to some degree on individuals who are willing to speak up if they suspect illegal, dangerous, or unethical activities. Whistle-blowing is employee disclosure of illegal, immoral, or illegitimate practices on the part of the organization. As ethical problems in the corporate world increase, many companies are looking for ways to protect whistle-blowers. In addition, calls are increasing for stronger legal protection for those who report illegal or unethical business activities. When there are no protective measures, whistle-blowers suffer, and the company may continue its unethical or illegal practices.

Many whistle-blowers suffer financial and personal loss to maintain their personal ethical standards. For example, in Japan, where there has been a rash of whistle-blowing disclosures in recent years, employees who speak out are frequently ostracized both at work and in their communities. Consider what happened to Masakatsu Yamada, a used car salesman who reported falsified sales records at his Toyota dealership. Yamada says he became a pariah among his colleagues and eventually felt that he had to leave his job. Unable to make mortgage payments, Yamada lost his house. The family is struggling to survive on his wife’s salary as a part-time postal worker. “My life is all messed up,” he says. “But society won’t change unless average people like me stand up.”
Many governments, including the United States and Japan, have passed laws aimed at protecting whistle-blowers. But that isn’t enough. Enlightened companies strive to create a climate and a culture in which employees feel free to point out problems and managers take swift action to address concerns about unethical or illegal activities. Organizations can view whistle-blowing as a benefit to the company, helping to prevent the kind of disasters that hit companies such as Enron, Arthur Andersen, and WorldCom.

**Code of Ethics.** A code of ethics is a formal statement of the company’s values concerning ethics and social responsibility; it clarifies to employees what the company stands for and its expectations for employee conduct. The code of ethics at Lockheed Martin, for example, states that the organization “aims to set the standard for ethical conduct” through adhering to the values of honesty, integrity, respect, trust, responsibility, and citizenship. The code specifies the types of behaviors expected to honor these values and encourages employees to use available company resources to help make ethical choices and decisions. Codes of ethics may cover a broad range of issues, including statements of the company’s guiding values; guidelines related to issues such as workplace safety, the security of proprietary information, or employee privacy; and commitments to environmental responsibility, product safety, and other matters of concern to stakeholders.

Some companies use broader values statements within which ethics is a part. These statements define ethical values as well as corporate culture and contain language about company responsibility, quality of product, and treatment of employees. A formal statement of values can serve as a fundamental organizational document that defines what the organization stands for and clarifies the expected ethical behaviors and choices.

Although written codes of ethics and value statements are important, it is essential that top managers support and reinforce the codes through their actions, including rewards for compliance and discipline for violations. Otherwise, a code of ethics is nothing more than a piece of paper. Indeed, one study found that companies with a written code of ethics are just as likely as those without a code to be found guilty of illegal activities. Enron is the perfect example of how a company can have a well-developed code of ethics, yet fail to embrace and live up to the stated values.

3. **The single best way to make sure an organization stays on solid ethical ground is to have a strong code of ethics and make sure all employees are familiar with its guidelines.**

**ANSWER: Disagree.** Having a strong code of ethics can be an important part of creating an ethical organization, but leaders’ actions are more powerful in determining whether people live up to high ethical standards. If leaders are dishonest, unprincipled, or ruthless and create a culture that supports or ignores these behaviors in others, employees will put little stock in the formal ethics code.
Training Programs. To ensure that ethical issues are considered in daily decision making, many companies supplement a written code of ethics with employee training programs. At Citigroup, an online ethics training program is mandatory for all 300,000 employees worldwide. All Texas Instruments (TI) employees go through an eight-hour ethics training course that includes case examples giving people a chance to wrestle with ethical dilemmas. In addition, TI incorporates an ethics component into every training course it offers.

In an important step, some training programs also include frameworks for ethical decision making. Learning these frameworks helps employees act autonomously and still think their way through a difficult decision. In a few companies, managers are also taught about the stages of moral development, which helps to bring them to a high level of ethical decision making. This training has been an important catalyst for establishing ethical behavior and integrity as critical components of strategic competitiveness.

These formal systems and structures can be highly effective. However, they alone are not sufficient to build and sustain an ethical company. Leaders should integrate ethics into the organizational culture, as well as support and renew ethical values through their words and actions. Only when employees are convinced that ethical values play a key role in all management decisions and actions can they become committed to making them a part of their everyday behavior.

CORPORATE CULTURE AND ETHICS IN A GLOBAL ENVIRONMENT

Organizations operating on a global basis often face particularly tough ethical challenges because of the various cultural and market factors they must deal with. The greater complexity of the environment and organizational domain create a greater potential for ethical problems or misunderstandings. Consider that in Europe, privacy has been defined as a basic human right and there are laws limiting the amount and kind of information companies can collect and governing how they may use it. In U.S. organizations, on the other hand, collecting data, trading it with partners, using it for marketing, and even selling it are all common practice.

Employees from different countries may have varied attitudes and beliefs that make it difficult to establish a sense of community and cohesiveness based on the corporate culture. In fact, research has indicated that national culture has a greater impact on employees than does corporate culture, and differences in national culture also create tremendous variance in ethical attitudes. So, how do managers translate the ideas for developing strong, ethical corporate cultures to a complex global environment?

Vijay Govindarajan, a professor of international business and director of the “Global Leadership 2020” management program at Dartmouth College, offers some guidance. His research indicates that, even though organizational cultures may vary widely, there are specific components that characterize a global culture. These include an emphasis on multicultural rather than national values, basing status on merit rather than nationality, being open to new ideas from other cultures, showing excitement rather than trepidation when entering new cultural
Managers must also think more broadly in terms of ethical issues. Companies are using a wide variety of mechanisms to support and reinforce their ethics initiatives on a global scale. One of the most useful mechanisms for building global ethics is the social audit, which measures and reports the ethical, social, and environmental impact of a company’s operations. Concerns about the labor practices and working conditions of many major U.S. corporations’ overseas suppliers originally spurred the Council on Economic Priorities Accreditation Agency to propose a set of global social standards to deal with issues such as child labor, low wages, and unsafe working conditions. Today, the Social Accountability 8000, or SA 8000, is the only auditable social standard in the world. The system is designed to work like the ISO 9000 quality-auditing system. Many companies, such as Avon, Eileen Fisher, and Toys “R” Us, are taking steps to ensure that their factories and suppliers meet SA 8000 standards.

In the coming years, organizations will continue to evolve in their ability to work with varied cultures, combine them into a cohesive whole, live up to high social and ethical standards worldwide, and cope with the conflicts that may arise when working in a multicultural environment.

**DESIGN ESSENTIALS**

- This chapter covered a range of material on corporate culture, the importance of cultural and ethical values, and techniques managers can use to influence these values. Cultural and ethical values help determine the organization’s social capital, and the right values can contribute to organizational success.

- Culture is the set of key values, beliefs, and norms shared by members of an organization. Organizational cultures serve two critically important functions—to integrate members so that they know how to relate to one another and to help the organization adapt to the external environment. Culture can be interpreted by looking at the organization’s rites and ceremonies, stories, symbols, structures, control systems, and power relationships. Managers can also use these elements to influence culture.

- Organizational culture should reinforce the strategy and structure that the organization needs to be successful in its environment. Four types of culture that may exist in organizations are adaptability culture, mission culture, clan culture, and bureaucratic culture. When widespread consensus exists about the importance of specific values, the organizational culture is strong and cohesive. However, even in organizations with strong cultures, several sets of subcultures may emerge, particularly in large organizations.

- Strong cultures can be either adaptive or nonadaptive. Adaptive cultures have different values and different behavior patterns than nonadaptive cultures. Strong but unhealthy cultures can be detrimental to a company’s chances for success. On the other hand, strong adaptive cultures can play an important role in creating high performance and innovative responses to challenges, competitive threats, or new opportunities.
An important aspect of organizational values is managerial ethics, which is the set of values governing behavior with respect to what is right or wrong. Corporate social responsibility (CSR) is an extension of managerial ethics and refers to management responsibility to make choices that contribute to the welfare of society as well as the organization. CSR has become a critical business issue for organizations.

The chapter also discussed how leaders shape culture and ethics. One important idea is values-based leadership, which means leaders define a vision of proper values, communicate it throughout the organization, and institutionalize it through everyday behavior, rituals, ceremonies, and symbols. We also discussed formal systems that are important for shaping ethical values. Formal systems include an ethics committee, an ethics department, disclosure mechanisms for whistle-blowing, ethics training programs, and a code of ethics or values statement that specifies desired ethical values and behaviors.

As business increasingly crosses geographical and cultural boundaries, leaders face difficult challenges in establishing strong cultural and ethical values with which all employees can identify and agree. Companies that develop global cultures emphasize multicultural values, base status on merit rather than nationality, are excited about new cultural environments, remain open to ideas from other cultures, and are sensitive to different cultural values without being limited by them. Social audits are important tools for companies trying to maintain high ethical standards on a global basis.

**Key Concepts**

- adaptability culture
- bureaucratic culture
- chief ethics officer
- clan culture
- code of ethics
- corporate social responsibility (CSR)
- culture
- culture strength
- ethical dilemma
- ethics
- ethics committee
- ethics hotlines
- external adaptation
- heroes
- internal integration
- legends
- managerial ethics
- mission culture
- myths
- rites and ceremonies
- rule of law
- social audit
- social capital
- stories
- subcultures
- symbol
- values-based leadership
- whistle-blowing

**Discussion Questions**

1. How much do you think it is possible for an outsider to discern about the underlying cultural values of an organization by analyzing symbols, ceremonies, dress, or other observable aspects of culture, compared to an insider with several years of work experience? Specify a percentage (e.g., 10%, 70%) and discuss your reasoning.

2. Many of the companies on Fortune magazine’s list of most admired companies are also on its list of most profitable ones. Some people say this proves that high social capital translates into profits. Other people suggest that high profitability is the primary reason the companies have a good culture and are admired in the
first place. Discuss your thinking about these two dif- fering interpretations.

3. Can a strong bureaucratic culture also be an adaptive culture, as defined in the text and in Exhibit 10.5? Discuss.

4. Why is values-based leadership so important to the influence of culture? Does a symbolic act communicate more about company values than an explicit statement? Discuss.

5. Can you recall a situation in which either you or someone you know was confronted by an ethical dilemma, such as being encouraged to inflate an expense account or trade answers on a test? Do you think the decision was affected more by individual moral values or by the accepted values within the team or company? Explain.

6. In a survey of 20,000 people in sixteen European countries plus Russia, Turkey, and the United States, 55 percent of respondents said cheating in business is more common than it was ten years ago. Do you believe this is truly the case, or have new forms of media simply made cheating more visible? Discuss.

7. What importance would you attribute to leadership statements and actions for influencing ethical values and decision making in an organization?

8. Why has globalization contributed to more complex ethical issues? Do you think it’s possible for a company operating in many different countries to have a cohesive corporate culture? To have uniform ethical values?

9. Codes of ethics have been criticized for transferring responsibility for ethical behavior from the organization to the individual employee. Do you agree? Do you think a code of ethics is valuable for an organization?
Case for Analysis: Implementing Change at National Industrial Products*

Curtis Simpson sat staring out the window of his office. What would he say to Tom Lawrence when they met this afternoon? Tom had clearly met the challenge Simpson set for him when he hired him as president of National Industrial Products (National) a little more than a year ago, but the company seemed to be coming apart at the seams. As chairman and CEO of Simpson Industries, which had bought National several years ago, Simpson was faced with the task of understanding the problem and clearly communicating his ideas and beliefs to Lawrence.

National Industrial Products is a medium-sized producer of mechanical seals, pumps, and other flow-control products. When Simpson Industries acquired the company, it was under the leadership of Jim Carpenter, who had been CEO for almost three decades and was very well liked by employees. Carpenter had always treated his employees like family. He knew most of them by name, often visited them in their homes if they were ill, and spent part of each day just chatting with workers on the factory floor. National sponsored an annual holiday party for its workers, as well as company picnics and other social events several times a year, and Carpenter was always in attendance. He considered these activities to be just as important as his visits with customers or negotiations with suppliers. Carpenter believed it was important to treat people right so they would have a sense of loyalty to the company. If business was slow, he would find something else for workers to do, even if it was just sweeping the parking lot, rather than lay people off. He figured the company couldn’t afford to lose skilled workers who were so difficult to replace. “If you treat people right,” he said, “they’ll do a good job for you without your having to push them.”
Carpenter had never set performance objectives and standards for the various departments, and he trusted his managers to run their departments as they saw fit. He offered training programs in communications and HR for managers and team leaders several times each year. Carpenter’s approach had seemed to work quite well for much of National’s history. Employees were very loyal to Carpenter and the company, and there were many instances in which workers had gone above and beyond the call of duty. For example, when two National pumps that supplied water to a U.S. Navy ship failed on a Saturday night just before the ship’s scheduled departure, two employees worked throughout the night to make new seals and deliver them for installation before the ship left port. Most managers and employees had been with the company for many years, and National boasted the lowest turnover rate in the industry.

However, as the industry began to change in recent years, National’s competitiveness began to decline. Four of National’s major rivals had recently merged into two large companies that were better able to meet customer needs, which was one factor that led to National being acquired by Simpson Industries. Following the acquisition, National’s sales and profits had continued to decline, while costs kept going up. In addition, Simpson Industries’ top executives were concerned about low productivity at National. Although they had been happy to have Carpenter stay on through the transition, within a year they had gently pressured him into early retirement. Some of the top managers believed Carpenter tolerated poor performance and low productivity in order to maintain a friendly atmosphere. “In today’s world, you just can’t do that,” one had said. “We’ve got to bring in someone who can implement change and turn this company around in a hurry, or National’s going to go bankrupt.” That’s when Tom Lawrence was brought on board, with a mandate to cut costs and improve productivity and profits.

Lawrence had a growing reputation as a young, dynamic manager who could get things done fast. He quickly began making changes at National. First, he cut costs by discontinuing the company-sponsored social activities, and he even refused to allow the impromptu birthday celebrations that had once been a regular part of life at National. He cut the training programs in communications and HR, arguing that they were a waste of time and money. “We’re not here to make people feel good,” he told his managers. “If people don’t want to work, get rid of them and find someone else who does.” He often referred to workers who complained about the changes at National as “crybabies.”

Lawrence established strict performance standards for his vice presidents and department managers and ordered them to do the same for their employees. He held weekly meetings with each manager to review department performance and discuss problems. All employees were now subject to regular performance reviews. Any worker who had substandard performance was to be given one warning and then fired if performance did not improve within two weeks. And, whereas managers and sales representatives had once been paid on a straight salary basis, with seniority being the sole criterion for advancement, Lawrence implemented a revised system that rewarded them for meeting productivity, sales, and profit goals. For those who met the standards, rewards were generous, including large bonuses and perks such as company cars and first-class air travel to industry meetings. Those who fell behind were often chided in front of their colleagues to set an example, and if they didn’t shape up soon, Lawrence didn’t hesitate to fire them.

By the end of Lawrence’s first year as president of National, production costs had been reduced by nearly 20 percent, while output was up 10 percent and sales increased by nearly 10 percent as well. However, three experienced and well-respected National managers had left the company for jobs with competitors, and turnover among production workers had increased alarmingly. In the tight labor market, replacements were not easily found. Most disturbing to Simpson were the results of a survey he had commissioned by an outside consultant. The survey indicated that morale at National was in the pits. Workers viewed their supervisors with antagonism and a touch of fear. They expressed the belief that managers were obsessed with profits and quotas and cared nothing about workers’ needs and feelings. They also noted that the collegial, friendly atmosphere that had made National a great place to work had been replaced by an environment of aggressive internal competition and distrust.

Simpson was pleased that Lawrence has brought National’s profits and productivity up to the standards Simpson Industries expects. However, he was concerned that the low morale and high turnover would seriously damage the company in the long run. Was Lawrence correct that many of the employees at National are just being “crybabies?” Were they so accustomed to being coddled by Carpenter that they weren’t willing to make the changes necessary to keep the company competitive? Finally, Simpson wondered if a spirit of competition can exist in an atmosphere of collegiality and cooperativeness such as that fostered by Carpenter.

George Stein had lived his entire life in various suburbs of a major city on the East Coast. His father’s salary as a manager provided the family with a solid middle-class lifestyle. His mother was a homemaker. George’s major interests in life were the local teenage gathering place—a drive-in restaurant—hot rod cars, and his girlfriend, Cathy. He had not really wanted to attend college, but relentless pressure by his parents convinced him to try it for a year. He chose mechanical engineering as his major, hoping there might be some similarity between being a mechanical engineer and being a mechanic. After one year of engineering school, however, he has not seen any similarity yet. Once again this summer, his parents had to prod and cajole him to agree to return to school in the fall. They only succeeded by promising to give their blessing to his marriage to Cathy following his sophomore year.

George had worked at menial jobs each of the last four summers to satisfy his immediate need for dating and car money. He did manage to put away a bit to be used for spending money during the school year. He had saved very little for the day that he and Cathy would start their life together, but they planned for Cathy to support them with her earnings as a customer service representative until George either finished or quit school.

The day after George returned home this summer, he heard that Eastern Dairy might hire summer help. He applied at the local plant the next day. Eastern Dairy was unionized, and the wages paid were more than twice the minimum wage George had been paid on previous jobs, so he was quite interested in a position.

Eastern Dairy manufactured milkshake and ice cream mix for a number of customers in the metropolitan area. It sold the ice cream mix in 5- and 10-gallon containers to other firms, which then added the flavoring ingredients (e.g., strawberries or blueberries), packaged and froze the mix, and sold the ice cream under their own brand names. These packages were delivered to many restaurants in the area. The packaging was designed to fit into automatic milkshake machines used in many types of restaurants, including most fast-food restaurants and drive-ins.

George was elated when he received the call asking him to come to the plant on June 8. After a brief visit with the HR director, at which time George filled out the necessary employment forms, he was instructed to report for work at 11:00 P.M. that night. He was assigned to the night shift, working from 11:00 P.M. until 7:00 A.M. six nights per week—Sunday through Friday. With the regular wages paid at Eastern Dairy, supplemented by time-and-a-half pay for 8 hours of guaranteed overtime each week, George thought he could save a tidy sum before he had to return to school at the end of the first week in September.

When George reported to work, he discovered that there were no managers assigned to the night shift. The entire plant was run by a six-person crew of operators. One member of this crew, a young man named Paul Burnham, received each night’s production orders from the day shift superintendent as the superintendent left for the day. Although Paul’s status was no different from that of his five colleagues, the other crew members looked to him for direction. Paul passed the production orders to the mixer (who was the first stage of the production process) and kept the production records for the shift.

The production process was really quite simple. Mixes moved between various pieces of equipment (including mixing vats, pasteurizers, coolers, homogenizers, and filling machines) through stainless steel pipes suspended from the ceiling. All of the pipes had to be disassembled, thoroughly cleaned, and reinstalled by the conclusion of the night shift. This process took approximately one hour, so all the mix had to be run by 6:00 A.M. in order to complete the cleanup by the 7:00 A.M. quitting time. Paul and one other worker, Fred (the mixer), cleaned the giant mixing vats while the other four on the shift, including George, cleaned and reinstalled the pipes and filters.

George soon learned that Paul felt a sense of responsibility for completing all of the assigned work before the end of the shift. However, as long as that objective was achieved, he did not seem to care about what else went on during the shift. A great deal of story-telling and horseplay was the norm, but the work was always completed by quitting time. George was soon enjoying the easy camaraderie of the work group, the outrageous pranks they pulled on one another, and even the work itself.

George’s position required that he station himself beside the conveyor in a large freezer room. He removed containers of mix as they came down the line and stacked
them in the appropriate places. Periodically, Paul would decide that they had all worked hard enough and would shut down the line for a while so that they could engage in some nonwork activity like joke telling, hiding each other’s lunch boxes, or “balloon” fights. The balloons were actually the 5-gallon, flexible liners for the cardboard boxes in which the mix was sold.

While George did not relish being hit by an exploding bag containing 5 gallons of heavy mix, he found it great fun to lob one at one of his co-workers. The loss of 10 to 40 gallons of mix on a shift did not seem to concern anyone, and these fights were never curtailed. George quickly learned that management had only two expectations of the night shift. First, the shift was expected to complete the production orders each night. Second, management expected the equipment, including the pipes, to be spotlessly clean at the conclusion of the shift. Paul told George that inspectors from the county health department would occasionally drop by unannounced at the end of the shift to inspect the vats and pipes after they had been disassembled and scrubbed. Paul also told George that management would be very upset if the inspectors registered any complaints about cleanliness.

George did join the union but saw very little evidence of its involvement in the day-to-day operations of the plant. Labor relations seemed quite amicable, and George thought of the union only when he looked at a pay stub and noticed that union dues had been deducted from his gross pay. The difference George noticed in his gross pay. The difference George noticed in his pay stub and noticed that union dues had been deducted from his gross pay. The difference George noticed in his pay stub and noticed that union dues had been deducted from his gross pay. The difference George noticed in his pay stub and noticed that union dues had been deducted from his gross pay. The difference George noticed in his pay stub and noticed that union dues had been deducted from his gross pay.

The Current Situation

Things seemed to be going quite well for George on the job—until a few minutes ago. The problem first surfaced when the milkshake mix that was being run started spewing out of one of the joints in the overhead pipe network. The pumps were shut down while George disassembled the joint to see what the problem was. George removed the filter screen from the pipe at the leaking joint and saw that it was completely packed with solid matter. Closer inspection revealed that maggots were the culprits. George hurriedly took the filter to Paul to show him the blockage. Paul did not seem too concerned and told George to clean the filter and reassemble the joint. When George asked how this could have happened, Paul said maggots occasionally got into the bags of certain ingredients that were stored in a warehouse at the back of the lot. “But you don’t have to worry,” said Paul. “The filters will catch any solid matter.”

Feeling somewhat reassured, George cleaned the filter and reassembled the pipe. But still, the image of maggots floating in a milkshake was hard to shake. And, unfortunately for George, that was not the end of it.

Shortly after the pumps were restarted, the mix began to flow out of another joint. Once again, a filter plugged with maggots was found to be the cause.

For the second time, George cleaned the filter and reassembled the connection. This time Paul had seemed a bit more concerned as he noted that they barely had enough time to run the last 500 gallons remaining in the vats before they needed to clean up in preparation for the end of the shift.

Moments after the equipment was again restarted, another joint started to spew. When maggots were found to be clogging this filter, too, Paul called George over and told him to remove all five filters from the line so the last 500 gallons could be run without any filters. Paul laughed when he saw the shocked look on George’s face.

“George,” he said, “don’t forget that all of this stuff goes through the homogenizer, so any solid matter will be completely pulverized. And when it’s heated in the pasteurization process, any bacteria will be killed. No one will ever know about this, the company can save a lot of mix—that’s money—and, most important, we can run this through and go home on time.”

George knew that they would never get this lot packaged if they had to shut down every minute to clean filters, and there was no reason to believe it would not be this way for the rest of the run. The product had been thoroughly mixed in the mixing vats at the beginning of the process, which meant that contaminants would be distributed uniformly throughout the 500 gallons. George also knew that the 500 gallons of milkshake was very expensive. He did not think management would just want it dumped down the drain.

Finally, Paul was definitely right about one thing—removing all of the filters, a 10-minute job at most, would ensure that they could get everything cleaned up and be out on time.

As George walked to the first filter joint, he felt a knot forming in his stomach as he thought of kids drinking all of the milkshakes they were about to produce. He had already decided he would not have another milkshake for at least a month, in order to be absolutely sure that this batch was no longer being served at restaurants. After all, he did not know exactly which restaurants would receive this mix. As he picked up his wrench and approached the first pipe joint that contained a filter, he still could not help wondering if he should do or say something more.

Note: This case appeared in Paul F. Buller and Randall S. Schuler, Managing Organizations and People, South-Western © 2000.

*This case was prepared by Roland B. Cousins, LaGrange College, and Linda E. Benitz, InterCel, Inc., as a basis for class discussion and not to illustrate either effective or ineffective handling of an administrative situation. The names of the firm and individuals and the location involved.
Chapter 10 Workshop: The Power of Ethics*

This exercise will help you to better understand the concept of ethics and what it means to you.
1. Spend about 5 minutes individually answering the questions below.
2. Divide into groups of four to six members.
3. Have each group try to achieve consensus with answers to each of the four questions. For question 3, choose one scenario to highlight. You will have 20 to 40 minutes for this exercise, depending on the instructor.
4. Have groups share their answers with the whole class, after which the instructor will lead a discussion on ethics and its power in business.

Questions
1. In your own words, define the concept of ethics in one or two sentences.
2. If you were a manager, how would you motivate your employees to follow ethical behavior? Use no more than two sentences.
3. Describe a situation in which you were faced with an ethical dilemma. What was your decision and behavior? How did you decide to do that? Can you relate your decision to any concept in the chapter?
4. What do you think is a powerful ethical message for others? Where did you get it from? How will it influence your behavior in the future?


Notes
12. For an expanded list of various elements that can be used to assess or interpret corporate culture, see “10 Key Cultural Elements,” sidebar in Micah R. Kee, “Corporate Culture Makes a Fiscal Difference,” *Industrial Management* (November–December 2003), 16–20.
16. Trice and Beyer, “Studying Organizational Cultures through Rites and Ceremonials.”
20. Raghavan, Kranhold, and Barrionuevo, “Full Speed Ahead.”
32. Moffett, “InBev’s Chief Built Competitive Culture.”

47. This discussion of the sources of individual ethics is based on Susan H. Taft and Judith White, “Ethics Education: Using Inductive Reasoning to Develop Individual, Group, Organizational, and Global Perspectives,” *Journal of Management Education* 31, no. 5 (October 2007), 614–646.


50. Some of these incidents are from Hosmer, *The Ethics of Management*.


57. Verschoor and Murphy, “The Financial Performance of Large U.S. Firms.”


60. Needleman, “The Latest Office Perk.”


68. This definition is based on Robert J. House, Andre Delbecq, and Toon W. Taris, “Value Based Leadership: An Integrated Theory and an Empirical Test” (working paper).


73. Weaver, Treviño, and Agle, “Somebody I Look Up To: Ethical Role Models in Organizations.”

74. Based on Weaver et al., “Somebody I Look Up To.”


Chapter 11
Innovation and Change

The Strategic Role of Change
  Innovate or Perish • Strategic Types of Change

Elements for Successful Change
Technology Change
  The Ambidextrous Approach • Techniques for Encouraging Technology Change

New Products and Services
  New Product Success Rate • Reasons for New Product Success • Horizontal Coordination Model • Achieving Competitive Advantage: The Need for Speed

Strategy and Structure Change
  The Dual-Core Approach • Organization Design for Implementing Management Change

Culture Change
  Forces for Culture Change • Organization Development Culture Change Interventions

Strategies for Implementing Change
  Leadership for Change • Barriers to Change • Techniques for Implementation

Design Essentials
Denise Chudy is a sales team leader at Google, and Aaron Lichtig is a brand manager at Procter & Gamble (P&G), but recently the two have been spending a lot of time together. They are among the two dozen or so Google and P&G employees who are involved in a job swapping program whereby they sit in on each other’s staff training programs and participate in high-level business meetings. What’s the point? The job swapping strategy is all in the name of spurring innovation. P&G, one of the most successful companies in the world at traditional marketing, knows it needs new approaches to reach a new generation of consumers, while Google knows it needs new approaches to reach a new generation of consumers, while Google knows it needs to find better ways of tapping into the advertising dollars of large, traditional companies like P&G.1

Every company faces a challenge in keeping up with changes in the external environment. New discoveries, new inventions, and new approaches quickly replace standard ways of doing things. Organizations like Procter & Gamble, Google, Wal-Mart, UPS, Nokia, and MySpace are searching for any innovation edge they can find. The pace of change is revealed in the fact that the parents of today’s college-age students grew up without iPods, video on demand, laser checkout systems, smartphones, TiVo, text messaging, and the Internet. The idea of communicating instantly with people around the world was unimaginable to many people as recently as a decade ago. High-tech industries seem to change every nanosecond, but companies in all industries face greater pressures for innovation today. Bob Jordon, head of technology and strategy at Southwest Airlines, spoke for managers all over the world when he said, “We have to change to survive.”

**Purpose of This Chapter**

This chapter explores how organizations change and how managers direct the innovation and change process. First we look at the forces driving a need for change in today’s organizations. The next section describes the four types of change—technology, product, structure, people—occurring in organizations, and how to
manage change successfully. The organization structure and management approach for facilitating each type of change is then discussed. Management techniques for influencing both the creation and implementation of change are also covered. The final section of the chapter looks at barriers to change and implementation techniques managers can use to overcome resistance.

THE STRATEGIC ROLE OF CHANGE

If there is one theme or lesson that emerges from previous chapters, it is that organizations must run fast to keep up with changes taking place all around them. Large organizations must find ways to act like small, flexible organizations. Manufacturing firms need to reach out for new, flexible manufacturing technology and service firms for new information technology (IT). Today’s organizations must keep themselves open to continuous innovation, not only to prosper but merely to survive in a world of disruptive change and increasingly stiff competition.

Innovate or Perish

As illustrated in Exhibit 11.1, a number of environmental forces drive this need for major organizational change. Powerful forces associated with advancing technology, international economic integration, the maturing of domestic markets, and the shift to capitalism in formerly communist regions have brought about a globalized economy that affects every business, from the largest to the smallest, creating more threats as well as more opportunities. To recognize and manage the threats and take advantage of the opportunities, today’s companies are undergoing dramatic changes in all areas of their operations.

Many organizations are responding to global forces by adopting self-directed teams and horizontal structures that enhance communication and collaboration, streamlining supply and distribution channels, and overcoming barriers of time and place through IT and e-business. Others become involved in joint ventures or consortia to exploit opportunities and extend operations or markets internationally. Some adopt structural innovations such as the virtual network approach to focus on their core competencies while outside specialists handle other activities. In addition, today’s organizations face a need for major strategic and cultural change and for rapid and continuous innovations in technology, services, products, and processes. For example, when the price of fuel spiked, Southwest Airlines looked for technology innovations to increase efficiency. The company was able to dramatically cut fuel usage by adding efficiency-boosting winglets on its aircraft. FedEx is continually introducing service innovations. It recently launched the Smart Package, used for transporting delicate goods like human organs. The Smart Package is wired so that shippers and recipients can not only track the package every step of the way but also monitor its temperature and humidity and get alerts if it is damaged.

Change, rather than stability, is the norm today. Whereas change once occurred incrementally and infrequently, today it is dramatic and constant. A key element of the success of companies such as FedEx, Southwest Airlines, Apple, and Toyota has been their passion for creating change. On the other hand, U.S. auto companies are in dire straits largely because they have been slow to change.
Chapter 11: Innovation and Change

Strategic Types of Change

Managers can focus on four types of change within organizations to achieve strategic advantage. These four types of change are summarized in Exhibit 11.2 as technology, products and services, strategy and structure, and culture. We touched on overall leadership and organizational vision in Chapter 2 and in the previous chapter on corporate culture. These factors provide an overall context within which the four types of change serve as a competitive wedge to achieve an advantage in the international environment. Each company has a unique configuration of products and services, strategy and structure, culture, and technologies that can be focused for maximum impact upon the company’s chosen markets.4

Technology changes are changes in an organization’s production process, including its knowledge and skill base, that enable distinctive competence. These changes are designed to make production more efficient or to produce greater volume. Changes in technology involve the techniques for making products or services. They include work methods, equipment, and workflow. For

Exhibit 11.1
Forces Driving the Need for Major Organizational Change

<table>
<thead>
<tr>
<th>GLOBAL CHANGES, COMPETITION, AND MARKETS</th>
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<tbody>
<tr>
<td>• Technological change</td>
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<tr>
<td>• International economic integration</td>
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<tr>
<td>• Maturation of markets in developed countries</td>
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<tr>
<td>• Fall of communist and socialist regimes</td>
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<table>
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<tr>
<th>MORE THREATS</th>
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<tr>
<td>• More domestic competition</td>
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<td>• Increased speed</td>
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<td>• International competition</td>
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<table>
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<tr>
<th>MORE OPPORTUNITIES</th>
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<tr>
<td>• Bigger markets</td>
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<tr>
<td>• Fewer barriers</td>
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<tr>
<td>• More international markets</td>
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<table>
<thead>
<tr>
<th>MORE LARGE-SCALE CHANGES IN ORGANIZATIONS</th>
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<tbody>
<tr>
<td>• Structure change</td>
</tr>
<tr>
<td>• Strategic change</td>
</tr>
<tr>
<td>• Culture change</td>
</tr>
<tr>
<td>• Knowledge management, enterprise resource planning</td>
</tr>
<tr>
<td>• Quality programs</td>
</tr>
<tr>
<td>• Mergers, joint ventures, consortia</td>
</tr>
<tr>
<td>• Horizontal organizing, teams, networks</td>
</tr>
<tr>
<td>• New technologies, products</td>
</tr>
<tr>
<td>• New business processes</td>
</tr>
<tr>
<td>• E-business</td>
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<tr>
<td>• Learning organizations</td>
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example, a technology change at GlaxoSmithKline was the development of software that helps researchers screen potential drugs for possible adverse medical reactions while the drugs are at the earliest stage of development. This means GlaxoSmithKline doesn’t spend time and resources on promising drugs only to find out years down the road that they are potentially harmful and can’t be marketed.  

**Product and service changes** pertain to the product or service outputs of an organization. New products include small adaptations of existing products or entirely new product lines. New products and services are normally designed to increase the market share or to develop new markets, customers, or clients. Toyota’s Hilux truck was a new product designed to increase market share, whereas Apple’s iPod was a new product that created a new market for the company. An example of a new service designed to reach new markets and customers comes from India’s Tata Consultancy Services. The company’s new mKrishi service delivers weather information and crop advice to farmers in rural India via cell phone. The service brings together existing technologies, such as remote sensors, voice-enabled text messaging, and camera phones, in a new way to serve a new market.

**Strategy and structure changes** pertain to the administrative domain in an organization. The administrative domain involves the supervision and management of the organization. These changes include changes in organization structure, strategic management, policies, reward systems, labor relations, coordination devices, management information and control systems, and accounting and budgeting systems. Structure and system changes are usually top-down, that is, mandated by top management, whereas product and technology changes often come from the bottom up. A system change instituted by top management at 3M was the implementation of a Six Sigma program, a series of management techniques designed to cut defects and increase efficiency. The shift to self-directed teams at ICU Medical Inc. is an example of a top-down structure change. Dr. George Lopez, founder and CEO, made the decision and implemented it, even though some managers and employees at first hated the idea.
**Culture changes** refer to changes in the values, attitudes, expectations, beliefs, abilities, and behavior of employees. Culture changes pertain to changes in how employees think; these are changes in mind-set rather than technology, structure, or products. Culture was discussed in detail in the previous chapter.

The four types of change in Exhibit 11.2 are interdependent—a change in one often means a change in another. A new product may require changes in the production technology, or a change in structure may require new employee skills. For example, when Shenandoah Life Insurance Company acquired new computer technology to process claims, the technology was not fully utilized until clerks were restructured into teams of five to seven members that were compatible with the technology. The structural change was an outgrowth of the technology change. Organizations are interdependent systems, and changing one part often has implications for other organization elements.

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**ELEMENTS FOR SUCCESSFUL CHANGE**

Regardless of the type or scope of change, there are identifiable stages of innovation, which generally occur as a sequence of events, though innovation stages may overlap. In the research literature on innovation, *organizational change* is considered the adoption of a new idea or behavior by an organization. *Organizational innovation*, in contrast, is the adoption of an idea or behavior that is new to the organization’s industry, market, or general environment. The first organization to introduce a new product is considered the innovator, and organizations that copy it are considered to adopt changes. For purposes of managing change, however, the terms *innovation* and *change* will be used interchangeably because the *change process* within organizations tends to be identical whether a change is early or late with respect to other organizations in the environment. Innovations typically are assimilated into an organization through a series of steps or elements. Organization members first become aware of a possible innovation, evaluate its appropriateness, and then evaluate and choose the idea. The required elements of successful change are summarized in Exhibit 11.3. For a change to be successfully implemented, managers must make sure each element occurs in the organization. If one of the elements is missing, the change process will fail.

1. **Ideas.** No company can remain competitive without new ideas; change is the outward expression of those ideas. An idea is a new way of doing things. It may be a new product or service, a new management concept, or a new procedure for working together in the organization. Ideas can come from within or from outside the organization. Internal creativity is a dramatic element of organizational change. *Creativity* is the generation of novel ideas that may meet perceived needs or respond to opportunities. For example, an employee at Boardroom Inc., a publisher of books and newsletters, came up with the idea of cutting the dimensions of the company’s books by a quarter inch. Managers learned that the smaller size would reduce postal rates, and implementation of the idea led to annual savings of more than $500,000. Some techniques for spurring internal creativity are to increase the diversity within the organization, make sure employees have plenty of opportunities to interact with people different from themselves, give people time and freedom for experimentation, and support risk taking and making mistakes. Eli Lilly, the Indianapolis-based pharmaceutical company, holds “failure parties,” to commemorate brilliant, efficient scientific work that nevertheless resulted in failure. The company’s scientists
are encouraged to take risks and look for alternative uses for failed drugs. Lilly’s osteoporosis drug Evista was a failed contraceptive. Strattera, which treats attention deficit/hyperactivity disorder, had been unsuccessful as an antidepressant. The blockbuster impotence drug Viagra was originally developed to treat severe heart pain.15

2. Need. Ideas are generally not seriously considered unless there is a perceived need for change. A perceived need for change occurs when managers see a gap between actual performance and desired performance in the organization. Managers try to establish a sense of urgency so that others will understand the need for change. Sometimes a crisis provides an undoubted sense of urgency. In many cases, however, there is no crisis, so managers have to recognize a need and communicate it to others.16 A study of innovativeness in industrial firms, for example, suggests that organizations that encourage close attention to customers and market conditions and actively support entrepreneurial activity produce more ideas and are more innovative.17 Managers at the Walt Disney Company are trying to create those conditions to keep Disney theme parks relevant to a new generation of digitally savvy visitors. They realized the company had lost touch with today’s customers, providing ho-hum, passive rides in an era when people expect instant gratification and customized experiences.18

3. Adoption. Adoption occurs when decision makers choose to go ahead with a proposed idea. Key managers and employees need to be in agreement to support the change. For a major organizational change, the decision might require the signing of a legal document by the board of directors. For a small change, adoption might occur with informal approval by a middle manager.
4. Implementation. Implementation occurs when organization members actually use a new idea, technique, or behavior. Materials and equipment may have to be acquired, and workers may have to be trained to use the new idea. Implementation is a very important step because without it, previous steps are to no avail. Implementation of change is often the most difficult part of the change process. Until people use the new idea, no change has actually taken place.

5. Resources. Human energy and activity are required to bring about change. Change does not happen on its own; it requires time and resources, for both creating and implementing a new idea. Employees have to provide energy to see both the need and the idea to meet that need. Someone must develop a proposal and provide the time and effort to implement it. Most innovations go beyond ordinary budget allocations and require special funding. Some companies use task forces, as described in Chapter 3, to focus resources on a change. Others set up seed funds or venture funds that employees with promising ideas can tap into. At Eli Lilly, a “blue sky fund” pays researchers for working on projects that don’t appear to make immediate commercial sense.¹⁹

One point about Exhibit 11.3 is especially important. Needs and ideas are listed simultaneously at the beginning of the change sequence. Either may occur first. Many organizations adopted the computer, for example, because it seemed a promising way to improve efficiency. The search for a vaccine against the HIV virus, on the other hand, was stimulated by a severe need. Whether the need or the idea occurs first, for the change to be accomplished, each of the steps in Exhibit 11.3 must be completed.

TECHNOLOGY CHANGE

In today’s business world, any company that isn’t continually developing, acquiring, or adapting new technology will likely be out of business in a few years. Managers can create the conditions to encourage technology changes. However, organizations face a contradiction when it comes to technology change, because the conditions that promote new ideas are not generally the best for implementing those ideas for routine production. An innovative organization is characterized by flexibility and empowered employees and the absence of rigid work rules.²⁰ As discussed earlier in this book, an organic, free-flowing organization is typically associated with change and is considered the best organization form for adapting to a chaotic environment. Complete the questionnaire in this chapter’s “How Do You Fit the Design?” to see if you have characteristics associated with innovativeness.

The flexibility of an organic organization is attributed to people’s freedom to be creative and introduce new ideas. Organic organizations encourage a bottom-up innovation process. Ideas bubble up from middle- and lower-level employees because they have the freedom to propose ideas and to experiment. A mechanistic structure, in contrast, stifles innovation with its emphasis on rules and regulations, but it is often the best structure for efficiently producing routine products. The challenge for managers is to create both organic and mechanistic conditions within the organization to achieve both innovation and efficiency. To attain both aspects of technological change, many organizations use an ambidextrous approach.

Briefcase
As an organization manager, keep these guidelines in mind:

Make sure every change undertaken has a definite need, idea, adoption decision, implementation strategy, and resources. Avoid failure by not proceeding until each element is accounted for.
How Do You Fit the Design?

Are You Innovative?

Think about your current life. Indicate whether each of the following items is Mostly True or Mostly False for you.

<table>
<thead>
<tr>
<th>Mostly True</th>
<th>Mostly False</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I am always seeking new ways to do things.</td>
<td></td>
</tr>
<tr>
<td>2. I consider myself creative and original in my thinking and behavior.</td>
<td></td>
</tr>
<tr>
<td>3. I rarely trust new gadgets until I see whether they work for people around me.</td>
<td></td>
</tr>
<tr>
<td>4. In a group or at work I am often skeptical of new ideas.</td>
<td></td>
</tr>
<tr>
<td>5. I typically buy new foods, gear, and other innovations before other people do.</td>
<td></td>
</tr>
<tr>
<td>6. I like to spend time trying out new things.</td>
<td></td>
</tr>
<tr>
<td>7. My behavior influences others to try new things.</td>
<td></td>
</tr>
<tr>
<td>8. Among my co-workers, I will be among the first to try out a new idea or method.</td>
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</tbody>
</table>

Scoring: To compute your score on the Personal Innovativeness scale, add the number of Mostly True answers to items 1, 2, 5, 6, 7, 8 and the Mostly False answers to items 3 and 4 for your score.

Interpretation: Personal Innovativeness reflects the awareness of a need to innovate and a readiness to try new things. Innovativeness is also thought of as the degree to which a person adopts innovations earlier than other people in the peer group. Innovativeness is considered a positive thing for people in creative companies, creative departments, venture teams, or corporate entrepreneurship. A score of 6–8 indicates that you are very innovative and likely are one of the first people to adopt changes. A score of 4–5 would suggest that you are average or slightly above average in innovativeness compared to others. A score of 0–3 means that you may prefer the tried and true and hence are not excited about new ideas or innovations. As a manager, a high score suggests you will emphasize innovation and change.


The Ambidextrous Approach

Recent thinking has refined the idea of organic versus mechanistic structures with respect to innovation creation versus innovation utilization. Organic characteristics such as decentralization and employee freedom are excellent for initiating ideas; but these same conditions often make it hard to implement a change because employees are less likely to comply. Employees can ignore the innovation because of decentralization and a generally loose structure.

How does an organization solve this dilemma? One remedy is for the organization to use an ambidextrous approach—to incorporate structures and management processes that are appropriate to both the creation and the implementation of innovation.21 Another way to think of the ambidextrous approach is to look at
the organization design elements that are important for exploring new ideas versus the design elements that are most suitable for exploiting current capabilities.  

Exploration means encouraging creativity and developing new ideas, whereas exploitation means implementing those ideas to produce routine products. The organization can be designed to behave in an organic way for exploring new ideas and in a mechanistic way to exploit and use the ideas. Exhibit 11.4 illustrates how one department is structured organically to explore and develop new ideas and another department is structured mechanistically for routine implementation of innovations. Research indicates that organizations that use an ambidextrous approach by designing for both exploration and exploitation perform better and are significantly more successful in launching innovative new products or services.

For example, a study of long-established Japanese companies such as Honda and Canon that have succeeded in breakthrough innovations found that these companies use an ambidextrous approach. To develop ideas related to a new technology, the companies assign teams of young staff members who are not entrenched in the “old way of doing things” to work on the project. The teams are headed by an esteemed elder and are charged with doing whatever is needed to develop new ideas and products, even if it means breaking rules that are important in the larger organization for implementing the new ideas.

Techniques for Encouraging Technology Change

Some of the techniques used by companies to maintain an ambidextrous approach are switching structures, separate creative departments, venture teams, corporate entrepreneurship, and collaborative teams.

Switching Structures. Switching structures means an organization creates an organic structure when such a structure is needed for the initiation of new ideas. Some of the ways organizations have switched structures to achieve the ambidextrous approach are as follows:

- Philips Corporation, a building materials producer based in Ohio, each year creates up to 150 transient teams—made up of members from various departments—to develop ideas for improving Philips products and work methods. After five days of organic brainstorming and problem solving, the company reverts to a more mechanistic basis to implement the changes.
• Gardetto’s, a family-run snack-food business, sends small teams of workers to Eureka Ranch, where they may engage in a Nerf gun battle to set the tone for fun and freedom and then participate in brainstorming exercises with the idea of generating as many new ideas as possible by the end of the day. After two and a half days, the group returns to the regular organizational structure to put the best of the ideas into action.27

• The NUMMI plant, a Toyota subsidiary located in Fremont, California, creates a separate, organically organized, cross-functional subunit, called the Pilot Team, to design production processes for new car and truck models. When the model they are preparing moves into production, workers return to their regular jobs on the shop floor.28

Each of these organizations found creative ways to be ambidextrous, establishing organic conditions for developing new ideas in the midst of more mechanistic conditions for implementing and using those ideas.

**Creative Departments.** In many large organizations the initiation of innovation is assigned to separate creative departments.29 Staff departments, such as research and development (R&D), engineering, design, and systems analysis, create changes for adoption in other departments. Departments that initiate change are organically structured to facilitate the generation of new ideas and techniques. Departments that use those innovations tend to have a mechanistic structure more suitable for efficient production.

One example of a creative department is the research lab at Oksuka Pharmaceutical Company. To get the kind of creative spirit that is willing to try new things and look for the unexpected, Oksuka’s president Tatsuo Higuchi says its research labs “put a high value on weird people.”30 However, in the department that manufactures drugs, where routine and precision is important, a pharmaceutical company would prefer to have less-unusual people who are comfortable following rules and standard procedures.

Another type of creative department is the idea incubator, an increasingly popular way to facilitate the development of new ideas within the organization. An idea incubator provides a safe harbor where ideas from employees throughout the organization can be developed without interference from company bureaucracy or politics.31 Companies as diverse as Boeing, Adobe Systems, Yahoo!, Ziff-Davis, and UPS are using incubators to support the development of creative ideas.

**Venture Teams.** Venture teams are a technique used to give free rein to creativity within organizations. Venture teams are often given a separate location and facilities so they are not constrained by organizational procedures. A venture team is like a small company within a large company. Numerous organizations have used the venture team concept to free creative people from the bureaucracy of a large corporation. Texas Instruments (TI) has a loose, informal group of engineers, self-titled the Lunatic Fringe, who are given free rein to follow their curiosity wherever it goes. This approach, according to “lunatic” Gene Frantz, provides a “continuum between total chaos and total order. About 95 percent of the people in TI are total order,” he says, “and I thank God for them every day because they create the products that allow me to spend money. I’m down here in total chaos, that total chaos of innovation.”32
One type of venture team is called a skunkworks. A skunkworks is a separate, small, informal, highly autonomous, and often secretive group that focuses on breakthrough ideas for the business. The original skunkworks was created by Lockheed Martin more than 50 years ago and is still in operation. The essence of a skunkworks is that highly talented people are given the time and freedom to let creativity reign.

A variation of the venture team concept is the new-venture fund, which provides financial resources for employees to develop new ideas, products, or businesses. In order to tap into its employees’ entrepreneurial urges, Lockheed Martin allows workers to take up to two years’ unpaid leave to explore a new idea, using company labs and equipment and paying company rates for health insurance. If the idea is successful, the corporation’s venture fund invests in the start-up company. One successful start-up was Genase, which created an enzyme that “stone-washes” denim.

Corporate Entrepreneurship. Corporate entrepreneurship attempts to develop an internal entrepreneurial spirit, philosophy, and structure that will produce a higher-than-average number of innovations. Corporate entrepreneurship may involve the use of creative departments and new venture teams, but it also attempts to release the creative energy of all employees in the organization. Managers can create systems and structures that encourage entrepreneurship. For example, at the giant oil company BP, top executives establish contracts with the heads of all BP’s business units. Unit managers can deliver on the contract in whatever way they see fit, within clearly identified constraints.

An important outcome of corporate entrepreneurship is to facilitate idea champions. These go by a variety of names, including advocate, intrapreneur, or change agent. Idea champions provide the time and energy to make things happen. They fight to overcome natural resistance to change and to convince others of the merit of a new idea. The importance of the idea champion is illustrated by a fascinating fact discovered by Texas Instruments: When TI reviewed fifty successful and unsuccessful technical projects, it discovered that every failure was characterized by the absence of a volunteer champion. There was no one who passionately believed in the idea, who pushed the idea through every obstacle to make it work. TI took this finding so seriously that now its number-one criterion for approving new technical projects is the presence of a zealous champion. Insisting on an idea champion is a guiding rule for many companies that successfully turn ideas into new products and services. This chapter’s Book Mark further discusses key principles of highly innovative companies. Numerous studies support the importance of idea champions as a factor in the success of new products.

Companies encourage idea champions by providing freedom and slack time to creative people. Companies such as IBM, Texas Instruments, General Electric, and 3M allow employees to develop new technologies without company approval. Known as bootlegging, the unauthorized research often pays big dividends. The talking educational toy Speak & Spell was developed “under the table” at TI beginning in the 1970s. The product was a hit, but more importantly, it contained TI’s first digital-signal processing-chip, which grew into a huge and very profitable business when cell phones and other portable devices came along years later.

Collaborative Teams. Although many individuals have creative ideas, most innovations are created through groups of people working together. Smart companies find
Why are some companies so good at cranking out hot new products and services while others struggle to find innovative ideas that connect in the marketplace? In *Innovation: The Five Disciplines for Creating What Customers Want*, Curtis Carlson and William Wilmot emphasize that successful innovation isn’t the result of a “Eureka!” moment experienced by a lone, creative employee in a research lab, but rather the outcome of a disciplined approach that identifies and delivers the right products and services at the right time.

**IT IS DISCIPLINE THAT MAKES CREATIVITY PAY**
Carlson, CEO of contract research and development firm SRI International, and Wilmot, director of the Collaboration Institute, offer their five disciplines based on two decades of searching SRI and countless other companies for the best practices of innovation.

- **Focus on Important Needs.** The first step is to pick important, not just interesting, problems. Managers and employees have to be in close touch with the environment to know what the important needs are. “Get out of your office, hit the road,” they write. “The best source of information . . . is your prospective customers and partners.”

- **Devise solutions that create value.** For an idea to move forward, the new products or services to be produced must be ones that the customer wants, needs, and values. The authors also point out that value goes beyond price and quality. Consider the iPod, which added value by meeting consumer needs for simplicity and portability.

- **Insist on an idea champion.** “We have a saying at SRI,” says Carlson. “No champion, no product, no exception.” To be successful, the authors believe, every project requires a champion who is “insanely” committed to it and keeps it going in spite of roadblocks.

- **Use multidisciplinary teams.** Using teams of people from across the organization contributes to a continual sharing of information and continual improvement of ideas. The book outlines the role of team leader and how to shape team norms for innovation.

- **Align the entire organization.** The goal, say Carlson and Wilmot, is to align the organization for continuous value creation. Individuals, teams, and departments understand company goals and strategy and how their tasks and projects contribute, so that every part of the organization is dedicated to “creating the highest customer value in the shortest possible time.”

**PUT IT IN PRACTICE**
A great deal of space is devoted to the idea of value creation, since it is crucial to successful innovation. Carlson and Wilmot outline tools and techniques for developing a value proposition and determining benefits and costs. The book also provides a number of other tools to help managers apply the five disciplines within their own organizations.

consultants, and employees’ family members to an interactive online brainstorming session about new technology ideas.41

The most important aspect for creating an innovative company is requiring people to come up with new ideas.

**ANSWER:** Disagree. New ideas are essential for innovation, but managers can’t simply issue directives ordering people to come up with new ideas. Managers create the conditions that are conducive to both the creation of new ideas and their implementation. Organizing to sustain innovation is as important as organizing to spur creativity.

**NEW PRODUCTS AND SERVICES**

Although the concepts just discussed are important to product and service as well as technology changes, other factors also need to be considered. In many ways, new products and services are a special case of innovation because they are used by customers outside the organization. Since new products are designed for sale in the environment, uncertainty about the suitability and success of an innovation is very high.

**New Product Success Rate**

Research has explored the enormous uncertainty associated with the development and sale of new products.42 To understand what this uncertainty can mean to organizations, consider such flops as RCA’s VideoDisc player, which lost an estimated $500 million, or Time Inc.’s *TV-Cable Week*, which lost $47 million. Pfizer invested more than $70 million in the development and testing of an anti-aging drug before it flopped in the final testing stages.43 Developing and producing products that fail is a part of business in all industries. U.S. food companies, for example, introduce approximately 5,000 new products into supermarkets each year, but the failure rate of new food products is 70 to 80 percent.44 Organizations take the risk because product innovation is one of the most important ways companies adapt to changes in markets, technologies, and competition.45

Although measuring the success of new products is tricky, a survey by the Product Development and Management Association (PDMA) sheds some light on the commercialization success rates of new products across a variety of industries.46 PDMA compiled survey results from over 400 PDMA members, most of whom work in new product development in various industries. The findings about success rates are given in Exhibit 11.5. On the average, only 28 percent of all projects undertaken in the R&D laboratories passed the testing stage, which means all technical problems were solved and the projects moved on to production. Less than one-fourth of all product ideas (24 percent) were fully marketed and commercialized, and only 14 percent achieved economic success.47
Reasons for New Product Success

The next question to be considered is, Why are some products more successful than others? Other studies indicate that innovation success is related to collaboration between technical and marketing departments. Successful new products and services seem to be technologically sound and also carefully tailored to customer needs. A study called Project SAPPHO examined seventeen pairs of new product innovations, with one success and one failure in each pair, and concluded the following:

1. Successful innovating companies had a much better understanding of customer needs and paid much more attention to marketing.
2. Successful innovating companies made more effective use of outside technology and outside advice, even though they did more work in-house.
3. Top management support in the successful innovating companies was from people who were more senior and had greater authority.

Thus there is a distinct pattern of tailoring innovations to customer needs, making effective use of technology, and having influential top managers support the project. These ideas taken together indicate that the effective design for new product innovation is associated with horizontal coordination across departments.

Horizontal Coordination Model

The organization design for achieving new product innovation involves three components—departmental specialization, boundary spanning, and horizontal coordination. These components are similar to the horizontal coordination mechanisms discussed in Chapter 3, such as teams, task forces, and project managers, and the differentiation and integration ideas discussed in Chapter 4. Exhibit 11.6 illustrates these components in the horizontal coordination model.
Specialization. The key departments in new product development are R&D, marketing, and production. The specialization component means that the personnel in all three of these departments are highly competent at their own tasks. The three departments are differentiated from each other and have skills, goals, and attitudes appropriate for their specialized functions.

Boundary Spanning. This component means each department involved with new products has excellent linkage with relevant sectors in the external environment. R&D personnel are linked to professional associations and to colleagues in other R&D departments. They are aware of recent scientific developments. Marketing personnel are closely linked to customer needs. They listen to what customers have to say, and they analyze competitor products and suggestions by distributors. For example, Kimberly-Clark had amazing success with Huggies Pull-Ups because marketing researchers worked closely with customers in their own homes and recognized the emotional appeal of pull-on diapers for toddlers. By the time competitors caught on, Kimberly-Clark was selling $400 million worth of Huggies annually.49

Horizontal Coordination. This component means that technical, marketing, and production people share ideas and information. Research people inform marketing of new technical developments to learn whether the developments are applicable to customers. Marketing people provide customer complaints and information to R&D to use in the design of new products. People from both R&D and marketing coordinate with production because new products have to fit within production capabilities so costs are not exorbitant. The decision to launch a new product is ultimately a joint decision.

EXHIBIT 11.6
Horizontal Coordination Model for New Product Innovations
among all three departments. Horizontal coordination, using mechanisms such as cross-functional teams, increases both the amount and the variety of information for new product development, enabling the design of products that meet customer needs and circumventing manufacturing and marketing problems.\textsuperscript{50}

Famous innovation failures—such as New Coke, Kellogg’s Breakfast Mates, or the Susan B. Anthony Dollar—usually violate the horizontal linkage model. Employees fail to connect with customer needs and market forces or internal departments fail to adequately share needs and coordinate with one another. Research has confirmed a connection between effective boundary spanning that keeps the organization in touch with market forces, smooth coordination among departments, and successful product development.\textsuperscript{51}

Many of today’s successful companies are including customers, strategic partners, suppliers, and other outsiders directly in the product and service development process. One of the hottest trends is open innovation.\textsuperscript{52} In the past, most businesses generated their own ideas in-house and then developed, manufactured, marketed, and distributed them, a closed innovation approach. Today, though, forward-looking companies are trying a different method. Open innovation means extending the search for and commercialization of new products beyond the boundaries of the organization and even beyond the boundaries of the industry. In a survey conducted by IBM and \textit{Industry Week} magazine, 40 percent of respondents identified collaborating with customers and suppliers as having the most significant impact on product development time-to-market.\textsuperscript{53}

Research findings show that collaboration with other firms and with customers can be a significant source of product innovation, and can even stimulate stronger internal coordination. Cooperating with external parties requires the involvement of people from different areas of the company, which in turn necessitates that organizations set up stronger internal coordination mechanisms.\textsuperscript{54} Some companies, such as Threadless, dubbed the most innovative small company in America by \textit{Inc.} magazine, take open innovation to the extreme.

\textbf{Threadless, founded by college dropout Jake Nickell and his partner Jacob DeHart, churns out dozens of new T-shirt designs a month and has never produced a flop. How do they do it? By letting potential customers tell them precisely which shirts to make. Threadless holds design competitions on an online social network, where hundreds of thousands of people socialize, blog, and discuss ideas. Members submit T-shirt designs by the hundreds each week and then vote on which ones they like best. People earn cash prizes for designs that are used, plus reprint fees, but the real appeal to young, unknown designers is the honor of getting their designs printed.

Rather than having the company create products and the customers buy them, the customers essentially are the company at Threadless. Threadless employs no professional designers, has no marketing department or sales force, does no advertising, and doesn’t distribute through retailers. “[I]t was a huge word-of-mouth thing,” said one freelance designer. People aren’t required to join the social network to buy shirts, but a survey indicates that about 95 percent of people visiting the site participate in talking about and voting on designs. This engagement led to four years of tremendous growth for Threadless, with membership increasing from about 70,000 in 2004 to more than 700,000 in 2008. Sales zoomed to $30 million.

When asked about his company’s success, Nickell says it just seems like common sense. “Why wouldn’t you want to make the products that people want you to make?” he asks.\textsuperscript{55}
Threadless is at the forefront of a movement to drastically rethink relationships with customers. Starbucks is applying a similar idea at MyStarbucks.com, where customers can make suggestions, then discuss and vote on them. Pitney Bowes is building an online social network for direct marketers who use its mail machines. A number of companies have sprung up to help organizations use the Internet to tap into the collective mind-power of a broad public. Web sites such as Kluster, InnoCentive, and Cambrian House let companies post questions or tasks and gather outside ideas. In addition, many major companies such as Procter & Gamble, W. L. Gore, and Boeing routinely turn to customers for advice. Gore worked with physicians to develop its thoracic graft, and with hunters to create Supprescent, a fabric intended to block human odors. During development of new planes, Boeing’s engineers work closely with flight attendants, pilots, engineers from major airlines, suppliers, and even banks that finance aircraft purchases, to make sure the plane is designed for maximum functionality and compatibility with suppliers’ capabilities and the airlines’ needs.

2 Asking customers what they want is the best way to create new products that will be successful in the marketplace.

ANSWER: Agree or disagree. It depends on the organization. Bringing customers into the product development process has been highly beneficial for many companies. However, many products developed based on what customers say they want do not succeed. In addition, some highly innovative companies, like Apple, believe relying too much on customer input limits the pie-in-the-sky thinking needed to create truly breakthrough products.

Achieving Competitive Advantage: The Need for Speed

Nine out of ten executives say speed and agility have become increasingly urgent concerns for their companies in recent years. In particular, the rapid development of new products and services is becoming a major strategic weapon in an ever-shifting global marketplace. To remain competitive, companies are learning to turn ideas into new products and services incredibly fast.

Time-based competition means delivering products and services faster than competitors, giving companies a competitive edge. Clothing retailer Zara gets new styles into stores twice a week, for example. Russell Stover got a line of low-carb candies, called Net Carb, on store shelves within three months after perfecting the recipe, rather than the twelve months it usually takes candy companies to get a new product to market. Some companies use what are called fast cycle teams as a way to support highly important projects and deliver products and services faster than competitors. A fast cycle team is a multifunctional, and sometimes multinational, team that works under stringent timelines and is provided with high levels of company resources and empowerment to accomplish an accelerated product development project.

Another critical issue is designing products that can compete on a global scale and successfully marketing those products internationally. Companies such as Quaker Oats, Häagen Dazs, and Levi’s are trying to improve horizontal communication and collaboration across geographical regions, recognizing that they can pick up winning product ideas from customers in other countries. Many new product
development teams today are global teams because organizations have to develop products that will meet diverse needs of consumers all over the world.  

**STRATEGY AND STRUCTURE CHANGE**

The preceding discussion focused on new production processes and products, which are based in the technology of an organization. The expertise for such innovation lies within the technical core and professional staff groups, such as research and engineering. This section turns to an examination of strategy and structure changes.  

All organizations need to make changes in their strategies, structures, management processes, and administrative procedures from time to time. In the past, when the environment was relatively stable, most organizations focused on small, incremental changes to solve immediate problems or take advantage of new opportunities. However, over the past decade, companies throughout the world have faced the need to make radical changes in strategy, structure, and management processes to adapt to new competitive demands. Many organizations are cutting out layers of management and decentralizing decision making. There is a strong shift toward more horizontal structures, with teams of front-line workers empowered to make decisions and solve problems on their own. Some companies are breaking totally away from traditional organization forms and shifting toward virtual network strategies and structures. Numerous companies are reorganizing and shifting their strategies to incorporate e-business. These types of changes are the responsibility of the organization’s top managers, and the overall process of change is typically different from the process for innovation in technology or new products.

**The Dual-Core Approach**

The dual-core approach to organizational change compares management and technical changes. Management changes pertain to the design and structure of the organization itself, including restructuring, downsizing, teams, control systems, information systems, and departmental grouping. Research into management change suggests two things. First, management changes occur less frequently than do technical changes. Second, management changes occur in response to different environmental sectors and follow a different internal process than do technology-based changes. The dual-core approach to organizational change identifies the unique processes associated with management change.  

Organizations—schools, hospitals, city governments, welfare agencies, government bureaucracies, and many business firms—can be conceptualized as having two cores: a technical core and a management core. Each core has its own employees, tasks, and environmental domain. Innovation can originate in either core.

