

ROLE OF VALUES AND EFFECTING VALUE CHANGE  
IN SOLUTIONS ORGANIZATIONS

by

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## **Abstract**

### ABSTRACT OF THE DISSERTATION

Role of values and effecting value change in solutions organizations

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Scholars of Organization Theory offer different views on the values needed by solutions organizations, strategically oriented towards offering customized solutions to clients and on the question on value change.

On values, one view is that Performance values that motivate individual action works. Another view is that Clan values that emphasize collective action works. A more recent view is that Collaborative values that emphasize interdependent action are key. On effecting value change; existing research offers top down change driven by leaders, spontaneous decentralized change that is scattered and oriented to multiple values and interactive change based on joint dialogue.

Two research questions are answered: what is the link between shared values and a solutions strategy and which change process effects value change?

This study followed a mixed method approach. The findings are based on confirming evidence of a set of presuppositions drawn from existing theory and patterns that were surfaced inductively based on disconfirming evidence. Data from two primary research sites and nine secondary research sites were collected using semi structured interviews and archival sources.

The study finds evidence of Performance, Collaborative and Clan value patterns that were

hypothesized *a priori*. Another value pattern, the Ethical value pattern that emphasizes ethical action was surfaced inductively. The study finds that the Collaborative value pattern supports a solutions strategy more completely than the Ethical, Performance and Clan value patterns, by supporting external customer focus, integration of the workforce and collaboration across decentralized organizations.

The study finds that the interactive process effects value change in the direction of ethical and collaborative value patterns by identifying new values, overcoming previous value commitments and building new value commitment. The top down and spontaneous decentralized processes are weak at overcoming old value commitment; the former process is also weak at building new value commitment, while the latter process results in multiple value frameworks.

This study contributes to research and practice by clarifying the link between values and solutions strategy. It also provides insights into effecting value change.

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This dissertation would never have been possible without my chair, Charles Heckscher, who has been an invaluable academic and professional mentor. Charles has been a consistent and unwavering source of rigorous academic training and interesting research. He has pointed me towards much inspiring theoretical and methodological work (including his own) and has provided me hands on learning opportunities in interesting research projects. Thank you for the advise and patience!

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Sacramento, California, October 19, 2008

## Dedication

For

Ammedeus Michael &  
Nirmala Michael

Rashmi Michael,  
Raul Sharma Michael & Rhea  
Sharma Michael

Brahma Dev Sharma &  
Sudha Sharma

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## Chapter 1: Research Overview & Development

### *Values and Solutions Strategy*

Scholars have contended shared values are important to business strategy (Heckscher & Adler, 2006; Cameron & Quinn, 2006; Adler, 2001; Kanter, 2001, Nohria & Ghoshal, 1997; Kotter & Heskett, 1992; Powell, 1990; Schein, 1984; Ouchi, 1982). Many have argued that strongly shared values are important for competing in stable business environments. However, there are two different views on the role of shared values for organization's competing in dynamic business environments. One view focuses on the importance of values that motivate individual action (Cameron & Quinn, 2006; Denison, 1990). Another view focuses on values as a basis for trusting relationships (Heckscher & Adler, 2006; Adler, 2001; Kanter, 2001, Nohria & Ghoshal, 1997; Powell, 1990; Ouchi, 1982). The link between shared values and an organization's business strategy has important implications for organizations in today's knowledge economy and needs to be clarified.

Solutions Strategy: Since the late 1980s, an important contention that scholars have made is that the competitive advantage of organizations in the knowledge economy will increasingly depend on integrating its core competencies to solve unanticipated problems of customers (Heckscher, 2007; Kanter, 2001; O'Reilly & Pfeffer, 2000; DeGeus, 1997; Ramirez, 1997; Heckscher & Donnellon, 1994; Prahalad & Hamel, 1990; Bartlett & Ghoshal, 1988; Porter, 1986). Within this view, the competitive advantage will not be based solely on the strengths of the core products and services that organizations possess. Instead, their competitive advantage will depend on identifying a portfolio of core competencies that in turn can spawn core products and services. These core competencies will be based on the collective learning about existing and future customer preferences. This is a fundamental strategic shift for bureaucratic organizations whose success has been based on standardized products and services. For the purpose of this research, I

will term this strategic view as a shift oriented towards solutions.

Shared Values: Scholars have contended that shared values are an important component of an organization's culture that influences individual and collective employee behavior (Kotter & Heskett, 1992; Schein, 1985; Deal & Kennedy, 1982; Ouchi, 1982). Values have been defined as "*conceptions of the desirable*" (Parsons, 1968: 214; Kluckhohn, 1951: 399) that set the standards for employee relationships in an organization. There are many varieties of shared values: at one extreme, one could conceive an organization sharing the value of free agency, where members expect each other to do their own jobs and do not feel the need to build relationships with co-workers; on the other extreme one could conceive an organization sharing the value of collective participation. Trying to build relationships in the first example or failing to do so in the second example will be viewed as deviations from the standards set by the values in each case. The values that an organization's members come to share become difficult to change and tend to persist over time even when group membership changes.

Community, Individualism & Solutions: There appear to be two views about the role that values play within the culture of solutions organizations that are strategically oriented towards offering customized solutions to different customer needs.

- One view is that shared values focuses on building trusting relationships among organizational members and is a basis of community. (Heckscher, 2007; Heckscher & Adler, 2006; Adler, 2001; O'Reilly & Pfeffer, 2000; Nohria & Ghoshal, 1997; DeGeus, 1997; Heckscher & Donnellon, 1994; Powell, 1990; Ouchi, 1980). While these researchers have used different terminology, their basic contention is that Community (Heckscher & Adler, 2006), Trust (Adler, 2001; Nohria & Ghoshal, 1997; Heckscher & Donnellon, 1994; Powell, 1990) and Clan (Wilkins & Ouchi, 1983; Ouchi, 1982) based on shared values are a third coordinative principle necessary for achieving performance goals, the other two

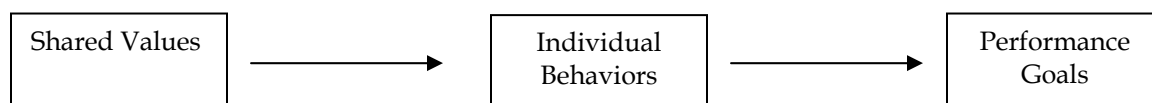
being markets and hierarchies. Heckscher & Adler (2006) have contended that values, which support a collaborative community, are necessary for solutions organizations. For the purpose of this research I term values that are primary in the Collaborative Community as, Collaborative value pattern. The highest Collaborative value is Interdependent Contribution. This value motivates contribution in a way that helps both the group and co-workers to succeed.

- The second view is that values motivate individual independence at the workplace (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1990). These values operate through a focus on individual performance without the need for community. For the purpose of this research I term values that are primary in this research as the Performance value pattern. The values that are primary in the Performance value pattern are entrepreneurship/initiative and individual achievement. These values emphasize individuality, risk taking and behaviors that support adaptation.

The key distinction between the two is that the Performance value pattern emphasizes individual action without the need for creating trusting relationships, while the Collaborative value pattern emphasizes interdependent action in which trusting relationships are necessary for solutions organizations. Refer Exhibit 1.

*Exhibit 1: Performance value pattern and Collaborative value pattern framework*

Performance value pattern



Collaborative value pattern



Much of the literature fails to identify specific values and their link to an organization's strategy. The two views introduced above conceptualize different types of values for organizations strategically oriented towards solutions.

In this research I will examine the merits and limitations of Collaborative and Performance value patterns and also look for alternate value patterns that maybe empirically relevant in solutions organizations.

Research interest: 1.a. What is the relationship between shared values and strategy for organizations that are strategically oriented towards solutions?

1. b. Specifically, what is the link between Collaborative and Performance value patterns and strategy?

### *Influencing Value Change*

Top down & Bottom-up Change: The existing research in Organizational Theory offer three change models. The first is the top down leadership approach to change, and the second is the bottom up program driven spontaneous change. The third model is the interactive approach to change.

The top down approach to change emphasizes the role of leaders in recognizing new environmental pressures, articulating goals, and restructuring to achieve those goals (Kotter and Heskett, 1992; Atkinson, 1990; Maccobby, 1976; Lawrence & Lorsch, 1968; Chandler, 1964).

In the bottom up approach change values evolve spontaneously among employees in response to changing demands, without clear articulation by top leaders – or sometimes in opposition to leadership formulations O'Reilly III & Pfeffer, 2000; Beer, 1997; Zell, 1997; Davenport, 1995; Kotter & Heskett, 1992; Beer, Eisenstat and Spector, 1990). In some cases they



evolve because of organizational restructuring and work redesign programs initiated from above, but without articulation of clear values... In other cases they evolve through the spontaneous re-interpretation of existing values or the identification of new values in times of crisis and confusion (Heckscher, 1995; Trice & Beyer, 1993; Seely Brown and Dugid, 1991; Beer et. al., 1990).

Problem with top down and bottom up change process theories: Some researchers contend that both the top down and the bottom up change processes have limited success in the long term (Heckscher, 2007; Heckscher & Adler, 2006; Beer et. al., 2002/1990/1990; Beer and Nohria, 2000; Beer & Rogers, 1997; Kotter & Heskett, 1992). Specifically Beer et. al. (2002/1990 a, b), contend that programmatic change from the top suffers from the *Fallacy of Programmatic Change*. Programmatic change, since it is mandated from the top, fails at creating commitment within the workforce. These change efforts therefore, remain merely verbal and fail to achieve their goals. Kotter and Heskett (1992), on the other hand, contend that bottom up change suffers from the *Bounce back effect* in the long term. The bottom up approach lacks legitimacy from the top and therefore is not sustainable. This is due to the fact that those at the bottom do not have an overview of the forces affecting the whole organization. Critiques of these two approaches explain the weakness of the change process through the tendency of change outcomes in the short term reverting back to earlier forms or taking on unintended forms in the long term.

Interactive change: There is a third view that integrates the bottom up and top down approach and offers an interactive approach for initiating change in organizations (Heckscher, 2007; Heckscher & Adler, 2006). This integration is fostered through continuous dialogue, held in the public domain, aimed at legitimizing structural change by building value commitment (Heckscher, 2007; Heckscher & Adler, 2006; Beer, 2003; Beer et. al., 2002/1990; Beer & Rogers, 1997; Beer et. al., 1990). The interactive approach redefines relationships between insiders and outsiders; between subordinates and supervisors and between peers. Employees are involved in

this process to break down hierarchical relationships between subordinate and supervisors. Peer to peer relationships are influenced by emphasizing interdependence through contributing to the success of groups and co-workers.

Based on the existing research on these three change processes, I have hypothesized that effecting value change in solutions organizations would involve three steps. (1) The first step is the discussion of values through a public dialogue between multiple stakeholders who share some values and do not share some values. The purpose of this dialogue is to bring existing espoused values, values in use and competing values into the discussion. (2) The second step will involve the overcoming of commitment to the previous values that cause resistance among employees. (3) Finally, the enactment of the new values will emerge through building commitment among the employees. This commitment will be built through dialogue, experiences in conflict resolution and decision - making that is influenced by the new values. Reflection on these experiences with the new values will also help in the enactment of the new values.

Research interest: 2. Which processes effect value change in organizations that are strategically oriented towards solutions?

## ***Research Methodology***

Research Method for values: What an organization claims is often different from what an organization does. (Heckscher, 2007; Cameron & Quinn, 2006; Heckscher & Adler, 2006; Dougherty & Hardy, 1996; Heckscher, 1995; Brown & Dugid, 1991; Beer et. al., 1990; Jackall, 1988; Schein, 1984; Peters & Waterman, 1982; Argyris & Schon, 1978; Merton, 1958). Similarly, the values that an organization claims to possess could be quite different from the values that the organization actually uses. Existing research posits that organizations have *espoused values* that are talked about. Organizations have *enacted values* that may be formally or informally in use. Also organizations have to balance *competing values*.

Empirically, I will identify espoused values through corporate value statements and what employees say about the values in the organizations that I will study. The enacted values I will identify from what employees say about the way they behaved in specific situations and through narratives of incidents that support or do not support the solutions strategy within the organizations that I will study. I will impute meaning to these values by interpreting whether the values emphasize building trusting relationships, focusing on individual action or something else altogether.

Research Method for change: I looked for evidence of the value change processes in the employee narratives about changes that were made to the value statements. Again through employee responses and narratives about key incidents, I evaluate whether the process has been successful in identifying new values, challenging employees' existing value commitments and building commitment to the new values. Through these employee responses, I evaluated if the process has been able to get them to commit or reject the new values. For evaluating the enactment of new values, I looked for stories from the employees about how they behaved in certain situations or how the organization was either influenced or not influenced by the new values.

Data collection: Data was collected through semi-structured clinical interviews. I collected data from employees at different levels, from different functions and having different levels of tenure. This data was about the corporate values, the changes made to them and the extent to which they did or did not influence the employee's behaviors.

Data analysis: To analyze the data that I have collected,

- I transcribed the interviews that I had recorded using One Note.
- I then tabulated in a matrix the responses of the interviewees for each question.

- From this matrix I identified themes that I interpreted based on the theoretical framework.
- From these themes I drew up patterns that confirmed and did not confirm the research that I had reviewed.
- These patterns were written up as data displays, vignettes and case studies for analyzing the link between values and strategy and for analyzing value change.

### ***Contribution to Research and Practice***

The contribution of this research to the field is that it is a building block to the existing research on values and strategy and value change. This research specifically deepens the understanding of the link between shared values and business strategy and value change. Also, as organizations strategically orient to solutions, understanding the link between values and strategy and value change has important lessons for practitioners too.

## Chapter 2: Linking Value Patterns & Strategy

*The right to believe in whatever we please is one of our most cherished freedoms. We tend to emphasize impersonal and rational values because they protect us from arbitrary uses of personal power. Thus any attempt to build shared values arouses suspicion. On the other hand, there seems to be an equally deep social longing for the sense of community that has been shattered by bureaucracy, a longing that creates an unresolved tension in many of our institutions.*

(Heckscher, 1988: 95-96: cited in Ashkanasy, Wilderom and Peterson, 2000: 52)

*This realization [continuing welfare is a global proposition that each of us is responsible for] leads to what might be called an "ethic of connectedness". But such an ethic seems to disappear ....., and in its place is the endless argument between the "ethic of caring", with its emphasis on collective action ..... and the "ethic of responsibility", with its emphasis on individual action .....*

(Bradley, 2007)

For the purpose of this research, values are defined as conceptions of the desirable (Parsons, 1968: 214; Kluckhohn, 1951:399). Where these conceptions are shared, they legitimate authority and mediate social exchange.

Much research has focused attention on the link between shared values in an organization's culture and its strategic objectives. Up to the 1980s this work focused on organization culture in the context of mass production of standardized products: they tended to emphasize "thick trust" values of loyalty and stable community (Heckscher, 1995; Kanter, 1994; Jackall, 1988; Whyte, 1951).

More recently a number of American corporations have attempted to develop capabilities that will allow them to respond to changing market conditions. Some organizations have attempted to strategically move towards offering products and services that are customized to customer preferences.<sup>1</sup> For achieving this solutions strategy, many companies have dismantled the shared values that supported thick trust informal community.<sup>2</sup> However, when it comes to the question of which values should replace the traditional set, the answer has been unclear.

Research since the 1990s points to two views on shared values that will support a solutions strategy. One view is that values are important primarily to motivate individual performance. Rational market driven outcomes are considered necessary for motivating individual performance and sufficient for building employee commitment (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1991).

Another view emphasizes a new and more flexible form of community. In this view, the shared values by themselves become the main objective and provide the basis for building trusting relationships necessary for organizational members to collaborate. Strategy, structure and work arrangements are influenced primarily by the shared values rather than by rational market driven outcomes. These companies too are focused on revenues and profits, but the shared values and not market driven rational outcomes are the main driver (Heckscher, 2007 and Heckscher & Adler, 2006).

An important distinction between these two approaches is that in the first approach, performance based on individual action is considered important for a solutions strategy. The second approach stresses interdependent contribution based on community.

Till the early 2000s, most corporations have attempted to use the first alternative: they attempted to build capabilities necessary for a solutions strategy through emphasizing shared values that motivate individual performance over shared values that motivate interdependent contribution. The approach here has been to break down existing shared values among employees through restructuring and making organizations more decentralized. Subsequently in some cases, senior management has emphasized new values aimed at motivating individual performance. This emphasis on performance has been through values that emphasize individual entrepreneurship and achievement (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1991).

However, there is recent empirical evidence that focusing on individual performance and ignoring community is problematic (Adler & Heckscher, 2006; Adler, 2001; Heckscher, 1994; O'Reilly, 2000). There is also empirical evidence that some successful organizations attribute their success to shared values for community. This unclear relationship between shared values, individual performance, interdependent contribution and solutions strategy is the overarching question that my research will address.

This research will attempt to deepen understanding of the link between shared values and a solutions strategy. This research will also examine the processes for effecting value change. For the purpose of this research, I will refer to “shared values” as values. The questions that will therefore be answered in this study are; what is the link between values and a solutions strategy? Also, which processes effect value change in organizations?

I will address here the range of views in the existing literature on three core questions concerning the role of values in the transformation of businesses: 1) Are shared values important for organizations? 2 (If so,) which values are important for solutions-focused organizations? 3) How should these corporations identify and build commitment to the new values?

### ***Are Shared Values Important?***

Many scholars have contended that shared values are an important component of an organization's culture that influences individual and collective employee behavior (Kotter & Heskett, 1992; Schein, 1985; Deal & Kennedy, 1982). Values have been defined as “conceptions of the desirable” (Parsons, 1968: 214; Kluckhohn, 1951:399) that set the standards for employee relationships in an organization. Values extend direct face-to-face interaction to the indirect interaction between the constituents of a large collective through the establishment of trust (Blau, 1967; Gouldner, 1960; Kluckhohn, 1951; Parsons, 1937/1951; Weber, 1947).

In this section I will draw on existing research to contend that values are important because they can support or retard the attainment of strategic objectives. (1) Values have been theorized as important for building commitment in a social unit. (2) There is empirical evidence starting from the Hawthorne Experiments in the 1930s that values influence workplace relations. (3) Research on change indicates that resistance from prior value commitments is an important reason for the failure of many change initiatives. (4) More recently, there is research which contends that certain values are necessary in the managing of knowledge work that is non-routine and structured around loosely coupled work processes.

Theories on values: Values shared within a corporation are an important component of an organization's culture (Kotter & Heskett, 1992; Schein, 1985; Deal & Kennedy, 1982). A recent theoretical view is that values are a crucial coordinative mechanism, in addition to markets and hierarchies (Heckscher and Adler, 2006; Adler, 2001; DeGeus, 1999; Nohria & Ghoshal, 1997; Heckscher & Donnellon, 1994; Powell 1990; Deal & Kennedy, 1982; Ouchi, 1980; Parsons, 1968; Blau, 1967; Gouldner, 1960; Weber, 1947).

In dynamic business environments, organizations have to create greater adaptive capabilities. Structural arrangements are not sufficient for creating these adaptive capabilities (Adler & Heckscher, 2006; Adler, 2001; O'Reilly, 2000; DeGeus, 1999; Nohria & Ghoshal, 1997; Heckscher & Donnellon, 1994; Deal & Kennedy, 1982). The problem with formal structural arrangements by themselves is that they do not motivate people to work together, quite often resulting in people focusing on their own jobs and staying within their sub cultures. Markets, on the other hand, are weak at supporting cross boundary collaboration since they erode the basis for shared activity. Thus shared values are needed in addition to formal organizational structures and market institutions to enable rapid coordination among independent actors.

Empirical research on values: The influence of community on work was examined as early



as the 1930s, during the famous Hawthorne Experiments conducted by Elton Mayo (Roethlisberger and Dickinson, 1946). In one of the experiments, the researchers attempted to evaluate the influence of financial incentives on productivity. Workers were given the task of assembling telephone-switching equipment. What the researchers observed was that productivity levels changed due to reasons other than financial incentives. Work was influenced by informal social relations that resulted in the formation of cliques, and by ideological relations based on shared beliefs and understandings of fairness. More recently, Kotter & Heskett (1992), in their research found that companies that had adaptive corporate cultures, based on consistent values of responsiveness to stakeholders, performed well over long periods. Appelbaum & Batt (1994) analyzed innovations in work systems in US industry since the 1990s. They found two models of High Performance Work Systems (HPWS). One American Team Production (ATP) that emphasized value-based community and the second, American Lean Production (ALP) that did not. According to them both systems showed impressive results. However, ATP truly moved away from the hierarchical centralized system. According to them, the ATP provides employees with greater discretion and depends on a fit between the human, social and technical work aspects of the work system. O'Reilly & Pfeffer (2000), based on case analysis at eight corporations contended that a values-led approach characterized corporations that consistently performed well over the long run. Some of the companies that they studied were NUMMI, Southwest Airlines and CISCO Systems. According to them, these companies succeeded because they had well-articulated core values. These values were widely shared, and acted as the core foundation of the management practices that build the core capabilities. The values were used as a litmus test and cornerstone for the implementation of management practices, including hiring fit, investing in people, widespread information sharing, team based work systems, and rewards and recognition.

Values & Change: The importance of shared values is also evident in the change literature.

One view is that quite often change fails due to resistances based in the existing value system (Hammer & Champy, 1996/2003; Hammer, 1990; Womack, Jones & Roos, 1990). For lean manufacturing, employee involvement (EI) and total quality management (TQM) to succeed, the informal values that supported mass production have to be dismantled. This is an important starting point for change initiatives that manifests itself in de-layering and re-engineering.

Another view is that after dismantling the hierarchical values, it is important to rebuild commitment in the workforce to implement lean manufacturing, employee involvement (EI) and total quality management (TQM) (Heckscher & Adler, 2006; Hammer & Champy, 2003; Beer, 2002; Zell, 1999; Creech, 1994; Kotter & Heskett, 1992; Beer, 1990). The reason for this is that employees have expectations from each other based on the informally shared hierarchical values. These expectations are based on the previous values, and provide a basis of trust for existing employees. The structural changes do not square with the expectations that employees have based on existing values. So while the employees may understand their new roles within the changed structures, their previous value commitments makes them behave in a way that is not consistent with the goals of lean manufacturing, EI and TQM. The founding values may have in the past provided a form of trust specific for mass production; however, in the present, these values retard the shift towards customized solutions.

Another view is that values are important because sustained change requires employee commitment (Heckscher & Adler, 2006; Beer, Eisenstat & Spector, 1990/2002; Beer & Nohria, 2000; Kotter & Heskett, 1992). Often change fails because there is a lack of commitment to the change initiative. Corporations that have restructured and reengineered their work processes are faced with two problems. The first is that during the 1990s, change events were initiated by mass layoffs. The layoffs eroded the basis of community that existed within the organization. As a result the basis for employee involvement, within and across departments, which has been an

important goal of these change events, also became weak. The expectations of survivors of these change events were different from the expectations of the employees who joined the organization after the layoffs. Sub-cultural divides developed between old and new employees.

Structural change has been mostly implemented in a top-down manner. This approach has only worsened the problem of lack of community, and therefore, the inability for widespread collaboration for customized solutions.

Weber (1947) and Blau (1967), contend that values determine social processes by their power to legitimate authority. According to Adler & Heckscher (2006) within thick trust bureaucratic organizations, authority is legitimated by charisma and tradition that emphasizes rational legal values.<sup>3</sup> This legitimacy is built around leaders and handed-down tradition. Within thin-trust market-focused organizations, authority is legitimized by rational-legal processes such as honoring contracts. They have also focused on a third type of legitimacy, mentioned but not fully developed by Weber, and in which, authority is legitimated through Value Rationality. What this means is that authority is legitimized through members of a social unit sharing values that are viewed as an end in itself.