The management core is above the technical core in the hierarchy. The responsibility of the management core includes the structure, control, and coordination of the organization itself and concerns the environmental sectors of government, financial resources, economic conditions, human resources, and competitors. The technical core is concerned with the transformation of raw materials into organizational products and services and involves the environmental sectors of customers and technology.

The point of the dual-core approach is that many organizations—especially nonprofit and government organizations—must adopt frequent management...
changes and need to be structured differently from organizations that rely on frequent technical and product changes for competitive advantage.

**Organization Design for Implementing Management Change**

The findings from research comparing management and technical change suggest that a mechanistic organization structure is appropriate for frequent management changes, including changes in goals, strategy, structure, control systems, and human resources. Organizations that successfully adopt many management changes often have a larger administrative ratio, are larger in size, and are centralized and formalized compared with organizations that adopt many technical changes. The reason is the top-down implementation of changes in response to changes in the government, financial, or legal sectors of the environment. If an organization has an organic structure, lower-level employees have more freedom and autonomy and, hence, may resist top-down initiatives.

The innovation approaches associated with management versus technical change are summarized in Exhibit 11.7. Technical change, such as changes in production techniques and innovative technology for new products, is facilitated by an organic structure, which allows ideas to bubble upward from lower- and middle-level employees. Organizations that must adopt frequent management changes, in contrast, tend to use a top-down process and a mechanistic structure. For example, changes such as implementation of Six Sigma methods, application of the balanced scorecard, decentralization of decision making, or downsizing and restructuring are facilitated by a top-down approach.

Research into civil service reform found that the implementation of management innovation was extremely difficult in organizations that had an organic technical core. The professional employees in a decentralized agency could resist civil service changes. By contrast, organizations that were considered more bureaucratic and mechanistic in the sense of high formalization and centralization adopted management changes readily.
What about business organizations that are normally technologically innovative in bottom-up fashion but suddenly face a crisis and need to reorganize? Or a technically innovative, high-tech firm that must reorganize frequently to accommodate changes in production technology or the environment? Technically innovative firms may suddenly have to restructure, reduce the number of employees, alter pay systems, disband teams, or form a new division. The answer is to use a top-down change process. The authority for strategy and structure change lies with top management, who should initiate and implement the new strategy and structure to meet environmental circumstances. Employee input may be sought, but top managers have the responsibility to direct the change. When Mark Hurd took over as CEO of Hewlett-Packard, he knew that strong, swift top-down change was needed to help the organization get back on track.

Mark Hurd began hearing complaints about the corporate sales function within weeks of taking over the top job at Hewlett-Packard. Some corporate customers were telling him the company had so many confusing management layers that they never knew who to call. Others were saying they frequently got different price quotes from salespeople in different regions. Inside the company, people were complaining that they were so overwhelmed with administrative tasks that they had little time to spend serving customers.

Hurd took quick action. After digging into H-P’s sales structure, he discovered that there were eleven layers of management between him and a customer. In addition, there were too many people assigned to support staff and management roles and too few assigned to work directly with customers, particularly corporate clients that provided 70 percent of the company’s revenue. Hurd restructured workers among H-P’s PC, printing, and corporate-technology groups so salespeople could master the products they were selling. He fired hundreds of underperformers and cut three layers of sales management. With top corporate clients, Hurd assigned just one salesperson so they would always know whom to contact. The restructuring also included changing the reward system for salespeople, tying commissions to revenue and profitability.

Hurd made a number of other management changes at H-P, including downsizing the overall workforce and giving divisions direct control over about 70 percent of their budgeted costs. Recent years have been tough for computer makers, especially with corporations decreasing their spending. However, H-P has made some impressive gains, significantly increasing its share of both consumer and corporate computer sales.

Some top-down changes, particularly those related to restructuring and downsizing, can be painful for employees, so top managers should move quickly and authoritatively to make them as humane as possible. A study of successful corporate transformations, which frequently involve painful changes, found that managers followed a fast, focused approach. When top managers spread difficult changes such as downsizing over a long time period, employee morale suffers and the change is much less likely to lead to positive outcomes. Top managers should also remember that top-down change means initiation of the idea occurs at upper levels and is implemented downward. It does not mean that lower-level employees are not educated about the change or allowed to participate in it.
CULTURE CHANGE

Organizations are made up of people and their relationships with one another. Changes in strategy, structure, technologies, and products do not happen on their own, and changes in any of these areas involve changes in people as well. Employees must learn how to use new technologies, or market new products, or work effectively in a team-based structure. Sometimes achieving a new way of thinking requires a focused change in the underlying corporate cultural values and norms. Changing corporate culture fundamentally shifts how work is done in an organization and can lead to renewed commitment and empowerment of employees, as well as a stronger bond between the company and its customers. 

However, changing culture can be particularly difficult because it challenges people’s core values and established ways of thinking and doing things. Mergers and acquisitions often illustrate how tough culture change can be. For example, the integration of FedEx and Kinko’s has been rocky because of wildly disparate cultures. Kinko’s always had a somewhat freewheeling culture, captured by a statement made by one former worker: “I had cornrows and green hair and no one seemed to mind.” FedEx, on the other hand, has a culture based on structure, uniformity, and discipline. Five years after FedEx bought the copy-center company, managers are still struggling to implement the culture change they feel is needed at Kinko’s.

Forces for Culture Change

A number of recent trends have contributed to a need for cultural makeovers at many companies. For example, reengineering and the shift to horizontal forms of organizing, which we discussed in Chapter 3, require greater focus on employee empowerment, collaboration, information sharing, and meeting customer needs, which means managers and employees need a new mind-set. Mutual trust, risk taking, and tolerance for mistakes become key cultural values in the horizontal organization.

Another force for culture change is the diversity of today’s workforce. Diversity is a fact of life for today’s organizations, and many are implementing new recruiting, mentoring, and promotion methods, diversity training programs, tough policies regarding sexual harassment and racial discrimination, and new benefits programs that respond to a more diverse workforce. However, if the underlying culture of an organization does not change, all other efforts to support diversity will fail.

Finally, a growing emphasis on learning and adaptation in organizations calls for new cultural values. Recall from Chapter 1 that shifting to a learning organization involves changes in a number of areas, such as more horizontal structures with empowered teams working directly with customers. There are few rules and procedures for performing tasks, and knowledge and control of tasks are located with employees rather than supervisors. Information is broadly shared, and employees, customers, suppliers, and partners all play a role in determining the organization’s strategic direction. Clearly, all of these changes require new values, new attitudes, and new ways of thinking and working together.
Changing a company’s culture is probably one of the hardest jobs a manager can undertake.

ANSWER: Agree. Changing people and culture is typically much more difficult than changing any other aspect of the organization. Managers often underestimate the difficulty of changing culture and fail to appreciate that it takes a determined, consciously-planned effort over a long period of time.

Organization Development Culture Change Interventions

Managers use a variety of approaches and techniques for changing corporate culture, some of which we discussed in Chapter 10. One method of quickly bringing about culture change is known as organization development (OD), which focuses on the human and social aspects of the organization as a way to improve the organization’s ability to adapt and solve problems. OD emphasizes the values of human development, fairness, openness, freedom from coercion, and individual autonomy that allows workers to perform the job as they see fit, within reasonable organizational constraints. In the 1970s, OD evolved as a separate field that applied the behavioral sciences in a process of planned organization-wide change, with the goal of increasing organizational effectiveness. Today, the concept has been enlarged to examine how people and groups can change to an adaptive culture in a complex and turbulent environment. Organization development is not a step-by-step procedure to solve a specific problem but a process of fundamental change in the human and social systems of the organization, including organizational culture.

OD uses knowledge and techniques from the behavioral sciences to create a learning environment through increased trust, open confrontation of problems, employee empowerment and participation, knowledge and information sharing, the design of meaningful work, cooperation and collaboration between groups, and the full use of human potential.

OD interventions involve training of specific groups or of everyone in the organization. For OD interventions to be successful, senior management in the organization must see the need for OD and provide enthusiastic support for the change. Techniques used by many organizations for improving people skills through OD include the following.

Large Group Intervention. Most early OD activities involved small groups and focused on incremental change. However, in recent years, there has been growing interest in the application of OD techniques to large group settings, which are more attuned to bringing about radical or transformational change in organizations operating in complex environments. The large group intervention approach, sometimes referred to as “whole system in the room,” brings together participants from all parts of the organization—often including key stakeholders from outside the organization as well—in an off-site setting to discuss problems or opportunities and plan for change. A large group intervention might involve 50 to 500 people and last for several days. For example, the global furniture retailer IKEA recently used the large-group intervention approach to completely re-conceptualize how the company operates. During eighteen hours of meetings held over several days, fifty-two stakeholders created a new system for product design, manufacturing, and distribution,
which involved cutting layers of hierarchy and decentralizing the organization. All of the departments that had information, resources, or an interest in the design outcome worked together to create and implement the new system.

Using an off-site setting limits interference and distractions, enabling participants to focus on new ways of doing things. General Electric’s “Work Out” program, an ongoing process of solving problems, learning, and improving, begins with large-scale off-site meetings that get people talking across functional, hierarchical, and organizational boundaries. Hourly and salaried workers come together from many different parts of the organization and join with customers and suppliers to discuss and solve specific problems. The process forces a rapid analysis of ideas, the creation of solutions, and the development of a plan for implementation. Over time, Work Out creates a culture where ideas are rapidly translated into action and positive business results.

Team Building. Team building promotes the idea that people who work together can work as a team. A work team can be brought together to discuss conflicts, goals, the decision-making process, communication, creativity, and leadership. The team can then plan to overcome problems and improve results. Team-building activities are also used in many companies to train task forces, committees, and new product development groups. These activities enhance communication and collaboration and strengthen the cohesiveness of organizational groups and teams.

Interdepartmental Activities. Representatives from different departments are brought together in a mutual location to expose problems or conflicts, diagnose the causes, and plan improvements in communication and coordination. This type of intervention has been applied to union–management conflict, headquarters–field office conflict, interdepartmental conflict, and mergers. One company that stores archived records for other organizations found interdepartmental meetings to be a key means of building a culture based on team spirit and customer focus. People from different departments met for hour-long sessions every two weeks and shared their problems, told stories about their successes, and talked about things they’d observed in the company. The meetings helped people understand the problems faced in other departments and see how everyone depended on each other to do their jobs successfully.

One current area in which OD can provide significant value is in spurring culture change toward valuing diversity. In addition, today’s organizations are continuously adapting to environmental uncertainty and increasing global competition, and OD interventions can respond to these new realities as companies strive to create greater capability for learning and growth.

STRATEGIES FOR IMPLEMENTING CHANGE

Managers and employees can think of inventive ways to improve the organization’s technology, creative ideas for new products and services, fresh approaches to strategies and structures, or ideas for fostering adaptive cultural values, but until the ideas are put into action, they are worthless to the organization. Implementation is the most crucial part of the change process, but it is also the most difficult. Change is frequently disruptive and uncomfortable for managers as well as employees. Change is complex, dynamic, and messy, and implementation requires strong and persistent leadership. In this final section, we briefly discuss the role of leadership for change, some reasons for resistance to change, and techniques that managers can use to overcome resistance and successfully implement change.
Leadership for Change

A recent survey found that among companies that are successful innovators, 80 percent have top leaders who frequently reinforce the value and importance of innovation. These leaders think about innovation, demonstrate its importance through their actions, and follow through to make sure people are investing time and resources in innovation issues. Philip A. Newbold, chief executive of Memorial Hospital in South Bend, Indiana, illustrates this type of leader.

Sixty-year-old Philip Newbold has been chief of Memorial Hospital for more than twenty years, but he keeps his mind—and his organization—as fresh-thinking as a young Silicon Valley entrepreneur. Newbold regularly visits innovative organizations in all industries, from retailers to furniture makers. He encourages his staff to have fun by making cardboard prototypes of project ideas. He holds regular brainstorming sessions, sometimes requiring everyone to stand for the entire twenty or so minutes to keep them thinking fast on their feet. Memorial was the first community hospital in the United States to have an innovation R&D budget. Part of the money goes for the Innovation Café, a unique teaching laboratory where people learn about the basic ingredients of innovation. “Good Try” rewards honor promising projects that failed, and staff members make presentations to senior executives about lessons learned from failure.

Newbold says he has stayed in one job for so long because of an insatiable interest in new ideas that keeps every day fresh. “In the hospital industry, he’s way out front with his emphasis on an innovation culture,” said one health industry observer. Executives like Philip Newbold are innovation champions. The leadership style of the top executive sets the tone for how effective the organization is at continuous adaptation and innovation. One style of leadership, referred to as transformational leadership, is particularly suited for bringing about change. Top leaders who use a transformational leadership style enhance organizational innovation both directly, by creating a compelling vision, and indirectly, by creating an environment that supports exploration, experimentation, risk taking, and sharing of ideas.

Successful change can happen only when employees are willing to devote the time and energy needed to reach new goals, as well as endure possible stress and hardship. Having a clearly communicated vision that embodies flexibility and openness to new ideas, methods, and styles sets the stage for a change-oriented organization and helps employees cope with the chaos and tension associated with change. Leaders also build organization-wide commitment by taking employees through three stages of the change commitment process, illustrated in Exhibit 11.8. In the first stage, preparation, employees hear about the change through memos, meetings, speeches, or personal contact and become aware that the change will directly affect their work. In the second stage, acceptance, leaders help employees develop an understanding of the full impact of the change and the positive outcomes of making the change. When employees perceive the change as positive, the decision to implement is made. In the third stage, the true commitment process begins. The commitment stage involves the steps of installation and institutionalization. Installation is a trial process for the change, which gives leaders an opportunity to discuss problems and employee concerns and build commitment to action. In the final step, institutionalization, employees view the change not as something new but as a normal and integral part of organizational operations.
The pressures on organizations to change will probably increase over the next few decades. Leaders must develop the personal qualities, skills, and methods needed to help their companies remain competitive. Indeed, some management experts argue that to survive the upheaval of the early twenty-first century, managers must turn their organizations into change leaders by using the present to actually create the future—breaking industry rules, creating new market space, and routinely abandoning outmoded products, services, and processes to free up resources to build the future.94

Barriers to Change

Visionary leadership is crucial for change; however, leaders should expect to encounter resistance as they attempt to take the organization through the three stages of the change commitment process. It is natural for people to resist change, and many barriers to change exist at the individual and organizational levels.95

1. *Excessive focus on costs.* Management may possess the mind-set that costs are all-important and may fail to appreciate the importance of a change that is not focused on costs—for example, a change to increase employee motivation or customer satisfaction.

2. *Failure to perceive benefits.* Any significant change will produce both positive and negative reactions. Education may be needed to help managers and employees perceive more positive than negative aspects of the change. In addition, if the organization’s reward system discourages risk taking, a change process might falter because employees think that the risk of making the change is too high.

3. *Lack of coordination and cooperation.* Organizational fragmentation and conflict often result from the lack of coordination for change implementation. Moreover, in the case of new technology, the old and new systems must be compatible.
4. **Uncertainty avoidance.** At the individual level, many employees fear the uncertainty associated with change. Constant communication is needed so that employees know what is going on and understand how it affects their jobs.

5. **Fear of loss.** Managers and employees may fear the loss of power and status—or even their jobs. In these cases, implementation should be careful and incremental, and all employees should be involved as closely as possible in the change process.

Implementation can typically be designed to overcome many of the organizational and individual barriers to change.

### Techniques for Implementation

Top leaders articulate the vision and set the tone, but managers and employees throughout the organization are involved in the process of change. A number of techniques can be used to successfully implement change. 96

1. **Establish a sense of urgency for change.** Once managers identify a true need for change, they thaw resistance by creating a sense of urgency in others that the change is really needed. Organizational crises can help unfreeze employees and make them willing to invest the time and energy needed to adopt new techniques or procedures. When there is no public crisis, managers have to find creative ways to make others aware of the need for change.

2. **Establish a coalition to guide the change.** Effective change managers build a coalition of people throughout the organization who have enough power and influence to steer the change process. For implementation to be successful, there must be a shared commitment to the need and possibilities for change. Top management support is crucial for any major change project, and lack of top management support is one of the most frequent causes of implementation failure. 97 In addition, the coalition should involve lower-level supervisors and middle managers from across the organization. For smaller changes, the support of influential managers in the affected departments is important.

3. **Create a vision and strategy for change.** Leaders who have taken their companies through major successful transformations often have one thing in common: They focus on formulating and articulating a compelling vision and strategy that will guide the change process. Even for a small change, a vision of how the future can be better and strategies to get there are important motivations for change.

4. **Find an idea that fits the need.** Finding the right idea often involves search procedures—talking with other managers, assigning a task force to investigate the problem, sending out a request to suppliers, or asking creative people within the organization to develop a solution. This is a good opportunity to encourage employee participation, because employees need the freedom to think about and explore new options. 98 ALLTEL set up a program called Team Focus to gather input from all employees. In twenty group meetings over a period of two weeks, managers gathered 2,800 suggestions, which they then narrowed down to 170 critical action items that specifically addressed problems affecting employee morale and performance. 99

5. **Develop plans to overcome resistance to change.** Many good ideas are never used because managers failed to anticipate or prepare for resistance to change by consumers, employees, or other managers. No matter how impressive the performance characteristics of an innovation, its implementation will conflict with some interests and jeopardize some alliances in the organization. To increase the chance of successful implementation, managers acknowledge the
conflict, threats, and potential losses perceived by employees. Several strategies can be used by managers to overcome resistance:

- **Alignment with needs and goals of users.** The best strategy for overcoming resistance is to make sure change meets a real need. Employees in R&D often come up with great ideas that solve nonexistent problems. This happens because initiators fail to consult with the intended users. Resistance can be frustrating for managers, but moderate resistance to change is good for an organization. Resistance provides a barrier to frivolous changes and to change for the sake of change. The process of overcoming resistance to change normally requires that the change be good for its users. When David Zugheri wanted to switch to a primarily paperless system at First Houston Mortgage, he emphasized to employees that storing customer records electronically meant they could now work from home when they needed to care for a sick child, or take a vacation and still keep track of critical accounts. “I could literally see their attitudes change through their body language,” Zugheri says.100

- **Communication and training.** Communication means informing users about the need for change and the consequences of a proposed change, preventing rumors, misunderstanding, and resentment. In one study of change efforts, the most commonly cited reason for failure was that employees learned of the change from outsiders. Top managers concentrated on communicating with the public and shareholders but failed to communicate with the people who would be most intimately involved with and most affected by the change—their own employees.101 Open communication often gives management an opportunity to explain what steps will be taken to ensure that the change will have no adverse consequences for employees. Training is also needed to help employees understand and cope with their role in the change process.

- **An environment that affords psychological safety.** Psychological safety means that people feel a sense of confidence that they will not be embarrassed or rejected by others in the organization. People need to feel secure and capable of making the changes that are asked of them.102 Change requires that people be willing to take risks and do things differently, but many people are fearful of trying something new if they think they might be embarrassed by mistakes or failure. Managers support psychological safety by creating a climate of trust and mutual respect in the organization. “Not being afraid someone is laughing at you helps you take genuine risks,” says Andy Law, one of the founders of St. Luke’s, an advertising agency based in London.103

- **Participation and involvement.** Early and extensive participation in a change should be part of implementation. Participation gives those involved a sense of control over the change activity. They understand it better, and they become committed to its successful implementation. One study of the implementation and adoption of information technology systems at two companies showed a much smoother implementation process at the company that introduced the new technology using a participatory approach.104 The team-building and large group intervention activities described earlier can be effective ways to involve employees in a change process.

- **Forcing and coercion.** As a last resort, managers may overcome resistance by threatening employees with the loss of jobs or promotions or by firing or transferring them. In other words, management power is used to overwhelm resistance. In most cases, this approach is not advisable because it leaves people angry at change managers, and the change may be sabotaged. However, this technique may be needed when speed is essential, such as when the organization

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**Briefcase**

As an organization manager, keep these guidelines in mind:

Lead employees through the three stages of commitment to change—preparation, acceptance, and commitment—and use techniques to achieve successful implementation. These include obtaining top management support, implementing the change in a series of steps, assigning change teams or idea champions, and overcoming resistance by actively communicating with workers and encouraging their participation in the change process.
faces a crisis. It may also be required for needed administrative changes that flow from the top down, such as downsizing the workforce.\textsuperscript{105}

6. \textit{Create change teams.} Throughout this chapter the need for resources and energy to make change happen has been discussed. Separate creative departments, new-venture groups, and ad hoc teams or task forces are ways to focus energy on both creation and implementation. A separate department has the freedom to create a new technology that fits a genuine need. A task force can be created to see that implementation is completed. The task force can be responsible for communication, involvement of users, training, and other activities needed for change.

7. \textit{Foster idea champions.} One of the most effective weapons in the battle for change is the idea champion. The most effective champion is a volunteer champion who is deeply committed to a new idea. The idea champion sees that all technical activities are correct and complete. An additional champion, such as a manager sponsor, may also be needed to persuade people about implementation, even using coercion if necessary.

Learning to manage change effectively, including understanding why people resist change and ways to overcome resistance, is crucial, particularly when top-down changes are needed. The failure to recognize and overcome resistance is one of the top reasons managers fail to implement new strategies that can keep their companies competitive.\textsuperscript{106} Smart managers approach the change process mindfully and consistently, planning for implementation and preparing for resistance.

\section*{DESIGN ESSENTIALS}

- Organizations face a dilemma. Managers prefer to organize day-to-day activities in a predictable, routine manner. However, change—not stability—is the natural order of things in today’s global environment. Thus, organizations need to build in change as well as stability, to facilitate innovation as well as efficiency.

- Four types of change—technology, products and services, strategy and structure, and culture—may give an organization a competitive edge, and managers can make certain each of the necessary ingredients for change is present.

- For technology innovation, which is of concern to most organizations, an organic structure that encourages employee autonomy works best because it encourages a bottom-up flow of ideas. Other approaches are to establish a separate department charged with creating new technical ideas, establish venture teams or idea incubators, use collaborative teams, and encourage idea champions. New products and services generally require cooperation among several departments, so horizontal linkage is an essential part of the innovation process. The latest trend is open innovation, which brings customers, suppliers, and other outsiders directly into the search for and development of new products.

- For changes in strategy and structure, a top-down approach is typically best. These innovations are in the domain of top managers who take responsibility for restructuring, for downsizing, and for changes in policies, goals, and control systems.

- Culture changes are also generally the responsibility of top management. Some recent trends that may create a need for broad-scale culture change in the organization are reengineering, the shift to horizontal forms of organizing, greater organizational diversity, and the learning organization. All of these changes require significant shifts in employee and manager attitudes and ways of working together. One method for
bringing about this level of culture change is organization development (OD). OD focuses on the human and social aspects of the organization and uses behavioral science knowledge to bring about changes in attitudes and relationships.

Finally, the implementation of change can be difficult. Strong leadership is needed to guide employees through the turbulence and uncertainty and build organization-wide commitment to change. A number of barriers to change exist, including excessive focus on cost, failure to perceive benefits, lack of organizational coordination, and individual uncertainty avoidance and fear of loss. Managers can increase the likelihood of success by thoughtfully planning how to deal with resistance. Implementation techniques are to establish a sense of urgency that change is needed; create a powerful coalition to guide the change; formulate a vision and strategy to achieve the change; and overcome resistance by aligning with the needs and goals of users, including users in the change process, providing psychological safety, and, in rare cases, forcing the innovation if necessary.

**Key Concepts**

ambidextrous approach  
change process  
creative departments  
dual-core approach  
horizontal coordination model  
idea champion  
idea incubator  
large group intervention  
new-venture fund  
open innovation  
organization development  
negotiation change  
organizational innovation  
product and service changes  
skunkworks  
strategy and structure changes  
switching structures  
technology changes  
time-based competition  
venture teams

**Discussion Questions**

1. Why do you think open innovation has become popular in recent years? What steps might a company take to be more “open” with innovation? What might be some disadvantages of taking an open innovation approach?  
2. Describe the dual-core approach. How does the process of management change normally differ from technology change? Discuss.  
3. What does it mean to say managers should organize for both exploration and exploitation?  
4. Do you think factory employees would typically be more resistant to changes in production methods, changes in structure, or changes in culture? Why? What steps could managers take to overcome this resistance?  
5. “Change requires more coordination than does the performance of normal organizational tasks. Any time you change something, you discover its connections to other parts of the organization, which have to be changed as well.” Discuss whether you agree or disagree with this quote, and why.  
6. A noted organization theorist said, “Pressure for change originates in the environment; pressure for stability originates within the organization.” Do you agree? Discuss.  
7. Of the five elements in Exhibit 11.3 required for successful change, which element do you think managers are most likely to overlook? Discuss.  
8. How do the underlying values of organization development compare to the values underlying other types of change? Why do the values underlying OD make it particularly useful in shifting to an adaptive culture as described in Chapter 10 (Exhibit 10.5)?  
9. The manager of R&D for a drug company said that only 5 percent of the company’s new products ever achieve market success. She also said the industry average is 10 percent and wondered how her organization might increase its success rate. If you were acting as a consultant, what advice would you give her about designing organization structure to improve market success?  
10. Review the stages of commitment to change illustrated in Exhibit 11.8 and the seven techniques for implementing change discussed at the end of the chapter. At which stage of change commitment would each of the seven techniques most likely be used?
Chapter 11 Workbook: Innovation Climate*

In order to examine differences in the level of innovation encouragement in organizations, you will be asked to rate two organizations. The first should be an organization in which you have worked, or the university. The second should be someone else’s workplace, that of a family member, a friend, or an acquaintance. You will have to interview that person to answer the following questions. You should put your own answers in column A, your interviewee’s answers in column B, and what you think would be the ideal in column C.

### Innovation Measures

<table>
<thead>
<tr>
<th>Item of Measure</th>
<th>A Your Organization</th>
<th>B Other Organization</th>
<th>C Your Ideal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Score items 1–5 on this scale:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Creativity is encouraged here.†</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. People are allowed to solve the same problems in different ways.†</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. I get to pursue creative ideas.†</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. The organization publicly recognizes and also rewards those who are innovative.‡</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Our organization is flexible and always open to change.†</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Score items 6–10 on the opposite scale:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. The primary job of people here is to follow orders that come from the top.†</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7. The best way to get along here is to think and act like the others.†</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. This place seems to be more concerned with the status quo than with change.†</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>9. People are rewarded more if they don’t rock the boat.‡</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. New ideas are great, but we don’t have enough people or money to carry them out.†</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

† These items indicate the organization’s innovation climate.
‡ These items show resource support.

### Questions

1. What comparisons in terms of innovation climates can you make between these two organizations?
2. How might productivity differ between a climate that supports innovation and a climate that does not?
3. Where would you rather work? Why?

Shoe Corporation of Illinois (SCI) produces a line of women’s shoes that sell in the lower-price market for $27.99 to $29.99 per pair. Profits averaged 30 cents to 50 cents per pair 10 years ago, but according to the president and the controller, labor and materials costs have risen so much in the intervening period that profits today average only 25 cents to 30 cents per pair.

Production at both the company’s plants totals 12,500 pairs per day. The two factories are located within a radius of 60 miles of Chicago: one at Centerville, which produces 4,500 pairs per day, and the other at Meadowvale, which produces 8,000 pairs per day. Company headquarters is located in a building adjacent to the Centerville plant.

It is difficult to give an accurate picture of the number of items in the company’s product line. Shoes change in style perhaps more rapidly than any other style product, including garments. This is chiefly because it is possible to change production processes quickly and because, historically, each company, in attempting to get ahead of competitors, gradually made style changes more frequently. At present, including both major and minor style changes, SCI offers 100 to 120 different products to customers each year.

A partial organizational chart, showing the departments involved in this case, appears in Exhibit 11.9.

**Competitive Structure of the Industry**

Very large general shoe houses, such as International and Brown, carry a line of women’s shoes and are able to undercut prices charged by SCI, principally because of the policy in the big companies of producing large numbers of “stable” shoes, such as the plain pump and the loafer. They do not attempt to change styles as rapidly as their smaller competitors. Thus, without constant changes in production processes and sales presentations, they are able to keep costs substantially lower.

Charles F. Allison, the president of SCI, feels that the only way for a small independent company to be competitive is to change styles frequently, taking advantage of the flexibility of a small organization to create designs that appeal to customers. Thus, demand can be created and a price set high enough to make a profit. Allison, incidentally, appears to have an artistic talent in styling and a record of successful judgments in approving high-volume styles over the years.

Regarding how SCI differs from its large competitors, Allison has said:

*You see, Brown and International Shoe Company both produce hundreds of thousands of the same pair of shoes. They store them in inventory at their factories. Their customers, the large wholesalers and retailers, simply know their line and send in orders. They do not have to change styles nearly as often as we do. Sometimes I wish we could do that, too. It makes for a much more stable and orderly system. There is also less friction between people inside the company. The salespeople always know what they’re selling; the production people know what is expected of them. The plant personnel are not shook up so often by someone coming in one morning and tampering with their machine lines or their schedules. The styling people are not shook up so often by the plant saying, “We can’t do your new style the way you want it.”*

To help SCI be more competitive against larger firms, Allison recently created an e-commerce department. Although his main interest was in marketing over the Internet, he also hoped new technology would help reduce some of the internal friction by giving people an easier way to communicate. He invested in a sophisticated new computer system and hired consultants to set up a company intranet and provide a few days’ training to upper and middle managers. Katherine Olsen came on board as director of e-commerce, charged primarily with coordinating Internet marketing and sales. When she took the job, she had visions of one day offering consumers the option of customized shoe designs. However, Olsen was somewhat surprised to learn that most employees still refused to use the intranet even for internal communication and coordination. The process for deciding on new styles, for example, had not changed since the 1970s.

**Major Style Changes**

The decision about whether to put a certain style into production requires information from a number of different people. Here is what typically happens in the company. It may be helpful to follow the organization chart (see Exhibit 11.9) tracing the procedure.

M. T. Lawson, the styling manager, and his designer, John Flynn, originate most of the ideas about shape, size of heel, use of flat sole or heels, and findings (the term used for ornaments attached to, but not part of, the shoes—bows, straps, and so forth). They get their ideas principally from reading style and trade magazines or by copying top-flight designers. Lawson corresponds with publications and friends in large stores in New York, Rome, and Paris to obtain pictures and samples of up-to-the-minute style innovations. Although he uses e-mail occasionally, Lawson prefers telephone contact and receiving drawings or samples by overnight mail. Then, he and Flynn discuss various ideas and come up with design options.

When Lawson decides on a design, he takes a sketch to Allison, who either approves or disapproves it. If Allison approves, he (Allison) then passes the sketch on to L. K. Shipton, the sales manager, to find out what lasts (widths) should be chosen. Shipton, in turn, forwards
EXHIBIT 11.9
Partial Organization Chart of Shoe Corporation of Illinois

- President
  C. F. Allison

- Styling Manager
  M. T. Lawson

- Controller
  M. M. Fraser

- Director of E-commerce
  K. T. Olsen

- Sales Manager
  L. K. Shipton

- Designer
  John Flynn

- Pattern Maker
  Richards

- Order Clerk
  R. Ferguson

- Statistician
  M. Freeman

- Plant Superintendent
  Meadowvale

- Plant Superintendent
  Centerville

- 22 Salespeople

- Assistant Superintendent
  Paul Robbins

- Foreman, Cutting

- Foreman, Bottoming

- Foreman, Prefitting

- Foreman, Finishing

- Foreman, Fitting

- Foreman, Packing and Shipping
the design to Martin Freeman, a statistician in the sales department, who maintains summary information on customer demand for colors and lasts.

To compile this information, Freeman visits salespeople twice a year to get their opinions on the colors and lasts that are selling best, and he keeps records of shipments by color and by last. For these needs, he simply totals data that are sent to him by the shipping foreman in each of the two plants.

When Freeman has decided on the lasts and colors, he sends Allison a form that lists the colors and lasts in which the shoe should be produced. Allison, if he approves this list, forwards the information to Lawson, who passes it on to Jenna Richards, an expert pattern maker. Richards makes a paper pattern and then constructs a prototype in leather and paper. She sends this to Lawson, who in turn approves or disapproves it. He forwards any approved prototype to Allison. Allison, if he, too, approves, notifies Lawson, who takes the prototype to Paul Robbins, assistant to the superintendent of the Centerville plant. Only this plant produces small quantities of new or experimental shoe styles. This is referred to as a “pilot run” by executives at the plant.

Robbins then literally carries the prototype through the six production departments of the plant—from cutting to finishing—discussing it with each foreman, who in turn works with employees on the machines in having a sample lot of several thousand pairs made. When the finished lot is delivered by the finishing foreman to the shipping foreman (because of the importance of styling, Allison has directed that each foreman personally deliver styling goods in process to the foreman of the next department), the latter holds the inventory in storage and sends one pair each to Allison and Lawson. If they approve of the finished product, Allison instructs the shipping foreman to mail samples to each of the company’s twenty-two salespeople throughout the country. Olsen also receives samples, photos, and drawings to post on the Web page and gauge customer interest.

Salespeople have instructions to take the samples immediately (within one week) to at least ten customers. Orders for already-established shoes are normally sent to Ralph Ferguson, a clerk in Shipston’s office, who records them and forwards them to the plant superintendents for production. However, salespeople have found by experience that Martin Freeman has a greater interest in the success of new “trials,” so they rush these orders to him by overnight mail, and he in turn places the first orders for a new style in the interoffice mail to the plant superintendents. He then sends off a duplicate of the order, mailed in by the salespeople, to Ferguson for entering in his statistical record of all orders received by the company.

Three weeks after the salespeople receive samples, Allison requires Ralph Ferguson to give him a tabulation of orders. At that time, he decides whether the salespeople and the Web page should push the item and the superintendents should produce large quantities, or whether he will tell them that although existing orders will be produced, the item will be discontinued in a short time.

The procedures outlined here have, according to Allison, worked reasonably well. The average time from when Lawson decides on a design until we notify the Centerville plant to produce the pilot run is two weeks to a month. Of course, if we could speed that up, it would make the company just that much more secure in staying in the game against the big companies, and in taking sales away from our competitors. There seems to be endless bickering among people around here involved in the styling phase of the business. That’s to be expected when you have to move fast—there isn’t much time to stop and observe all of the social amenities. I have never thought that a formal organization chart would be good in this company—we’ve worked out a customary system here that functions well.

M. T. Lawson, manager of styling, said that within his department all work seems to get out in minimum time; he also stated that both Flynn and Richards are good employees and skilled in their work. He mentioned that Flynn had been in to see him twice in the last year to inquire about his [Flynn’s] future in the company. He is 33 years old and has three children. I know that he is eager to make money, and I assured him that over the years we can raise him right along from the $60,000 we are now paying. Actually, he has learned a lot about shoe styles since we hired him from the design department of a fabric company six years ago.

John Flynn revealed:

I was actually becoming dissatisfied with this job. All shoe companies copy styles—it’s a generally accepted practice within the industry. But I’ve picked up a real feel for designs, and several times I’ve suggested that the company make all its own original styles. We could make SCI a style leader and also increase our volume. When I ask Lawson about this, he says it takes too much time for the designer to create originals—that we have all we can handle to do research in trade magazines and maintain contracts feeding us the results of experts. Beside, he says our styles are standing the test of the marketplace.

Projects X and Y

Flynn also said that he and Martin Freeman had frequently talked about the styling problem. They felt that Allison is really a great president, and the company surely would be lost without him. However, we’ve seen times when he lost a lot of money on bad judgments in styles. Not many times—perhaps six or seven times in the last eighteen months. Also, he is, of course, extremely busy as president of the corporation. He must look after everything from financing from the banks to bargaining with the union.
From a business like this, that kind of delay can cost money. It also makes him slightly edgy. It tends, at times when he has many other things to do, to make him look quickly at the styles we submit, or the prototypes Richards makes, or even the finished shoes that are sent for approval by the shipping foreman. Sometimes I worry that he makes two kinds of errors. He simply rubber-stamps what we’ve done, which makes sending these things to him a waste of time. At other times he makes snap judgments of his own, overriding those of us who have spent so much time and expertise on the shoe. We do think he has good judgment, but he himself has said at times that he wishes he had more time to concentrate on styling and approval of prototypes and final products.

Flynn further explained (and this was corroborated by Freeman) that the two had worked out two plans, which they referred to as “project X” and “project Y.” In the first, Flynn created an original design that was not copied from existing styles. Freeman then gave special attention to color and last research for the shoe and recommended a color line that didn’t exactly fit past records on consumer purchases—but one he and Flynn thought would have “great consumer appeal.” This design and color recommendation was accepted by Lawson and Allison; the shoe went into production and was one of the three top sellers during the calendar year. The latter two men did not know that the shoe was styled in a different way from the usual procedure.

The result of a second, similar project (Y) was put into production the next year, but this time sales were discontinued after three weeks.

**Problem between Lawson and Robbins**

Frequently, perhaps ten to twelve times a year, disagreement arises between Mel Lawson, manager of styling, and Paul Robbins, assistant to the superintendent of the Centerville plant. Robbins said,

> The styling people don’t understand what it means to produce a shoe in the quantities that we do, and to make the changes in production that we have to. They dream up a style quickly, out of thin air. They do not realize that we have a lot of machines that have to be adjusted and that some things they dream up take much longer on certain machines than others, thus creating a bottleneck in the production line. If they put a bow in one position rather than another, it may mean we have to keep people idle on later machines while there is a pileup on the sewing machines on which this complicated little operation is performed. This costs the plant money. Furthermore, there are times when they get the prototype here late, and either the foremen and I work overtime or the trial run won’t get through in time to have new production run on new styles, to take the plant capacity liberated by our stopping production on old styles. Lawson doesn’t know much about production and sales and the whole company. I think all he does is to bring shoes down here to the plant, sort of like a messenger boy. Why should he be so hard to get along with? He isn’t getting paid any more than I am, and my position in the plant is just as important as his.

Lawson, in turn, said that he has a difficult time getting along with Robbins:

> There are many times when Robbins is just unreasonable. I take prototypes to him five or six times a month, and other minor style changes to him six or eight times. I tell him every time that we have problems in getting these ready, but he knows only about the plant, and telling him doesn’t seem to do any good. When we first joined the company, we got along all right, but he has gotten harder and harder to get along with.

**Other Problems**

Ralph Ferguson, the clerk in the sales department who receives orders from salespeople and forwards totals for production schedules to the two plant superintendents, has complained that the salespeople and Freeman are bypassing him in their practice of sending experimental shoe orders to Freeman. He insisted that his job description (one of only two written descriptions in the company) gives him responsibility for receiving all orders throughout the company and for maintaining historical statistics on shipments.

Both the salespeople and Freeman, on the other hand, said that before they started the new practice (that is, when Ferguson still received the experimental shoe orders), there were at least eight or ten instances a year when these were delayed from one to three days on Ferguson’s desk. They reported that Ferguson just wasn’t interested in new styles, so the salespeople “just started sending them to Freeman.” Ferguson acknowledged that there were times of short delay, but said that there were good reasons for them:

> They [the salespeople and Freeman] are so interested in new designs, colors, and lasts that they can’t understand the importance of a systematic handling of the whole order procedure, including both old and new shoe styles. There must be accuracy. Sure, I give some priority to experimental orders, but sometimes when rush orders for existing company products are piling up, and when there’s a lot of planning I have to do to allocate production between Centerville and Meadowvale, I decide which comes first—processing of these, or processing the experimental shoe orders. Shipston is my boss, not the salespeople or Freeman. I’m going to insist that these orders come to me.

**The Push for New Technology**

Katherine Olsen believes many of these problems could be solved through better use of technology. She has approached Charles Allison several times about the need to make greater use of the expensive and sophisticated...
Case for Analysis: Southern Discomfort*

Jim Malesckowski remembered the call of two weeks ago as if he had just put down the telephone receiver: “I just read your analysis and I want you to get down to Mexico right away,” Jack Ripon, his boss and chief executive officer, had blurted in his ear. “You know we can’t make the plant in Oconomo work anymore—the costs are just too high. So go down there, check out what our operational costs would be if we move, and report back to me in a week.”

As president of the Wisconsin Specialty Products Division of Lamprey Inc., Jim knew quite well the challenge of dealing with high-cost labor in a third-generation, unionized, U.S. manufacturing plant. And although he had done the analysis that led to his boss’s knee-jerk response, the call still stunned him. There were 520 people who made a living at Lamprey’s Oconomo facility, and if it closed, most of them wouldn’t have a chance of finding another job in the town of 9,900 people.

Instead of the $16-per-hour average wage paid at the Oconomo plant, the wages paid to the Mexican workers—who lived in a town without sanitation and with an unbelievably toxic effluent from industrial pollution—would amount to about $1.60 an hour on average. That would be a savings of nearly $15 million a year for Lamprey, to be offset in part by increased costs for training, transportation, and other matters.

After two days of talking with Mexican government representatives and managers of other companies in the town, Jim had enough information to develop a set of comparative figures of production and shipping costs. On the way home, he started to outline the report, knowing full well that unless some miracle occurred, he would be ushering in a blizzard of pink slips for people he had come to appreciate.

The plant in Oconomo had been in operation since 1921, making special apparel for people suffering from injuries and other medical conditions. Jim had often talked with employees who would recount stories about their fathers or grandfathers working in the same Lamprey company plant—the last of the original manufacturing operations in town.

But friendship aside, competitors had already edged past Lamprey in terms of price and were dangerously close to overtaking it in product quality. Although both Jim and the plant manager had tried to convince the union to accept lower wages, union leaders resisted. In fact, on one occasion when Jim and the plant manager tried to discuss a cell manufacturing approach, which would cross-train employees to perform up to three different jobs, local union leaders could barely restrain their anger. Jim thought he sensed an underlying fear, meaning the union reps were aware of at least some of the problems, but he had been unable to get them to acknowledge this and move on to open discussion.

A week passed and Jim had just submitted his report to his boss. Although he didn’t specifically bring up the point, it was apparent that Lamprey could put its investment dollars in a bank and receive a better return than what its Oconomo operation was currently producing.

The next day, he would discuss the report with the CEO. Jim didn’t want to be responsible for the plant’s dismantling, an act he personally believed would be wrong as long as there was a chance its costs can be lowered. “But Ripon’s right,” he said to himself. “The costs are too high, the union’s unwilling to cooperate, and the company needs to make a better return on its investment if it’s to continue at all. It sounds right but feels wrong. What should I do?”

*Written by Charles E. Summer. Copyright 1978.
6. Ibid.
44. Linton, Matysiak & Wilkes Inc. study results reported in “Market Study Results Released: New Product Introduction Success, Failure Rates Analyzed,” Frozen Food Digest (July 1, 1997).
47. Ibid.


96. These techniques are based on John P. Kotter’s eight-stage model of planned organizational change, Kotter, *Leading Change*, 20–25.


Definitions

Individual Decision Making
- Rational Approach
- Bounded Rationality Perspective

Organizational Decision Making
- Management Science Approach
- Carnegie Model
- Incremental Decision Model

Organizational Decisions and Change
- Combining the Incremental and Carnegie Models
- Garbage Can Model

Contingency Decision-Making Framework
- Problem Consensus
- Technical Knowledge about Solutions
- Contingency Framework

Special Decision Circumstances
- High-Velocity Environments
- Decision Mistakes and Learning
- Cognitive Biases
- Overcoming Personal Biases

Design Essentials
What is one activity every manager—no matter what level of the hierarchy, what industry, or what size or type of organization—engages in every day? Decision making. Managers are often referred to as decision makers, and every organization grows, prospers, or fails as a result of the choices managers make. However, many decisions can be risky and uncertain, without any guarantee of success. Consider what happened at Merrill Lynch. The decision of top managers to invest heavily in the mortgage industry was paying off so well by the end of 2006 that they plunked down $1.3 billion to buy First Franklin, a lender that specialized in making risky mortgages. Pushing further, managers significantly increased Merrill’s involvement with exotic and complex derivatives tied to mortgages. The profit potential was huge, so Merrill jumped in even without a clear strategy or well-considered plans for managing this aspect of the business. When the mortgage meltdown began, Merrill was caught in the crossfire. In the first nine months of 2008, the firm recorded net losses of $14.7 billion on its mortgage-related derivatives and the once-venerable firm was taken over by Bank of America.¹

Merrill Lynch is by no means the only firm that was devastated due to faulty decisions related to the mortgage industry, but it provides an illustration of the uncertainty that characterizes many manager decisions, especially at higher organizational levels. Decision making is done amid constantly changing factors, unclear information, and conflicting points of view, and even the best managers in the most successful companies sometimes make big blunders. Look at Starbucks. A few years ago, it seemed the company could do no wrong. But in an effort to meet dramatic growth goals, managers relaxed their rigorous standards for selecting new store locations and ended up opening many stores in locations that couldn’t support them. In 2008, Starbucks began closing hundreds of underperforming stores, many of them opened less than two years earlier.²

Yet managers also make many successful decisions every day. Apple, which seemed all but dead in the mid-1990s, topped Fortune magazine’s list of the world’s most admired companies in 2008 thanks to decisions made by CEO Steve Jobs and other top managers.³ Managers at General Mills are known for making hundreds

Before reading this chapter, please circle your opinion below for each of the following statements:

1. Managers should use the most objective, rational process possible when making a decision.

   1 2 3 4 5
   STRONGLY AGREE STRONGLY DISAGREE

2. When a manager knows the best solution to a serious organizational problem and has the necessary authority, it is best to simply make the decision and implement it rather than involve other managers in the decision process.

   1 2 3 4 5
   STRONGLY AGREE STRONGLY DISAGREE

3. Making a poor decision can help a manager and organization learn and get stronger.

   1 2 3 4 5
   STRONGLY AGREE STRONGLY DISAGREE
of small decisions that add up big. For example, the decision to consolidate the purchases of items such as oils, flour, and sugar in the baking division saves the company $12 billion a year.\(^4\)

**Purpose of This Chapter**

At any time, an organization may be identifying problems and implementing alternatives for hundreds of decisions. Managers and organizations somehow muddle through these processes.\(^5\) The purpose here is to analyze these processes to learn what decision making is actually like in organizational settings. Decision-making processes can be thought of as the brain and nervous system of an organization. Decision making is the end use of the information and control systems described in Chapter 8.

First, the chapter defines decision making and the different types of decisions managers make. The next section describes an ideal model of decision making and then examines how individual managers actually make decisions. The chapter also explores several models of organizational decision making, each of which is appropriate in a different organizational situation. The next section combines the models into a single framework that describes when and how the various approaches should be used. Finally, the chapter discusses special issues related to decision making, such as high-velocity environments, decision mistakes and learning, and ways to overcome cognitive biases that hinder effective decision making.

**DEFINITIONS**

**Organizational decision making** is formally defined as the process of identifying and solving problems. The process has two major stages. In the problem identification stage, information about environmental and organizational conditions is monitored to determine if performance is satisfactory and to diagnose the cause of shortcomings. The problem solution stage is when alternative courses of action are considered and one alternative is selected and implemented.

Organizational decisions vary in complexity and can be categorized as programmed or nonprogrammed.\(^6\) **Programmed decisions** are repetitive and well defined, and procedures exist for resolving the problem. They are well structured because criteria of performance are normally clear, good information is available about current performance, alternatives are easily specified, and there is relative certainty that the chosen alternative will be successful. Examples of programmed decisions include decision rules, such as when to replace an office copy machine, when to reimburse managers for travel expenses, or whether an applicant has sufficient qualifications for an assembly-line job. Many companies adopt rules based on experience with programmed decisions. For example, a rule for large hotels staffing banquets is to allow one server per thirty guests for a sit-down function and one server per forty guests for a buffet.\(^7\)

**Nonprogrammed decisions** are novel and poorly defined, and no procedure exists for solving the problem. They are used when an organization has not seen a problem before and may not know how to respond. Clear-cut decision criteria do not exist. Alternatives are fuzzy. There is uncertainty about whether a proposed solution will solve the problem. Typically, few alternatives can be developed for a nonprogrammed decision, so a single solution is custom-tailored to the problem.

Many nonprogrammed decisions involve strategic planning, because uncertainty is great and decisions are complex. One example comes from Dell Inc., where founder Michael Dell has returned as CEO to try to revive the ailing company. Dell’s low-cost
business model of selling PCs directly to consumers is no longer successful, but managers are having a hard time coming up with the right strategy to help the company move into a new era. Dell’s recent decisions involve cost-cutting measures such as layoffs and selling off factories; investing in new products such as a portable music player and a mobile phone; and adding services such as running corporate in-house networks. However, these types of decisions are very complex, and there’s no guarantee that a particular choice will succeed. The decision to enter the phone market, for instance, has been put on hold because of the high cost of development and the uncertain market.8

Particularly complex nonprogrammed decisions have been referred to as “wicked” decisions, because simply defining the problem can turn into a major task. Wicked problems are associated with manager conflicts over objectives and alternatives, rapidly changing circumstances, and unclear linkages among decision elements. Managers dealing with a wicked decision may hit on a solution that merely proves they failed to correctly define the problem to begin with.9 Under conditions of such extreme uncertainty, even a good choice can produce a bad outcome.10 Making the decision about how to turn around a company like Dell could be considered a wicked decision, as could decisions about how to revive the U.S. automakers.

Managers and organizations are dealing with a higher percentage of nonprogrammed decisions because of the rapidly changing business environment. As outlined in Exhibit 12.1, today’s environment has increased both the number and complexity of decisions that have to be made and has created a need for new decision-making

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### EXHIBIT 12.1
Decision Making in Today’s Environment

<table>
<thead>
<tr>
<th>Today’s Business Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demands more large-scale change via new strategies, reengineering, restructuring, mergers, acquisitions, downsizing, new product or market development, and so on</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decisions Made Inside the Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are based on bigger, more complex, more emotionally charged issues</td>
</tr>
<tr>
<td>Are made more quickly</td>
</tr>
<tr>
<td>Are made in a less certain environment, with less clarity about means and outcomes</td>
</tr>
<tr>
<td>Require more cooperation from more people involved in making and implementing decisions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A New Decision-Making Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is required because no one individual has the information needed to make all major decisions</td>
</tr>
<tr>
<td>Is required because no one individual has the time and credibility needed to convince lots of people to implement the decision</td>
</tr>
<tr>
<td>Relies less on hard data as a basis for good decisions</td>
</tr>
<tr>
<td>Is guided by a powerful coalition that can act as a team</td>
</tr>
<tr>
<td>Permits decisions to evolve through trial and error and incremental steps as needed</td>
</tr>
</tbody>
</table>

processes. Managers in rapidly changing e-business departments, for example, often have to make quick decisions based on very limited information. Another example is globalization. The trend toward moving production to low-wage countries has managers all over corporate America struggling with ethical decisions concerning working conditions in the Third World and the loss of jobs in small U.S. communities where there are few employment opportunities.11

INDIVIDUAL DECISION MAKING

Individual decision making by managers can be described in two ways. First is the rational approach, which suggests an ideal method for how managers should try to make decisions. Second is the bounded rationality perspective, which describes how decisions actually have to be made under severe time and resource constraints. The rational approach is an ideal that managers may work toward but never reach.

Rational Approach

The rational approach to individual decision making stresses the need for systematic analysis of a problem followed by choice and implementation in a logical, step-by-step sequence. The rational approach was developed to guide individual decision making because many managers were observed to be unsystematic and arbitrary in their approach to organizational decisions.

Although the rational model is an ideal not fully achievable in the real world of uncertainty, complexity, and rapid change highlighted in Exhibit 12.1, the model does help managers think about decisions more clearly and rationally. Managers should use systematic procedures to make decisions whenever possible. When managers have a deep understanding of the rational decision-making process, it can help them make better decisions even when there is a lack of clear information. The authors of a popular book on decision making use the example of the U.S. Marines, who have a reputation for handling complex problems quickly and decisively. The Marines are trained to quickly go through a series of mental routines that help them analyze the situation and take action.12

According to the rational approach, decision making can be broken down into eight steps, as illustrated in Exhibit 12.2 and demonstrated by the department store Marshall Field’s in the following discussion.13

1. Monitor the decision environment. In the first step, a manager monitors internal and external information that will indicate deviations from planned or acceptable behavior. He or she talks to colleagues and reviews financial statements, performance evaluations, industry indices, competitors’ activities, and so forth. For example, during the pressure-packed five-week Christmas season, Linda Koslow, general manager of Marshall Field’s Oakbrook, Illinois, store, checks out competitors around the mall, eyeing whether they are marking down merchandise. She also scans printouts of her store’s previous day’s sales to learn what is or is not moving.14

2. Define the decision problem. The manager responds to deviations by identifying essential details of the problem: where, when, who was involved, who was affected, and how current activities are influenced. For Koslow, this means defining whether store profits are low because overall sales are less than expected or because certain lines of merchandise are not moving as expected.

3. Specify decision objectives. The manager determines what performance outcomes should be achieved by a decision.
4. *Diagnose the problem.* In this step, the manager digs below the surface to analyze the cause of the problem. Additional data might be gathered to facilitate this diagnosis. Understanding the cause enables appropriate treatment. For Koslow at Marshall Field’s, the cause of slow sales might be competitors’ marking down of merchandise or Marshall Field’s failure to display hot-selling items in a visible location.

5. *Develop alternative solutions.* Before a manager can move ahead with a decisive action plan, he or she must have a clear understanding of the various options available to achieve desired objectives. The manager may seek ideas and suggestions from other people. Koslow’s alternatives for increasing profits could include buying fresh merchandise, running a sale, or reducing the number of employees.

6. *Evaluate alternatives.* This step may involve the use of statistical techniques or personal experience to gauge the probability of success. The merits of each alternative are assessed, as well as the probability that it will achieve the desired objectives.

7. *Choose the best alternative.* This step is when the manager uses his or her analysis of the problem, objectives, and alternatives to select a single alternative that has the best chance for success. At Marshall Field’s, Koslow may choose to reduce the number of staff as a way to meet the profit goals rather than increase advertising or markdowns.
8. **Implement the chosen alternative.** Finally, the manager uses managerial, administrative, and persuasive abilities and gives directions to ensure that the decision is carried out, sometimes called *execution* of the decision. This might be considered the core of the decision process because any decision that isn’t successfully implemented is a failed decision, no matter how good the chosen alternative might be. Managers have to mobilize the people and resources to put the decision into action. Execution may be the hardest step of decision making. The monitoring activity (step 1) begins again as soon as the solution is implemented. For Linda Koslow, the decision cycle is a continuous process, with new decisions made daily based on monitoring her environment for problems and opportunities.

The first four steps in this sequence are the problem identification stage, and the next four steps are the problem solution stage of decision making, as indicated in Exhibit 12.2. A manager normally goes through all eight steps in making a decision, although each step may not be a distinct element. Managers may know from experience exactly what to do in a situation, so one or more steps will be minimized. The following “In Practice” illustrates how the rational approach is used to make a decision about a personnel problem.

1. **Monitor the decision environment.** It is Monday morning, and Joe DeFoe, Saskatchewan Consulting’s accounts receivable supervisor, is absent again.

2. **Define the decision problem.** This is the fourth consecutive Monday DeFoe has been absent. Company policy forbids unexcused absenteeism, and DeFoe has been warned about his excessive absenteeism on the last two occasions. A final warning is in order but can be delayed, if warranted.

3. **Specify decision objectives.** DeFoe should attend work regularly and establish the invoice collection levels of which he is capable. The time period for solving the problem is two weeks.

4. **Diagnose the problem.** Discreet discussions with DeFoe’s co-workers and information gleaned from DeFoe indicate that DeFoe has a drinking problem. He apparently uses Mondays to dry out from weekend benders. Discussion with other company sources confirms that DeFoe is a problem drinker.

5. **Develop alternative solutions.** (1) Fire DeFoe. (2) Issue a final warning without comment. (3) Issue a warning and accuse DeFoe of being an alcoholic to let him know you are aware of his problem. (4) Talk with DeFoe to see if he will discuss his drinking. If he admits he has a drinking problem, delay the final warning and suggest that he enroll in the company’s new employee assistance program for help with personal problems, including alcoholism. (5) Talk with DeFoe to see if he will discuss his drinking. If he does not admit he has a drinking problem, let him know that the next absence will cost him his job.

6. **Evaluate alternatives.** The cost of training a replacement is the same for each alternative. Alternative 1 ignores cost and other criteria. Alternatives 2 and 3 do not adhere to company policy, which advocates counseling where appropriate. Alternative 4 is designed for the benefit of both DeFoe and the company. It might save a good employee if DeFoe is willing to seek assistance. Alternative 5 is primarily for the benefit of the company. A final warning might provide some incentive for DeFoe to admit he has a drinking problem. If so, dismissal might be avoided, but further absences will no longer be tolerated.

7. **Choose the best alternative.** DeFoe does not admit that he has a drinking problem. Choose alternative 5.

8. **Implement the chosen alternative.** Write up the case and issue the final warning.
In the preceding example, issuing the final warning to Joe DeFoe was a programmed decision. The standard of expected behavior was clearly defined, information on the frequency and cause of DeFoe’s absence was readily available, and acceptable alternatives and procedures were described. The rational procedure works best in such cases, when the decision maker has sufficient time for an orderly, thoughtful process. Moreover, Saskatchewan Consulting had mechanisms in place to successfully implement the decision once it was made.

When decisions are nonprogrammed, ill-defined, and piling on top of one another, the individual manager should still try to use the steps in the rational approach, but he or she often will have to take shortcuts by relying on intuition and experience. Deviations from the rational approach are explained by the bounded rationality perspective.

**Bounded Rationality Perspective**

The point of the rational approach is that managers should try to use systematic procedures to arrive at good decisions. When managers are dealing with well-understood issues, they generally use rational procedures to make decisions. Yet research into managerial decision making shows that managers often are unable to follow an ideal procedure. Many decisions must be made very quickly. Time pressure, a large number of internal and external factors affecting a decision, and the ill-defined nature of many problems make systematic analysis virtually impossible. Managers have only so much time and mental capacity and, hence, cannot evaluate every goal, problem, and alternative. The attempt to be rational is bounded (limited) by the enormous complexity of many problems. There is a limit to how rational managers can be.

To understand the bounded rationality approach, think about how most new managers select a job upon graduation from college. Even this seemingly simple decision can quickly become so complex that a bounded rationality approach is used. Graduating students typically will search for a job until they have two or three acceptable job offers, at which point their search activity rapidly diminishes. Hundreds of firms may be available for interviews, and two or three job offers are far short of the maximum number that would be possible if students made the decision based on perfect rationality.

**Constraints and Tradeoffs.** Not only are large organizational decisions too complex to fully comprehend, but several other constraints impinge on the decision maker, as illustrated in Exhibit 12.3. For many decisions, the organizational circumstances are ambiguous, requiring social support, a shared perspective on what happens, and acceptance and agreement. For example, consider the early U.S. decision to disband the Iraqi army and rebuild security forces from the ground up. Critics say the decision was pushed through by the senior civilian officer in Iraq without consulting military commanders and other U.S. officials who had different views of how to build the new Iraqi military. Disagreements over the momentous decision and ongoing recriminations made it much more difficult for the U.S. military to deal with the vast array of security problems that followed. Without any sizeable Iraqi force to subdue the growing violence, American troops became targets of attack and criticism. In addition, U.S. leaders’ lack of agreement to use military force to stop the looting that occurred when troops first entered Iraq alienated many Iraqi citizens, allowed insurgents to gain strength, and made it more difficult to implement later
police and military decisions. Other organizational constraints on decision making outlined in Exhibit 12.3 include corporate culture and ethical values, as discussed in Chapter 10, and the organization’s structure and design.

At the personal level, managers often make decisions within a context of trying to please upper managers, people who are perceived to have power within the organization, or others they respect and want to emulate. Personal constraints—such as decision style, work pressure, desire for prestige, or simple feelings of insecurity—may constrain either the search for alternatives or the acceptability of an alternative. All of these factors constrain a perfectly rational approach that should lead to an obviously ideal choice.

**The Role of Intuition.** The bounded rationality perspective is often associated with intuitive decision processes. In **intuitive decision making**, experience and judgment rather than sequential logic or explicit reasoning are used to make decisions. Go to the “How Do You Fit the Design?” box for some insight into your use of rationality versus intuition in making decisions. Intuition is not arbitrary or irrational because it is based on years of practice and hands-on experience, often stored in the subconscious. When managers use their intuition based on long experience with organizational issues, they more rapidly perceive and understand problems, and they develop a gut feeling or hunch about which alternative will solve a problem, speeding the decision-making process.
decision making is supported by a growing body of research from psychology, organizational science, and other disciplines. Indeed, many universities are offering courses in creativity and intuition so business students can learn to use these processes effectively.

In a situation of great complexity or ambiguity, previous experience and judgment are needed to incorporate intangible elements at both the problem identification and problem solution stages. A study of manager problem finding showed that thirty of thirty-three problems were ambiguous and ill-defined. Bits and scraps of unrelated information from informal sources resulted in a pattern in the manager’s mind. The manager could not prove a problem existed but knew intuitively that a certain area needed attention. A too-simple view of a complex problem is often associated with decision failure, so managers learn to listen to their intuition rather than accepting that things are going okay.

Intuitive processes are also used in the problem solution stage. Executives frequently make decisions without explicit reference to the impact on profits or to other measurable outcomes. As we saw in Exhibit 12.3, many intangible factors—such as a person’s concern about the support of other executives, fear of failure, and social attitudes—influence selection of the best alternative. These factors cannot
be quantified in a systematic way, so intuition guides the choice of a solution. Managers may make a decision based on what they sense to be right rather than on what they can document with hard data. A survey of managers conducted by executive search firm Christian & Timbers found that 45 percent of corporate executives say they rely more on instinct than on facts and figures to make business decisions.  

Stefan Pierer, CEO of KTM Fahrrad GmbH, a large manufacturer of motorcycles with headquarters in Austria, considers intuition critical to good decision making. Two years after Pierer became CEO, he made a decision many thought was foolish: he moved KTM, a leader in the manufacture of off-road motorcycles, into the market for street bikes. Even though the company lacked technical know-how to make street bikes and had little access to this new market, Pierer’s intuition told him it was the right move. It paid off. KTM quickly became Europe’s second largest sport-motorcycle manufacturer, and by 2006, nearly 30 percent of revenues came from the street bike segment. However, there are also many examples of intuitive decisions that turned out to be complete failures. This chapter’s Book Mark discusses how managers can give their intuition a better chance of leading to successful decisions.

Managers may walk a fine line between two extremes: on the one hand, making arbitrary decisions without careful study, and on the other, relying obsessively on numbers and rational analysis. Remember that the bounded rationality perspective and the use of intuition apply mostly to nonprogrammed decisions. The novel, unclear, complex aspects of nonprogrammed decisions mean hard data and logical procedures are not available. Studies of executive decision making find that managers simply cannot use the rational approach for nonprogrammed strategic decisions, such as whether to market a controversial new prescription drug, whether to invest in a complex new project, or whether a city has a need for and can reasonably adopt an enterprise resource planning system. For decisions such as these, managers have limited time and resources, and some factors simply cannot be measured and analyzed. Trying to quantify such information could cause mistakes because it may oversimplify decision criteria. Intuition can also balance and supplement rational analysis to help managers make better decisions.
Snap decisions can be just as good as—and sometimes better than—decisions that are made cautiously and deliberately. Yet they can also be seriously flawed or even dangerously wrong. That’s the premise of Malcolm Gladwell’s *Blink: The Power of Thinking without Thinking*. Gladwell explores how our “adaptive unconscious” arrives at complex, important decisions in an instant—and how we can train it to make those decisions good ones.

**SHARPENING YOUR INTUITION**

Even when we think our decision making is the result of careful analysis and rational consideration, Gladwell says, most of it actually happens subconsciously in a split second. This process, which he refers to as “rapid cognition,” provides room for both amazing insight and grave error. Here are some tips for improving rapid cognition:

- **Remember that more is not better** Gladwell argues that giving people too much data and information hampers their ability to make good decisions. He cites a study showing that emergency room doctors who are best at diagnosing heart attacks gather less information from their patients than other doctors do. Rather than overloading on information, search out the most meaningful parts.

- **Practice thin-slicing** The process Gladwell refers to as thin-slicing is what harnesses the power of the adaptive unconscious and enables us to make smart decisions with minimal time and information. Thin-slicing means focusing on a thin slice of pertinent data or information and allowing your intuition to do the work for you.

  Gladwell cites the example of a Pentagon war game, in which an enemy team of commodities traders defeated a U.S. Army that had “an unprecedented amount of information and intelligence” and “did a thoroughly rational and rigorous analysis that covered every conceivable contingency.” The commodities traders were used to making thousands of instant decisions an hour based on limited information. Managers can practice spontaneous decision making until it becomes second nature.

- **Know your limits** Not every decision should be based on intuition. When you have a depth of knowledge and experience in an area, you can put more trust in your gut feelings. Gladwell also cautions to beware of biases that interfere with good decision making. *Blink* suggests that we can teach ourselves to sort through first impressions and figure out which are important and which are based on subconscious biases such as stereotypes or emotional baggage.

**PUT IT TO WORK**

*Blink* is filled with lively and interesting anecdotes, such as how firefighters can “slow down a moment” and create an environment where spontaneous decision making can take place. Gladwell asserts that a better understanding of the process of split-second decision making can help people make better decisions in all areas of their lives, as well as help them anticipate and avoid miscalculations.

*Blink: The Power of Thinking without Thinking*, by Malcolm Gladwell, is published by Little, Brown.

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**ORGANIZATIONAL DECISION MAKING**

Organizations are composed of managers who make decisions using both rational and intuitive processes; but organization-level decisions are not usually made by a single manager. Many organizational decisions involve several managers. Problem identification and problem solution involve many departments, multiple viewpoints, and even other organizations, which are beyond the scope of an individual manager.
The processes by which decisions are made in organizations are influenced by a number of factors, particularly the organization’s own internal structures and the degree of stability or instability of the external environment. Research into organization-level decision making has identified four primary types of organizational decision-making processes: the management science approach, the Carnegie model, the incremental decision model, and the garbage can model.

**Management Science Approach**

The management science approach to organizational decision making is the analog to the rational approach by individual managers. Management science came into being during World War II. At that time, mathematical and statistical techniques were applied to urgent, large-scale military problems that were beyond the ability of individual decision makers.

Mathematicians, physicists, and operations researchers used systems analysis to develop artillery trajectories, antisubmarine strategies, and bombing strategies such as salvoing (discharging multiple shells simultaneously). Consider the problem of a battleship trying to sink an enemy ship several miles away. The calculation for aiming the battleship’s guns should consider distance, wind speed, shell size, speed and direction of both ships, pitch and roll of the firing ship, and curvature of the earth. Methods for performing such calculations using trial and error and intuition are not accurate, take far too long, and may never achieve success.

This is where management science came in. Analysts were able to identify the relevant variables involved in aiming a ship’s guns and could model them with the use of mathematical equations. Distance, speed, pitch, roll, shell size, and so on could be calculated and entered into the equations. The answer was immediate, and the guns could begin firing. Factors such as pitch and roll were soon measured mechanically and fed directly into the targeting mechanism. Today, the human element is completely removed from the targeting process. Radar picks up the target, and the entire sequence is computed automatically.

Management science yielded astonishing success for many military problems. This approach to decision making diffused into corporations and business schools, where techniques were studied and elaborated. Operations research departments use mathematical models to quantify relevant variables and develop a quantitative representation of alternative solutions and the probability of each one solving the problem. These departments also use such devices as linear programming, Bayesian statistics, PERT charts, and computer simulations.

Management science is an excellent device for organizational decision making when problems are analyzable and when the variables can be identified and measured. Mathematical models can contain a thousand or more variables, each one relevant in some way to the ultimate outcome. Management science techniques have been used to correctly solve problems as diverse as finding the right spot for a church camp, test-marketing the first of a new family of products, drilling for oil, and radically altering the distribution of telecommunications services. Other problems amenable to management science techniques are the scheduling of ambulance technicians, turnpike toll collectors, and airline crew members. United Airlines is also applying management science techniques to decide how to route planes most efficiently.
In the past, a United Airlines plane bound for Frankfurt from San Francisco would follow a standard path, flying over Montana, then northeast over Canada and Iceland. But thanks to new route-mapping software, the plane can now stay in U.S. airspace until around Cleveland or Detroit. That cuts both United’s fuel usage and its Canadian “overfly” fee (most countries charge a fee for using their airspace). Total savings: about $1,400 per plane one way.

Airlines are desperate to cut expenses any way they can, and route-mapping software that helps pilots and dispatchers find the best balance of fuel usage, flight speed, and flight path is one of the newest approaches. United’s computers track a massive amount of data, including overflight fees charged by various countries, up-to-the-minute wind and weather conditions, fuel costs, airport locations and available runways, weight and performance of each plane, temporarily blocked airspace, and the location of fixed air routes. The system evaluates multiple scenarios to determine the best solution for the maximum payload.

Before these sophisticated computer systems, dispatchers constructed flight paths manually, poring over manuals from the aircraft manufacturer, analyzing weather patterns and wind data, and so forth, to calculate fuel needs and plan routes. United estimates that the new computerized system will save more than $20 million a year. Most of the major airlines, including Southwest, Lufthansa AG, Delta, Continental, Air Canada, American Airlines, British Airways, Singapore Airlines, and Northwest Airlines, use similar types of routing software. “In the operating world of an airline,” said Captain Richard Sowden of Air Canada, “the flight-planning system is absolutely critical to cost control.”

The airlines have long been big users of management science techniques because many of the problems they encounter are analyzable and measurable and can be structured in a logical way. Management science, especially with increasingly sophisticated computer technology and software, can accurately and quickly solve problems that have too many explicit variables for adequate human processing. Management science is covering a broader range of problems than ever before. For example, rather than relying on hunches, advertising firms like Efficient Frontier, a Silicon Valley startup, use software to optimize online ad campaigns. The software can easily calculate response rates and return on investment for every advertisement. Many retailers, including Home Depot, Bloomingdale’s, and Gap, use software to analyze current and historical sales data and determine when, where, and how much to mark down prices. Food and beverage companies are using mathematical formulas to precisely study customer data and make decisions about which new products to develop and how to market them. Even doctors’ offices are turning to management science to manage their practices more efficiently, such as by predicting demand for appointments based on the number of patients in their practice, the average no-show rate, and other factors.

One problem with the management science approach is that quantitative data are not rich and do not convey tacit knowledge, as described in Chapter 8. Informal cues that indicate the existence of problems have to be sensed on a more personal basis by managers. The most sophisticated mathematical analyses are of no value if the important factors cannot be quantified and included in the model. Such things as competitor reactions, consumer tastes, and product warmth are qualitative dimensions. In these situations, the role of management science is to
supplement manager decision making. Quantitative results can be given to managers for discussion and interpretation along with their informal opinions, judgment, and intuition. The final decision can include both qualitative factors and quantitative calculations.

**Carnegie Model**

The **Carnegie model** of organizational decision making is based on the work of Richard Cyert, James March, and Herbert Simon, who were all associated with Carnegie-Mellon University. Their research helped formulate the bounded rationality approach to individual decision making, as well as provide new insights about organizational decisions.

Until their work, research in economics assumed that business firms made decisions as a single entity, as if all relevant information were funneled to the top decision maker for a choice. Research by the Carnegie group indicated that organization-level decisions involved many managers and that a final choice was based on a coalition among those managers. A **coalition** is an alliance among several managers who agree about organizational goals and problem priorities. It could include managers from line departments, staff specialists, and even external groups, such as powerful customers, bankers, or union representatives.

Management coalitions are needed during decision making for two reasons. First, organizational goals are often ambiguous, and operative goals of departments are often inconsistent. When goals are ambiguous and inconsistent, managers disagree about problem priorities. They must bargain about problems and build a coalition around the question of which problems to address.

The second reason for coalitions is that individual managers intend to be rational but function with human cognitive limitations and other constraints, as described earlier. Managers do not have the time, resources, or mental capacity to identify all dimensions and to process all information relevant to a decision. These limitations lead to coalition-building behavior. Managers talk to each other and exchange points of view to gather information and reduce ambiguity. People who have relevant information or a stake in a decision outcome are consulted. Building a coalition will lead to a decision that is supported by interested parties.

The process of coalition formation has several implications for organizational decision behavior. First, decisions are made to **satisfice** rather than to optimize problem solutions. **Satisficing** means organizations accept a satisfactory rather than a maximum level of performance, enabling them to achieve several goals simultaneously. In decision making, the coalition will accept a solution that is perceived as satisfactory to all coalition members. Second, managers are concerned with immediate problems and short-run solutions. They engage in what Cyert and March called **problemistic search**.

**Problemistic search** means managers look around in the immediate environment for a solution to quickly resolve a problem. Managers don’t expect a perfect solution when the situation is ill-defined and conflict-laden. This contrasts with the management science approach, which assumes that analysis can uncover every reasonable alternative. The Carnegie model says that search behavior is just sufficient to produce a satisfactory solution and that managers typically adopt the first satisfactory solution that emerges. Third, discussion and bargaining are especially important in the problem identification stage of decision making. Unless coalition members perceive a problem, action will not be taken.
Chapter 12: Decision-Making Processes

The decision process described in the Carnegie model is summarized in Exhibit 12.4. The Carnegie model points out that building agreement through a managerial coalition is a major part of organizational decision making. This is especially true at upper management levels. Discussion and bargaining are time consuming, so search procedures are usually simple and the selected alternative satisfies rather than optimizes problem solution. When problems are programmed—clear and have been seen before—the organization will rely on previous procedures and routines. Rules and procedures prevent the need for renewed coalition formation and political bargaining. Nonprogrammed decisions, however, require bargaining and conflict resolution.

Organizations suffer when managers are unable to build a coalition around goals and problem priorities. The U.S.-led war and reconstruction in Iraq have been plagued by disagreements and goal conflicts from the beginning, harming both security and reconstruction efforts and the Bush administration. For example, the 2007 decision to send 20,000 additional troops to carry out a new counterinsurgency strategy was successful in reversing the spiral of sectarian killings in Iraq. However, critics argue that the decision took too long because of disagreements among leaders and Bush’s difficulty in building a coalition to support his decision. One analysis said the conflicts and disagreements delayed the decision until conditions in Iraq resembled anarchy and civil war.43

The Carnegie model is particularly useful at the problem identification stage. However, a coalition of key department managers is also important for smooth implementation of a decision. When top managers perceive a problem or want to make a major decision, they need to reach agreement with other managers to support the decision.44
When a manager knows the best solution to a serious organizational problem and has the necessary authority, it is best to simply make the decision and implement it rather than involve other managers in the decision process.

ANSWER: Disagree. Few organizational decisions are made by a single manager. Organizational decision making is a social process that combines multiple perspectives. Managers have to talk to one another about problem priorities and exchange opinions and viewpoints to reach agreement. When managers don’t build coalitions, important problems may go unsolved and good decisions may fail because other managers don’t buy into the decisions and effectively implement them.

Incremental Decision Model

Henry Mintzberg and his associates at McGill University in Montreal approached organizational decision making from a different perspective. They identified twenty-five decisions made in organizations and traced the events associated with these decisions from beginning to end. Their research identified each step in the decision sequence. This approach to decision making, called the **incremental decision model**, places less emphasis on the political and social factors described in the Carnegie model, but tells more about the structured sequence of activities undertaken from the discovery of a problem to its solution.

Sample decisions in Mintzberg’s research included choosing which jet aircraft to acquire for a regional airline, developing a new supper club, designing a new container terminal in a harbor, identifying a new market for a deodorant, installing a controversial new medical treatment in a hospital, and firing a star radio announcer. Sample decisions in Mintzberg’s research included choosing which jet aircraft to acquire for a regional airline, developing a new supper club, designing a new container terminal in a harbor, identifying a new market for a deodorant, installing a controversial new medical treatment in a hospital, and firing a star radio announcer. The scope and importance of these decisions are revealed in the length of time taken to complete them. Most of these decisions took more than a year, and one-third of them took more than two years. Most of these decisions were nonprogrammed and required custom-designed solutions.

One discovery from this research is that major organizational choices are usually a series of small choices that combine to produce the major decision. Thus, many organizational decisions are a series of nibbles rather than a big bite. Organizations move through several decision points and may hit barriers along the way. Mintzberg called these barriers **decision interrupts**. An interrupt may mean an organization has to cycle back through a previous decision and try something new. Decision loops or cycles are one way the organization learns which alternatives will work. The ultimate solution may be very different from what was initially anticipated.

The pattern of decision stages discovered by Mintzberg and his associates is shown in Exhibit 12.5. Each box indicates a possible step in the decision sequence. The steps take place in three major decision phases: identification, development, and selection.

Identification Phase. The identification phase begins with **recognition**. Recognition means one or more managers become aware of a problem and the need to make a decision. Recognition is usually stimulated by a problem or an opportunity. A problem exists when elements in the external environment change or when internal
Chapter 12: Decision-Making Processes

EXHIBIT 12.5
The Incremental Decision Model

performance is perceived to be below standard. In the case of firing a radio announcer, comments about the announcer came from listeners, other announcers, and advertisers. Managers interpreted these cues until a pattern emerged that indicated a problem had to be dealt with.

The second step is diagnosis, in which more information is gathered if needed to define the problem situation. Diagnosis may be systematic or informal, depending upon the severity of the problem. Severe problems do not allow time for extensive diagnosis; the response must be immediate. Mild problems are usually diagnosed in a more systematic manner.

**Development Phase.** In the development phase, a solution is shaped to solve the problem defined in the identification phase. The development of a solution takes one of two directions. First, search procedures may be used to seek out alternatives within the organization’s repertoire of solutions. For example, in the case of firing a star announcer, managers asked what the radio station had done the last time an announcer had to be let go. To conduct the search, organization participants may look into their own memories, talk to other managers, or examine the formal procedures of the organization.

The second direction of development is to design a custom solution. This happens when the problem is novel so that previous experience has no value. Mintzberg found that in these cases, key decision makers have only a vague idea of the ideal solution. Gradually, through a trial-and-error process, a custom-designed alternative will emerge. Development of the solution is a groping, incremental procedure, building a solution brick by brick.

**Selection Phase.** The selection phase is when the solution is chosen. This phase is not always a matter of making a clear choice among alternatives. In the case of custom-made solutions, selection is more an evaluation of the single alternative that seems feasible.

Evaluation and choice may be accomplished in three ways. The judgment form of selection is used when a final choice falls upon a single decision maker, and the choice involves judgment based upon experience. In analysis, alternatives are evaluated on a more systematic basis, such as with management science techniques. Mintzberg found that most decisions did not involve systematic analysis and evaluation of alternatives. Bargaining occurs when selection involves a group of decision makers. Each decision maker may have a different stake in the outcome, so conflict emerges. Discussion and bargaining occur until a coalition is formed, as in the Carnegie model described earlier.

When a decision is formally accepted by the organization, authorization takes place. The decision may be passed up the hierarchy to the responsible hierarchical level. Authorization is often routine because the expertise and knowledge rest with the lower-level decision makers who identified the problem and developed the solution. A few decisions may be rejected because of implications not anticipated by lower-level managers.

**Dynamic Factors.** The lower part of the chart in Exhibit 12.5 shows lines running back toward the beginning of the decision process. These lines represent loops or cycles that take place in the decision process. Organizational decisions do not follow an orderly progression from recognition through authorization. Minor problems arise that force a loop back to an earlier stage. These are decision interrupts. If a custom-designed solution is perceived as unsatisfactory, the organization may have
to go back to the very beginning and reconsider whether the problem is truly worth solving. Feedback loops can be caused by problems of timing, politics, disagreement among managers, inability to identify a feasible solution, turnover of managers, or the sudden appearance of a new alternative. For example, when a small Canadian airline made the decision to acquire jet aircraft, the board authorized the decision, but shortly after, a new chief executive was brought in who canceled the contract, recycling the decision back to the identification phase. He accepted the diagnosis of the problem but insisted upon a new search for alternatives. Then a foreign airline went out of business and two used aircraft became available at a bargain price. This presented an unexpected option, and the chief executive used his own judgment to authorize the purchase of the aircraft.

Because most decisions take place over an extended period of time, circumstances change. Decision making is a dynamic process that may require a number of cycles before a problem is solved. An example of the incremental process and cycling that can take place is illustrated in Gillette’s decision to create a new razor.

The Gillette Company uses incremental decision making to perfect the design of razors such as the Mach3 Turbo, the vibrating M3Power, or the Fusion shaving system. Consider the development of the original Mach3. While searching for a new idea to increase sales in Gillette’s mature shaving market, researchers at the company’s British research lab came up with a bright idea to create a razor with three blades to produce a closer, smoother, more comfortable shave (recognition and diagnosis). Ten years later, the Mach3 reached the market, after thousands of shaving tests, numerous design modifications, and a development and tooling cost of $750 million, roughly the amount a pharmaceutical firm invests in developing a blockbuster drug.

The technical demands of building a razor with three blades that would follow a man’s face and also be easy to clean had several blind alleys. Engineers first tried to find established techniques (search, screen), but none fit the bill. Eventually a prototype called Manx was built (design), and in shaving tests it “beat the pants off” Gillette’s Sensor Excel, the company’s best-selling razor at the time. However, Gillette’s CEO insisted that the razor had to have a radically new blade edge so the razor could use thinner blades (internal interrupt), so engineers began looking for new technology that could produce a stronger blade (search, screen). Eventually, the new edge, known as DLC for diamond-like carbon coating, would be applied atom by atom with chip-making technology (design).

The next problem was manufacturing (diagnosis), which required an entirely new process to handle the complexity of the triple-bladed razor (design). Although the board gave the go-ahead to develop manufacturing equipment (judgment, authorization), some members became concerned because the new blades, which are three times stronger than stainless steel, would last longer and cause Gillette to sell fewer cartridges (internal interrupt). The board eventually made the decision to continue with the new blades, which have a blue indicator strip that fades to white and signals when it’s time for a new cartridge.

The board gave final approval for production of the Mach3 to begin in the fall of 1997. The new razor was introduced in the summer of 1998 and began smoothly sliding off shelves. Gillette recovered its huge investment in record time. Gillette then started the process of searching for the next shaving breakthrough all over again, using new technology that can examine a razor blade at the atomic level and high-speed video that can capture the act of cutting a single whisker. The company moved ahead in increments and rolled out its next major shaving product, the five-bladed Fusion, in 2006.
At Gillette, the identification phase occurred because executives were aware of the need for a new razor and became alert to the idea of using three blades to produce a closer shave. The development phase was characterized by the trial-and-error custom design leading to the Mach3. During the selection phase, certain approaches were found to be unacceptable, causing Gillette to cycle back and redesign the razor, including using thinner, stronger blades. Advancing once again to the selection phase, the Mach3 passed the judgment of top executives and board members, and manufacturing and marketing budgets were quickly authorized. This decision took more than a decade, finally reaching completion in the summer of 1998.

**ORGANIZATIONAL DECISIONS AND CHANGE**

At the beginning of this chapter, we discussed how the rapidly changing business environment is creating greater uncertainty for decision makers. Many organizations are marked by a tremendous amount of uncertainty at both the problem identification and problem solution stages. Two approaches to decision making have evolved to help managers cope with this uncertainty and complexity. One approach is to combine the Carnegie and incremental models just described. The second is a unique approach called the garbage can model.

**Combining the Incremental and Carnegie Models**

The Carnegie description of coalition building is especially relevant for the problem identification stage. When issues are ambiguous, or if managers disagree about problem severity, discussion, negotiation, and coalition building are needed. The incremental model tends to emphasize the steps used to reach a solution. After managers agree on a problem, the step-by-step process is a way of trying various solutions to see what will work. When problem solution is unclear, a trial-and-error solution may be designed.

The application of the Carnegie and incremental models to the stages in the decision process is illustrated in Exhibit 12.6. The two models do not disagree with one another. They describe different approaches for how organizations make decisions when either problem identification or problem solution is uncertain. When both parts of the decision process are simultaneously highly uncertain, the organization is in an extremely difficult position. Decision processes in that situation may be a combination of the Carnegie and incremental models, and this combination may evolve into a situation described in the garbage can model.

**Garbage Can Model**

The garbage can model is one of the most recent and interesting descriptions of organizational decision processes. It is not directly comparable to the earlier models, because the garbage can model deals with the pattern or flow of multiple decisions within organizations, whereas the incremental and Carnegie models focus on how a single decision is made. The garbage can model helps you think...
of the whole organization and the frequent decisions being made by managers throughout.

**Organized Anarchy.** The garbage can model was developed to explain the pattern of decision making in organizations that experience extremely high uncertainty. Michael Cohen, James March, and Johan Olsen, the originators of the model, called the highly uncertain conditions an organized anarchy, which is an extremely organic organization. Organized anarchies do not rely on the normal vertical hierarchy of authority and bureaucratic decision rules. They result from three characteristics:

1. **Problematic preferences.** Goals, problems, alternatives, and solutions are ill-defined. Ambiguity characterizes each step of a decision process.
2. **Unclear, poorly understood technology.** Cause-and-effect relationships within the organization are difficult to identify. An explicit database that applies to decisions is not available.
3. **Turnover.** Organizational positions experience turnover of participants. In addition, employees are busy and have only limited time to allocate to any one problem or decision. Participation in any given decision will be fluid and limited.

An organized anarchy is characterized by rapid change and a collegial, nonbureaucratic environment. No organization fits this extremely organic circumstance all the time, although today’s Internet-based companies, as well as organizations in rapidly changing industries, may experience it much of the time. Many organizations will occasionally find themselves in positions of making decisions under unclear, problematic circumstances. The garbage can model is useful for understanding the pattern of these decisions.

**Streams of Events.** The unique characteristic of the garbage can model is that the decision process is not seen as a sequence of steps that begins with a problem and ends with a solution. Indeed, problem identification and problem solution may not be connected to each other. An idea may be proposed as a solution when no problem is specified. A problem may exist and never generate a solution. Decisions
are the outcome of independent streams of events within the organization. The four streams relevant to organizational decision making are as follows:

1. **Problems.** Problems are points of dissatisfaction with current activities and performance. They represent a gap between desired performance and current activities. Problems are perceived to require attention. However, they are distinct from solutions and choices. A problem may lead to a proposed solution or it may not. Problems may not be solved when solutions are adopted.

2. **Potential solutions.** A solution is an idea somebody proposes for adoption. Such ideas form a flow of alternative solutions through the organization. Ideas may be brought into the organization by new personnel or may be invented by existing personnel. Participants may simply be attracted to certain ideas and push them as logical choices regardless of problems. Attraction to an idea may cause an employee to look for a problem to which the idea can be attached and, hence, justified. The point is that solutions exist independent of problems.

3. **Participants.** Organization participants are employees who come and go throughout the organization. People are hired, reassigned, and fired. Participants vary widely in their ideas, perception of problems, experience, values, and training. The problems and solutions recognized by one manager will differ from those recognized by another manager.

4. **Choice opportunities.** Choice opportunities are occasions when an organization usually makes a decision. They occur when contracts are signed, people are hired, or a new product is authorized. They also occur when the right mix of participants, solutions, and problems exists. Thus, a manager who happened to learn of a good idea may suddenly become aware of a problem to which it applies and, hence, can provide the organization with a choice opportunity. Match-ups of problems and solutions often result in decisions.

With the concept of four streams, the overall pattern of organizational decision making takes on a random quality. Problems, solutions, participants, and choices all flow through the organization. In one sense, the organization is a large garbage can in which these streams are being stirred, as illustrated in Exhibit 12.7. When a problem, solution, and participant happen to connect at one point, a decision may be made and the problem may be solved; but if the solution does not fit the problem, the problem may not be solved.

Thus, when viewing the organization as a whole and considering its high level of uncertainty, one sees problems arise that are not solved and solutions tried that do not work. Organizational decisions are disorderly and not the result of a logical, step-by-step sequence. Events may be so ill-defined and complex that decisions, problems, and solutions act as independent events. When they connect, some problems are solved, but many are not.\(^5\)

**Consequences.** There are four specific consequences of the garbage can decision process for organizational decision making:

1. **Solutions may be proposed even when problems do not exist.** An employee might be sold on an idea and might try to sell it to the rest of the organization. An example was the adoption of computers by many organizations during the 1970s. The computer was an exciting solution and was pushed by both computer manufacturers and systems analysts within organizations. The computer did not solve any problems in those initial applications. Indeed, some computers caused more problems than they solved.
2. **Choices are made without solving problems.** A choice—for example, creating a new department or revising work procedures—may be made with the intention of solving a problem; but, under conditions of high uncertainty, the choice may be incorrect. Moreover, many choices just seem to happen. People decide to quit, the organization’s budget is cut, or a new policy bulletin is issued. These choices may be oriented toward problems but do not necessarily solve them.

3. **Problems may persist without being solved.** Organization participants get used to certain problems and give up trying to solve them; or participants may not know how to solve certain problems because the technology is unclear. A university in Canada was placed on probation by the American Association of University Professors because a professor had been denied tenure without due process. The probation was a nagging annoyance that the administrators wanted to remove. Fifteen years later, the nontenured professor died. The probation continues because the university did not acquiesce to the demands of the heirs of the association to reevaluate the case. The university would like to solve the problem, but administrators are not sure how, and they do not have the resources to allocate to it. The probation problem persists without a solution.
4. A few problems are solved. The decision process does work in the aggregate. In computer simulation models of the garbage can model, important problems were often resolved. Solutions do connect with appropriate problems and participants so that a good choice is made. Of course, not all problems are resolved when choices are made, but the organization does move in the direction of problem reduction.

The effects of independent streams and the rather chaotic decision processes of the garbage can model can be seen in the production of David O. Russell’s movie I ♥ Huckabees, which has been called an “existential comedy.”

Screenwriter and director David O. Russell is known for creating intelligent, original movies such as Spanking the Monkey, Flirting with Disaster and Three Kings. His 2004 film I ♥ Huckabees might be the most original—or some would say just plain weird—so far. The New York Times referred to the movie as “a jumbled, antic exploration of existential and Buddhist philosophy that also involves tree-hugging, African immigrants, and Shania Twain.” Yet the movie got decent critical reviews and was picked by the Village Voice as one of the best films of 2004.

Russell had a vision of what he wanted the movie to be from the beginning, but few others could grasp what that was. Most of the actors who signed on to star in I ♥ Huckabees admit that they didn’t really understand the script, but they trusted Russell’s vision and imagination. Two of the biggest actors in Hollywood, Jude Law and Gwyneth Paltrow, signed on to play employees at a department store chain called Huckabees. But Paltrow backed out before filming ever started. Nicole Kidman was interested but had a conflict. Jennifer Aniston became—and as quickly unbecame—a possibility. Finally, Naomi Watts, who had been Russell’s original choice for the role, was able to free herself from scheduling conflicts to take the part. The casting wasn’t quite set though. Jude Law dropped out for unknown reasons—but just as quickly dropped back in.

Filming was chaotic. As the actors were on camera saying the lines they had memorized, Russell was a few feet away continually calling out new lines to them. In one scene, Law became so exhausted and frustrated that he started pounding his fists on the ground and shouting expletives. Russell loved the improvisation and kept the cameras rolling. Actors were unsure of how to develop their characterizations, so they just did whatever seemed right at the time, often based on Russell’s efforts to keep them off balance. Scenes were often filmed blindly with no idea of how they were supposed to fit in the overall story.

After Russell’s hours in the editing room, the final film turned out to be quite different from what the actors thought they’d shot. Some major scenes, including one that was supposed to articulate the film’s theme that “everything is connected,” were cut entirely.

Amazingly, considering the chaos on the set, the film was completed on schedule and on budget. Although I ♥ Huckabees is emotionally and intellectually dense, and not the kind of movie that reaps big bucks, the haphazard process worked to create the movie David O. Russell wanted to make.

The production of I ♥ Huckabees was not a rational process that started with a clear problem and ended with a logical solution. Many events occurred by chance and were intertwined, which characterizes the garbage can model. Everyone from the director to the actors continuously added to the stream of new ideas for the
story. Some solutions were connected to emerging problems: Naomi Watts cleared her schedule just in time to take the role after Gwyneth Paltrow dropped out, for example. The actors (participants) daily made personal choices regarding characterization that proved to be right for the story line. The garbage can model, however, doesn’t always work—in the movies or in organizations. A similar haphazard process during the filming of Waterworld led to the most expensive film in Hollywood history and a decided box-office flop for Universal Pictures.53

CONTINGENCY DECISION-MAKING FRAMEWORK

This chapter has covered several approaches to organizational decision making, including management science, the Carnegie model, the incremental decision model, and the garbage can model. It has also discussed rational and intuitive decision processes used by individual managers. Each decision approach is a relatively accurate description of the actual decision process, yet all differ from each other. Management science, for example, reflects a different set of decision assumptions and procedures than does the garbage can model.

One reason for having different approaches is that they appear in different organizational situations. The use of an approach is contingent on the organization setting. Two characteristics of organizations that determine the use of decision approaches are (1) problem consensus and (2) technical knowledge about the means to solve those problems.54 Analyzing organizations along these two dimensions suggests which approach is most appropriate for making decisions.

Problem Consensus

Problem consensus refers to the agreement among managers about the nature of a problem or opportunity and about which goals and outcomes to pursue. This variable ranges from complete agreement to complete disagreement. When managers agree, there is little uncertainty—the problems and goals of the organization are clear, and so are standards of performance. When managers disagree, organization direction and performance expectations are in dispute, creating a situation of high uncertainty. One example of problem uncertainty occurred at Wal-Mart stores regarding the use of parking lot patrols. Some managers believed the stores needed to do more to control parking lot crime, presenting evidence that parking lot patrols increased business because they encouraged more nighttime shopping. Other managers, however, insisted that parking lot crime was a society problem rather than a store problem, and they argued that trying to control parking lot crime would be too expensive.55

Problem consensus tends to be low when organizations are differentiated, as described in Chapter 4. Recall that uncertain environments cause organizational departments to differentiate from one another in goals and attitudes to specialize in specific environmental sectors. This differentiation leads to disagreement and conflict, so managers must make a special effort to build coalitions during decision making. For example, NASA has been criticized for failing to identify problems with the Columbia space shuttle that might have prevented the February 2003 disaster. Part of the reason was high differentiation and conflicting opinions between safety managers and scheduling managers, in which pressure to launch on time overrode safety concerns. In addition, after the launch, engineers three times requested—and were denied—better
photos to assess the damage from a piece of foam debris that struck the shuttle’s left wing just seconds after launch. Investigations now indicate that the damage caused by the debris may have been the primary physical cause of the explosion. Mechanisms for hearing dissenting opinions and building coalitions can improve decision making at NASA and other organizations dealing with complex problems.56

Problem consensus is especially important for the problem identification stage of decision making. When problems are clear and agreed on, they provide clear standards and expectations for performance. When problems are not agreed on, problem identification is uncertain and management attention must be focused on gaining agreement about goals and priorities.

Technical Knowledge about Solutions

Technical knowledge refers to understanding and agreement about how to solve problems and reach organizational goals. This variable can range from complete agreement and certainty to complete disagreement and uncertainty about cause–effect relationships leading to problem solution. One example of low technical knowledge occurred at PepsiCo’s 7-Up division. Managers agreed on the problem to be solved—they wanted to increase market share from 6 percent to 7 percent. However, the means for achieving this increase in market share were not known or agreed on. A few managers wanted to use discount pricing in supermarkets. Other managers believed they should increase the number of soda fountain outlets in restaurants and fast-food chains. A few other managers insisted that the best approach was to increase advertising. Managers did not know what would cause an increase in market share. Eventually, the advertising judgment prevailed at 7-Up, but it did not work very well. The failure of its decision reflected 7-Up’s low technical knowledge about how to solve the problem.

When means are well understood, the appropriate alternatives can be identified and calculated with some degree of certainty. When means are poorly understood, potential solutions are ill-defined and uncertain. Intuition, judgment, and trial and error become the basis for decisions.

Contingency Framework

Exhibit 12.8 describes the contingency decision-making framework, which brings together the two dimensions of problem consensus and technical knowledge about solutions. Each cell represents an organizational situation that is appropriate for the decision-making approaches described in this chapter.

**Cell 1.** In cell 1 of Exhibit 12.8, rational decision procedures are used because problems are agreed on and cause–effect relationships are well understood, so there is little uncertainty. Decisions can be made in a computational manner. Alternatives can be identified and the best solution adopted through analysis and calculations. The rational models described earlier in this chapter, both for individuals and for the organization, are appropriate when problems and the means for solving them are well defined.

**Cell 2.** In cell 2, there is high uncertainty about problems and priorities, so bargaining and compromise are used to reach consensus. Tackling one problem might mean the organization must postpone action on other issues. The priorities given to respective problems are decided through discussion, debate, and coalition building.
Managers in this situation should use broad participation to achieve consensus in the decision process. Opinions should be surfaced and discussed until compromise is reached. The organization will not otherwise move forward as an integrated unit. The Carnegie model applies when there is dissension about organizational problems. When groups within the organization disagree, or when the organization is in conflict with constituencies (government regulators, suppliers, unions), bargaining and negotiation are required. The bargaining strategy is especially relevant to the problem identification stage of the decision process. Once bargaining and negotiation are completed, the organization will have support for one direction.

**Cell 3.** In a cell 3 situation, problems and standards of performance are certain, but alternative technical solutions are vague and uncertain. Techniques to solve a problem are ill defined and poorly understood. When an individual manager faces this situation, intuition will be the decision guideline. The manager will rely on past experience and judgment to make a decision. Rational, analytical approaches are not effective because the alternatives cannot be identified and calculated. Hard facts and accurate information are not available.

The incremental decision model reflects trial and error on the part of the organization. Once a problem is identified, a sequence of small steps enables the organization to learn a solution. As new problems arise, the organization may recycle back to an earlier point and start over. Eventually, over a period of months or years, the organization will acquire sufficient experience to solve the problem in a satisfactory way.

**EXHIBIT 12.8**  
Contingency Framework for Using Decision Models

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<tr>
<th>Certain</th>
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<tr>
<td><strong>Certain</strong></td>
<td><strong>Uncertain</strong></td>
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<tr>
<td>Individual: Rational approach, Computation</td>
<td>Individual: Bargaining, Coalition formation</td>
</tr>
<tr>
<td>Organization: Management science</td>
<td>Organization: Carnegie model</td>
</tr>
<tr>
<td><strong>Uncertain</strong></td>
<td><strong>Uncertain</strong></td>
</tr>
<tr>
<td>3 Individual: Judgment, Trial and error</td>
<td>4 Individual: Bargaining and judgment, Inspiration and imitation</td>
</tr>
<tr>
<td>Organization: Incremental Decision model</td>
<td>Learning Organization: Carnegie and Incremental Decision models, evolving to Garbage Can model</td>
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</tbody>
</table>
The situation in cell 3, of senior managers agreeing about problems but not knowing how to solve them, occurs frequently in business organizations. If managers use incremental decisions in such situations, they will eventually acquire the technical knowledge to accomplish goals and solve problems.

**Cell 4.** The situation in cell 4, characterized by high uncertainty about both problems and solutions, is difficult for decision making. An individual manager making a decision under this high level of uncertainty can employ techniques from both cell 2 and cell 3. The manager can attempt to build a coalition to establish goals and priorities and use judgment, intuition, or trial and error to solve problems. Additional techniques, such as inspiration and imitation, also may be required. **Inspiration** refers to an innovative, creative solution that is not reached by logical means. Inspiration sometimes comes like a flash of insight, but—similar to intuition—it is often based on deep knowledge and understanding of a problem that the unconscious mind has had time to mull over. **Imitation** means adopting a decision tried elsewhere in the hope that it will work in this situation.

For example, in one university, accounting department faculty were unhappy with their current circumstances but could not decide on the direction the department should take. Some faculty members wanted a greater research orientation, whereas others wanted greater orientation toward business firms and accounting applications. The disagreement about goals was compounded because neither group was sure about the best technique for achieving its goals. The ultimate solution was inspirational on the part of the dean. An accounting research center was established with funding from major accounting firms. The funding was used to finance research activities for faculty interested in basic research and to provide contact with business firms for other faculty. The solution provided a common goal and unified people within the department to work toward that goal.

When an entire organization is characterized by high uncertainty regarding both problems and solutions, elements of the garbage can model will appear. Managers may first try techniques from both cells 2 and 3, but logical decision sequences starting with problem identification and ending with problem solution will not occur. Potential solutions will precede problems as often as problems precede solutions. In this situation, managers should encourage widespread discussion of problems and idea proposals to facilitate the opportunity to make choices. Eventually, through trial and error, the organization will solve some problems.

Research has found that decisions made following the prescriptions of the contingency decision-making framework tend to be more successful. However, the study noted that nearly six of ten strategic management decisions failed to follow the framework, leading to a situation in which misleading or missing information decreased the chance of an effective decision choice. Managers can use the contingency framework in Exhibit 12.8 to improve the likelihood of successful organizational decisions.

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**SPECIAL DECISION CIRCUMSTANCES**

In a highly competitive world beset by global competition and rapid change, decision making seldom fits the traditional rational, analytical model. Today’s managers have to make high-stakes decisions more often and more quickly than ever before.
in an environment that is increasingly less predictable. For example, interviews with CEOs in high-tech industries found that they strive to use some type of rational process, but the uncertainty and change in the industry often make that approach unsuccessful. The way these managers actually reach decisions is through a complex interaction with other managers, subordinates, environmental factors, and organizational events.59

Issues of particular concern for today’s decision makers are coping with high-velocity environments, learning from decision mistakes, and understanding and overcoming cognitive biases in decision making.

**High-Velocity Environments**

In some industries, the rate of competitive and technological change is so extreme that market data are either unavailable or obsolete, strategic windows open and shut quickly, perhaps within a few months, and the cost of poor decisions may be company failure. Research has examined how successful companies make decisions in these **high-velocity environments**, especially to understand whether organizations abandon rational approaches or have time for incremental implementation.60

A comparison of successful with unsuccessful decisions in high-velocity environments found the following patterns:

- **Successful decision makers tracked information in real time to develop a deep and intuitive grasp of the business.** Two to three intense meetings per week with all key players were usual. Decision makers closely tracked operating statistics to constantly feel the pulse of what was happening. Unsuccessful firms were more concerned with future planning and forward-looking information, with only a loose grip on immediate happenings.
- **During a major decision, successful companies began immediately to build multiple alternatives.** Implementation of alternatives sometimes ran in parallel before managers finally settled on a final choice. Companies that made decisions slowly developed just one alternative, moving to another only after the first one failed.
- **Fast, successful decision makers sought advice from everyone and depended heavily on one or two savvy, trusted colleagues as counselors.** Slow companies were unable to build trust and agreement among the best people.
- **Fast companies involved everyone in the decision and tried for consensus; but if consensus did not emerge, the top manager made the choice and moved ahead.** Waiting for everyone to be on board created more delays than was warranted. Slow companies delayed decisions to achieve a uniform consensus.
- **Fast, successful choices were well integrated with other decisions and the overall strategic direction of the company.** Less successful choices considered the decision in isolation from other decisions; the decision was made in the abstract.61

When speed matters, a slow decision can be as ineffective as the wrong decision. Managers can learn to make decisions quickly. To improve the chances of a good decision under high-velocity conditions, some organizations stimulate constructive conflict through a technique called **point-counterpoint**, which divides decision makers into two groups and assigns them different, often competing responsibilities.62 The groups develop and exchange proposals and debate options until they arrive...
at a common set of understandings and recommendations. Groups can often make better decisions because multiple and diverse opinions are considered. In the face of complexity and uncertainty, the more people who have a say in the decision making, the better.

In group decision making, a consensus may not always be reached, but the exercise gives everyone a chance to consider options and state their opinions, and it gives top managers a broader understanding. Typically, those involved support the final choice. However, if a very speedy decision is required, top managers are willing to make the decision and move forward.

Decision Mistakes and Learning

Organizational decisions result in many errors, especially when made in conditions of great uncertainty. Managers simply cannot determine or predict which alternative will solve a problem. In these cases, the organization must make the decision—and take the risk—often in the spirit of trial and error. If an alternative fails, the organization can learn from it and try another alternative that better fits the situation. Each failure provides new information and insight. The point for managers is to move ahead with the decision process despite the potential for mistakes. “Chaotic action is preferable to orderly inaction.”

In some organizations, managers are encouraged to instill a climate of experimentation to facilitate creative decision making. If one idea fails, another idea should be tried. Failure often lays the groundwork for success, such as when technicians at 3M developed Post-it Notes based on a failed product—a not-very-sticky glue. Managers in the most innovative companies believe that if all their new products succeed, they’re doing something wrong, not taking the necessary risks to develop new markets. In other words, they recognize that when failure teaches the company something new, it lays the groundwork for success. The CEO of Coca-Cola, for example, is emphasizing the importance of accepting failure as he tries to change Coke’s traditionally risk-averse culture into a more innovative, adaptive one.

Only by making mistakes can managers and organizations go through the process of decision learning and acquire sufficient experience and knowledge to perform more effectively in the future. Some companies, such as Intuit, even give awards for failures that lead to learning. One recent winner at Intuit was the team that developed an aggressive marketing campaign to target young tax filers. Through a Website called RockYourRefund.com, Intuit offered discounts to Best Buy and other companies and the ability to deposit tax refunds directly into prepaid Visa cards issued by hip-hop star and entrepreneur Russell Simmons. The campaign was a bust, with Intuit doing “very few returns” through the site. A postmortem of the project gave the team lessons they applied to future projects, such as the fact that young people shun Websites that feel too much like advertising. “It’s only a failure if we fail to get the learning,” said Intuit Chairman Scott Cook.

Based on what has been said about decision making in this chapter, one can expect companies to be ultimately successful in their decision making by adopting a learning approach toward solutions. They will make mistakes along the way, but they will resolve uncertainty through the trial-and-error process.
Making a poor decision can help a manager and organization learn and get stronger.

**ANSWER: Agree.** Managers don’t want people to intentionally make poor decisions, of course, but smart managers encourage people to take risks and experiment, which can lead to failed decisions. Learning from the failures is the key to growing and improving. In addition, although managers strive to make good decisions, they understand that decisions sometimes must be made quickly based on limited information, and that trial and error is an important way the organization learns and grows stronger.

**Cognitive Biases**

While encouraging risk-taking and accepting mistakes can lead to learning, one error smart managers strive to avoid is allowing cognitive biases to cloud their decision making. **Cognitive biases** are severe errors in judgment that all humans are prone to and that typically lead to bad choices. Three common biases are escalating commitment, loss aversion, and groupthink.

**Escalating Commitment.** One well-known cognitive bias is referred to as **escalating commitment.** Research suggests that organizations often continue to invest time and money in a solution despite strong evidence that it is not working. Several explanations are given for why managers escalate commitment to a failing decision. Many times managers simply keep hoping they can recoup their losses. In addition, managers block or distort negative information when they are personally responsible for a bad decision. Another explanation is that consistency and persistence are valued in contemporary society. Consistent managers are considered better leaders than those who switch around from one course of action to another, so managers have a hard time pulling the plug despite evidence that a decision was wrong.

**Prospect Theory.** Most people are naturally **loss averse.** The pain one feels from losing a ten-dollar bill is typically much more powerful than the happiness one gets from finding a twenty-dollar one. **Prospect theory,** developed by psychologists Daniel Kahneman and Amos Tversky, suggests that the threat of a loss has a greater impact on a decision than the possibility of an equivalent gain. Therefore, most managers have a tendency to analyze problems in terms of what they fear losing rather than what they might gain. When faced with a specific decision, they overweight the value of potential losses and underweight the value of potential gains. In addition, research indicates that the regret associated with a decision that results in a loss is stronger than the regret of a missed opportunity. Thus, managers might avoid potentially wonderful opportunities that also have potentially negative outcomes. Prospect theory also helps to explain the phenomenon of escalating commitment, discussed in the previous section. Managers don’t want to lose, so they keep throwing good money after bad.
**Groupthink.** Many decisions in organizations are made by groups, so the desire to go along with the group also can bias decisions. Subtle pressures for conformity exist in almost any group, and particularly when people like one another they tend to avoid anything that might create disharmony. *Groupthink* refers to the tendency of people in groups to suppress contrary opinions.\(^6^9\) When people slip into groupthink, the desire for harmony outweighs concerns over decision quality. Group members emphasize maintaining unity rather than realistically challenging problems and alternatives. People censor their personal opinions and are reluctant to criticize the opinions of others.

### Overcoming Personal Biases

How can managers avoid the problems of groupthink, escalating commitment, and being influenced by loss aversion? Several ideas have been proposed that help managers be more realistic and objective when making decisions. Two of the most effective are to use evidence-based management and to encourage dissent and diversity.

**Evidence-Based Management.** *Evidence-based management* means a commitment to make more informed and intelligent decisions based on the best available facts and evidence.\(^7^0\) It means being aware of one’s biases, seeking and examining evidence with rigor. Managers practice evidence-based decision making by being careful and thoughtful rather than carelessly relying on assumptions, past experience, rules of thumb, or intuition. Evidence-based management can be particularly useful for overcoming fear of loss and the problem of escalating commitment. To practice evidence-based management, managers use data and facts to the extent possible to inform their decisions. Many manager problems are uncertain, and hard facts and data aren’t available, but by always seeking evidence, managers can avoid relying on faulty assumptions. Decision makers can also do a post-mortem of decisions to evaluate what worked, what didn’t, and how to do things better. The best decision makers have a healthy appreciation for what they don’t know. They are always questioning and encouraging others to question their knowledge and assumptions. They foster a culture of inquiry, observation, and experimentation.

**Encourage Dissent and Diversity.** Dissent and diversity can be particularly useful in complex circumstances because they open the decision process to a wide variety of ideas and opinions rather than being constrained by personal biases or groupthink.\(^7^1\) Chuck Knight, the former CEO of Emerson Electric, always sparked heated debates during strategic planning meetings. Knight believed rigorous debate gave people a clearer picture of the competitive landscape and forced managers to look at all sides of an issue, helping them reach better decisions.\(^7^2\) One way to encourage dissent is to ensure that the group is diverse in terms of age and gender, functional area of expertise, hierarchical level, and experience with the business. Some groups assign a **devil’s advocate**, who has the role of challenging the assumptions and assertions made by the group.\(^7^3\) The devil’s advocate may force the group to rethink its approach to the problem and avoid reaching premature decisions. Another approach, referred to as a **ritual dissent**, puts parallel teams to work on the same problem in a large group meeting. Each team appoints a spokesperson who presents the team’s finding and ideas to another team, which is required to listen quietly. Then, the spokesperson turns to face away from the team, which rips into the presentation no-holds-barred while the spokesperson is required to listen quietly. Each team’s spokesperson does
this with every other team in turn, so that by the end of the session all ideas have been well-dissected and discussed. The point–counterpoint method described earlier is also effective for encouraging dissent. Whatever techniques they use, good managers find ways to get a diversity of ideas and opinions on the table when making complex decisions.

DESIGN ESSENTIALS

- Most organizational decisions are not made in a logical, rational manner. Most decisions do not begin with the careful analysis of a problem, followed by systematic analysis of alternatives, and finally implementation of a solution. On the contrary, decision processes are characterized by conflict, coalition building, trial and error, speed, and mistakes. Managers operate under many constraints that limit rationality; hence, they use satisficing and intuition as well as rational analysis in their decision making.

- Another important idea is that individuals make decisions, but organizational decisions are not made by a single individual. Organizational decision-making approaches include the management science approach, the Carnegie model, the incremental decision model, and the garbage can model.

- Only in rare circumstances do managers analyze problems and find solutions by themselves. Many problems are not clear, so widespread discussion and coalition building take place. Once goals and priorities are set, alternatives to achieve those goals can be tried. When a manager does make an individual decision, it is often a small part of a larger decision process. Organizations solve big problems through a series of small steps. A single manager may initiate one step but should be aware of the larger decision process to which it belongs.

- The greatest amount of conflict and coalition building occurs when problems are not agreed on. Priorities must be established to indicate which goals are important and what problems should be solved first. If a manager attacks a problem other people do not agree with, the manager will lose support for the solution to be implemented. Thus, time and activity should be spent building a coalition in the problem identification stage of decision making. Then the organization can move toward solutions. Under conditions of low technical knowledge, the solution unfolds as a series of incremental trials that will gradually lead to an overall solution.

- The most novel description of decision making is the garbage can model. This model describes how decision processes can seem almost random in highly organic organizations. Decisions, problems, ideas, and people flow through organizations and mix together in various combinations. Through this process, the organization gradually learns. Some problems may never be solved, but many are, and the organization will move toward maintaining and improving its level of performance.

- Many organizations operating in high-velocity environments must make decisions with speed, which means staying in immediate touch with operations and the environment. Moreover, in an uncertain world, organizations will make mistakes, and mistakes made through trial and error should be appreciated. Encouraging trial-and-error increments facilitates organizational learning.
On the other hand, allowing cognitive biases to cloud decision making can have serious negative consequences for an organization. Managers can avoid the biases of escalating commitment, loss aversion, and groupthink by using evidence-based management and by encouraging diversity and dissent in the decision-making process.

Key Concepts

bounded rationality perspective  
Carnegie model  
coalition  
cognitive biases  
contingency decision-making framework  
decision learning  
devil's advocate  
escalating commitment  
evidence-based management  
garbage can model  
groupthink  
high-velocity environments  
imitation  
incremental decision model  
inpiration  
intuitive decision making  
management science approach  
nonprogrammed decisions  
organizational decision making  
organized anarchy  
point–counterpoint  
problem consensus  
problem identification  
problem solution  
problemistic search  
programmed decisions  
prospect theory  
rational approach  
satisficing  
technical knowledge

Discussion Questions

1. When you are faced with choosing between several valid options, how do you typically make your decision? How do you think managers typically choose between several options? What are the similarities between your decision process and what you think managers do?

2. A professional economist once told his class, “An individual decision maker should process all relevant information and select the economically rational alternative.” Do you agree? Why or why not?

3. If managers frequently use experience and intuition to make complex, nonprogrammed decisions, how do they apply evidence-based management, which seems to suggest that managers should rely on facts and data?

4. The Carnegie model emphasizes the need for a political coalition in the decision-making process. When and why are coalitions necessary?

5. What are the three major phases in Mintzberg’s incremental decision model? Why might an organization recycle through one or more phases of the model?

6. An organization theorist once told her class, “Organizations never make big decisions. They make small decisions that eventually add up to a big decision.” Explain the logic behind this statement.

7. How would you make a decision to select a building site for a new waste-treatment plant in the Philippines? Where would you start with this complex decision, and what steps would you take? Explain which decision model in the chapter best describes your approach.

8. Why would managers in high-velocity environments worry more about the present than the future? Would an individual manager working in this type of environment be more likely to succeed with a rational approach or an intuitive approach? Discuss.

9. Can you think of a decision you have made in your personal, school, or work life that reflects a stronger desire to avoid a loss than to make a gain? How about a time when you stayed with an idea or project for too long, perhaps even escalating your commitment, to avoid a failure? Discuss.

10. Why are decision mistakes usually accepted in organizations but penalized in college courses and exams that are designed to train managers?
Chapter 12 Workbook: Decision Styles*

Think of some recent decisions that have influenced your life. Choose two significant decisions that you made and two decisions that other people made. Fill out the following table, using Exhibit 12.8 to determine decision styles.

<table>
<thead>
<tr>
<th>Your decisions</th>
<th>Approach used</th>
<th>Advantages and disadvantages</th>
<th>Your recommended decision style</th>
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</table>

<table>
<thead>
<tr>
<th>Decisions by others</th>
<th>Approach used</th>
<th>Advantages and disadvantages</th>
<th>Your recommended decision style</th>
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</table>

Questions

1. How can a decision approach influence the outcome of the decision? What happens when the approach fits the decision? When it doesn’t fit?
2. How can you know which approach is best?

“Adapted by Dorothy Marcic from “Action Assignment” in Jennifer M. Howard and Lawrence M. Miller, Team Management (Miller Consulting Group, 1994), 205.

Case for Analysis: Cracking the Whip*

Harmon Davidson stared dejectedly at the departing figure of his management survey team leader. Their meeting had not gone well. Davidson had relayed to Al Pitcher complaints about his handling of the survey. Pitcher had responded with adamant denial and unveiled scorn.

Davidson, director of headquarters management, was prepared to discount some of the criticism as resentment of outsiders meddling with “the way we’ve always done business,” exacerbated by the turbulence of continual reorganization. But Davidson could hardly ignore the sheer volume of complaints or his high regard for some of their sources. “Was I missing danger signals about Pitcher from the start?” Davidson asked himself. “Or was I just giving a guy I didn’t know a fair chance with an inherently controversial assignment?”

With his division decimated in the latest round of downsizing at the Department of Technical Services (DTS) earlier that year, Davidson had been asked to return to the headquarters management office after a five-year hiatus. The director, Walton Drummond, had abruptly taken early retirement.

One of the first things Davidson had learned about his new job was that he would be responsible for a comprehensive six-month survey of the headquarters management structure and processes. The DTS secretary had promised the survey to the White House as a prelude to the agency’s next phase of management reform. Drummond had already picked the five-person survey team consisting of two experienced management analysts, a promising younger staff member, an intern, and Pitcher, the team leader. Pitcher was fresh from the Treasury Department, where he had participated in a similar survey. But having gone off after retirement for an extended mountain-climbing expedition in Asia, Drummond was unavailable to explain his survey plans or any understandings he had reached with Pitcher.

Davidson had been impressed with Pitcher’s energy and motivation. He worked long hours, wrote voluminously if awkwardly, and was brimming with the latest organizational theory. Pitcher had other characteristics, however, that were disquieting. He seemed uninterested in DTS’s history and culture and was paternalistic toward top
managers, assuming they were unsophisticated and unconcerned about modern management.

A series of presurvey informational briefings for headquarters office heads conducted by Davidson and Pitcher seemed to go swimmingly. Pitcher deferred to his chief on matters of philosophy and confined his remarks to schedule and procedures. He closed his segment on a friendly note, saying, “If we do find opportunities for improvement, we’ll try to have recommendations for you.”

But the survey was barely a week old when the director of management received his first call from an outraged customer. It was the assistant secretary for public affairs, Erin Dove, and she was not speaking in her usual upbeat tones. “Your folks have managed to upset my whole supervisory staff with their comments about how we’ll have to change our organization and methods,” she said. “I thought you were going through a fact-finding study. This guy Pitcher sounds like he wants to remake DTS headquarters overnight. Who does he think he is?”

When Davidson asked him about the encounter with public affairs, Pitcher expressed puzzlement that a few summary observations shared with supervisors in the interest of “prompt informal feedback” had been interpreted as such disturbing conclusions. “I told them we’ll tell them how to fix it,” he reassured his supervisor.

“Listen, Al,” Davidson remonstrated gently. “These are very accomplished managers who aren’t used to being told they have to fix anything. This agency’s been on a roll for years, and the need for reinvention isn’t resonating at all well yet. We’ve got to collect and analyze the information and assemble a convincing case for change, or we’ll be spinning our wheels. Let’s hold off on the feedback until you and I have reviewed it together.”

But two weeks later, Technology Development Director Phil Canseco, an old and treasured colleague, was on Davidson’s doorstep looking as unhappy as Erin Dove had sounded on the phone. “Harmon, buddy, I think you have to rein this survey team a bit,” he said. “Several managers who were scheduled for survey interviews were working on a 24-hour turnaround to give a revised project budget to the Appropriations subcommittee that day. My deputy says Pitcher was put out about postponing interviews and grumbled about whether we understood the new priorities. Is he living in the real world?”

Canseco’s comments prompted Davidson to call a few of his respected peers who had dealt with the survey team. With varying degrees of reluctance, they all criticized the team leader and, in some cases, team members, as abrasive and uninterested in the rationales offered for existing structure and processes.

And so Davidson marshaled all of his tact for a review with the survey team leader. But Pitcher was in no mood for either introspection or reconsideration. He took the view that he had been brought in to spearhead a White House–inspired management improvement initiative in a glamorous agency that had never had to think much about efficiency. He reminded Davidson that even he had conceded that managers were due some hard lessons on this score. Pitcher didn’t see any way to meet his deadline except by adhering to a rigorous schedule, since he was working with managers disinclined to cooperate with an outsider pushing an unpopular exercise. He felt Davidson’s role was to hold the line against unwarranted criticisms from prima donnas trying to discredit the survey.

Many questions arose in Davidson’s mind about the survey plan and his division’s capacity to carry it out. Had they taken on too much with too little? Had the right people been picked for the survey team? Had managers and executives, and even the team, been properly prepared for the survey?

But the most immediate question was whether Al Pitcher could help him with these problems.

“*This case was prepared by David Hornestay and appeared in *Government Executive*, vol. 30, No. 8, August 1998, 45–46, as part of a series of case studies examining workplace dilemmas confronting federal managers. Reprinted by permission of *Government Executive*.

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### Case for Analysis: The Dilemma of Aliesha State College: Competence versus Need*

Until the 1980s, Aliesha was a well-reputed, somewhat sleepy state teachers college located on the outer fringes of a major metropolitan area. Then with the rapid expansion of college enrollments, the state converted Aliesha to a four-year state college (and the plans called for it to become a state university with graduate work and perhaps even with a medical school in the late 1990s). Within 10 years, Aliesha grew from 1,500 to 9,000 students. Its budget expanded even faster than the enrollment, increasing twentyfold during that period.

The only part of Aliesha that did not grow was the original part, the teachers’ college; there enrollment actually went down. Everything else seemed to flourish. In addition to building new four-year schools of liberal arts, business, veterinary medicine, and dentistry, Aliesha developed many community service programs. Among
the reason was that the clinic was a college program run to teach psychology students rather than to help children with serious speech impediments.

The opposite criticism applied to the high school. No one questioned its excellence and the impact it made on the education students who listened in on its classes and on many young teachers in the area who came in as auditors. But what need did it fill? There were plenty of perfectly adequate high schools in the area.

“How can we justify,” asked one of the psychologists connected with the speech clinic, “running an unnecessary high school in which each child costs as much as a graduate student at Harvard?”

“But how can we justify,” asked the dean of the school of education, himself one of the outstanding teachers in the demonstration high school, “a speech clinic that has no results even though each of its patients costs the state as much as one of our demonstration high school students, or more?”


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**Notes**


47. Mintzberg et al., “The Structure of ‘Unstructured’ Decision Processes.”

48. Ibid., 270.


57. Mintzberg and Westley, “Decision Making: It’s Not What You Think.”


65. Ibid.


Intergroup Conflict in Organizations
Sources of Conflict • Rational versus Political Model

Power and Organizations
Individual versus Organizational Power • Power versus Authority • Vertical Sources of Power • The Power of Empowerment • Horizontal Sources of Power

Political Processes in Organizations
Definition • When Is Political Activity Used?

Using Power, Politics, and Collaboration
Tactics for Increasing Power • Political Tactics for Using Power • Tactics for Enhancing Collaboration

Design Essentials
The Los Angeles Times has long been one of the most respected names in journalism. The winner of several Pulitzer Prizes, the Times is one of only a handful of newspapers with a claim to national standing. So why can’t the newspaper keep an editor? In less than four years, three seasoned editors came and went from the top editorial position. Moreover, the paper has seen the departures of several other high-level editors after short tenures, many of which came as a result of conflict and dissension. All newspapers are facing seriously tough circumstances, but The Los Angeles Times has been hit particularly hard, battered by years of flagging circulation even before the housing slump and declining economy cut deeply into ad revenues. Thus, the never-ending battle between the business side (reduce costs, lure advertisers) and the news side (quality news) of the organization became an all-out war at the Times. (For more about this age-old conflict at news organizations, read this chapter’s Case for Analysis, “The Daily Tribune,” on page 523.) Although the internal dissension at the Times is complex, most former editors say business-minded executives are cutting out the heart of the storied newspaper by making devastating newsroom cuts, meddling in the affairs of the newsroom by suggesting articles or assessing what is reported, and involving marketing more and more in the business of reporting the news.1

All organizations, like The Los Angeles Times, are a complex mix of individuals and groups pursuing various goals and interests. Conflict is a natural outcome of the close interaction of people who may have diverse opinions and values, pursue different objectives, and have differential access to information and resources within the organization. Individuals and groups use power and political activity to handle their differences and manage the inevitable conflicts that arise.2

Too much conflict can be harmful to an organization, as it has been at The Los Angeles Times. The newspaper’s parent company, Tribune Company, which owns the Chicago Tribune and acquired the Los Angeles paper in 2000, filed for bankruptcy protection in late 2008. The conflicts and tensions that have plagued The Los Angeles Times certainly can’t be blamed directly for the Tribune Company’s woes, but the inability of leaders to effectively manage conflict made it even more difficult

Before reading this chapter, please circle your opinion below for each of the following statements:

1. A certain amount of conflict is good for an organization.

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2. A factory worker on the assembly line is in a low power position and should accept that he or she will have little influence over what happens.

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3. When managers use politics, it usually leads to conflict and disharmony and will likely disrupt the smooth functioning of the organization.

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for the organization to weather the “perfect storm” of forces roiling the media industry and the broader economy. However, conflict can also be a positive force because it challenges the status quo, encourages new ideas and approaches, and leads to needed change. Some degree of conflict occurs in all human relationships—between friends, romantic partners, and teammates, as well as between parents and children, teachers and students, and bosses and employees. Conflict is not necessarily a negative force; it results from the normal interaction of varying human interests. Within organizations, individuals and groups frequently have different interests and goals they wish to achieve through the organization. Managers can effectively use power and politics to manage conflict, get the most out of employees, enhance job satisfaction and team identification, achieve important goals, and realize high organizational performance.

**Purpose of This Chapter**

In this chapter we discuss the nature of conflict and the use of power and political tactics to manage and reduce conflict among individuals and groups. The notions of conflict, power, and politics have appeared in previous chapters. In Chapter 3, we talked about horizontal linkages such as task forces and teams that encourage collaboration among functional departments. Chapter 4 introduced the concept of differentiation, which means that different departments pursue different goals and may have different attitudes and values. Chapter 5 touched on conflict and power relationships among organizations. Chapter 10 discussed the emergence of subcultures, and in Chapter 12, coalition building was proposed as one way to resolve disagreements among managers and departments.

The first sections of this chapter explore the nature of intergroup conflict, characteristics of organizations that contribute to conflict, and the use of a political versus a rational model of organization to manage conflicting interests. Subsequent sections examine individual and organizational power, the vertical and horizontal sources of power for managers and other employees, and how power is used to attain organizational goals. We also look at the trend toward empowerment, sharing power with lower-level employees. The latter part of the chapter turns to politics, which is the application of power and influence to achieve desired outcomes. We discuss ways managers increase their power, political tactics for using power, and some ways managers can enhance collaboration among people and departments.