Finally, some argue that a community based on values is essential for organizations pursuing a strategy of customized solutions (Heckscher, 2007; Adler, 2001; O'Reilly et. al., 2000; Nohria & Ghoshal, 1997; Prahalad & Hamel, 1990). In this view, community based on interdependent values, more than structures and financial incentives, is a primary motivator for cross boundary collaboration.<sup>4</sup> Heckscher & Adler (2006), whose theory is from this stream and will be one of the theories informing this thesis, predict that success in making the strategic shift from mass production to customized solutions requires replacement of an ethic of loyalty with an ethic of contribution.<sup>5</sup> The Collaborative Community is different from traditional thick trust community, in that it provides a basis of collective purpose without the reliance on stable

positions and role. At the same time it is different from a performance-based community in that, while it frees the individual, it also provides a basis of shared purpose.

### ***Some Problems in Assessing Value Patterns***

Although these major research streams agree on the general importance of values for human action, they often disagree about how to assess them. Several key difficulties confront researchers in this field.

Espoused and In use values: In general, research has consistently revealed that what organizations say is often very different from what they do (Heckscher, 2007; Cameron & Quinn, 2006; Heckscher & Adler, 2006; Dougherty & Hardy, 1996; Heckscher, 1995; Brown & Dugid, 1991; Beer et. al., 1990; Jackall, 1988; Schein, 1985; Peters & Waterman, 1982; Argyris & Schon, 1978; Merton, 1958). Rational bureaucracies that were meant to achieve rational ends through impersonal relations have been found to be irrational and possess informal personal relations (Heckscher, 1995, Kanter, 1994; Jackall, 1988). Formal work practices have been found to be different from the informal work practices that are actually used for solving problems (Heckscher, 1995; Brown & Dugid, 1991).

Similarly, within any goal-oriented social unit, values exist at two levels: values espoused by its' members and values in use by its' members (Argyris & Schon, 1978; Kotter & Heskett, 1992; Schein, 1985). Argyris & Schon (1996/1978) are among the first and most influential to make this distinction. Schein (1984) conceptualized values existing at a level in-between the deepest held assumptions and between the visible artifacts. These values were in some cases only talked about and in other cases guided routine interactions in the organization. Heckscher (1994) in his empirical examination of successful organizational change found that employees often expressed one set of values but their actions were often motivated by a different set of values.

Competing values: Values may also need to confront tensions among motivations (Heckscher, 2007; Heckscher & Adler, 2006; Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Adler, 1999; Trice & Bayer, 1993; Kotter & Heskett, 1992; Denison, 1991). For example, an organization's value pattern often needs to resolve tensions between internal and external focus, or between flexibility and efficiency (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1991). Others note a tension between values of stability and adaptiveness (Kotter & Heskett, 1991). Also different groups may have differing values within a single organization, which then needs to find a way to resolve the conflicts (Trice & Bayer, 1993).

### ***Types of Value Pattern***

If we accept that values are significant for the success of business organization, the next question is: What kinds of values help in the transition to solutions-based strategies?

Beyond the general importance of values in human action, there are important debates on the particular value patterns that are appropriate to particular organizations or strategies. Based on the literature, I will outline *a priori* three values patterns: (1) Clan, (2) Performance and (3) Collaborative patterns. Each of these three patterns combines multiple more specific values. This will provide a framework, for examining the link between values, individual action and collective action and the process of value change in an organization.

A central distinction is between collectivist and individualist value patterns. A collective orientation requires subservience of the self to the social system. On the other hand, an individualist orientation frees members of a social unit from subservience to the group. The former, while giving a strong sense of community, often is stifling; the latter while being liberating, does not provide a basis of community.

The Clan value pattern, espoused by many scholars and managers, is primarily collectivist;

the Performance value pattern is primarily individualist. The Collaborative pattern tries to overcome this divide by providing a basis for trust among highly independent actors pursuing a common objective.

Values Mediate Social Exchange: These values can vary on two ends of a single dimension.<sup>6</sup>

The first end is Particularistic. This simultaneously unites members and creates segregating boundaries. Typically these values create thick trust community that is found in collectivist societies and in bureaucratic organizations. The second end is Universalistic. Here values provide universal agreement in a community on a standard of value that can be used by the members of a social unit to compare attributes. These values are typically those found in social organizations that are dominated by the principle of markets and have thin trust.

### The Clan Value Pattern

*"The difference between a hierarchy – or bureaucracy – and Type Z is that Z organizations have achieved a high state of consistency in their internal culture. They are most aptly described as clans in that they are intimate associations of people engaged in economic activity but tied together through a variety of bonds.... In a clan, each individual is also effectively told to do just what that person wants. In this case, however, the socialization of all to a common goal is so complete and the capacity of the system to measure the subtleties of contributions over the long run is so exact that individuals will naturally seek to do that which is in the common good".*

(Ouchi, 1981: 83-85)

Kotter & Heskett (1992) based on empirical evidence found that organizations that consistently performed well over 10 years were those that were able to develop a core set of values for guiding routine activities and concurrently develop adaptive values for guiding non routine activities attuned to multiple stakeholder demands.

Weber (1947) conceptualized the bureaucratic organization as a tool for rational efficiency. A number of researchers have since contended that at the informal level, there existed a set of values that were different from the intended value of rational efficiency, centered instead on

loyalty, conformity, and deference (Heckscher, 1995; Kanter, 1994; Jackall, 1988; Whyte, 1951). I use the term “clan value pattern” for this constellation. These values provide a basis for informal trust that emphasized a collective orientation in which compliance to social norms set the standards for relationships in the organization.

Merton (1983) noted how non-rational values supplanted the value of rational efficiency within bureaucratic organizations. According to him, bureaucracies in Weber’s conceptualization were meant to be as a structural arrangement, based on impersonal relationships that would result in rational outcomes. What they also did was to separate the worker from the instruments of production. Rules that were intended as intermediate means to an end, mutated into an end by itself – “an instrumental value becomes a terminal value” (Merton, 1983: 197).

Jackall (1988) provides additional insight into bureaucratic organizations. According to him, the form that developed in US was a mix of Weber’s pure bureaucratic form and patrimonial bureaucracy – within which, personal loyalty and not loyalty to an office was the norm. Within the patrimonial system, the subordinate has to (1) symbolically reinforce his subordination (2) willingly accept obligations of fealty (3) hope to be elevated if his boss is elevated (4) be protected by his boss for his mistakes.

Kanter (1994) examined the role of managers in a prominent US bureaucratic organization during the 1970s. She found that there is a normative compulsion towards social conformity and homogeneity. . This tendency, according to Kanter, emerges from the uncertainty in the working environment combined with the need to work together based on trust. Trust in this firm was built around traditional forms of loyalty to the corporation was an attribute expected of managers.

Heckscher (2007, 2003; 1995) and Adler & Heckscher (2006) contend that in bureaucratic organizations, community emerges through the sharing of a set of informal values that are

different from the formal espoused value of rational efficiency.. Within bureaucratic organizations the three values are hierarchical autonomy, routinized conformity, and loyal deference. Hierarchical autonomy relates to organizational boundaries are valued, ensuring exclusivity and turfs that need to be protected. Individual jobs are seen as “owned” by their incumbents, with the goals for the job set by the hierarchical superior. Autonomy is protected and maintained through hierarchical distinctions, in which boundaries and turf are clearly defined and conflict is avoided. Where there is conflict, the resolution is undertaken by referring it to the appropriate level. The second value, routinized conformity, relates to employees working on standardized tasks, by following policies and procedures handed down from the top. Following rules and procedures was important during the course of executing routine tasks. Improvements in the work design were left to the higher ups, and were not part of the duty of the employee. The third value, loyal deference, relates to the subsuming of one’s own initiative and aspirations to the organizational identity. Deference to authority and conformity to traditional way of doing things, were central to this value. It took the form of loyalty to the organization and obedience to the boss. In return for the loyalty, the employee would be protected for inadequacies and shortcomings. If the boss was promoted, the subordinate hoped to also partake in the gain, and if the boss made a mistake, then the fault would lie with the subordinate.

Ouchi (1982) used the term “clan culture” (or “Theory Z”) to describe values he observed in successful Japanese and American companies. Clans are based on high state of consistency in their internal culture. The clan culture requires trust, which depends on subtle informal relationships that emphasize security and holistic concern.

### **The Collaborative Value Pattern**

*We argue that in the last few decades, a form of community -- we call it collaborative community -- has emerged that points the way beyond the classic antinomy of*



*individual vs. collective, of tradition vs. freedom, of Gemeinschaft vs. Gesellschaft, and begins to embody the intuition behind Durkheim's notion of "organic solidarity."*

(Adler & Heckscher, 2006: 13)

Heckscher (2007) contends that values which support an ethic of contribution are necessary for customized solutions. The highest form of this ethic is supported by the value of interdependent contribution. Within this, employees view their job as a contribution to a shared mission, and to the success of others who work towards that mission. However, there are other researchers that emphasize different values for customized solutions. In this alternative view, the strategic orientation towards customized solutions can be achieved by emphasizing the value of individual performance. (Cameron & Quinn, 2006; Womack & Jones, 2003; Hammer & Champy, 2003/1994; Womack, Jones & Roos, 1990; Denison, 1990). This is generally accompanied by restructuring aimed at breaking away from the existing Clan values.

A consistent theme among some employees at the two primary research sites, which I will describe in more detail in the next chapter, MTS and J&J, was a desire to bring back the old sense of community, which they equated to the Clan values that they had experienced in the past.

The Collaborative value pattern: Heckscher and Adler (2006) contend that over the last two decades, organizations within modern societies are increasingly witnessing the emergence of collaborative communities, which are distinctly different from the patrimonial bureaucracies of the past in which trust was based on a social contract of job security and loyalty. Within the collaborative community, a new reconstructed form of trust becomes the important mechanism for people to work together. Sociologists have traditionally characterized communities as having either thick or thin trust (Adler, 2001; Sabel, 1992; Powell, 1990). Thick trust communities emphasize collective orientation of their members while thin trust communities emphasize an individual orientation of their members. However, according to Heckscher & Adler (2006),

within the collaborative community, trust takes on an interdependent form that is both thick and thin.

Reconstruction of Trust & Social Exchange: Traditionally, community has been subservient to hierarchies and markets during the mass production era. However, this arrangement has its limitations in organizations shifting to customized solutions. Markets, while highly adaptive, restrict the ability of working towards a common purpose. Hierarchies can do a very good job at working towards a common purpose; however, they do not do a good job at being adaptive. Heckscher & Adler (2006) contend that for customized solutions, collaborative community plays a dominant role as an organizing principle. The values that construct this trust are oriented neither towards individual initiatives, nor towards mass subordination working together. Instead, these values are oriented towards an interdependent form of contributing to a common purpose.<sup>7</sup>

This trust emerges not from accidental relationships, but through deliberate mechanisms that attempt to construct shared experiences in the day-to-day work within and across departments.<sup>8</sup> Trust here is based on the shared expectation that individuals will consistently behave in a way that reconciles competing value expectations of the self, peer and the collective of which they are a member.

Heckscher (2007) contends that one form of the collaborative community is visible in “Level 4” organizations that are both complex and adaptive. Their complexity emerges from attempting to simultaneously compete on multiple strategic domains, such as product, customer and geography. Their adaptiveness emerges from having a long-term view of changing stakeholder needs and providing solutions for those needs. Such organizations that are attempting to be both adaptive and complex require a social infrastructure of shared values. Shared expectations emerge not from loyalty to a person nor the expectation of following certain laws; instead, the

shared expectations are built around commitment to a common mission.

*Exhibit 2.1: Comparison of Bureaucratic Organizations and Collaborative Community*

	<b>Bureaucratic</b>	<b>Collaborative</b>
<b>Organizing Principle</b>	Hierarchies	Community
<b>Trust</b>	Thick	Thick and Thin
<b>Values</b>	Particularistic	Particularistic and Universalistic / Interdependent
<b>Legitimizing Authority</b>	Charisma	Value Rationality
<b>Individual Character</b>	Self tied to status	Self that is interdependent
<b>Particularism</b>	High	High
<b>Universalism</b>	Low	High
<b>Community</b>	Of Loyalty	Of Contribution

Source: Heckscher & Adler (2006) *The Firm as a Collaborative Community: The Reconstruction of Trust in the Knowledge Economy*. NY: OUP.

3 Collaborative Values: So what is the alternate to the value patterns that support a “Clan view” that Adler & Heckscher (2006) proposes? Developing collaborative capabilities requires the creation of a community of purpose, in which the shared values support an ethic of contribution. It is from here Adler & Heckscher (2006), Heckscher (2007) discern the form of collaborative values that are a break with the patrimonial values of bureaucracies. Their theoretical conceptualization and recent empirical research point to three values that would be core for the collaborative community members.

- 1) *Interdependent contribution:* The ethic of contribution is not duty-bound compliance to completion of one’s own routine tasks within the division of labor. Instead, an individual is expected to define contribution towards both the organizational goals and collegial success.
- 2) *Open dialogue:* This value replaces hierarchical autonomy in which boundaries and turf are clearly defined and conflict at work is avoided. Open dialogue provides the basis of an accountability system in which individuals are expected to share information freely and negotiate solutions that are mutually beneficial for all stakeholders.

- 3) *Diversity and openness*: This value replaces loyal deference to tradition. Central to the new value is the expectation that multiple stakeholders will be involved in building mutual understanding, among stakeholders that have competing interests. For the purpose of this research I term this as the Collaborative Value Pattern.

*Exhibit 2.2: Types of Values*

	<b>Clan</b>	<b>Performance</b>	<b>Contribution</b>
<b>Value 1</b>	Hierarchical autonomy	Entrepreneurship / Initiative	Open dialogue
<b>Value 2</b>	Routinized / conforming duty	Individual achievement	Interdependent contribution
<b>Value 3</b>	Loyal deference		Diversity

**The Performance value pattern**

*“Unlike markets or hierarchies, adhocracies do not have centralized power or authority relationships. Instead, power flows from individual to individual or from task team to task team, depending on what problem is being addressed at the time. Emphasis on individuality, risk taking, and anticipating the future is high as almost everyone in an adhocracy becomes involved with production, clients, research and development, and other matters”.*

(Cameron & Quinn, 2006: 44)

In this section, I will introduce an alternative to the Clan and Collaborative value pattern based on the existing research, which I call the Performance value pattern. For this I draw on the research of Cameron & Quinn (2006), Zammuto, Gifford and Goodman (2000) and Denison (1990). According to these scholars, creating solutions that are customized to changing stakeholder demands require a shift from a collective focus, as in the Clan approach, to a focus on individual performance.

Cameron & Quinn (2006) and Zammuto, Gifford and Goodman (2000) develop a Competing Values Framework that defines four cultural types. They developed two main dimensions of organizational effectiveness. (1) The first dimension is effectiveness based on flexibility, dynamism and discretion versus stability, order and control. (2) The second dimension is

effectiveness that emphasizes internal orientation, integration and unity over external orientation, differentiation and rivalry. They identify four cultural forms: Clan, Markets, Adhocracy and Hierarchy. According to them, two cultural forms Adhocracy and Markets are representative of cultures that are externally focused and adaptive. Both the Market and Adhocracy cultures are focused on individual performance in the sense that I use it. Markets operate mostly through monetary exchange and emphasize expectations of meeting individual targets. This is a culture in which profitability and bottom line is the key. Adhocracy also emphasizes entrepreneurship and creativity. These cultures are responsive to hyper-turbulent ever-accelerating organizational world. Individuality and risk taking are important. There is constant commitment to experimentation. Cameron & Quinn (2006) see community as being primary in the Clan culture. Their view is that community helps in some limited flexibility that is focused internally and not the type of flexibility required for a strategic orientation towards solutions.

Denison (1990) defines four cultural patterns: Involvement, Consistency, Mission and Adaptability. Of these, the Adaptive type is closest to what I am calling Performance: it stresses entrepreneurship/ initiative and individual achievement Involvement and Consistency are closest to what I am calling Clan, stressing predictable routines and internal cohesion; he does not find evidence that these lead to good organization performance.

The place where Denison diverges most from the framework I have put forward is around the Mission pattern. He sees Mission as valuing working towards shared goals, as do Heckscher and Adler (2006), but unlike them see it also as contributing to stability, and not to an adaptive solutions strategy.

The view of Cameron & Quinn (2006), Zammuto, Gifford and Goodman (2000) and Denison (1990) is that values which motivate individual performance are best for a solutions strategy. This is different from Heckscher & Adler's (2006) view that trusting relationships based on shared

values are crucial to a solutions strategy. For a strategic shift from mass production to customized solutions Cameron & Quinn (2006) and Denison (1990) contend that a focus on organizational performance through individual employee involvement is needed. Both the scholars consider community as a negative because it is focused internally and promotes consistency.

This view is consistent with change attempts since the early 1990s that emphasized a value individual achievement, independent of community as being primary (Hammer, 1990; Hammer & Champy, 1994; 2003). . This value sets an expectation that people will excel as individuals, meeting and exceeding targets and is associated with a competitive mindset focused on winning. Another value emphasized is the value of entrepreneurship / initiative. The value of entrepreneurship / initiative emphasizes individual initiative through greater employee control of their job and individual risk-taking. This employee initiative is achieved through decentralization and emphasizing the values of competitiveness and productivity.

In the following section, I will examine the question of, how value change is influenced and effected in solutions organizations. I will review theories of change from the existing research.

### *Value change process*

The Organizational change literature provides two primary models on the internal dynamics of change.<sup>9</sup> The first is the top down leadership approach to change, and the second is the bottom up employee driven spontaneous change.

#### *Top down change process*

The top down approach to change has a larger set of research available and is represented in the leadership approach, the strategic approach and in the contingency approach to change (Kotter and Heskett, 1992; Atkinson, 1990; Maccobby, 1976; Lawrence & Lorsch, 1968; Chandler, 1962). The need for structural and cultural change due to environmental pressures, is mostly

recognized by the higher levels of the organization, and articulated by leaders, through strategic planning, and the top down implementation of policies and programs. Where lower level employees recognize the need for change, they pass the information up to their higher ups. The higher ups design and decide on the change that is necessary.

Over the last two decades, there have been a number of initiatives recommended for making the transition from mass production to customizing solutions (Heckscher, 2007, Adler & Heckscher, 2006; Cameron & Quinn, 2006; Hammer & Champy, 2003/1994; Beer & Nohria, 2000; O'Reilly & Pfeffer, 2000; Zell, 1997; Heckscher, 1995; Davenport, 1993; Kotter & Heskett, 1992; Beer et. al., 1990; Womack, Jones & Roos, 1990). Categorizing these initiatives is not an easy task.

- (1) One that has been widely publicized, especially through media is the focus of senior management on improving cost efficiency, and return on investment through, organizational restructuring. One objective of the restructuring effort has been to reduce the number of layers in the organization by mass layoffs. Another objective has been to support adaptiveness through decentralizing the organizational structure.
- (2) Over the last decade, re-engineering is another approach that has been attempted to make the shift to customized solutions by reorganization of work processes towards more decentralized, loosely coupled work systems. This approach has mostly been implemented through redesigning the work system and layoffs. Though the intended result is more decentralization and local initiative, the change process is ordinarily driven from the top of the organization.

Both of these approaches have become synonymous with layoffs and simplifying of the organizational structure and work process (Cameron & Quinn, 2006; Cohan, 2003; Hammer & Champy, 2003; O'Reilly III et. al., 2000; Zell, 1999; Kanter, 1995; Heckscher, 1995; Davenport,

1994; Appelbaum and Batt, 1994). One of the objectives of this effort is to break down previous value commitments shared by employees. Because of the focus on cost effectiveness the impact of this is also immediately felt on the stock market with stock price increasing.

However, these change events that have appeared successful in the short term with improvement in cost efficiency, have not been able to persevere in the long run (Heckscher, 2007; Heckscher & Foote, 2006; Cameron & Quinn, 2006; Beer et. al., 2002/ 2000/ 1990; O'Reilly III & Pfeffer, 2000; Greenwood and Hinings, 1996). Specifically Beer et. al. (2002/1990 a, b), contends that programmatic change from the top suffers from the *Fallacy of Programmatic Change*. Programmatic change, since it is mandated from the top, fails at creating commitment within the workforce. These change efforts therefore, remain espoused and fail to build commitment and influence employee behaviors at the workplace. Also, what this approach does is also fragment the basis of trust needed for employees to collaborate (Heckscher, 2007; Beer et. al., 2000; O'Reilly III & Pfeffer, 2000; Kanter, 1996; Heckscher, 1995).

### **Bottom Up Change Process**

The alternate to the top down approach is the bottom up change process, which is based on the premise that change should be driven by the employees from the bottom up since they are closest to the problem and therefore should be allowed to self manage their work (Heckscher & Foote, 2006; Beer & Nohria, 2000; Heckscher, 1995; Trice & Beyer, 1993; Seely Brown and Dugid, 1991; Beer et. al., 1990). In this approach, employees from the lower levels are expected to take the lead in quality improvement, work re-design and problem solving in a workplace that has been changed through restructuring of work processes and employee layoffs (Heckscher & Foote, 2006; O'Reilly III et. al., 2000; Beer & Rogers, 1997; Zell, 1997; Davenport, 1995; Kotter & Heskett, 1992; Eisenstat and Spector, 1990). These change efforts are driven by the expectation that employees will independently collaborate, make decisions and solve problems in response to



strategic goals of the company and the changes in the marketplace.

The approach that has received much academic and practitioner attention in the bottom up approach is the team approach to Total Quality Management and Lean Manufacturing. However this team approach too has met with limited success (Beer, 2003; Zell, 1997, Applebaum & Batt, 1994; Creech, 1994). One of the problems is that employees lack the skills and leadership to successfully effect such change. These scholars also find that since employees lack a complete picture of the organization they tend to focus on their own jobs. Heckscher (1995) in an analysis of the after effects of restructuring found that middle managers focused more on their own separate jobs. As a result of this organizational silos did not disappear and instead became more severe. According to the author this happens because employees withdraw from the unfamiliar environment, and focus on their respective jobs, in the hope that no one can find fault with their work.

Heckscher & Adler (2006) contend that collaboration and self management in a workplace changed by restructuring requires the reconstruction of trust jointly through public dialogue. Where there is no attention paid to reconstructing trust among surviving members previous value commitments would retard the effectiveness of value change attempts. On the other hand, new members will subscribe to their own set of values or revised versions of the existing values. If anything, the boundaries created by the division of labor will become more sharply emphasized. Also, the pathologies of the earlier values that the change effort was to solve do not disappear and continue to undermine future change attempts.

Researchers are now contending that the bottom up change process has limited success in the long term (Heckscher, 2007; Heckscher & Foote, 2006; Beer et. al., 2002/1990/1990; Beer and Nohria, 2000; Beer & Rogers, 1997; Kotter & Heskett, 1992). Specifically Kotter and Heskett (1992), contend that bottom up change suffers from the *Bounce back effect* in the long term. The bottom up

approach lacks legitimacy and therefore is not sustainable. This is due to the fact that those at the bottom do not have an overall comprehensive view of the forces affecting the whole organization.

### **Interactive Change Process**

Interactive Theory of Change: There is an influential stream of research that looks at change as an integration of the bottom up and top down approach (Heckscher *et al*, 2003; Heckscher & Foote, 2006; Beer, 2003; Beer *et. al.*, 2002/1990; Beer & Rogers, 1997; Beer *et. al.*, 1990). This integration is through a dialogue, held in the public domain, aimed at building shared values and task alignment. In this approach changing employee behaviors depends on the legitimacy sourced from the value commitment among employees.

Beer *et. al.* (2002/1990 a/ 1990 b) identifies 6 steps that comprise a *Critical Path* necessary for corporate renewal. This change process is cyclical in which both top and bottom levels jointly identify business related problems and define a vision for the organization. Commitment is created through a wider dialogue between the different levels of the organization; especially those parts of the organization that show a level of dissatisfaction and therefore commitment to the existing work systems. This results in cross boundary coordination and also in the development of competencies.

While Beer's (2002/1990) treatment is around business problems, Heckscher & Adler's (2006) treatment relates to the issue of reconstructing trust, based on values that support the ethic of contribution. For these new values to legitimate authority and mediate social exchange, they have to be designed and debated publicly between different levels of the organization. This dialogue helps to build commitment to the new values since it helps, (1) clarify the new values espoused by the top management. (2) Also, commitment to the values will emerge where such dialogue results in changes to the new values defined by the top management team. (3) To break away from the bureaucratic values of the past, these change attempts have to bring in the outside

through a dialogue between multiple stakeholders. (4) Finally, the change process models interdependence is not around the division of jobs only but around members of the organization jointly constructing and committing to the shared values.

To clarify and reformulate the collaborative values, this change process hinges on three steps. (1) It will have to bring in a larger number of discussants from outside into the dialogue. So unlike in the past where, the founders of an organization defined values, here multiple stakeholders define values jointly. (2) Even though, a large number of discussants may enter into the dialogue, the process should enable members to express their views freely. For this, the process has to challenge the hierarchical deference paradigm of the bureaucratic past, so that a free and fair dialogue can take place. (3) Finally, the modeling of interdependence between employees will require experimentation with the new values in conflict resolution and decision-making.

Any attempt to effect value change could be stymied by, the emergence of multiple values in use<sup>10</sup>. This is essentially because employees may be formally socialized into a new set of values, but has to live in an environment where there is weak commitment to the new values and the bureaucratic values continue to be yearned for by surviving employees. Any attempt at change that intends long term permanence, needs to adopt a change process that is different from what has been attempted in the past.

Based on the research reviewed above, I have hypothesized a three steps process for effecting value change in bureaucratic organizations making the strategic shift to solutions.

- (1) The first step is the discussion and identification of values between multiple stakeholders who share some values and do not share some values.
- (2) The second step will involve the overcoming of value commitment to the existing values. Specifically, the process will challenge commitment to previous values that will

otherwise resist the new values.

- (3) Finally, the enactment of these new values will emerge through building commitment to new values. This value commitment will be reflected through what employees say, through experiences in conflict resolution and decision making and through events that are influenced by new values.

In the next chapter I will present the methodology used for collecting and analyzing data on the link between the value patterns and strategy and the process for effecting value change.

## Chapter 3: Research Method

### *Positivist & Interpretive Approaches*

Researching a topic like values faces the same challenges as those faced by research on organizational culture. The first challenge is which of the two ontological approaches should be used for conducting research on values. The two fundamental approaches to choose from are the positivist approach, which views human action as determinate and predictable through algorithms usually based on rational self-interest; and the interpretive approach, which sees human action as voluntaristic and focuses on understanding rather than prediction. Though there is not a one-to-one correspondence between these views and particular research methods, in general the positivist view leads to the use of surveys for hypothesis testing and the interpretive approach uses qualitative methods for theory building.

### *Positivist: Survey Based Research*

The positivist approach stresses the objective distancing of the researcher and subject. Researchers from this tradition have used surveys to study values (Cameron & Quinn, 2006; Bilsky & Jehn, 2002; Schwartz, 1992; O'Reilly and Chatman, 1986; Rokeach, 1973). Survey research conducted through the distancing of researcher and subject tends to focus on the response to the survey items. This is a problem for my research since the respondent may attribute a different meaning from what the researcher intended while responding to a survey item. Therefore, the researcher may find it difficult to achieve an interpretation of the responses given to surveys. For example, an item that states management is willing to take a chance on a good idea may be interpreted differently by different people. People may agree that management is ready to take a risk, but the interpretation could be that some consider management too aggressive, while others consider them to be professional and yet others may consider them to be short sighted. Quantitative measures achieve objective evidence of risk taking, but they do not provide interpretative value behind the risk taking evaluation by the respondent (Rentsch, 1990). This

quote is taken from the same scholar's article that appeared in the Journal of Applied Psychology.

*"Meaning in culture research continues to be studied with qualitative methods, and a generalizable quantitative method for assessing meaning in organizations has yet to be developed" (Rentsch, 1990: 669)*

Another problem with this approach for my study is that it assumes there is a universal framework through which values and culture can be researched based on a priori hypothesis. Some researchers contend that each culture is distinctive and therefore, a survey based research method will have its limitations (Martin, 2002/1991; Beyer & Trice, 1993). Specifically for my research I am looking for value patterns that will either confirm or surface an alternate to the two value patterns for solutions organizations that I have reviewed based on existing research in the theoretical framework in chapter 2.

### **Interpretive: Qualitative Research Based Approach**

Researchers who follow an interpretive approach contend that it is important to understand the meaning of what respondents say – what Weber (1947) called “verstehen”. This view contends that human beings cannot be studied in isolation of their meaning and the social situation under study (Hatch & Y’anow, 2002). Typically, the interpretive approach uses qualitative methods such as interviews, participant observation and documentary evidence to achieve this end.

Interpretation of the meaning of the values that respondents express is essential for my research since the focus here is on understanding the substantive content of the values as a standard that governs social interactions in organizations that are oriented to a solutions strategy.

Smelser (1965) contends that the researcher has to locate values in relation to the social system:

*“...it [values] refers to an aspect of social action which is not physically and*

*temporally isolable. Therefore the social scientist cannot simply identify values as things which are given in nature; rather he must impute values to social systems".*  
(Smelser, 1962:26)

## **Research Design**

### **Research Design: Etic and Emic Approaches**

The epistemological approach for my study of values will again draw from methods used to study culture. Here, both the researcher and the native within the culture that is being studied jointly construct the meaning of the culture being studied (Barley and Kunda, 2001; Trice & Beyer, 1993; Schein, 1985). Within this approach, it is not just the researcher who is accorded the status of expert, but the knowledge of the local actor is part of the creation of knowledge. The fieldwork should be able to inductively generate emic concepts, based on the views of the native in the culture being studied. It should also be able to generate etic concepts that are removed from the native's point of view and identified *a priori*.

*"...as certain motivational and cognitive processes are repeated and continue to work, they become unconscious. They can be brought back to awareness only through a kind of focused inquiry, similar to that used by anthropologists. What is needed are the efforts of both an insider who make the unconscious assumptions and an outsider who helps to uncover the assumptions by asking the right kinds of questions" (Schein: 1984:4)*

Schein (1985) proposes a clinical iterative interview approach conducted by a joint effort between an insider and an outsider for studying culture. The insider can correct interpretations made by the outsider and the outsider must help provide new insights that explain cultural phenomena for the insider. The outsider must get the cooperation of the insider for understanding the meaning of the work to the insider. This is a clinical approach that requires the adoption of techniques that are strong on descriptive accuracy and also allow comparative analysis.

The interview approach also bridges the need for emic and etic concepts by playing the role of a learning process in which cognitive distance and proximity reinforce one another.

*"The interview represents a focal moment in the pursuit of knowledge, not as a method designed to evict subjectivity, but as a course to knowledge through structured inter-subjective exchanges. The capacity for selection and interpretation is part and parcel of that process. While the findings of ethnographic research cannot be generalized, those of quantitative analyses are often generalized without any attention to meaning." (Fernandez-Kelly, 2005:27)*

### **Research Design: Reflexive & Action Oriented Approach to Qualitative Research**

Qualitative research methods help in providing interpretation to viewpoints of subjects being examined but, it has been faulted as not being objective in its descriptive accuracy. Defining objectivity through detachment suffers from two problems (Heckscher, Maccoby, Ramirez and Tixier, 2003). The first problem is it does not help in planning action, since it is difficult to move from analysis of a system to recommendations for future directions of that system. What may be true in a scientific study is often untrue in action. The second problem is that patterns do not get repeated. Human beings tend to act in unexpected and unprecedented ways. Knowing and understanding is a subjective process that is arrived at through the subject acting, interacting and interpreting the situation and therefore, the context specificity of knowledge is important (Hatch & Y'anow, 2002).

My research design, data collection and analysis has been driven by an action oriented and reflexive research approach. This approach attempts to construct knowledge that is parsimonious, based on finding evidence that supports existing theory, and where possible allows for imaginative reconstruction of theory to accommodate anomalies, based on disconfirming data patterns (Heckscher, 2007; Burawoy, 1998; Miles & Huberman, 1994; Schein, 1985). For uncovering the unconscious assumptions of the insider, the action-oriented approach takes the view that understanding meaning in a system requires not just watching the system but to also interacting with the system (Heckscher et. al., 2003, Hatch et. al., 2002; Trice & Beyer, 1993). This approach recommends full engagement, of which the first part is intervention that is not expert in nature but that is interactive in nature. The second is a systemic investigation that



attempts to touch every aspect of the various relationships. And finally, taking a perspective that understands the actor's sense of identity and a vision for the future role of the actor.

### **Research Design: Comparative Design**

The current research uses two core cases and 9 secondary cases to provide a comparative base. Barley & Kunda (2001) and Miles & Huberman (1994) contend that comparative research design using multiple cases are needed for integrating theories of work and organizing them on the lines of similarities and differences.

*"Multiple-case sampling adds confidence to findings. By looking at a range of similar and contrasting cases, we can understand a single-case finding, grounding it by specifying how and where and, if possible, why it carries on as it does. We can strengthen the precision, the validity and the stability of the findings."* (Miles & Huberman, 1994: 29)

### **Research Design: Disconfirming Evidence to Qualitative Research**

Conclusions emerge over the course of the research project based on evidence that confirm the propositions developed (Barley & Kunda, 2001; Miles & Huberman, 1994). However, Heckscher (2007) contends that evidence that disconfirms the existing propositions needs attention too. Such disconfirming evidence can lead to rejection of the hypothesis, modification, or refinement. The design of research should move beyond looking only for data patterns that support the propositions, and data that does not support the proposition and therefore, rejects the propositions. Instead there is a third option that such disconfirming data patterns need to be used for further refinement or modification of the proposition.<sup>11</sup> This is in line with qualitative methods that view conclusions based on an iterative research design between conflicting data and theory (Burawoy, 1998; Miles & Huberman, 1994; Schein, 1985). In this approach the researcher checks and rechecks the working theory against new evidence. The aim is to detect and potential disconfirming evidence and to explain this evidence. If the discrepancy is not resolvable through the existing theory, then the theory itself has to be subsequently modified.

Examples of this are presented in the section below title, Data analysis: Alternate explanations.

### ***Research Setting***

The sampling strategy for this research was purposive rather than random. The sampling strategy for this study followed the recommendations of Miles & Huberman (1994). The purposive nature of the sample was driven by the theoretical framework on values and value change. I sought out cases with two characteristics: 1) significant strategic change with at least some elements of solutions orientation; 2) deliberate management attention to value change as part of a transformation effort.

*“Samples in qualitative studies are usually not wholly prespecified, but can evolve once fieldwork begins. Initial choices of informants lead you to similar and different ones; observing one class of events invites comparison with another; and understanding one key relationship in the setting reveals facets to be studied in others. This conceptually-driven sequential sampling.” (Miles & Huberman, 1994: 27)*

### **Research Setting: The core research cases**

The data for this study comes from two core research sites and nine secondary sites. The two core research sites were selected based on the theoretical framework for this study; the link between values and strategy and the process for value change in solutions organizations that offer customized products and services to customers. I conducted forty-two interviews at the two core research sites averaging about one hour per interview. However, getting access to more sites that fitted the criteria for the core sites was not easy. Two potential core sites that were identified but for which I did not get access to conduct interviews are discussed below. Given this difficulty and for generalizability the value patterns that emerged from the interviews at the core research sites were then checked with data that was being collected for existing research projects on collaborative enterprise and another project on healthcare. One of the goals for these two existing research projects was to examine the usefulness and limitations of existing values in organizations and hospitals that were trying to transform their culture. The data from the

secondary sites was collected through interviews, confidential reports and publicly available archival data sources.

The core research sites at which I conducted interviews have been in existence for over 100 years. These two corporations are from two different industries. Mechanical Transmission Systems (MTS) (a pseudonym) is from the transmission industry and Johnson & Johnson (J&J) is from the Pharmaceutical industry. Both of these companies have had a set of corporate values that were defined by their founders. At MTS these values are known as the Founder's Corporate Values and at J&J as the Credo. J&J started re-evaluating and changing the Credo since the 1980s, while MTS had adopted new values and made changes to the Founder's Corporate Values since the mid 1990s.

Over the last 15 years, these two corporations have attempted to offer products and services customized to client needs. MTS has moved into business consulting services that today accounts for a large percentage of their revenues. J&J, due to the nature of its industry, still depends heavily on standardized products, but they have also attempted to shift away from "big win" innovations to a broader-based, more customer-focused business model. Recently, in October 2006, J&J attempted to offer services for hospitals in the Medical Devices and Diagnostics Division.

Finding companies that are making the shift to customized solutions and have tried to change their corporate values is not easy. Assuming one finds such companies then getting access to them is equally difficult. This was the case with two other companies Ford and GE. Ford is from the automotive industry and GE operates in diverse industries such as energy, aviation and electrical industry. These two companies have like MTS and J&J been in existence for close to 100 years. Ford, like most companies in the automotive sector, is also limited by the nature of the industry and is trying to provide greater model variety and some level of customization in the

product offer to customers.<sup>12</sup> They have also tried to develop flex-manufacturing capabilities. In this system different models of their vehicles can be produced on the same assembly line on the same day. This is something that would have required a complete retooling of the plant a few years back and a downtime of 6 to 9 months. Over the last decade, GE too has attempted to move towards a greater customized service component through turnkey projects in their business model. Both corporations have also over this period changed and adopted new values. However I was unable to get access to these two sites for this study.

### **Research Setting: The Secondary Research Cases**

For generalizability and checking the patterns that I analyzed from the core cases, I followed Miles & Huberman's (1994) recommendation to extend the universe of study by increasing the number of cases that are studied. I analyzed nine secondary cases the data for which came from two sources. One was from an ongoing research project on collaborative enterprise led by Professor Charles Heckscher. The second was from an ongoing project on healthcare led by Professor Saul Rubinstein. These nine cases were from the information technology, telecommunications, aluminum, energy generation and transmission, healthcare and biotechnology industries. The secondary cases from the information technology sector were Microsoft and SMSystems (a pseudonym), and from telecommunications was Lucent Technologies. Citibank e-Solutions was an information service provides in the financial services sector. The cases from the energy generation and transmission sectors were ABB and Cummins India. The case from healthcare was Highway Hospital (a pseudonym) and from biotechnology was Genzyme. The case from metals and mining sector was the Aluminum Company of America (ALCOA). All of these companies shared a common pressure for cost efficiency and quality of service, which was driving them to examine their organizational culture and its link to the organization's strategy.

The examination of value change was based on evidence collected from the core sites. I conducted a comparison of the changes that were made to the content of the values and the processes that they adopted for value change. This evidence was also used to provide a comparison of the effectiveness of the different processes that these companies followed for changing values.

## ***Data Collection***

### **Data Collection: Shared values**

Values are difficult to research for two primary reasons. First, there is often a large gap between the espoused values and actual behaviors of individuals. Second, there may be considerable differences within an organization on both the espoused and enacted values. For resolving this challenge, there are three ways that research on values has been conducted. One has been through imputing values from management practices such as hiring fit, performance appraisal, leadership, decision making and training (Heckscher, 2007; O'Reilly, 2000; Kotter & Heskett, 1992; Denison, 1990; Deal & Kennedy, 1982). Another approach has been to use the organizations' value statement to get at the values of an organization (Heckscher & Adler, 2006; Collins, 2001; Collins & Porras 1994; Falsey, 1989). A third approach has been to identify an organization's espoused and enacted values based on what employees say about the values and the manner in which it influences their behaviors (Heckscher, 1994; Kanter, 1994; Appelbaum & Batt, 1994; Jackall, 1988; Deal & Kennedy, 1982; Ouchi, 1981; Pfeffer, 1977).

For this research, I will use the second and third approach. The organizations that I have been studying have had a corporate values statement for over 50 years, written up either by the founder, a family member of the founder or a legendary CEO of the company. Over the 50 years, these values statement has symbolized the values shared in the company. Over the last two decades, some corporations have tried to change the values statement. My interest is in trying to

analyze the link between commitment to the values espoused in corporate values statement and employee commitment to those values, enactment of values through employee behaviors and the organizations strategy.

The corporate value statement will represent the formal values espoused by the organizations. These corporate values will be hypothesized as being a possible source for shared values in an organization. During interviews, employees may either agree or disagree with these corporate value statements. This would be treated as an indication of their value commitments. Also, anecdotal information about events and employee behaviors collected through the interviews will be used to interpret enactment of values. Within-case analysis and cross case comparisons will surface patterns that will be used to show the values that are espoused and enacted within an organization.

Changes made to the values statements will be used to analyze the type of changes being made to espoused values. Changes in these value statements are also evidence of top-down efforts at value redefinition, which is part of the discussion of change processes in chapter 6.

### **Data Collection: Interview Methodology & Interviewee Selection**

To examine this research question, I personally conducted 42 interviews at the 2 research sites. Some of these interviews were conducted jointly with my advisor, Professor Charles Heckscher. I also conducted 17 interviews at the secondary research sites some of which were conducted jointly with my committee member, Professor Saul Rubinstein. The remaining 50 interviews for the secondary research sites were conducted by a team of researchers who were working on the research project on collaborative enterprise.

*Exhibit 3.1: Demographics of Interviews at Core Research Sites*

	Senior Management	Supervisor	> 10 Yrs tenure	< 10 yrs tenure	Total
MTS	3	5	4	9	21
J&J	5	5	5	6	21

The key informants for the interviews were selected based on tenure, function and level in the organization. The criteria for tenure were employees who had been working in the company since the early 1990s and those that had joined the company since the late 1990s. The criteria for function were employees whose job was technical and employees whose job was from non-technical roles. The criteria for level were employees who were in supervisory positions and those that were not in supervisory positions.

These interviews were conducted as per the protocol under the Human Subjects Protection. As per this protocol participants were requested to provide verbal consent to the interview and taping the interview. The verbal consent form is reproduced in Appendix 2. The final quotes from the interviews that were to be used would ensure that anonymity of the interviewees was maintained. During the interview and after the interview the interviewees were informed that they could withdraw from the interview and the data collected would not be used. Also the interviewees were assured that they would not be identified by name when the data was reported. All the interviewees who were approached agreed to participate and none declined to participate. Some interviewees indicated that they did not want the interview to be recorded. For these interviews handwritten notes were maintained.

Selection of key informants was done in consultation with a management representative who was involved with the change process at the research sites. The management representative was informed of the criteria for selecting interviews. They then identified a possible pool of key informants. I then sent out emails to the individuals identified inviting them to participate in the interview. Participation was voluntary and confidentiality was assured to the participants.

Information such as names of the interviewees during the interviews was not collected from those who agreed to participate. The interviews were recorded on a computer using software developed by Microsoft Corporation. The specific software that used was OneNote. As a backup a Dictaphone was also used during some of the interviews.

At the core research sites I interviewed employees who had worked with the company since the early 1990s that is for up to 15 years. I also interviewed old timers who had been with the company for more than 15 years. The old timers were typically those who had joined and in some cases already been working in the company during the time when it was focused on mass-producing standardized products. Some of these employees were survivors of restructuring events and in some cases been laid off and rehired. The newer employees with tenure of 15 years or less had joined the company after the initial restructuring events. These employees were from both technical and commercial functions and from supervisory and non-supervisory positions. Interviews were also conducted with the top management team of the company. Some of these interviews were conducted face to face at the company's offices. The rest of the interviews were conducted on telephone with employees based in the US and in some cases based in different countries.

The interviews were semi structured around a set of broad issues. These questions are attached at Appendix 1.

- Interviewees were asked to briefly describe their tenure and their roles at the company. Based on this initial introduction they were asked questions about the values in the company and the extent to which it affected their behaviors.
- They were also asked to narrate incidents that in their opinion were indicative of the manner in which values had influenced employee behaviors in the past and the present. Interviewees were also asked to questions about value change in their company.
- These questions led to more specific questions about values and value change.



### **Data Collection: Archival Data**

For the purpose of this research, I used archival data including (1) annual reports of the companies studied (2) quotes from interviews of executives at these companies since the mid 1980s taken from various sources such as Dow Jones, Factiva, and Wall Street Journal, (3) case studies about these companies from the Harvard Business School, (4) books written about these companies by leading researchers (5) internal corporate documentation that was made available to me during interviews and (6) company and industry reports by Mergent Online, Investext, Credit Suisse First Boston, Bears & Stearns, Citibank, Paine Webber and Anderson Consulting.

### ***Data Analysis***

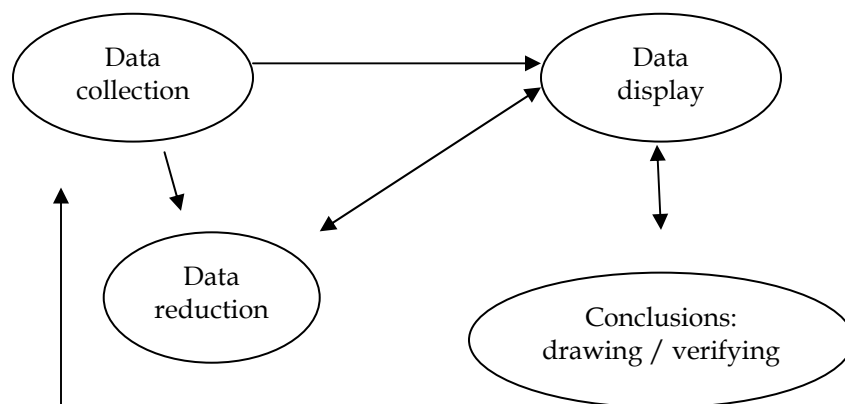
#### **Data Analysis: Generating Meaning and Coding**

The data analysis involved an action oriented and reflexive approach to case writing and finding evidence that confirmed or refuted the propositions developed in the theoretical framework. The data analysis was informed by the work of Heckscher, (2007), Burawoy (1998), Miles and Huberman (1994) and Schein (1985/1984).

Miles & Huberman (1994) define qualitative analysis as “consisting of three concurrent flows of activity: data reduction, data display and conclusion drawing/verification” (10). Data reduction is the process through which the raw data collected is simplified and transformed into transcribed notes. Data display the process through which the transcribed data is analyzed and organized around patterns that help in drawing conclusions. Conclusion drawing and verification is the third activity in the analysis. This involves noting “regularities, patterns, explanations, possible configurations, causal flows and propositions” (11). These conclusions have to be also simultaneously verified as the researcher analyses the data further. The data analysis process is an interactive and cyclical process. Refer figure 3.1 for their interactive model of data analysis. During the data collection stage the researcher moves through all the four

processes. After the data collection phase, the research shuttles among reduction, display and conclusion verification.

Figure 3.1: Components of data analysis: Interactive model



The goal of the analysis is to generate meaning from the data, “People are meaning-finders; they can very quickly make sense of the most chaotic events. Our equilibrium depends on such skills: We keep the world consistent and predictable by organizing and interpreting it [data]” (Miles and Huberman, 1994: 245). The basic medium for the meaning finding is through focusing on words. According to them, “we are focusing on words as the medium, and are assuming that the words involved have been refined from raw notes or tape recordings into a text that is clear to the reader and analyst. Note, however, that this text may be reduced and simplified considerably from the raw events” (51). Data analysis also requires the checking of the representativeness of the meaning that the researcher infers from the data.

For analyzing meaning from the words, the Miles & Huberman (1994) and Yin (2003) recommend the creation of codes and the codifying of the data.