**INTERGROUP CONFLICT IN ORGANIZATIONS**

Intergroup conflict requires three ingredients: group identification, observable group differences, and frustration. First, employees have to perceive themselves as part of an identifiable group or department. Second, there has to be an observable group difference of some form. Groups may be located on different floors of the building, members may have different social or educational backgrounds, or members may work in different departments. The ability to identify oneself as a part of one group and to observe differences in comparison with other groups is necessary for conflict.

The third ingredient is frustration. Frustration means that if one group achieves its goal, the other will not; it will be blocked. Frustration need not be severe and only needs to be anticipated to set off intergroup conflict. Intergroup conflict will appear
when one group tries to advance its position in relation to other groups. **Intergroup conflict** can be defined as the behavior that occurs among organizational groups when participants identify with one group and perceive that other groups may block their group’s goal achievement or expectations. Conflict means that groups clash directly, that they are in fundamental opposition. Conflict is similar to competition but more severe. **Competition** is rivalry among groups in the pursuit of a common prize, whereas conflict presumes direct interference with goal achievement.

Intergroup conflict within organizations can occur horizontally across departments or vertically between different levels of the organization. The production department of a manufacturing company may have a dispute with quality control because new quality procedures reduce production efficiency. Teammates may argue about the best way to accomplish tasks and achieve goals. Employees may clash with bosses about new work methods, reward systems, or job assignments. Another typical area of conflict is between groups such as unions and management or franchise owners and headquarters. For example, the United Auto Workers (UAW) has routinely clashed with U.S. automakers over demands from management that union workers accept decreased wages and benefits to alleviate increasing cost pressures. Franchise owners for McDonald’s, Taco Bell, Burger King, and KFC have clashed with headquarters because of the increase of company-owned stores in neighborhoods that compete directly with franchisees.

Conflict can also occur between different divisions or business units within an organization, such as between the auditing and consulting units of big firms such as PricewaterhouseCoopers and Deloitte Touche. In global organizations, conflicts between regional managers and business division managers, among different divisions, or between divisions and headquarters are common because of the complexities of international business, as described in Chapter 6. Similar problems occur between distinct organizations. As we briefly discussed in Chapter 5, with so many companies involved in interorganizational collaboration, conflicts and shifting power relationships are inevitable.

**Sources of Conflict**

Some specific organizational characteristics can generate conflict. These sources of intergroup conflict are goal incompatibility, differentiation, task interdependence, and limited resources. These characteristics of organizational relationships are determined by the contextual factors of environment, size, technology, strategy and goals, and organizational structure, which have been discussed in previous chapters. These characteristics, in turn, help shape the extent to which a rational model of behavior versus a political model of behavior is used to accomplish objectives.

**1. A certain amount of conflict is good for an organization.**

**ANSWER:** Agree. Conflict is inevitable in all human relationships, including those in organizations, and is often a good thing. Some conflict can be healthy because it contributes to diverse thinking and leads to change. If there is no conflict whatsoever, there is likely no growth and development either.
Goal Incompatibility. The goals of each department reflect the specific objectives members are trying to achieve. The achievement of one department’s goals often interferes with another department’s goals, leading to conflict. University police, for example, have a goal of providing a safe and secure campus. They can achieve their goal by locking all buildings on evenings and weekends and not distributing keys. Without easy access to buildings, however, progress toward the science department’s research goals will proceed slowly. On the other hand, if scientists come and go at all hours and security is ignored, police goals for security will not be met. Goal incompatibility throws the departments into conflict with each other.

The potential for conflict is perhaps greater between marketing and manufacturing than between other departments because the goals of these two departments are frequently at odds. Exhibit 13.1 shows examples of goal conflict between typical marketing and manufacturing departments. Marketing strives to increase the breadth of the product line to meet customer tastes for variety. A broad product line means short production runs, so manufacturing has to bear higher costs. Typical areas of goal conflict are quality, cost control, and new products or services. For example, at Rockford Health Systems, the human resources (HR) department wanted to implement a new self-service benefits system that would let employees manage their benefits from their home computers, but the high price of the software licenses conflicted with the finance department’s goal of controlling costs. Another example is the goal conflict between business managers and editorial managers at The Los Angeles Times, described earlier. Goal incompatibility is probably the greatest cause of intergroup conflict in organizations. Goal conflict also occurs within churches and religious groups.

**EXHIBIT 13.1**
Marketing-Manufacturing Areas of Potential Goal Conflict

<table>
<thead>
<tr>
<th>Conflict Area</th>
<th>Typical Comment</th>
<th>Typical Comment</th>
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<tbody>
<tr>
<td>1. Breadth of product line</td>
<td>“Our customers demand variety.”</td>
<td>“The product line is too broad—all we get are short, uneconomical runs.”</td>
</tr>
<tr>
<td>2. New product introduction</td>
<td>“New products are our lifeblood.”</td>
<td>“Unnecessary design changes are prohibitively expensive.”</td>
</tr>
<tr>
<td>3. Product scheduling</td>
<td>“We need faster response. Our customer lead times are too long.”</td>
<td>“We need realistic commitments that don’t change like wind direction.”</td>
</tr>
<tr>
<td>4. Physical distribution</td>
<td>“Why don’t we ever have the right merchandise in inventory?”</td>
<td>“We can’t afford to keep huge inventories.”</td>
</tr>
<tr>
<td>5. Quality</td>
<td>“Why can’t we have reasonable quality at lower cost?”</td>
<td>“Why must we always offer options that are too expensive and offer little customer utility?”</td>
</tr>
</tbody>
</table>

Church schisms are almost as numerous as churches—and they are frequently linked to differences in goals. Recent years have seen splits in some church congregations related to the “purpose-driven” movement espoused by Reverend Rick Warren, pastor of Saddleback Church in Lake Forest, California, and author of *The Purpose Driven Life*. Warren advocates that churches be *purpose driven* and attract nonbelievers by using modern growth techniques, such as marketing research, lively services incorporating rock music, volunteer programs, and more focus on everyday personal problems rather than fighting sin.

At the Valley View Christian Church in Dallas, some leaders who had a goal of increasing membership, particularly in the 20-to-30-year-old age group, believed adopting modern techniques based on Warren’s principles was the way to grow. Other leaders, however, preferred a goal of strengthening the church’s traditions and continuing an emphasis on atonement and redemption rather than solving marital problems or dealing with personal angst. Eventually, Valley View split, with the traditionalists setting up a new congregation.

The purpose-driven movement is only one aspect of an ongoing conflict within Christian churches over whether they should adapt and modernize their religion or strengthen and honor tradition. Similar conflicts have roiled the Episcopal Church, where some groups have left over issues such as the ordination of women and gays, revisions to the Book of Common Prayer, or changes in liturgical practices. In late 2008, conservatives announced the founding of a rival denomination, to be called the Anglican Church in North America, reflecting a major conflict within Anglican Christianity that will affect the church for years to come.14

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**Differentiation.** *Differentiation* was defined in Chapter 4 as “the differences in cognitive and emotional orientations among managers in different functional departments.” Functional specialization requires people with specific education, skills, attitudes, and time horizons. For example, people may join a sales department because they have ability and aptitude consistent with sales work. After becoming members of the sales department, they are influenced by departmental norms and values.

Departments or divisions within an organization often differ in values, attitudes, and standards of behavior, and these subcultural differences lead to conflicts.15 Consider an encounter between a sales manager and a research and development (R&D) scientist about a new product:

_The sales manager may be outgoing and concerned with maintaining a warm, friendly relationship with the scientist. He may be put off because the scientist seems withdrawn and disinclined to talk about anything other than the problems in which he is interested. He may also be annoyed that the scientist seems to have such freedom in choosing what he will work on. Furthermore, the scientist is probably often late for appointments, which, from the salesman’s point of view, is no way to run a business. Our scientist, for his part, may feel uncomfortable because the salesman seems to be pressing for immediate answers to technical questions that will take a long time to investigate. All the discomforts are concrete manifestations of the relatively wide differences between these two men in respect to their working and thinking styles._16

**Task Interdependence.** Task interdependence refers to the dependence of one unit on another for materials, resources, or information. As described in Chapter 7, *pooled interdependence* means there is little interaction; *sequential interdependence* means...
the output of one department goes to the next department; and reciprocal interdependence means that departments mutually exchange materials and information.17

Generally, as interdependence increases, the potential for conflict increases.18 In the case of pooled interdependence, units have little need to interact. Conflict is at a minimum. Sequential and reciprocal interdependence require employees to spend time coordinating and sharing information. Employees must communicate frequently, and differences in goals or attitudes will surface. Conflict is especially likely to occur when agreement is not reached about the coordination of services to each other. Greater interdependence means departments often exert pressure for a fast response because departmental work has to wait on other departments.19

**Limited Resources.** Another major source of conflict involves competition between groups for what members perceive as limited resources.20 Organizations have limited money, physical facilities, staff resources, and human resources to share among departments. In their desire to achieve goals, groups want to increase their resources. This throws them into conflict. Managers may develop strategies, such as inflating budget requirements or working behind the scenes, to obtain a desired level of resources.

Resources also symbolize power and influence within an organization. The ability to obtain resources enhances prestige. Departments typically believe they have a legitimate claim on additional resources. However, exercising that claim results in conflict. For example, in almost every organization, conflict occurs during the annual budget exercise, often creating political activity.

**Rational versus Political Model**

The sources of intergroup conflict are listed in Exhibit 13.2. The degree of goal incompatibility, differentiation, interdependence, and competition for limited

<table>
<thead>
<tr>
<th>When Conflict Is Low, Rational Model Describes Organization</th>
<th>When Conflict Is High, Political Model Describes Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consistent across participants</td>
<td>Goals</td>
</tr>
<tr>
<td>Centralized</td>
<td>Inconsistent, pluralistic within the organization</td>
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<tr>
<td>Orderly, logical, rational</td>
<td>Power and control</td>
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<tr>
<td>Norm of efficiency</td>
<td>Decentralized, shifting coalitions and interest groups</td>
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<tr>
<td>Extensive, systematic, accurate</td>
<td>Disorderly, result of bargaining and interplay among interests</td>
</tr>
<tr>
<td></td>
<td>Free play of market forces; conflict is legitimate and expected</td>
</tr>
<tr>
<td></td>
<td>Ambiguous; information used and withheld strategically</td>
</tr>
</tbody>
</table>

**EXHIBIT 13.2**
Sources of Conflict and Use of Rational versus Political Model

- Goal incompatibility
- Differentiation
- Task interdependence
- Limited resources
resources determines whether a rational or political model of behavior is used within the organization to accomplish goals.

When goals are in alignment, there is little differentiation, departments are characterized by pooled interdependence, and resources seem abundant, managers can use a rational model of organization, as outlined in Exhibit 13.2. As with the rational approach to decision making described in Chapter 12, the rational model of organization is an ideal that is not fully achievable in the real world, though managers strive to use rational processes whenever possible. In the rational organization, behavior is not random or accidental. Goals are clear and choices are made in a logical way. When a decision is needed, the goal is defined, alternatives are identified, and the choice with the highest probability of success is selected. The rational model is also characterized by centralized power and control, extensive information systems, and an efficiency orientation.21

The opposite view of organizational processes is the political model, also described in Exhibit 13.2. When differences are great, organization groups have separate interests, goals, and values. Disagreement and conflict are normal, so power and influence are needed to reach decisions. Groups will engage in the push and pull of debate to decide goals and reach decisions. Information is ambiguous and incomplete. The political model describes the way organizations operate much of the time. Although managers strive to use a rational approach, the political model prevails because each department has different interests it wants met and different goals it wants to achieve. Purely rational procedures do not work for many circumstances.

Typically, both rational and political processes are used in organizations. Neither the rational model nor the political model characterizes things fully, but each will be used some of the time. For example, at Amazon.com, founder and CEO Jeff Bezos says he emphasizes a rational approach to planning and decision making whenever possible. “The great thing about fact-based decisions,” he says, “is that they overrule the hierarchy. The most junior person in the company can win an argument with the most senior person with a fact-based decision.” For decisions and situations that are complex, ill-defined, and controversial, however, Bezos uses a political model, discussing the issues with people and building agreement among senior executives.22

Managers may strive to adopt rational procedures but will find that politics is needed to accomplish objectives. The political model means managers learn to acquire, develop, and use power to achieve important outcomes.

**POWER AND ORGANIZATIONS**

Power is an intangible force in organizations. It cannot be seen, but its effect can be felt. Power is often defined as the potential ability of one person (or department) to influence other people (or departments) to carry out orders or to do something they would not otherwise have done. Other definitions stress that power is the ability to achieve goals or outcomes that power holders desire. The achievement of desired outcomes is the basis of the definition used here: Power is the ability of one person or department in an organization to influence other people to bring about desired outcomes. It is the potential to influence others within the organization with the goal of attaining desired outcomes for power holders. Powerful managers, for
instance, are often able to get bigger budgets for their departments, more favorable production schedules, and more control over the organization’s agenda. Power exists only in a relationship between two or more people, and it can be exercised in either vertical or horizontal directions. The source of power often derives from an exchange relationship in which one position, department, or organization provides scarce or valued resources to other people, departments, or organizations. When one is dependent on another, a power relationship emerges in which the side with the resources has greater power. Power holders can achieve compliance with their requests.

As an illustration, consider how power is shifting in the Hollywood comedy industry. At one time, United Talent Agency (UTA) had control of most of the big names in comedy, including Jim Carrey, Owen Wilson, Ben Stiller, Will Ferrell, and Jack Black. That gave UTA tremendous power in the industry, enabling the agency to virtually dictate the terms it wanted for any star’s project. With growing cost pressures, however, studios began to crack down on the prices they were willing to pay, the percentage of revenues they were willing to share, and the extent to which they were willing to meet demands for script changes or other conditions. At the same time, conflicts within UTA led to the departure of several important stars. Power shifted toward the studios, because no single agency had control over a large stable of comedians.

**Individual versus Organizational Power**

In popular literature, power is often described as a personal characteristic, and a frequent topic is how one person can influence or dominate another person. You probably recall from an earlier management or organizational behavior course that managers have five sources of personal power. Legitimate power is the authority granted by the organization to the formal management position a manager holds. Reward power stems from the ability to bestow rewards—a promotion, raise, or pat on the back—to other people. The authority to punish or recommend punishment is called coercive power. Expert power derives from a person’s greater skill or knowledge about the tasks being performed. The last, referent power, is derived from personal characteristics: people admire the manager and want to be like or identify with the manager out of respect and admiration. Each of these sources may be used by individuals within organizations.

Power in organizations, however, is often the result of structural characteristics. Organizations are large, complex systems that may contain hundreds, even thousands, of people. These systems have a formal hierarchy in which some tasks are more important regardless of who performs them. In addition, some positions have access to more information and greater resources, or their contribution to the organization is more critical. Thus, the important power processes in organizations reflect larger organizational relationships, both horizontal and vertical.

**Power versus Authority**

Anyone in an organization can exercise power to achieve desired outcomes. For example, when the Discovery Channel wanted to extend its brand beyond cable television, Tom Hicks began pushing for a focus on the Internet. Even though Discovery’s CEO favored exploring interactive television instead, Hicks organized a grassroots campaign that eventually persuaded the CEO to focus on Web publishing,
indicating that Hicks had power within the organization. Eventually, Hicks was put in charge of running Discovery Channel Online.  

The concept of formal authority is related to power but is narrower in scope. Authority is also a force for achieving desired outcomes, but only as prescribed by the formal hierarchy and reporting relationships. Three properties identify authority:

1. **Authority is vested in organizational positions.** People have authority because of the positions they hold, not because of personal characteristics or resources.
2. **Authority is accepted by subordinates.** Subordinates comply because they believe position holders have a legitimate right to exercise authority. In most North American organizations, employees accept that supervisors can legitimately tell them what time to arrive at work, the tasks to perform while they’re there, and what time they can go home.
3. **Authority flows down the vertical hierarchy.** Authority exists along the formal chain of command, and positions at the top of the hierarchy are vested with more formal authority than are positions at the bottom.

Formal authority is exercised downward along the hierarchy. Organizational power, on the other hand, can be exercised upward, downward, and horizontally in organizations. In addition, managers can have formal authority but little real power. Consider what happened when Bill Gates turned the CEO job at Microsoft over to Steven Ballmer. Although Ballmer got the title and the formal authority, Gates retained the power. He continued to hold sway over many day-to-day business decisions, and sometimes his personal power would undermine Ballmer in front of other executives. Though Gates has now fully stepped aside from management of the company and publicly supports Ballmer’s decisions, insiders say the power struggle left the company in a weakened position, without a clear strategic direction. In the following sections, we will examine how employees throughout the organization can tap into both vertical and horizontal sources of power.

**Vertical Sources of Power**

All employees along the vertical hierarchy have access to some sources of power. Although a large amount of power is typically allocated to top managers by the organization structure, people throughout the organization often obtain power disproportionate to their formal positions and can exert influence in an upward direction, as Tom Hicks did at the Discovery Channel. There are four major sources of vertical power: formal position, resources, control of decision premises and information, and network centrality.

**Formal Position.** Certain rights, responsibilities, and prerogatives accrue to top positions. People throughout the organization accept the legitimate right of top managers to set goals, make decisions, and direct activities. This is legitimate power, as defined earlier. Senior managers often use symbols and language to perpetuate their legitimate power. For example, the new administrator at a large hospital in the San Francisco area symbolized his legitimate position power by issuing a newsletter with his photo on the cover and airing a 24-hour-a-day video to personally welcome patients.

The amount of power provided to middle managers and lower-level participants can be built into the organization’s structural design. The allocation of power to middle managers and staff is important because power enables employees to be
productive. When job tasks are nonroutine, and when employees participate in self-directed teams and problem-solving task forces, this encourages them to be flexible and creative and to use their own discretion. Allowing people to make their own decisions increases their power.

Power is also increased when a position encourages contact with high-level people. Access to powerful people and the development of a relationship with them provide a strong base of influence. For example, in some organizations an administrative assistant to the president might have more power than a department head because the assistant has access to the senior executive on a daily basis.

The logic of designing positions for more power assumes that an organization does not have a limited amount of power to be allocated among high-level and low-level employees. The total amount of power in an organization can be increased by designing tasks and interactions along the hierarchy so everyone can exert more influence. If the distribution of power is skewed too heavily toward the top, research suggests that the organization will be less effective.

**Resources.** Organizations allocate huge amounts of resources. Buildings are constructed, salaries are paid, and equipment and supplies are purchased. Each year, new resources are allocated in the form of budgets. These resources are allocated downward from top managers. Top managers often own stock, which gives them property rights over resource allocation. However, in many of today’s organizations, employees throughout the organization also share in ownership, which increases their power.

In most cases, top managers control the resources and, hence, can determine their distribution. Resources can be used as rewards and punishments, which are additional sources of power. Resource allocation also creates a dependency relationship. Lower-level participants depend on top managers for the financial and physical resources needed to perform their tasks. Top management can exchange resources in the form of salaries and bonuses, personnel, promotions, and physical facilities for compliance with the outcomes they desire.

**Control of Decision Premises and Information.** Control of decision premises means that top managers place constraints on decisions made at lower levels by specifying a decision frame of reference and guidelines. In one sense, top managers make big decisions, whereas lower-level participants make small decisions. Top management decides which goal an organization will try to achieve, such as increased market share. Lower-level participants then decide how the goal is to be reached. In one company, top management appointed a committee to select a new marketing vice president. The CEO provided the committee with detailed qualifications that the new vice president should have. He also selected people to serve on the committee. In this way, the CEO shaped the decision premises within which the marketing vice president would be chosen. Top manager actions and decisions such as these place limits on the decisions of lower-level managers and thereby influence the outcome of their decisions.

The control of information can also be a source of power. Managers recognize that information is a primary business resource and that by controlling what information is collected, how it is interpreted, and how it is shared, they can influence how decisions are made. In many of today’s companies, information is openly and broadly shared, which increases the power of people throughout the organization.

However, top managers generally have access to more information than do other employees. This information can be released as needed to shape the decision outcomes of other people. In one organization, Clark Ltd., the senior information technology
(IT) manager controlled information given to the board of directors and thereby influenced the board’s decision to purchase a sophisticated computer system.42 The board of directors had formal authority to decide from which company the system would be purchased. The management services group was asked to recommend which of six computer manufacturers should receive the order. Jim Kenny was in charge of the management services group, and Kenny disagreed with other managers about which system to purchase. As shown in Exhibit 13.3, other managers had to go through Kenny to have their viewpoints heard by the board. Kenny shaped the board’s thinking toward selecting the system he preferred by controlling information given to them.

Middle managers and lower-level employees may also have access to information that can increase their power. An assistant to a senior executive can often control information that other people want and will thus be able to influence those people. Top executives depend on people throughout the organization for information about problems or opportunities. Middle managers or lower-level employees may manipulate the information they provide to top managers in order to influence decision outcomes.

**Network Centrality.** *Network centrality* means being centrally located in the organization and having access to information and people that are critical to the company’s success. Managers as well as lower-level employees are more effective and more influential when they put themselves at the center of a communication network, building connections with people throughout the company. For example, in Exhibit 13.4, Radha has a well-developed communication network, sharing information and assistance with many people across the marketing, manufacturing, and engineering departments. Contrast Radha’s contacts with those of Jasmine or Kirill. Who do you think is likely to have greater access to resources and more influence in the organization?
People at all levels of the hierarchy can use the idea of network centrality to accomplish goals and be more successful. A real-life example comes from Xerox Corporation. Several years ago, Cindy Casselman, who had little formal power and authority, began selling her idea for an intranet site to managers all over the company. Casselman had a well-developed network, and she worked behind the scenes, gradually gaining the power she needed to make her vision a reality—and win a promotion in the process.43

People can increase their network centrality by becoming knowledgeable and expert about certain activities or by taking on difficult tasks and acquiring specialized knowledge that makes them indispensable to managers above them. People who show initiative, work beyond what is expected, take on undesirable but important projects, and show interest in learning about the company and industry often find themselves with influence. Physical location also helps because some locations are in the center of things. Central location lets a person be visible to key people and become part of important interaction networks.

EXHIBIT 13.4
An Illustration of Network Centrality

ASSESS YOUR ANSWER

2 A factory worker on the assembly line is in a low power position and should accept that he or she will have little influence over what happens.

ANSWER: Disagree. Although an assembly line worker typically has little formal power and authority, all employees have access to some sources of power. It is up to the individual to network or gather information to expand his or her power in the organization. In addition, when employees band together, they can have a tremendous amount of power. Managers can’t get anything done unless employees cooperate and do the work they’re supposed to do.
People. Top leaders often increase their power by surrounding themselves with a group of loyal executives. Loyal managers keep the leader informed and in touch with events and report possible disobedience or troublemaking in the organization. Top executives can use their central positions to build alliances and exercise substantial power when they have a management team that is fully in support of their decisions and actions.

Many top executives strive to build a cadre of loyal and supportive executives to help them achieve their goals for the organization. For example, former New York Stock Exchange Chairman Dick Grasso placed his friends and allies in critical positions and pushed favored candidates for board posts. As another example, the U.S. government handpicked the advisers and committee members who would influence decisions made by the interim Iraqi government.

This idea works in the opposite direction too. Lower-level people have greater power when they have positive relationships and connections with higher-ups. By being loyal and supportive of their bosses, employees sometimes gain favorable status and exert greater influence.

The Power of Empowerment

In forward-thinking organizations, top managers want lower-level employees to have greater power so they can do their jobs more effectively. These managers intentionally push power down the hierarchy and share it with employees to enable them to achieve goals. Empowerment is power sharing, the delegation of power or authority to subordinates in an organization. Increasing employee power heightens motivation for task accomplishment because people improve their own effectiveness, choosing how to do a task and using their creativity.

Empowering employees involves giving them three elements that enable them to act more freely to accomplish their jobs: information, knowledge, and power.

1. Employees receive information about company performance. In companies where employees are fully empowered, all employees have access to all financial and operational information.
2. Employees have knowledge and skills to contribute to company goals. Companies use training programs and other development tools to help people acquire the knowledge and skills they need to contribute to organizational performance.
3. Employees have the power to make substantive decisions. Empowered employees have the authority to directly influence work procedures and organizational performance, such as through quality circles or self-directed work teams.

Many of today’s organizations are implementing empowerment programs, but they are empowering workers to varying degrees. At some companies, empowerment means encouraging workers’ ideas while managers retain final authority for decisions; at others it means giving employees almost complete freedom and power to make decisions and exercise initiative and imagination. The continuum of empowerment can run from a situation in which front-line workers have almost no discretion, such as on a traditional assembly line, to full empowerment, where workers even participate in formulating organizational strategy. One organization that pushes empowerment to the maximum is Semco.
The Brazil-based company Semco’s fundamental operating principle is to harness the wisdom of all its employees. It does so by letting people control their work hours, location, and even pay plans. Employees also participate in all organizational decisions, including what businesses Semco should pursue.

Semco leaders believe economic success requires creating an atmosphere that puts power and control directly in the hands of employees. People can veto any new product idea or business venture. They choose their own leaders and manage themselves to accomplish goals. Information is openly and broadly shared so that everyone knows where they and the company stand. Instead of dictating Semco’s identity and strategy, leaders allow it to be shaped by individual interests and efforts. People are encouraged to seek challenge, explore new ideas and business opportunities, and question the ideas of anyone in the company.

This high level of employee empowerment has helped Semco achieve decades of high profitability and growth despite fluctuations in the economy and shifting markets. “At Semco, we don’t play by the rules,” says Ricardo Semler. Semler, whose father started the company in the 1950s, says it doesn’t unnerve him to “step back and see nothing on the company’s horizon.” He is happy to watch the company and its employees “ramble through their days, running on instinct and opportunity.”

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**Horizontal Sources of Power**

Horizontal power pertains to relationships across departments, divisions, or other units. All vice presidents are usually at the same level on the organization chart. Does this mean each department has the same amount of power? No. Horizontal power is not defined by the formal hierarchy or the organization chart. Each department makes a unique contribution to organizational success. Some departments will have greater say and will achieve their desired outcomes, whereas others will not. For example, Charles Perrow surveyed managers in several industrial firms. He bluntly asked, “Which department has the most power?” among four major departments: production, sales and marketing, R&D, and finance and accounting. Partial survey results are given in Exhibit 13.5.

In most firms, sales had the greatest power. In a few firms, production was also quite powerful. On average, the sales and production departments were more powerful than R&D and finance, although substantial variation existed. Differences in the amount of horizontal power clearly occurred in those firms. Power shifts among departments depending on circumstances. Today, IT departments have growing power in many organizations. In the federal government, watchdog and regulatory agencies for Wall Street are increasing in power because of the 2008 financial meltdown.

Power differences also apply to organizations that join together in alliances or other partnerships, where one company may gain more power because of changing circumstances. For example, when SBC Communications (AT&T’s predecessor) and Yahoo! first entered a strategic partnership in 2001, SBC desperately needed Yahoo! to help convince people to sign up for high-speed Internet service. By 2008, though, broadband was in high demand, and AT&T was in a much stronger position overall than Yahoo!, leading to a shift in the power relationship between the two companies. AT&T is negotiating to reduce the fees it pays to Yahoo!, which could kick the Internet company where it hurts even as it tries to become more competitive against Google.
Horizontal power is difficult to measure because power differences are not defined on the organization chart. However, some initial explanations for power differences, such as those shown in Exhibit 13.5, have been found. The theoretical concept that explains relative power is called strategic contingencies.\(^{53}\)

**Strategic Contingencies.** **Strategic contingencies** are events and activities both inside and outside an organization that are essential for attaining organizational goals. Departments involved with strategic contingencies for the organization tend to have greater power. Departmental activities are important when they provide strategic value by solving problems or crises for the organization. For example, if an organization faces an intense threat from lawsuits and regulations, the legal department will gain power and influence over organizational decisions because it copes with such a threat. If product innovation is the key strategic issue, the power of R&D can be expected to be high.

The strategic contingency approach to power is similar to the resource dependence model described in Chapters 4 and 5. Recall that organizations try to reduce dependency on the external environment. The strategic contingency approach to power suggests that the departments or organizations most responsible for dealing with key resource issues and dependencies in the environment will become most powerful. The National Football League, for instance, bowed to the power of the

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cable companies and arranged for its television partners, CBS and NBC, to simultaneously broadcast along with the NFL Network the highly-anticipated December 2007 game between the undefeated Patriots and the Giants. The NFL tried for years to get the cable companies to add its network to their basic packages along with ESPN and ESPN2, but the cable companies refused because the price was too high. The NFL has a popular product, but with limited distribution options, it is in a low power position compared to the cable operators.  

**Power Sources.** Jeffrey Pfeffer and Gerald Salancik, among others, have been instrumental in conducting research on the strategic contingency theory. Their findings indicate that a department rated as powerful may possess one or more of the characteristics illustrated in Exhibit 13.6. In some organizations these five power sources overlap, but each provides a useful way to evaluate sources of horizontal power.

1. **Dependency.** Interdepartmental dependency is a key element underlying relative power. Power is derived from having something someone else wants. The power of department A over department B is greater when department B depends on department A. Materials, information, and resources may flow between departments in one direction, such as in the case of sequential task interdependence (see Chapter 7). In such cases, the department receiving resources is in a lower power position than the department providing them. The number and strength of dependencies are also important. When seven or eight departments must come for help to the engineering department, for example, engineering is in a strong power position. In contrast, a department that depends on many other departments...
departments is in a low power position. Likewise, a department in an otherwise low power position might gain power through dependencies. If a factory cannot produce without the expertise of maintenance workers to keep the machines working, the maintenance department is in a strong power position because it has control over a strategic contingency.

2. **Financial resources.** Control over resources is an important source of power in organizations. Money can be converted into other kinds of resources that are needed by other departments. Money generates dependency; departments that provide financial resources have something other departments want. Departments that generate income for an organization have greater power. Exhibit 13.5 showed sales as the most powerful unit in most industrial firms. This is because salespeople find customers and bring in money, thereby removing an important problem for the organization. An ability to provide financial resources also explains why certain departments are powerful in other organizations, such as universities.

You might expect budget allocation in a state university to be a straightforward process. The need for financial resources can be determined by such things as the number of undergraduate students, the number of graduate students, and the number of faculty in each department.

In fact, resource allocation at the University of Illinois is not clear-cut. The University of Illinois has a relatively fixed resource inflow from state government. Beyond that, important resources come from research grants and the quality of students and faculty. University departments that provide the most resources to the university are rated as having the most power. Some departments have more power because of their resource contribution to the university. Departments that generate large research grants are more powerful, for instance, because research grants contain a sizable overhead payment to university administration. This overhead money pays for a large share of the university’s personnel and facilities. The size of a department’s graduate student body and the national prestige of the department also add to power. Graduate students and national prestige are nonfinancial resources that add to the reputation and effectiveness of the university.

How do university departments use their power? Generally, they use it to obtain even more resources from the rest of the university. Very powerful departments receive university resources, such as graduate-student fellowships, internal research support, and summer faculty salaries, far in excess of their needs based on the number of students and faculty.

As shown in the example of the University of Illinois, power accrues to departments that bring in or provide resources that are highly valued by an organization. Power enables those departments to obtain more of the scarce resources allocated within the organization. “Power derived from acquiring resources is used to obtain more resources, which in turn can be employed to produce more power—the rich get richer.”

3. **Centrality.** **Centrality** reflects a department’s role in the primary activity of an organization. One measure of centrality is the extent to which the work of the department affects the final output of the organization. For example, the production department is more central and usually has more power than
staff groups (assuming no other critical contingencies). Centrality is associated with power because it reflects the contribution made to the organization. The corporate finance department of an investment bank generally has more power than the stock research department. By contrast, in the manufacturing firms described in Exhibit 13.5, finance tends to be low in power. When the finance department has the limited task of recording money and expenditures, it is not responsible for obtaining critical resources or for producing the products of the organization. Today, however, finance departments have greater power in many organizations because of the greater need for controlling costs.

4. Nonsubstitutability. Power is also determined by nonsubstitutability, which means that a department’s function cannot be performed by other readily available resources. Similarly, if an employee cannot be easily replaced, his or her power is greater. If an organization has no alternative sources of skill and information, a department’s power will be greater. This can be one reason top managers use outside consultants. Consultants might be used as substitutes for staff people to reduce the power of staff groups.

The impact of substitutability on power was studied for programmers in computer departments. When computers were first introduced, programming was a rare and specialized occupation. Programmers controlled the use of organizational computers because they alone possessed the knowledge to program them. Over a period of about 10 years, computer programming became a more common activity. People could be substituted easily, and the power of programming departments dropped. Substitutability affects the power of organizations as well. Major record labels once had tremendous power over artists in the music industry because they had almost total control over which artists got their music recorded and in front of consumers. Today, though, bands like Nine Inch Nails and Radiohead can release albums directly on the Internet without going through a label. In addition, Wal-Mart, the largest music retailer in the United States, has entered the music making and marketing business, buying albums directly from artists like the Eagles and Journey. Intense marketing helped the Eagles’ “Long Road Out of Eden” sell 711,000 copies through Wal-Mart in its first week, without a traditional record company ever being involved.

5. Coping with Uncertainty. Elements in the environment can change swiftly and can be unpredictable and complex. In the face of uncertainty, little information is available to managers on appropriate courses of action. Departments that reduce this uncertainty for the organization will increase their power. When market research personnel accurately predict changes in demand for new products, they gain power and prestige because they have reduced a critical uncertainty. But forecasting is only one technique. Sometimes uncertainty can be reduced by taking quick and appropriate action after an unpredictable event occurs.

Departments can cope with critical uncertainties by (1) obtaining prior information, (2) prevention, and (3) absorption. Obtaining prior information means a department can reduce an organization’s uncertainty by forecasting an event. Departments increase their power through prevention by predicting and forestalling negative events. Absorption occurs when a department takes action after an event to reduce its negative consequences. Consider the following case from the health care industry.
Because hospitals and other health care providers have to deal with so many complex legal and regulatory matters, the legal department is usually in a high power position. That is certainly the case at Carilion Health System, based in Roanoke, Virginia. Some years ago, the legal department successfully fought off a U.S. Department of Justice antitrust lawsuit and played a crucial role in negotiating a merger between Carilion and Roanoke’s only other hospital.

Since then, the legal department has been kept busy not only with regulatory issues but also with trying to get payment from patients who say they can’t pay their high medical bills. Because Roanoke is now a “one-market town” in terms of health care, critics say Carilion is getting away with charging excessive fees, thereby hurting patients, businesses, insurers, and the entire community. The Roanoke City District Court devotes one morning a week to cases filed by Carilion, which during one recent fiscal year sued nearly 10,000 patients, garnished the wages of more than 5,000 people, and placed liens on nearly 4,000 homes.

The negative press resulting from this, along with a backlash from independent doctors who say Carilion is intentionally stifling competition, means the public relations department has a chance to increase its power as well. The department is actively involved in efforts to bolster Carilion’s image as a good corporate citizen, emphasizing that it only sues patients it believes have the ability to pay and pointing out the millions of dollars Carilion dispenses to charity care each year.

At Carilion, the legal department absorbed a critical uncertainty by fighting off the antitrust lawsuit and helping Carilion grow in size and power. It continues to take action after uncertainties appear (such as patients who don’t pay).

Horizontal power relationships in organizations change as strategic contingencies change. Whereas the legal department will likely continue in a high power position at Carilion, the need of the hospital to improve its reputation and fend off growing criticism could lead to an increase in the power of the public relations department. The public relations department can gain power by being involved in activities targeted toward both prevention and absorption. Departments that help organizations cope with new strategic issues will increase their power.

**POLITICAL PROCESSES IN ORGANIZATIONS**

Politics, like power, is intangible and difficult to measure. It is hidden from view and is hard to observe in a systematic way. Two surveys uncovered the following reactions of managers toward political behavior.

1. Most managers have a negative view toward politics and believe that politics will more often hurt than help an organization in achieving its goals.
2. Managers believe that political behavior is common in practically all organizations.
3. Most managers think that political behavior occurs more often at upper rather than lower levels in organizations.
4. Managers believe political behavior arises in certain decision domains, such as structural change, but is absent from other decisions, such as handling employee grievances.
Based on these surveys, politics seems more likely to occur at the top levels of an organization and around certain issues and decisions. Moreover, managers do not approve of political behavior. The remainder of this chapter explores more fully what political behavior is, when it should be used, the type of issues and decisions most likely to be associated with politics, and some political tactics that may be effective.

**Definition**

Power has been described as the available force or potential for achieving desired outcomes. *Politics* is the use of power to influence decisions in order to achieve those outcomes. The exercise of power and influence has led to two ways to define politics—as self-serving behavior or as a natural organizational decision process. The first definition emphasizes that politics is self-serving and involves activities that are not sanctioned by the organization. In this view, politics involves deception and dishonesty for purposes of individual self-interest and leads to conflict and disharmony within the work environment. This dark view of politics is widely held by laypeople, and political activity certainly can be used in this way. Recent studies have shown that workers who perceive this kind of political activity within their companies often have related feelings of anxiety and job dissatisfaction. Studies also support the belief that inappropriate use of politics is related to low employee morale, inferior organizational performance, and poor decision making. This view of politics explains why managers in the aforementioned surveys did not approve of political behavior.

Although politics can be used in a negative, self-serving way, the appropriate use of political behavior can serve organizational goals. The second view sees politics as a natural organizational process for resolving differences among organizational interest groups. Politics is the process of bargaining and negotiation that is used to overcome conflicts and differences of opinion. In this view, politics is similar to the coalition-building decision processes described in Chapter 12.

The organization theory perspective views politics as described in the second definition. Politics is simply the activity through which power is exercised in the resolution of conflicts and uncertainty. Consider that Jeffrey Immelt, CEO of General Electric, considers himself a failure if he exercises his formal authority more than seven or eight times a year. The rest of the time, Immelt is using political activity to persuade and influence others and to resolve conflicting ideas and opinions. Politics is neutral and is not necessarily harmful to the organization. The formal definition of organizational politics is as follows: Organizational politics involves activities to acquire, develop, and use power and other resources to influence others and obtain the preferred outcome when there is uncertainty or disagreement about choices.

Political behavior can be either a positive or a negative force. Politics is the use of power to get things accomplished—good things as well as bad. Uncertainty and conflict are natural and inevitable, and politics is the mechanism for reaching agreement. Politics includes informal discussions that enable people to arrive at consensus and make decisions that otherwise might be stalemated or unsolvable.
Politics is a mechanism for arriving at consensus when uncertainty is high and there is disagreement over goals or problem priorities. Recall the rational versus political models described in Exhibit 13.2. The political model is associated with conflict over goals, shifting coalitions and interest groups, ambiguous information, and uncertainty. Thus, political activity tends to be most visible when managers confront nonprogrammed decisions, as described in Chapter 12, and is related to the Carnegie model of decision making. Because managers at the top of an organization generally deal with more nonprogrammed decisions than do managers at lower levels, more political activity will appear at higher levels. Moreover, some issues are associated with inherent disagreement. Resources, for example, are critical for the survival and effectiveness of departments, so resource allocation often becomes a political issue. Rational methods of allocation do not satisfy participants. Three domains of political activity (areas in which politics plays a role) in most organizations are structural change, management succession, and resource allocation.

Structural reorganizations strike at the heart of power and authority relationships. Reorganizations such as those discussed in Chapter 3 change responsibilities and tasks, which also affects the underlying power base from strategic contingencies. For these reasons, a major reorganization can lead to an explosion of political activity. Managers may actively bargain and negotiate to maintain the responsibilities and power bases they have. Mergers and acquisitions also frequently create tremendous political activity.

Organizational changes such as hiring new executives, promotions, and transfers have great political significance, particularly at top organizational levels where uncertainty is high and networks of trust, cooperation, and communication among executives are important. Hiring decisions can generate uncertainty, discussion, and disagreement. Managers can use hiring and promotion to strengthen network alliances and coalitions by putting their own people in prominent positions.

The third area of political activity is resource allocation. Resource allocation decisions encompass all resources required for organizational performance, including salaries, operating budgets, employees, office facilities, equipment, use of the company airplane, and so forth. Resources are so vital that disagreement about priorities exists, and political processes help resolve the dilemmas.
One theme in this chapter has been that power in organizations is not primarily a phenomenon of the individual. It is related to the resources departments command, the role departments play in an organization, and the environmental contingencies with which departments cope. Position and responsibility, more than personality and style, may determine a manager’s ability to influence outcomes in the organization.

Power is used through individual political behavior, however. To fully understand the use of power within organizations, it is important to look at both structural components and individual behavior. Although power often comes from larger organizational forms and processes, the political use of power involves individual-level activities and skills. To learn about your political skills, complete the questionnaire in the “How Do You Fit the Design?” box. Managers with political

### How Do You Fit the Design?

How good are you at influencing people across an organization? To learn something about your political skills, answer the questions that follow. Please answer whether each item is Mostly True or Mostly False for you.

<table>
<thead>
<tr>
<th></th>
<th>Mostly True</th>
<th>Mostly False</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I am able to communicate easily and effectively with others.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. I spend a lot of time at work developing connections with people outside my area.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. I instinctively know the right thing to say or do to influence others.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. I am good at using my connections outside my area to get things done at work.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. When communicating with others I am absolutely genuine in what I say and do.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. It is easy for me to reach out to new people.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. I make strangers feel comfortable and at ease around me.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. I am good at sensing the motivations and hidden agendas of others.</td>
<td></td>
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</table>

**Scoring:** Give yourself one point for each item marked as Mostly True.

**Interpretation:** Having some basic political skill helps a manager gain broad support and influence. Political skills help a manager build personal and organizational relationships that enhance your team’s outcomes. A score of 6 or higher suggests active political skills and a good start for your career, especially in an organization in which things get done politically. If you scored three or less, you may want to focus more on building collegial and supportive relationships as you progress in your career. If not, perhaps join an organization in which decisions and actions are undertaken by rational procedures rather than by support of key coalitions.

skill are more effective at influencing others and thus getting what they want. These managers have honed their abilities to observe and understand patterns of interaction and influence in the organization. They are skilled at developing relationships with a broad network of people and can adapt their behavior and approach to diverse people and situations. Politically effective managers understand that influence is about relationships.

Managers can develop political competence, and they can learn to use a wide variety of influence tactics depending on their own position as well as the specific situation. For instance, research indicates that managers in HR departments may use softer, more subtle approaches than do managers in more powerful finance departments. In one study, HR executives, who were not seen as having centrality to the firm’s mission, took a low-key approach to try to influence others, whereas finance executives, who had a more central and powerful position, used harder, more direct influence tactics.

The following sections summarize various tactics that managers can use to increase their own or their department’s power base, political tactics they can use to achieve desired outcomes, and tactics for increasing cooperation and collaboration, thus reducing damaging conflict. These tactics are summarized in Exhibit 13.7.

**Tactics for Increasing Power**

Four tactics for increasing power are as follows:

1. **Enter areas of high uncertainty.** One source of individual or departmental power is to identify key uncertainties and take steps to remove those uncertainties. Uncertainties could arise from stoppages on an assembly line, from the quality demanded of a new product, or from the inability to predict a demand for new services. Once an uncertainty is identified, the department can take action to cope with it. By their very nature, uncertain tasks will not be solved immediately. Trial and error will be needed, which is to the advantage of the department. The trial-and-error process provides experience and expertise that cannot easily be duplicated by other departments.

2. **Create dependencies.** Dependencies are another source of power. When the organization depends on a department for information, materials, knowledge, or skills, that department will hold power over others. This power can be increased by incurring obligations. There is much research indicating that most people feel

<table>
<thead>
<tr>
<th>Tactics for Increasing the Power Base</th>
<th>Political Tactics for Using Power</th>
<th>Tactics for Enhancing Collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Create dependencies.</td>
<td>2. Assign loyal people to key positions.</td>
<td>2. Use confrontation and negotiation.</td>
</tr>
<tr>
<td>3. Provide scarce resources.</td>
<td>3. Control decision premises.</td>
<td>3. Schedule intergroup consultation.</td>
</tr>
<tr>
<td>4. Satisfy strategic contingencies.</td>
<td>4. Enhance legitimacy and expertise.</td>
<td>4. Practice member rotation.</td>
</tr>
<tr>
<td>5. Make a direct appeal.</td>
<td>5. Create superordinate goals.</td>
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</table>
Managers use a variety of political tactics to influence others and bring about desired outcomes. In his book *Influence: Science and Practice*, Robert Cialdini examines the social and psychological pressures that cause people to respond favorably to these various tactics. Over years of study, Cialdini, Regents’ Professor of Psychology at Arizona State University, has identified some basic *influence principles*, “those that work in a variety of situations, for a variety of practitioners, on a variety of topics, for a variety of prospects.”

**INFLUENCE PRINCIPLES**

Having a working knowledge of the basic set of persuasion tools can help managers predict and influence human behavior, which is valuable for interacting with colleagues, employees, customers, partners, and even friends. Some basic psychological principles that govern successful influence tactics are as follows:

- **Reciprocity.** The principle of reciprocity refers to the sense of obligation people feel to give back in kind what they have received. For example, a manager who does favors for others creates in them a sense of obligation to return the favors in the future. Smart managers find ways to be helpful to others, whether it be helping a colleague finish an unpleasant job or offering compassion and concern for a subordinate’s personal problems.

- **Liking.** People say yes more often to those they like. Companies such as Tupperware Corp. have long understood that familiar faces and congenial characteristics sell products. In-home Tupperware parties allow customers to buy from a friend instead of an unknown salesperson. Salespeople in all kinds of companies often try to capitalize on this principle by finding interests they share with customers as a way to establish rapport. In general, managers who are pleasant, generous with praise, cooperative, and considerate of others’ feelings find that they have greater influence.

- **Credible authority.** Legitimate authorities are particularly influential sources. However, research has discovered that the key to successful use of authority is to be knowledgeable, credible, and trustworthy. Managers who become known for their expertise, who are honest and straightforward with others, and who inspire trust can exert greater influence than those who rely on formal position alone.

- **Social validation.** One of the primary ways people decide what to do in any given situation is to consider what others are doing. That is, people examine the actions of others to validate correct choices. For instance, when homeowners were shown a list of neighbors who had donated to a local charity during a fundraiser, the frequency of contributions increased dramatically. By demonstrating, or even implying, that others have already complied with a request, managers gain greater cooperation.

**THE PROCESS OF SOCIAL INFLUENCE**

Because life as a manager is all about influencing others, learning to be genuinely persuasive is a valuable management skill. Cialdini’s book helps managers understand the basic psychological rules of persuasion—how and why people are motivated to change their attitudes and behaviors. When managers use this understanding in an honest and ethical manner, they improve their effectiveness and the success of their organizations.

created dependencies in many organizations because of the rapid changes in this area. Employees in other departments depend on the IT unit to master complex software programs, changing use of the Internet, and other advances so that they will have the information they need to perform effectively.

3. **Provide scarce resources.** Resources are always important to organizational survival. Departments that accumulate resources and provide them to an organization in the form of money, information, or facilities will be powerful. An earlier “In Practice” example described how university departments with the greatest power are those that obtain external research funds for contributions to university overhead. Likewise, sales departments are powerful in industrial firms because they bring in financial resources.

4. **Satisfy strategic contingencies.** The theory of strategic contingencies says that some elements in the external environment and within the organization are especially important for organizational success. A contingency could be a critical event, a task for which there are no substitutes, or a central task that is interdependent with many others in the organization. An analysis of the organization and its changing environment will reveal strategic contingencies. To the extent that contingencies are new or are not being satisfied, there is room for a department to move into those critical areas and increase its importance and power.

In summary, the allocation of power in an organization is not random. Power is the result of organizational processes that can be understood and predicted. The abilities to reduce uncertainty, increase dependency on one’s own department, obtain resources, and cope with strategic contingencies all enhance a department’s power. Once power is available, the next challenge is to use it to attain desired outcomes.

**Political Tactics for Using Power**

The use of power in organizations requires both skill and willingness. Many decisions are made through political processes because rational decision processes do not fit. Uncertainty or disagreement is too high. **Political tactics for using power** to influence decision outcomes include the following:

1. **Build coalitions and expand networks.** Effective managers develop positive relationships throughout the organization, and they spend time talking with others to learn about their views and build mutually beneficial alliances and coalitions. Most important decisions are made outside of formal meetings. Managers discuss issues with each other and reach agreement. Effective managers are those who huddle, meeting in groups of twos and threes to resolve key issues. They also make sure their networks cross hierarchical, functional, and even organizational boundaries. One research project found that the ability to build networks has a positive impact on both employees’ perception of a manager’s effectiveness and the ability of the manager to influence performance. Networks can be expanded by (1) reaching out to establish contact with additional managers and (2) coopting dissenters. Establishing contact with additional managers means building good interpersonal relationships based on liking, trust, and respect. Reliability and the motivation to work with rather than exploit others are part of both networking and coalition building. The second approach to expanding networks, cooptation, is the act of bringing a dissenter into one’s network. One example of cooptation involved a university
committee whose membership was based on promotion and tenure. Several professors who were critical of the tenure and promotion process were appointed to the committee. Once a part of the administrative process, they could see the administrative point of view. Cooptation effectively brought them into the administrative network.  

2. **Assign loyal people to key positions.** Another political tactic is to assign trusted and loyal people to key positions in the organization or department. Top managers as well as department heads often use the hiring, transfer, and promotion processes to place in key positions people who are sympathetic to the outcomes of the department, thus helping to achieve departmental goals. Top leaders frequently use this tactic, as we discussed earlier. When an outside police chief was hired to take over a major metropolitan police department, he brought three assistant chiefs with him because their thinking and management skills were compatible with his goals to transform the department.

3. **Control decision premises.** To control decision premises means to constrain the boundaries of a decision. One technique is to choose or limit information provided to other managers. A common method is simply to put your department’s best foot forward, such as selectively presenting favorable criteria. A variety of statistics can be assembled to support the departmental point of view. A university department that is growing rapidly and has a large number of students can make claims for additional resources by emphasizing its growth and large size. Such objective criteria do not always work, but they are a valuable step.

   Decision premises can be further influenced by limiting the decision process. Decisions can be influenced by the items put on an agenda for an important meeting or even by the sequence in which items are discussed. Items discussed last, when time is short and people want to leave, will receive less attention than those discussed earlier. Calling attention to specific problems and suggesting alternatives also will affect outcomes. Stressing a specific problem to get it—rather than problems not relevant to your department—on the agenda is an example of agenda setting.

4. **Enhance legitimacy and expertise.** Managers can exert the greatest influence in areas in which they have recognized legitimacy and expertise. If a request is within the task domain of a department and is consistent with the department’s vested interest, other departments will tend to comply. Members can also identify external consultants or other experts within the organization to support their cause. For example, a financial vice president in a large retail firm wanted to fire the director of HR management. She hired a consultant to evaluate the HR projects undertaken to date. A negative report from the consultant provided sufficient legitimacy to fire the director, who was replaced with a director loyal to the financial vice president.

5. **Make a direct appeal.** If managers do not ask, they seldom receive. An example of direct appeal comes from Drugstore.com, where Jessica Morrison used direct appeal to get a new title and a salary increase. Morrison researched pay scales on PayScale.com and approached her boss armed with that and other pertinent information. Her direct appeal, backed up with research, won her the promotion. Political activity is effective only when goals and needs are made explicit so the organization can respond. An assertive proposal may be accepted because other managers have no better alternatives. Moreover, an explicit proposal will often receive favorable treatment because other alternatives are ambiguous and less well defined. Effective political behavior requires
Managers can use an understanding of these tactics to assert influence and get things done within the organization. When managers ignore political tactics, they may find themselves failing without understanding why. For example, at the World Bank, Paul Wolfowitz tried to wield power without building the necessary relationships he needed to assert influence.

After former Deputy Secretary of Defense Paul Wolfowitz lost his bids to become defense secretary or national security advisor in the Bush administration, he jumped at the chance to be the new president of World Bank. But Wolfowitz doomed his career at World Bank from the start by failing to develop relationships and build alliances.

Most World Bank leaders had been in their positions for many years when Wolfowitz arrived, and they were accustomed to “promoting each other’s interests and scratching each other’s backs,” as one board member put it. Wolfowitz came in and tried to assert his own ideas, goals, and formal authority without considering the interests, ideas, and goals of others. He quickly alienated much of the World Bank leadership team and board by adopting a single-minded position on key issues and refusing to consider alternative views. Rather than attempting to persuade others to his way of thinking, Wolfowitz issued directives to senior bank officers, either personally or through his handpicked managers. Several high-level officers resigned following disputes with the new president.

Eventually, the board asked for Wolfowitz’s resignation. “What Paul didn’t understand is that the World Bank presidency is not inherently a powerful job,” said one former colleague. “A bank president is successful only if he can form alliances with the bank’s many fiefdoms. Wolfowitz didn’t ally with those fiefdoms. He alienated them.”

Tactics for Enhancing Collaboration

Many organizations have at least moderate interunit conflict, and an additional approach in many organizations is to overcome conflict by stimulating cooperation...
and collaboration among departments to support the attainment of organizational goals. **Tactics for enhancing collaboration** include the following:

1. **Create integration devices.** As described in Chapter 3, teams, task forces, and project managers who span the boundaries between departments can be used as integration devices. Bringing together representatives from conflicting departments in joint problem-solving teams is an effective way to enhance collaboration because representatives learn to understand each other’s point of view.  

   Sometimes a full-time integrator is assigned to achieve cooperation and collaboration by meeting with members of the respective departments and exchanging information. The integrator has to understand each group’s problems and must be able to move both groups toward a solution that is mutually acceptable.  

   Teams and task forces reduce conflict and enhance cooperation because they integrate people from different departments. Integration devices can also be used to enhance cooperation between labor and management. At Magee Rieter Automotive Systems in Bloomsburg, Pennsylvania, for example, empowered cross-functional teams work closely with managers to run the business. Conflicts between labor and management arise, but they are worked out before they ever reach the grievance stage.  

   **Labor–management teams**, which are designed to increase worker participation and provide a cooperative model for solving union–management problems, are increasingly being used at companies such as Goodyear, Ford Motor Company, and Xerox. In the steel industry, companies such as USX and Wheeling-Pittsburgh Steel have signed pacts that give union representatives seats on the board. Although unions continue to battle over traditional issues such as wages, these integration devices are creating a level of cooperation that many managers would not have believed possible just a few years ago. 

2. **Use confrontation and negotiation.** **Confrontation** occurs when parties in conflict directly engage one another and try to work out their differences. **Negotiation** is the bargaining process that often occurs during confrontation and that enables the parties to systematically reach a solution. These techniques bring appointed representatives from the departments together to work out a serious dispute. Confrontation and negotiation involve some risk. There is no guarantee that discussions will focus on a conflict or that emotions will not get out of hand. However, if members are able to resolve the conflict on the basis of face-to-face discussions, they will find new respect for each other, and future collaboration becomes easier. The beginnings of relatively permanent attitude change are possible through direct negotiation.

   Confrontation and negotiation are successful when managers engage in a **win–win strategy**. Win–win means both sides adopt a positive attitude and strive to resolve the conflict in a way that will benefit each other. If the negotiations deteriorate into a strictly win–lose strategy (each group wants to defeat the other), the confrontation will be ineffective. The differences between win–win and win–lose strategies of negotiation are shown in Exhibit 13.8. With a win–win strategy—which includes defining the problem as mutual, communicating openly, and avoiding threats—understanding can be changed while the dispute is resolved.

   One type of negotiation, used to resolve a disagreement between workers and management, is referred to as **collective bargaining.** The bargaining process is usually accomplished through a union and results in an agreement that specifies each party’s responsibilities for the next two to three years.
3. **Schedule intergroup consultation.** When conflict is intense and enduring, and department members are suspicious and uncooperative, top managers may intervene as third parties to help resolve the conflict or bring in third-party consultants from outside the organization. This process, sometimes called *workplace mediation*, is a strong intervention to reduce conflict because it involves bringing the disputing parties together and allowing each side to present its version of the situation. The technique has been developed by such psychologists as Robert Blake, Jane Mouton, and Richard Walton.

Department members attend a workshop, which may last for several days, away from day-to-day work problems. This approach is similar to the organization development (OD) approach described in Chapter 11. The conflicting groups are separated, and each group is invited to discuss and make a list of its perceptions of itself and the other group. Group representatives publicly share these perceptions, and together the groups discuss the results. Intergroup consultation can be quite demanding for everyone involved, but if handled correctly, these sessions can help department employees understand each other much better and lead to improved attitudes and better working relationships for years to come.

4. **Practice member rotation.** Rotation means that individuals from one department can be asked to work in another department on a temporary or permanent basis. The advantage is that individuals become submerged in the values, attitudes, problems, and goals of the other department. In addition, individuals can explain the problems and goals of their original departments to their new colleagues. This enables a frank, accurate exchange of views and information. Rotation works slowly to reduce conflict but is very effective for changing the underlying attitudes and perceptions that promote conflict.

5. **Create shared mission and superordinate goals.** Another strategy is for top management to create a shared mission and establish superordinate goals that require cooperation among departments. As discussed in Chapter 10, organizations with strong, adaptive cultures, where employees share a larger vision for
their company, are more likely to have a united, cooperative workforce. Studies have shown that when employees from different departments see that their goals are linked, they will openly share resources and information. To be effective, superordinate goals must be substantial, and employees must be granted the time and incentives to work cooperatively in pursuit of the superordinate goals rather than departmental subgoals.

**DESIGN ESSENTIALS**

- The central message of this chapter is that conflict, power, and politics are natural outcomes of organizing. Differences in goals, backgrounds, and tasks are necessary for organizational excellence, but these differences can throw groups into conflict. Managers use power and politics to manage and resolve conflict.

- Two views of organization were presented. The rational model of organization assumes that organizations have specific goals and that problems can be logically solved. The other view, the political model of organization, is the basis for much of the chapter. This view assumes that the goals of an organization are not specific or agreed upon. Departments have different values and interests, so managers come into conflict. Decisions are made on the basis of power and political influence. Bargaining, negotiation, persuasion, and coalition building decide outcomes.

- The chapter also discussed the vertical and horizontal sources of power. Vertical sources of power include formal position, resources, control of decision premises, and network centrality. In general, managers at the top of the organizational hierarchy have more power than people at lower levels. However, positions all along the hierarchy can be designed to increase the power of employees. As organizations face increased competition and environmental uncertainty, top executives are finding that increasing the power of middle managers and lower-level employees can help the organization be more competitive. Empowerment is a popular trend in today’s organizations. Empowering employees means giving them three key elements: information and resources, necessary knowledge and skills, and the power to make substantive decisions.

- Research into horizontal power processes has revealed that certain characteristics make some departments more powerful than others. Differences in power can be understood using the concept of strategic contingencies. Departments responsible for dealing with key resource issues and dependencies are more powerful. Such factors as dependency, resources, nonsubstitutability, and dealing with uncertainty determine the influence of departments.

- Managers need political skills. Many people distrust political behavior, fearing that it will be used for selfish ends that benefit the individual but not the organization. However, politics is often needed to achieve the legitimate goals of a department or organization. Three areas in which political behavior often plays a role are structural change, management succession, and resource allocation because these are areas of high uncertainty. Managers use political tactics, including building coalitions, expanding networks, controlling decision premises, enhancing legitimacy, and making a direct appeal, to help their departments achieve desired outcomes.
Although conflict and political behavior are natural and can be used for beneficial purposes, managers also strive to enhance collaboration so that conflict between groups does not become too strong. Tactics for enhancing collaboration include integration devices, confrontation and negotiation, intergroup consultation, member rotation, and shared mission and superordinate goals.

**Key Concepts**

- authority
- centrality
- collective bargaining
- competition
- confrontation
- decision premises
- dependency
- domains of political activity
- empowerment
- intergroup conflict
- labor–management teams
- negotiation
- network centrality
- nonsubstitutability
- organizational politics
- political model
- political tactics for using power
- power
- power sources
- rational model
- sources of intergroup conflict
- strategic contingencies
- tactics for enhancing collaboration
- tactics for increasing power

**Discussion Questions**

1. Give an example from your personal experience of how differences in tasks, personal background, and training lead to conflict among groups. How might task interdependence have influenced that conflict?
2. As discussed in Chapter 11, consumer products giant Procter & Gamble and Internet leader Google have entered into a marketing partnership. What organizational and environmental factors might determine which organization will have more power in the relationship?
3. In a rapidly changing organization, are decisions more likely to be made using the rational or political model of organization? Discuss.
4. What is the difference between power and authority? Is it possible for a person to have formal authority but no real power? Discuss.
5. Discuss ways in which a department at a health insurance company might help the organization cope with the increased power of large hospital systems such as Carilion by obtaining prior information, prevention, or absorption.
6. In Exhibit 13.5, R&D has greater power in company B than in the other firms. Discuss possible strategic contingencies that might give R&D greater power in this firm.
7. State University X receives 90 percent of its financial resources from the state and is overcrowded with students. It is trying to pass regulations to limit student enrollment. Private University Y receives 90 percent of its income from student tuition and has barely enough students to make ends meet. It is actively recruiting students for next year. In which university will students have greater power? What implications will this have for professors and administrators? Discuss.
8. A financial analyst at Merrill Lynch tried for several months to expose the risks of investments in subprime mortgages, but he couldn’t get anyone to pay attention to his claims. How would you evaluate this employee’s power? What might he have done to increase his power and call notice to the impending problems at the firm?
9. The engineering college at a major university brings in three times as many government research dollars as does the rest of the university combined. Engineering appears wealthy and has many professors on full-time research status. Yet, when internal research funds are allocated, engineering gets a larger share of the money, even though it already has substantial external research funds. Why would this happen?
10. Some researchers argue that the concept of exchange underlying the principle of reciprocity (trading something of value to another for what you want) is the basis of all influence. Do you agree? Discuss. To what extent do you feel obligated to return a favor that is done for you?
Chapter 13 Workbook: How Do You Handle Conflict?*

Think of some disagreements you have had with a friend, relative, manager, or co-worker. Then indicate how frequently you engage in each of the following behaviors. There are no right or wrong answers. Respond to all items using the following scale from 1 to 7:

<table>
<thead>
<tr>
<th>Scale</th>
<th>Always</th>
<th>Very often</th>
<th>Often</th>
<th>Sometimes</th>
<th>Seldom</th>
<th>Very seldom</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>I blend my ideas to create new alternatives for resolving a disagreement.</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>I shy away from topics that are sources of disputes.</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>I make my opinion known in a disagreement.</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>I suggest solutions that combine a variety of viewpoints.</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>I steer clear of disagreeable situations.</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>I give in a little on my ideas when the other person also gives in.</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<td>7.</td>
<td>I avoid the other person when I suspect that he or she wants to discuss a disagreement.</td>
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<td>8.</td>
<td>I integrate arguments into a new solution from the issues raised in a dispute.</td>
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<td>9.</td>
<td>I will go 50–50 to reach a settlement.</td>
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<td>10.</td>
<td>I raise my voice when I’m trying to get the other person to accept my position.</td>
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<td>11.</td>
<td>I offer creative solutions in discussions of disagreements.</td>
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<tr>
<td>12.</td>
<td>I keep quiet about my views in order to avoid disagreements.</td>
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<td>13.</td>
<td>I give in if the other person will meet me halfway.</td>
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<td>14.</td>
<td>I downplay the importance of a disagreement.</td>
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<td>15.</td>
<td>I reduce disagreements by making them seem insignificant.</td>
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<td>16.</td>
<td>I meet the other person at a midpoint in our differences.</td>
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<td>17.</td>
<td>I assert my opinion forcefully.</td>
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<td>18.</td>
<td>I dominate arguments until the other person understands my position.</td>
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<td>19.</td>
<td>I suggest we work together to create solutions to disagreements.</td>
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<td>20.</td>
<td>I try to use the other person’s ideas to generate solutions to problems.</td>
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<td>21.</td>
<td>I offer tradeoffs to reach solutions in disagreements.</td>
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<td>22.</td>
<td>I argue insistently for my stance.</td>
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<td>23.</td>
<td>I withdraw when the other person confronts me about a controversial issue.</td>
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<td>24.</td>
<td>I sidestep disagreements when they arise.</td>
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<td>25.</td>
<td>I try to smooth over disagreements by making them appear unimportant.</td>
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<td>26.</td>
<td>I insist my position be accepted during a disagreement with the other person.</td>
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<td>27.</td>
<td>I make our differences seem less serious.</td>
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<td>28.</td>
<td>I hold my tongue rather than argue with the other person.</td>
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<td>29.</td>
<td>I ease conflict by claiming our differences are trivial.</td>
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<td>30.</td>
<td>I stand firm in expressing my viewpoints during a disagreement.</td>
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Scoring and Interpretation: Three categories of conflict-handling strategies are measured in this instrument: solution oriented, nonconfrontational, and control. By comparing your scores on the following three scales, you can see which of the three is your preferred conflict-handling strategy.

To calculate your three scores, add the individual scores for the items and divide by the number of items measuring the strategy. Then subtract each of the three mean scores from seven.

Solution oriented: Items 1, 4, 6, 8, 9, 11, 13, 16, 19, 20, 21 (total = 11)

Nonconfrontational: Items 2, 5, 7, 12, 14, 15, 23, 24, 25, 27, 28, 29 (total = 12)

Control: Items 3, 10, 17, 18, 22, 26, 30 (total = 7)

Solution-oriented strategies tend to focus on the problem rather than on the individuals involved. Solutions reached are often mutually beneficial, with neither party defining himself or herself as the winner and the other party as the loser.

Nonconfrontational strategies tend to focus on avoiding the conflict by either avoiding the other party or by simply allowing the other party to have his or her way.
These strategies are used when there is more concern with avoiding a confrontation than with the actual outcome of the problem situation.

*Control strategies* tend to focus on winning or achieving one’s goals without regard for the other party’s needs or desires. Individuals using these strategies often rely on rules and regulations in order to win the battle.

**Questions**
1. Which strategy do you find easiest to use? Most difficult? Which do you use more often?
2. How would your answers have differed if the other person was a friend, family member, or co-worker?
3. What is it about the conflict situation or strategy that tells you which strategy to use in dealing with a conflict situation?


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**Case for Analysis: The Daily Tribune**

The *Daily Tribune* is the only daily newspaper serving a six-county region of eastern Tennessee. Even though its staff is small and it serves a region of mostly small towns and rural areas, the *Tribune* has won numerous awards for news coverage and photojournalism from the Tennessee Press Association and other organizations.

Rick Arnold became news editor almost fifteen years ago. He has spent his entire career with the *Tribune* and feels a great sense of pride that it has been recognized for its journalistic integrity and balanced coverage of issues and events. The paper has been able to attract bright, talented young writers and photographers thanks largely to Rick’s commitment and his support of the news staff. In his early years, the newsroom was a dynamic, exciting place to work—reporters thrived on the fast pace and the chance to occasionally scoop the major daily paper in Knoxville.

But times have changed at the *Daily Tribune*. Over the past five years or so, the advertising department has continued to grow, in terms of both staff and budget, while the news department has begun to shrink. “Advertising pays the bills,” publisher John Freeman reminded everyone at this month’s managers’ meeting. “Today, advertisers can go to direct mail, cable television, even the Internet, if they don’t like what we’re doing for them.”

Rick has regularly clashed with the advertising department regarding news stories that are critical of major advertisers, but the conflicts have increased dramatically over the past few years. Now, Freeman is encouraging greater “horizontal collaboration,” as he calls it, asking that managers in the news department and the ad department consult with one another regarding issues or stories that involve the paper’s major advertisers. The move was prompted in part by a growing number of complaints from advertisers about stories they deemed unfair. “We print the news,” Freeman said, “and I understand that sometimes we’ve got to print things that some people won’t like. But we’ve got to find ways to be more advertiser-friendly. If we work together, we can develop strategies that both present good news coverage and serve to attract more advertisers.”

Rick left the meeting fuming, and he didn’t fail to make his contempt for the new “advertiser-friendly” approach known to all, including the advertising manager, Fred Thomas, as he headed down the hallway back to the newsroom. Lisa Lawrence, his managing editor, quietly agreed but pointed out that advertisers were readers too, and the newspaper had to listen to all its constituencies. “If we don’t handle this carefully, we’ll have Freeman and Thomas in here dictating to us what we can write and what we can’t.”

Lawrence has worked with Rick since he first came to the paper, and even though the two have had their share of conflicts, the relationship is primarily one of mutual respect and trust. “Let’s just be careful,” she emphasized. “Read the stories about big advertisers a little more carefully, make sure we can defend whatever we print, and it will all work out. I know this blurring of the line between advertising and editorial rubs you the wrong way, but Thomas is a reasonable man. We just need to keep him in the loop.”

Late that afternoon, Rick received a story from one of his corresponding reporters that had been in the works for a couple of days. East Tennessee Healthcorp (ETH), which operated a string of health clinics throughout the region, was closing three of its rural clinics because of mounting financial woes. The reporter, Elisabeth Fraley, who lived in one of the communities, had learned about the closings from her neighbor, who worked as an accountant for ETH, before the announcement had been made just this afternoon. Fraley had written a compelling human-interest story about how the closings would leave
people in two counties with essentially no access to health care, while clinics in larger towns that didn’t really need them were being kept open. She had carefully interviewed both former patients of the clinics and ETH employees, including the director of one of the clinics and two high-level managers at the corporate office, and she had carefully documented her sources. After this morning’s meeting, Rick knew he should run the story by Lisa Lawrence, since East Tennessee Healthcorp was one of the Tribune’s biggest advertisers, but Lawrence had left for the day. And he simply couldn’t bring himself to consult with the advertising department—that political nonsense was for Lawrence to handle. If he held the story for Lawrence’s approval, it wouldn’t make the Sunday edition. His only other option was to write a brief story simply reporting the closings and leaving out the human-interest aspect. Rick was sure the major papers from Knoxville and other nearby cities would have the report in their Sunday papers, but none of them would have the time to develop as comprehensive and interesting an account as Fraley had presented. With a few quick strokes of the pen to make some minor editorial changes, Rick sent the story to production.

When he arrived at work the next day, Rick was called immediately to the publisher’s office. He knew it was bad news for Freeman to be in on a Sunday. After some general yelling and screaming, Rick learned that tens of thousands of copies of the Sunday paper had been destroyed and a new edition printed. The advertising manager had called Freeman at home in the wee hours of Sunday morning and informed him of the ETH story, which was appearing the same day the corporation was running a full-page ad touting its service to the small towns and rural communities of East Tennessee.

“The story’s accurate, and I assumed you’d want to take advantage of a chance to scoop the big papers,” Rick began, but Freeman cut his argument short. “You could have just reported the basic facts without implying that the company doesn’t care about the people of this region. The next time something like this happens, you’ll find yourself and your reporters standing in the unemployment line!”

Rick had heard it before, but somehow this time he almost believed it. “What happened to the days when the primary purpose of a newspaper was to present the news?” Rick mumbled. “Now, it seems we have to dance to the tune played by the ad department.”


### Case for Analysis: Pierre Dux*

Pierre Dux sat quietly in his office considering the news. A third appointment to regional management had been announced and, once again, the promotion he had expected had been given to someone else. The explanations seemed insufficient this time. Clearly, this signaled the end to his career at INCO. Only one year ago, the company president had arrived at Dux’s facility with national press coverage to publicize the success of his innovations in the management of manufacturing operations. The intervening year had brought improved operating results and further positive publicity for the corporation but a string of personal disappointments for Pierre Dux.

Four years earlier, the INCO manufacturing plant had been one of the least productive of the thirteen facilities operating in Europe. Absenteeism and high employee turnover were symptoms of the low morale among the work group. These factors were reflected in mediocre production levels and the worst quality record in INCO. Pierre Dux had been in his current position one year and had derived his only satisfaction from the fact that these poor results might have been worse had he not instituted minor reforms in organizational communication. These allowed workers and supervisors to vent their concerns and frustrations. Although nothing substantial had changed during that first year, operating results had stabilized, ending a period of rapid decline. But this honeymoon was ending. The expectation of significant change was growing, particularly among workers who had been vocal in expressing their dissatisfaction and suggesting concrete proposals for change.

The change process, which had begun three years before, had centered on a redesign of production operations from a single machine-paced assembly line to a number of semi-autonomous assembly teams. Although the change had been referred to as the INCO “Volvo project” or “INCO’s effort at Japanese-style management,” it had really been neither of these. Rather, it had been the brainchild of a group of managers, led by Dux, who believed that both productivity and working conditions in the plant could be improved through a single effort. Of course, members of the group had visited other so-called innovative production
facilities, but the new work groups and job classifications had been designed with the particular products and technology at INCO in mind.

After lengthy discussions among the management group, largely dedicated to reaching agreement on the general direction that the new project would take, the actual design began to emerge. Equally lengthy discussions (often referred to as negotiations) with members of the workforce, supervisors, and representatives of the local unions were part of the design process. The first restructuring into smaller work groups was tried in an experimental project that received tentative approval from top management in INCO headquarters and a “wait and see” response from the union. The strongest initial resistance had come from the plant engineers. They were sold neither on the new structure nor on the process of involving the workforce in the design of operating equipment and production methods. Previously, the engineering group had itself fulfilled these functions, and it felt the present problems were a result of a lack of skill among employees or managerial unwillingness to make the system work.

The experiment was staffed by volunteers supported by a few of the better-trained workers in the plant. The latter were necessary to ensure a start-up of the new equipment, which had been modified from the existing technology on the assembly line.

The initial experiment met with limited success. Although the group was able to meet the productivity levels of the existing line within a few weeks, critics of the new plan attributed the low level of success to the unrepresentative nature of the experimental group or the newness of the equipment on which they were working. However, even this limited success attracted the attention of numerous people at INCO headquarters and in other plants. All were interested in seeing the new experiment. Visits soon became a major distraction, and Dux declared a temporary halt to permit the project to proceed, although this produced some muttering at headquarters about his “secretive” and “uncooperative” behavior.

Because of the experiment’s success, Dux and his staff prepared to convert the entire production operation to the new system. The enthusiasm of workers in the plant grew as training for the changeover proceeded. In fact, a group of production workers asked to help with the installation of the new equipment as a means of learning more about its operation.

Dux and his staff were surprised at the difficulties encountered at this phase. Headquarters seemed to drag its feet in approving the necessary funding for the changeover. Even after the funding was approved, there was a stream of challenges to minor parts of the plan. “Can’t you lay the workers off during the changeover?” “Why use workers on overtime to do the changeover when you could hire temporary workers more cheaply?” These criticisms reflected a lack of understanding of the basic operating principles of the new system, and Dux rejected them.

The conversion of the entire assembly line to work groups was finally achieved, with the local management group making few concessions from their stated plans. The initial change and the first days of operation were filled with crises. The design process had not anticipated many of the problems that arose with full-scale operations. However, Dux was pleased to see managers, staff, and workers clustered together at the trouble areas, fine-tuning the design when problems arose. Just as the start-up finally appeared to be moving forward, a change in product specifications from a headquarters group dictated additional changes in the design of the assembly process. The new changes were handled quickly and with enthusiasm by the workforce. While the period was exhausting and seemingly endless to those who felt responsible for the change, the new design took only six months to reach normal operating levels (one year had been forecast as the time needed to reach that level—without the added requirement for a change in product specifications).

Within a year, Dux was certain that he had a major success on his hands. Productivity and product quality measures for the plant had greatly improved. In this relatively short period his plant had moved from the worst, according to these indicators, to the third most productive in the INCO system. Absenteeism had dropped only slightly, but turnover had been reduced substantially. Morale was not measured formally but was considered by all members of the management team to be greatly improved. Now, after three years of full operations, the plant was considered the most productive in the entire INCO system.

Dux was a bit surprised when no other facility in INCO initiated a similar effort or called upon him for help. Increases of the early years had leveled off, with the peak being achieved in the early part of year three. Now the facility seemed to have found a new equilibrium. The calm of smoother operations had been a welcome relief to many who had worked so hard to launch the new design. For Dux it provided the time to reflect on his accomplishment and think about his future career.

It was in this context that he considered the news that he had once again been bypassed for promotion to the next level in the INCO hierarchy.

*This case was prepared by Michael Brimm, Associate Professor of INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright © 1983 INSEAD Foundation, Fontainebleau, France. Revised 1987.
Notes


Chapter 13: Conflict, Power, and Politics


34. Astley and Sachdeva, “Structural Sources of Intraorganizational Power.”


40. Pfeffer, Power in Organizations.


57. Emerson, “Power-Dependence Relations.”


60. Hickson et al., “A Strategic Contingencies Theory.”


63. Hickson et al., “A Strategic Contingencies Theory.”


72. Pfeffer, Power in Organizations, 70.


78. Hickson et al., “A Strategic Contingencies Theory.”
Integrative Case 1.0
Rondell Data Corporation
Company History
The Engineering Department: Research
The Engineering Department: Engineering Services
The Sales Department
The Production Department
The Executive Committee
Merry Christmas

Integrative Case 2.0
It Isn’t So Simple: Infrastructure Change at Royce Consulting
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Infrastructure and Proposed Changes
Work Patterns
Organizational Culture
Current Situation
The Feasibility Study
The Challenge

Integrative Case 3.0
Custom Chip, Inc.
Introduction
Company Background
The Manufacturing Process
Role of the Product Engineer
Weekly Meeting
Coordination with Applications Engineers
Coordination with Manufacturing
Later in the Day

Integrative Case 4.0
“Ramrod” Stockwell
The Problem

Integrative Case 5.0
W. L. Gore & Associates, Inc.
Entering 1998
The First Day on the Job
Company Background
Company Products
W. L. Gore & Associates’ Approach to Organization and Structure
The Lattice Organization
Features of W. L. Gore’s Culture
W. L. Gore & Associates’ Sponsor Program
Compensation Practices
W. L. Gore & Associates’ Guiding Principles and Core Values
Research and Development
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Marketing Approaches and Strategy
Adapting to Changing Environmental Forces
W. L. Gore & Associates’ Financial Performance
Acknowledgments
Excerpts from Interviews with Associates

Integrative Case 6.0
Dick Spencer
Salesman
Troubleshooter
Management Responsibility
Modrow Manager
The Siding Department Incident

Integrative Case 7.0
The Plaza Inn
Background
“One of the Ten Best New Inns”
The Front Desk
Reinstatement of the Front Office Manager
The New PBX Position
A New Front Office Manager

Integrative Case 8.0
Dowling Flexible Metals
Background
Bill Dowling, Owner-President
Wally Denton, Shop Foreman, First Shift
Thomas McNull, Shop Foreman, Second Shift
Charlie Oakes, Journeyman Apprentice
Gene Jenkins, Chief Engineer
Eve Sullivan, Office Manager

Integrative Case 9.0
The Donor Services Department
What Is a Donor Services Department in a Sponsorship Agency Anyway?
The Department Head
The Cast of Characters in the Department
The Supervisor
The Workers
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The lights of the city glittered outside Ken Vincent’s twelfth-floor office. After nine years of late nights and missed holidays, Ken was in the executive suite with the words “Associate Partner” on the door. Things should be easier now, but the proposed changes at Royce Consulting had been more challenging than he had expected. “I don’t understand,” he thought. “At Royce Consulting our clients, our people, and our reputation are what count, so why do I feel so much tension from the managers about the changes that are going to be made in the office? We’ve analyzed why we have to make the changes. Heck, we even got an outside person to help us. The administrative support staff are pleased. So why aren’t the managers enthusiastic? We all know what the decision at tomorrow’s meeting will be—Go! Then it will all be over. Or will it?” Ken thought as he turned out the lights.

**Background**

Royce Consulting is an international consulting firm whose clients are large corporations, usually with long-term contracts. Royce employees spend weeks, months, and even years working under contract at the client’s site. Royce consultants are employed by a wide range of industries, from manufacturing facilities to utilities to service businesses. The firm has over 160 consulting offices located in 65 countries. At this location Royce employees included 85 staff members, 22 site managers, 9 partners and associate partners, 6 administrative support staff, 1 human resource professional, and 1 financial support person.

For the most part, Royce Consulting hired entry-level staff straight out of college and promoted from within. New hires worked on staff for five or six years; if they did well, they were promoted to manager. Managers were responsible for maintaining client contracts and assisting partners in creating proposals for future engagements. Those who were not promoted after six or seven years generally left the company for other jobs.

Newly promoted managers were assigned an office, a major perquisite of their new status. During the previous year, some new managers had been forced to share an office because of space limitations. To minimize the friction of sharing an office, one of the managers was usually assigned to a long-term project out of town. Thus, practically speaking, each manager had a private office.

**Infrastructure and Proposed Changes**

Royce was thinking about instituting a hoteling office system—also referred to as a “nonterritorial” or “free-address” office. A hoteling office system made offices available to managers on a reservation or drop-in basis. Managers are not assigned a permanent office; instead, whatever materials and equipment the manager needs are moved into the temporary office. These are some of the features and advantages of a hoteling office system:

- No permanent office assigned
- Offices are scheduled by reservations
- Long-term scheduling of an office is feasible
- Storage space would be located in a separate file room
- Standard manuals and supplies would be maintained in each office
- Hoteling coordinator is responsible for maintaining offices
- A change in “possession of space”
- Eliminates two or more managers assigned to the same office
- Allows managers to keep the same office if desired
- Managers would have to bring in whatever files they needed for their stay
- Information available would be standardized regardless of office
- Managers do not have to worry about “housekeeping issues”

The other innovation under consideration was an upgrade to state-of-the-art electronic office technology. All managers would receive a new notebook computer with updated communications capability to use Royce’s integrated and proprietary software. Also, as part of the electronic office technology, an electronic filing system was considered. The electronic filing system meant information regarding proposals, client records, and promotional materials would be electronically available on the Royce Consulting network.

The administrative support staff had limited experience with many of the application packages used by the managers.

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This case was prepared by Sally Dresdow of the University of Wisconsin at Green Bay and Joy Benson of the University of Illinois at Springfield and is intended to be used as a basis for class discussion. The views represented here are those of the case authors and do not necessarily reflect the views of the Society for Case Research. The authors’ views are based on their own professional judgments. The names of the organization, individuals, and location have been disguised to preserve the organization’s request for anonymity.
While they used word processing extensively, they had little experience with spreadsheets, communications, or graphics packages. The firm had a graphics department and the managers did most of their own work, so the administrative staff did not have to work with those application software packages.

Work Patterns
Royce Consulting was located in a large city in the Midwest. The office was located in the downtown area, but it was easy to get to. Managers assigned to in-town projects often stayed by for a few hours at various times of the day. Managers who were not currently assigned to client projects were expected to be in the office to assist on current projects or work with a partner to develop proposals for new business.

In a consulting firm, managers spend a significant portion of their time at client sites. As a result, the office occupancy rate at Royce Consulting was about 40 to 60 percent. This meant that the firm paid lease costs for offices that were empty approximately half of the time. With the planned growth over the next ten years, assigning permanent offices to every manager, even in double-up arrangements, was judged to be economically unnecessary given the amount of time offices were empty.

The proposed changes would require managers and administrative support staff to adjust their work patterns. Additionally, if a hoteling office system was adopted, managers would need to keep their files in a centralized file room.

Organizational Culture
Royce Consulting had a strong organizational culture, and management personnel were highly effective at communicating it to all employees.

Stability of Culture
The culture at Royce Consulting was stable. The leadership of the corporation had a clear picture of who they were and what type of organization they were. Royce Consulting had positioned itself to be a leader in all areas of large business consulting. Royce Consulting's CEO articulated the firm's commitment to being client-centered. Everything that was done at Royce Consulting was because of the client.

Training
New hires at Royce Consulting received extensive training in the culture of the organization and the methodology employed in consulting projects. They began with a structured program of classroom instruction and computer-aided courses covering technologies used in the various industries in which the firm was involved. Royce Consulting recruited top young people who were aggressive and who were willing to do whatever was necessary to get the job done and build a common bond. Among new hires, camaraderie was encouraged along with a level of competition. This kind of behavior continued to be cultivated throughout the training and promotion process.

Work Relationships
Royce Consulting employees had a remarkably similar outlook on the organization. Accepting the culture and norms of the organization was important for each employee. The norms of Royce Consulting revolved around high performance expectations and strong job involvement.

By the time people made manager, they were aware of what types of behaviors were acceptable. Managers were formally assigned the role of coach to younger staff people, and they modeled acceptable behavior. Behavioral norms included when they came into the office, how late they stayed at the office, and the type of comments they made about others. Managers spent time checking on staff people and talking with them about how they were doing.

The standard for relationships was that of professionalism. Managers knew they had to do what the partners asked and they were to be available at all times. A norms survey and conversations made it clear that people at Royce Consulting were expected to help each other with on-the-job problems, but personal problems were outside the realm of sanctioned relationships. Personal problems were not to interfere with performance on a job. To illustrate, vacations were put on hold and other kinds of commitments were set aside if something was needed at Royce Consulting.

Organizational Values
Three things were of major importance to the organization: its clients, its people, and its reputation. There was a strong client-centered philosophy communicated and practiced. Organization members sought to meet and exceed customer expectations. Putting clients first was stressed. The management of Royce Consulting listened to its clients and made adjustments to satisfy the client.

The reputation of Royce Consulting was important to those leading the organization. They protected and enhanced it by focusing on quality services delivered by quality people. The emphasis on clients, Royce Consulting personnel, and the firm's reputation was cultivated by developing a highly motivated, cohesive, and committed group of employees.

Management Style and Hierarchical Structure
The company organization was characterized by a directive style of management. The partners had the final word on all issues of importance. It was common to hear statements like "Managers are expected to solve problems, and do whatever it takes to finish the job" and "Whatever the
partners want, we do.” Partners accepted and asked for managers’ feedback on projects, but in the final analysis, the partners made the decisions.

**Current Situation**

Royce Consulting had an aggressive five-year plan that was predicated on a continued increase in business. Increases in the total number of partners, associate partners, managers, and staff were forecast. Additional office space would be required to accommodate the growth in staff; this would increase rental costs at a time when Royce’s fixed and variable costs were going up.

The partners, led by managing partner Donald Gray and associate partner Ken Vincent, believed that something had to be done to improve space utilization and the productivity of the managers and administrative personnel. The partners approved a feasibility study of the innovations and their impact on the company.

The ultimate decision makers were the partner group who had the power to approve the concepts and commit the required financial investment. A planning committee consisted of Ken Vincent; the human resources person; the financial officer; and an outside consultant, Mary Schrean.

**The Feasibility Study**

Within two working days of the initial meeting, all the partners and managers received a memo announcing the hoteling office feasibility study. The memo included a brief description of the concept and stated that it would include an interview with the staff. By this time, partners and managers had already heard about the possible changes and knew that Gray was leaning toward hoteling offices.

**Interviews with the Partners**

All the partners were interviewed. One similarity in the comments was that they thought the move to hoteling offices was necessary but they were glad it would not affect them. Three partners expressed concern about managers’ acceptance of the change to a hoteling system. The conclusion of each partner was that if Royce Consulting moved to hoteling offices, with or without electronic office technology, the managers would accept the change. The reason given by the partners for such acceptance was that the managers would do what the partners wanted done.

The partners all agreed that productivity could be improved at all levels of the organization: in their own work as well as among the secretaries and the managers. Partners acknowledged that current levels of information technology at Royce Consulting would not support the move to hoteling offices and that advances in electronic office technology needed to be considered.

Partners viewed all filing issues as secondary to both the office layout change and the proposed technology improvement. What eventually emerged, however, was that ownership and control of files was a major concern, and most partners and managers did not want anything centralized.

**Interviews with the Managers**

Personal interviews were conducted with all ten managers who were in the office. During the interviews, four of the managers asked Schrean whether the change to hoteling offices was her idea. The managers passed the question off as a joke; however, they expected a response from her. She stated that she was there as an adviser, that she had not generated the idea, and that she would not make the final decision regarding the changes.

The length of time that these managers had been in their current positions ranged from six months to five years. None of them expressed positive feelings about the hoteling system, and all of them referred to how hard they had worked to make manager and gain an office of their own. Eight managers spoke of the status that the office gave them and the convenience of having a permanent place to keep their information and files. Two of the managers said they did not care so much about the status but were concerned about the convenience. One manager said he would come in less frequently if he did not have his own office. The managers believed that a change to hoteling offices would decrease productivity. Two managers stated that they did not care how much money Royce Consulting would save on lease costs; they wanted to keep their offices.

However, for all the negative comments, all the managers said that they would go along with whatever the partners decided to do. One manager stated that if Royce Consulting stays busy with client projects, having a permanently assigned office was not a big issue.

During the interviews, every manager was enthusiastic and supportive of new productivity tools, particularly the improved electronic office technology. They believed that new computers and integrated software and productivity tools would definitely improve their productivity. Half the managers stated that updated technology would make the change to hoteling offices “a little less terrible,” and they wanted their secretaries to have the same software as they did.

The managers’ responses to the filing issue varied. The volume of files managers had was in direct proportion to their tenure in that position: The longer a person was a manager, the more files he or she had. In all cases, managers took care of their own files, storing them in their offices and in whatever filing drawers were free.

As part of the process of speaking with managers, their administrative assistants were asked about the proposed changes. Each of the six thought that the electronic office upgrade would benefit the managers, although they were somewhat concerned about what would be expected of
them. Regarding the move to hoteling offices, each said that the managers would hate the change, but that they would agree to it if the partners wanted to move in that direction.

**Results of the Survey**

A survey developed from the interviews was sent to all partners, associate partners, and managers two weeks after the interviews were conducted. The completed survey was returned by 6 of the 9 partners and associate partners and 16 of the 22 managers. This is what the survey showed.

**Work Patterns.** It was “common knowledge” that managers were out of the office a significant portion of their time, but there were no figures to substantiate this belief, so the respondents were asked to provide data on where they spent their time. The survey results indicated that partners spent 38 percent of their time in the office; 54 percent at client sites; 5 percent at home; and 3 percent in other places, such as airports. Managers reported spending 32 percent of their time in the office, 63 percent at client sites, 4 percent at home, and 1 percent in other places.

For 15 workdays, the planning team also visually checked each of the 15 managers’ offices four times each day: at 9 a.m., 11 a.m., 2 p.m., and 4 p.m. These times were selected because initial observations indicated that these were the peak occupancy times. An average of six offices (40 percent of all manager offices) were empty at any given time; in other words, there was a 60 percent occupancy rate.

**Alternative Office Layouts.** One of the alternatives outlined by the planning committee was a continuation of and expansion of shared offices. Eleven of the managers responding to the survey preferred shared offices to hoteling offices. Occasions when more than one manager was in the shared office at the same time were infrequent. Eight managers reported 0 to 5 office conflicts per month; three managers reported 6 to 10 office conflicts per month. The type of problems encountered with shared offices included not having enough filing space, problems in directing telephone calls, and lack of privacy.

Managers agreed that having a permanently assigned office was an important perquisite. The survey confirmed the information gathered in the interviews about managers’ attitudes: All but two managers preferred shared offices over hoteling, and managers believed their productivity would be negatively impacted. The challenges facing Royce Consulting if they move to hoteling offices centered around tradition and managers’ expectations, file accessibility and organization, security and privacy issues, unpredictable work schedules, and high-traffic periods.

**Control of Personal Files.** Because of the comments made during the face-to-face interviews, survey respondents were asked to rank the importance of having personal control of their files. A 5-point scale was used, with 5 being “strongly agree” and 1 being “strongly disagree.” Here are the responses.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Sample</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>6</td>
<td>4.3</td>
</tr>
<tr>
<td>Managers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0–1 year</td>
<td>5</td>
<td>4.6</td>
</tr>
<tr>
<td>2–3 years</td>
<td>5</td>
<td>3.6</td>
</tr>
<tr>
<td>4+ years</td>
<td>6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

**Electronic Technology.** Royce Consulting had a basic network system in the office that could not accommodate the current partners and managers working at a remote site. The administrative support staff had a separate network, and the managers and staff could not communicate electronically. Of managers responding to the survey, 95 percent wanted to use the network but only 50 percent could actually do so.

**Option Analysis**

A financial analysis showed that there were significant cost differences between the options under consideration:

**Option 1: Continue private offices with some office sharing**
- Lease an additional floor in existing building; annual cost, $360,000
- Build out the additional floor (i.e., construct, furnish, and equip offices and work areas): one-time cost, $600,000

**Option 2: Move to hoteling offices with upgraded office technology**
- Upgrade office electronic technology: one-time cost, $190,000

Option 1 was expensive because under the terms of the existing lease, Royce had to commit to an entire floor if it wanted additional space. Hoteling offices showed an overall financial advantage of $360,000 per year and a one-time savings of $410,000 over shared or individual offices.

**The Challenge**

Vincent met with Mary Schrean to discuss the upcoming meeting of partners and managers, where they would present the results of the study and a proposal for action. Included in the report were proposed layouts for both shared and hoteling offices. Vincent and Gray were planning to recommend a hoteling office system, which would include storage areas, state-of-the-art electronic office technology for managers and administrative support staff, and centralized files. The rationale for their decision emphasized the amount of time that managers were out of the
office and the high cost of maintaining the status quo and was built around the following points:

1. Royce’s business is different: offices are empty from 40 to 60 percent of the time.
2. Real estate costs continue to escalate.
3. Projections indicate there will be increased need for offices and cost-control strategies as the business develops.
4. Royce Consulting plays a leading role in helping organizations implement innovation.

“It’s still a go,” thought Vincent as he and the others returned from a break. “The cost figures support it and the growth figures support it. It’s simple—or is it? The decision is the easy part. What is it about Royce Consulting that will help or hinder its acceptance? In the long run, I hope we strengthen our internal processes and don’t hinder our effectiveness by going ahead with these simple changes.”
Introduction
It was 7:50 on Monday morning. Frank Questin, product engineering manager at Custom Chip, Inc., was sitting in his office making a TO DO list for the day. From 8:00 to 9:30 a.m., he would have his weekly meeting with his staff of engineers. After the meeting, Frank thought he would begin developing a proposal for solving what he called “Custom Chip’s manufacturing documentation problem”—inadequate technical information regarding the steps to manufacture many of the company’s products. Before he could finish his TO DO list, he answered a phone call from Custom Chip’s human resource manager, who asked him about the status of two overdue performance appraisals and reminded him that this day marked Bill Lazarus’s fifth-year anniversary with the company. Following this call, Frank hurried off to the Monday morning meeting with his staff.

Frank had been product engineering manager at Custom Chip for fourteen months. This was his first management position, and he sometimes questioned his effectiveness as a manager. Often he could not complete the tasks he set out for himself due to interruptions and problems brought to his attention by others. Even though he had not been told exactly what results he was supposed to accomplish, he had a nagging feeling that he should have achieved more after these fourteen months. On the other hand, he thought maybe he was functioning pretty well in some of his areas of responsibility given the complexity of the problems his group handled and the unpredictable changes in the semiconductor industry—changes caused not only by rapid advances in technology, but also by increased foreign competition and a recent downturn in demand.

Company Background
Custom Chip, Inc., was a semiconductor manufacturer specializing in custom chips and components used in radars, satellite transmitters, and other radio frequency devices. The company had been founded in 1977 and had grown rapidly with sales exceeding $25 million in 1986. Most of the company’s 300 employees were located in the main plant in Silicon Valley, but overseas manufacturing facilities in Europe and the Far East were growing in size and importance. These overseas facilities assembled the less complex, higher-volume products. New products and the more complex ones were assembled in the main plant. Approximately one-third of the assembly employees were in overseas facilities.

While the specialized products and markets of Custom Chip provided a market niche that had thus far shielded the company from the major downturn in the semiconductor industry, growth had come to a standstill. Because of this, cost reduction had become a high priority.

The Manufacturing Process
Manufacturers of standard chips have long production runs of a few products. Their cost per unit is low and cost control is a primary determinant of success. In contrast, manufacturers of custom chips have extensive product lines and produce small production runs of special applications. Custom Chip, Inc., for example, had manufactured over 2,000 different products in the last five years. In any one quarter the company might schedule 300 production runs for different products, as many as one-third of which might be new or modified products that the company had not made before. Because they must be efficient in designing and manufacturing many product lines, all custom chip manufacturers are highly dependent on their engineers. Customers are often first concerned with whether Custom Chip can design and manufacture the needed product at all; second, with whether they can deliver it on time; and only third, with cost.

After a product is designed, there are two phases to the manufacturing process. (See Exhibit 1.) The first is wafer fabrication. This is a complex process in which circuits are etched onto the various layers added to a silicon wafer. The number of steps that the wafer goes through plus inherent problems in controlling various chemical processes make it very difficult to meet the exacting specifications required for the final wafer. The wafers, which are typically “just a few” inches in diameter when the fabrication process is complete, contain hundreds, sometimes thousands, of tiny identical die. Once the wafer has been tested and sliced up to produce these die, each die will be used as a circuit component.

If the completed wafer passes the various quality tests, it moves on to the assembly phase. In assembly, the die from the wafers, very small wires, and other components are attached to a circuit in a series of precise operations. This finished circuit is the final product of Custom Chip, Inc.

Each product goes through many independent and delicate operations, and each step is subject to operator variability.
or machine error. Due to the number of steps and tests involved, the wafer fabrication takes eight to twelve weeks and the assembly process takes four to six weeks. Because of the exacting specifications, products are rejected for the slightest flaw. The likelihood that every product starting the run will make it through all of the processes and still meet specifications is often quite low. For some products, average yield\(^1\) is as low as 40 percent, and actual yields can vary considerably from one run to another. At Custom Chip, the average yield for all products is in the 60 to 70 percent range.

Because it takes so long to make a custom chip, it is especially important to have some control of these yields. For example, if a customer orders one thousand units of a product and typical yields for that product average 50 percent, Custom Chip will schedule a starting batch of 2,200 units. With this approach, even if the yield falls as low as 45.4 percent (45.4 percent of 2,200 is 1,000) the company can still meet the order. If the actual yield falls below 45.4 percent, the order will not be completed in that run, and a very small, costly run of the item will be needed to complete the order. The only way the company can effectively control these yields and stay on schedule is for the engineering groups and operations to cooperate and coordinate their efforts efficiently.

**Role of the Product Engineer**

The product engineer’s job is defined by its relationship to applications engineering and operations. The applications

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\(^1\)Yield refers to the ratio of finished products that meet specifications relative to the number that initially entered the manufacturing process.
engineers are responsible for designing and developing prototypes when incoming orders are for new or modified products. The product engineer’s role is to translate the applications engineering group’s design into a set of manufacturing instructions and then to work alongside manufacturing to make sure that engineering-related problems get solved. The product engineers’ effectiveness is ultimately measured by their ability to control yields on their assigned products. The organization chart in Exhibit 2 shows the engineering and operations departments. Exhibit 3 summarizes the roles and objectives of

**EXHIBIT 2**
Custom Chip, Inc., Partial Organization Chart

**EXHIBIT 3**
Departmental Roles and Objectives

<table>
<thead>
<tr>
<th>Department</th>
<th>Role</th>
<th>Primary Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications Engineering</td>
<td>Designs and develops prototypes for new or modified products&lt;br&gt; Translates designs into manufacturing instructions and works alongside manufacturing to solve “engineering-related” problems&lt;br&gt; Executes designs</td>
<td>Satisfy customer needs through innovative designs&lt;br&gt; Maintain and control yields on assigned products</td>
</tr>
<tr>
<td>Product Engineering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td>Meet productivity standards and time schedules</td>
</tr>
</tbody>
</table>
manufacturing, applications engineering, and product engineering.

The product engineers estimate that 70 to 80 percent of their time is spent in solving day-to-day manufacturing problems. The product engineers have cubicles in a room directly across the hall from the manufacturing facility. If a manufacturing supervisor has a question regarding how to build a product during a run, that supervisor will call the engineer assigned to that product. If the engineer is available, he or she will go to the manufacturing floor to help answer the question. If the engineer is not available, the production run may be stopped and the product put aside so that other orders can be manufactured. This results in delays and added costs. One reason that product engineers are consulted is that documentation—the instructions for manufacturing the product—is unclear or incomplete.

The product engineer will also be called if a product is tested and fails to meet specifications. If a product fails to meet test specifications, production stops, and the engineer must diagnose the problem and attempt to find a solution. Otherwise, the order for that product may be only partially met. Test failures are a very serious problem, which can result in considerable cost increases and schedule delays for customers. Products do not test properly for many reasons, including operator errors, poor materials, a design that is very difficult to manufacture, a design that provides too little margin for error, or a combination of these.

On a typical day, the product engineers may respond to half a dozen questions from the manufacturing floor, and two to four calls to the testing stations. When interviewed, the engineers expressed a frustration with this situation. They thought they spent too much time solving short-term problems, and, consequently, they were neglecting other important parts of their jobs. In particular, they felt they had little time in which to:

- **Coordinate with applications engineers during the design phase.** The product engineers stated that their knowledge of manufacturing could provide valuable input to the applications engineers. Together they could improve the manufacturability and thus, the yields of the new or modified products.
- **Engage in yield improvement projects.** This would involve an in-depth study of the existing process for a specific product in conjunction with an analysis of past product failures.
- **Accurately document the manufacturing steps for their assigned products, especially for those that tend to have large or repeat orders.** They said that the current state of the documentation is very poor. Operators often have to build products using only a drawing showing the final circuit, along with a few notes scribbled in the margins. While experienced operators and supervisors may be able to work with this information, they often make incorrect guesses and assumptions. Inexperienced operators may not be able to proceed with certain products because of this poor documentation.

### Weekly Meeting

As manager of the product engineering group, Frank Questin had eight engineers reporting to him, each responsible for a different set of Custom Chip products. According to Frank:

When I took over as manager, the product engineers were not spending much time together as a group. They were required to handle operations problems on short notice. This made it difficult for the entire group to meet due to constant requests for assistance from the manufacturing area.

I thought that my engineers could be of more assistance and support to each other if they all spent more time together as a group, so one of my first actions as a manager was to institute a regularly scheduled weekly meeting. I let the manufacturing people know that my staff would not respond to requests for assistance during the meeting.

The meeting on this particular Monday morning followed the usual pattern. Frank talked about upcoming company plans, projects, and other news that might be of interest to the group. He then provided data about current yields for each product and commended those engineers who had maintained or improved yields on most of their products. This initial phase of the meeting lasted until about 8:30 a.m. The remainder of the meeting was a meandering discussion of a variety of topics. Since there was no agenda, engineers felt comfortable in raising issues of concern to them.

The discussion started with one of the engineers describing a technical problem in the assembly of one of his products. He was asked a number of questions and given some advice. Another engineer raised the topic of a need for new testing equipment and described a test unit he had seen at a recent demonstration. He claimed the savings in labor and improved yields from this machine would allow it to pay for itself in less than nine months. Frank immediately replied that budget limitations made such a purchase unfeasible, and the discussion moved into another area. They briefly discussed the increasing inaccessibility of the applications engineers and then talked about a few other topics.

In general, the engineers valued these meetings. One commented that:

*The Monday meetings give me a chance to hear what’s on everyone’s mind and to find out about and discuss company-wide news. It’s hard to reach any conclusions because the meeting is a freewheeling discussion. But I really appreciate the friendly atmosphere with my peers.*
Coordination with Applications Engineers

Following the meeting that morning, an event occurred that highlighted the issue of the inaccessibility of the applications engineers. An order of 300 units of custom chip 1210A for a major customer was already overdue. Because the projected yield of this product was 70 percent, they had started with a run of 500 units. A sample tested at one of the early assembly points indicated a major performance problem that could drop the yield to below 50 percent. Bill Lazarus, the product engineer assigned to the 1210A, examined the sample and determined that the problem could be solved by redesigning the wiring. Jerry West, the applications engineer assigned to that product category, was responsible for revising the design. Bill tried to contact Jerry, but he was not immediately available, and didn’t get back to Bill until later in the day. Jerry explained that he was on a tight schedule trying to finish a design for a customer who was coming into town in two days, and could not get to “Bill’s problem” for a while.

Jerry’s attitude that the problem belonged to product engineering was typical of the applications engineers. From their point of view there were a number of reasons for making the product engineers’ needs for assistance a lower priority. In the first place, applications engineers were warranted and acknowledged primarily for satisfying customer needs through designing new and modified products. They got little recognition for solving manufacturing problems. Second, applications engineering was perceived to be more glamorous than product engineering because of opportunities to be credited with innovative and groundbreaking designs. Finally, the size of the applications engineering group had declined over the past year, causing the workload on each engineer to increase considerably. Now they had even less time to respond to the product engineers’ requests.

When Bill Lazarus told Frank about the situation, Frank acted quickly. He wanted this order to be in process again by tomorrow, and he knew manufacturing was also trying to meet this goal. He walked over to see Pete Chang, head of applications engineering (see the organizational chart in Exhibit 2). Meetings like this with Pete to discuss and resolve interdepartmental issues were common.

Frank found Pete at a workbench talking with one of his engineers. He asked Pete if he could talk to him in private, and they walked to Pete’s office.

Frank: We’ve got a problem in manufacturing in getting out an order of 1210As. Bill Lazarus is getting little or no assistance from Jerry West. I’m hoping you can get Jerry to pitch in and help Bill. It should take no more than a few hours of his time.

Pete: I do have Jerry on a short leash trying to keep him focused on getting out a design for Teletronics. We can’t afford to show up empty-handed at our meeting with them in two days.

Frank: Well, we are going to end up losing one customer in trying to please another. Can’t we satisfy everyone here?

Pete: Do you have an idea?

Frank: Can’t you give Jerry some additional support on the Teletronics design?

Pete: Let’s get Jerry in here to see what we can do.

Pete brought Jerry back to the office, and together they discussed the issues and possible solutions. When Pete made it clear to Jerry that he considered the problem with the 1210As a priority, Jerry offered to work on the 1210A problem with Bill. He said, “This will mean I’ll have to stay a few hours past 5:00 this evening, but I’ll do what’s required to get the job done.”

Frank was glad he had developed a collaborative relationship with Pete. He had always made it a point to keep Pete informed about activities in the product engineering group that might affect the applications engineers. In addition, he would often chat with Pete informally over coffee or lunch in the company cafeteria. This relationship with Pete made Frank’s job easier. He wished he had the same rapport with Rod Cameron, the manufacturing manager.

Coordination with Manufacturing

The product engineers worked closely on a day-to-day basis with the manufacturing supervisors and workers. The problems between these two groups stemmed from an inherent conflict between their objectives (see Exhibit 3). The objective of the product engineers was to maintain and improve yields. They had the authority to stop production of any run that did not test properly. Manufacturing, on the other hand, was trying to meet productivity standards and time schedules. When a product engineer stopped a manufacturing run, he or she was possibly preventing the manufacturing group from reaching its objectives.

Rod Cameron, the current manufacturing manager, had been promoted from his position as a manufacturing supervisor a year ago. His views on the product engineers:

The product engineers are perfectionists. The minute a test result looks a little suspicious they want to shut down the factory. I’m under a lot of pressure to get products out the door. If they pull a few $50,000 orders off the line when they are within a few days of reaching shipping, I’m liable to miss my numbers by $100,000 that month.

Besides that, they are doing a lousy job of documenting the manufacturing steps. I’ve got a lot of turnover, and my new operators need to be told or shown exactly what to do for each product. The instructions for a lot of our products are a joke.
At first, Frank found Rod very difficult to deal with. Rod found fault with the product engineers for many problems and sometimes seemed rude to Frank when they talked. For example, Rod might tell Frank to “make it quick; I haven’t got much time.” Frank tried not to take Rod’s actions personally, and through persistence was able to develop a more amicable relationship with him. According to Frank:

Sometimes, my people will stop work on a product because it doesn’t meet test results at that stage of manufacturing. If we study the situation, we might be able to maintain yields or even save an entire run by adjusting the manufacturing procedures. Rod tries to bully me into changing my engineers’ decisions. He yells at me or criticizes the competence of my people, but I don’t allow his temper or raving to influence my best judgment in a situation. My strategy in dealing with Rod is to try not to respond defensively to him. Eventually he cools down, and we can have a reasonable discussion of the situation.

Despite this strategy, Frank could not always resolve his problems with Rod. On these occasions, Frank took the issue to his own boss, Sam Porter, the vice president in charge of engineering. However, Frank was not satisfied with the support he got from Sam. Frank said:

Sam avoids confrontations with the operations VP. He doesn’t have the influence or clout with the other VPs or the president to do justice to engineering’s needs in the organization.

Early that afternoon, Frank again found himself trying to resolve a conflict between engineering and manufacturing. Sharon Hart, one of his most effective product engineers, was responsible for a series of products used in radars—the 3805A–3808A series. Today she had stopped a large run of 3806As. The manufacturing supervisor, Brian Faber, went to Rod Cameron to complain about the impact of this stoppage on his group’s productivity. Brian felt that yields were low on that particular product because the production instructions were confusing to his operators, and that even with clearer instructions, his operators would need additional training to build it satisfactorily. He stressed that the product engineer’s responsibility was to adequately document the production instructions and provide training. For these reasons, Brian asserted that product engineering, and not manufacturing, should be accountable for the productivity loss in the case of these 3806As.

Rod called Frank to his office, where he joined the discussion with Sharon, Brian, and Rod. After listening to the issues, Frank conceded that product engineering had responsibility for documenting and training. He also explained, even though everyone was aware of it, that the product engineering group had been operating with reduced staff for over a year now, so training and documentation were lower priorities. Because of this staffing situation, Frank suggested that manufacturing and product engineering work together and pool their limited resources to solve the documentation and training problem. He was especially interested in using a few of the long-term experienced workers to assist in training newer workers. Rod and Brian opposed his suggestion. They did not want to take experienced operators off of the line because it would decrease productivity. The meeting ended when Brian stormed out, saying that Sharon had better get the 3806As up and running again that morning.

Frank was particularly frustrated by this episode with manufacturing. He knew perfectly well that his group had primary responsibility for documenting the manufacturing steps for each product. A year ago he told Sam Porter that the product engineers needed to update and standardize all of the documentation for manufacturing products. At that time, Sam told Frank that he would support his efforts to develop the documentation, but would not increase his staff. In fact, Sam had withheld authorization to fill a recently vacated product engineering slot. Frank was reluctant to push the staffing issue because of Sam’s adamant about reducing costs. “Perhaps,” Frank thought, “if I develop a proposal clearly showing the benefits of a documentation program in manufacturing and detailing the steps and resources required to implement the program, I might be able to convince Sam to provide us with more resources.” But Frank could never find the time to develop that proposal. And so he remained frustrated.

Later in the Day
Frank was reflecting on the complexity of his job when Sharon came to the doorway to see if he had a few moments. Before he could say “Come in,” the phone rang. He looked at the clock. It was 4:10 p.m. Pete was on the other end of the line with an idea he wanted to try out on Frank, so Frank said he could call him back shortly. Sharon was upset, and told him that she was thinking of quitting because the job was not satisfying for her.

Sharon said that although she very much enjoyed working on yield improvement projects, she could find no time for them. She was tired of the applications engineers acting like “prima donnas,” too busy to help her solve what they seemed to think were mundane day-to-day manufacturing problems. She also thought that many of the day-to-day problems she handled wouldn’t exist if there was enough time to document manufacturing procedures to begin with.

Frank didn’t want to lose Sharon, so he tried to get into a frame of mind where he could be empathetic to her.
He listened to her and told her that he could understand her frustration in this situation. He told her the situation would change as industry conditions improved. He told her that he was pleased that she felt comfortable in venting her frustrations with him, and he hoped she would stay with Custom Chip.

After Sharon left, Frank realized that he had told Pete that he would call back. He glanced at the TO DO list he had never completed, and realized that he hadn’t spent time on his top priority—developing a proposal relating to solving the documentation problem in manufacturing. Then, he remembered that he had forgotten to acknowledge Bill Lazarus’s fifth-year anniversary with the company. He thought to himself that his job felt like a roller coaster ride, and once again he pondered his effectiveness as a manager.
The Benson Metal Company employs about 1,500 people, is listed on the stock exchange, and has been in existence for many decades. It makes a variety of metals that are purchased by manufacturers or specialized metal firms. It is one of the five or six leading firms in the specialty steel industry. This industry produces steels in fairly small quantities with a variety of characteristics. Orders tend to be in terms of pounds rather than tons, although a 1,000-pound order is not unusual. For some of the steels, 100 pounds is an average order.

The technology for producing specialty steels in the firm is fairly well established, but there is still a good deal of guesswork, skill, and even some “black magic” involved. Small changes are made in the ingredients going into the melting process, often amounting to the addition of a tiny bit of expensive alloying material in order to produce varieties of specialty steels. Competitors can analyze one another’s products and generally produce the same product without too much difficulty, although there are some secrets. There are also important variations stemming from the type of equipment used to melt, cog, roll, and finish the steel.

In the period that we are considering, the Benson Company and some of its competitors were steadily moving into more sophisticated and technologically more difficult steels, largely for the aerospace industry. The aerospace products were far more difficult to make, required more research skills and metallurgical analysis, and required more “delicate” handling in all stages of production, even though the same basic equipment was involved. Furthermore, they were marketed in a different fashion. They were produced to the specifications of government subcontractors, and government inspectors were often in the plant to watch all stages of production. One firm might be able to produce a particular kind of steel that another firm could not produce even though it had tried. These steels were considerably more expensive than the specialty steels, and failures to meet specifications resulted in more substantial losses for the company. At the time of the study about 20 percent of the cash value output was in aerospace metals.

The chairman, Fred Benson, had been president (managing director) of the company for two decades before moving up to this position. He is an elderly man but has a strong will and is much revered in the company for having built it up to its present size and influence. The president, Tom Hollis, has been in office for about four years; he was formerly the sales director and has worked closely with Fred Benson over many years. Hollis has three or four years to go before expected retirement. His assistant, Joe Craig, had been a sales manager in one of the smaller offices. It is the custom of this firm to pick promising people from middle-management and put them in the “assistant-to” position for perhaps a year to groom them for higher offices in their division. For some time these people had come from sales, and they generally went back as managers of large districts, from whence they might be promoted to a sales manager position in the main office.

Dick Benson, the executive vice president (roughly, general manager), is the son of Fred Benson. He is generally regarded as being willing, fairly competent, and decent, but weak and still much under his father’s thumb. Traditionally, the executive vice president became president. Dick is not thought to be up to that job, but it is believed that he will get it anyway.

Ramsey Stockwell, vice president of production, had come into the organization as an experienced engineer about six years before. He rose rather rapidly to his present position. Rob Bronson, vice president of sales, succeeded Dick Benson after Benson had a rather short term as vice president of sales. Alan Carswell, the vice president of research, has a doctorate in metallurgy and some patents in his name, but he is not considered an aggressive researcher or an aggressive in-fighter in the company.

The Problem

When the research team studied Benson Metal, there were the usual problems of competition and price-cutting, the difficulties with the new aerospace metals, and inadequate plant facilities for a growing industry and company. However, the problem that particularly interests us here concerned the vice president of production, Ramsey Stockwell. He was regarded as a very competent production man. His loyalty to the company was unquestioned. He managed to keep outdated facilities operating and still had been able to push through the construction of quite modern facilities in the finishing phases of the production process. But he was in trouble with his own staff and with other divisions of the company, principally sales.

It was widely noted that Stockwell failed to delegate authority to his subordinates. A steady stream of people came into his office asking for permission for this and that or bringing questions to him. People who took some action...
on their own could be bawled out unmercifully at times. At other times they were left on their own because of the heavy demands on Stockwell’s time, given his frequent attention to details in some matters, particularly those concerning schedules and priorities. He “contracted” the lines of authority by giving orders directly to a manager or even to a head foreman rather than by working through the intermediate levels. This violated the chain of command, left managers uninformed, and reduced their authority. It was sometimes noted that he had good people under him but did not always let them do their jobs.

The key group of production people rarely met in a group unless it was to be bawled out by Stockwell. Coordinating committees and the like existed mainly on paper.

More serious perhaps than this was the relationship to sales. Rob Bronson was widely regarded as an extremely bright, capable, likable, and up-and-coming manager. The sales division performed like a well-oiled machine but also had the enthusiasm and flashes of brilliance that indicated considerable adaptability. Morale was high, and identification with the company was complete. However, sales personnel found it quite difficult to get reliable information from production as to delivery dates or even what stage in the process a product was in.

Through long tradition, they were able to get special orders thrust into the work flow when they wanted to, but they often could not find out what this was going to do to normal orders, or even how disruptive this might be. The reason was that Stockwell would not allow production people to give any but the most routine information to sales personnel. In fact, because of the high centralization of authority and information in production, production personnel often did not know themselves. “Ramrod” Stockwell knew, and the only way to get information out of him was to go up the sales line to Rob Bronson. The vice president of sales could get the information from the vice president of production.

But Bronson had more troubles than just not wanting to waste his time by calling Stockwell about status reports. At the weekly top-management meeting, which involved all personnel from the vice presidential level and above, and frequently a few from below that level, Bronson would continually ask Stockwell whether something or other could be done. Stockwell always said that he thought it could be. He could not be pressed for any better estimations, and he rarely admitted that a job was, in fact, not possible. Even queries from President Tom Hollis could not evoke accurate forecasts from Stockwell. Consequently, planning on the part of sales and other divisions was difficult, and failures on the part of production were many because it always vaguely promised so much. Stockwell was willing to try anything, and worked his head off at it, but the rest of the group knew that many of these attempts would fail.

While the people under Stockwell resented the way he took over their jobs at times and the lack of information available to them about other aspects of production, they were loyal to him. They admired his ability and they knew that he fought off the continual pressure of sales to slip in special orders, change schedules, or blame production for rejects. “Sales gets all the glory here” said one. “At the semiannual company meeting last week, the chairman of the board and the managing director of the company couldn’t compliment sales enough for their good work, but there was only the stock ‘well done’ for production; ‘well done given the trying circumstances.’ Hell, Sales is what is trying us.” The annual reports over the years credited sales for the good years and referred to equipment failures, crowded or poor production facilities, and the like in bad years. But it was also true that problems still remained even after Stockwell finally managed to pry some new production facilities out of the board of directors.

Stockwell was also isolated socially from the right group of top personnel: He tended to work later than most, had rougher manners, was less concerned with cultural activities, and rarely played golf. He occasionally relaxed with the manager of aerospace sales, who, incidentally, was the only high-level sales person who tended to defend Stockwell. “Ramrod’s a rough diamond; I don’t know that we ought to try to polish him,” he sometimes said.

But polishing was in the minds of many. “Great production man—amazing what he gets out of that mill. But he doesn’t know how to handle people. He won’t delegate; he won’t tell us when he is in trouble with something; he builds a fence around his people, preventing easy exchange,” said the president. “Bullheaded as hell—he was good a few years ago, but I would never give him the job again,” said the chairman of the board. He disagreed with the president that Stockwell could change. “You can’t change people’s personalities, least of all production men.” “He’s in a tough position,” said the vice president of sales, “and he has to be able to get his people to work with him, not against him, and we all have to work together in today’s market. I just wish he would not be so uptight.”

A year or so before, the president had approached Stockwell about taking a couple of weeks off and joining a leadership training session. Stockwell would have nothing to do with it and was offended. The president waited a few months, then announced that he had arranged for the personnel manager and each of the directors to attend successive four-day T-group sessions run by a well-known organization. This had been agreed on at one of the directors’ meetings, though no one had taken it very seriously. One by one, the directors came back with marked enthusiasm for the program. “It’s almost as if they had our company in mind when they designed it,” said one. Some started
having evening and weekend sessions with their staff, occasion-"Ramrod" Stockwell ally using the personnel manager, who had had more experience with this than the others. Stockwell was scheduled to be the last one to attend the four-day session, but he canceled at the last minute—there were too many crises in the plant, he said, to go off that time. In fact, several had developed over the previous few weeks.

That did it, as far as the other vice presidents were concerned. They got together themselves, then with the president and executive vice president, and said that they had to get to the bottom of the problem. A top-level group session should be held to discuss the tensions that were accumulating. The friction between production and sales was spilling over into other areas as well, and the morale of management in general was suffering. They acknowledged that they put a lot of pressure on production, and were probably at fault in this or that matter, and thus a session would do all the directors good, not just Stockwell. The president hesitated. Stockwell, he felt, would just ride it out. Besides, he added, the “Old Man” (chairman of the board) was skeptical of such techniques. The executive vice president was quite unenthusiastic. It was remarked later that Stockwell had never recognized his official authority, and thus young Dick feared any open confrontation.

But events overtook the plan of the vice presidents. A first-class crisis had developed involving a major order for their oldest and best customer, and an emergency top-management meeting was called, which included several of their subordinates. Three in particular were involved: Joe Craig, assistant to the president, who knows well the problems at the plant in his role as troubleshooter for the managing director; Sandy Falk, vice president of personnel, who is sophisticated about leadership training programs and in a position to watch a good bit of the bickering at the middle and lower levels between sales and production; Bill Bletchford, manager of finishing, who is loyal to Stockwell and who has the most modern-equipped phase of the production process and the most to do with sales. It was in his department that the jam had occurred, due to some massive scheduling changes at the rolling phase and to the failure of key equipment.

In the meeting, the ground is gone over thoroughly. With their backs to the wall, the two production men, behaving somewhat uncharacteristically in an open meeting, charge sales with devious tactics for introducing special orders and for acting on partial and misinterpreted information from a foreman. Joe Craig knows, and admits, that the specialty A sales manager made promises to the customer without checking with the vice president of sales, who could have checked with Stockwell. “He was right,” says Vice President Bronson. “I can’t spend all my time calling Ramsey about status reports; if Harrison can’t find out from production on an official basis, he has to do the best he can.” Ramsey Stockwell, after his forceful outburst about misleading information through devious tactics, falls into a hardened silence, answering only direct questions, and then briefly. The manager of finishing and the specialty A sales manager start working on each other. Sandy Falk, of personnel, knows they have been enemies for years, so he intervenes as best he can. The vice president of research, Carswell, a reflective man, often worried about elusive dimensions of company problems, then calls a halt with the following speech:

You’re all wrong and you’re all right. I have heard bits and pieces of this fracas a hundred times over the last two or three years, and it gets worse each year. The facts of this damn case don’t matter unless all you want is to score points with your opponents. What is wrong is something with the whole team here. I don’t know what it is, but I know that we have to radically rethink our relations with one another. Three years ago this kind of thing rarely happened; now it is starting to happen all the time. And it is a time when we can’t afford it. There is no more growth in our bread-and-butter line, specialty steels. The money, and the growth, is in aerospace; we all know that. Without aerospace we will just stand still. Maybe that’s part of it. But maybe Ramsey’s part of it too; this crisis is over specialty steel, and more of them seem to concern that than aerospace, so it can’t be the product shift or that only. Some part of it has to be people, and you’re on the hot seat, Ramsey.

Carswell let that sink in, then went on. Or maybe it’s something more than even these. . . . It is not being pulled together at the top, or maybe, the old way of pulling it together won’t work anymore. I’m talking about you, Tom [Hollis], as well as Fred [Benson, the chairman of the board, who did not attend these meetings] and Dick [the executive vice president, and heir apparent]. I don’t know what it is, here are Ramsey and Rob at loggerheads; neither of them are fools, and both of them are working their heads off. Maybe the problem is above their level.

There is a long silence. Assume you break the silence with your own analysis. What would that be?
“To make money and have fun.” W. L. Gore

The First Day on the Job
Bursting with resolve, Jack Dougherty, a newly minted M.B.A. from the College of William and Mary, reported to his first day at W. L. Gore & Associates on July 26, 1976. He presented himself to Bill Gore, shook hands firmly, looked him in the eye, and said he was ready for anything.

Jack was not ready, however, for what happened next. Gore replied, “That’s fine, Jack, fine. Why don’t you look around and find something you’d like to do?” Three frustrating weeks later he found that something: trading in his dark blue suit for jeans, he loaded fabric into the mouth of a machine that laminated the company’s patented GORE-TEX® membrane to fabric. By 1982, Jack had become responsible for all advertising and marketing in the fabrics group. This story is part of the folklore of W. L. Gore & Associates.

Today the process is more structured. Regardless of the job for which they are hired, new Associates take a journey through the business before settling into their own positions. A new sales Associate in the fabrics division may spend six weeks rotating through different areas before beginning to concentrate on sales and marketing. Among other things the newcomer learns is how GORE-TEX fabric is made, what it can and cannot do, how Gore handles customer complaints, and how it makes its investment decisions.

Anita McBride related her early experience at W. L. Gore & Associates this way: “Before I came to Gore, I had worked for a structured organization. I came here, and for the first month it was fairly structured because I was going through training and this is what we do and this is how Gore is and all of that. I went to Flagstaff for that training. After a month I came down to Phoenix and my sponsor said, ‘Well, here’s your office; it’s a wonderful office,’ and ‘Here’s your desk,’ and walked away. And I thought, ‘Now what do I do?’ You know, I was waiting for a memo or something, or a job description. Finally after another month I was so frustrated, I felt, ‘What have I gotten myself into?’ And so I went to my sponsor and I said, ‘What the heck do you want from me? I need something from you.’ And he said, ‘If you don’t know what you’re supposed to do, examine your commitment, and opportunities.’”

Company Background
W. L. Gore & Associates was formed by the late Wilbert L. Gore and his wife in 1958. The idea for the business sprang from his personal, organizational, and technical experiences at E. I. DuPont de Nemours, and, particularly, his discovery of a chemical compound with unique properties. The compound, now widely known as GORE-TEX, has catapulted W. L. Gore & Associates to a high ranking on the Forbes 1998 list of the 500 largest private companies in the United States, with estimated revenues of more than $1.1 billion. The company’s avant-garde culture and people management practices resulted in W. L. Gore being ranked as the seventh best company to work for in America by Fortune in a January 1998 article.

Wilbert Gore was born in Meridian, Idaho, near Boise in 1912. By age six, according to his own account, he was an avid hiker in the Wasatch Mountain Range in Utah. In those mountains, at a church camp, he met Genevieve, his future wife. In 1935, they got married—in their eyes, a partnership. He would make breakfast and Vieve, as everyone called her, would make lunch. The partnership lasted a lifetime.

He received both a bachelor of science in chemical engineering in 1933 and a master of science in physical chemistry in 1935 from the University of Utah. He began his professional career at American Smelting and Refining in 1936. He moved to Remington Arms Company in 1941 and then to E. I. DuPont de Nemours in 1945. He held positions as research supervisor and head of operations research. While at DuPont, he worked on a team to develop applications for polytetrafluoroethylene, referred to as PTFE in the scientific community and known as “Teflon” by DuPont’s consumers. (Consumers know it under other names from other companies.) On this team Wilbert Gore, called Bill by everyone, felt a sense of excited commitment, personal fulfillment, and self-direction. He followed the development of computers and transistors and felt that PTFE had the ideal insulating characteristics for use with such equipment.