*“Codes are efficient data-labeling and data retrieval devices. They empower and speed up analysis.*

*Creating a start list of codes prior to fieldwork is helpful; it forces the analyst to tie research questions or conceptual interests directly to the data. But the analyst should be ready to redefine or discard codes when they look inapplicable, overbuilt,*

*empirically ill –fitting, or overly abstract.*

*You can also work more inductively by waiting for the field notes to suggest more empirically driven labels. You should not, however wait too long, or move capriciously from one coding scheme to another". (Miles & Huberman, 1994: 65)*

Frequently coding proceeds through two or three levels (Yin, 2003/1994; Miles & Huberman, 1994; Strauss & Corbin, 1990). The first level coding also termed open coding involves assigning a large number of conceptual codes, some drawn from existing theory and some added inductively as insights are gleaned from the interviews. The second level of coding is pattern coding. According to Miles & Huberman (1994), "Pattern coding is a way of grouping those summaries [summaries generated from first level coding] into a smaller number of sets, themes or constructs. For qualitative researchers, it's an analogue to the cluster analytic and factor analytic devices used in statistical analysis." (69).

For pattern coding researchers also recommend a number of other strategies. I will discuss here only those that are relevant to this research study. As part of the pattern-forcing exercise that is used to generate meaning from the data, researchers recommend the noting of patterns, clustering, making contrasts and comparisons, partitioning variables, subsuming particulars in the general and factoring (Miles & Huberman, 1994). Since the interest in this study is to identify value patterns at the intermediate level and specific values within the value patterns the use of clustering, factoring and subsuming particular variables in the general are strategies that have been relevant for this study. Clustering is the process of understanding a phenomenon by grouping and then conceptualizing them around similar patterns and characteristics that regularly appear in the data, subsuming particulars into general classes. This involves the back and forth analysis of first level data and more general categories that are informed by theory or the data. The categories evolve and develop through successive iterations of the analysis until the category is saturated. Making contrasts and comparisons involves analyzing different variables to see how they are different or similar and does it make empirical and theoretical sense to

categorize them into specific or general categories.

Besides the use of codes for generating meaning researcher also recommend the use of vignettes. Often the researcher will find “rich pockets” of especially representative, meaningful data. This data may either confirm the theoretical framework and inductively point to a new theory. In addition to subsuming this data into codes, Miles & Huberman (1994) also recommend that such data be mined through the use of vignettes. The vignette is much shorter than a case and is a focused time, process or event bound description that is taken to be emblematic of a category in the case that is being studied.

This creation of codes and recoding should be considered over by the analyst when the raw data has been classified and saturated into categories that match the existing theoretical framework or results in inductively identifying new categories. This saturation will emerge from the analyst resolving the tension between fitting the codes into the existing theoretical framework, identifying new codes inductively from the data that are relevant to the study and from understand what is unclear and what needs to be analyzed for future studies.

### **Data Analysis: Quality of Conclusions**

Checking the “goodness” of qualitative research is an important next step recommended by researchers. The challenge for the researcher is to avoid engaging in “cherry picking” evidence that confirms the propositions. For this the qualitative researcher has to identify outliers and disconfirming data. There are four tests that researchers recommend for checking the quality of the conclusions. These are checking for representativeness, reliability, internal validity and external validity (Yin, 2003/1994; Miles & Huberman, 1994).

**Representativeness:** This pertains to whether a finding inferred from the data is truly representative of the phenomenon that is being studied. Often problems arise from weak

measures used to operationalize the theoretical constructs. In qualitative studies the question of representativeness often also relates to the volume of data used to support a finding and the overreliance on accessible elite informants. In this study for representativeness multiple sources of data that supported a pattern were identified. These patterns were surfaced by looking at respondents from different functions, levels and tenure to strengthen the representativeness of the data.

Reliability: This pertains to the process of data collection and analysis being undertaken in a manner that it is consistent, stable over time and can be replicated by other researchers. A first aim here is to minimize biases and errors that can emerge at the time of collecting data. For building reliability of this study a semi-structured interview protocol was adopted and used for the interviews. These interviews were taped. Transcriptions of the interviews were based on these recordings using Microsoft's One Note software.

The coding of the data creates a second level of reliability problem. Ideally multiple people would code the same data and the correspondence between raters would be assessed. In this work, as in most dissertations – and, indeed, most qualitative work of any kind – this test was not feasible.

Internal validity: This pertains to the question of truth value of the conclusions drawn from the study. Internal validity requires that the descriptions of events, the interpretation of meaning and its theoretical implications are closely tied to the data and the theoretical framework of the study. In this study data triangulation was used to establish internal validity. Data was collected through interviews, case studies and from other archival data. Patterns that were inferred from the core research sites were matched to existing research, theory and to data from secondary research sites.

External validity: This pertains to whether the conclusions of the study has any larger import and can be generalized to other contexts. To establish external validity this study used multiple cases that were categorized into core and secondary research sites. The patterns that emerged from the core research sites were compared to the patterns that emerged from the secondary research sites. The aim was to look for patterns that confirmed or disconfirmed the patterns that were observed in the data from the core research sites.

### **Data Analysis: Challenges to Transcribing**

The first step in the data analysis was listening to the recordings of the interviews and transcribing the relevant sections of the discussions verbatim. While undertaking this step, care was taken that words were not misunderstood. Attention also was paid to the fact that some of the interviewees were foreigners for whom English was not a first language.

For example, from one of the interviews it appeared that the CEO of the company had acknowledged thousands of emails sent by employees. After repeatedly listening to the interviews it became apparent that the term “acknowledgement” had been confused with the term “announcement”. In another case it was difficult deciphering the term used by an interviewee that sounded to me like – “meat eater”. However, by reading the notes of another interviewer, I was able to understand that the term was “Smarts on a meter”. In another example “IM culture” was incorrectly transcribed, as “I am culture”. The interviewee instead meant “Instant Messaging” (IM) culture. Quite often terminology used by interviewees was not accurate and I had to validate it from secondary sources or from other interviewees. Example, an incentive program that offered “brown dollars” as an incentive was termed as offering “green dollars”.

The next step was the writing up of case summaries of each of the interviews based on the transcribed interviews and documentation that I have collected. An important step here was the use of codes. These case summaries were based on the link between the interview questions, the

responses and the theoretical framework. This link was established through the use of codes for evidence that supported the proposition or for evidence that did not support the propositions.

This and the previous step could be likened to Burawoy's (1998) first level dialogue.

### **Data Analysis: Coding the Data**

Coding: Since I am attempting to surface both etic and emic concepts through an interpretive tradition, the objective of the codes is to interpret the meaning of what interviewees' state in relation to the theoretical framework. Miles & Huberman (1994:56) have defined codes as "tags or labels for assigning units of meaning to the descriptive or inferential information compiled during the course of the study". One set of codes were prespecified based on the theoretical framework. A second set of codes represented data that *disconfirmed* core aspects of the theoretical framework: (1) The attempt to move towards customized solutions (2) existence of Performance or Collaborative value patterns and (3) the three change processes, top down, bottom up and interactive. I developed these codes in order to force a clear recognition and analysis of data that did not fit in the original theoretical framing.

*Exhibit 3.2 (A): Descriptive Codes*

	Theoretical Categories	Descriptive Code Phrases	Codes
<b>Input</b>	Input: Tension between Collaboration and Profit	1. Shift to customized production 2. Restructuring 3. Mass Layoffs 4. Decentralization 5. Outsourcing 6. History of Company 7. Pressures of Knowledge Economy 8. Multiple Stakeholder	1. CS 2. RS 3. ML 4. DEC 5. OUTS 6. HIST 7. KNOW 8. MS
<b>Values</b>	Value Required for Reconstructing Trust	9. Values are important 10. Trust a. Thin b. Thick c. Collaborative 11. Collaborative value pattern a. Open Dialogue b. Interdependent Contribution	9. VAL 10. TRUS a. TRTN b. TRTH c. TRCL 11. CV a. EOCOD b. EOCIC

		c. Openness & Diversity 12. Clan value pattern a. Hierarchical Autonomy b. Routinized Conformity c. Loyal Deference 13. Performance value pattern a. Entrepreneurship / Initiative b. Individual Achievement 14. Decision Making 15. Performance Management 16. Sharing Values 17. Ethics	c. EOCOP 12. CLV a. EOLHA b. EOLRC c. EOLLDD 13. PV a. PVEnt b. PVAdp 14. DM 15. PERF 16. SHVAL 17. ETHI
<b>Change Process</b>	Change Process	1. Top Down 2. Bottom up 3. Interactive	1. TODO 2. BOUP 3. IU
<b>Output</b>	Collaborative Community	4. Long term versus short term 5. Bottom Line versus Legacy 6. People as Numbers People as Assets	4. LTST 5. BL 6. PEO\$

*Exhibit 3.2 (B): Descriptive Codes of Disconfirming Evidence from Interviews*

	<b>Theoretical Categories</b>	<b>Descriptive Code Phrases</b>	<b>Codes</b>
<b>Disconfirming Evidence</b>	Disconfirming Evidence	1. Customized solutions 2. Collaborative value pattern 3. Interactive change 4. Importance of Values	1. DISCS 2. DISCV 3. DISIU 4. DISVAL

### **Data Analysis: Challenges for Coding Data**

There are a number of challenges to coding the interviews based on the coding scheme for this research study. (1) People express different values at the same time. So how do I contend that an interviewee is committed to a specific value? (2) Similarly top management may espouse a certain value but the value that gets enacted by managers at the workplace may be different. (3) How can I claim that a value change process is an interactive one and not a top down approach? This is a challenge because if you take the case of corporate values statement, even though employees may participate in defining new values, the finalization of these value changes is undertaken by the senior management. (4) How do I surface any patterns from the data that offer alternate explanations to the propositions on values and change? (5) How do I know when the empirical evidence that I have collected disconfirms the propositions? Disconfirmation often



involves not individual interviews but an analysis of the relation between individually-expressed values and company-level strategy or organization change.

### **Data Analysis: Coding Value Patterns**

Resolving challenges on coding for values: To illustrate these challenges and how I resolved them, I will do two things. (1) First, I will reproduce below, quotes from interviewees at the core research sites that I have inferred as being indicative of values patterns that I have identified in the theory above. (2) Second, I will illustrate how I analyzed interviewees' responses by reproducing quotes from an interviewee at J&J.

In this section I will use sample quotes from the interviews to demonstrate how I have interpreted the values that employees express commitment to. I will show an example of one value from each of the value patterns that were identified *a priori*: the value of openness and diversity within the Collaborative value pattern, the value of entrepreneurship / initiative within the Performance value pattern and the value of routinized conformity within the Clan value pattern.

This first quote that I am going to illustrate here is indicative of a value of diversity and openness expressed by an interviewee at MTS. This interviewee was responding to the question, on how the new values at MTS was influencing the way employees worked. He explained that the values influenced people to take a multiple stakeholder viewpoint. In this quote he describes how one of his employees requires the help of other employees irrespective of level and needs to build a consensus on the issues that are important to the organization. According to him, "She is not the person to determine whether we can delegate directly to the field. But she can certainly take the lead on all of things that we can possibly take up on the floor of the company that would be true to our values." This interviewee also felt that MTS was moving towards a "relationship led" approach in the way it worked with its' stakeholders and so "people who just want to come

in and do their job” was not encouraged.

My analysis is that this is indicative of the value of diversity and openness that supports the Collaborative value pattern that I had identified in the theoretical framework.

*“We are presently identifying 3 - 6 real chewy hard real business issues that are interesting. [My boss] cannot do that alone. So she is going to get depending on the issue the right sets of colleagues to sort of wrestle the issue with her she will coalesce that and go to the right stakeholders Senior Vice Presidents and eventually go to the CEO and say alright we have wrestled this down and we want to do the following.” [MTS, Manager]*

The next quote in my analysis is indicative of the value of entrepreneurship / initiative. This is from a long tenured employee at MTS who was explaining to me how the company had evolved over the last decade. From archival data I knew that MTS has been championed as an exemplar of successful re-engineering during the late 1990s and as part of this process had undertaken mass layoffs and emphasized individual initiative. One of the places this emphasis on entrepreneurship was reflected was in the expectation from employees to be focused on the bottom line. According to one long term employee, the expectation from employees was that their individual actions would be consistently influenced by the impact on the balance sheet, “The expectation [during the late 1990s] was that employees actions would be much more balance sheet orientated.” Another MTS employee felt that the previous CEO had emphasized the bottom line as the driving force for individual employee actions.

*“One of the signatures of MTS historically was it was great place to work and employees felt respected. However, in the mid 1990s the new CEO had to lay off a number of employees. During this era we were trying to emerge as a profitable company that required us to be focused on profitability and keeping costs low. This was a period in which the bottom line was the bottom line and we were expected to take initiatives aimed at the bottom line.” [MTS, Engineer]*

The third quote that I am illustrating here is, indicative of the value of routinized conformity within the Clan value pattern. It is taken from an interviewee who had served for 35 years at J&J. He had started his career as a “Bill Dispatcher” in the distribution center of the company at New

Brunswick. His job 35 years ago was to verify that orders being transported were as per the inventory. He explained to me that an inventory log for consignments that were being transported was used to formally structure his work. At the same time, he had to also conform to the way things were done by other experienced employees at that center. He was expected to “fit in”. This in my analysis is a case of the value of routinized conformity that supports a Clan value pattern.

*“I wanted to simply do the best lot check and be the most accurate. And that was just me trying to do a good job. And after a while when I looked around and looked at my colleagues, and found out what time people were getting there and what time they were leaving, I said I need to model myself the same way. I need to fit in.”*

### **Data Analysis: Challenges to Coding Value Patterns**

**J&J Interview Analysis:** For showing how I will analyze interviewee responses, I will reproduce quotes below from an interviewee at J&J. This interviewee’s responses did not place him squarely within the value patterns from the theoretical framework. This interviewee reports about shared values in J&J that at times seems to support the Collaborative value pattern and at other times seems to support the Clan value pattern. He himself seems to have values that support both of these value patterns.

To show you how I have resolved such challenges in my analysis, I will first examine the 3 quotes from my interview with him that shows the variance in his responses on shared values. Next, I will examine his views on changing values and finally I show how I will analyze his responses.

In this first quote reproduced below, he expresses a shared value at J&J of open dialogue that would fall under the Collaborative value pattern. According to him, the values at J&J are liberating as they help people to challenge and review decisions made by higher ups around the values espoused in the Credo.

*"It is not only typical that junior people can stand up and argue with superiors but it is encouraged. In the name of the Credo, you cannot accept anything that is wrong just because somebody higher in the corporation thinks it right."*

However, in this second quote, while talking about some of the problems at the company, he also expresses a value of hierarchical autonomy, which supports a Clan value pattern. He felt that J&J was not growing people within the company and was too externally focused for finding talent. He was unhappy with this shift. This is indicative of support for the Clan value pattern.

*"So I can say we should be bringing in people (new hires from outside). But it is a matter of degree (how much talent should we bring from outside and how much talent should we push from within the company). I think that for a lot of our companies the degree is that we are more impressed with the outside talent than we are with what we have inside."*

During the interview with him, my chair informed him that MTS had invited its 300,000 strong workforce to publicly debate their shared values. His response to this was unfavorable. He was not in favor of involving all the employees in a public debate over the relevance of the existing value system. This is contrary to the Collaborative value pattern that is built through the shared value of open dialogue. Again, interviews with other members from J&J surfaced a similar pattern of discomfort or a lack of public dialogue around the shared values in the company.

*"The rabble rousers will dominate over the silent majority. The downside to me seems to be pretty huge."*

These three quotes show that the values at J&J seem to support both a Clan value pattern and a Collaborative value pattern. The challenge is to now interpret this variance.

This variance was resolved through (1) analyzing more data from this interview, (2) through the search for patterns that may emerge from other interviews and (3) linking the analysis to the theory of my research framework or reviewing new theory from the research.

This challenge gets partially resolved in the next quote analyzed below. The company had started organizing town hall meetings for discussing strategic issues. This interviewee had

attended one such town hall meeting and had asked a question on strategy from the senior officer present at the meeting. His question was that was it just luck that J&J had overtaken its competitors and that over the next 5 years some other competitor would overtake J&J and dominate the industry?

*"I was sweating when I asked the question. .... But I felt enormous freedom to ask him that question and ask it in that way. And what I wanted to hear was that it was strategic intent that led to that and that it was sustainable over the long term."*

This interviewee had earlier on said that questioning senior management around issues in the Credo was a value that was supported by the organization. However, he had to muster up courage to ask this question on the strategic direction of the company from a senior officer who had organized a town hall meeting on the strategic direction of the company. While this seems to conflict with his earlier view, in my interpretation employees at J&J feel free to discuss issues around the ethical values expressed in the Credo in a collaborative mode. However, this collaborative mode fades away where the issues that are not clearly linked to the ethical values in the Credo.

My analysis is that the employee's behavior seems to be influenced by a value that is different from values that support the Collaborative and Clan value patterns<sup>13</sup>.

From the theoretical framework and the interviews, shared values play the role of influencing employee behaviors by mediating social exchange. Where open dialogue, diversity and openness and interdependent contribution are shared and these values mediate social exchange that organization would be enacting a Collaborative value pattern. However, if there are a set of shared values that do not fit the *a priori* value patterns as in the case at J&J described above, then I would attempt to identify the values within the organizations that do so. This would be done inductively and may result in the emergence of value patterns that support an altogether new view. An example of this is given below under the section, Data Analysis:

Alternate explanations.

### **Data Analysis: Coding Value Change**

My second research question is about how value change is effected. I will identify and analyze the change processes, from interview and archival data on shifting value orientations within the two primary research cases, J&J and MTS. The following quotes provide examples of evidence that are indicative of the three change processes.

Top down value change process: Both interview and archival data from MTS provides an example of the top down change process. After facing business challenges, MTS's board had hired a new CEO in the mid 1990s. One of the things that the CEO did was to draw up Guidelines for the company, which he frequently emphasized during his communication and meetings with employees.

*"The CEO, writing from his home, set out "Guidelines" for doing business as one company. He made no attempt to incorporate the Founder's Corporate Values. The break with the past was apparent to employees. As the CEO traveled to different company sites, he met with employees to explain the "Guidelines" and how to put them into action. He wrote frequent notes directly to all of the employees when he wanted to convey important information. As one executive noted, "We had no idea when he was going to send them; we got them when everybody else got them"."*

Bottom up value change process: For coding bottom up change, which is an unplanned spontaneous value change process, I looked for evidence mainly from the interviews. In the interviews I looked for evidence of employees expressing commitment to values that were different from the primary value patterns of the company. I also looked for evidence of employees expressing a lack of commitment to the primary value patterns of the company. However, I did not find evidence of a clear bottom up process impacting value change. There was no evidence that shifts in value commitment at the bottom was systematically carried through the different levels to the top. Instead I found spontaneous shifts in value commitments that diffused in a decentralized and unsystematic manner.

At J&J there was evidence, especially during the early 1990s, of employees spontaneously committing to values that were different from the primary value orientations. I found evidence of employees and manager's actions being influenced by Performance value pattern.

In the early 1990s, there was evidence of Performance values influencing decisions at J&J which was contrary to the existing ethical values of the company. According to a manager, "Some decisions were being made which on the surface appeared to be smart, but they were counter to the value system." In one case, a product Zomax had resulted in allergic reactions. J&J was criticized for the time it took to withdraw the product from the market, "With Zomax, the circumstances were different [from the Tylenol poisonings], and while the Credo had precipitated the decision to withdraw the product from the market, there was the question of timing" (Foster, 1999: 641). In another case during the late 1990s, while J&J was facing stiff competition in the market, some managers responded to this by making decisions, which were contrary to the primary ethical values. However there was no systematic attempt at J&J to institute Performance values. On the contrary, during this period J&J had continued to espouse ethical values. Due to the number of cases in which employees and managers were making decisions that were contrary to J&J's ethical values, Ralph Larsen, the CEO conducted a number of conferences to get managers to focus on the ethical values espoused in the Credo again, "At this major conference of company management, Larsen made it clear that Credo leadership *at all levels* was needed to sustain the integrity of Credo values in a highly competitive global marketplace." (644).

Interactive value change process: There was evidence that MTS in the early 2000s had adopted an interactive process for changing values. The interactive process is based on a widespread public dialogue about values across the top and bottom levels of the organization. Interviewees described an event in which MTS's workforce from across the world was invited to

discuss the company's values. This discussion was held over the company's intranet and was called a Culture dialogue, "I think that was the magic behind the Culture dialogue. The fact is that it did come from all our employees from across the world participating. It did not come top down, it came from the organization." Based on this dialogue, MTS adopted new values, which were different from the Founder's corporate values and the CEO's Guidelines.

*Challenges to analyzing value change:* However analyzing the change process also has challenges, which is illustrated in this example on the interactive process from J&J. J&J had used an interactive process to change values through a Credo Challenge process during the late 1970s till early 1990s. The Credo Challenge process continues to till this date but in my analysis is presently not indicative of the interactive change process. I will illustrate this analysis through quotes from the same interviewee at J&J that I had shown earlier in this section on coding value patterns. During the interview with the J&J manager, my dissertation chair narrated to him how MTS had invited its' entire workforce across the world to publicly debate their shared values and change the values. In my analysis which is presented in chapter 6, MTS had adopted an interactive approach to value change. He initially struggled to respond to the question and then said that he did not think this was a good idea and did not think it would result in anything useful.

*"Yeah I think it is a good move - the question for me becomes that sort of - the silent majority that will - that might be. I mean, I know the rabble-rousers will show up for that. And then you will get a unique point of view. The person that really represents the silent majority that is basically silent and now they are with a bunch of senior heavy weights that are now in a room and have a whole lot history, experience, background, and examples and all that how you actually make that meaningful. It's like "The Credo" survey. It is an anonymous survey. I have a lot of problems with anonymous surveys anyway. I just don't think you can get at the issues that are bothering people. The downside to [using a process similar to MTS] me seems to be pretty huge."*



Within this same interview, he also says that “It is not only typical that junior people can stand up and argue with superiors but it is encouraged.” He also confirms what I knew from previous interviews and published documents about a public process between the late 1970s to the early 1990s through which the corporate value statement was evaluated and changed at J&J. This process was known as the Credo challenge and involved employees from the different J&J companies holding focus group discussions on the relevance of the Credo and recommending changes which was filtered to the headquarters. Based on the recommendations changes were made to the Credo. However, while the Credo challenge process was still in use in 2006, it was mainly being used to maintain the existing values in the company and not for changing values.

*“The fact is that we do Routine Credo Challenges [change process at J&J] for challenging existing values] as part of the executive committee. What, it was only about 10 or 15 yrs ago that father was added and god was taken out [of “The Credo”]. And it drove our CEO crazy when God came out.”*

Now, in this case we have a company that has used an interactive approach to change values between the late 1970s to early 1990s and a manager who in 2006 does not feel that values should be publicly debated by employees and evaluated through anonymous surveys.

So in the case on change at J&J that I am presently analyzing, there is evidence that over the last decade, The Credo Challenge process has changed. Initially, it was a process used to change the values interactively. However, more recently it has become process that is used to create commitment among employees. The quote below is taken from the same interviewee above explains this.

*“There has not been a credo challenge during [the existing CEO’s] term formally. The two parts that I have been a party to - One is “The Credo Survey”. I have been on the point of receiving input about my group and working within my staff group to decide courses of action to improve areas [relating to the existing Credo] where as a group we were not as high as we were on other things. That has been a very powerful process. People rallied around. People engaged in discussions about what we could do to address some of the areas we found gaps in. ....The other somewhat formal engagement has been participation with the Senior Leadership group that included*

*some discussion of "The Credo" as case studies in February in leadership meeting in Miami."*

There has been no Credo Challenge held for a long time for changing values stated within the Credo. From another interview, I know that the last change to the Credo was made in 1992. Also over this period, a Credo Survey process had become an important tool, for employees across the organization, to provide feedback on the Credo and to measure how well the organization lived up to the Credo. This being a clear indication that the organization has not changed its values. Based on the evidence from this case and the archival data, my analysis is that J&J had used an interactive process to change values between the late 1970s and early 1990s and more recently since the mid 1990s it has used a top down process that retains the Credo Challenge process as a teaching tool to maintain the existing value patterns.