He tried many ways to make a PTFE-coated ribbon cable without success. A breakthrough came in his home basement laboratory while he was explaining the problem to his nineteen-year-old son, Bob. The young Gore saw some PTFE...
secretary-treasurer. Vieve remained as the only other officer, River Mountains of Wyoming. He was then Chairman of In 1986, Bill Gore died while backpacking in the Wind best-known product would become GORE-TEX fabric. developed new products, primarily derived from PTFE. Its profitable footing and it began to take off.

An order for $100,000. This order put the company on a little diplomacy the Gores were able eventually to secure. The caller asked for the product manager. Vieve explained that technical questions. Bill was out running some errands. The caller indicated that he was interested in the ribbon cable, but wanted to ask some engineering PTFE powder, Vieve received a call from the City of Gore home. At one point eleven Associates were living and working under one roof. One afternoon, while sifting PTFE powder, Vieve received a call from the City of Denver’s water department. The caller indicated that he was interested in the ribbon cable, but wanted to ask some technical questions. Bill was out running some errands. The caller asked for the product manager. Vieve explained that he was out at the moment. Next he asked for the sales manager and finally, the president. Vieve explained that they were also out. The caller became outraged and hollered, “What kind of company is this anyway?” With a little diplomacy the Gores were able eventually to secure an order for $100,000. This order put the company on a profitable footing and it began to take off.

W. L. Gore & Associates continued to grow and develop new products, primarily derived from PTFE. Its best-known product would become GORE-TEX fabric. In 1986, Bill Gore died while backpacking in the Wind River Mountains of Wyoming. He was then Chairman of the Board. His son, Bob, continued to occupy the position of president. Vieve remained as the only other officer, secretary-treasurer.

Company Products
In 1998, W. L. Gore & Associates has a fairly extensive line of high-tech products that are used in a variety of applications, including electronic, waterproofing, industrial filtration, industrial seals, and coatings.

Electronic & Wire Products
Gore electronic products have been found in unconventional places where conventional products will not do—in space shuttles, for example, where Gore wire and cable assemblies withstand the heat of ignition and the cold of space. In addition, they have been found in fast computers, transmitting signals at up to 93 percent of the speed of light. Gore cables have even gone underground, in oil-drilling operations, and underseas, on submarines that require superior microwave signal equipment and no-fail cables that can survive high pressure. The Gore electronic products division has a history of anticipating future customer needs with innovative products. Gore electronic products have been well received in industry for their ability to last under adverse conditions. For example, Gore has come to realize that DuPont wanted to remain a supplier of raw materials and not a fabricator.

Medical Products
The medical division began on the ski slopes of Colorado. Bill was skiing with a friend, Dr. Ben Eiseman of Denver General Hospital. As Bill Gore told the story: “We were just to start a run when I absentmindedly pulled a small tubular section of GORE-TEX out of my pocket and looked at it. ‘What is that stuff?’ Ben asked. So I told him about its properties. ‘Feels great,’ he said. ‘What do you use it for?’ ‘Got no idea,’ I said. ‘Well give it to me,’ he said, ‘and I’ll try it in a vascular graft on a pig.’ Two weeks later, he called me up. Ben was pretty excited. ‘Bill,’ he said, ‘I put it in a pig and it works. What do I do now?’ I called him to get together with Pete Cooper in our Flagstaff plant, and let them figure it out.” Not long after, hundreds of thousands of people throughout the world began walking around with GORE-TEX vascular grafts.

GORE-TEX’s expanded PTFE proved to be an ideal replacement for human tissue in many situations. In patients suffering from cardiovascular disease the diseased portion of arteries has been replaced by tubes of expanded PTFE—strong, biocompatible structures capable of carrying blood at arterial pressures. Gore has a strong position in this product segment. Other Gore medical products have included patches that can literally mend broken hearts by
sealants, filter bags, cartridges, clothes, and coatings. The output of the industrial products division has included use of product champions.

Two recently developed products by this division are a new patch material that is intended to incorporate more tissue into the graft more quickly and the GORE™ RideOn® Cable System for bicycles. According to Amy LeGere of the medical division, “All the top pro riders in the world are using it. It was introduced just about a year ago and it has become an industry standard.” This product had a positive cash flow very soon after its introduction. Some Associates who were also outdoor sports enthusiasts developed the product and realized that Gore could make a great bicycle cable that would have 70 percent less friction and need no lubrication. The Associates maintain that the profitable development, production, and marketing of such specialized niche products are possible because of the lack of bureaucracy and associated overhead, Associate commitment, and the use of product champions.

Industrial Products
The output of the industrial products division has included sealants, filter bags, cartridges, clothes, and coatings. Industrial filtration products, such as GORE-TEX filter bags, have reduced air pollution and recovered valuable solids from gases and liquids more completely than alternatives—and they have done so economically. In the future they may make coal-burning plants completely smoke-free, contributing to a cleaner environment. The specialized and critical applications of these products, along with Gore’s reputation for quality, have had a strong influence on industrial purchasers.

This division has developed a unique joint sealant—a flexible cord of porous PTFE—that can be applied as a gasket to the most complex shapes, sealing them to prevent leakage of corrosive chemicals, even at extreme temperature and pressure. Steam valves packed with GORE-TEX have been sold with a lifetime guarantee, provided the valve is used properly. In addition, this division has introduced Gore’s first consumer product—GLIDE®—a dental floss. “That was a product that people knew about for a while and they went the route of trying to persuade industry leaders to promote the product, but they didn’t really pursue it very well. So out of basically default almost, Gore decided, Okay, they’re not doing it right. Let’s go in ourselves. We had a champion, John Spencer, who took that and pushed it forward through the dentists’ offices and it just skyrocketed. There were many more people on the team but it was basically getting that one champion who focused on that product and got it out. They told him it ‘couldn’t be done,’ ‘It’s never going to work,’ and I guess that’s all he needed. It was done and it worked,” said Ray Wnenchak of the industrial products division. Amy LeGere added, “The champion worked very closely with the medical people to understand the medical market like claims and labeling so that when the product came out on the market it would be consistent with our medical products. And that’s where, when we cross divisions, we know whom to work with and with whom we combine forces so that the end result takes the strengths of all of our different teams.” As of 1998, GLIDE has captured a major portion of the dental floss market and the mint flavor is the largest-selling variety in the U.S. market based on dollar volume.

Fabric Products
The Gore fabrics division has supplied laminates to manufacturers of foul weather gear, ski wear, running suits, foot wear, gloves, and hunting and fishing garments. Firefighters and U.S. Navy pilots have worn GORE-TEX fabric gear, as have some Olympic athletes. The U.S. Army adopted a total garment system built around a GORE-TEX fabric component. Employees in high-tech clean rooms also wear GORE-TEX garments.

GORE-TEX membrane has 9 billion pores randomly dotting each square inch and is feather-light. Each pore is 700 times larger than a water vapor molecule, yet thousands of times smaller than a water droplet. Wind and water cannot penetrate the pores, but perspiration can escape. As a result, fabrics bonded with GORE-TEX membrane are waterproof, windproof, and breathable. The laminated fabrics bring protection from the elements to a variety of products—from survival gear to high-fashion rainwear. Other manufacturers, including 3M, Burlington Industries, Akzo Nobel Fibers, and DuPont, have brought out products to compete with GORE-TEX fabrics. Earlier, the toughest competition came from firms that violated the patents on GORE-TEX. Gore successfully challenged them in court. In 1993, the basic patent on the process for manufacturing ran out. Nevertheless, as Sally Gore explained, “What happens is you get an initial process patent and then as you begin to create things with this process you get additional patents. For instance we have patents protecting our vascular graft, different patents for protecting GORE-TEX patches, and still other patents protecting GORE-TEX industrial sealants and filtration material. One of our patent attorneys did a talk recently, a year or so ago, when the patent expired and a lot of people were saying, Oh, golly, are we going to be in trouble! We would be in trouble if we didn’t have any patents. Our attorney had this picture with a great big umbrella, sort of a parachute, with Gore under it. Next he showed us lots
of little umbrellas scattered all over the sky. So you protect certain niche markets and niche areas, but indeed competition increases as your initial patents expire.” Gore, however, has continued to have a commanding position in the active-wear market.

To meet a variety of customer needs, Gore introduced a new family of fabrics in the 1990s (Exhibit 1). The introduction posed new challenges. According to Bob Winterling, “We did such a great job with the brand GORE-TEX that we actually have hurt ourselves in many ways. By that I mean it has been very difficult for us to come up with other new brands, because many people didn’t even know Gore. We are the GORE-TEX company. One thing we decided to change about Gore four or five years ago was instead of being the GORE-TEX company we wanted to become the Gore company and that underneath the Gore company we had an umbrella of products that fall out of being the great Gore company. So it was a shift in how we positioned GORE-TEX. Today GORE-TEX is stronger than ever as it’s turned out, but now we’ve ventured into such things as WindStopper® fabric that is very big in the golf market. It could be a sweater or a fleece piece or even a knit shirt with the WindStopper behind it or closer to your skin and what it does is it stops the wind. It’s not waterproof; it’s water resistant. What we’ve tried to do is position the Gore name and beneath that all of the great products of the company.”

**W. L. Gore & Associates’ Approach to Organization and Structure**

W. L. Gore & Associates has never had titles, hierarchy, or any of the conventional structures associated with enterprises of its size. The titles of president and secretary-treasurer continue to be used only because they are required by the laws of incorporation. In addition, Gore has never had a corporate-wide mission or code of ethics statement, nor has Gore ever required or prohibited business units from developing such statements for themselves. Thus, the Associates of some business units who have felt a need for such statements have developed them on their own. When questioned about this issue, one Associate stated, “The company belief is that (1) its four basic operating principles cover ethical practices required of people in business; (2) it will not tolerate illegal practices.” Gore’s management style has been referred to as unmanagement. The organization has been guided by Bill’s experiences on teams at DuPont and has evolved as needed.

For example, in 1965 W. L. Gore & Associates was a thriving company with a facility on Paper Mill Road in Newark, Delaware. One Monday morning in the summer, Bill Gore was taking his usual walk through the plant. All of a sudden he realized that he did not know everyone in the plant. The team had become too big. As a result, he established the practice of limiting plant size to approximately two hundred Associates. Thus was born the expansion policy of “Get big by staying small.” The purpose of maintaining small plants was to accentuate a close-knit atmosphere and encourage communication among Associates in a facility.

At the beginning of 1998, W. L. Gore & Associates consisted of over forty-five plants worldwide with approximately seven thousand Associates. In some cases, the plants are grouped together on the same site (as in Flagstaff, Arizona, with ten plants). Overseas, Gore’s manufacturing facilities are located in Scotland, Germany, and China, and the company has two joint ventures in Japan (Exhibit 2). In addition, it has sales facilities located in fifteen other countries. Gore manufactures electronic,
medical, industrial, and fabric products. In addition, it has numerous sales offices worldwide, including offices in Eastern Europe and Russia.

**The Lattice Organization**

W. L. Gore & Associates has been described not only as unmanaged, but also as unstructured. Bill Gore referred to the structure as a lattice organization (Exhibit 3). The characteristics of this structure are:

1. Direct lines of communication—person to person—no intermediary
2. No fixed or assigned authority
3. Sponsors, not bosses
4. Natural leadership defined by followership
5. Objectives set by those who must “make them happen”
6. Tasks and functions organized through commitments

The structure within the lattice is complex and evolves from interpersonal interactions, self commitment to group-known responsibilities, natural leadership, and group-imposed discipline. Bill Gore once explained the structure this way: “Every successful organization has an underground lattice. It’s where the news spreads like lightning, where people can go around the organization to get things done.” An analogy might be drawn to a structure of constant cross-area teams—the equivalent of quality circles going on all the time. When a puzzled interviewer told Bill that he was having trouble understanding how planning and accountability worked, Bill replied with a grin: “So am I. You ask me how it works? Every which way.”

The lattice structure has not been without its critics. As Bill Gore stated, “I’m told from time to time that a lattice organization can’t meet a crisis well because it takes too long to reach a consensus when there are no bosses. But this isn’t true. Actually, a lattice by its very nature works particularly well in a crisis. A lot of useless effort is avoided because there is no rigid management hierarchy to conquer before you can attack a problem.”

The lattice has been put to the test on a number of occasions. For example, in 1975, Dr. Charles Campbell of the University of Pittsburgh reported that a GORE-TEX arterial graft had developed an aneurysm. If the bubble-like protrusion continued to expand, it would explode. Obviously, this life-threatening situation had to be resolved quickly and permanently. Within only a few days of Dr. Campbell’s first report, he flew to Newark to present his findings to Bill and Bob Gore and a few other Associates. The meeting lasted two hours. Dan Hubis, a former policeman who had joined Gore to develop new production methods, had an idea before the meeting was over. He returned to his work area to try some different production techniques. After only three hours and twelve tries, he had developed a permanent solution. In other words, in three hours a potentially damaging problem to both patients and the company was resolved.
Furthermore, Hubis’s redesigned graft went on to win widespread acceptance in the medical community.

Eric Reynolds, founder of Marmot Mountain Works Ltd. of Grand Junction, Colorado, and a major Gore customer, raised another issue: “I think the lattice has its problems with the day-to-day nitty-gritty of getting things done on time and out the door. I don't think Bill realizes how the lattice system affects customers. I mean, after you've established a relationship with someone about product quality, you can call up one day and suddenly find that someone new to you is handling your problem. It’s frustrating to find a lack of continuity.” He went on to say: “But I have to admit that I’ve personally seen at Gore remarkable examples of people coming out of nowhere and excelling.”

When Bill Gore was asked if the lattice structure could be used by other companies, he answered: “No. For example, established companies would find it very difficult to use the lattice. Too many hierarchies would be destroyed. When you remove titles and positions and allow people to follow who they want, it may very well be someone other than the person who has been in charge. The lattice works for us, but it’s always evolving. You have to expect problems.” He maintained that the lattice system worked best when it was put in place in start-up companies by dynamic entrepreneurs.

Not all Gore Associates function well in this unstructured work environment, especially initially. For those accustomed to a more structured work environment, there can be adjustment problems. As Bill Gore said: “All our lives most of us have been told what to do, and some people don’t know how to respond when asked to do something—and have the very real option of saying no—on their job. It’s the new Associate’s responsibility to find out what he or she can do for the good of the operation.” The vast majority of the new Associates, after some initial floundering, have adapted quickly.

Others, especially those who require more structured working conditions, have found that Gore’s flexible workplace is not for them. According to Bill, for those few, “It’s an unhappy situation, for both the Associate and the sponsor. If there is no contribution, there is no paycheck.”

As Anita McBride, an Associate in Phoenix, noted: “It’s not for everybody. People ask me do we have turnover, and yes we do have turnover. What you’re seeing looks like utopia, but it also looks extreme. If you finally figure the system, it can be real exciting. If you can’t handle it, you gotta go. Probably by your own choice, because you’re going to be so frustrated.” Overall, the Associates appear to have responded positively to the Gore system of unmanagement and unstructure. And the company’s lattice organization has proven itself to be good from a bottom-line perspective. Bill estimated the year before he died that “the profit per Associate is double” that of DuPont.
Features of W. L. Gore's Culture

Outsiders have been struck by the degree of informality and humor in the Gore organization. Meetings tend to be only as long as necessary. As Trish Hearn, an Associate in Newark, Delaware, said, “No one feels a need to pontificate.” Words such as “responsibilities” and “commitments” are commonly heard, whereas words such as “employees,” “subordinates,” and “managers” are taboo in the Gore culture. This is an organization that has always taken what it does very seriously, without its members taking themselves too seriously.

For a company of its size, Gore has always had a very short organizational pyramid. As of 1995 the pyramid consists of Bob Gore, the late Bill Gore’s son, as president and Vieve, Bill Gore’s widow, as secretary-treasurer. He has been the chief executive officer for more than twenty years. No second-in-command or successor has been designated. All the other members of the Gore organization were, and continue to be, referred to as Associates.

Some outsiders have had problems with the idea of no titles. Sarah Clifton, an Associate at the Flagstaff facility, was being pressed by some outsiders as to what her title was. She made one up and had it printed on some business cards: SUPREME COMMANDER (see Exhibit 4). When Bill Gore learned what she did, he loved it and recounted the story to others.

Leaders, Not Managers

Within W. L. Gore & Associates, the various people who take lead roles are thought of as being leaders, not managers. Bill Gore described in an internal memo the kinds of leadership and the role of leadership as follows:

1. The Associate who is recognized by a team as having a special knowledge, or experience (for example, this could be a chemist, computer expert, machine operator, salesman, engineer, lawyer). This kind of leader gives the team guidance in a special area.

2. The Associate the team looks to for coordination of individual activities in order to achieve the agreed-upon objectives of the team. The role of this leader is to persuade team members to make the commitments necessary for success (commitment seeker).

3. The Associate who proposes necessary objectives and activities and seeks agreement and team consensus on objectives. This leader is perceived by the team members as having a good grasp of how the objectives of the team fit in with the broad objective of the enterprise. This kind of leader is often also the “commitment-seeking” leader.

4. The leader who evaluates relative contribution of team members (in consultation with other sponsors), and reports these contribution evaluations to a compensation committee. This leader may also participate in the compensation committee on relative contribution and pay and reports changes in compensation to individual Associates. This leader is then also a compensation sponsor.

5. Product specialists who coordinate the research, manufacturing, and marketing of one product type within a business, interacting with team leaders and individual Associates who have commitments regarding the product type. They are respected for their knowledge and dedication to their products.

6. Plant leaders who help coordinate activities of people within a plant.


8. Functional leaders who help coordinate activities of people in a “functional” area.

9. Corporate leaders who help coordinate activities of people in different businesses and functions and who try to promote communication and cooperation among all Associates.

10. Entrepreneuring Associates who organize new teams for new businesses, new products, new processes, new...
devices, new marketing efforts, new or better methods of all kinds. These leaders invite other Associates to “sign up” for their project.

It is clear that leadership is widespread in our lattice organization and that it is continually changing and evolving. The situation that leaders are frequently also sponsors should not imply that these are different activities and responsibilities.

Leaders are not authoritarians, managers of people, or supervisors who tell us what to do or forbid us to do things; nor are they “parents” to whom we transfer our own self-responsibility. However, they do often advise us of the consequences of actions we have done or propose to do. Our actions result in contributions, or lack of contribution, to the success of our enterprise. Our pay depends on the magnitude of our contributions. This is the basic discipline of our lattice organization.

**Egalitarian and Innovative**

Other aspects of the Gore culture have been aimed at promoting an egalitarian atmosphere, such as parking lots with no reserved parking spaces except for customers and disabled workers or visitors, and dining areas—only one in each plant—set up as focal points for Associate interaction. As Dave McCarter of Phoenix explained: “The design is no accident. The lunchroom in Flagstaff has a fireplace in the middle. We want people to like to be here.” The location of a plant is also no accident. Sites have been selected on the basis of transportation access, a nearby university, beautiful surroundings, and climate appeal. Land cost has never been a primary consideration. McCarter justified the selection by stating: “Expanding is not costly in the long run. The loss of money is what you make happen by stymieing people into a box.”

Bob Gore is a champion of Gore culture. As Sally Gore related, “We have managed surprisingly to maintain our sense of freedom and our entrepreneurial spirit. I think what we’ve found is that we had to develop new ways to communicate with Associates because you can’t communicate with six thousand people the way that you can communicate with five hundred people. It just can’t be done. So we have developed a newsletter that we didn’t have before. One of the most important communication mediums that we developed, and this was Bob Gore’s idea, is a digital voice exchange which we call our Gorecom. Basically everyone has a mailbox and a password. Lots of companies have gone to e-mail and we use e-mail, but Bob feels very strongly that we’re very much an oral culture and there’s a big difference between cultures that are predominantly oral and predominantly written. Oral cultures encourage direct communication, which is, of course, something that we encourage.”

In rare cases an Associate “is trying to be unfair,” in Bill’s own words. In one case the problem was chronic absenteeism and in another, an individual was caught stealing. “When that happens, all hell breaks loose,” said Bill Gore. “We can get damned authoritarian when we have to.”

Over the years, Gore & Associates has faced a number of unionization drives. The company has neither tried to dissuade Associates from attending an organizational meeting nor retaliated when flyers were passed out. As of 1998, none of the plants had been organized. Bill believed that no need existed for third-party representation under the lattice structure. He asked the question, “Why would Associates join a union when they own the company? It seems rather absurd.”

Commitment has long been considered a two-way street. W. L. Gore & Associates has tried to avoid layoffs. Instead of cutting pay, which in the Gore culture would be disastrous to morale, the company has used a system of temporary transfers within a plant or cluster of plants and voluntary layoffs. Excerpts of interviews with two Gore Associates included at the end of this case further indicate the nature of the culture and work environment at W. L. Gore & Associates.

**W. L. Gore & Associates’ Sponsor Program**

Bill Gore knew that products alone did not a company make. He wanted to avoid smothering the company in thick layers of formal “management.” He felt that hierarchy stifled individual creativity. As the company grew, he knew that he had to find a way to assist new people and to follow their progress. This was particularly important when it came to compensation. W. L. Gore & Associates developed its “sponsor” program to meet these needs.

When people apply to Gore, they are initially screened by personnel specialists. As many as ten references might be contacted on each applicant. Those who meet the basic criteria are interviewed by current Associates. The interviews have been described as rigorous by those who have gone through them. Before anyone is hired, an Associate must agree to be his or her sponsor. The sponsor is to take a personal interest in the new Associate’s contributions, problems, and goals, acting as both a coach and an advocate. The sponsor tracks the new Associate’s progress, helping and encouraging, dealing with weaknesses, and concentrating on strengths. Sponsoring is not a short-term commitment. All Associates have sponsors and many have more than one. When individuals are hired initially, they are likely to have a sponsor in their immediate work area. If they move to another area, they may have a sponsor in that work area. As Associates’ commitments change or grow, they may acquire additional sponsors. Because the hiring process looks beyond conventional views of what makes a good Associate, some anomalies have occurred. Bill Gore proudly told the story of “a very young man” of 84 who walked in, applied, and spent five very good years...
with the company. The individual had thirty years of experience in the industry before joining Gore. His other Associates had no problems accepting him, but the personnel computer did. It insisted that his age was 48. The individual success stories at Gore have come from diverse backgrounds.

An internal memo by Bill Gore described three roles of sponsors:

1. **Starting sponsor**—a sponsor who helps a new Associate get started on a first job, or a present Associate get started on a new job.
2. **Advocate sponsor**—a sponsor who sees that an Associate’s accomplishments are recognized.
3. **Compensation sponsor**—a sponsor who sees to it that an Associate is fairly paid for contributions to the success of the enterprise.

A single person can perform any one or all three kinds of sponsorship. Quite frequently, a sponsoring Associate is a good friend and it is not unknown for two Associates to sponsor each other.

### Compensation Practices

Compensation at W. L. Gore & Associates has taken three forms: salary, profit sharing, and an Associates’ Stock Ownership Program (ASOP). Entry-level salary has been in the middle for comparable jobs. According to Sally Gore: “We do not feel we need to be the highest paid. We never try to steal people away from other companies with salary. We want them to come here because of the opportunities for growth and the unique work environment.” Associates’ salaries have been reviewed at least once a year and more commonly twice a year. The reviews are conducted by a compensation team at each facility, with sponsors for the Associates acting as their advocates during the review process. Prior to meeting with the compensation committee, the sponsor checks with customers or Associates familiar with the person’s work to find out what contribution the Associate has made. The compensation team relies heavily on this input. In addition, the compensation team considers the Associate’s leadership ability and willingness to help others develop to their fullest.

Profit sharing follows a formula based on economic value added (EVA). Sally Gore had the following to say about the adoption of a formula: “It’s become more formalized, and in a way, I think that’s unfortunate because it used to be a complete surprise to receive a profit share. The thinking of the people like Bob Gore and other leaders was that maybe we weren’t using it in the right way and we could encourage people by helping them know more about it and how we made profit-share decisions. The fun of it before was people didn’t know when it was coming and all of a sudden you could do something creative about passing out checks. It was great fun and people would have a wonderful time with it. The disadvantage was that Associates then did not focus much on, ‘What am I doing to create another profit share?’ By using EVA as a method of evaluation for our profit share, we know at the end of every month how much EVA was created that month. When we’ve created a certain amount of EVA, we then get another profit share. So everybody knows and everyone says, ‘We’ll do it in January,’ so it is done. Now Associates feel more part of the happening to make it work. What have you done? Go make some more sales calls, please! There are lots of things we can do to improve our EVA and everybody has a responsibility to do that.” Every month EVA is calculated and every Associate is informed. John Mosko of electronic products commented, “... (EVA) lets us know where we are on the path to getting one (a profit share). It’s very critical—every Associate knows.”

Annually, Gore also buys company stock equivalent to a fixed percent of the Associates’ annual incomes, placing it in the ASOP retirement fund. Thus, an Associate can become a stockholder after being at Gore for a year. Gore’s ASOP ensures Associates participate in the growth of the company by acquiring ownership in it. Bill Gore wanted Associates to feel that they themselves are owners. One Associate stated, “This is much more important than profit sharing.” In fact, some long-term Associates (including a twenty-five-year veteran machinist) have become millionaires from the ASOP.

### W. L. Gore & Associates’ Guiding Principles and Core Values

In addition to the sponsor program, Bill Gore articulated four guiding principles:

1. Try to be fair.
2. Encourage, help, and allow other Associates to grow in knowledge, skill, and scope of activity and responsibility.
3. Make your own commitments, and keep them.
4. Consult with other Associates before taking actions that may be “below the water line.”

The four principles have been referred to as Fairness, Freedom, Commitment, and Waterline. The waterline terminology is drawn from an analogy to ships. If someone pokes a hole in a boat above the water line, the boat will be in relatively little real danger. If someone, however, pokes a hole below the water line, the boat is in immediate danger of sinking. “Water line” issues must be discussed across teams and plants before decisions are made.

The operating principles were put to a test in 1978. By this time word about the qualities of GORE-TEX fabric was being spread throughout the recreational and outdoor markets. Production and shipment had begun in volume. At first a few complaints were heard. Next some of the
clothing started coming back. Finally, much of the clothing was being returned. The trouble was that the GORE-TEX fabric was leaking. Waterproofing was one of the major properties responsible for GORE-TEX fabric's success. The company's reputation and credibility were on the line.

Peter W. Gilson, who led Gore's fabrics division, recalled: “It was an incredible crisis for us at that point. We were really starting to attract attention; we were taking off—and then this.” In the next few months, Gilson and a number of his Associates made a number of those below-the-water-line decisions.

First, the researchers determined that oils in human sweat were responsible for clogging the pores in the GORE-TEX fabric and altering the surface tension of the membrane. Thus, water could pass through. They also discovered that a good washing could restore the waterproof property. At first this solution, known as the “Ivy Snow solution,” was accepted. A single letter from “Butch,” a mountain guide in the Sierras, changed the company’s position. Butch described what happened while he was leading a group: “My parka leaked and my life was in danger.” As Gilson noted, “That scared the hell out of us. Clearly our solution was no solution at all to someone on a mountaintop.” All the products were recalled. Gilson remembered: “We bought back, at our own expense, a fortune in pipeline material—anything that was in the stores, at the manufacturers, or anywhere else in the pipeline.”

In the meantime, Bob Gore and other Associates set out to develop a permanent fix. One month later, a second-generation GORE-TEX fabric had been developed. Gilson, furthermore, told dealers that if a customer ever returned a leaky parka, they should replace it and bill the company. The replacement program alone cost Gore roughly $4 million.

The popularity of GORE-TEX outerwear took off. Many manufacturers now make numerous pieces of apparel such as parkas, gloves, boots, jogging outfits, and wind shirts from GORE-TEX laminate. Sometimes when customers are dissatisfied with a garment, they return them directly to Gore. Gore has always stood behind any product made of GORE-TEX fabric. Analysis of the returned garments found that the problem was often not the GORE-TEX fabric. The manufacturer, “... had created a design flaw so that the water could get in here or get in over the zipper and we found that when there was something negative about it, everyone knew it was GORE-TEX. So we had to make good on products that we were not manufacturing. We now license the manufacturers of all our GORE-TEX fabric products. They pay a fee to obtain a license to manufacture GORE-TEX products. In return we oversee the manufacture and we let them manufacture only designs that we are sure are guaranteed to keep you dry, that really will work. Then it works for them and for us—a win-win for them as well as for us,” according to Sally Gore.

To further ensure quality, Gore & Associates has its own test facility including a rain room for garments made from GORE-TEX. Besides a rain/storm test, all garments must pass abrasion and washing machine tests. Only the garments that pass these tests will be licensed to display the GORE-TEX label.

Research and Development

Like everything else at Gore, research and development has always been unstructured. Even without a formal R&D department, the company has been issued many patents, although most inventions have been held as proprietary or trade secrets. For example, few Associates are allowed to see GORE-TEX being made. Any Associate can, however, ask for a piece of raw PTFE (known as a silly worm) with which to experiment. Bill Gore believed that all people had it within themselves to be creative.

One of the best examples of Gore inventiveness occurred in 1969. At the time, the wire and cable division was facing increased competition. Bill Gore began to look for a way to straighten out the PTFE molecules. As he said, “I figured out that if we ever unfold those molecules, get them to stretch out straight, we’d have a tremendous new kind of material.” He thought that if PTFE could be stretched, air could be introduced into its molecular structure. The result would be greater volume per pound of raw material with no effect on performance. Thus, fabricating costs would be reduced and profit margins would be increased. Going about this search in a scientific manner, Bob Gore heated rods of PTFE to various temperatures and then slowly stretched them. Regardless of the temperature or how carefully he stretched them, the rods broke.

Working alone late one night after countless failures, Bob in frustration stretched one of the rods violently. To his surprise, it did not break. He tried it again and again with the same results. The next morning Bob demonstrated his breakthrough to his father, but not without some drama. As Bill Gore recalled: “Bob wanted to surprise me so he took a rod and stretched it slowly. Naturally, it broke. Then he pretended to get mad. He grabbed another rod and said, ‘Oh, the hell with this,’ and gave it a pull. It didn’t break—he’d done it.” The new arrangement of molecules not only changed the wire and cable division, but led to the development of GORE-TEX fabric.

Bill and Vieve did the initial field-testing of GORE-TEX fabric the summer of 1970. Vieve made a hand-sewn tent out of patches of GORE-TEX fabric. They took it on their annual camping trip to the Wind River Mountains in Wyoming. The very first night in the wilderness, they encountered a hail storm. The hail tore holes in the top of the tent, and the bottom filled up like a bathtub from the
rain. Undaunted, Bill Gore stated: “At least we knew from all the water that the tent was waterproof. We just needed to make it stronger, so it could withstand hail.”

Gore Associates have always been encouraged to think, experiment, and follow a potentially profitable idea to its conclusion. At a plant in Newark, Delaware, Fred L. Eldreth, an Associate with a third-grade education, designed a machine that could wrap thousands of feet of wire a day. The design was completed over a weekend. Many other Associates have contributed their ideas through both product and process breakthroughs.

Even without an R&D department, innovation and creativity continue at a rapid pace at Gore & Associates. The year before he died, Bill Gore claimed that “the creativity, the number of patent applications and innovative products is triple” that of DuPont.

**Development of Gore Associates**

Ron Hill, an Associate in Newark, noted that Gore “will work with Associates who want to advance themselves.” Associates have been offered many in-house training opportunities, not only in technical and engineering areas but also in leadership development. In addition, the company has established cooperative education programs with universities and other outside providers, picking up most of the costs for the Gore Associates. The emphasis in Associate development, as in many parts of Gore, has always been that the Associate must take the initiative.

**Marketing Approaches and Strategy**

Gore’s business philosophy incorporates three beliefs and principles: (1) that the company can and should offer the best-valued products in the markets and market segments where it chooses to compete, (2) that buyers in each of its markets should appreciate the caliber and performance of the items it manufactures, and (3) that Gore should become a leader with unique expertise in each of the product categories where it competes. To achieve these outcomes, the company’s approach to marketing (it has no formally organized marketing department) is based on the following principles:

1. **Marketing a product requires a leader, or product champion.** According to Dave McCarter: “You marry your technology with the interests of your champions, since you’ve got to have champions for all these things no matter what. And that’s the key element within our company. Without a product champion you can’t do much anyway, so it is individually driven. If you get people interested in a particular market or a particular product for the marketplace, then there is no stopping them.” Bob Winterling of the Fabrics Division elaborated further on the role and importance of the product champion.

   The product champion is probably the most important resource we have at Gore for the introduction of new products. You look at that bicycle cable. That could have come out of many different divisions of Gore, but it really happened because one or two individuals said, “Look, this can work. I believe in it; I’m passionate about it; and I want it to happen.” And the same thing with GLIDE floss. I think John Spencer in this case—although there was a team that supported John, let’s never forget that—John sought the experts out throughout the organization. But without John making it happen on his own, GLIDE floss would never have come to fruition. He started with a little chain of drugstores here, Happy Harry’s I think, and we put a few cases in and we just tracked the sales and that’s how it all started. Who would have ever believed that you could take what we would have considered a commodity product like that, sell it direct for $3–$5 apiece. That is so unGore-like it’s incredible. So it comes down to people and it comes down to the product champion to make things happen.

2. **A product champion is responsible for marketing the product through commitments with sales representatives.** Again, according to Dave McCarter: “We have no quota system. Our marketing and our sales people make their own commitments as to what their forecasts have been. There is no person sitting around telling them that is not high enough, you have to increase it by 10 percent, or whatever somebody feels is necessary. You are expected to meet your commitment, which is your forecast, but nobody is going to tell you to change it. . . . There is no order of command, no chain involved. These are groups of independent people who come together to make unified commitments to do something and sometimes when they can’t make those agreements . . . you may pass up a marketplace . . . but that’s OK, because there’s much more advantage when the team decides to do something.”

3. **Sales Associates are on salary, not commission.** They participate in the profit sharing and ASOP plans in which all other Associates participate. As in other areas of Gore, individual success stories have come from diverse backgrounds. Dave McCarter related another success of the company relying on a product champion as follows:

   I interviewed Sam one day. I didn’t even know why I was interviewing him actually. Sam was retired from AT&T. After twenty-five years, he took the golden parachute and went down to Sun Lakes to play golf. He played golf a few months and got tired of that. He was selling life insurance. I sat reading the application; his technical background interested me. . . . He had managed an engineering department with six
hundred people. He’d managed manufacturing plants for AT&T and had a great wealth of experience at AT&T. He said, “I’m retired. I like to play golf but I just can’t do it every day, so I want to do something else. Do you have something around here I can do?” I was thinking to myself, “This is one of these guys I would sure like to hire but I don’t know what I would do with him.” The thing that triggered me was the fact that he said he sold insurance and here is a guy with a high degree of technical background selling insurance. He had marketing experience, international marketing experience. So, the bell went off in my head that we were trying to introduce a new product into the marketplace that was a hydrocarbon leak protection cable. You can bury it in the ground and in a matter of seconds it could detect a hydrocarbon-like gasoline. I had a couple of other guys working on the product who hadn’t been very successful with marketing it. We were having a hard time finding a customer. Well, I thought, that kind of product would be like selling insurance. If you think about it, why should you protect your tanks? It’s an insurance policy that things are not leaking into the environment. That has implications, big-time monetary. So, actually, I said, “Why don’t you come back Monday? I have just the thing for you.” He did. We hired him; he went to work, a very energetic guy. Certainly a champion of the product, he picked right up on it, ran with it single-handed.

Now it’s a growing business. It certainly is a valuable one too for the environment. In the implementation of its marketing strategy, Gore has relied on cooperative and word-of-mouth advertising. Cooperative advertising has been especially used to promote GORE-TEX fabric products. These high-dollar, glossy campaigns include full-color ads and dressing the sales force in GORE-TEX garments. A recent slogan used in the ad campaigns has been, “If it doesn’t say GORE-TEX, it’s not.” Some retailers praise the marketing and advertising efforts as the best. Leigh Gallagher, managing editor of Sporting Goods Business magazine, describes Gore & Associates’ marketing as “unbeatable.”

Gore has stressed cooperative advertising because the Associates believe positive experiences with any one product will carry over to purchases of other and more GORE-TEX fabric products. Apparently, this strategy has paid off. When the Grandoe Corporation introduced GORE-TEX gloves, its president, Richard Zuckerwar, noted: “Sports activists have had the benefit of GORE-TEX gloves to protect their hands from the elements. . . . With this handsome collection of gloves . . . you can have warm, dry hands without sacrificing style.” Other clothing manufacturers and distributors who sell GORE-TEX garments include Apparel Technologies, Lands’ End, Austin Reed, Hudson Trail Outfitters, Timberland, Woolrich, North Face, L.L. Bean, and Michelle Jaffe.

The power of these marketing techniques extends beyond consumer products. According to Dave McCarter: “In the technical end of the business, company reputation probably is most important. You have to have a good reputation with your company.” He went on to say that without a good reputation, a company’s products would not be considered seriously by many industrial customers. In other words, the sale is often made before the representative calls. Using its marketing strategies, Gore has been very successful in securing a market leadership position in a number of areas, ranging from waterproof outdoor clothing to vascular grafts. Its market share of waterproof, breathable fabrics is estimated to be 90 percent.

Adapting to Changing Environmental Forces
Each of Gore’s divisions has faced from time to time adverse environmental forces. For example, the fabric division was hit hard when the fad for jogging suits collapsed in the mid-1980s. The fabric division took another hit from the recession of 1989. People simply reduced their purchases of high-end athletic apparel. By 1995, the fabric division was the fastest-growing division of Gore again.

The electronic division was hit hard when the mainframe computer business declined in the early 1990s. By 1995, that division was seeing a resurgence for its products partially because that division had developed some electronic products for the medical industry. As can be seen, not all the forces have been negative.

The aging population of America has increased the need for health care. As a result, Gore has invested in the development of additional medical products and the medical division is growing.

W. L. Gore & Associates’ Financial Performance
As a closely held private corporation, W. L. Gore has kept its financial information as closely guarded as proprietary information on products and processes. It has been estimated that Associates who work at Gore own 90 percent of the stock. According to Shanti Mehta, an Associate, Gore’s returns on assets and sales have consistently ranked it among the top 10 percent of the Fortune 500 companies. According to another source, W. L. Gore & Associates has been doing just fine by any financial measure. For thirty-seven straight years (from 1961 to 1997) the company has enjoyed profitability and positive return on equity. The compounded growth rate for revenues at W. L. Gore & Associates from 1969 to 1989 was more than 18 percent, discounted for inflation." In 1969, total sales were about
$6 million; by 1989, the figure was $600 million. As should be expected with the increase in size, the percentage increase in sales has slowed over the last seven years (Exhibit 5). The company projects sales to reach $1.4 billion in 1998. Gore financed this growth without long-term debt unless it made sense. For example, “We used to have some industrial revenue bonds where, in essence, to build facilities the government allows banks to lend you money tax-free. Up to a couple of years ago we were borrowing money through industrial revenue bonds. Other than that, we are totally debt-free. Our money is generated out of the operations of the business, and frankly we’re looking for new things to invest in. I know that’s a challenge for all of us today,” said Bob Winterling. Forbes magazine estimates Gore’s operating profits for 1993, 1994, 1995, 1996, and 1997 to be $120, $140, $192, $213, and $230 million, respectively (see Exhibit 6). Bob Gore predicts that the company will reach $2 billion in sales by 2001.

Recently, the company purchased Optical Concepts Inc., a laser, semiconductor technology company, of

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**EXHIBIT 5**

Growth of Gore’s Sales vs. Gross Domestic Product

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**EXHIBIT 6**

Operating and Net Profits of W. L. Gore & Associates

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Data from Forbes Magazine’s Annual Report on the 500 Largest Private Companies in the U.S.
Lompoc, California. In addition, Gore & Associates is investing in test-marketing a new product, guitar strings, which was developed by its Associates.

When asked about cost control, Sally Gore had the following to say:

You have to pay attention to cost or you’re not an effective steward of anyone’s money, your own or anyone else’s. It’s kind of interesting, we started manufacturing medical products in 1974 with the vascular graft and it built from there. The Gore vascular graft is the Cadillac or BMW or the Rolls Royce of the business. There is absolutely no contest, and our medical products division became very successful. People thought this was Mecca. Nothing had ever been manufactured that was so wonderful. Our business expanded enormously, rapidly out there (Flagstaff, Arizona) and we had a lot of young, young leadership. They spent some time thinking they could do no wrong and that everything they touched was going to turn to gold.

They have had some hard knocks along the way and discovered it wasn’t as easy as they initially thought it was. And that’s probably good learning for everyone somewhere along the way. That’s not how business works. There’s a lot of truth in that old saying that you learn more from your failures than you do your successes. One failure goes a long way toward making you say, Oh, wow!

Acknowledgments

Many sources were helpful in providing background material for this case. The most important sources of all were the W. L. Gore Associates, who generously shared their time and viewpoints about the company. They provided many resources, including internal documents, and added much to this case through sharing their personal experiences as well as ensuring that the case accurately reflected the Gore company and culture.

Excerpts from Interviews with Associates

The first excerpt is from an Associate that was formerly with IBM and has been with Gore for two years:

Q. What is the difference between being with IBM and Gore?
A. Although I never would have expected it to be, I found my transition coming to Gore to be rather challenging. What attracted me to the company was the opportunity to “be my own boss” and determine my own commitments. I am very goal-oriented, and enjoy taking a project and running with it—all things that you are able to do and encouraged to do within the Gore culture. Thus, I thought, a perfect fit!

However, as a new Associate, I really struggled with where to focus my efforts—I was ready to make my own commitments, but to what?! I felt a strong need to be sure that I was working on something that had value, something that truly needed to be done. While I didn’t expect to have the “hottest” project, I was willing to “walk” the paperwork through the approval process, but even after computerizing the process, it typically would take one month from the time you initiated the purchase requisition till the time the material actually arrived. Here they have one simple form. Usually, I get the chemicals the next day and a copy of the purchase order will arrive a day or two after that. It happens so fast. I wasn’t used to that.

Q. Do you find that a lot more pleasant?
A. Yeah, you’re unshackled here. There’s a lot less bureaucracy that allows you to be a lot more productive. Take Lab Safety, for example. In my lab at IBM, we were cited for not having eyewash taped properly. The first time, we were cited for not having a big enough area taped off. So we taped off a bigger area. The next week the same eyewash was cited again, because the area we taped off was three inches too short in one direction. We retaped it and the following week, it got cited again for having the wrong color tape. Keep in mind that the violation was viewed as serious as a pail of gasoline next to a lit Bunsen burner. Another time I had the dubious honor of being selected the functional safety representative in charge of getting the function’s labs ready for a Corporate Safety Audit. (The function was a third level in the pyramidal organization—[1] department, [2] project, and [3] function.) At the same time I was working on developing a new surface mount package. As it turned out, I had no time to work on development, and the function spent a lot of time and money getting ready for the Corporate Auditors who in the end never showed. I’m not belittling the importance of safety, but you really don’t need all that bureaucracy to be safe.

The second interview is with an Associate who is a recent engineering graduate:

Q. How did you find the transition coming here?
A. I spent twenty-four years working for IBM, and there’s a big difference. I can go ten times faster here at Gore because of the simplicity of the lattice organization. Let me give you an example. If I wanted to purchase chemicals at IBM (I am an industrial chemist), the first thing I would need to do is get accounting approval, then I would need at least two levels of managers’ approval, then a secretary to log in my purchase and the purchase order would go to Purchasing where it would be assigned a buyer. Some time could be saved if you were
did want to make sure that I was helping the company to “make money” in some way.

At the time, though, I was working for a plant that was pretty typical of what Gore was like when it was originally founded—after my first project (which was designed to be a “quick win”—a project with meaning, but one that had a definite end point), I was told, “Go find something to work on.” While I could have found something, I wanted to find something with at least a small degree of priority! Thus, the whole process of finding a project was very frustrating for me—I didn’t feel that I had the perspective to make such a choice and ended up in many conversations with my sponsor about what would be valuable. . . .

In the end, of course, I did find that project—and it did actually turn out to be a good investment for Gore. The process to get there, though, was definitely trying for someone as inexperienced as I was—so much ground would have been gained by suggesting a few projects to me and then letting me choose from that smaller pool.

What’s really neat about the whole thing, though, is that my experience has truly made a difference. Due in part to my frustrations, my plant now provides college grads with more guidance on their first several projects. (This guidance obviously becomes less and less critical as each Associate grows within Gore.) Associates still are choosing their own commitments, but they’re doing so with additional perspective, and the knowledge that they are making a contribution to Gore—which is an important thing within our culture. As I said, though, it was definitely rewarding to see that the company was so responsive, and to feel that I had helped to shape someone else’s transition!

Notes
1. GORE-TEX is a registered trademark of W. L. Gore & Associates.
2. In this case the word Associates is used and capitalized because in W. L. Gore & Associates’ literature the word is always used instead of employees and is capitalized. In fact, case writers were told that Gore “never had ‘employees’—always ‘Associates.”’
3. GORE RideOn is a registered trademark of W. L. Gore & Associates.
4. Glide is a registered trademark of W. L. Gore & Associates.
5. WindStopper is a registered trademark of W. L. Gore & Associates.
6. Similar legally to an ESOP (Employee Stock Ownership Plan). Again, Gore simply has never allowed the word employee in any of its documentation.
7. In comparison, only 11 of the 200 largest companies in the Fortune 500 had positive ROE each year from 1970 to 1988 and only 2 other companies missed a year. The revenue growth rate for these 13 companies was 5.4 percent, compared with 2.5 percent for the entire Fortune 500.

References
Price, Debbie M. “GORE-TEX style,” Baltimore Sun (April 20, 1997), 1D & 4D.
After the usual banter when old friends meet for cocktails, the conversation between a couple of university professors and Dick Spencer, who was now a successful businessman, turned to Dick’s life as a vice president of a large manufacturing firm.

“I’ve made a lot of mistakes, most of which I could live with, but this one series of incidents was so frustrating that I could have cried at the time,” Dick said in response to a question. “I really have to laugh at how ridiculous it is now, but at the time I blew my cork.”

Spencer was plant manager of Modrow Company, a Canadian branch of the Tri-American Corporation. Tri-American was a major producer of primary aluminum with integrated operations ranging from the mining of bauxite through the processing to fabrication of aluminum into a variety of products. The company had also made and sold refractories and industrial chemicals. The parent company had wholly-owned subsidiaries in five separate United States locations and had foreign affiliates in fifteen different countries.

Tri-American mined bauxite in the Jamaican West Indies and shipped the raw material by commercial vessels to two plants in Louisiana where it was processed into alumina. The alumina was then shipped to reduction plants in one of three locations for conversion into primary aluminum. Most of the primary aluminum was then moved to the companies’ fabricating plants for further processing. Fabricated aluminum items included sheet, flat, coil, and corrugated products; siding; and roofing.

Tri-American employed approximately 22,000 employees in the total organization. The company was governed by a board of directors, which included the chairman, vice chairman, president, and twelve vice presidents. However, each of the subsidiaries and branches functioned as independent units. The board set general policy, which was then interpreted and applied by the various plant managers. In a sense, the various plants competed with one another as though they were independent companies. This decentralization in organizational structure increased the freedom and authority of the plant managers, but increased the pressure for profitability.

The Modrow branch was located in a border town in Canada. The total work force in Modrow was 1,000. This Canadian subsidiary was primarily a fabricating unit. Its main products were foil and building products such as roofing and siding. Aluminum products were gaining in importance in architectural plans, and increased sales were predicted for this branch. Its location and its stable work force were the most important advantages it possessed.

In anticipation of estimated increases in building product sales, Modrow had recently completed a modernization and expansion project. At the same time, their research and art departments combined talents in developing a series of twelve new patterns of siding which were being introduced to the market. Modernization and pattern development had been costly undertakings, but the expected return on investment made the project feasible. However, the plant manager, who was a Tri-American vice president, had instituted a campaign to cut expenses wherever possible. In this introductory notice of the campaign, he emphasized that cost reduction would be the personal aim of every employee at Modrow.

Salesman

The plant manager of Modrow, Dick Spencer, was an American who had been transferred to this Canadian branch two years previously, after the start of the modernization plan. Dick had been with the Tri-American Company for fourteen years, and his progress within the organization was considered spectacular by those who knew him well. Dick had received a master’s degree in Business Administration from a well-known university at the age of twenty-two. Upon graduation he had accepted a job as salesman for Tri-American. During his first year as a salesman, he succeeded in landing a single, large contract, which put him near the top of the sales-volume leaders. In discussing this phenomenal rise in the sales volume, several of his fellow salesmen concluded that his looks, charm, and ability on the golf course contributed as much to his success as his knowledge of the business or his ability to sell the products.

The second year of his sales career, he continued to set a fast pace. Although his record set difficult goals for the other salesmen, he was considered a “regular guy” by them, and both he and they seemed to enjoy the few occasions when they socialized. However, by the end of the second year of constant traveling and selling, Dick began to experience some doubt about his future.

*This case was developed and prepared by Professor Margaret E. Fenn, Graduate School of Business Administration, University of Washington. Reprinted by permission.
His constant involvement in business affairs disrupted his marital life, and his wife divorced him during the second year with Tri-American. Dick resented her action at first, but gradually seems to have recognized his career at present depended on his freedom to travel unencumbered. During that second year, he ranged far and wide in his sales territory, and successfully closed several large contracts. None of them was as large as his first year’s major sale, but in total volume he again was well up near the top of salesmen for the year. Dick’s name became well known in the corporate headquarters, and he was spoken of as “the boy to watch.”

Dick had met the president of Tri-American during his first year as a salesman at a company conference. After three days of golfing and socializing they developed a relaxed camaraderie considered unusual by those who observed the developing friendship. Although their contacts were infrequent after the conference, their easy relationship seemed to blossom the few times they did meet. Dick’s friends kidded him about his ability to make use of his new friendship to promote himself in the company, but Dick brushed aside their jibes and insisted that he’d make it on his own abilities, not someone’s coattails.

By the time he was twenty-five, Dick began to suspect that he did not look forward to a life as a salesman for the rest of his career. He talked about his unrest with his friends, and they suggested that he groom himself for sales management. “You won’t make the kind of money you’re making from commissions,” he was told, “but you will have a foot in the door from an administrative standpoint, and you won’t have to travel quite as much as you do now.” Dick took their suggestions lightly, and continued to sell the product, but was aware that he felt dissatisfied and did not seem to get the satisfaction out of his job that he had once enjoyed.

By the end of his third year with the company Dick was convinced that he wanted a change in direction. As usual, he and the president spent quite a bit of time on the golf course during the annual company sales conference. After their match one day, the president kidded Dick about his game. The conversation drifted back to business, and the president, who seemed to be in a jovial mood, started to kid Dick about his sales ability. In a joking way, he implied that anyone could sell a product as good as Tri-American’s, but that it took real “guts and know-how” to make the products. The conversation drifted to other things, but the remark stuck with Dick.

Sometime later, Dick approached the president formally with a request for a transfer out of the sales division. The president was surprised and hesitant about this change in career direction for Dick. He recognized the superior sales ability that Dick seemed to possess, but was unsure that Dick was willing or able to assume responsibilities in any other division of the organization. Dick sensed the hesitancy, but continued to push his request. He later remarked that it seemed that the initial hesitancy of the president convinced Dick that he needed an opportunity to prove himself in a field other than sales.

**Troubleshooter**

Dick was finally transferred back to the home office of the organization and indoctrinated into production and administrative roles in the company as a special assistant to the senior vice president of production. As a special assistant, Dick was assigned several troubleshooting jobs. He acquitted himself well in this role, but in the process succeeded in gaining a reputation as a ruthless headhunter among the branches where he had performed a series of amputations. His reputation as an amiable, genial, easygoing guy from the sales department was the antithesis of the reputation of a cold, calculating headhunter which he earned in his troubleshooting role. The vice president, who was Dick’s boss, was aware of the reputation which Dick had earned but was pleased with the results that were obtained. The faltering departments that Dick had worked in seemed to bloom with new life and energy after Dick’s recommended amputations. As a result, the vice president began to sing Dick’s praises, and the president began to accept Dick in his new role in the company.

**Management Responsibility**

About three years after Dick’s switch from sales, he was given an assignment as assistant plant manager of an English branch of the company. Dick, who had remarried, moved his wife and family to London, and they attempted to adapt to their new routine. The plant manager was English, as were most of the other employees. Dick and his family were accepted with reservations into the community life as well as into the plant life. The difference between British and American philosophy and performance within the plant was marked for Dick, who was imbued with modern managerial concepts and methods. Dick’s directives from headquarters were to update and upgrade performance in this branch. However, his power and authority were less than those of his superiors, so he constantly found himself in the position of having to soft pedal or withhold suggestions that he would have liked to make, or innovations that he would have liked to introduce. After a frustrating year and a half, Dick was suddenly made plant manager of an old British company which had just been purchased by Tri-American. He left his first English assignment with mixed feelings and moved from London to Birmingham.

As the new plant manager, Dick operated much as he had in his troubleshooting job for the first couple of years of his change from sales to administration. Training and
reeducation programs were instituted for all supervisors and managers who survived the initial purge. Methods were studied and simplified or redesigned whenever possible, and new attention was directed toward production which better met the needs of the sales organization. A strong controller helped to straighten out the profit picture through stringent cost control; and by the end of the third year, the company showed a small profit for the first time in many years. Because he felt that this battle was won, Dick requested transfer back to the United States. The request was partially granted when nine months later he was awarded a junior vice president title, and was made manager of a subsidiary Canadian plant, Modrow.

**Modrow Manager**

Prior to Dick’s appointment as plant manager at Modrow, extensive plans for plant expansion and improvement had been approved and started. Although he had not been in on the original discussions and plans, he inherited all the problems that accompany large-scale changes in any organization. Construction was slower in completion than originally planned, equipment arrived before the building was finished, employees were upset about the extent of change expected in their work routines with the installation of additional machinery, and, in general, morale was at a low ebb.

Various versions of Dick’s former activities had preceded him, and on his arrival he was viewed with dubious eyes. The first few months after his arrival were spent in a frenzy of catching up. This entailed constant conferences and meetings, volumes of reading of past reports, becoming acquainted with the civic leaders of the area, and a plethora of dispatches to and from the home office. Costs continued to climb unabated.

By the end of his first year at Modrow, the building program had been completed, although behind schedule, the new equipment had been installed, and some revamping of cost procedures had been incorporated. The financial picture at this time showed a substantial loss, but since it had been budgeted as a loss, this was not surprising. All managers of the various divisions had worked closely with their supervisors and accountants in planning the budget for the following year, and Dick began to emphasize his personal interest in cost reduction.

As he worked through his first year as plant manager, Dick developed the habit of strolling around the organization. He was apt to leave his office and appear anywhere on the plant floor, in the design offices, at the desk of a purchasing agent or accountant, in the plant cafeteria rather than the executive dining room, or wherever there was activity concerned with Modrow. During his strolls he looked, listened, and became acquainted. If he observed activities which he wanted to talk about, or heard remarks that gave him clues to future action, he did not reveal these at the time. Rather he had a nod, a wave, a smile, for the people near him, but a mental note to talk to his supervisors, managers, and foremen in the future. At first his presence disturbed those who noted him coming and going, but after several exposures to him without any noticeable effect, the workers came to accept his presence and continue their usual activities. Supervisors, managers, and foremen, however, did not feel as comfortable when they saw him in the area.

Their feelings were aptly expressed by the manager of the siding department one day when he was talking to one of his foremen: “I wish to hell he’d stay up in the front office where he belongs. Whoever heard of a plant manager who has time to wander around the plant all the time? Why doesn’t he tend to his paper work and let us tend to our business?”

“Don’t let him get you down,” joked the foreman. “Nothing ever comes of his visits. Maybe he’s just lonesome and looking for a friend. You know how these Americans are.”

“Well, you may feel that nothing ever comes of his visits, but I don’t. I’ve been called into his office three separate times within the last two months. The heat must really be on from the head office. You know these conferences we have every month where he reviews our financial progress, our building progress, our design progress, etc.? Well, we’re not really progressing as fast as we should be. If you ask me we’re in for continuing trouble.”

In recalling his first year at Modrow, Dick had felt constantly pressured and badgered. He always sensed that the Canadians he worked with resented his presence since he was brought in over the heads of the operating staff. At the same time he felt this subtle resistance from his Canadian work force, he believed that the president and his friends in the home office were constantly on the alert, waiting for Dick to prove himself or fall flat on his face. Because of the constant pressures and demands of the work, he had literally dumped his family into a new community and had withdrawn into the plant. In the process, he built up a wall of resistance toward the demands of his wife and children who, in turn, felt as though he was abandoning them.

During the course of the conversation with his university friends, he began to recall a series of incidents that probably had resulted from the conflicting pressures. When describing some of these incidents, he continued to emphasize the fact that his attempt to be relaxed and casual had backfired. Laughingly, Dick said, “As you know, both human relations and accounting were my weakest subjects during the master’s program, and yet they are two fields I felt I needed the most at Modrow at this time.” He described some of the cost procedures that he would have liked to incorporate. However, without the support and
knowledge furnished by his former controller, he busied himself with details that were unnecessary. One day, as he describes it, he overheard a conversation between two of the accounting staff members with whom he had been working very closely. One of them commented to the other, “For a guy who’s a vice president, he sure spends a lot of time breathing down our necks. Why doesn’t he simply tell us the kind of systems he would like to try, and let us do the experimenting and work out the budget?” Without commenting on the conversation he overheard, Dick then described himself as attempting to spend less time and be less directive in the accounting department.

Another incident he described, which apparently had real meaning for him, was one in which he had called a staff conference with his top-level managers. They had been going “hammer and tongs” for better than an hour in his private office, and in the process of heated conversation had loosened ties, taken off coats, and really rolled up their sleeves. Dick himself had slipped out of his shoes. In the midst of this, his secretary reminded him of an appointment with public officials. Dick had rapidly finished up his conference with his managers, straightened his tie, donned his coat, and had wandered out into the main office in his stocking feet.

Dick fully described several incidents when he had disappointed, frustrated, or confused his wife and family by forgetting birthdays, appointments, dinner engagements, etc. He seemed to be describing a pattern of behavior which resulted from continuing pressure and frustration. He was setting the scene to describe his baffling and humiliating position in the siding department. In looking back and recalling his activities during this first year, Dick commented on the fact that his frequent wanderings throughout the plant had resulted in a nodding acquaintance with the workers, but probably had also resulted in foremen and supervisors spending more time getting ready for his visits and reading meaning into them afterwards than attending to their specific duties. His attempts to know in detail the accounting procedures being used required long hours of concentration and detailed conversations with the accounting staff, which were time consuming and very frustrating for him, as well as for them. His lack of attention to his family life resulted in continued pressure from both wife and family.

The Siding Department Incident

Siding was the product which had been budgeted as a large profit item of Modrow. Aluminum siding was gaining in popularity among both architects and builders, because of its possibilities in both decorative and practical uses. Panel sheets of siding were shipped in standard sizes to order; large sheets of the coated siding were cut to specifications in the trim department, packed, and shipped. The trim shop was located near the loading platforms, and Dick often cut through the trim shop on his wanderings through the plant. On one of his frequent trips through the area, he suddenly became aware of the fact that several workers responsible for the disposal function were spending countless hours at high-speed saws cutting scraps into specified lengths to fit into scrap barrels. The narrow bands of scrap which resulted from the trim process varied in length from seven to twenty-seven feet and had to be reduced in size to fit into disposal barrels. Dick, in his concentration on cost reduction, picked up one of the thin strips, bent it several times and fitted it into the barrel. He tried this with another piece, and it bent very easily. After assuring himself that bending was possible, he walked over to a worker at the saw and asked why he was using the saw when material could easily be bent and fitted into the barrels, resulting in saving time and equipment. The worker’s response was, “We’ve never done it that way, sir. We’ve always cut it.”

Following his plan of not commenting or discussing matters on the floor, but distressed by the reply, Dick returned to his office and asked the manager of the siding department if he could speak to the foreman in the scrap division. The manager said, “Of course, I’ll send him up to you in just a minute.”

After a short time, the foreman, very agitated at being called to the plant manager’s office, appeared. Dick began questioning him about the scrap disposal process and received the standard answer: “We’ve always done it that way.” Dick then proceeded to review cost-cutting objectives. He talked about the pliability of the strips of scrap. He called for a few pieces of scrap to demonstrate the ease with which it could be bent, and ended what he thought was a satisfactory conversation by requesting the foreman to order heavy-duty gloves for his workers and use the bending process for a trial period of two weeks to check the cost savings possible.

The foreman listened throughout most of this hour’s conference, offered several reasons why it wouldn’t work, raised some questions about the record-keeping process for cost purposes, and finally left the office with the forced agreement to try the suggested new method of bending, rather than cutting, for disposal. Although he was immersed in many other problems, his request was forcibly brought home one day as he cut through the scrap area. The workers were using power saws to cut scraps. He called the manager of the siding department and questioned him about the process. The manager explained that each foreman was responsible for his own processes, and since Dick had already talked to the foreman, perhaps he had better talk to him again. When the foreman arrived, Dick began to question him. He received a series of excuses, and some explanations of the kinds of problems they were meeting by attempting to bend the scrap material. “I don’t care what the problems are,” Dick nearly shouted, “when
I request a cost-reduction program instituted, I want to see it carried through.”

Dick was furious. When the foreman left, Dick phoned the maintenance department and ordered the removal of the power saws from the scrap area immediately. A short time later the foreman of the scrap department knocked on Dick’s door reporting his astonishment at having maintenance men step into his area and physically remove the saws. Dick reminded the foreman of his request for a trial at cost reduction to no avail, and ended the conversation by saying that the power saws were gone and would not be returned, and the foreman had damned well better learn to get along without them. After a stormy exit by the foreman, Dick congratulated himself on having solved a problem and turned his attention to other matters.

A few days later Dick cut through the trim department and literally stopped to stare. As he described it, he was completely nonplussed to discover gloved workmen using hand shears to cut each strip of scrap.
David Bart, General Manager of the Plaza Inn, had just finished reading a letter from Jean Dumas, President of the prestigious Relais & Chateaux, a French hotel association of which the Plaza Inn was a member. In the formal and polite tone of the French language, the president stated that the last inspection had determined that the service levels of the Plaza Inn did not measure up to the Relais & Chateaux standards. Moreover, the letter noted that the Front Desk and Reservations, two critical guest contact departments, received the worst ratings among all of the Relais & Chateaux member properties. The letter concluded that unless the management of the Plaza Inn could submit a plan for guest service improvement and pass the next inspection scheduled in six months, the Relais & Chateaux would “regrettably be forced to withhold the Plaza Inn’s membership.”

Background
Located within walking distance of the Country Club Plaza and the Crown Center districts of Kansas City, the Plaza Inn is a 50-room hotel modeled after the boutique hotels of Europe. The Inn’s intimate atmosphere and unobtrusive service attract business and leisure travelers alike.

Built in the 1920s in the classic Victorian style and meticulously renovated in 1985, the Inn occupies a place on the National Register of Historic Places. Guest rooms are decorated in the best country manner with antique furnishings and oriental rugs discreetly coupled with the most modern leisure and business amenities. Luxurious terry cloth robes and marbled baths, for example, await the weary guest. The Plaza Inn also boasts two gourmet restaurants: the romantic, nationally acclaimed St. Jacques with an award winning wine list, and the more casual André’s bar and bistro. In addition to its overnight guests, the restaurants have an established local clientele.

Nostalgia prompted André Bertrand and Tim Boyle, two successful Kansas City entrepreneurs and real estate developers, to purchase the Plaza Inn in 1983. They entered into a partnership with Antoine Fluri, a Swiss hotelier who soon assumed the position of the Inn’s general manager. In addition to the three general partners the Inn is owned by approximately 20 limited partners.

“One of the Ten Best New Inns”
Under the charismatic direction of Antoine Fluri, the Inn quickly established a national reputation. In 1987, Travel magazine voted the Plaza Inn among the “ten best new inns.” A loyal clientele included such famous people as former French President Valéry Giscard d’Estaing, Senator Danforth, and Susan Sontag, to name a few. Antoine Fluri also negotiated the Inn’s membership in the prestigious, world-renowned Relais & Chateaux association. The existing hotels in the immediate area: a Marriott, a Holiday Inn, and a Hilton gave the Plaza Inn virtually no competition for the upscale traveler.

Despite the success of the Inn, in early 1989 Antoine Fluri sold his share to the remaining two partners and left the Inn citing, “irreconcilable differences” as the reason. A year later, he opened his own restaurant in the Country Club Plaza District.

To continue to promote the European image of the Inn, the owners hired a French couple from Normandy, Marc and Nicole Duval, to replace Antoine Fluri. However, the Duvalts soon proved to lack knowledge about European hospitality practices as well as management expertise. They abused their position and power, and within a short time succeeded in alienating many of the Inn’s clientele and most of its staff. Under their management, the Inn rapidly incurred heavy financial losses. Alarmed by the practices of the Duvalts, the owners looked for new management for the Inn. In December 1989, David Bart was hired as the new general manager. A native of Missouri, he had a solid hotel management background in the middle west, most recently including several years as controller at the headquarters of a large chain hotel.

As David Bart assumed the direction of the Inn in early 1990, he faced several challenges, including steadily declining hotel occupancy and revenues. Many of the regular clientele complained that the Inn had not been the same since Antoine Fluri left. Moreover, contrary to optimistic expectations, the Inn was also losing business to a 300-room, upscale Ritz-Carlton hotel which had just opened a few blocks down the street and was offering introductory room rates as low as $75. Finally, toward the end of 1990 demand also declined as a national recession began to set in.

Given the poor performance of the hotel, David Bart immediately proceeded to cut costs, which included the elimination of several staff positions. In the Food and
Beverage Department (F&B), two of the three restaurant managers were eliminated. St. Jacques and Andre’s were to be run by the F&B director with the assistance of only one restaurant manager. In the Rooms Department, Bart eliminated the position of Private Branch Exchange (PBX) operator, and transferred the responsibility of answering the phone directly to the front desk. Finally, the front office manager position was eliminated, and the front desk staff came under the supervision of the sales manager. Thus, the Inn began to operate with a lean management and staff group. All operating departments, with the exception of F&B, were headed by one person and with no administrative support. Even Bart himself did not retain a secretary.

**The Front Desk**
The end of David Bart’s first year at the Plaza Inn was marked by the outbreak of the Gulf War. During the first quarter of 1990, occupancy hit an all-time low of just 40%. However, business finally began to pick up in April. This increase in demand was especially hard for the front desk. The reception area, consisting of an elegant antique concierge-type desk, was too small to be staffed by more than one person at a time. Consequently, only one front desk receptionist was scheduled per shift. With no PBX operator and no secretarial staff, this meant that the front desk receptionist was responsible for not only providing guest service, but also for answering the telephone, taking messages for the management staff, and booking room and restaurant reservations. Moreover, the sales office was not connected to the computerized Property Management System (PMS), and consequently the sales and catering managers relied on the front desk to check availability and block and update group reservations. Similarly, the housekeeping department was not computerized, and the front desk was charged with the preparation of housekeeping room assignments each morning and evening as well as with the tracking and updating of room status in the PMS. Bart believed that the front desk should perform a central function in the operation of the Inn. Rather than computerize the housekeeping, sales and catering departments, and train the managers to utilize the PMS, Bart preferred the front desk to oversee those activities. This, he believed, allowed for greater consistency and control.

With only one person scheduled per shift, the front desk receptionist had to juggle the telephone, coordinate department activities, and take care of guest needs in the personalized manner that was the trademark of the Inn. On busy days, guests checking in or out were rudely interrupted by the ringing telephone, or alternatively, callers were put on hold for lengthy periods of time while the front desk receptionist helped a guest.

The inability to efficiently expedite phone calls and respond to guest needs became worrisome not only from a guest service perspective, but also from a potential revenue loss standpoint. Room reservation calls usually hung up if they remained on hold for more than two minutes. Moreover, under the pressure to answer the phone and help a guest at the same time, the front desk receptionists frequently underquoted rates, mixed up arrival dates, and booked rooms on sold out nights. Cancellation requests were not handled correctly with the consequence that some guests were billed for reservations that they had canceled. One of the front desk receptionists commented: “It’s extremely difficult to make a room sale when I constantly have to ask the customer to hold because I’m trying to pick up the other five lines that are ringing. What is more important: making a $130 room reservation for two nights or taking a message for one of the managers?”

**Reinstatement of the Front Office Manager**
Lost revenues and customer complaints about front office service finally convinced David Bart of the need to reinstate the position of the front office manager. A manager was needed to monitor the rooms inventory and ensure that no revenues were lost due to un-canceled reservations and unreleased room blocks, to coordinate activities between the departments, and to train the front office staff consisting of front desk receptionists and valets/bellhops. However, to minimize costs, Bart decided that the front office manager would also work three shifts per week at the front desk as a receptionist.

In February 1991, Bart offered the position of front office manager to Ms. Claire Ruiz, who had been working as a front desk receptionist since 1989. The promotion worked out well. Claire knew the job thoroughly and was genuinely interested in hotel management. She was able to effectively combine her managerial duties with the three shifts at the front desk.

Cooperation between the departments soon increased significantly. Claire believed that the Inn would never be able to afford the specialized and extensive front office staff of a larger hotel, and thus its ability to deliver high-quality customer service depended on mutual cooperation between all employees. Consequently, when things got busy, she had the front desk ask other departments for support. For example, if the switchboard was busy, reservation calls were transferred from the front desk to accounting or sales. Even the general manager himself got called on to help the valets park cars or assist guests with luggage, although he clearly preferred being in his office going over reports and records.

**The New PBX Position**
While other managers were willing to help out, they also had their own duties to tend to and weren’t always available. Since occupancy remained strong, Claire convinced
the general manager to reinstate the PBX position. However, Claire’s idea was to have the PBX operator function as an extension of the front desk. A PBX station was set up in an unoccupied reception area in the lobby, and with the exception of checking guests in and out, the PBX operator performed the same duties and was compensated at the same rate of pay as the front desk receptionist. This additional support allowed the front desk to provide more efficient and gracious service to the Inn’s guests and improve their room-selling ability. Despite the continuing recession and competition from the Ritz-Carlton, 1991 proved to be a year of record high occupancy and revenues for the Plaza Inn.

In August 1992, Claire left the Plaza Inn to pursue a graduate degree in hotel management at an eastern university. David Bart believed that the situation at the front desk was under control, and did not plan to fill the vacant position of front office manager. The front desk staff once again would be indirectly supervised by the sales manager.

It wasn’t long, however, before the same problems Claire had worked so hard to resolve cropped up again. With the start of the school year, the front desk staff were no longer as flexible in terms of scheduling, and the PBX operator was called on to fill vacant shifts at the front desk. More often than not, there was only one person scheduled to work in the front office, and guest service began to suffer again. One day, for example, David Bart discovered that a recently hired front desk receptionist frequently told clients that the hotel was sold out because she was too busy to take a reservation.

Bart believed that there was no one at the front desk capable of being promoted to the position of front office manager. However, he also thought that it would be difficult to hire an outsider who would be willing to work the three shifts at the front desk for the modest salary he was willing to offer (most managers at the Plaza Inn were paid $5,000 to $7,000 less than other Kansas City hotels). Thus, Bart was relieved to learn that Laura Dunbar, who had previously worked at the Plaza Inn as a front desk receptionist, was interested in the position.

**A New Front Office Manager**

In addition to her experience at the Plaza Inn, Laura had worked as a concierge at one of the convention hotels in downtown Kansas City for several years. She had left the Plaza Inn for a secretarial position that offered more pay than the front desk position at the Inn. However, she missed the excitement and pace of the hospitality industry, and accepted the front office manager position in December 1992 with enthusiasm.

Despite her extensive connections with other Kansas City hotels, as well as the Kansas City Concierge Association, Laura soon found that one of her biggest challenges was the hiring and retaining of the front desk staff. The difficulty of hiring qualified employees forced Laura to work more than three shifts at the front desk. This left her with little time for planning and managing the front office operation. Short-staffed, she sometimes found herself working as much as 30 days in a row without a day off. In addition, the PBX position had not been filled on a regular basis for several months. Laura noticed that the front desk receptionists were not very attentive to the guests and were unable to meet guest expectations of a personalized, concierge-type service. Guest comment cards frequently included negative observations regarding front desk service; in fact, one guest commented that it seemed to him that the front desk receptionists “were responsible for doing everything with the exception of bartending and bussing the tables in the restaurants.”

Laura believed that David Bart was reluctant to hire a full-time PBX operator due to financial constraints. She also felt pressured to meet the front office payroll budget, which had been prepared by Bart and which she felt had been grossly underestimated. In a bi-monthly management staff meeting, Laura suggested to the F&B director that perhaps the restaurant should assume responsibility for managing their own reservations and inquiries, so as to free up the front desk staff to improve guest service and sell more rooms. However, the F&B director was quick to point out that the evening restaurant manager was called on to assist with rooms-related issues on a daily basis, and replaced the evening front desk receptionist so that she could take a break. The restaurants, he asserted, could not afford to create a position just to take reservations and answer inquiries.

Laura felt especially pressured with managing the front desk operation on the weekends. During the week she felt she could call on the other managers for help, whether it was to park a car or take a reservation. On the weekends, however, the only manager on duty was the restaurant manager, and he was often too busy with the restaurant to help with rooms issues. The Manager on Duty (MOD) program (in which all department managers rotated in being at the Inn on call and in charge Friday and Saturday nights) that had been established the prior spring at the initiation of Bart, had been a tremendous help; however, it had been canceled when the Inn had hit the slow summer period. David Bart was not in on the weekends, and Laura felt he somehow forgot that the hotel existed on weekends, not to mention that it usually ran at full occupancy.

By mid-fall, Bart agreed with Laura that there was a definite need to reinstate the MOD program, as well as the PBX position. However, Bart thought that Laura herself had reduced her role of front office manager to that of a front desk receptionist. She seemed to him to surround herself with employees who were either not flexible or not qualified enough, and thus was left to fill a lot of shifts at the front desk herself. This didn’t leave her with any time...
to oversee the operation of the front desk, and to ensure everything was in order. She still hadn’t even finished writing up job descriptions for the Inn which he had told her to do two months ago. Bart wondered if the problems at the Front Desk stemmed from Laura’s rather shy personality, or perhaps from her lack of management expertise. It appeared that she was unable to articulate her needs to him and other managers. Perhaps he needed to give her more direction; however, this was contradictory to his belief that each manager should assume the responsibility of defining his or her own role consistent with the objectives of the Inn. The weakness he saw in the front office manager was of growing concern to David Bart. Clearly, it was a key position in the operation of the Inn and required a highly competent, proactive individual.

As he thought back to the ultimatum he had received from the president of Relais & Chateaux, the general manager wondered what he should do. Perhaps he should look for an experienced manager to head the front office, even if it meant paying a much higher salary. Perhaps he just needed to shake Laura up. Perhaps the situation would just straighten itself out. David Bart reached for a copy of the Inn’s organization chart (Exhibit 1); perhaps a major structural change was needed. Perhaps . . .
Background
In 1960, Bill Dowling, a “machine-tool set-up-man” for a large auto firm, became so frustrated with his job that he quit to form his own business. The manufacturing operation consisted of a few general purpose metal working machines that were set up in Dowling’s garage. Space was such a constraint that it controlled the work process. For example, if the cutting press was to be used with long stock, the milling machines would have to be pushed back against the wall and remain idle. Production always increased on rain-free, summer days since the garage doors could be opened and a couple of machines moved out onto the drive. Besides Dowling, who acted as salesman, accountant, engineer, president, manufacturing representative, and working foreman, members of the original organization were Eve Sullivan, who began as a part-time secretary and payroll clerk; and Wally Denton, who left the auto firm with Bill. The workforce was composed of part-time “moonlighters,” full-time machinists for other firms, who were attracted by the job autonomy which provided experience in setting up jobs and job processes, where a high degree of ingenuity was required.

The first years were touch and go with profits being erratic. Gradually the firm began to gain a reputation for being ingenious at solving unique problems and for producing a quality product on, or before, deadlines. The “product” consisted of fabricating dies for making minor component metal parts for automobiles and a specified quantity of the parts. Having realized that the firm was too dependent on the auto industry and that sudden fluctuations in auto sales could have a drastic effect on the firm’s survival, Dowling began marketing their services toward manufacturing firms not connected with the auto industry. Bids were submitted for work that involved legs for vending machines, metal trim for large appliances, clamps and latches for metal windows, and display racks for small power hand tools.

As Dowling Flexible Metals became more diversified, the need for expansion forced the company to borrow building funds from the local bank, which enabled construction of a small factory on the edge of town. As new markets and products created a need for increasingly more versatile equipment and a larger workforce, the plant has since expanded twice until it is now three times its original size.

In 1980, Dowling Flexible Metals hardly resembles the garage operation of the formative years. The firm now employs approximately 30 full-time journeymen and apprentice machinists, a staff of 4 engineers that were hired about three years ago, and a full-time office secretary subordinate to Eve Sullivan, the Office Manager. (See Exhibit 1.) Their rapid growth has created problems that in 1980 have not been resolved. Bill Dowling, realizing his firm is suffering from growing pains, has asked you to “take a look at the operation and make recommendations as to how things could be run better.” You begin the consulting project by interviewing Dowling, other key people in the firm, and workers out in the shop who seem willing to express their opinions about the firm.

Bill Dowling, Owner-President
“We sure have come a long way from that first set-up in my garage. On a nice day we would get everything all spread out in the drive and then it would start pouring cats and dogs—so we would have to move back inside. It was just like a one-ring circus. Now it seems like a three-ring circus. You would think that with all that talent we have here and all the experience, things would run smoother. Instead, it seems I am putting in more time than ever and accomplishing a whole lot less in a day’s time.

“It’s not like the old days. Everything has gotten so complicated and precise in design. When you go to a customer to discuss a job you have to talk to six kids right out of engineering school. Every one of them has a calculator—they don’t even carry slide rules anymore—and all they can talk is fancy formulas and how we should do our job. It just seems I spend more time with customers and less time around the shop than I used to. That’s why I hired the engineering staff—to interpret specifications, solve engineering problems, and draw blueprints. It still seems all the problems are solved out on the shop floor by guys like Walt and Tom, just like always. Gene and the other engineers are necessary, but they don’t seem to be working as smoothly with the guys on the floor as they should.

“One of the things I would like to see us do in the future is to diversify even more. Now that we have the capability, I am starting to bid jobs that require the computerized milling machine process tape. This involves devising a work process for milling a part on a machine and then making a computer process tape of it. We can then sell copies of the tape just like we do dies and parts. These tapes allow less skilled operators to operate complicated milling machines without
the long apprenticeship of a tradesman. All they have to do is press buttons and follow the machine’s instructions for changing the milling tools. Demand is increasing for the computerized process tapes.

“I would like to see the firm get into things like working with combinations of bonded materials such as plastics, fiberglass, and metals. I am also starting to bid jobs involving the machining of plastics and other materials beside metals.”

**Wally Denton, Shop Foreman, First Shift**

“Life just doesn’t seem to be as simple as when we first started in Bill’s garage. In those days he would bring a job back and we would all gather ‘round and decide how we were going to set it up and who would do it. If one of the ‘moonlighters’ was to get the job either Bill or I would lay the job out for him when he came in that afternoon. Now, the customers’ ideas get processed through the engineers and we, out here in the shop, have to guess just exactly what the customer had in mind.

“What some people around here don’t understand is that I am a partner in this business. I’ve stayed out here in the shop because this is where I like it and it’s where I feel most useful. When Bill isn’t here, I’m always around to put out fires. Between Eve, Gene, and myself we usually make the right decision.

“With all this diversification and Bill spending a lot of time with customers, I think we need to get somebody else out there to share the load.”

**Thomas McNull, Shop Foreman, Second Shift**

“In general, I agree with Wally that things aren’t as simple as they used to be, but I think, given the amount of jobs we are handling at any one time, we run the shop pretty smoothly. When the guys bring problems to me that require major job changes, I get Wally’s approval before making the changes. We haven’t had any difficulty in that area.

“Where we run into problems is with the engineers. They get the job when Bill brings it back. They decide how the part should be made and by what process, which in turn pretty much restricts what type of dies we have to make. Therein lies the bind. Oftentimes we run into a snag following the engineers’ instructions. If it’s after five o’clock, the engineers have left for the day. We, on the second shift, either have to let the job sit until the next morning or solve the problem ourselves. This not only creates bad feelings between the shop personnel and the engineers, but it makes extra work for the engineers because they have to draw up new plans.

“I often think we have the whole process backwards around here. What we should be doing is giving the job to the journeymen—after all, these guys have a lot of experience and know-how—then give the finished product to the engineers to draw up. I’ll give you an example. Last year we got a job from a vending machine manufacturer. The job consisted of fabricating five sets of dies for making those stubby little legs for vending machines,
plus five hundred of the finished legs. Well, the engineers figured the job all out, drew up the plans, and sent it out to us. We made the first die to specs, but when we tried to punch out the leg on the press, the metal tore. We took the problem back to the engineers, and after the preliminary accusations of who was responsible for the screw up, they changed the raw material specifications. We waited two weeks for delivery of the new steel, then tried again. The metal still tore. Finally, after two months of hassle, Charlie Oakes and I worked on the die for two days and finally came up with a solution. The problem was that the shoulders of the die were too steep for forming the leg in just one punch. We had to use two punches (see Exhibit 2). The problem was the production process, not the raw materials. We spent four months on that job and ran over our deadline. Things like that shouldn’t happen.”

Charlie Oakes, Journeyman Apprentice
“Really, I hate to say anything against this place because it is a pretty good place to work. The pay and benefits are pretty good and because it is a small shop our hours can be somewhat flexible. If you have a doctor’s appointment you can either come in late or stay until you get your time in or punch out and come back. You can work as much overtime as you want to.

“The thing I’m kind of disappointed about is that I thought the work would be more challenging. I’m just an apprentice, but I’ve only got a year to go in my program before I can get my journeyman’s card, and I think I should be handling more jobs on my own. That’s why I came to work here. My Dad was one of the original ‘moonlighters’ here. He told me about how interesting it was when he was here. I guess I just expected the same thing.”

Gene Jenkins, Chief Engineer
“I imagine the guys out in the shop already have told you about ‘The Great Vending Machine Fiasco.’ They’ll never let us forget that. However, it does point out the need for better coordination around here. The engineers were hired as engineers, not as draftsmen, which is just about all we do. I’m not saying we should have the final say on how the job is designed, because there is a lot of practical experience out in that shop; but just as we haven’t their expertise neither do they have ours. There is a need for both, the technical skill of the engineers and the practical experience of the shop.

“One thing that would really help is more information from Bill. I realize Bill is spread pretty thin but there are a lot of times he comes back with a job, briefs us, and we still have to call the customer about details because Bill hasn’t been specific enough or asked the right questions of the customer. Engineers communicate best with other engineers. Having an engineering function gives us a competitive advantage over our competition. In my opinion, operating as we do now, we are not maximizing that advantage.

“When the plans leave here we have no idea what happens to those plans once they are out in the shop. The next thing we know, we get a die or set of dies back that doesn’t even resemble the plans we sent out in the shop. We then have to draw up new plans to fit the dies. Believe me, it is not only discouraging, but it really makes you wonder what your job is around here. It’s embarrassing when a customer calls to check on the status of a job and I have to run out in the shop, look up the guy handling the job, and get his best estimate of how the job is going.”

Eve Sullivan, Office Manager
“One thing is for sure, life is far from dull around here. It seems Bill is either dragging in a bunch of plans or racing off with the truck to deliver a job to a customer.
“Really, Wally and I make all the day-to-day decisions around here. Of course, I don’t get involved in technical matters. Wally and Gene take care of those, but if we are short-handed or need a new machine, Wally and I start the ball rolling by getting together the necessary information and talking to Bill the first chance we get. I guess you could say that we run things around here by consensus most of the time. If I get a call from a customer asking about the status of a job, I refer the call to Gene because Wally is usually out in the shop.

“I started with Bill and Wally 20 years ago, on a part-time basis, and somehow the excitement has turned into work. Joan, the office secretary, and I handle all correspondence, bookkeeping, payroll, insurance forms, and everything else besides run the office. It’s just getting to be too hectic—I just wish the job was more fun, the way it used to be.”

Having listened to all concerned, you returned to Bill’s office only to find him gone. You tell Eve and Wally that you will return within one week with your recommendations.
Joanna Reed was walking home through fallen tree blossoms in Guatemala City. Today, however, her mind was more on her work than the natural beauty surrounding her. She unlocked the gate to her colonial home and sat down on the porch, surrounded by riotous toddlers, pets, and plants, to ponder the recommendations she would make to Sam Wilson. The key decisions she needed to make about his Donor Services Department concerned who should run the department and how the work should be structured.

Joanna had worked for a sponsorship agency engaged in international development work with poor people for six years. She and her husband moved from country to country setting up new agencies. In each country, they had to design how the work should be done, given the local labor market and work conditions.

After a year in Guatemala, Joanna, happily pregnant with her third child, had finished setting up the Donor Services Department for the agency and was working only part-time on a research project. A friend who ran a “competing” development agency approached her to do a consulting project for him. Sam Wilson, an American, was the national representative of a U.S.-based agency that had offices all over the world. Sam wanted Joanna to analyze his Donor Services Department, because he’d received complaints from headquarters about its efficiency. Since he’d been told that his office needed to double in size in the coming year, he wanted to get all the bugs worked out beforehand. Joanna agreed to spend a month gathering information and compiling a report on this department.

Sponsorship agencies, with multimillion-dollar budgets, are funded by individuals and groups in developed countries who contribute to development programs in less-developed countries (LDCs). Donors contribute approximately $20.00 per month plus optional special gifts. The agencies use this money to fund education, health, community development, and income-producing projects for poor people affiliated with their agency in various communities. In the eyes of most donors, the specific benefit provided by sponsorship agencies is the personal relationship between a donor and a child and his or her family in the LDC. The donors and children write back and forth, and the agency sends photos of the child and family to the donors. Some donors never write the family they sponsor; others write weekly and visit the family on their vacations. The efficiency of a Donor Services Department and the quality of their translations are key ingredients to keeping donors and attracting new ones.

**What Is a Donor Services Department in a Sponsorship Agency Anyway?**

The work of a Donor Services Department consists of more than translating letters, preparing annual progress reports on the families, and answering donor questions directed to the agency. It also handles the extensive, seemingly endless paperwork associated with enrolling new families and assigning them to donors, reassignments when either the donor or the family stops participating, and the special gifts of money sent (and thank you notes for them). Having accurate enrollment figures is crucial because the money the agency receives from headquarters is based upon these figures and affects planning.

**The Department Head**

Joanna tackled the challenge of analyzing the department by speaking first with the department head (see the organizational chart in Exhibit 1). José Barriga, a charismatic, dynamic man in his forties, was head of both Donor Services and Community Services. In reality, he spent virtually no time in the Donor Services Department and was not bilingual. “My biggest pleasure is working with the community leaders and coming up with programs that will be successful. I much prefer being in the field, driving from village to village talking with people, to supervising paperwork. I’m not sure exactly what goes on in Donor Services, but Elena, the supervisor, is very responsible. I make it a point to walk through the department once a week and say hello to everyone, and I check their daily production figures.”

**The Cast of Characters in the Department**

Like José, Sam was also more interested in working with the communities on projects than in immersing himself in the details of the more administrative departments. In part, Sam had contracted Joanna because he rightfully worried that Donor Services did not receive the attention it deserved from José, who was very articulate and personable but seldom had time to look at anything beyond case histories. José never involved himself in the internal affairs of the department. Even though he was not considered much of a resource to
them, he was well liked and respected by the staff of Donor Services, and they never complained about him.

**The Supervisor**

This was not the case with the supervisor José had promoted from within. Elena had the title of departmental supervisor, but she exercised very little authority. A slight, single woman in her thirties, Elena had worked for the organization since its establishment ten years earlier. She was organized, meticulous, dependable, and hard working. But she was a quiet, non-assertive, nervous woman who was anything but proactive. When asked what changes she would make if she were the head of the department, she sidestepped the question by responding, “It is difficult to have an opinion on this subject. I think that the boss can see the necessary changes with greater clarity.”

Elena did not enjoy her role as supervisor, which was partly due to the opposition she encountered from a small clique of long-time translators. In the opinion of this subgroup, Elena had three strikes against her. One, unlike her subordinates, she was not bilingual. “How can she be the supervisor when she doesn’t even know English well? One of us would make a better supervisor.” Bilingual secretaries in status-conscious Guatemala see themselves as a cut above ordinary secretaries. This group looked down on Elena as being less skilled and educated than they were, even though she was an excellent employee. Second, Elena belonged to a different religion than the organization itself and almost all the other employees. This made no difference to Sam and José but seemed important to the clique who could be heard making occasional derogatory comments about Elena’s religion.

The third strike against Elena was her lack of authority. No one had ever clarified how much authority she really possessed, and she herself made no effort to assume control of the department. “My instructions are to inform
Don José Barriga of infractions in my daily production memo. I’m not supposed to confront people directly when infractions occur, although it might be easier to correct things if I did.” (“Don” is a Latin American honorific used before the first name to denote respect.)

This subgroup showed their disdain and lack of respect for Elena by treating her with varying degrees of rudeness and ignoring her requests. They saw her as a watchdog, an attitude furthered by José who sometimes announced, “We (senior management) are not going to be here tomorrow, so be good because Elena will be watching you.” When Sam and José left the office, the clique often stopped working to socialize. They’d watch Elena smolder out of the corner of their eyes, knowing she would not reprimand them. “I liked my job better before I became supervisor,” said Elena. “Ever since, some of the girls have resented me, and I’m not comfortable trying to keep them in line. Why don’t they just do their work without needing me to be the policeman? The only thing that keeps me from quitting is the loyalty I feel for the agency and Don José.”

The Workers

In addition to the clique already mentioned, there were three other female translators in the department. All the translators but one had the same profile: in their twenties, of working-class backgrounds, and graduates of bilingual secretarial schools, possessing average English skills. (As stated earlier, in Latin America, being a bilingual secretary is a fairly prestigious occupation for a woman.) The exception in this group was the best translator, Magdalena, a college-educated recent hire in her late thirties who came from an upper-class family. She worked, not because she needed the money, but because she believed in the mission of the agency. “This job lets me live out my religious beliefs and help people who have less advantages than I do.” Magdalena was more professional and mature than the other translators. Although all the employees were proud of the agency and its religious mission, the clique members spent too much time socializing and skirmishing with other employees within and without the department.

The three translators who were not working at full capacity were very close friends. The leader of this group, Juana, was a spunky, bright woman with good oral English skills and a hearty sense of humor. A long-time friend of Barriga’s, Juana translated for English-speaking visitors who came to visit the program sites throughout the country. The other translators, tied to their desks, saw this as a huge perk. Juana was the ringleader in the occasional mutinies against Elena and in feuds with people from other departments. Elena was reluctant to complain about Juana to Barriga, given their friendship. Perhaps she feared Juana would make her life even more miserable.

Juana’s two buddies (compañeras) in the department also had many years with the agency. They’d gotten into the habit of helping each other on the infrequent occasions when they had excessive amounts of work. When they were idle or simply wanted to relieve the boredom of their jobs, they socialized and gossiped. Juana in particular was noted for lethal sarcasm and pointed jokes about people she didn’t like. This clique was not very welcoming to the newer members of the department. Magdalena simply smiled at them but kept her distance, and the two younger translators kept a low profile to avoid incurring their disfavor. As one of them remarked, “It doesn’t pay to get on Juana’s bad side.”

Like many small offices in Latin America, the agency was located in a spacious former private home. The Donor Services Department was housed in the 40 x 30-foot living room area. The women’s desks were set up in two rows, with Elena’s desk in the back corner. Since the offices of both Wilson and Barriga were in former back bedrooms, everyone who visited them walked through the department, greeting and stopping to chat with the long-time employees (Elena, Juana, and her two friends). Elena’s numerous visitors also spent a good deal of time working their way through the department to reach her desk, further contributing to the amount of socializing going on in the department.

Elena was the only department member who had “official” visitors since she was the liaison person who dealt with program representatives and kept track of enrollments. The translators each were assigned one work process. For example, Marisol prepared case histories on new children and their families for prospective donors while Juana processed gifts. One of the newer translators prepared files for newly enrolled children and did all the filing for the entire department (a daunting task). Most of the jobs were primarily clerical and required little or no English. The letter translations were outsourced to external translators on a piece-work basis and supervised by Magdalena. Hers was the only job that involved extensive translation; for the most part, however, she translated simple messages (such as greeting cards) that were far below her level of language proficiency. The trickier translations, such as queries from donors in other countries, were still handled by Wilson’s executive secretary.

Several translators complained that, “We don’t have enough opportunity to use our English skills on the job. Not only are we not getting any better in English, we are probably losing fluency because most of our jobs are just clerical work. We do the same simple, boring tasks over and over, day in and day out. Why did they hire bilingual secretaries for these jobs anyway?”

Another obvious problem was the uneven distribution of work in the office. The desks of Magdalena and the new translators were literally overflowing with several months’ backlog of work while Juana and her two friends had time
to kill. Nobody, including Elena, made any efforts to even out the work assignments or help out those who were buried. The subject had never been broached.

The agency was growing at a rapid pace, and there were piles of paperwork sitting around waiting to be processed. Joanna spent three weeks having each department member explain her job (in mind-numbing detail), drawing up flow charts of how each type of paperwork was handled, and poking around in their files. She found many unnecessary steps that resulted in slow turnaround times for various processes. There were daily output reports submitted to Barriga, but no statistics kept on the length of time it took to respond to requests for information or process paperwork. No data were shared with the translators, so they had no idea how the department was faring and little sense of urgency about their work. The only goal was to meet the monthly quota of case histories, which only affected Marisol. Trying to keep up with what came across their desks summed up the entire focus of the employees.

Joanna found many instances of errors and poor quality, not so much from carelessness as lack of training and supervision. Both Barriga and Wilson revised the case histories, but Joanna was amazed to discover that no one ever looked at any other work done by the department. Joanna found that the employees were very accommodating when asked to explain their jobs and very conscientious about their work (if not the hours devoted to it). She also found, however, the employees were seldom able to explain why things were done in a certain way, because they had received little training for their jobs and only understood their small part of the department. Morale was obviously low, and all the employees seemed frustrated with the situation in the department. With the exception of Magdalena who had experience in other offices, they had few ideas for Joanna about how the department could be improved.
Text not available due to copyright restrictions
Rule #1 for business organizations: People, not structure, make a business work or fail. Blindly following organizational concepts that have worked elsewhere is a sure way to waste talent and get poor results. Organizational change alone achieves nothing, while dedicated people can make any structure work. This doesn't mean that organizational changes shouldn't happen. But design any changes to get the most out of people in the company’s unique circumstances. Top management should never dictate change as a cure-all to avoid facing fundamental problems.

Quotation from the Harvard Business Review (title and author uncited) posted on the wall of Bill Larson, Plant Manager of Littleton Manufacturing

On June 21, 1990, Paul Winslow, the director of human resources at Littleton Manufacturing, was told by his boss, Bill Larson, to put together a team of employees to address a number of issues that Larson thought were hurting Littleton’s bottom line. Winslow’s assignment had come about as a result of his making a presentation on those problems to Larson. Larson had then met with his executive staff, and he and Winslow had subsequently gone to the plant’s Quality Steering Committee to discuss what to do. They decided to form a Human Resources Process Improvement Team (PIT) to prioritize the issues and propose a corrective course of action. Winslow, who had been at the plant for seventeen years, had been asked by Larson to chair the PIT.

The Quality Steering Committee decided that the PIT should include two representatives each from Sales and Marketing, Fabrication, and Components. Two managers from each of these areas were chosen, including Dan Gordon, the fabrication manufacturing manager, and Phil Hanson, the components manufacturing manager. There were no supervisors or hourly employees on the team.

At the first meeting, the PIT discussed the six widely recognized problem areas that Winslow had identified to Larson. Each member’s assignment for the next meeting, on June 28, was to prioritize the issues and propose an action plan.

The Problems
A course in management and organizational studies carried out by students at a nearby college had started the chain of events that led to the formation of the Human Resources PIT. In late 1989, Winslow was approached by a faculty member at a local college who was interested in using Littleton as a site for a field-project course. Because of ongoing concerns about communication at the plant by all levels, Winslow asked that the students assess organizational communication at Littleton. Larson gave his approval, and in the spring of 1990 the students carried out the project, conducting individual and group interviews with employees at all levels of the plant.

Winslow and his staff combined the results of the students’ assessment with the results of an in-house survey done several years earlier. The result was the identification of six problem areas that they thought were critical for the plant to address:

- Lack of organizational unity
- Lack of consistency in enforcing rules and procedures
- Supervisor’s role poorly perceived
- Insufficient focus on Littleton’s priorities
- Change is poorly managed
- Lack of a systematic approach to training

The Company
Littleton Manufacturing, located in rural Minnesota, was founded in 1925. In 1942, Littleton was bought by Brooks Industries, a major manufacturer of domestic appliances and their components. At that time, Littleton manufactured custom-made and precision-machined components from special metals for a variety of industries.

In 1983, through the purchase of a larger competitor, Frühling, Inc., Brooks was able to increase its domestic market share from 8 percent to about 25 percent. Brooks then decided to have only one facility produce the components that were used in most of the products it made in the United States. The site chosen was Littleton Manufacturing. To do this, Brooks added a whole new business (Components) to Littleton’s traditional activity. To accommodate the new line, a building of 80,000 square feet was added to the old Littleton plant, bringing the total to 220,000 square feet of plant space. Because of the addition of this new line, the plant space was expanded to accommodate the new line.

*By David E. Whiteside, organizational development consultant. This case was written at Lewiston-Auburn College of the University of Southern Maine with the cooperation of management, solely for the purpose of stimulating student discussion. Data are based on field research; all events are real, although the names of organizations, locations, and individuals have been disguised. Faculty members in nonprofit institutions are encouraged to reproduce this case for distribution to their students without charge or written permission. All other rights reserved jointly to the author and the North American Case Research Association (NACRA). Copyright © 1994 by the Case Research Journal and David E. Whiteside.
business, Littleton went from 150 employees in 1984 to 600 in 1986. In mid-1990, there were about 500 employees.

The older part of the plant (the Fabrication side) manufactured its traditional custom-made products and sold them to a variety of industrial customers. It also supplied the newer side of the plant (the Components side) with a variety of parts that were further processed and used to make electrical components. These components were used by all other Brooks plants in the assembly of domestic appliances that were sold worldwide. About 95 percent of the products made on the Components side of the plant originated on the Fabrication side.

The plant was also headquarters for Brooks Industries’ sales and marketing department, known as the “commercial group,” which had worldwide sales responsibilities for products made by the Fabrication side. These included international and domestic sales of products to several industries, including the semiconductor, consumer electronics, and nuclear furnace industry. This group marketed products made not only by Littleton Manufacturing but also those made by Brooks’s other fourteen plants, all located in the United States.

Bill Larson, the plant manager, reported to the executive vice president of manufacturing of Brooks, whose corporate office was in Chicago, Illinois. Larson met once a month with his boss and the other plant managers. Reporting directly to Larson were six functional line managers and the manager of the Quality Improvement System (QIS). This group of seven managers, known as the “staff,” met weekly to plan and discuss how things were going. (See Exhibit 1 for an organizational chart.)

In December 1989, there were 343 hourly and 125 salaried employees at the plant. About 80 percent of the workforce was under 45. Seventy-seven percent were male, and 23 percent were female. Seventy-six percent had been at the plant 10 years or less. All of the hourly workers were represented by the Teamsters union.

**The Financial Picture**

**Brooks Industries**

Brooks was the second largest producer of its kind of domestic appliances in the United States. Its three core business units were commercial/industrial, consumer, and original equipment manufacturing. The major U.S. competitors for its domestic appliances were Eagleton, Inc., and Universal Appliances, Inc. In the United States, Eagleton’s market share was 47 percent; Brooks had about 23 percent; and Universal Appliances and a number of small companies had the remaining 30 percent. However, U.S. manufacturers were facing increasing competition, primarily based on lower prices, from companies in Asia and eastern Europe.

In 1989, Brooks’s sales declined 4 percent, and in 1990, they declined another 5 percent, to $647 million. Their 1989 annual report contained the following statement about the company’s financial condition: “There was fierce competition . . . which led to a decline in our share of a stable market and a fall in prices, resulting in a lower level of sales. . . . With sales volume showing slower
growth, we failed to reduce our costs proportionately and there was underutilization of capacity.” In May 1990, after announcing unexpected first-quarter losses, Brooks started a corporation-wide efficiency drive, including planned layoffs of 16 percent of its workforce, a corporate restructuring, and renewed emphasis on managerial accountability for bottom-line results.

Because of its worsening financial condition, for the past few years Brooks had been reducing the resources available to Littleton. For example, Larson’s budget for salaries had been increased by only 4 percent each year for the past several years. As a result, supervisors and middle managers complained strongly that recent salary increases had been too little and that plant salaries were too low. They also felt that the forced-ranking performance appraisal system used by the plant, which was based on a bell curve, did not reward good performance adequately. One middle manager commented: “All we get now for good performance is a card and a turkey.” In April 1990, the company cut Littleton’s capital budget by half and stipulated that any new project involving nonessential items had to have a one-year payback.

In addition, in both 1988 and 1989 Brooks had charged the Littleton plant around $300,000 for various services provided, such as technical support, but in 1990 this charge was increased by $1 million. Many of the Littleton plant managers felt that this was done to help offset Brooks’s deteriorating financial condition and were frustrated by it. Indicating that he thought Brooks was using Littleton as a cash cow, one staff member said, “The more profitable we get, the more corporate will charge us.”

Many managers, especially those on the Fabrication side, felt that even though they had made money for the plant, corporate’s increase in charges nullified their success and hard work. A number of managers on the Fabrication side also feared that if their operation did not do well financially, the company might close it down.

In discussing the increasing lack of resources available from corporate and the plant’s own decline in profits, Larson said: “There needs to be a change in the way people here think about resources. They have to think more in terms of efficiency.” He was proud of the fact that the company had achieved its goal of reducing standard costs by 1 percent for each of the past three years and that in 1990 cost reductions would equal 5 percent of production value. He thought that if the company reduced the number of reworks, costs could be lowered by another 20 to 30 percent.

Littleton Manufacturing

The Fabrication and the Components operations at Littleton Manufacturing were managed as cost centers by Brooks while the commercial group was a profit center. (A profit center is a part of an organization that is responsible for accumulating revenues as well as costs. A cost center is an organizational division or unit of activity in which accounts are maintained containing direct costs for which the center’s head is responsible.) In 1989 and 1990, the Fabrication side of Littleton had done well in terms of budgeted costs, while the Components side had incurred significant losses for both years.

Littleton’s net worth increased from $319,000 in 1989 to $3,094,000 in 1990 due to the addition of a new Fabrication-side product that was sold on the external market and had required no additional assets or resources. In 1990, sales for the plant as a whole were $41,196,000, with an operating profit of 3.7 percent, down from 7.3 percent in 1989. Larson estimated that the current recession, which was hurting the company, would lower sales in 1991 by 10 percent. Exhibit 2 presents an operating statement for Littleton Manufacturing from 1988 to 1990.

The Quality Improvement System

In 1985, corporate mandated a total quality management effort, the Quality Improvement System (QIS), which replaced the quality circles that the plant had instituted in 1980. Posted throughout the plant was a Quality Declaration, which had been developed by Larson and his staff. It read:

We at Littleton Manufacturing are dedicated to achieving lasting quality. This means that each of us must understand and meet the requirements of our customers and co-workers. We all must continually strive for improvement and error-free work in all we do—in every job . . . on time . . . all the time.

Bill Larson was enthusiastic about QIS. He saw QIS as a total quality approach affecting not just products but all of the plant’s processes, one that would require a long-term effort at changing the culture at the plant. He felt that QIS was already reaping benefits in terms of significant improvements in quality, and that the system had also greatly helped communication at the plant.

In the QIS all employees were required to participate in Departmental Quality Teams (DQTs) that met in groups of six to twelve every two weeks for at least an hour to identify ways to improve quality. Most hourly employees were on only one DQT; middle managers were, on average, on three DQTs. Some managers were on as many as six. The results of each team’s efforts were exhibited in graphs and charts by their work area and updated monthly. There were about sixty teams in the plant.

The leader from each Departmental Quality Team, a volunteer, served also as a member of a Quality Improvement Team (QIT), whose goals were to support the DQTs and help them link their goals to the company’s goals. QITs consisted of six to eight people; each was
chairing by a member of the executive staff. These staff members, along with Bill Larson, composed the Quality Steering Committee (QSC) for the plant. The QSC’s job was to oversee the direction and implementation of the Quality Improvement System for the plant and to coordinate with corporate’s quality improvement programs. The QSC also sometimes formed corrective action teams to work on special projects. Unlike DQTs, which were composed of employees from a single department or work area, corrective action teams had members from different functions or departments. By 1986, there were nine corrective action teams, but by 1989, none were functioning. When asked about them, Winslow said, “I’m not sure what happened to them. They just sort of died out.”

Larson and most managers believed that the QIS had improved quality. On most of its Fabrication products, the company competed on the basis of quality and customer service, and the vice president of sales and marketing thought that their quality was the best in the industry. In 1988 and 1989, the plant won several Brooks awards for quality and was publicly cited by a number of customers for quality products.

Hourly employees in general also thought that QIS had improved quality, although they were less enthusiastic about the system than management. A number of hourly employees complained that since participation was mandatory, many groups were held back by unmotivated members. They thought participation should be voluntary. Another complaint was that there was inadequate training.

### EXHIBIT 2

Littleton Manufacturing Operating Profit Statement

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fabrication</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$16,929</td>
<td>$18,321</td>
<td>$19,640</td>
</tr>
<tr>
<td>Direct costs</td>
<td>11,551</td>
<td>11,642</td>
<td>11,701</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>5,378</td>
<td>6,679</td>
<td>7,939</td>
</tr>
<tr>
<td>% of sales</td>
<td>31.8%</td>
<td>36.5%</td>
<td>40.4%</td>
</tr>
<tr>
<td>All other operating costs</td>
<td>4,501</td>
<td>4,377</td>
<td>4,443</td>
</tr>
<tr>
<td>Operating profit</td>
<td>877</td>
<td>2,301</td>
<td>3,496</td>
</tr>
<tr>
<td>% to sales</td>
<td>5.2%</td>
<td>12.6%</td>
<td>17.8%</td>
</tr>
<tr>
<td><strong>Components</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$20,468</td>
<td>$15,590</td>
<td>$21,556</td>
</tr>
<tr>
<td>Direct costs</td>
<td>16,049</td>
<td>10,612</td>
<td>18,916</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>4,419</td>
<td>4,978</td>
<td>2,640</td>
</tr>
<tr>
<td>% of sales</td>
<td>21.6%</td>
<td>31.9%</td>
<td>12.2%</td>
</tr>
<tr>
<td>All other operating costs</td>
<td>4,824</td>
<td>4,797</td>
<td>4,628</td>
</tr>
<tr>
<td>Operating profit</td>
<td>(405)</td>
<td>180</td>
<td>(1,988)</td>
</tr>
<tr>
<td>% to sales</td>
<td>–2.0%</td>
<td>1.2%</td>
<td>–9.2%</td>
</tr>
<tr>
<td><strong>Total Littleton Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$37,397</td>
<td>$33,911</td>
<td>$41,196</td>
</tr>
<tr>
<td>Direct costs</td>
<td>27,599</td>
<td>22,254</td>
<td>30,617</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>9,798</td>
<td>11,657</td>
<td>10,579</td>
</tr>
<tr>
<td>% to sales</td>
<td>26.2%</td>
<td>34.4%</td>
<td>25.7%</td>
</tr>
<tr>
<td>All other operating costs</td>
<td>9,326</td>
<td>9,175</td>
<td>9,071</td>
</tr>
<tr>
<td>Operating profit</td>
<td>472</td>
<td>2,482</td>
<td>1,508</td>
</tr>
<tr>
<td>% to sales</td>
<td>1.3%</td>
<td>7.3%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Note: Changes in Operating Profit from year to year are posted to retained earnings (net worth) account on the corporate balance sheet. It must be noted, however, that the balance sheet figures include the impact of headquarters, national organization changes, and extraordinary income from other operations, which are not reflected on the operating profit statement shown above.

Source: Controller, Littleton Manufacturing.
for group leaders, with the result that some groups were not productive.

In the spring of 1990, the company decided that the QIS effort was “stagnating” and that DQTs should be changed to include members from different departments. It was thought that this would improve communication and coordination between departments and lead to further improvements in quality, productivity, and on-time delivery. DQTs became known as IDQTs (Interdepartmental Quality Teams). IDQTs were scheduled to begin in November 1990. In addition, the company decided to begin Process Improvement Teams (PITs), which would focus on various ongoing processes at the plant, such as budgeting and inventory management. A PIT, composed of managers from different functions, would not be ongoing but only last as long as it took to achieve its particular goals.

**How Different Levels Perceived the Problems**

In order to choose the issues to tackle first and to devise a tentative plan for addressing them, Winslow reflected on the background information he had on the six problem areas that he and his staff had identified on the basis of their own analysis and the students’ assessment of organizational communication.

**A Lack of Organizational Unity**

People often talked about “this side of the wall and that side of the wall” in describing the plant. They were referring to the wall separating the newer Components side and the older Fabrication side of the plant. (Some parts of the Fabrication side had been built in the twenties.) The Components side was brighter, cleaner, and more open, and, in summer, it was cooler. In comparing the two sides, one manager said, “At the end of the shift in Fabrication, you come out looking like you’ve been through the wringer.” On the whole, the equipment in the Components side was also newer, with most of it dating from the 1970s and 1980s and some of it state-of-the-art machinery that was developed at the plant. Much of the equipment on the Fabrication side went back to the 1950s and 1960s. These differences in age meant that, in general, the machinery on the Fabrication side required more maintenance.

It was generally agreed that Components jobs were cleaner and easier, and allowed more social interaction. On the Fabrication side many of the machines could run only two to three hours before needing attention, whereas on the Components side the machines might run for days without worker intervention. On the Fabrication side, because of the placement of the machines and the need for frequent maintenance, people tended to work more by themselves and to “be on the go all the time.” It was not uncommon for senior hourly employees in Fabrication to request a transfer to Components.

Hourly workers described Components as “a country club” compared to the Fabrication side. Many attributed this to how the different sides were managed. Enforcement of rules was more lax on the Components side. For example, rules requiring safety shoes and goggles were not as strictly enforced, and some operators were allowed to eat on the job.

One Human Resources staff member described Components supervisors as “laid-back about sticking to the rules” and those in Fabrication as “sergeants.” He saw the manufacturing manager of Fabrication, Dan Gordon, as having a clear vision of what he wanted for the Fabrication side and a definite plan on how to get there. He also saw Gordon as keeping a tight rein on his supervisors and holding them accountable. The same Human Resources employee described the factory manager of Components, Phil Hanson, as dealing with things as they came up—as more reactive. Hanson allowed his supervisors more freedom and did not get involved on the floor unless there was a problem. When there was a problem, however, he reacted strongly and swiftly. For example, to combat a recent tendency for employees to take extended breaks, he had begun posting supervisors outside of the bathrooms right before and after scheduled breaks.

Bill Larson attributed the differences in the two sides “to the different performance and accountability needs dictated by their business activities and by the corporate office.” Components met the internal production needs of Brooks by supplying all of the other Brooks plants with a product that they, in turn, used to manufacture a household product that sold in the millions each year. Fabrication, however, had to satisfy the needs of a variety of industrial customers while competing on the open market. Larson felt that Fabrication had to have a more entrepreneurial ethic than Components because “Fabrication lives or dies by how they treat their customers—they have to woo them and interact well with them,” whereas Components had a ready-made market.

Larson also thought that some of the differences were due to the fact that the plant was “held prisoner by what goes on in corporate.” Although the corporate office set financial targets for both sides of the plant, it exercised more control over the financial and productivity goals of the Components side because no other Brooks plant was in the Fabrication business and Brooks understood the Components business much better. In addition, corporate was dependent on the Components side for the standardized parts—primarily wire coils—used in many of its finished products. The Components side produced as many as 2 million of some of these small parts a day.

Larson also indicated that the requirements for the number of workers on the two sides of the plant were different. For example, depending on what business was like for each side, the overtime requirements could vary.
Hourly employees on the side of the plant that had more overtime felt the side that was working less was getting “easier” treatment. Larson knew that the overtime disparity was due to need, not preferential treatment of one side over the other, but as he put it: “You can talk your head off, but you’re not going to be able to explain it to them to their satisfaction. So that causes a lot of frustration among the ranks down there.”

The Manager of QIS traced the differences between the Fabrication side and the Components side to the consolidation at Littleton of all of Brooks’s production of wire coils needed for its domestic appliances after Brooks bought Frühling, Inc., in 1984. Most of the upper managers hired to start the Components business were brought in from Frühling, and, as he put it, “They had a different way of doing things. It wasn’t a tightly run ship.” He said that some of the old managers at the plant wondered about the wisdom of bringing in managers from a company that had not been successful. People asked, “Why use them here? They must have been part of what was wrong.” One Fabrication manager added that the manager brought in to start the Components business, Bob Halperin, had the view: “We’re going to start a new business here and do whatever is necessary to make it run and to hell with Littleton Manufacturing policies.” Also, when the new Components business was started, its manager reported directly to the Brooks corporate office and not to the plant manager. In 1986 the structure was changed so that the factory manager of Components reported to the Littleton Manufacturing plant manager.

A union steward at the plant attributed some of the differences between the two sides to the fact that the workforce on the Components side tended to be younger and had more women with young children (67 percent of the hourly women in the plant worked in Components). The demands of raising children, he thought, resulted in more women with young children (67 percent of the workforce on the Components side tended to be younger and had more women with young children (67 percent of the workforce on the Components side tended to be younger). Absenteeism on the Components side was around 2.2 percent, whereas it was slightly less than 1 percent on the Fabrication side. Some attributed this to a looser enforcement of the rules governing absenteeism by supervisors on the Components side.

1. Fighting in the plant was supposed to result in automatic dismissal, but the Human Resources administrator recalled two incidents of fighting where the people involved were not disciplined.
2. Another incident that had been much discussed throughout the plant involved an employee who was “caught in a cloud of marijuana smoke” by his supervisor. Since the supervisor did not observe the man smoking but just smelled the marijuana, the person was only given a written warning. One manager said, “We need to take a stand on these things. We need to make a statement. That way we would gain some respect.” Describing the same incident, another manager said, “It makes us close to thinking we’re giving them (hourly employees) the key to the door.”
3. Several people also mentioned the case of a mother who claimed she missed work several times because of doctors’ appointments for her children and was suspended for three days, which they compared with the case of an operator who also missed work several times, and was suspected of drug or alcohol abuse, but was not disciplined.

In discussing differences in the enforcement of safety regulations throughout the plant, the administrator of plant safety and security said that when he confronted people who were wearing sneakers, often they would just say they forgot to wear their safety shoes. He said, “If I had to punish everyone, I’d be punishing 50 to 100 people a day.”

There were also differences in absenteeism for the two sides of the plant. Absenteeism on the Components side was around 2.2 percent, whereas it was slightly less than 1 percent on the Fabrication side. Some attributed this to a looser enforcement of the rules governing absenteeism by supervisors on the Components side.

Winslow had tried to estimate the annual cost of failure to enforce the rules governing starting and stopping work. His estimate was that the plant was losing $2,247.50 per day, for a total of $539,400 a year. Winslow’s memo detailing how he arrived at his overall estimate had been part of his presentation to Larson; it is included as Exhibit 3. Although Winslow had not said so in the memo, he later
estimated that 70 percent of the total loss occurred on the Components side of the plant.

Supervisors complained that when they tried to discipline subordinates, they often did not feel confident of backing by management. They referred to incidents where they had disciplined hourly employees only to have their decisions changed by management or the Human Resources department. One supervisor told of an incident in which he tried to fire someone in accordance with what he thought was company policy, but the termination was changed to a suspension. He was told he had been too harsh. In a subsequent incident he had another decision overruled and was told he had been too lenient. He said, “We feel our hands are tied; we’re not sure what we can do.” Supervisors’ decisions that were changed were usually communicated directly to the union by the Human Resources department. In these instances, the supervisors felt they wound up with “egg on their faces.”

Winslow attributed some of these problems to a lack of communication regarding the company’s policies and procedures. He thought that if the supervisors understood company policy better, their decisions would not need to be changed so frequently. There was no Human Resources policy manual, for example, although the work rules were contained in the union contract.

Dan Gordon disagreed with the view that these problems were a result of the supervisors’ lack of understanding of the plant’s policies and procedures. He claimed: “Ninety-nine percent of the supervisors know the policies but they lack the skills and willingness to enforce them. Just like a police officer needs to be trained to read a prisoner his rights, the supervisors need to be taught to do their jobs.” He thought that in some of the cases where a supervisor’s decision was changed, the supervisor had made a mistake in following the proper disciplinary procedure. Then, when the supervisor’s decision was overturned, no explanation was provided, so the supervisor would be left with his or her own erroneous view of what happened.

The Human Resources administrator thought that some of the supervisors were reluctant to discipline or confront people because “They’re afraid to hurt people’s feelings and want to stay on their good side.”

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**MEMORANDUM**

From: Paul Winslow, Director of Human Resources  
To: Bill Larson  
Subject: Estimated Cost of Loss of Manufacturing Time  
Date: 6/18/90  

Loss of Manufacturing Time*  
(Based on 348 Hourly Employees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Time</th>
<th>Percentage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delay at start of shift</td>
<td>10 minutes</td>
<td>25% (87)</td>
<td>14.50 hours</td>
</tr>
<tr>
<td>Washup before AM break</td>
<td>5 minutes</td>
<td>75% (261)</td>
<td>21.75 hours</td>
</tr>
<tr>
<td>Delayed return from AM break</td>
<td>10 minutes</td>
<td>50% (174)</td>
<td>29.00 hours</td>
</tr>
<tr>
<td>Early washup—lunch avg.</td>
<td>10 minutes</td>
<td>50% (174)</td>
<td>29.00 hours</td>
</tr>
<tr>
<td>Delayed return from lunch</td>
<td>10 minutes</td>
<td>25% (87)</td>
<td>14.50 hours</td>
</tr>
<tr>
<td>Early washup before PM break</td>
<td>5 minutes</td>
<td>75% (261)</td>
<td>21.75 hours</td>
</tr>
<tr>
<td>Delayed return from break</td>
<td>10 minutes</td>
<td>50% (174)</td>
<td>29.00 hours</td>
</tr>
<tr>
<td>Early washup—end of shift</td>
<td>5 minutes</td>
<td>75% (261)</td>
<td>65.25 hours</td>
</tr>
</tbody>
</table>

**Total** = 224.75 hours/day

Cost: 224.75 × avg. $10 hr. = $2,247.50/day  
240 days × $2,247.50 = $539,400.00/year

*1. Does not include benefits.  
2. Does not include overtime abuses.  
3. Does not include instances of employees exiting building while punched in.
Supervisor’s Role Is Poorly Perceived

On the first shift in Fabrication there were about 70 hourly workers and 7 supervisors, and in Components there were about 140 hourly workers and 11 supervisors. Supervisors were assisted by group leaders, hourly employees who were appointed by the company and who received up to an extra 10 cents an hour.

All levels of the plant were concerned about the role of supervisors. “Supervisors feel like a nobody,” said one senior manager. In the assessment of organizational communication done by the students, hourly employees, middle managers, and supervisors all reported that supervisors had too much to do and that this limited their effectiveness. A typical observation by one hourly employee was: “The supervisors can’t be out on the floor because of meetings and paperwork. They have a tremendous amount of things on their mind . . . The supervisor has become a paper- boy, which prevents him from being able to do his job.” In speaking about how busy the supervisors were and how they responded to suggestions by hourly employees, another hourly person said, “The supervisor’s favorite word is, ‘I forgot.’”

Supervisors also wanted more involvement in decision making. “You will! You will! You will!” is the way one supervisor characterized the dominant decision-making style of managers at the plant. He thought that most managers expected supervisors to just do what they were told to do. “We have a lot of responsibility but little authority,” was how another supervisor put it. Many supervisors felt that they were ordered to do things by their managers, but when something went wrong, they were blamed.

Another factor contributing to the low morale of supervisors was a perceived lack of the resources that they felt were necessary to do a good job. Many complained that they were often told there was no money to make changes to improve things. They also complained of too few engineering, housekeeping, and maintenance personnel. Some supervisors thought there were too few supervisors on the second and third shifts. They thought this resulted in inadequate supervision and allowed some hourly workers to goof off, since the employees knew when these few supervisors would and would not be around.

The combination of these factors—job overload, too much paperwork, lack of authority, not enough involvement in decision making, lack of resources to make changes, inadequate training, and few rewards—made it difficult to find hourly people at the plant who would accept an offer to become a supervisor.

In discussing the role of supervisors, Larson said, “We don’t do a good job of training our supervisors. We tell them what we want and hold them accountable, but we don’t give them the personal tools for them to do what we want them to do. They need to have the confidence and ability to deal with people and to hold them accountable without feeling badly.” He continued by praising one supervisor who he thought was doing a good job. In particular, Larson felt, this supervisor’s subordinates knew what to expect from him. This person had been a chief petty officer in the Navy for many years, and Larson thought this had helped him feel comfortable enforcing rules. Reflecting on this, he said, “Maybe we should just look for people with military backgrounds to be supervisors.”

Insufficient Focus on Littleton’s Priorities

The phrase “insufficient focus on Littleton’s priorities” reflected two concerns expressed by employees. First, there was a lack of understanding of Littleton’s goals. Second, there was a questioning of the plant’s commitment to these goals. However, various levels saw these matters differently.

Although the plant had no mission statement, senior managers said that they thought that they understood Littleton’s priorities. A typical senior management description of the plant’s goals was, “To supply customers with quality products on time at the lowest possible cost in order to make a profit.”

Each year, Larson and the executive staff developed a four-year strategic plan for Littleton. Sales and marketing would first project the amounts and types of products that they thought they could sell. Then manufacturing would look at the machine and labor capabilities of the plant. The sales projections and capabilities were then adjusted as necessary. Throughout the process, goals were set for improving quality and lowering costs. Larson then took the plan to Brooks for revision and/or approval. Next, Larson turned the goals in the strategic plan into specific objectives for each department. These departmental objectives were used to set measurable objectives for each executive staff member. These then formed the basis for annual performance appraisals. Because of this process, all of the executive staff felt that they knew what was expected of them and how their jobs contributed to achieving the company’s goals.

At the same time, both senior and middle managers thought there was insufficient communication and support from corporate headquarters. They mentioned not knowing enough about corporate’s long-term plans for the company. A number of the managers on the Fabrication side wondered about corporate’s commitment to the Fabrication business. They thought that if their operation did not do well financially, the company might end it. In discussing the status of the Fabrication side of the plant, Gordon said that Brooks considered it a “noncore business.” The Quality Assurance manager felt that corporate was not providing enough support and long-term direction for the QIS. Winslow was concerned about the lack of
consistency in corporate’s Human Resources policies and felt that he did not have enough say in corporate Human Resources planning efforts.

All levels below the executive staff complained that they did not have a good understanding of Littleton’s own long-range goals. Some middle managers thought there was a written, long-range plan for the company but others disagreed. One member of the executive staff reported that as far as he knew, the entire strategic plan was seen only by the executive staff, although some managers would see the portions of it that concerned their departments. He also reported that the strategic plan was never discussed at operations review meetings. Most hourly employees said that they relied on the grapevine for information about “the big picture.” In discussing the flow of information at the plant, one union steward said, “Things get lost in the chain of command.” He said he got more than 80 percent of his information from gossip on the floor.

The primary mechanism used to communicate Littleton’s goals and the plant’s status with regard to achieving them was the operations review meeting held once a month by the plant manager, to which all salaried employees were ostensibly invited. At these meetings, usually attended by about eighty people, the plant manager provided figures on how closely the plant had hit selected business indicators. At one recent and typical meeting, for example, the Manager of QIS described various in-place efforts to improve quality. Bill Larson then reviewed the numbers. He presented data on budgeted versus actual production, variances between budgeted and actual manufacturing costs, profits, the top ten products in sales, standard margins on various products, shipments of products, information on backlogs, and the top ten customers.¹ When he asked for questions at the end of his presentation, there were none.

The students’ organizational assessment reported that all levels appreciated the intent of the operations review meetings, but there were a number of concerns. Everyone interviewed wanted more two-way communication but thought the size and format of the meetings inhibited discussion. Middle managers thought the meetings focused too much on what had happened and not enough on the future. As one manager said: “It’s like seeing Lubbock in the rearview mirror. We want to know where we’re going—not where we’ve been. We want to know what’s coming up, how it’s going to affect our department, and what we can do to help.” Others, including some of the executive staff, complained about the difficulty of understanding the financial jargon. Some hourly employees interviewed did not know there were operations review meetings, and others did not know what was discussed at them.

A number of middle managers in manufacturing thought that having regular departmental meetings would improve communication within their departments. They also said that they would like to see minutes of the executive staff meetings.

When interviewed by the students for their assessment of organizational communication, a number of middle managers, supervisors, and hourly workers thought the company was not practicing what it preached with regard to its stated goals. A primary goal was supposed to be a quality product; however, they reported that there was too much emphasis on “hitting the numbers,” or getting the required number of products shipped, even if there were defects. They said this especially occurred toward the end of the month when production reports were submitted. One worker’s comment reflected opinions held by many hourly employees: “Some foremen are telling people to push through products that are not of good quality. This passes the problem from one department to another and the end result is a lousy product. They seem too interested in reaching the quota and getting the order out on time rather than quality. It’s a big problem because when the hourly workers believe that quality isn’t important, they start not to care about their work. They pass it on to the next guy, and the next guy gets mad.”

The perception by a number of hourly workers that their suggestions to improve quality were not responded to because of a lack of money also resulted in their questioning the company’s commitment to quality.

Change Is Poorly Managed

Most of the employees interviewed by the students thought there were too many changes at the plant and that the numerous changes resulted in confusion.

1. QIS was initiated in 1985.
2. In 1986, 100 hourly employees were laid off.
3. In 1984, there were 154 managers; in 1990, there were 87 managers.
4. In 1989, corporate initiated a restructuring that changed the reporting relationships of several senior managers.
5. In 1989, as part of QIS, the plant began using statistical process control techniques and began efforts to attain ISO certification. (ISO is an internationally recognized certification of excellence.)
6. In 1989, a new production and inventory control system was introduced, with the help of a team of outside consultants who were at the plant for almost a year studying its operations.