### **Data Analysis: Alternate explanations**

Resolving challenges of alternate explanations: Analyzing value patterns will also require me to look for other value patterns besides those theorized *a priori* in the theoretical framework. I will take up the illustration of the analysis of alternate value patterns after introducing the next two steps in writing and analyzing the data.

Next two steps in analysis: The next step in the analysis of the data involves identifying themes and patterns from the interviews and from the archival data and linking it to context. This would be reflective of Burawoy's (1998) second level dialogue between local processes and extra local forces. The meaning of themes and patterns that emerge from the interviews will be understood by examining its link to local and extra local social forces within which they exist. This is because the Reflexive approach to analysis is based on making meaning of the data by uncovering local processes in relation to external social forces. I will look for evidence of social processes that are identified as important in the interviews and in the archival data. For example, while analyzing the value patterns, understanding the social context would help give meaning to

the values and decide whether to include them within existing value patterns that I had identified a priori or whether to use them independently within a new set of value patterns. Relevant sections from the analysis would be reproduced throughout this thesis and particularly in the next three chapters.

The final step in analyzing data would be based on looking for disconfirming evidence and inductively surfacing new insights that can contribute to existing theory. This step represents the level three dialogue of Burawoy (1998) between the data analysis and the theory. The themes would be directly drawn, by going back and forth from the theory and the data. The objective in the third dialogue “is the imaginative and parsimonious reconstruction of theory to accommodate anomalies” (Burawoy, 1998: 5). Relevant sections from the analysis would be reproduced throughout this thesis and particularly in the next three chapters.

Resolving challenges of alternate explanations: When faced with an anomaly as described above, I will examine the local processes and extra local forces of the social situations in, which the anomaly gets surfaced. The first step for this is to see that if this is a consistent pattern that emerges from the other interviews.

The anomaly that I detected at J&J, which was introduced earlier in this chapter, is that employees seem to be expressing commitment to values that seems to influence employee actions in a Clan and Collaborative mode at the same time. There were stories after stories in the interview on how people seemed to be influenced by “ethical values” and exhibited behaviors that one would expect to see where the values supported the Collaborative value pattern. One story was around the getting of people from different parts of the organization to work together on a counterfeit surgical gauze issue that was endangering patients. In 2005, J&J was faced with a problem that counterfeit surgical gauzes that are used during surgery were being sold as their product on the market. The company was concerned about the safety of patients. To solve this

problem, J&J had to create cross boundary partnerships between different divisions. by J&J appears to have achieved this by focusing on values of ethical responsibility and responsiveness to stakeholder interests. By ethical responsibility I mean the value placed on meeting obligations to parties outside the firm: customers, the community, the society, and so on. stakeholder responsiveness involves value placed on reaching out to outside parties. J&J's recent response to a counterfeit surgical gauze incident that was described by a Communication manager provides evidence of these two values influencing decisions in the company.

*"There was a situation regarding counterfeit products that had emerged in medical devices. It was a mesh product that we discovered was a counterfeit. The actions that we took based on that involved bringing together - our pharmaceutical people who were dealing with counterfeit issues. We thought about ways to correct it by adjusting the way we interacted with our wholesalers. To address it we had to call together people from a number of different companies, medical devices, pharmaceuticals that for the most part had not met each other before. But they came together around this new threat. We had dealt with counterfeits in pharmaceuticals before, but typically they were around benign substances that were in capsules. But when we started dealing with surgical counterfeit materials. We became less certain of our patients were safe with this stuff being surgically implanted in them. So we were committed in solving this thing and the rapidity and the intensity which people got together where other people had not met, worked through the delicacy of the international distribution system for pharmaceutical and medical devices and came to a resolution that we knew was going to impact our customers, might impact our market share that we would have to somehow make up. What we had to do was to change terms with which we worked with our wholesalers. Changing those terms was going to hurt them from a profit point of view. But since we were also committed to our business partners as a sense of The Credo, we knew we would have to make it up to them. We knew there was going to be a cost to this. The truth is that we did not know what the cost for solving this was going to be. But we knew we would have to solve it. And within about a three to five week period from the time when that incident occurred to the time when we had revamped the US distribution system we had an agreement right through Senior Management of the Pharmaceutical and the devices business. I have never seen anything like this in my career. For a large organization, decentralized as this, to turn and to change its policies so quickly!! Every meeting you had you just felt that first and primary concern is this going to solve the problem that our patients were facing."*

There was also evidence that there was an expectation of compliance and hierarchical autonomy similar to the Clan values. I also found evidence of a spontaneous weakening of value commitment to the existing values in the interview data among some employees based on their experiences on the job. One customer service employee described the company as being elitist

and not inclusive. “At J&J there is a somewhat elitist attitude. I think that people bank so heavily on the J&J name, that they become more exclusive than inclusive.” Another employee working in the customer service division was having difficulty solving problems that she was facing in her daily work and she attributed this to the expectation of compliance to the existing culture at J&J.

*“Working on the front-line for an organization, I am almost always the first to know the problem. There are other departments that have to share that area where the problem is. But change does not start at the very bottom. People tend not to listen to those who actually serve the customer. This may be true because there are older people there with more tenure and this means old ideas and old way of thinking. If management keeps shutting these people out of their circle then it will not be a shared vision.”*

At this preliminary stage I call these value patterns as the Ethical value pattern. In my analysis this would support some of the capabilities that the “Collaborative value pattern” supports only when faced with ethical problems. In situations where there are no ethical problems, this value pattern will not be able to support the same capabilities. My preliminary analysis is presently leading me to conclude that in such situations, J&J will actually exhibit behaviors that one would expect to see where the “Clan value pattern” exists. The value in this specific case that the company seems to support is ethical responsibility and responsiveness to stakeholders’ interests. This closely resembles the diversity and openness value since it is focused on multiple stakeholders, but has the added dimension of duty bound ethics. This does not disconfirm the propositions but helps refine these propositions.

Disconfirming evidence: The example of the Ethical value pattern described above shows the use of disconfirming evidence for further clarifying the theory. So an accompanying step in this analysis will be to develop disconfirming hypotheses. The objective for developing disconfirming hypotheses is to test, if any of the research sites, patterned evidence that is contrary to the propositions that have been developed and will help in the reconstruction of the existing theoretical framework. Such evidence maybe found only after the individual and

comparative case analysis has been done. For this purpose, I have developed four hypotheses that if supported would be proof of disconfirming evidence to the central propositions.

- Values that support the Collaborative value pattern do not support the shift from mass production to customized solutions by organizations.
- The Clan value pattern supports the move away from mass production to customized solutions by organizations.
- Value change is effected through processes other than the top down, spontaneous decentralized and interactive approach.
- Behaviors that the Collaborative value pattern supports can be achieved through value patterns that support a Clan value pattern or a Performance value pattern.

### **Data Analysis: Coding Solutions Strategy**

Shift to customized solutions: At this stage in the analysis, one final question is how do I know if a company is moving towards customized solutions. This analysis will be based on Heckscher's (2007) thesis that the shift towards solutions happens along two dimensions. These dimensions are strategic complexity and strategic adaptiveness. Strategic complexity emphasizes tapping differentiated business opportunities through a greater focus on customers over multiple strategic dimensions. Strategic adaptiveness emphasizes responsiveness through the capability to innovate and respond to change in the business environment. Some organizations are making this shift along one of these two dimensions and there are a smaller group of ambidextrous companies that are making this shift along both dimensions simultaneously.

For analyzing this strategic shift, besides the interviews, secondary data from annual reports, public interviews and financial data would be analyzed. Here I will show how I will use archival data for analyzing the strategic shift to solutions on the complexity dimension. For example, at J&J one source that shows this shift is the way that different CEO's describe their

company's strategic orientation since the 1980s. For J&J I am reproducing quotes taken from interviews held with three CEOs in 1985, 1999 and 2005. The first quote from 1985 shows that the company is very product focused in its strategy while the next two quotes from 1999 and 2005 show how the company has started moving away from a product focus towards a more broad based business model and more recently towards a business model that emphasizes cross business integration as being important.

*The CEO of J&J, said the company moved briskly to bring out Tylenol in "caplets," a pill that is a combination capsule and tablet that is selling well and is yet to be copied by competitors. Also, the "painful" decision two years ago to pull the prescription painkiller Zomax from the market will save lives and protect the company from potentially devastating financial damages. Zomax had quickly become one of the company's best-selling products, but encountered problems with side effects. (Wall Street Journal, 1985)*

*We're comfortable being a broadly based company," he said, adding that the company derives its strength not only from its diverse product base but also from its geographic spread. J&J is satisfied with another area of competition - research and the capital and resources devoted to it, the CEO said. "We have plenty of critical mass." He said the company spent \$2.3 billion on research last year and \$9 billion over the last 5 years. "The question is not of money," he said, "but of how you deploy the research, how focused it is and how good your science is." (Dow Jones, 1999)*

*J&J's people, are really looking at how the integration goes together, when you look that the endo- cardiovascular business, our cardiovascular business, the CRM business. How exactly do those fit together and what are the strengths each brings? (CNBC/ Dow Jones, 2005)*

The first quote shows a very product oriented focus strategy in 1985. This seems to shift in 1999 to broad based business focused on product, geography and innovation. In 2005, the business strategy is focused on greater integration across different product divisions. In my analysis, this is representative of a move away from standardized products towards customized solutions. The detailed analysis of the strategic orientation of the cases is described in chapter 5, on the link between values and strategy.

The following three chapters present the answers to the research questions of this study: what is the link between values and solutions and which process effects value change. In the next chapter (chapter 4) I will delineate the value patterns that emerged from this research. In the chapter after that (chapter 5), I will examine the link between the value patterns and a solutions strategy. In the following chapter (chapter 6) I will examine the research question on value change. In the final chapter, I will discuss the implications of the value patterns and the change processes for the research field and for corporations attempting to make the strategic shift towards customized solutions.



## Chapter 4: The Four Value Patterns

In the theoretical framework in chapter 2, I suggested that configurations of shared values, reinforced by corporate policies as well as by daily interactions among employees, influence the way employees relate to each other across levels, functions and tenure, and that they are important in implementing organizational strategy. I identified three value patterns from existing literature: the *Performance*, *Collaborative*, and *Clan* value patterns. Each of these patterns, or configurations, is composed of several constitutive values:

- In the Performance value pattern, the primary constitutive values identified in the literature are entrepreneurship / initiative and individual achievement (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1990).
- In the Collaborative value pattern, the core values are open dialogue, openness and diversity and interdependent contribution (Heckscher, 2007; Heckscher & Adler, 2006).
- The Clan value pattern includes values of routinized conformity, loyal deference and hierarchical autonomy (Heckscher, 1994; Kanter, 1994; Kotter & Heskett, 1992; Jackall, 1988; Schein, 1985; Merton, 1983; Ouchi, 1982).

*Exhibit 4.1: Three Value Patterns and Constituting Values*

<b>Collaborative value pattern</b>	<b>Performance value pattern</b>	<b>Clan value pattern</b>
Interdependent contribution	Entrepreneurship / initiative	Loyal deference
Open dialogue	Individual achievement	Routinized conformity
Openness and diversity		Hierarchical autonomy

These value patterns have been related to different strategies. The clan value pattern has often been seen as appropriate to relatively stable competitive environments (Kanter, 1994; Kotter & Heskett, 1992; Ouchi, 1982). The Performance value pattern is often related to highly competitive and dynamic environments (Cameron & Quinn, 2006; Denison, 1990). The

Collaborative value pattern has been related to a strategic focus on integrated solutions that requires coordination for the provision of customized products and services (Heckscher, 2007; Heckscher & Adler, 2006).

### ***Research Approach***

I explored the expression of these values in two primary organizations, where I conducted extensive interviews, and nine secondary ones where I drew on data gathered by others. The two primary research sites were a US pharmaceutical company, Johnson & Johnson (J&J), and a US technology company which I will call Mechanical Transmission Systems (MTS). The nine secondary sites included organizations in the information technology, telecommunications, aluminum, energy generation and transmission, healthcare, and biotechnology industries.

I sought to establish empirically whether the *a priori* patterns identified above were expressed in my interviews, by examining the clustering of value expressed by single respondents. I looked for and coded quotations that expressed a conception of the desirable state. Sometimes these were expressed directly (“We should...,” “What would be good...”); often they were inferred from context, in which a person would describe a situation and imply that it was either desirable or undesirable.

There were a number of significant empirical possibilities:

- A given respondent might express a set of values that fit within the patterns derived *a priori* from previous research: Clan, Performance, or Collaborative.
- A given respondent might express values that had been previously identified but did not fall into the predicted patterns, cutting across them or combining them in unexpected ways.

- In addition to the above, a given respondent might express one or more values that had not been previously identified as part of any of the three patterns. Where values were expressed that had not been identified in the existing literature, I examined their linkages, with three possibilities:
  - That they were (previously unidentified) parts of the three existing value patterns (Clan, Performance, and Collaborative).
  - That they appeared in one or more clusters that constitute new, previously unidentified value patterns.
  - That they were not demonstrably associated with any value pattern – either the three *a priori* ones or any new ones that I could identify.

I found in my interviews the eight values described in my review of the literature, generally clustered as predicted into the three basic patterns. In addition, I found nine further values that were repeatedly expressed by my respondents.

- Seven were consistently associated, in respondents' discussions, with one of the three original *a priori* value patterns and appear to add to understanding of those patterns.
- Two of them appear to me to constitute a new value pattern, not previously identified in the literature, which I call *Ethical*. The constitutive values are ethical responsibility and responsiveness to stakeholder interests.

### ***The Four Value Patterns***

In this section I will first present the analysis for the three value patterns that I had identified *a priori*: the Collaborative, Performance, and Clan value patterns. I will then present the analysis for the value pattern that I had interpreted inductively from the interview and secondary data:

the Ethical value pattern.

### **Collaborative Value Pattern**

The Collaborative value pattern was based on Heckscher (2007) and Heckscher & Adler (2006) thesis of the emergence of a Collaborative Community within organizations. Within this Collaborative community, they identify Interdependent Contribution as the highest value. They also identify the values of open dialogue and openness and diversity as two other primary values within the Collaborative Community. I found evidence of the Collaborative value pattern in three cases. Refer Exhibit 4.2 for a summary description of values within the Collaborative value pattern. The three cases were MTS, Citibank e-Solutions and Highway Hospital (HH).

*Exhibit 4.2: Summary Description of Collaborative Value Pattern*

<b>Value</b>	<b>Description</b>
Interdependent Contribution	Expectation to contribute towards both the organizational goals and collegial success.
Openness & Diversity	Expectation of involving multiple stakeholder views in decisions.
Open Dialogue	Freely sharing and evaluating information necessary for solving problems.

#### **Value: Interdependent Contribution:**

Interdependent contribution involves valuing above all in others their ability to contribute to the achievement of the shared mission, rather than other attributes such as status, formal position, or demonstrated loyalty. This value was visible in the official value statements developed at MTS after 2003. One of the espoused values that the corporation had changed pertained to the customer. The Founder's Corporate Values stated the value as "Service that satisfies" while the new value was "Not just service but client solutions". The value of contribution became clear in respondents' discussion of the meaning of this value. One, for instance, explained that the perspective at the company had changed from simply providing

products and services that would satisfy existing needs of the customer to building long term relationships based on offering a product or service that will ensure that the client will succeed in their goals.

*“We want to be in the business of making businesses successful - want to be the people you turn to when you want to grow your business. We want to have the knowledge, insights, expertise on demand as much as you need or as little as you need. The idea is that what we are doing is to make your business succeed and not just make you happy. But our business is to make you succeed.” [MTS, Engineer]*

For building such a long term relationship there is an understanding that a different department within MTS may offer a better product or service than our department. This is different from the past where MTS has experienced what the MTS employee described as “political infighting” between divisions. The relationship building therefore will increasingly depend on collaboration across different divisions within the organization.

In interviews at MTS I came across evidence that employees were enacting these values in the way they related to the customers. An old timer at the company explained to me how the value had influenced the way he dealt with the customer when he told me that these values had “changed the way that I deal with the customer now. So when I am in front of them [clients], I view success as something that is not just of interest to them but of value to them.”

Employees had also started reporting behaviors where they clearly explained to customers that the department they were dealing with did not have the expertise to handle the customer’s need. This is something that did not happen in the past. The departments competed with each other for projects and were focused on bringing in the numbers. Instead, it was now considered desirable within MTS to tell a customer that a specific department did not have the expertise to provide a transmission technology related solution.

This did not mean that the MTS employee was passing the client onto another colleague in a

different department and his job was done. However, building a relationship with the client would now require the MTS employee to collaborate with another department to solve the customer's problem.

Employees also frequently expressed this value at a secondary site, Citibank e-Solutions: "At the end of the day its' a matter of what you contribute to them [customers] – you have to articulate what the proposition is and what you need from them [customers]"

#### Value: Openness and Diversity:

The espoused value of openness and diversity at MTS was motivated by the lesson that the company learned from the crisis of the 1990s. The company had been inwardly focused on the large scale systems that it sold. Due to this inward focus MTS misread the market trends towards smaller systems. In my interviews employees and managers expressed an acute awareness of MTS's past inward focus and I found evidence that they did not want to make that same mistake in the future. This was reflected in the way they thought about their work. A senior MTS manager explained the importance of openness:

*"We are going to try to be a progressive company. We are going to make investments and manage that seriously with discipline and with attention with the needs of the community, partners, investors, clients with each other."*

In my interviews at MTS I found evidence that the value of Openness and Diversity was influencing decision - making. In the interviews and secondary data there was evidence that important business issues was undertaken by including the participation of multiple stakeholders. This is how one decision-making scenario was explained to me. "We are presently identifying 3 - 6 real chewy hard real business issues that are interesting. [My boss] cannot do that alone. So she is going to get depending on the issue the right sets of colleagues to sort of wrestle the issue with her she will coalesce that and go to the right stakeholders Senior Vice Presidents and eventually go to the CEO and say alright we have wrestled this down and we

want to do the following.”

The value of openness and diversity came up at a secondary site, Citibank e-Solutions, as well. There was evidence that employees and managers viewed the business model could not be executed in isolation but required partnerships with multiple stakeholders. A strategy manager said: “We need to work with other parties outside the bank, sometimes competitors, sometimes technology providers, in order to provide integrated end-to-end solutions. We can’t do everything ourselves, we know that. The way to move forward is to form strategic partnerships with others.”

### Value: Open Dialogue

I found evidence across MTS that the value of Open Dialogue was relevant for employees and that it characterized the way employees and managers viewed their interaction with each other as a learning process. Employees were described by an HR manager as, “people who just would not drink the cool aid. Everyone has their opinion and would like to express it”. The expectation in the company was described by a newer employee as, people should not look for “answers only” but look for opportunities to “dialogue and learn from that dialogue”. Employees at MTS reported on how the company encouraged dialogue as a learning process, which was expressed in these terms by a MTS Manager.

*“If there is a mistake made consciously or unconsciously we encourage dialogue. We are in a kind of test and learn approach. Even the finance people are very open to this and have been very supportive. In case there is something strange we encourage them to also have the dialogue. So it is also a way to have more dialogues and collaborations between organizations across silos.”*

A representative event was the Culture Dialogue, in which employees in MTS across levels, geographies and divisions debated the values of the company. The event was one that was universally appreciated by employees having different years of tenure and who were from different divisions and functions. One employee described it as a “very free flowing form for

which MTS should be given kudos. There was no censorship. There was no fear of retribution as to what happens if you express your comments if it does not go with the corporate view. I was reading some of the posts that said these executives are wrong and they should step down. These posts were entertained and not taken off and people actually replied to them.”

An employee at Citibank e-Solutions explained the value of open dialogue in his interview. “The expectation is that you will have done your homework and have had discussions with some peers about the organizations requirements and you come prepared to articulate to him what you are going to do.”

### Challenges:

However, enacting such values does not come without challenges. Collaborative values have implications for inter-departmental rivalry and due process. One of the challenges for successfully adopting this value is to recognize and reward employees who live by this value. An employee elaborates that his earlier comment on “political infighting” requires resolving how to book revenues a department may have earned due to leads provided by a different department. One of the places where MTS is presently struggling relates to implementing a reward system that will provide incentives to those who provide sales leads to other departments within the company. The company is considering booking the value of such order as collaborative dollars. For orders that are directly booked to the same department the order value is termed equity dollars. MTS is developing two different formulae for rewarding collaborative dollars and equity dollars.

### *Performance Value Pattern*

Based on the review of the existing literature, I had theorized in chapter 2 that organizations that are strategically oriented towards solutions would benefit from a Performance value pattern. Based on research in the organizational culture literature, I identified the values of



entrepreneurship/initiative and individual achievement as supporting the Performance value pattern (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1990). I found evidence of this value pattern at J&J during the early 1990s and at MTS from the early 1990s till the early 2000s, during a period when the previous consensus had broken down and multiple value patterns were springing up in a decentralized way. Refer Exhibit 4.3 for a summary description of values within the Performance value pattern. I also found evidence of this value pattern in the secondary research sites, SMSystems and Microsoft.

*Exhibit 4.3: Summary Description of the Performance Value Pattern*

<b>Value</b>	<b>Description</b>
Entrepreneurship/ Initiative	Expectation of individual risk taking and individual accountability.
Individual Achievement	Expectation of excelling, meeting and exceeding targets.

Performance values were widely espoused at both the primary research sites during the 1990s until close to the time of my research, though both companies were making recent efforts to develop more collaborative orientations. The values of entrepreneurship/ initiative and individual achievement at MTS were espoused in annual reports, performance evaluations, strategy documents and employee narratives of MTS during the 1990s “We operate as an entrepreneurial organization”. At J&J the performance values were less explicitly espoused in formal documents, but were frequently expressed by employees in my interviews. So while the value of job security espoused in the Credo remained as the founder had originally worded it during the 1940s -- “They [employees] must have a sense of security in their jobs” -- a number of employees felt that cost effectiveness had displaced the value of job security. One manager characterized this change in the early 1990s as a shift away from operating the business based on loyalty: “the business climate changed and our market share was being eroded. We had to

rethink and replace running our business based on loyalty with running our business based on cost effectiveness.”

Value: Individual Achievement:

This value focuses on an expectation that people will excel as individuals, meeting and exceeding targets – often numerical targets – for their jobs. It is associated with a competitive mindset and a focus on winning. It is sharply different from the more cooperative and collective mindsets found in both the Clan and Collaborative patterns.

Narratives for this period at J&J consistently reflected these themes: they stressed that “meeting and exceeding the number targets was important.” At MTS, a new performance management process was instituted that emphasized this value of individual achievement, which was described to me in these terms by a long tenured employee:

*“When he [Ex CEO] came in, the big thing was “Execution aimed at winning”. The reviews every year had to be divided into those two categories. How did you execute and how did you win.”*

A long term employee at MTS explaining to me that after mass layoffs in the mid 1990s, MTS encouraged people to be individual in their work. Owning one’s job was considered important. He read this value as Guidelines on employee behavior that a new CEO at MTS put into place in the mid 1990s: “MTS employees will be entrepreneurial having a never-ending focus on productivity and acting with a sense of urgency.”