¹At Littleton, the manufacturing, engineering, and accounting departments estimated the standard labor costs for making each of the plant’s products and a budget was prepared based on those estimates. The budgeted costs were plant goals. A variance is the difference between actual and standard costs. A variance could be positive (less than) or negative (greater than) with respect to the budgeted costs.
A number of complaints were voiced about the effect of all the changes. People felt that some roles and responsibilities were not clear. There was a widespread belief that the reasons for changes were not communicated well enough and that people found out about changes affecting them too late. In addition, many were uncertain how long a new program, once started, would be continued. Larson thought that many hourly employees were resistant to the changes being made because they thought the changes would require more work for them and they were already "running all the time." One union steward observed, "There's never a gradual easing in of things here." A middle manager said: "We're mandated for speed. We pride ourselves on going fast. We rush through today to get to tomorrow."

Larson thought the culture of the plant was gradually changing due to the implementation of QIS, but he noted that a lot of time had to be spent giving the employees reasons for changes.

Dan Gordon thought the plant needed to "communicate change in a single voice." He said that Larson’s style was to leave it to the staff to tell others about upcoming changes. He commented, “By the time it gets to the last person, it’s lost something.” He felt that Larson needed to communicate changes to those on lower levels in person.

The QIS manager thought that Brooks did not provide enough resources and support for changes at the plant. In explaining his view of corporate’s approach to change, he said, “Step one is to not give much. Step two is to not give anything. Step three is they take what’s left away.” Another middle manager commented, “We’re always being asked to do more with less, but the requirements by corporate don’t get cut back.”

A frequently mentioned example of change that was frustrating to many people was the introduction of the Manufacturing Assisted Production and Inventory Control System (MAPICS) in 1989. MAPICS was a computerized system that was supposed to keep track of materials, productivity, and labor efficiency. Theoretically, it tracked orders from time of entry to payment of the bill, and one could find out where an order was at any point in the system by calling it up on a computer. However, the system was time-consuming (data had to be entered manually by the supervisors), and was not as well suited to the Fabrication side of the plant as it was to the Components side, where production was more standardized. One senior manager commented, “MAPICS was sold as the savior for the supervisors, and the company was supposed to get all of the data it needed. But it's never happened. It's only half-installed, and there are systems problems and input problems.” Recently, there had been some question as to whether MAPICS was giving an accurate inventory count.

Hourly workers felt put upon by the way in which changes were made. One person said, “We were all of a sudden told to start monitoring waste and then all of a sudden we were told to stop.” Another said, “One day the MAPICS room is over here, and then the next day it’s over there. They also put a new system in the stockroom, and we didn't know about it.” Many resented the outside consultants that had been brought in by corporate, reporting that they did not know why the consultants were brought in or what they were doing. They feared that the consultants’ recommendations might result in layoffs.

Hourly people felt that a lot of their information about upcoming changes came through the grapevine. “Rumors fly like crazy” is the way one hourly person described communication on the floor. Another said, “The managers don’t walk through the plant much. We only see them when things are going bad.”

In discussing communication about changes, one middle manager said: “It's a standing joke. The hourly know what's going to happen before we do.” One steward said, “Lots of times, you'll tell the supervisors something that's going to happen and they will be surprised. It raises hell with morale and creates unstable working conditions. But nine out of ten times it's true.”

Hourly workers also felt that they were not involved enough in management decisions about changes to be made. One hourly worker said, “They don’t ask our input. We could tell them if something is not going to work. They should keep us informed. We're not idiots.”

**Lack of a Systematic Approach to Training**

The company had carried out a well-regarded training effort when employees were hired to begin the Components side of the plant and when the QIS program was started. In addition, every two years each employee went through refresher training for the QIS. There was no other formal company training or career development at the plant.

Hourly employees and supervisors in particular complained about the lack of training. One hourly employee expressed the predominant view: “When you start work here, it’s sink or swim.” In discussing the promotion of supervisors, the chief union steward said he did not know how people got to be supervisors and that as far as he knew there was no training that one had to have to become a supervisor.

When they were hired, new hourly and salaried employees attended an orientation session in which they were informed about benefits, attendance policies, their work schedule, parking regulations, and safety issues. After the orientation session, further training for new salaried employees was left up to individual departments. Standard practice was for the department supervisor to assign the
hourly person to an experienced hourly operator for one-on-one job training for two weeks. Winslow expressed some of his reservations about this approach by commenting, “You don’t know if the department is assigning the best person to train the new employee or if they always use the same person for training.”

The Human Resources department had no separate training budget. Individual departments, however, did sometimes use their money for training and counted the money used as a variance from their budgeted goals. The training that did occur with some regularity tended to be technical training for maintenance personnel.

When asked to explain why there was not more training, Winslow replied, “We would like to do more but we haven’t been able because of the cost and staffing issues.” For example, in 1986 Winslow’s title was manager of training and development, and he had been responsible for the training program for all of the new employees hired to begin the Components unit. After the initial training was completed, he requested that the plant provide ongoing training for Components operators. However, his request was turned down by Larson, who did not want to spend the money. Winslow also recalled the over 160 hours he had spent the previous year developing a video training package for hourly workers in one part of the Components side of the plant. He said that the program had been piloted, but when it came time to send people through the training course, production management was unwilling to let people take time off the floor.

Winslow also cited a lack of support from corporate as a factor in the plant’s sporadic training efforts. At one time Brooks had employed a director of training for its plants, but in 1987, the person left and the company never hired anyone to replace him. Now, Brooks had no training department; each plant was expected to provide its own training. The training Brooks did provide, according to Winslow, was for the “promising manager” and was purchased from an outside vendor.

**Top Management**

As he sat in his office thinking about what to do, Winslow knew that any plan would have to be acceptable to Larson, Gordon, and Hanson—the plant manager and the two factory managers—and he spent some time thinking about their management styles.

Bill Larson was in his late forties, had a B.S. in mechanical engineering, and had started at Littleton in 1970. He had been plant manager since 1983. His direct reports considered him bright, analytical, and down to earth. When asked once how he would describe himself to someone who didn’t know him, he said, “I keep my emotions out of things. I can remember when I was in the Army, standing at attention in my dress blues at the Tomb of the Unknown Soldier. People would come up a foot from my face and look me in the eye and try to get me to blink. But I was able to remove myself from that. I wouldn’t even see it.” He added that he had built most of his own home and repaired his own equipment, including the diesels on a cabin cruiser he used to own. Being raised on a farm in the rural Midwest, he said he learned at an early age how to repair equipment with baling wire to keep it going.

Although Larson was considered accessible by the executive staff, he rarely got out on the floor to talk to people. Many managers saw him as a “numbers” person who readily sprinkled his conversations about the plant with quantitative data about business indicators, variances, budgeted costs, etc. In referring to his discomfort discussing personal things, he somewhat jokingly said about himself, “I can talk on the phone for about thirty-five seconds and then I can’t talk any longer.”

In describing his own management style, Larson said, “I like to support people and get them involved. I like to let them know what I am thinking and what they need to accomplish. I like to let ideas come from them. I want them to give me recommendations, and if I feel they’re OK, I won’t change them. They need to be accountable, but I don’t want them to feel I’m looking over their shoulders. I don’t want to hamper their motivation.” He estimated that 40 percent of his job responsibility consisted of managing change.

Dan Gordon, who was 38, had been at Littleton for fifteen years and had been manufacturing manager of Fabrication for seven years. In describing himself, he said, “I’m a stickler for details, and I hate to not perform well. My superiors tell me I’m a Theory X manager and that I have a strong personality—that I can intimidate people.”

In speaking about how much he communicated with hourly employees, Gordon said that he didn’t do enough of it, adding that “Our platters are all so loaded, we don’t spend as much time talking to people as we should.” He said he seldom walked through the plant and never talked to hourly workers one-on-one. Once a year, though, he met formally with all the hourly employees on the Fabrication side to have an operations review meeting like the salaried people had in order to discuss what the plant was doing, profits, new products, etc. “The hourly people love it,” he reported.

Reflecting on why he didn’t communicate more with hourly workers, Gordon said, “Since the accounting department’s data depends, in part, on our data collection, a lot of my time is eaten up with this. Maybe I’m too busy with clerical activities to be more visible.” He based his management decisions on documented data and regularly studied the financial and productivity reports issued by the accounting department. He said he would like to see the supervisors go around in the morning to just talk to
people but acknowledged that they had too many reports to fill out and too many meetings to attend.

When asked to explain what one needed to do to succeed as a manager at Littleton, Gordon answered, “You have to get things done. Bill Larson wants certain things done within a certain time span. If you do this, you’ll succeed.”

Phil Hanson, in his early fifties, had been at Littleton for seven years. He was hired as materials manager for Components and was promoted to Components factory manager in mid-1989. Phil estimated that he spent 50 percent of his time on the factory floor talking to people. He felt it gave him a better insight as to what was going on at the plant and created trust. He thought that too many of the managers at the plant were “office haunts”—they felt it was beneath them to talk with hourly workers. It appeared to other managers that Hanson often made decisions based on what he learned in informal conversations with hourly employees. He tried to delegate as much as he could to his managers. When asked what a manager had to do to succeed there, he said, “You have to be a self-starter and make things happen.”

Winslow remembered how a few years ago, when he was manager of training and development, the executive staff had gone to one of those management development workshops where you find out about your management style. All of the staff had scored high on the authoritarian end of the scale.

This triggered a memory of a recent debate in which he had passed along a suggestion by his staff to the executive staff to “do something nice for the workers on the floor.” To celebrate the arrival of summer, his staff wanted the company to pay for buying hamburgers, hot dogs, and soft drinks so the workers could have a cookout during their lunch break. Those on the executive staff who resisted the idea cited the “jellybean theory of management.” As one manager explained it, “If you give a hungry bear jellybeans, you can keep it happy and get it to do what you want. But watch out when you run out of jellybeans! You’re going to have a helluva angry bear to deal with!” The jelly bean argument carried the day, and the cookout was not held.

**Recommendation Time**

As Winslow turned on the computer to write down his recommendations concerning the six problem areas, he recalled how Larson had reacted when the students made their presentation on organizational communication at Littleton. After praising the students’ efforts, Larson had said, in an offhanded way, “This mainly confirms what we already knew. Most of this is not a surprise.” Winslow was hopeful that now some of these issues would be addressed.

One potential sticking point, he knew, was the need for the meetings that would be necessary to discuss the problems and plan a strategy. People were already strapped for time and complaining about the number of meetings. Yet unless they took time to step back and look at what they were doing, nothing would change.

On a more hopeful note, he recalled that Larson had been impressed when the Human Resources staff emphasized in their presentation to him that these issues were impacting Littleton’s bottom line. Winslow felt that the decline in sales and profits at Brooks, the increasing domestic and foreign competition, the current recession, and declining employee morale made it even more important that the issues be dealt with. People at all levels of the plant were starting to worry about the possibility of more layoffs.
Winslow met with his staff to develop a list of proposed corrective actions. Exhibit 1 is the memo that Winslow sent, in June 1990, to the Human Resources PIT, outlining suggested corrective actions. (The action steps were not prioritized.)

The PIT did not meet to discuss what to do about the six issues identified by the Human Resources department until the middle of September. The first issue the PIT decided to address was the inconsistent application of disciplinary policies and procedures. They chose this issue first because they thought that if this could be improved, many of the other issues would be resolved as well.

The PIT decided to first find out how well supervisors understood the work rules and the extent to which they had different interpretations of them. To do this they developed a quiz covering Littleton’s twenty-eight work rules and gave the quiz to all supervisors. One question, for example, was “If you came in and found an employee who had just dozed off at his/her workstation, what would you do?” The supervisor then had to choose from several alternatives. This question was followed by, “If you came in and found an employee away from the job and asleep on top of some packing materials, what would you do?” Again, there was a choice of several responses. After taking the exam, the answers were discussed and the correct answer explained by Winslow and the Human Resources staff. The results revealed to the PIT that there was much less knowledge of these rules and how to apply them than management had expected.

The PIT then theorized that a number of supervisors were not comfortable with confronting employees about their failure to follow the company’s policies and procedures, especially the wearing of safety shoes and goggles. They decided to seek the assistance of an outside consultant to help them develop a training program for the supervisors. However, on September 1, 1991, as a continuation of its “efficiency drive,” Brooks had imposed a freeze on salaries and a reduction in travel, and prohibited the use of outside consultants at all of its plants. When Winslow asked Bill Larson for approval to hire the consultant, he was reminded that because of the freeze they would have to do the training in-house.

As a consequence, Winslow began a series of meetings with union stewards and supervisors—called “Sup and Stew” meetings—to discuss what the work rules were, different interpretations of them, and how violations of work rules should be handled. For scheduling reasons, it was planned so that half of the supervisors and the stewards would attend each meeting. These meetings were held biweekly for over a year. Winslow believed that the meetings were helping to clarify and support the role of the supervisors and were beginning to have a positive effect on the enforcement of policies and procedures.

In 1991, because the plants that bought the wire coils made by Components had excess finished goods inventory, Brooks shut them down for a month during the Christmas holidays, leading Littleton to eliminate 125 positions from the Components side for the same month, to reduce production. “If we hadn’t,” Winslow said, “we would have had a horrendous amount of inventory.” The employees filling those positions had, in general, less seniority than their counterparts from Fabrication, and no one from the Fabrication side was laid off. A few of the more senior employees from the Components side were hired to work on the Fabrication side. At the time of the layoffs, business on the Fabrication side was booming. In January, the plant started rehiring the laid-off workers, and by the end of June, all of them had been rehired.

In November 1991, Bill Larson learned that he had cancer, and in June 1992, he died. Because of Larson’s illness, the lack of resources, and time pressures, there was no formal attempt to address any of the issues identified by Winslow other than inconsistent enforcement of policies and procedures.

The new plant manager, Bob Halperin, took over in the fall of 1992; Halperin had been managing another Brooks plant in the south for three years. One of the reasons he was chosen was his familiarity with Littleton. He had been at Littleton as an industrial engineer from 1973 to 1980, when he left to manage another facility. In 1984 he was sent back to Littleton to start and manage Components. He held this position for four years before leaving to manage the plant in the southern United States.

Shortly after Halperin arrived, Winslow acquainted him with the problem areas defined the previous year, gave...
him a copy of the (A) case, and met with him to discuss the issues. At that time, although Winslow felt that progress had been made on having more consistent enforcement of policies and procedures from one side of the plant to the other, he did not feel much had changed with regard to the other issues. With the exception of the Sup and Stew meetings, none of the specific action steps recommended by him and his staff had been implemented.
**Introduction**

Hartland Memorial Hospital, established 85 years ago when wealthy benefactor Sir Reginald Hartland left an estate valued at more than $2 million, is a 285-bed, free-standing community general hospital located in Westfield, a ski resort community of 85,000 people. Ridgeview Hospital is the only other hospital in the area, situated some 18 miles away in the village of Easton. Hartland Memorial is a fully accredited institution that provides a full range of medical and surgical services. It has an excellent reputation for delivering high-quality medical care for the citizens of Westfield and the surrounding area.

**You and the Hospital**

You are Elizabeth Parsons, BSN, MSN, PhD, vice president for Nursing Services at Hartland Memorial. You accepted this position 17 months ago and have been instrumental in introducing a number of innovations in nursing practice and management. In particular, these innovations have included the establishment of job sharing, self-scheduling, and a compressed work week for all general-duty nurses. In addition, you have also developed a new performance appraisal system and are contemplating using it to create a merit pay system for the nursing staff.

Your administrative assistant is Wilma Smith, who handles your correspondence, as well as scheduling meetings and conferences. Each morning she opens whatever hard-copy mail and memos you have received, and puts them on your desk. She also places hard-copy phone messages on your desk from those people who did not want to be routed to your voicemail. Although she has access to your e-mail, voice mail, and electronic calendar, she does not routinely monitor them. Wilma is only moderately comfortable with the new modes of communicating, generally preferring the ways of the “pre-electronic” era.

Your second in command is Anne Armstrong, who is assistant director for Nursing Services. Anne has worked at Hartland Memorial for seven years, and is very competent. She has only recently returned to work, however, after spending some time in the hospital recovering from the suicide of her husband. A list of the key personnel at Hartland Memorial is presented in Exhibit 1, and selected biographical sketches can be found in Exhibit 2.

**The Situation**

You have just returned from a greatly needed long weekend off. At your husband’s insistence, the two of you left Thursday evening for a mountain resort, and just got back last night. Long hours, high stress, and constantly being accessible by cell phone, voice mail, and e-mail have been taking their toll—you seem to have been “on-call” continuously for months now. Compounding these “curses-of-the-modern-job” have been meeting the needs (“being there”) for your school-age kids, and, a recent development, the demands of addressing your parents’ needs as they age. In particular, your mom seems increasingly incapable of taking care of your dad, for whom some other living arrangements may have to be found. Caught between

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**EXHIBIT 1**

List of Key Personnel at Hartland Hospital

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allan Reid</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Scott Little</td>
<td>Assistant to the President</td>
</tr>
<tr>
<td>Elizabeth Parsons</td>
<td>Vice President-Nursing Service</td>
</tr>
<tr>
<td>Anne Armstrong</td>
<td>Assistant Director-Nursing Service</td>
</tr>
<tr>
<td>Cynthia Nichols</td>
<td>Vice President-Human Resources</td>
</tr>
<tr>
<td>Clement Westaway, MD</td>
<td>President-Medical Staff</td>
</tr>
<tr>
<td>Janet Trist</td>
<td>Nursing Supervisor-3 East</td>
</tr>
<tr>
<td>Sylvia Godfrey</td>
<td>Weekend Supervisor</td>
</tr>
<tr>
<td>Jane Sawchuck</td>
<td>Clinical Nurse Specialist</td>
</tr>
<tr>
<td>Norm Sutter</td>
<td>Vice President-Finance</td>
</tr>
<tr>
<td>Marion Simpson</td>
<td>Auditing Clerk</td>
</tr>
<tr>
<td>Fran Nixon</td>
<td>Staff Relations Officer</td>
</tr>
<tr>
<td>George Cross</td>
<td>Nurses Union Representative</td>
</tr>
<tr>
<td>Bernard Stevens</td>
<td>Chairman of the Board</td>
</tr>
<tr>
<td>Wilma Smith</td>
<td>Administrative Assistant</td>
</tr>
</tbody>
</table>
responsibilities with kids and parents (to say nothing about spouse) you are truly in the “sandwich” generation.

The weekend away, however, was wonderful. You were out of cell phone coverage, and the inn did not make its computer generally available to guests. In any case, your husband would have probably left you if you’d logged on or called in. Sunday night after getting home you had planned on logging on and assessing the situation facing you at work, after four blessed days out of touch. The kids, however, needed attention, the dog needed walking, and Mom called and talked for over an hour about what to do about Dad. You never got to your voice mail, either.

It is now 7:45 a.m. on Monday morning, and you have just a little over one hour until your first meeting of the day with Norm Sutter, vice president for Finance. You really have to get through your e-mail, voice mail, and the hard-copy items Wilma left on your desk—letters, phone messages, etc.—and take some action before meeting with Norm. You know the rest of the day will be a blur, and you’ll have no further opportunities to get caught up. Moreover, new stuff will be coming in and piling up constantly. The refreshed feeling you had after the weekend out of town is rapidly slipping away. . . A hard copy schedule of your appointments for the day left on Friday by Wilma is shown in Exhibit 3. You know that it will likely be changing.

For each item, indicate the course of action you think Elizabeth should pursue. You can choose from one of the following action alternatives. Because you may not have all the information needed to make a decision, please make notes that explain your assumptions, thinking and justification for that item. Be prepared to defend your underlying rationale. If delegating a task, identify who should be responsible for each item. Work sequentially through each item.

**Action Alternatives**
- Call immediately
- Note to call within 2–3 days
- E-mail immediately
- E-mail within a day
- Meet with ASAP
- Forward to: ________
- Note to meet within 2–3 days
- Other (Specify: ________)
- No response needed

**What Needs to Be Done**
This case includes the various e-mails, voice mails, and hard-copy letters and messages that Elizabeth finds awaiting her. Since Wilma doesn’t arrive until 8:30 a.m. Elizabeth has the office by herself. Note that the Hartland Hospital IT system does a fairly good job of filtering out spam and junk mail. The occasional item does make it through, which Elizabeth immediately deletes. Additionally, however, there are the e-newsletters from The Kaiser Family Foundation, the Commonwealth Fund, ACHE, etc. to which Elizabeth subscribes, but which she rarely has time to read. She tends to let these pile up in her in-box, sometimes making it hard to find the critical material there. The newsletters that came in over her mini holiday are not included.

For each item, indicate the course of action you think Elizabeth should pursue. You can choose from one of the following action alternatives. Because you may not have all the information needed to make a decision, please make notes that explain your assumptions, thinking and justification for that item. Be prepared to defend your underlying rationale. If delegating a task, identify who should be responsible for each item. Work sequentially through each item.
EXHIBIT 3
Schedule of Appointments, Monday, October 7 (as of 7:45 A.M.; left on your desk by Wilma, Friday afternoon at 5 P.M.)

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:00 A.M.</td>
<td></td>
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<tr>
<td>8:30</td>
<td></td>
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<tr>
<td>9:00</td>
<td>Meeting with Norm Sutter</td>
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<tr>
<td>9:30</td>
<td></td>
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<tr>
<td>10:00</td>
<td>Reg. Monday morning meeting with nursing supervisors</td>
</tr>
<tr>
<td>10:30</td>
<td></td>
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<tr>
<td>11:00</td>
<td>Meeting with Clement Westaway</td>
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<tr>
<td>11:30</td>
<td></td>
</tr>
<tr>
<td>12:00 P.M.</td>
<td>Lunch with Anne Armstrong</td>
</tr>
<tr>
<td>12:30&quot;</td>
<td></td>
</tr>
<tr>
<td>1:00</td>
<td>Orientation talk to new nursing recruits</td>
</tr>
<tr>
<td>1:30&quot;</td>
<td></td>
</tr>
<tr>
<td>2:00</td>
<td></td>
</tr>
<tr>
<td>2:30</td>
<td>Meeting of infection control committee</td>
</tr>
<tr>
<td>3:00&quot;</td>
<td></td>
</tr>
<tr>
<td>3:30</td>
<td></td>
</tr>
<tr>
<td>4:00</td>
<td>Meeting with Allan Reid</td>
</tr>
<tr>
<td>4:30&quot;</td>
<td></td>
</tr>
<tr>
<td>5:00</td>
<td></td>
</tr>
<tr>
<td>5:30</td>
<td></td>
</tr>
</tbody>
</table>

Elizabeth Parson’s “Inbox” Monday, October 7

ITEM 1: E-mail

To: Elizabeth Parsons, VP-Nursing Service  
From: Scott Little, Assistant to the President  
Date: October 4, 8:00 AM  
Subject: Wandering patients—IMPORTANT!

On Thursday evening, Mrs. Grace O’Brien, a patient with diabetes and Alzheimer’s disease, was missing from her room when her daughter came to visit her. It took the staff more than 3 hours to finally locate her. She was found naked and unconscious in the basement washroom of the Stuart Annex. Her daughter is extremely upset and is threatening to sue the hospital.
We don’t need another lawsuit!!!

–Scott
ITEM 2: Letter

September 26
President, Hartland Hospital

Dear Sir,
I have been a patient in your hospital on three different occasions over the last 4 years. In the past I have been very satisfied with the nursing care that I have received; however, my last stay there has left much to be desired. For the most part I have found that many of your nurses are very rude and arrogant. On a number of times when I asked these people for assistance, they would either refuse to help me, tell me they were too busy, or ignore me altogether.

I have great respect for Hartland Hospital and I trust that you would want to correct this problem. My late husband, Horace, was once a trustee at your hospital and would never have allowed this to happen.

Sincerely,
Mable Coleman Westfield

ITEM 3: Voice Mail

(Voice message left at 7:30 A.M. on office phone—you forgot to turn on your cell phone driving into work.)

“Elizabeth, this is Mom. I tried to get you before you left home this morning, but just missed you—Dad got up today upset and saying that he was ‘a burden.’ He’s gone back to sleep now. What should I do? Please call when you get a chance!”

ITEM 4: E-Mail

To: Elizabeth Parsons, VP-Nursing Service
From: Allan Reid, President/CEO
Date: October 4
Time: 2:10 PM
Subject: EOM

I have heard that a number of other hospitals have been very successful at motivating their staff by implementing employee recognition programs. These programs can go a long way toward increasing employee commitment and morale. I would like to institute an “Employee-of-the-Month” award here at Hartland. I have a few ideas and would like to discuss them with you. A.
ITEM 5: E-Mail

To: Elizabeth Parsons, VP-Nursing Service  
From: Sylvia Godfrey, R.N., Weekend Supervisor  
Date: October 6  
Time: 9:07 PM  
Subject: Insufficient staffing

Again this weekend we had a number of nurses call in sick and we were subsequently short staffed. I had to call in nurses from the “availability list” that was provided by the Temp Placement Agency. I don’t really think these nurses are any good because they are poorly trained and make too many errors. I am sick and tired of having to go through this hassle every week!

Sylvia

ITEM 6: E-Mail

To: Elizabeth Parsons, VP-Nursing Service  
From: Janet Trist, R.N., Supervisor-3 East  
Date: October 4  
Time: 1:23 PM  
Subject: Scheduling problems

I am really having a problem with this new self-scheduling system that we adopted last month. A number of my senior nurses are refusing to go along with it and are threatening to quit unless we go back to the old system. It’s affecting the morale on my unit and making my life miserable. We need to discuss this right away.

Janet

ITEM 7: Letter

WESTFIELD HIGH SCHOOL

September 28  
Elizabeth Parsons  
Vice President-Nursing Service  
Hartland Hospital Westfield

Dear Mrs. Parsons;  
The Future Careers Club of Westfield High School would like to invite you to be the guest speaker at our November meeting. The meeting will be held on November 14 at 8:00 P.M. in the school auditorium. We would like you to discuss “The Changing Role of the Professional Nurse.”

We believe that your presentation will be quite informative for us because several of our students are interested in pursuing a nursing career.

We hope that you will be able to accept this invitation. Please call our sponsor, Mrs. Bonnie Tartabull, to confirm at your earliest convenience. Thank you.

Sincerely,  
Kathy Muller  
President, Westfield High Future Careers Club
ITEM 8: E-Mail

To: Elizabeth Parsons, VP-Nursing Service  
From: Marion Simpson, Auditing  
Date: October 4  
Time: 9:45 AM  
Subject: Hours of work for part-time nurses

Once again, many part-time nurses are working between 25 and 30 hours per week. If we permit this to continue, under the terms of the collective agreement, we must give full-time benefits to those involved. The agreement slates that full-time benefits must be given to those working in excess of 25 hours per week. The actual number of hours worked per week for part-timers averaged 24.5 hours for the month of September.  
Marion Simpson

ITEM 9: Written note from Wilma

To: Elizabeth Parsons  
From: Scott Little, Assistant to the President  
Time: 10:20  
Mr. Little called, but did not leave a message.

ITEM 10: E-mail

To: Elizabeth Parsons, Vice President-Nursing Service  
From: Cynthia Nichols, Vice President-Human Resources  
Date: October 2  
Time: 4:45 PM  
Subject: Sexual harassment charges

STRICTLY CONFIDENTIAL

We have just received a notification from a nurse employed here at Hartland alleging sexual harassment by one of our physicians on staff. The charges, if verified, are extremely serious. I would like to appoint you, along with Fran Nixon, from our staff relations department, and George Cross, union representative for the nurses association, to form a committee to investigate these charges. I have been told that the individual claiming harassment has already begun legal action, so we need to proceed with haste.  
Cynthia Nichols, Vice President
ITEM 11: Hard Copy

MEMO
To: Elizabeth Parsons, Vice President-Nursing Service
From: Marion Simpson, Auditing
Date: October 3
Subject: Reimbursement for travel

Further to your request for travel reimbursement for your upcoming conference, I regret to inform you that you have already used up this year’s travel budget allocation and therefore will not be reimbursed from this account.

Marion Simpson

ITEM 12: Written note from Wilma

Telephone Message
To: Elizabeth Parsons
From: Norm Sutter
Date: October 4
Time: 3:05 p.m.

Mr. Sutter called and asked if the next year’s budget projections for nursing have been finished. He needs these figures by Monday. —Wilma

ITEM 13: Hard copy

MEMO
To: Elizabeth Parsons, VP-Nursing Service
From: Scott Little, Assistant to the President
Date: October 3
Subject: United Way Campaign

This is a follow-up to our discussion of last week concerning the appointment of someone from your department to serve as a representative for our hospital’s annual United Way Campaign. I need to have the name of your representative by Friday, October 4th. —Scott

ITEM 14: Written note from Wilma

To: Betty Parsons
Date: October 4
Time: 2:12 p.m.

Mr. Stevens dropped in and was looking for you. He seemed quite upset and was muttering something about a lawsuit. He wants you to call him as soon as you get back from your trip. —Wilma
ITEM 15: E-Mail

October 4
4:45 PM

Ms Parsons - Can you “please” bring the snacks for the team for Jimmy’s tee-ball game Monday night? Several other moms have already said they couldn’t! Please confirm if this is OK. Thanks so much!! You’re the true “Super-Mom”! Regards, Coach Bailey

ITEM 16: E-mail

To: Elizabeth Parsons, VP-Nursing Service
From: Jane Sawchuck, Clinical Nurse Specialist
Date: October 3
Subject: Nosocomial Infections

It has come to my attention that, again last month, we have recorded high levels of Staphylococcus and Pseudomonas in operating rooms B and C. It is becoming apparent that we need to review our standard procedures in this area before an epidemic breaks out.

Jane

ITEM 17: E-mail

To: Betty Parsons
From: Allan Reid
Date: October 3

My niece, Jennifer, just graduated from nursing school and will be in town just one day - Monday, October 7. She is looking for a job in her field and I have asked her to talk to you. She is a delightful girl. Would you please see her? Allan

ITEM 18: E-mail

To: Elizabeth Parsons, VP-Nursing Service
From: Scott Little, Assistant to the President
Date: October 4
Subject: Nurse working illegally

Carmen Espinoza, the woman I talked to you about, was working illegally for us. She was using a stolen Social Security number. The Immigration and Naturalization Services (INS) contacted me yesterday and a representative will be coming Monday afternoon to inquire about the matter. Please give me a call right away. Scott
ITEM 19: Telephone Message
(Wilma intercepted the call and took a message; put note in front of you)

To: Elizabeth Parsons, Vice President-Nursing Service  
From: Bernard Stevens, Chairman of the Board  
Date: October 7  
Time: 8:55 a.m.

Mr. Stevens just called and says that he needs to meet with you and Allan Reid this morning at 10:00 a.m.

ITEM 20: E-mail

To: Elizabeth Parsons, Vice President-Nursing Service  
From: Dr. Clement Westaway, President-Medical Staff  
Date: October 2  
Subject: Nurse-physician relations

Further to our discussion last week concerning the pressing need to improve communication between physicians and nurses at Hartland Memorial, I am hoping that the suggestions that I gave you will be successfully implemented by your staff. Remember, we are all trying to provide the best possible medical care for our patients.  

C.W., MD

ITEM 21: E-mail

To: Elizabeth Parsons, Vice President-Nursing Service  
From: Cynthia Nichols, VP-Human Resources  
Date: October 3  
Subject: Firing Ms. Jean White, R.N.

As we discussed yesterday, it is important to conduct the termination interview of nurse Jean White as soon as possible. Her last day of work at Hartland will be October 18 and, according to our collective agreement, she requires 2 weeks’ notice. Please call me when the deed is done.

Cynthia Nichols, VP-HR

STOP!!

Do not proceed to the next page until you have responded to all previous items.
ITEM 22: Telephone Call (**LIVE**)  

Time: 9:45 A.M., Monday, October 7

Allan Reid just calls, and tells you that Mrs. Grace O’Brien, the patient with diabetes and Alzheimer’s disease, is again missing from her room, apparently since late last night. He advises you that he was just informed of this by a local newspaper reporter who had gotten wind of the story. He instructs you to call Mrs. O’Brien’s daughter to tell her of this recent development before she hears or reads it in the media. Reid gives you no opportunity to respond, saying, “I have the reporter on the other line and have to go.” He then hangs up the telephone.

Exhibit 4 is a partial diagram of the formal organization structure at Hartland Memorial Hospital.

After completing your action alternatives and justifications for each inbox item, use your knowledge of relationships to construct an informal organization chart, or sociogram, for the hospital. Use the organization chart in Exhibit 4 to draw lines between Elizabeth Parsons and other people. Portray positive/neutral/negative relationships with lines of different colors or thickness. Also indicate power relationships, the level of trust, frequency of communication, and criticality of relationships for her successful performance. Include all players about whom you have information. What does your diagram reveal about what is going on that day?
adaptability culture a culture characterized by strategic focus on the external environment through flexibility and change to meet customer needs.
adhocracy an organization form that develops in a complex, rapidly changing environment and is designed to support innovation and change.
administrative principles a management perspective that focuses on the design and functioning of the organization as a whole.
ambidextrous approach a design approach that incorporates structures and management processes that are appropriate to both the creation and the implementation of innovation.
analyzability a dimension of technology in which work can be reduced to mechanical steps and participants can follow an objective, computational procedure to solve problems.
analyzer a business strategy based on maintaining a stable business while innovating on the periphery.
authority a force for achieving desired outcomes that is prescribed by the formal hierarchy and reporting relationships.

balanced scorecard a comprehensive management control system that balances traditional financial measures with operational measures relating to a company's critical success factors.
behavior control manager observation of employee actions to see whether the individual follows desired procedures and performs tasks as instructed.
benchmarking the process of continually measuring products, services, and practices against tough competitors or other organizations recognized as industry leaders.
blog a running Web log that allows an individual to post opinions and ideas.
boundary-spanning roles activities that link and coordinate an organization with key elements in the external environment.
bounded rationality perspective a perspective that describes how decisions are made when problems are ill-defined, numerous factors affect the decision, and time is limited.
buffering roles activities that absorb uncertainty from the environment.
bureaucracy an organizational framework marked by rules and procedures, specialization and division of labor, hierarchy of authority, emphasis on technically qualified personnel, and written communications and records.
bureaucratic control the use of rules, policies, hierarchy of authority, written documentation, standardization, and other bureaucratic mechanisms to standardize behavior and assess performance.
bureaucratic culture a culture with an internal focus and a consistency orientation for a stable environment.
bureaucratic organizations organizations that emphasize designing and managing on an impersonal, rational basis through such elements as clearly defined authority and responsibility, formal recordkeeping, and uniform application of standard rules.
business intelligence high-tech analysis of large amounts of internal and external data to spot patterns and relationships that might be significant in helping managers make better strategic decisions.

Carnegie model organization decision making that involves many managers making a final choice based on a coalition among those managers.
centrality a source of horizontal power for a department that is engaged in the primary activity of an organization.
centralization refers to the level of hierarchy with authority to make decisions.
centralized decision making decision making in which problems and decisions are funneled to top levels of the hierarchy for resolution.

change process the way in which changes occur in an organization.

chaos theory a theory that suggests that relationships in complex, adaptive systems—including organizations—are nonlinear and made up of numerous interconnections and divergent choices that create unintended effects and render the whole unpredictable.

charismatic authority authority based on devotion to the exemplary character or to the heroism of an individual person and the order defined by him or her.

chief ethics officer a high-level company executive who oversees all aspects of ethics.

clan control the use of social characteristics, such as shared cultural values, commitment, traditions, and beliefs, to control behavior.

clan culture a culture with a primary focus on the involvement and participation of the organization’s members and on rapidly changing expectations from the external environment.

collection an alliance among several managers who agree about organizational goals and problem priorities.

code of ethics a formal statement of the organization’s values concerning ethics and social responsibility.

coercive forces the external pressures exerted on an organization to adopt structures, techniques, or behaviors similar to other organizations.

cognitive biases severe errors in judgment that all humans are prone to and that typically lead to bad choices.

collaborative network a perspective whereby organizations join together to become more competitive and to share scarce resources to increase value and productivity for all.

collective bargaining the negotiation of an agreement between management and workers.

collectivity stage the life cycle phase in which an organization has strong leadership and begins to develop clear goals and direction.

competition rivalry among groups in the pursuit of a common prize.

competitive advantage what sets the organization apart from others and provides it with a distinctive edge for meeting customer or client needs in the marketplace.

confrontation a situation in which parties in conflict directly engage one another and try to work out their differences.

consortia groups of independent companies (suppliers, customers, and possibly competitors) that join together to share skills, resources, costs, and access to one another's markets.

contextual dimensions traits that characterize the whole organization, including its size, technology, environment, and goals.

contingency theory meaning that one thing depends on other things; for organizations to be effective, there must be a “goodness of fit” between their structure and the conditions in their external environment.

contingency decision-making framework a perspective that brings together the two organizational dimensions of problem consensus and technical knowledge about solutions.

continuous-process production a completely mechanized manufacturing process in which there is no starting or stopping.

cooptation occurs when leaders from important sectors in the environment are made part of an organization and thus are more engaged in that organization's interests.

coping with uncertainty a source of horizontal power for a department that reduces uncertainty for other departments by obtaining prior information, prevention, or absorption.

core competence describes what the organization does especially well in comparison to its competitors.

core technology the work process that is directly related to the organization’s mission.

 corporate social responsibility (CSR) the concept of management’s obligation to make choices and take action so that the organization contributes to the welfare and interest of all organizational stakeholders.

craft technology technology characterized by a fairly stable stream of activities, but the conversion process is not analyzable or well understood.

creative departments departments that initiate change, such as research and development, engineering, design, and systems analysis.

creativity the generation of novel ideas that may meet perceived needs or respond to opportunities.

 culture the set of values, norms, guiding beliefs, and understandings that is shared by members of an organization and taught to new members as the correct way to think, feel, and behave.

culture change change in the values, attitudes, expectations, beliefs, and behavior of employees.

culture strength the degree of agreement among members of an organization about the importance of specific values.

customer relationship management (CRM) systems that help companies track customers’ interactions with the firm and allow employees to call up a customer’s past sales and service records, outstanding orders, or unresolved problems.

D

data warehousing the use of huge databases that combine all of a company’s data and allow users to access the data directly, create reports, and obtain responses to what-if questions.
decentralized decision making: decision making in which authority is pushed down to lower organizational levels.

decision learning: a process of recognizing and admitting mistakes that allows managers to acquire sufficient experience and knowledge to perform more effectively in the future.

decision premises: constraining frames of reference and guidelines placed by top managers on decisions made at lower levels.

decision support system (DSS): an interactive, computer-based system that relies on decision models and integrated databases.

defender: a business strategy that is concerned with stability or even retrenchment.

departmental grouping: a grouping in which employees share a common supervisor and common resources, are jointly responsible for performance, and tend to identify and collaborate with one another.

dependency: an aspect of horizontal power, in which one department is dependent on another and the latter is in a position of greater power.

devil’s advocate: the role of challenging the assumptions and assertions made by the group.

differentiation: the cognitive and emotional differences among managers in various functional departments of an organization and formal structure differences among these departments.

differentiation strategy: a business strategy that attempts to distinguish an organization’s products or services from others in the industry.

direct interlock: occurs when one individual is the link between two companies, such as when a member of one company’s board also sits on the board of another company.

diversified form: an organization form that occurs when large, mature firms are subdivided into product or market groups.

divisional grouping: a grouping in which employees are organized according to what the organization produces.

divisional structure: structure in which divisions can be organized according to individual products, services, product groups, major projects or programs, divisions, businesses, or profit centers; sometimes called a product structure or strategic business units.

domain: the chosen environmental field of action; the territory an organization stakes out for itself with respect to products, services, and markets served.

domains of political activity: areas in which politics plays a role. Three domains in organizations are structural change, management succession, and resource allocation.

domestic stage: the first stage of international development in which a company is domestically oriented while managers are aware of the global environment.

downsizing: intentionally reducing the size of a company’s workforce by laying off employees.

dual-core approach: an organizational change perspective that identifies the unique processes associated with administrative change compared to those associated with technical change.

e-business: any business that takes place by digital processes over a computer network rather than in physical space.

economies of scale: achieving lower costs through large volume production; often made possible by global expansion.

economies of scope: achieving economies by having a presence in many product lines, technologies, or geographic areas.

effectiveness: the degree to which an organization achieves its goals.

efficiency: the amount of resources used to achieve an organization’s goals; based on the quantity of raw materials, money, and employees necessary to produce a given level of output.

elaboration stage: a mature stage of the life cycle in which a red tape crisis is resolved through the development of a new sense of teamwork and collaboration.

empowerment: the delegation of power or authority to subordinates in an organization, also known as power sharing.

engineering technology: technology that tends to be complex because there is substantial variety in the tasks performed, but activities are usually handled on the basis of established formulas, procedures, and techniques.

enterprise resource planning (ERP): a system that collects, processes, and provides information about a company’s entire enterprise.

entrepreneurial stage: the life cycle stage in which a company is born and its emphasis is on creating a product and surviving in the marketplace.

entrepreneurial structure: an organization form that consists mainly of a top manager and workers in the technical core; occurs typically in small start-up companies.

escalating commitment: persisting to invest time and money in a solution despite strong evidence that it is not working.

ethical dilemma: the result of when each alternative choice or behavior seems undesirable because of a potentially negative ethical consequence.

ethics: the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

ethics committee: a cross-functional group of executives who oversee company ethics.
ethics hotline a telephone number employees can call to seek guidance as well as report questionable behavior.

evidence-based management a commitment to make more informed and intelligent decisions based on the best available facts and evidence.

executive dashboard a software program that presents key business information in graphical, easy-to-interpret form and alerts managers to any deviations or unusual patterns in the data; sometimes called a business performance dashboard.

executive information system (EIS) a higher-level application that facilitates decision making at the highest levels of management, these systems are typically based on software that can convert large amounts of complex data into pertinent information and provide that information to top managers in a timely fashion.

explicit knowledge formal, systematic knowledge that can be codified, written down, and passed on to others in documents or general instructions.

external adaptation the manner in which an organization meets goals and deals with outsiders.

extranet an external communications system that uses the Internet and is shared by two or more organizations.

functional structure organization structure in which activities are grouped together by common function from the bottom to the top of the organization.

G

garbage can model decision-making model that describes the pattern or flow of multiple decisions within an organization.

general environment those sectors that might not have a direct impact on the daily operations of a firm but will indirectly influence it.

generalist an organization that offers a broad range of products or services or serves a broad market.

global companies companies that no longer think of themselves as having a single home country; sometimes called stateless corporations.

global geographic structure structure that divides the world into geographic regions, with each geographic division reporting to the CEO.

global matrix structure a form of horizontal linkage in an international organization in which both product and geographical structures are implemented simultaneously to achieve a balance between standardization and globalization.

global product structure structure in which the product divisions take responsibility for global operations in their specific product area.

global stage the stage of international development in which the company transcends any one country.

global teams cross-border work groups made up of multiskilled, multinational members whose activities span multiple countries; also called transnational teams.

globalization strategy the standardization of product design, manufacturing, and marketing strategy throughout the world.

goal approach an approach to effectiveness that is concerned with an organization’s outputs and how well the organization has met its output goals.

groupthink the tendency of people in groups to suppress contrary opinions for the sake of group harmony.

H

Hawthorne studies a series of experiments on worker productivity begun in 1924 at the Hawthorne plant of Western Electric Company in Illinois; attributed employees’ increased output to managers’ better treatment of them during the study.

heroes organization members who serve as models or ideals that illustrate and support desired cultural norms and values.

high-velocity environments industries in which competitive and technological change is so extreme that market data is either unavailable or obsolete, strategic...
windows open and shut quickly, and decisions must be made quickly with limited information.

**horizontal coordination model** a model of the three components of organizational design needed to achieve new product innovation: departmental specialization, boundary spanning, and horizontal linkages.

**horizontal grouping** a grouping in which employees are organized around core work processes, the end-to-end work, information, and material flows that provide value directly to customers.

**horizontal linkage** communication and coordination horizontally across organizational departments.

**horizontal structure** organization structure that organizes employees around core processes rather than by function, product, or geography.

**hybrid structure** structure that combines characteristics of various structural approaches tailored to specific strategic needs.

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**idea champions** organization members who provide the time and energy to make change happen; sometimes called *advocates*, *intrapreneurs*, and *change agents*.

**idea incubator** a safe harbor in which ideas from employees throughout the organization can be developed without interference from company bureaucracy or politics.

**imitation** the act of adopting a decision tried elsewhere in the hope that it will work in this situation.

**incremental decision model** decision-making model that describes the structured sequence of activities undertaken from the discovery of a problem to its solution.

**indirect interlock** occurs when a director of company A and a director of company B are both directors of company C.

**information reporting system** the most common form of management information system, this type of system provides mid-level managers with reports that summarize data and support day-to-day decision making.

**inspiration** an innovative, creative solution that is not reached by logical means.

**institutional environment** norms, values, and expectations from stakeholders (customers, investors, boards, government, community, etc.).

**institutional perspective** the view of how organizations survive and succeed through congruence between an organization and the expectations from its institutional environment.

**institutional similarity** the emergence of a common structure and approach among organizations in the same field; called *institutional isomorphism* in the academic literature.

**integrated enterprise** an organization that uses advanced IT to enable close coordination within the company as well as with suppliers, customers, and partners.

**integration** the quality of collaboration among departments or organizations.

**integrator** a position or department created solely to coordinate several departments.

**intellectual capital** the sum of an organization’s knowledge, experience, understanding, relationships, processes, innovations, and discoveries.

**intelligence team** cross-functional group of managers and employees, usually led by a competitive intelligence professional, who work together to gain a deep understanding of a specific competitive issue.

**intensive technology** technology that provides a variety of products or services in combination to a client.

**interdependence** the extent to which departments depend on each other for resources or materials to accomplish their tasks.

**intergroup conflict** the behavior that occurs among organizational groups when participants identify with one group and perceive that other groups may block their group’s goal achievement or expectations.

**interlocking directorate** formal linkage that occurs when a member of the board of directors of one company sits on the board of directors of another company.

**internal integration** a state in which members develop a collective identity and know how to work together effectively.

**internal process approach** an approach that looks at internal activities and assesses effectiveness by indicators of internal health and efficiency.

**international division** a division organized to handle business in other countries.

**international stage** the second stage of international development, in which the company takes exports seriously and begins to think multidomestically.

**interorganizational relationships** the relatively enduring resource transactions, flows, and linkages that occur among two or more organizations.

**intranet** a private, companywide information system that uses the communications protocols and standards of the Internet and the World Wide Web but is accessible only to people within the company.

**intuitive decision making** decision making based on experience and judgment rather than sequential logic or explicit reasoning.

---

**job design** the assignment of goals and tasks to be accomplished by employees.

**job enlargement** an expansion of the number of different tasks performed by an employee in a job.

**job enrichment** designing a job to provide greater responsibility, recognition, and opportunities for growth and development.
**job rotation** moving employees from job to job to give them a greater variety of tasks.

**job simplification** the variety and difficulty of tasks performed by a single person are reduced.

**joint optimization** the goal of the sociotechnical systems approach, which states that an organization functions best when the social and technical systems are designed to fit the needs of one another.

**joint venture** a separate entity created with two or more active firms as sponsors.

**knowledge** a conclusion drawn from information that has been linked to other information and compared to what is already known.

**knowledge management** the ability to systematically find, organize, and make available a company’s intellectual capital and to foster a culture of continuous learning and knowledge sharing so that organizational activities build on what is already known.

**labor–management teams** a cooperative approach designed to increase worker participation and provide a cooperative model for union-management problems.

**large group intervention** an approach that brings together participants from all parts of the organization, often including key stakeholders from outside the organization as well, in an off-site setting to discuss problems or opportunities and plan for change.

**large-batch production** a manufacturing process characterized by long production runs of standardized parts.

**lean manufacturing** a process that uses highly trained employees at every stage of the production process, who take a painstaking approach to details and problem solving to cut waste and improve quality.

**learning organization** an organization that promotes communication and collaboration so that everyone is engaged in identifying and solving problems, enabling the organization to continuously experiment, improve, and increase its capability.

**legends** stories of historic events that may have been embellished with fictional details.

**legitimacy** the general perception that an organization’s actions are desirable, proper, and appropriate within the environment’s system of norms, values, and beliefs.

**level of analysis** in systems theory, the subsystem on which the primary focus is placed; four levels of analysis normally characterize organizations.

**liaison role** a role in which a person is located in one department but has the responsibility for communicating and achieving coordination with another department.

**life cycle** the concept that organizations are born, grow older, and eventually die.

**long-linked technology** the combination within one organization of successive stages of production, with each stage using as its inputs the production of the preceding stage.

**low-cost leadership strategy** a strategy of increasing market share by keeping costs low compared to competitors.

**machine bureaucracy** an organization form suited to a simple, stable environment, in which there is extensive formalization and specialization, a tall hierarchy, a goal of efficiency, and a technical core typically oriented to mass production.

**management champion** a manager who acts as a supporter and sponsor of a technical champion to shield and promote an idea within the organization.

**management control systems** broadly defined as the formal routines, reports, and procedures that use information to maintain or alter patterns in organizational activities.

**management information system (MIS)** a computer-based system that provides information and support for managerial decision making.

**management science approach** organization decision making that uses quantitative models to analyze numerous variables and arrive at the best solution; the analog to the rational approach by individual managers.

**managerial ethics** principles that guide the decisions and behaviors of managers with regard to whether they are right or wrong.

**market control** the use of price competition to evaluate the output and productivity of an organization or its major departments and divisions.

**mass customization** using mass-production technology to quickly and cost-effectively assemble goods that are uniquely designed to fit the demands of individual customers.

**matrix structure** organization structure in which both product division and functional structures (horizontal and vertical) are implemented simultaneously.

**mechanistic** an organization system marked by rules, procedures, a clear hierarchy of authority, and centralized decision making.

**mediating technology** technology that allows each department to work independently by virtue of providing products or services that mediate or link clients from the external environment.

**meso theory** an approach to organization studies that concerns the integration of both micro and macro levels of analysis.

**mimetic forces** the pressure to copy or model other organizations that appear to be successful.

**mission** the organization’s reason for existence; describes the organization’s shared values and beliefs and its reason for being.
mission culture a culture characterized by emphasis on a clear vision of the organization’s purpose and on the achievement of goals, such as sales growth, profitability, or market share, to help achieve the purpose.

multidomestic manager mindset in which competitive issues in each country are viewed independently of other countries; the company deals with each country individually.

multidomestic strategy strategy in which competition in each country is handled independently of competition in other countries.

multifocused grouping a grouping in which the organization embraces two or more structural grouping alternatives simultaneously, often called matrix or hybrid.

multinational stage the stage of international development in which a company has marketing and production facilities in many countries and more than one-third of its sales outside its home country.

myths stories that are consistent with the values and beliefs of the organization but are not supported by facts.

negotiation the bargaining process that often occurs during confrontation and that enables the parties to systematically reach a solution.

network centrality a source of power based on being centrally located in the organization and having access to information and people that are critical to the company’s success.

networking electronically linking people and departments within a particular building or across corporate offices, enabling them to share information and cooperate on projects.

new-venture fund a fund that provides financial resources for employees to develop new ideas, products, or businesses.

niche a domain of unique environmental resources and needs.

non-core technology a department work process that is important to the organization but is not directly related to its primary mission.

nonprogrammed decision novel and poorly defined, these decisions are required when no procedure exists for solving a problem.

nonroutine technology technology characterized by high task variety, and the conversion process is not analyzable or well understood.

nonsubsitutability a source of horizontal power when a department’s function cannot be performed by other readily available resources.

normative forces pressures to achieve standards of professionalism and to adopt techniques that are considered by the professional community to be up to date and effective.

official goals formally stated definition of business scope and outcomes the organization is trying to achieve.

open innovation an approach that extends the search for and commercialization of new products beyond the boundaries of the organization.

operative goals goals stated in terms of outcomes sought through the actual operating procedures of the organization.

organic an organization system marked by free-flowing, adaptive processes, an unclear hierarchy of authority, and decentralized decision making.

organization development (OD) a behavioral science field devoted to improving performance through trust, open confrontation of problems, employee empowerment and participation, the design of meaningful work, cooperation between groups, and the full use of human potential.

organization structure designates formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers and supervisors; identifies the grouping together of individuals into departments and of departments into the total organization; and includes the design of systems to ensure effective communication, coordination, and integration of efforts across departments.

organization theory a macro examination of organizations that analyzes the whole organization as a unit.

organizational behavior a micro approach to organizations that focuses on the individuals within organizations as the relevant units of analysis.

organizational change the adoption of a new idea or behavior by an organization.

organizational decision making the process of identifying and solving problems.

organizational decline a condition in which a substantial, absolute decrease in an organization’s resource base occurs over a period of time.

organizational ecosystem a system formed by the interaction of a community of organizations and their environment.

organizational environment all elements that exist outside the boundary of the organization and have the potential to affect all or part of the organization.

organizational form an organization’s specific technology, structure, products, goals, and personnel.

organizational goal a desired state of affairs that the organization attempts to reach.

organizational innovation the adoption of an idea or behavior that is new to the organization’s industry, market, or general environment.

organizational politics the activities of acquiring, developing, and using power and other resources to influence others and obtain the preferred outcome when there is uncertainty or disagreement about choices.
organizations social entities that are goal-directed, designed as deliberately structured and coordinated activity systems, and are linked to the external environment.

organized anarchy extremely organic organizations characterized by highly uncertain conditions.

outcome control a management focus on monitoring and rewarding results rather than on how those results are obtained.

outsourcing contracting out certain functions or tasks, such as manufacturing or credit processing, to other companies.

problem identification the decision-making stage during which information about environmental and organizational conditions is monitored to determine if performance is satisfactory and to diagnose the cause of shortcomings.

problem consensus the level of agreement among managers about the nature of a problem or opportunity and about which goals and outcomes to pursue.

problem solution the decision-making stage during which alternative courses of action are considered and one alternative is selected and implemented.

problemistic search search that occurs when managers look around in the immediate environment for a solution to quickly resolve a problem.

process an organized group of related tasks and activities that work together to transform inputs into outputs that create value for customers.

professional bureaucracy a form of organization made up primarily of highly skilled professionals, such as in hospitals, universities, law firms, and consulting firms.

product and service change change that pertains to the product or service outputs of an organization.

product matrix type of matrix structure in which the project or product managers have primary authority and functional managers simply assign technical personnel to projects and provide advisory expertise as needed.

programmed decisions repetitive and well defined, these decisions are used when procedures exist for resolving the problem.

prospect theory theory that suggests that the threat of a loss has a greater impact on a decision than the possibility of an equivalent gain.

prosector a business strategy of innovating, taking risks, seeking out new opportunities, and growing.

P

personnel ratios the proportions of administrative, clerical, and professional support staff.

point–counterpoint a decision-making technique that divides decision makers into two groups and assigns them different, often competing responsibilities.

political model a definition of an organization as being made up of groups that have separate interests, goals, and values in which power and influence are needed to reach decisions.

political tactics for using power these include building coalitions, expanding networks, controlling decision premises, enhancing legitimacy and expertise, and making a direct appeal.

pooled interdependence the lowest form of interdependence, in which work does not flow between departments.

population a set of organizations engaged in similar activities with similar patterns of resource utilization and outcomes.

population-ecology perspective focuses on organizational diversity and adaptation within a population of organizations.

power the potential ability of one person (or department) to influence other people (or departments) to carry out orders or to do something they would not otherwise have done.

power distance the level of inequality people are willing to accept in an organization.

power sources the five sources of horizontal power in organizations are dependency, financial resources, centrality, nonsubstitutability, and the ability to cope with uncertainty.

problematic search that occurs when managers look around in the immediate environment for a solution to quickly resolve a problem.

programmed decisions repetitive and well defined, these decisions are used when procedures exist for resolving the problem.

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prosector a business strategy of innovating, taking risks, seeking out new opportunities, and growing.

R

rational approach decision-making process based on systematic analysis of a problem followed by choice and implementation in a logical sequence.

rational model a model of organization characterized by rational decision processes, clear goals and choices, centralized power and control, an efficiency orientation, and little conflict among groups; an ideal not fully achievable in the real world.

rational-legal authority authority based on employees’ belief in the legality of rules and the right of those elevated to positions of authority to issue commands.

reactor a response to environmental threats and opportunities in an ad hoc rather than strategic fashion.

reciprocal interdependence the highest level of interdependence, in which the output of one operation is the input of a second, and the output of the second operation is the input of the first (for example, a hospital).

reengineering the redesign of a vertical organization along its horizontal workflows and processes.

resource dependence a situation in which organizations depend on the environment but strive to acquire control over resources to minimize their dependence.

resource-based approach an organizational perspective that assesses effectiveness by observing how successfully the organization obtains, integrates, and manages valued resources.
resource-dependence theory theory that organizations try to minimize their dependence on other organizations for the supply of important resources and try to influence the environment to make resources available.

retention the preservation and institutionalization of selected organizational forms.

rites and ceremonies the elaborate, planned activities that make up a special event and are often conducted for the benefit of an audience.

role a part in a dynamic social system that allows an employee to use his or her discretion and ability to achieve an outcome or meet a goal.

routine technology technology characterized by little task variety and the use of objective, computational procedures.

rule of law that which arises from a set of codified principles and regulations that describe how people are required to act, that are generally accepted in society, and that are enforceable in the courts.

satisficing the acceptance of a satisfactory rather than a maximum level of performance, enabling an organization to achieve several goals simultaneously.

scientific management emphasizes scientifically determined jobs and management practices as the way to improve efficiency and labor productivity.

sectors subdivisions of the external environment that contain similar elements.

selection the process by which a new organizational form is determined to suit the environment and survive, or is “selected out” and fails.

sequential interdependence a serial form of interdependence in which the output of one operation becomes the input to another operation.

service technology technology characterized by simultaneous production and consumption, customized output, customer participation, intangible output, and being labor intensive.

simple–complex dimension the number and dissimilarity of external elements relevant to an organization’s operations.

Six Sigma a highly ambitious quality standard that specifies a goal of no more than 3.4 defects per million parts; also, a set of control procedures that emphasizes the relentless pursuit of quality.

skunkworks a separate, small, informal, highly autonomous, and often secretive group that focuses on breakthrough ideas for the business.

small-batch production a manufacturing process, often custom work, that relies heavily on the human operator and is not highly mechanized.

social audit measures and reports the ethical, social, and environmental impact of an organization’s operations.

social capital the quality of interactions among people and the degree to which they share a common perspective.

social networking a peer-to-peer communication channel, where people interact in an online community, share personal data and photos, and produce and share a variety of information and opinions.

sociotechnical systems approach an approach that combines the needs of people with the organization’s need for technical efficiency.

sources of intergroup conflict factors that generate conflict, including goal incompatibility, differentiation, task interdependence, and limited resources.

specialist an organization that provides a narrower range of goods or services or that serves a narrower market.

stable–unstable dimension refers to whether elements in the environment are dynamic.

stakeholder any group within or outside of an organization that has a stake in the organization’s performance.

stakeholder approach integrates and balances diverse organizational activities by looking at various organizational stakeholders and what they want from the organization.

standardization policies that ensure all branches of the company at all locations operate in the same way.

stories narratives based on true events that are frequently shared among organizational employees and told to new employees to inform them about an organization.

strategic contingencies events and activities both inside and outside an organization that are essential for attaining organizational goals.

strategic intent a situation in which all the organization’s energies and resources are directed toward a focused, unifying, and compelling overall goal.

strategy a plan for interacting with the competitive environment to achieve organizational goals.

strategy and structure change change that pertains to the administrative domain in an organization.

strategy map a visual representation of the key drivers of an organization’s success that shows how specific outcomes in each area are linked.

structural dimensions describe the internal characteristics of an organization, and create a basis for measuring and comparing organizations.

structure the formal reporting relationships, groupings, and systems of an organization.

struggle for existence the concept that organizations and populations of organizations are engaged in a competitive struggle over resources, and each organizational form is fighting to survive.

subcultures cultures that develop within an organization that reflect the common problems, goals, and experiences that members of a team, department, or other unit share.

supply chain management managing the sequence of suppliers and purchasers, covering all stages of processing from obtaining raw materials to distributing finished goods to consumers.
switching structures an organization creates an organic structure when such a structure is needed for the initiation of new ideas and reverts to a more mechanistic structure to implement the ideas.
symbol something that represents another thing.
symptoms of structural deficiency signs that the organization structure is out of alignment, including delayed or poor-quality decision making, failure to respond innovatively to environmental changes, and too much conflict.

T
tacit knowledge knowledge based on personal experience, rules of thumb, intuition, and judgment; knowledge that is difficult to put into writing.
tactics for enhancing collaboration these include techniques such as integration devices, confrontation and negotiation, intergroup consultation, member rotation, and shared mission and superordinate goals that enable groups to overcome differences and work together.
tactics for increasing power these include entering areas of high uncertainty, creating dependencies, providing resources, and satisfying strategic contingencies.
task a narrowly defined piece of work assigned to a person.
task environment sectors with which the organization interacts directly and that have a direct impact on the organization’s ability to achieve its goals.
task force a temporary committee composed of representatives from each organizational unit affected by a problem.
team building activities that promote the idea that people who work together can work as a team.
teams permanent task forces, often used in conjunction with a full-time integrator.
technical complexity the extent of mechanization of the manufacturing process.
technical knowledge the degree of understanding and agreement about how to solve problems and reach organizational goals.
technology the work processes, techniques, machines, and actions used to transform organizational inputs into outputs.
technology change change in an organization’s production process, including its knowledge and skill base, that enables distinctive competence.
time-based competition competition based on delivering products and services faster than competitors, giving companies a competitive edge.
traditional authority authority based on a belief in traditions and in the legitimacy of the status of people exercising authority through those traditions.
transaction processing system (TPS) a system that automates the organization’s routine, day-to-day business transactions.

transnational model a form of horizontal organization that has multiple centers, subsidiary managers who initiate strategy and innovations for the company as a whole, and unity and coordination achieved through corporate culture and shared vision and values.

U
uncertainty condition that exists when decision makers do not have sufficient information about environmental factors, and they have a difficult time predicting external changes.
uncertainty avoidance within a cultural group, the degree to which members are uncomfortable with uncertainty and ambiguity and thus support beliefs that promise certainty.

V
values-based leadership a relationship between a leader and followers that is based on shared, strongly internalized values that are advocated and acted upon by the leader.
variation the appearance of new, diverse forms in a population of organizations.
variety in terms of tasks, the frequency of unexpected and novel events that occur in the conversion process.
venture teams a technique used to foster creativity within an organization by setting up a small team as its own company to pursue innovations.
vertical information system a strategy for increasing vertical information capacity.
vertical linkages communication and coordination activities connecting the top and bottom of an organization.
virtual network grouping a loosely connected cluster of separate components.
virtual network structure the firm subcontracts many or most of its major processes to separate companies and coordinates their activities from a small headquarters organization, sometimes called a modular structure.
virtual team a team made up of organizationally or geographically dispersed members who are linked primarily through advanced information and communications technologies.

W
whistle-blowing employee disclosure of illegal, immoral, or illegitimate practices on the part of the organization.
wiki a Web page or collection of pages designed to allow people to freely create, share, and edit content using any Web browser.
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