One of the correlates of the Performance value pattern, in its emphasis on individual achievement, is that rejects the core Clan values of employment security and job protection. Thus the Performance pattern is often most visibly enacted in a growing acceptance of layoffs and restructuring. Indeed, both organizations had started to restructure their organizations to unprecedented degrees during the 1990s. MTS reduced layers of middle management through

mass layoffs during this period: a senior manager said, “A large number of employees, the size of a small US town, were let go in 3 years.”

During the early 1990s, J&J also started restructuring its worldwide operations. From the interviews there was evidence that the company was internally shifting to focus manufacturing plants or specialty factories and had started outsourcing some of its manufacturing operations overseas; such moves are incompatible with Clan values but entirely in line with the Performance pattern.

#### Value: Entrepreneurship/Initiative

“Entrepreneurship” involves the expectation that individuals will actively seek new opportunities. It can also be expressed as “individual initiative”: individuals are expected to go beyond strict rules and procedures to achieve their targets.

At MTS, the mid 1990s till the early 2000, according to employees was a period during which individual initiative influenced employee behaviors. According to an old timer at MTS, there was an emphasis on dismantling existing management systems and emphasizing individual ownership of work by employees: “the management structure and system was dismantled and the emphasis was on employees being entrepreneurial and making the management of work their own business”. Another employee described the performance management process during the mid 1990s as “client engaging performance evaluation” that focused on gathering information about client engagement but not saying anything about what the employees represented as a company.

*“Project managers were given metrics and were expected to evaluate how employees performed in a client facing atmosphere. How were their technical skills? How were their communication skills? How responsive were they? How did the project go? The project manager completed this information to the best of his knowledge and come review time they decide how much bonus we were to get. All of this was fine, but some of the core things that made us famous historically had fallen by the wayside.*

*For example, the process did not speak to what were we as an organization."*

According to a long tenured manager this emphasis on individual behavior was influenced by an expectation from employees of smashing bureaucracy, "The expectation was that employees should be smashing bureaucracy at every turn".

At J&J while there was a systematic attempt to restructuring and become more cost efficient, the company did not institute a new set of values or Guidelines, unlike MTS. The ethical values espoused in the Credo, continued unchanged since 1992. However, the early 1990s was characterized by incidents of employees and managers individually taking initiatives that were not in line with the Credo. An HR manager described one such incident:

*"The person who got the best intelligence was going to win a monetary award. So this guy was motivated to do what obviously was unethical. And this was certainly not something that we could not condone. We terminated him. Our emphasis on competitiveness was driving employees towards unintended independent behavior that was contrary to our ethical values."*

In another incident, "One of our executives got some of his employees to shred certain legal documents. These documents were under a hold notice from the Attorney General's office because they had to deal with a competitive lawsuit that was brought against us. We subsequently found out about this and brought it forward to the Attorney General since this was contrary to our values. We had to pay up half a million dollars due to this incident." There were a number of other incidents of managers making decisions that were influenced by J&J losing market share but were contrary to J&J's ethical values. These actions were incompatible with the Clan values at MTS and the Ethical values at J&J but were in line with the existing theory on Performance values that were identified *a priori*.

### Challenges:

However, I also found evidence that the Performance value pattern were problematic. Many employees at MTS were skeptical of this move: they felt that the shift to performance values in

the 90s had broken the ties of cooperation and left everyone to fend for themselves:

*"We had slogans; one of them was "Make it your business." And we translated that to mean "do it yourself". Ok, I've got nobody behind me, nobody is going to do this, so I am just going to do this myself - there is no structuring."*[MTS, Old Timer]

Some claimed that the performance emphasis led to negative results for the company, including problems in motivating and retaining employees. They also saw increasing divisions within the workforce.

At J&J the period of performance emphasis in the late 90s was viewed as one during which the company clearly broke away from the values espoused in the Credo. There were stories that were told to me about products being sold in the child care segment for which trials were not complete. The two incidents narrated above, on market intelligence and document shredding, were attributed to this excessive emphasis on individual initiative. There were other stories about mistakes and misconduct, which interviewees claimed, were caused by the excessive emphasis on individual performance.

*"We had a number of decisions made by managers and employees during the early 1990s that were contrary to our value system. There was also a very serious incident involving a mistake and misconduct by some of our management in our operating company. These had negative implications for our reputation and were contrary to the expectations that employees would make Credo based ethical decisions. As a result of these acts which were contrary to our values, Ralph Larsen our chairman, modified the way that training and attention to the Credo was done to make sure that people knew that it [the Credo] was still alive and fresh and guide employees on how to make Credo based decisions and not pursue their own agendas."*[J&J Senior Legal Consul]

Thus it appears that the values of entrepreneurship and individual achievement are useful but also have limitations. The Performance values do help in building a customer focus. However, these values by itself are not sufficient for building customer focus that depends on cross boundary collaboration. I will analyze this link between Performance values and a solutions strategy in the next chapter.

### **Clan Value Pattern**

I found evidence of the desire for values that supported Clan value pattern among some employees and managers. In the theoretical framework in chapter 2, the values that constitute Clan value pattern are hierarchical autonomy, routinized conformity and loyal deference (Heckscher, 1994; Kanter, 1994; Kotter & Heskett, 1992; Jackall, 1988; Schein, 1985; Merton, 1983; Ouchi, 1982). These were values that supported a Clan value pattern characterized by employees within the same organizational unit having a collective dependence on each other that was inward focused. I found evidence of this value pattern in both the primary research sites. I also found evidence of this value pattern in three secondary sites: ABB, Cummins India and Lucent.

#### *Exhibit 4.4: Summary Description of Clan Value Pattern*

<b>Value</b>	<b>Description</b>
Loyal Deference	Expectation of protection in return for obedience to the superior. Expectation of deferential behavior towards the superior.
Routinized Conformity	Expectation of predictable routines that have to be executed through handed down procedures. Trust depends on social conformity on dimensions such as shared values, dress, neighborhood, associations, etc.
Hierarchical Autonomy	Organizational boundaries are valued, ensuring exclusivity and turfs that need to be protected. Individual jobs are seen as “owned” by their incumbents, with the goals for the job set by the hierarchical superior.

Clan values were generally expressed by older employees and seemed to represent largely a past orientation which had survived into the present. The policies and actions of company leaders had, in both J&J and MTS, frequently violated Clan values in the pursuit of Performance or Collaborative values. Thus Clan values were at the center of many controversies and tensions, with some rejecting them openly and others regretting their decline.

Value: Routinized Conformity:

The long tenured employees that were interviewed at both MTS and J&J characterized their companies during the early 1990s as being influenced by the value of routinized conformity. At J&J an old timer who had served for 35 years and who had started his career as a bill dispatcher in the distribution center of the company said:

*"I wanted to simply do the best lot check and be the most accurate. And that was just me trying to do a good job. And after a while when I looked around and looked at my colleagues, and found out what time people were getting there and what time they were leaving, I said I need to model myself the same way. I need to fit in."*

At MTS too, this value came up in the interviews of employee. According to an old timer the clarity provided by the old values that were ingrained in all the employees was a reason for the company doing well.

*"The reason the basic beliefs worked was because they were ingrained in all the employees and in me too. The expectation was that they were adopted by us and managers and they were demonstrated on a daily basis. We were disciplined about this. This was a pivotal piece during the 70s and 80s for MTS's success. I do not think that would have happened without this ingraining of the basic beliefs in each of us. Many people including myself feel that this is not the case anymore. Things happen randomly there is no front and center unlike the past." [MTS Old Timer]*

This orientation was one source of the company's inflexibility. A customer of MTS explained to me that the company during the 1980s followed a set business model and would not deviate from it even if there was a threat of losing business. According to him MTS was inflexible in the way it dealt with its customers:

*"This was in the 1980s. We tried to do a project with them [MTS] where we were going to spend a lot of money at our company. [We said] 'we just want one person to talk to on this project that can talk to everybody else.' And they said, 'No! No! Here is how it works'. And we decided to go to their competitor instead"*

Value: Loyal Deference:

From narratives about J&J prior to the 1980s provided evidence that the value of loyal deference influenced employees' and managers' outlook towards work. A long-tenured manager

explained the purpose of the Credo during the 1980s. He described the company at that time as a “hierarchical group” that was driven by directives. According to him, the values espoused in the Credo were intended to “allow for consistency in management” and for ensuring that “people stay within a framework”. At J&J old timers recalled that their loyalty to the company was based on the caring management style of the founder.

*“The General always wanted to know what the working conditions were. Were you being treated well was the facility clean. Is there anything that he could do to improve things? He would do his walk around management and make notes of what needed to be done, or taken care. And when he walked by at one point there was this fellow working next to a cracked glass. And he walked by near the operating machine and said excuse me, you have a cracked glass here. He said who is your supervisor and he said he is over there. He said do me a favor I want that cracked glass fixed and make sure that gets done.”*

At the same time the founder expected his employees to follow his orders immediately: “The founder was a very caring individual. But when he said do something, believe me everyone dropped everything.” In the cracked glass incident above “The General followed up the following day on whether his orders were carried out by the supervisor. When they were not, he took a chair and broke the cracked glass to make sure that it would be replaced for certain.”

At MTS too there were similar narratives of this emphasis on employees and supervisors being expected to obey the bosses. According to a long term MTS employee the management process and systems were clearly laid out for supervisors to follow. “Managers and employees were trained in the use of the existing processes and how they would take those processes and apply them in the way they carried out their daily tasks or treated employees. There were other management processes watching us to see that he followed the values and also treat each other with respect.” A number of employees espoused a strong sense of loyalty to MTS. The CEO who was a long tenured employee expressed this as: “There are many of us here who will not leave this company until we feel about it the way we felt when we had joined it and once we do we will turn it over to the next generation” Other old timers described MTS as: “It was the greatest



company in the world.” Another long term MTS employee expressed a similar feeling of loyalty as: “Any time I told someone I work for MTS there is a feeling of pride. And that is rooted in the original founder’s values.”

#### Value: Hierarchical Autonomy:

The theory that I had reviewed earlier suggests that Hierarchical Autonomy, in which organizational boundaries become dividing lines for ensuring exclusivity and turfs that need to be protected, will be primary in the Clan values. I did not find unambiguous evidence of this in my interviews, but there were some discussions which implied this view. At J&J and MTS there was an orientation which valued strong direction from above and little interaction with peers. There was also some evidence of employees rejecting changes to managing human resources: the shift to a mobile workforce and the hiring of talent from outside the organization.

There were divisional differences within MTS that often absorbed more energy than marketplace differences. Different divisions saw other divisions as outdated and irrelevant and did not want to be troubled with the problems of the rest of the organization. A highly evolved bureaucracy hindered decision making at MTS. Pre-meetings before important committee meetings were intended as a buffer to ensure predictability and avoid any surprises. There was an expectation that as long as teams were successful in the work assigned, they should be kept intact. Employees didn’t want to have anything to do with the changes that MTS was faced with since the mid 1990s. They just wanted everything to go away and wanted it to be the way it had always been.

Long tenured employees at both J&J and MTS characterized work prior to the early 1990s as being clearly defined in which management was well trained in what was expected of them. According to an MTS employee, before the early 1990s, “there were clear management processes and you knew the management. ... But the management structure and system broke down [after

the early 1990s]. “Employees also rejected the new way of managing work through virtual teams, which requires peer interdependence running counter to the orientation to hierarchy and autonomy. Employees at MTS felt that the company had always been a global organization and that they were comfortable working in such an organization. However, according to some long tenured employees the trend of sharing operations virtually across different geographies was not efficient.

*“We have always operated in many countries in the world. Even over my 19 years, there have been times when some of our products were developed out of Australia and Germany. But I think more recently the model has shifted where some of our internal support calls are now answered - I believe it is no further than India. And I know that from having made the calls myself, this more recent shift has not helped us gain the efficiencies we expected and I view them as risky.” [MTS Old timer]*

Another long term employee who described himself as part of the mobile workforce at MTS, was critical of this shift due to the lack of clarity and support. He felt that a number of MTS employees feel that they are on their own. “The management team struggles with how do you foster shared values in a highly mobile workforce working in virtual teams. In our division you do not have a boss behind you [to give direction and support]. Nobody comes behind you. You feel that you are on your own.” He also lamented the breakdown in community that resulted from this shift to a mobile workforce and felt that the earlier face to face approach to working was better. “Over the last 8 to 9 years there has been a move to a mobile workforce that has eroded the sense of community here. In a face to face environment you tend to have more opportunity to meet and talk to each other and some of that builds in my mind community and more shared values.”

At J&J similar discomfort was expressed about the shift to hiring talent from the market instead of growing talent from within the organization. “This company will go outside, even though I am perfectly qualified to do that job. If you look hard enough, you are going to find somebody better than the incumbent. If you are constantly looking to upgrade your talent and

you know there is somewhere someone better, you are going to go outside and find somebody better. And if you are the one that is sort of in the middle of that circle it does not feel too good. I think that kind of sentiment is very pervasive in J&J these days. And it was not like that 15 years ago.”[Long tenured J&J manager]

### Challenges:

While long tenured employees expressed a desire for Clan values these employees also saw some problems with these values. They seemed to recognize that their desire for Clan Values was because they associated that time period as one of predictability, stability and one in which their organization was performing well. However, they also struggled to articulate how Clan values would fit in with the present business environment. Employees at MTS and J&J who expressed support for Clan value pattern also expressed an understanding that their company was competing in different times than their founder - “Yes, if our founder was still managing things, I am not sure if he would have done things this way.” Some of them also expressed an understanding that there are social changes, now young employees “may have 5 or 6 careers in a lifetime.” These were employees who had experienced the changes and seen friends from their social network being laid off and benefits plans being changed. These employees also expressed an understanding that the writing had been on the wall for quite some time and they had just not seen it or had ignored it.

### *Ethical Value Pattern*

From the data analysis I also inductively identified two new values that did not fit into the three value patterns of Clan, Performance and Collaborative. I termed the two values ethical responsibility and “stakeholder responsiveness.” Because these values seem empirically linked in my data, I conceptualized them as forming a fourth value pattern. which I call “Ethical.” I found evidence of this value pattern in J&J, and also in two secondary research sites.

*Exhibit 4.5: Summary Description of Ethical Value Pattern*

<b>Value</b>	<b>Description</b>
Ethical Responsibility	Expectation of ethical responsibility influencing decision - making.
Stakeholder responsiveness	Expectation of protecting the interests of the stakeholders.

By ethical responsibility I mean the value placed on meeting obligations to parties outside the firm: customers, the community, the society, and so on. stakeholder responsiveness involves value placed on reaching out to outside parties. These two are clearly closely related, but they emphasize somewhat different aspects of value. One focuses on meeting perceived higher obligations, while the second focuses on the value of active engagement with stakeholders who may represent those values. They could conceptually be independent – some paternalist types might believe they can represent ethical demands without actually engaging stakeholders; but in my research they generally formed a single pattern.

Value: Stakeholder Responsiveness:

At J&J the corporate value statement called the Credo was reframed in the 1980s around four key stakeholder interests. J&J employees had widely internalized this stakeholder definition of responsibility; in my interviews many of them were able to state accurately, and indicated support for, the types of stakeholders and obligations in the Credo. As one long tenured J&J employee put it:

*“[The Credo] just flows: Taking care of your patients, people, the community and the stockholders. Stockholders [shareholders] are at the end. But it makes sense if you do the first three things; then the stockholders will be taken care of automatically. [Long tenured J&J employee]*

Value: Ethical Responsibility:

I also found evidence in the interviews that employees at J&J were influenced by a value of Ethical Responsibility. They consistently linked the use of ethical values to an event in the late 1980s that threatened the reputation of the company. At this time one of J&J's leading products,

Tylenol, was tampered with and resulted in the death of patients due to poisonings. However, the CEO, by basing his decisions on the ethical values in the Credo, and rallying employees around their ethical responsibility to safeguard patient interests, was able to safeguard the company's reputation.

There are also other stories about the company's continued enactment of ethical value pattern. In 2005, J&J was faced with a problem that counterfeit alternatives to their surgical gauze product, which was used during surgery, were being counterfeited and sold as J&J's product on the market. The company from an ethical standpoint was concerned about the safety of patients. J&J felt that it was its responsibility to solve this problem. J&J had to create cross-boundary partnerships between different operating companies and divisions. The quotes below are about the challenges of that process and how the enactment of the ethical value pattern helped the company find a solution.

*"We thought about ways to correct it by adjusting the way we interacted with our wholesalers. To address it we had to call together people from a number of different companies. The medical devices and pharmaceuticals people who were facing this problem for the most part had not met each other before. But they came together around this new threat." [J&J, Senior Manager].*

Importantly, this interviewee stressed that this action was not just driven by profit or Performance values, but that the ethical dimension added important motivations:

*"We had dealt with counterfeits in pharmaceuticals before, but typically they were around benign substances that were in capsules. But when we started dealing with surgical counterfeit materials, we became less certain that our patients were safe with this stuff being surgically implanted in them. So we were committed in solving this thing and the rapidity and the intensity with which people got together with other people they had not met and worked through the delicacy of the international distribution system for pharmaceutical and medical devices was impressive."*

Indeed, it turned out that pursuing ethical values required compromising on profit and performance:

*"We came to a resolution that we knew was going to impact our customers, might*

*impact our market share that we would have to somehow make up. What we had to do was to change terms with which we worked with our wholesalers. Changing those terms was going to hurt them from a profit point of view. But since we were also committed to our business partners we knew we would have to make it up to them. We knew there was going to be a cost to this. The truth is that we did not know what the cost for solving this was going to be. But we knew we would have to solve it. And within about a three to five week period from the time when that incident occurred to the time when we had revamped the US distribution system we had an agreement right through Senior Management of the Pharmaceutical and the devices business."*

*"I have never seen anything like this in my career. For a large organization, decentralized as this, to turn and to change its policies so quickly! Every meeting you had, you just felt that first and primary concern is this going to solve the problem that our patients were facing.*

*When J&J is involved in managing issues that have a clear ethical dimension, then the enactment of ethical value pattern helps it to successfully manage those issues."*

### Challenges:

The ethical pattern, while extremely important to J&J, was often in conflict with Performance values which were also gaining strength in this period. Though the Credo was based on the belief that ethical behavior would pay off in the long term, it was not always clear to individuals and particular businesses that it would work out so neatly. There were many examples of conflict between the two principles, which I will explore a bit more later; the single-minded focus on ethical values often made it hard to find a good balance with other aspects of the business.

In general, there were also comments at J&J that the Ethical values were not able to provide guidance around non- ethical issues. Employees and managers alike described instances where the ethical values did not guide them on business problems that did not have an ethical dimension – for example, around behaviors that were leading to inefficiencies in the operations of the business and managers described difficulty in building synergies across the decentralized structure of the company.

### ***Relations Among the Value Patterns***

I found evidence of multiple value patterns in my two primary research sites: at J&J I found

evidence of Clan, Ethical and Performance value patterns, while at MTS I found evidence of Clan, Performance and Collaborative value patterns. This of course raises the question: What are the relations among value patterns? Can they simply coexist permanently, or does one need to be dominant in the long run?

The existing literature is contradictory on this point. Cameron & Quinn (2007) and Denison (1990), for example, simply plot values on a multi-dimensional chart; from this perspective a single organization can have elements of multiple patterns in any combination. Heckscher (2007), by contrast, argues that there is a developmental trend from Clan to Collaborative value patterns, with severe tension between them during the transition, and that ultimately one must be predominant.

My evidence is not sufficient for a full answer to this question. There is, however, some indication that there is a dynamic development from Clan to either Performance or Collaborative values, with tension between adherents of the three orientations:

- The tension among value patterns was very evident at MTS during the implementation of a new value statement in 2006. During discussions that actively engaged many employees, there was strong support among a subset for traditional Clan values of long-term employment and loyalty. Another group rejected these values as no longer relevant to the modern business world and advocated instead strong Performance or Collaborative values. This debate was heated and passionate. In the end the leadership put forward a value pattern that was primarily Collaborative in emphasis, and most employees quickly coalesced around it.
- In both companies, longer-tenured employees and employees who had joined the company more recently often saw the other group as profoundly different. The older

employees felt that the newer ones did not seem to feel the need for community and were not deeply committed to the company; newer ones felt that the old values were stultifying and

- Some employees continued to express a desire for returning to Clan values that, according to them, characterized the company in the past. One J&J employee said that “I only have one version of the Credo hanging on my wall – and that is the original version that the founder gave us.” He was clear that the old values were still relevant and therefore would have liked to see them return. At MTS, too, one old timer described that period as a time when the “Founder’s Corporate Values worked.” At J&J, one long tenured employee referred to the past as the “Halcyon days,” and at MTS, one newer employee referred to as the “days of the Great Corporation”.

This nostalgia for the past was heavily centered on employment security, which is central to the Clan value pattern. Employees at both companies felt that the company had been really unusual in the way that it treated its people before the early 1990s.

- A second Clan value that several people recalled from the past, and whose loss they regretted, was internal development. At J&J I found evidence that employees were unhappy because management appeared to be “valuing outside talent over capable people within the organization”.

*“So I can say we should be bringing in people (new hires from outside). But it is a matter of degree. How much talent should we bring from outside and how much talent should we push from within the company? I think that for a lot of our companies, the degree is that we are more impressed with the outside talent than we are with what we have inside.”*

- The decline of traditional benefits was a value flash-point among long-tenured employees; at MTS one employee voiced a common theme that changes in retirement



plans had “in essence broken a social contract”.

The status of the Ethical value pattern, which was strongly expressed at J&J and two secondary sites, needs further exploration. An argument could be made that it is a sub-type of the Collaborative pattern: adherents of the Ethical pattern, as described earlier, often expressed the desirability of working together across the company to respond to Ethical concerns, and were particularly pleased with incidents in which people from multiple units could come together quickly. However, the Collaborative pattern as described by Heckscher and Adler is focused heavily around company mission and does not mention the ethical focus, while those who espoused the Ethical focus at J&J almost always saw it as countering the focus on the business mission.

### ***The Evolution of Values: Tentative Patterns***

On the basis of the recollection of longer-tenured employees in interviews, as well as formal corporate value statements and archival records of the companies' histories, we can suggest a rough sequence of the evolution of values in these companies.

It is rather clear that historically both primary sites had predominant Clan value patterns: this is strongly documented in all the ways just mentioned – company histories, recollections of interviewees, and formal value statements. They were both known for strong commitment to employee security and internal development, and independent studies in the 60s and 70s have documented the values of loyal deference and hierarchical autonomy. Rosabeth Kanter (1994) in *Men and Woman of the Corporation* described the values at MTS: “Commitment, in the traditional corporation, was a matter of the bond between person and company; people were expected to be loyal to their employers” (290).

At MTS there was a business crisis in the late 80s and early 90s, followed by a formal

attempt by the CEO to redefine values. These new values espoused by the CEO fitted the Performance value pattern. The values emphasized the “marketplace and shareholder value as the primary measure of success and the driving force behind every decision”. These espoused values also tried to redefine MTS as; “an entrepreneurial organization focused on productivity” and as an organization that “has minimal bureaucracy and consistently acts with a sense of urgency”. In the list of values that the CEO wrote up, one called on the company and employees to be sensitive to the needs of each other and the community. But this was last on the list, and both long tenured and newer employees felt this value had clearly not been reflected during this period. One long tenured manager while evaluating the impact of these values between early to the late 1990s said; “the CEO did not focus on the Basic Beliefs [the traditional value statement] because it had become a negative principle.”

The new values caused a great deal of turmoil, and there were news reports of increased dissatisfaction. The implementation of these values included violations of traditional Clan values such as minimizing layoffs and providing secure benefits; this led to open displays of dissatisfaction and resistance by employees at multiple levels.

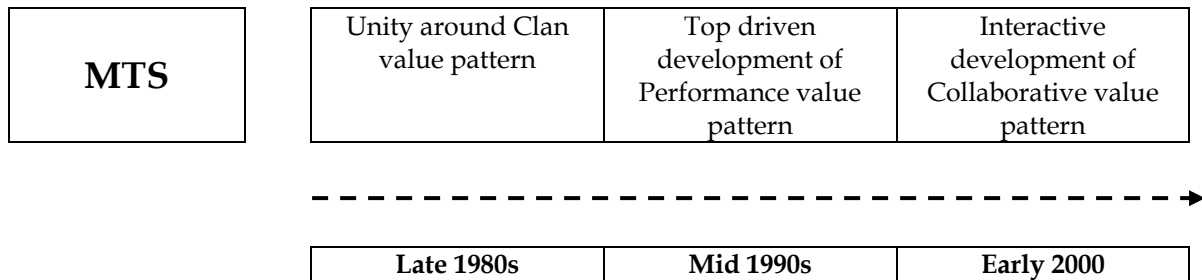
Finally, an attempt was made in the early 2000s to redefine values through a more participative process (described more fully in chapter 6). The values that came out of this process were more Collaborative. A long tenured manager explained the role of the new values as empowering employees to manage themselves on a daily basis; “We are striving to make this company [MTS] great again. We are not going to do this on our own. We have got to give our employees, colleagues, our fellow MTSers the tools by which to behave and manage themselves on a day to day basis. There are myriad constituencies that they have to serve. That is what these values are all about.” One of the new behaviors that the values at MTS espoused was a shift away from an inward focus on “individuals respecting each other” to openness and diversity thorough

“relationships [with multiple stakeholders] based on personal responsibility and trust”. Another new value reflected an expectation of more than just “excellent innovation.” The desired expectation from MTSers was of innovation “making a difference in the world”. Another new value reflected a shift from an inward focus on building excellent products for customers to offering solutions that were attuned towards ensuring customers succeeded in their own businesses. This is how the outlook towards customers was explained by an engineer in the company; “We have been using the term client because it is supposed to reflect that MTS is an organization that wants to develop a long term business partnership. We are not just looking for somebody who comes and buys some servers but we want to become business partners with the largest businesses in the world and change the way they do business.”

Our interviews occurred shortly after the first discussion of these values, and again a year later; we found far more unity around this Collaborative pattern than there had been, according to other evidence, around the Performance pattern.

Thus we can tentatively and very roughly sketch the evolution of values at MTS in this way, refer figure 4.1:

Figure 4.1: Timeline for value patterns at MTS



At J&J as well, there was a long period of unity built around the Clan value pattern, which is documented in company histories and came up during interviews with long tenured manager and employees. A product development manager described her division's structure during the 1970s as "very highly structured, very highly siloed and more bureaucratic in chain of command" and in which "a product or process thrown across the wall" still characterized the approach to doing work. Another employee described the "Johnsonizing" of the homes of employees and stakeholders during the 70s.

The Clan approach to unity was challenged during the late 1970s by Jim Burke who took over as the CEO during that time. One of the things he did as he was taking charge was to examine the need for making changes to the values stated in the Credo through a "Credo Challenge" process. It is not clear why he decided to do this, since there was no apparent business reason for doing this. There were instances during the outgoing CEO's tenure when the unity was disrupted due to the actions of some managers of the company. "Challenging the relevance of the Credo" is the rationale attributed to Burke's action in multiple sources. Over the term of his tenure which ended in the early 1990s, Burke held regular Credo Challenges, which at times resulted in changes to the Credo. He attempted to empower employees and managers to make decisions guided by Ethical values. The response to the Tylenol poisonings showed convincingly that ethical values were not merely espoused but had become widely enacted.

Subsequent CEOs have continued with this focus on Ethical values. When faced with issues that have a clearly defined ethical dimension, J&J continues to demonstrate the ability to act in a collaborative mode as it did during the Tylenol and the counterfeit product crises.

Also, J&J managers and employees consistently saw it as legitimate and desirable to question decisions taken by superiors around issues that had a clear ethical dimension. A manager reflected this in terms of, "It is not only typical that junior people can stand up and argue with superiors but it is encouraged. In the name of the Credo, you cannot accept anything that is wrong just because somebody higher in the corporation thinks it right." An employee described an incident where he questioned his superior about terminating an existing vendor's contract and appointing a new vendor. The employee felt that this violated the ethical commitment to vendors as stakeholders and debated the issue with the superior. He was able to reverse the decision and also get a more cost effective deal from the existing vendor.

However, the last time the Credo was changed was before 1993. More recently Ethical values seem to have become more top-down and espoused, and perhaps less fully enacted throughout the company. Employees and managers that were interviewed felt that there was a disconnect between the Credo as it is espoused and as it is enacted, particularly around job security. A product manager reflected this need as:

*"Because I look at that line [a sense of security in their jobs] from the Credo, to me I understand the meaning and the way the meaning has changed. But I want it to be more meaningful or more truthful, and it may be more candid if we just take that out."*

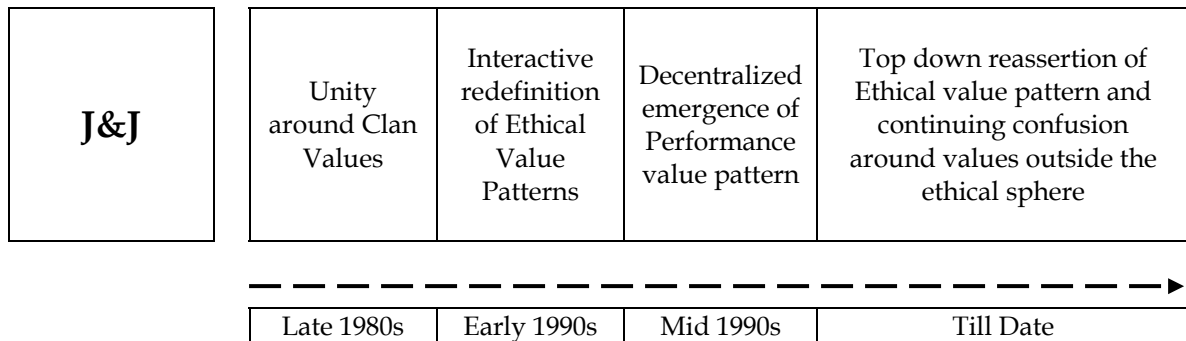
In general, since the early 1990s there has been continuing confusion about values outside the ethical sphere. In the early 1990s these fitted more the Performance value pattern. This was a period during which J&J was losing market share in its leading product lines. At times Performance values conflicted with Ethical values. A long tenured J&J employee described this

period as one in which “some decisions were being made which on the surface appeared to be smart, but they were counter to the value system,” motivated by what a manager described as “the need to bring in the numbers.”

To prevent this shift to Performance values, the CEO at that time, Ralph Larsen, conducted a number of executive conferences during the mid 1990s to emphasize the ethical value patterns. A long tenured manager recalled: “Our CEO at that time thought that there are more important things in this corporation than bringing in the numbers. When you have a rapidly accelerating business model, you can start to lose sight of what is the basis or the foundation - which is really the ethical value system.” This emphasis on the ethical values has continued to be voiced by the top leadership at J&J.

Thus we can again tentatively and very roughly sketch the evolution of values at J&J in this way, refer figure 4.2:

*Figure 4.2: Timeline for value patterns at J&J*



### **Value Patterns in the Secondary Cases**

Three of the nine secondary cases appeared to share predominantly Clan values: Cummins India, ABB and Lucent. The interview data I analyzed was collected during time periods when these companies were being restructured. In another two cases there was evidence of Collaborative values: Citibank E-solutions and Highway Hospital. I found evidence of an enacted

Ethical value pattern in two secondary cases: Aluminum Company of America (Alcoa) and Genzyme. There was evidence of an enacted Performance value pattern in two other cases: These cases were Microsoft and SMSystems. (My evidence that the values were enacted, as discussed earlier, was that stories were told by interviewees at these sites that described behavior or informal expression reflecting the values, not just public espousal.)

*Exhibit 4.6: Summary of Value Patterns Enacted in the Secondary Cases*

<b>Case</b>	<b>Primary Value Pattern</b>
Citibank E-Solutions	Collaborative Value Pattern
Highway Hospital	Collaborative Value Pattern
Microsoft	Performance Value Pattern
SMSystems	Performance Value Pattern
Cummins India	Clan Value Pattern
ABB	Clan Value Pattern
Lucent Technologies	Clan Value Pattern
Aluminum Company of America (Alcoa)	Ethical Value Pattern
Genzyme	Ethical Value Pattern

#### Clan Value Pattern

The three cases where the Clan value pattern was enacted were from telecommunications, power generation equipment and the energy generation and transmission industry. The telecommunications company was Lucent, the power generation equipment company was Cummins India and the energy generation and transmission company was Asea Brown Boveri (ABB). At the time the interview data was collected, these three companies were attempting to strategically orient themselves to solutions and had undertaken a number of restructuring initiatives.

All three of these companies were strategically trying to reorient themselves away from core products to offering integrated solutions to customers. These three companies tried to build greater customer focus by restructuring and reducing the number of product divisions and setting in place processes that were customer facing. However, the Clan values of hierarchical

autonomy, loyal deference and routinized conformity continued to influence the internal workings of the companies.

At ABB a manager explained that the convergence through processes of the different product divisions and the attempt to build “One ABB” only resulted in “increased competition between different business units. With the convergence of industries, digital convergence and product standards, many business units were competing with others for booking revenues to their main business unit”. ABB has also struggled in building the kind of strategic understanding that is viewed as necessary for the shift to solutions. According to a manager at ABB, “It is at odds with individual business unit goals. We continue to struggle with the fact the individual business unit goals are diametrically opposed to the goal of one ABB and at such times employees within these business units will overlook the goal of one ABB.” There is evidence of the value of loyal deference, which is reflected in this quote from a manager who was trying to build collaborative ventures with different units. According to him “employees from different units are still loyal to their managers from the main unit. What I hear is that there may be a sign ABB on the front door, but I still work for my main unit”. Another employee at ABB described the values that existed within the company as a “range of responses that lie between loyalty to colleagues that individual have worked with and loyalty to organizations within the company that an individual has worked for”.

According to a recent analysis by Heckscher (2007:241) “ABB and Cummins India’s attempt to force people into interdependent relationships through specific network building actions” has failed to influence the Clan values that “shape the countless daily relationships that make collaborative enterprises work”.

At Cummins India the attempt to shift to Solutions has been opposed by product managers who have traditionally been the power center of the company, and who continue to adhere to a



Clan framework. According to the CEO, the product internal focused approach to developing products is difficult to change. According to him “it is virtually impossible to get a product person to think back from the customer”. Building understanding of the shift to solutions has also been difficult. “For months he and other leaders’ effort saw only “polite nods with no sign of comprehension. At best, some saw the idea as just “glitzy marketing” for Cummins engines.”

*“Existing product-based business units are likely to view the new front-end solutions units as undermining their power and status. CIL was a case in point: before 2000, its product units were the power centers of the organization, controlling all business functions and dictating product specifications and sales priorities to the field. The tables turned with the creation of the front-end solutions units, whose leaders – interlopers from different business cultures hired at unprecedented salaries – had the temerity to criticize Cummins’s product quality, prices, and service. Product managers were accustomed to griping from customers, but they deeply resented hearing it from the new solutions people. They also had to accept losing direct control over the designated solutions accounts and being forced to negotiate and compromise over internal margins in the pricing of solutions packages.” [McKinsey Case, 2001]*

### Collaborative Value Pattern

The two secondary cases where the Collaborative value pattern was enacted were Citibank E-Solutions, from the financial sector, and Highway Hospital, in the healthcare sector.

Citibank e-Solutions was a global organization to develop a new electronic banking capability. There was evidence in the interviews that employees and managers were being influenced by the Collaborative values of interdependent contribution, openness and diversity and open dialogue. One employee expressed a positive value around diversity and change when discussing the company’s hiring of a large number of mid career professionals from the market. Unlike those with Clan values, he saw this move as positive because it brought greater variety in its workforce thinking. “There was a huge infusion of talent. We consciously looked for people with different thinking.” Another expressed the value of openness by expressing his dislike for hidden politics: “I think the time when I get suspicious is, when I hear things through Chinese whispers.”

Highway hospital in my analysis also enacted the Collaborative value pattern. This hospital had successfully built interdisciplinary collaboration within their cardiac care unit for the treatment of Congestive Heart Failure. Both doctors and nurses described their relationship as open and based on dialogue, and I observed challenging doctors in a way which is rare in other hospitals. Dietitians too felt that the doctors respected their expertise: "90% of the time a doctor would accept my recommendation to change the diet plan that he may have originally recommended." Doctors in their narratives talked about using the nurses' notes for treating patients. From others interviews there was evidence that this was rarely the case at similar such units in other hospitals.

### Performance Value Pattern

The two cases where the Performance value pattern was enacted were from the information technology sector: Microsoft and SMSystems (SMS). Microsoft is the market leader in software applications while SMS is the market leader in an alternate software and hardware system. Both companies characterize their people as independent, smart, fast and technically competent. Values influencing employee behavior have been described as "anti-bureaucratic" and "cowboy."

A manager at Microsoft described the company's culture as, "Microsoft's culture centers around fervently anti-bureaucratic PC programmers who do not like a lot of rules, structure or planning." In a case study on the design of a children's encyclopedia, this culture at Microsoft was described as being divided into two parts. One part was dominated by the engineering culture and the other part by the non-engineering employees. An employee described this split in the workforce as between technical and random people:

At SMS too employees were described as entrepreneurial and independent. A manager described employee personalities at SMS as, "every single employee believes that he or she is a free agent. As long as they get their day job done they can go off and do whatever they want -

invent new products”

Presently both of these companies are finding what market analysts have summarized for Microsoft as; “Strategically and technically the arguments for more sharing and integration across their product divisions is increasingly becoming a compelling argument” (Cusumano, 1998). And for both of these companies the expectation is that the focus on individual initiative will help them strategically reorient themselves to this greater integration of products. Based on the data analyzed from these two companies, the value pattern that is primary is the Performance value pattern.

### Ethical Value Pattern

The two cases where the Ethical value pattern was enacted were the Aluminum Company of America (ALCOA) from the aluminum industry, and Genzyme, from the biotech industry.

Alcoa is a metals and mining company that had in 2006 global operations in 47 countries. The company has grown from a \$ 9 billion in 1989 to \$ 30 billion in 2006. In an industry in which environmental and workplace safety are serious problems Alcoa claims that an important reason for achieving this growth has been Alcoa’s focus on ethics. Alcoa’s ethical philosophy is focused on paying attention to issues that are beyond the legal arena and about doing is ethically right.

*“Ethics is about doing what you should do because it is right based on commonly held values. Ethics defines how Alcoa and its employees want to be perceived by others. Ethics recognizes that it is impossible to have written rules covering every situation that might arise. Ethics goes beyond what your are required to do. Many issues associated with corporate governance lie outside the legal arena and have an ethical rather than legal nature. [Alcoa Ethics Presentation, 2002]*

One of the company’s catch phrases is “Adhering to Alcoa Values is the price of admission to work for Alcoa”. These ethical values at Alcoa according to an internal company presentation “provide the common framework for our decisions, actions and behaviors. They are our universal language - transcending culture and geography. Living our values requires us to meet

the highest standards of corporate behavior in all aspects of business – in all regions of the world.” These values were originally written by its CEO, Paul O’Neil in 1993 and were subsequently revised in 2002 and 2006.

Some important issues facing Alcoa, are workplace safety for its employees, energy efficiency and the reduction of waste, environmental degradation and environment emissions. For example, one of the projects that Alcoa was investing in Iceland was critiqued by local environmental agencies as putting at risk the second largest wilderness in Europe. Alcoa has also been faulted for unethical employment practices in Mexico and in 2004 had experienced an increase in injury rates due to accidents. The company has partnered with its unions to improve workplace safety. According to a union official, as a result of this partnership trust was built and the plant was made safer in a recent case study:

*"The strongest safety program you can have is when management and the union are jointly participating," said David "Buzz" Sawyer, safety and health chairman for the United Steelworkers of America Local 309. "Once we learned to trust each other, we were able to work together to make the plant safer for everyone."*

The company has also demonstrated stakeholder responsiveness around the issue of environmental degradation; that is often associated with aluminum mining companies. Alcoa has voluntarily partnered with environmental regulation agencies in the US and Canada to undertake environmental audits of their production facilities.

*"In 2002, the Aluminum Association of Canada and the Government of Quebec signed a covenant to voluntarily reduce an additional 200,000 tons of greenhouse gas (GHG) emissions by the end of 2007. The government signed an individual agreement with Alcoa Inc.. The covenant proposes gradual, permanent reductions that allow for growth in the industry, and acknowledge the contribution to the collective effort to reduce greenhouse gas emissions."*[First Environment Case Study, 2002]

Alcoa has also partnered with the US Department of Energy for setting up an energy efficiency network to improve its energy efficiency and thereby also conserve the communities

that it operates in.

*“The company formed an Energy Efficiency Network, made up of internal Alcoa experts, outside energy consultants, and selected vendors, and worked with DOE tools and resources to conduct energy assessments at locations worldwide identifying potential energy savings opportunities. Alcoa wants to use natural resources wisely and leave the neighborhoods where it operates better for having Alcoa in their communities.” [US Department of Energy Case Study, 2004]*

Genzyme focuses on ultra orphan drugs. These drugs have a small market demand, which are typically around 10,000 potential users globally. The company’s core strategy is to focus on unmet needs rather than use existing and new technologies for find broader applications. Due to the nature of Ultra Orphan drugs the company is faced with a number of ethical dilemmas. The company has got past these ethical dilemmas by “putting the patient first” and what has been described as an “over the top focus on patients”. This focus on patients’ interests is used as selection criteria in the company and a predictor of an employees' career development. From a case study published on the company, the Chief Compliance Officer explained this perspective in this way.

*“Some might assume that there is a tension between different constituencies in a for-profit company, shareholders being one. But if you do what is right for the patients, sustainable value will accrue to shareholders. So the commitment to providing therapy to patients is not driven by a business rational, but rather than this commitment comes first and serves as a basis for the business decisions that are made.”*

### ***Empirically Derived Values and the Four Patterns***

In this section I will discuss the inclusion of four values that had not been previously identified within the 3 broad *a priori* value patterns. The four new identified values, derived from interviews, are innovation, considerate trust, cross-boundary cooperation, and perseverance.

Exhibit 4.7: Values Included Within the Value Patterns

Value	Explanation	Freq
Innovation	Value placed on innovation and initiative	36
Fairness	Value placed on equity, especially in the corporation's treatment of employees	33
Cross-Boundary cooperation	Value placed on working across boundaries and organizational "silos" to accomplish tasks	28
Communication and Transparency	Value placed on honest communication and open sharing of information	23
Integrity	Value placed on individual honesty and consistency between espoused and enacted values	21
Considerate trust	Value placed on sensitivity and consideration towards other.	7
Perseverance	Value placed on persistence in overcoming obstacles and pursuing solutions	3

I categorized the patterning of these values into three categories:

- Values that fitted the two value patterns I had identified *a priori*. These were values that were either included within the Performance value pattern or the Collaborative value pattern. These were the values of perseverance and cross boundary. I will present below the analysis for the values of perseverance and cross boundary.
- Values that did not fit into the Clan, Collaborative and Performance value patterns that I had identified *a priori*. These were the values of considerate trust, ethical responsibility, and stakeholder responsiveness. I will present the analysis of considerate trust in this section. My analysis of ethical responsibility and stakeholder responsiveness will be presented in the analysis of Ethical value pattern.
- Values that appeared both in value patterns that were identified *a priori* and in value patterns that emerged inductively. These were the values of innovation, fairness, communication, transparency, and integrity. In this section I will present my analysis of the value of innovation.

### Cross-boundary Cooperation

The value of Cross-boundary cooperation, was expressed in statements that indicated a need for common definition of the situation and a need to break down existing “silos”

Value	Quote
Cross-boundary cooperation	“We need to improve trust especially in segmented organizations where collaboration is key, so implementing evaluation programs should reflect need to increase trust. [MTS, customer service employee] ”
	“We try to search for people without thinking about boundaries - there is a big move that we need to move away from the silos and we advocate that within the company”[MTS, Employee]

At MTS employees reflected back on the problems of the company in the past and felt that siloed working prevented collaboration between different divisions had been problematic. Their criticisms of work in the past were represented through phrases such as “you were on your own”. The challenge according to them was that the organization was large and at times it was difficult to find answers from the right person, even though you could be sure someone did have it within the organization. Their stories about MTS in the present, which were seen as closer to the desired state, expressed positive valuation of cross-brand work and the use of products such as a collaborative desktop that would allow employees from across boundaries in MTS to collaborate on joint projects. Even old timers, who had survived the changes that MTS had undergone since the early 1990s, described problems being solved in a cross boundary fashion and expressed favorable opinions about such work. Managers too expressed the need for relationships to be driven by openness to working across boundaries. They believed that doing your job only was not sufficient but there was a need to be able to build relationships.

### Two Versions of “Cross-boundary Collaboration”

The cross boundary value could be interpreted in two ways: as supporting either the Collaborative value pattern or the Performance value pattern. In the latter, cross-boundary we

would expect collaboration to be seen as a matter of individual performance: in order to meet your performance targets you need to stretch beyond your job and break the constraints of the immediate environment. I did find some of my respondents who expressed this kind of pattern, and for them I classed this kind of “cross-boundary” value as part of the Performance pattern.

Others, however, expressed a more complex pattern: they valued cross-boundary cooperation, but they also valued a sense of community or “home.” They also articulated the importance of cross-boundary collaboration not just in terms of individual performance, but in terms of the adaptiveness of the organization as a whole. For these respondents, I classed the “cross-boundary” expressions as part of the broader value of Interdependent Contribution.

Value	Usefulness	Comment	Value Folded Into
Cross boundary	Flexibility through Network relations	Need for home is important	1. Interdependent contribution (Collaborative Pattern)
	Achievement through individual action	No evidence of need for home	2. Individual achievement (Performance Pattern)

### **Value: Perseverance**

A few employees expressed a value of perseverance. These employees emphasized doing their job independently with little regard for existing value frameworks. The value of perseverance was associated primarily with the value of individual achievement and initiative. Thus I interpreted perseverance to be supportive of a performance value pattern and particularly connected to an emphasis on entrepreneurship.

Value	Quote
Individualistic perseverance	“I wanted to get a new initiative going, but I got skeptical response from my own boss. That did not stop me. I went to another department and got support and time from there.” [J&J employee]

There were some employees who felt that it was important to keep working around obstacles till a solution was found or described such employee behavior being demonstrated by



other employees. One employee from J&J described how she finally was able to get support for a project that she wanted to initiate. In my interview with her she described how she had shaped her career by transferring from one department to another trying to find a fit. She did not express the need to understand the Credo values but rather emphasized an individualistic approach to working. At MTS employees said that individualistic perseverance was widespread in the company; some saw it as positive, others as negative because it led to uncooperative behaviors.

Value	Usefulness	Comment	Value Folded Into
Perseverance	Independent action without waiting for directives	Undervalues cooperative relationships	Entrepreneurship (Performance Pattern)

A value such as perseverance could possibly be relevant in each of the four value patterns. However, in my interviews it was consistently associated with valuation of individual entrepreneurship, disconnected from more collective visions of collaboration or clan unity. I have therefore classed Individualistic Perseverance as part of the Performance value pattern.

### **Value: Considerate Trust**

Another value expressed at both J&J and MTS I have termed “considerate trust.” This value is similar to orientations described by Ouchi and others in the Clan value pattern, and in my interviews was empirically associated with expressions of other Clan values, especially among long tenured employees at J&J and MTS.

Value	Quote
Considerate trust	“We have to work on gaining employee trust. Over the last few years, trust has been deeply eroded. Because of our inconsiderate firing of people.” [MTS, Employee]
	Everyone has always been very nice. And we have all tried to be respectable and considerate of each other. [J&J, Employee]

Expressions of this value came up especially around the question of plant closures, changes being made to the benefits and the commitment to the existing value system of the company.

These employees fondly remembered the value system that the founder had instituted in the company and the caring touch that the founder had for the employees. At J&J there were stories on the founder walking around the factory floor looking after the safety of the employees, which was reflected by a long term employee as:

*"There was a fellow whose wife was very sick. And the General had asked him, "Why do you come here?" And he said, "I have children. I need my paycheck." He [the General] said, "Look your responsibility should be with your wife, I will make sure that your pay check continues. I want you to go home and take care of your wife. That is important." What the General did was to find out if he had any big bills. And he wiped it clean for him. The General was known for that. He was very considerate."*

At MTS employees described how in the past this value was "acted on a daily basis," and managers were trained and monitored based on this value. It also came up in the way employees talked about differences between newer employees and long tenured employees. At MTS, there was the view that new employees are task oriented and had no interest in engaging in "water cooler conversation". At J&J there was this lost feeling about the newer generation; "I don't know what the younger generation is lacking. My generation the baby boomer generation you were looking for security. You worked for a good company and you retire from it. You give it your all. And they took care of you". But these employees felt that increasingly this was not the case.

Value	Usefulness	Comment	Value Folded Into
Considerate Trust	Support a considerate culture and build trust	Conflicts with understanding that workplace has changed	1. Loyal deference 2. Hierarchical autonomy (Clan Pattern)

This was an indication of the need for some form of social relationships and the only one that they could think of based on past experiences were the relations derived from Clan values that they were familiar with. I therefore interpreted Considerate Trust as supporting the Clan value pattern and that the values of "Loyal Deference" and "Hierarchical Autonomy" that I had hypothesized earlier as being representative of this value.

### **Value: Innovation**

In my interviews, the value of Innovation came up in just about every interview. Employees talked about innovation in terms of new technologies, problem solving, responding to stakeholder interests and even being innovative in employment practices. Therefore for the value of innovation, the context in which employees spoke about this value became an important rationale for fitting the value within the value patterns.

On closer examination, however, it became clear that the value of Innovation took many forms which were associated with other values I have already described, and which might be a part of any of the four value patterns.

Value	Quote
Innovation	"MTS employees fundamentally believe that they ought not only to do their job but they ought to be able to innovate everyday." [MTS, old timer]
	"Innovation is a 21st century thought. It is not just being experts in what we do but it's about innovation that matters to the world." [MTS, Manager]
	"Innovation as a means certainly towards supplying the product that will be meaningful for improving quality of life for patients". [J&J, Manager]

At J&J, Innovation was often talked about as a manager did, "a means towards supplying the product that will be meaningful for improving quality of life of patients." This was indicative of innovation driven by ethical considerations to safeguard stakeholder interests and so I included it within the value of ethical responsibility. At MTS, there was also an Ethical component to some of the discussions of innovation. Here innovation was viewed as not just about what a senior manager described as, "being experts in what we do, but it's about innovation that matters to the world."

Besides this Ethical aspect, I also encountered at MTS expressions of Innovation that related to the Collaborative value pattern – a desire that it would build trust by being open and

transparent: “it [innovation and problem solving] is about trusting each other being honest and straight forward putting all the cards on the table and if someone does not follow through on the commitment hold him accountable.” I included this and similar discussions of innovation within the values of Open Dialogue and Interdependent Contribution.

There was also evidence from secondary sources that a version of innovation that supported Clan value pattern had contributed to the past crisis at MTS, since this innovation was internally focused and had missed the direction in which the market had moved in. At J&J there was evidence that innovation focused on ethical issues is incomplete since it often missed out on offering solutions for non ethical business related problems. There was also a tension between innovation driven by ethical responsibility and innovation driven by the pressures to be productive and cost efficient.

Value	Usefulness	Comment	Value Folded Into
Innovation	Driven by existing models that are internally focused	External alternatives are not considered	Routinized conformity and hierarchical autonomy (Clan pattern)
	Balances community, performance and ethics	Balances community, performance and ethics	Interdependent contribution (Collaborative pattern)
	Driven by external models and in competition with ethics and need for relationships.	Internal alternatives are overlooked	Entrepreneurship (Performance pattern)
	Search for alternate models externally and internally motivated by ethical considerations.	Overlooks non-ethical related business issues.	Ethical responsibility (Ethical pattern)

### **Concluding Comments**

The theoretical framework that I introduced in chapter 2 presupposes that shared values have implications for achieving an organization’s strategy (Kotter & Heskett, 1992; Schein, 1984/1985; Deal & Kennedy, 1982). Within this research, I identified two different views on the importance of shared values for solutions organizations in the US whose business strategy is

oriented towards offering customized products and services.

- One view is that shared values are a source of trusting interdependent relationships, providing in effect third coordinative mechanism for solutions organizations – the other two being markets and hierarchies (Heckscher, 2007; Heckscher & Adler, 2006). There is some dispute, or more often confusion, in the literature as to whether the Clan or Collaborative value pattern best supports this trust-based coordination.

The second view is that shared values operate by motivating individual performance (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1990).

- I had hypothesized that the values of interdependent contribution, openness and diversity and open dialogue would be primary in a configuration which I called the Collaborative value pattern.

I had hypothesized that the values of entrepreneurship /initiative and individual achievement would be primary in the value configurations which I called the Performance value pattern.

I had hypothesized that the values of routinized conformity, loyal deference and hierarchical autonomy would be primary in the value configurations which I called the Clan value pattern.

- I reviewed research that has attributed the success of US organizations prior to 1980s to shared value configurations that supported the Clan value pattern (Heckscher, 1994; Kanter, 1994; Kotter & Heskett, 1992; Jackall, 1988; Schein, 1985; Merton, 1983; Ouchi, 1982). Research also suggests, however, that Clan value patterns had become an obstacle to success in the post 1980s period (Heckscher, 1994; Kanter, 1994; Kotter & Heskett,

1992).

- I found relatively coherent examples of these hypothesized value configurations at the two primary and nine secondary sites in my research. In general the values did hold together in the predicted patterns.
- Some evidence, however, did not fit into the patterns predicted from the literature:
  - A pair of values frequently expressed at some companies seemed to form a distinct consistent, and unexpected, pattern which I called Ethical: the constituent values were ethical responsibility and responsiveness to stakeholder interests.
  - I had not expected from prior research some other values which turned out to appear with some frequency in my interviews – such as Innovation, Perseverance, and Considerate Trust. I found that these appeared empirically within one of the prior value patterns, or (as in the case of Innovation) took multiple forms that could be associated with several of the prior patterns.

My evidence, relying on respondent memories and historical documents, suggests that there had been shifts in values in my two primary companies over time – from Clan to either Performance, Ethical or Collaborative values, with tension between adherents of the differing orientations.

In the next chapter I will explore the link between values and strategy by examining which of these four value patterns support a solutions strategy. In the chapter after that I will review which processes effectively influence value change.

## Chapter 5: Linking Value Patterns and Strategy

In the previous chapter, I presented evidence of four value patterns that I found at the two core research sites since the late 1980s at Johnson & Johnson (J&J) and Mechanical Transmission Systems (MTS). J&J and MTS have had long traditions of emphasizing values at the workplace. I also presented evidence that these four value patterns exist in nine secondary research sites. The companies in the secondary sites are from diverse industrial segments ranging from information technology, aluminum, energy generation and transmission to biotechnology.

In this chapter I will analyze data on the relations between these value patterns and company strategies, especially strategies for highly dynamic marketplaces. Two of the above value patterns have been identified in the existing literature as supporting a dynamic strategy: these are Performance value patterns (Cameron & Quinn, 2006; Zammuto, Raymond and Goodman, 2000; Denison, 1990) and Collaborative value patterns (Heckscher, 2007; Heckscher & Adler, 2006). The Clan value pattern has thus far not been identified as one that supports business strategy in highly dynamic marketplaces (Kotter & Heskett, 1991; Ouchi, 1981).

The fourth value pattern, derived inductively from my analysis of the interviews, I have termed the Ethical pattern. I did not find existing theory in which Ethical value patterns were linked to business strategy. There is however, research from the Business ethics field that views ethics as important for organizations to fulfill their social responsibility (DesJardines & McCall, 2005; Eaton, 2004).

In this chapter, I will examine the usefulness and limitations of these value patterns for supporting strategy, especially a form of strategy that has been seen as increasingly important in dynamic markets: the solutions strategy. Through this analysis I hope to deepen my answer to the research question about the link between values and strategy in a solutions organization.

For doing this, I will first give an overview of the business challenges that J&J and MTS have faced since the 1980s. I will then present evidence about the extent to which these two organizations have oriented themselves towards a solutions strategy. Next I will present the link that I have analyzed between this orientation to solutions and the value patterns at J&J and MTS. In the analysis of this link I will examine the usefulness and limitations of these four value patterns for supporting the business strategy at J&J and MTS. This examination will also draw on my analysis of the secondary research sites that have strategically oriented to solutions.

### ***Solutions Strategy***

Today many companies are adopting a Solutions strategy aimed towards solving complex customer problems (Foote et. al., 2001). . For companies this strategy requires a shift from selling standardized products and services to integrating the different products and services within the organization with the operations of suppliers and customers. Making the shift to a solutions strategy is difficult and many companies continue to struggle to complete the shift.

The integration of solutions for clients and integration of the organization's competencies, according to Heckscher (2007), is achieved by changing the organization's strategic orientation on two dimensions: strategic complexity and strategic adaptiveness. Strategic complexity emphasizes a simultaneous focus on multiple dimensions, such as customers, geographies, and products, as opposed to the traditional focus on a single primary strategic dimension. Strategic adaptiveness emphasizes responsiveness through the capability to innovate and respond to change in the business environment. There are a small group of "Level 4" organizations that have strategically reoriented themselves to a solutions strategy on one of the two dimensions, by either being highly complex or highly adaptive. And there are some "Level 4" organizations that have strategically reoriented themselves on both dimensions, moved to both high complexity and high adaptiveness.



To analyze the link between values and strategy, I will first present my analysis of the strategic trajectories that J&J and MTS followed since the early 1990s and of the secondary cases. During this period some exemplars of US industry – including General Electric (GE), International Business Machines (IBM), Hewlett Packard (HP), Lucent Technologies, and Sun Microsystems – (Sun) had started dealing with the uncertainties in their industries by adopting a solutions strategy. Powell and DiMaggio (1983), contend that organizations in the face of uncertain conditions model themselves on other organizations. They termed this process Mimetic Isomorphism. J&J's & MTS's strategic trajectory therefore might have been influenced by the strategic choices that other US high tech companies were making.

In this section I will first present a brief overview of the business challenges that J&J and MTS faced. I will then present my analysis of the secondary research sites orientation to a solutions strategy.

### **J&J and MTS: Business Challenges since the 1980s**

During the early 1990s both J&J's and MTS's product and financial performances were under pressure from increased competition in the market place.

#### **MTS's Business Challenges:**

Till 1990, MTS was highly profitable over a long period. In the early 1990s, however, it went through a severe business crisis with large losses. It faced the possibility of bankruptcy or of being broken up into smaller companies and sold. The financial difficulty that MTS was facing can be seen in the growth rates of some of the key financial indicators of the company for this period, which is reproduced below in Exhibit 5.1 from the company's annual reports.

*Exhibit 5.1: Growth Rate of Key Financial Figures for MTS: 1984 - 1994*

Growth Rate of Key Financial Figures for MTS (in %ages)							
	1987	1988	1989	1990	1991	1992	Notes
Total Revenues	4.57%	9.05%	-5.54%	-0.34%	-2.52%	1.92%	
Selling, General & Admin	8.96%	-2.45%	2.89%	-7.79%	-5.73%	-11.65%	
Restructuring charges			Yes	Yes	Yes		1
Net Income	-28.40%	54.17%	-132.77%	66.19%	56.85%	-123.56%	2

Notes 1: Restructuring charges were incurred in 1989, 1990 and 1991.

Notes 2: Losses incurred in 1989, 1990 and 1991. Positive Growth rates in 1990 and 1991 indicate continued increases in losses.

Source: Company Annual Reports

MTS's primarily on a product line that was in decline and that was under pressure from competitors' products. The market share of MTS's main product line was rapidly shrinking due to the availability of an alternate product line which was rapidly defining a whole new market for transmission technology. According to a 1994 investment report on MTS by The First Boston Corporation, "as much as half of its' [MTS's] revenues are derived from product lines in secular decline. Maintenance [revenues], tied primarily to declining products, will also account for a significant portion of the operating profits. According to this report, the transmission industry was shifting from large scale to smaller networked systems, "excitement about a return of the large scale systems is overblown. Most demand is for a small transmission system as executives do not want to add large increments of capacity when the strategic plan calls for a shift to smaller transmission systems."

#### J&J's Business Challenges:

J&J too had been facing financial and product related challenges since the 1980s. It was trying to resurrect itself from two incidents of product tampering during the 1980s. One of its main products, Tylenol, an over the counter pain killer drug, had been tampered with and had poisoned some customers. Besides this the company was also facing new competition in the market, which required J&J to incur higher marketing expenses. Jim Burke, CEO of J&J in the

1980s in an interview to the Dow Jones in 1985 evaluated J&J's business challenges as stemming from two sources,

*"Earnings have been rocked by a series of developments. Earnings first were hurt in 1982 when the Company spent heavily - \$100 Million before taxes - to withdraw and then re-introduce its hugely profitable product line following the cyanide contamination of several capsules that killed seven people in Chicago. Most recently profit was damped by marketing costs spent to fend off new competition to Tylenol and the Company's feminine sanitary protection products."*

In the domestic industry both of its main product lines were increasingly under attack from the competition. According a Dow Jones press release in 1985, "Last year Tylenol fought off competition from two new non-prescription pain relief products sold by American Home Products Corp's Whitehall Laboratories unit and Bristol-Myers Co". The Dow Jones also reported that J&J was also losing market share to its competitors in the two leading product lines, "The Company's market share of the feminine protection products business fell to about 38% early this year from 50% about a year ago following the introduction of a new product by one of its competitors which last year grabbed 17% of the market". Internationally too the Dow Jones reported that the company was hit by a slowdown in the hospital products industry and recession in Latin America. "Profit then was hurt further by the recession in Latin America where the Company does much business by adverse foreign currency translations due to the strong dollar abroad by the withdrawal from the market in 1983 of its widely used prescription pain-killer when an unexpectedly large incidence of side effects surfaced and by the slowdown in the hospital products field." A review of J&Js' financial numbers taken from the company's 10-K financial report for the period 1985 to 1992 shows the financial difficulty that the company was facing. Refer Exhibit 5.2 a and 5.2 b.. Between 1986 and 1992 the company's net earnings, net earnings per share and percentage return on equity were erratic. The growth rate in net revenues from 1986 to 1994 fell. In 1986 and 1992 the growth rate of net revenues was negative. J&J has traditionally been a cautious company not known for taking large long term debt. However,

during this period the long term debt had increased from \$ 242 million in 1986 to \$ 1.4 billion in 1993 and to over \$ 2 Billion in 1994. These are high levels of external debt considering the fact that since 1994, J&J reached the \$ 2 billion mark in long term debt again only in 2006.

*Exhibit 5.2 a: Key Financial Figures for J&J: 1985 - 1996*

*(\$ Millions except per share figures)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Net Earnings</b>	614	330	833	974	1,082	1,143	1,461	1,030	1,787	2,006	2,403	2,887
<b>Net Earnings / share of common stock</b>	0.84	0.46	1.21	1.43	1.62	1.72	2.19	1.56	1.37	1.56	1.86	2.17
<b>% return on avg. stockholders' equity</b>	19.5	10.7	26.4	27.9	28.3	25.3	27.8	19.1	33.3	31.6	29.7	29
<b>Long Term Debt</b>	185	242	733	1,166	1,170	1,316	1,301	1,365	1,493	2,199	2,107	1,410

*Exhibit 5.2 b: Growth Rate of Key Financial Figures for J&J: 1985 - 1996*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Net Earnings</b>	-0.46	1.52	0.17	0.11	0.06	0.28	-0.30	0.73	0.12	0.20	0.20
<b>Net Earnings / share of common stock</b>	-0.45	1.63	0.18	0.13	0.06	0.27	-0.29	-0.12	0.14	0.19	0.17
<b>% return on avg. stockholders' equity</b>	-0.45	1.47	0.06	0.01	-0.11	0.10	-0.31	0.74	-0.05	-0.06	-0.02

*Source: Annual Reports*

### Industry Outlook:

In addition to these problems, the industries of which these companies were part of, were facing strategic challenges. I have analyzed these strategic challenges based on the reports put out by Data monitor, Bear & Sterns, First Boston and Credit Suisse. Industry analysts of the sectors in which MTS was operating were predicting that there was a lucrative business opportunity in consulting services. According to them the industry was increasingly moving away from products towards an "Integrated Architecture (IA)," which I treat as a form of Solutions strategy because it involves combining capabilities from various parts of the

organization to provide integrated and customized solutions for customers. This shift, according to Data monitor, was a multibillion dollar business opportunity in providing consulting in transmission systems for MTS. According to Data monitor, MTS was the dominant market leader in the services segment of the industry.

For the pharmaceutical sectors in which J&J was operating, analysts forecast that the forces influencing the strategic orientation of the companies in this sector would have to be different from the previous business model. According to Andersen Consulting's market research report in 1998, the business model depended essentially on the management of drug discovery and development, which was increasingly becoming untenable.

*"Drug makers are under intense pressure to accelerate drug discovery and development. A recent study by the pharmaceuticals and medical devices practice of Andersen Consulting reports that in order to keep pace with industry growth rate of 10 percent, the top global players will need to launch at least five "significant" new chemical entities (NCEs) per year with a sales potential of greater than \$350 million per year. ... However, as the Andersen Consulting study outlines, the industry is not on track to deliver at this level. The top drug companies have launched an average of only 0.45 NCEs per year between 1990 and 1994, and historically only 8 percent of product launches have reached sales of \$350 million."*

According to Data monitor, the future of the industry would depend on convergence of technologies, "scientific innovation through technology convergence and the need to adopt and commercialize new technologies quickly" – which leads in the strategic direction that I have been calling "Solutions." One example of this is a "Global Healthcare Exchange" jointly set up by some companies including J&J in the pharmaceutical sector. The Global Healthcare Exchange (GHX), is a "privately held trading exchange that will provide a single source for customers' healthcare purchasing decisions."

*"Other companies have recognized that the true value of the Internet lies in removing the middleman between them and their customers and have gone it alone. A prime example of that is the recently announced cooperative of Johnson & Johnson, GE Medical Systems, Baxter, and Abbott Laboratories, formed to create a global healthcare exchange. According to a Baxter press release, the new privately held trading exchange will "help healthcare providers make quicker, more efficient*

*purchasing decisions by simplifying business processes and providing a single source for customers' healthcare purchases."*

Given this background, both J&J and MTS had started to strategically reorient themselves in the early 1990s. This was undertaken to overcome the business challenges that they were facing and due to the competitive pressures that they continued to face in their industries. In the next section, I will map the strategic trajectories J&J and MTS followed from the 1990s till 2006.

### **Strategic Orientation to Solutions – Core & Secondary cases**

Since the 1990s one of the contentions in the strategic management research has been that organizations have to be rethought. Strategic management scholars have posited that an organization's competitiveness will depend less on core product strengths and more on a company's ability to build a portfolio of competencies that spawn core products (Heckscher, 2007; Kanter, 2001; O'Reilly & Pfeffer, 2000; DeGeus, 1997; Ramirez, 1997; Heckscher & Donnellon, 1994; Prahalad & Hamel, 1990; Bartlett & Ghoshal, 1988; Porter, 1986). Competing based on competencies also requires the ability to coordinate diverse production skills and integrate multiple streams of technologies for the purpose of delivering greater value and variety to the customer. Essentially these multiple competencies are the collective learning accumulated by an organization and involves a deep commitment to collaborating with internal and external stakeholders across organizational boundaries.

### **Strategic Orientation: US Exemplars**

In my search for evidence of the shift from products to solutions, I examined the financial data of some exemplars in US industry and of the cases in this study. One way to approach it is to use service revenues as a proxy for the shift to solutions strategy. In the McKinsey quarterly in 2001 it was reported that the shift to solutions would be accompanied by an increase in service revenues, "Solutions are proving lucrative for many companies, even as the profitability and growth of their products have come under pressure. In the case of IBM, \$ 38 billion of its revenue

– 43 percent of the total – now comes from the solutions related businesses it has developed since the early 1990s. The market rewards this growth generously, seeing it as durable shareholder value built upon hard-to-copy capabilities, light capital investment, and customization that resists commoditization.”

A MIT study published in 2006 on “Charting a path toward integrated solutions”, also finds that the shift to solutions would be accompanied by an increase in service revenues, “By the late 1990s, revenues obtained by servicing an installed based represented from 10 to 20 times the value of new product sales..... Across a range of manufacturing companies, service revenues now represent an average of over 25% of total revenues. For some, such as Rolls Royce and IBM Corp., services that add value to the physical product now account for more than 50% of their revenues.”

The financial data would reflect this shift away from products to solutions by a fall in revenues from products and an increase in revenues from a different category. For example, IBM, in its 2007 annual report, stated, “This is why [choice between differentiated business model versus size, volume and thin margins] we’ve exited businesses like PCs and hard disk drives, and why, through a combination of internal R&D shifts and acquisitions, we have substantially strengthened our position in emerging, higher value spaces, such as service-oriented architecture (SOA), information on demand, business process services and open, modular systems for businesses of all sizes.” In the 2006 annual report, IBM also reported increases in its service revenues from 2005 and that over half of its revenues were from services, “Revenues from our two Global Services segments in 2006 totaled \$48.3 billion, an increase of 2%. Services’ share of IBM’s segment pretax profits increased to 37%. Revenues from the Global Technology Services segment totaled \$32.3 billion, an increase of 3%”. I also examined archival and interview data of strategic changes in the core cases and looked for evidence that would indicate the shift to

solutions. This evidence is presented later in this section for MTS and J&J.

Thus we can use the mix of product and service revenues, though with considerable caution, as a rough indicator of a shift to solutions strategy. A rise in services revenue does not automatically mean a move to solutions: a company could simply shift its entire focus from products to services. On the other hand, a shift to solutions would almost always involve a relative rise in service revenues, as indicated in the literature above, because a solutions strategy involves drawing greater value from services accompanying the sale of products. On the whole, it is unlikely that companies will simply shift from products to services, which would involve a complete shift in capabilities; it is more likely that they will try to increase revenue from services integrated with their existing product lines. Therefore a shift in the product-service mix is a good confirmatory indicator of a move to a solutions strategy.

I examined the financial figures of GE, IBM, HP, Sun, Microsoft and Lucent that Heckscher (2007) contends have made the shift to solutions. Each of these companies except Microsoft reported revenues under two heads, product and service revenues (Refer Exhibit 5.3). GE, similar, to IBM has significantly reversed the composition of its revenues. At both of these companies now, over 50% of their revenues are from service activities.

At HP, the percentage of service revenues over total revenues fell from 25% in 1992 to 19% in 2006. However, from the financial data and case studies on HP there is evidence that the company's attempt to shift from its product focused approach towards a solutions strategy has achieved limited success. One of the reasons that the product revenues are high is that in 2002 HP merged with Compaq which increased its revenues from the previous year by close to \$ 20 Billion. Still the 19% service revenues in 2006 are equivalent to \$ 17 billion. HP has strategically viewed the services business as important and has increased its rank from 7<sup>th</sup> to 3<sup>rd</sup> in this segment but is still facing difficulty. According to the head of HP's services unit, "HP moved



from being the seventh- or eighth-largest service provider to being the third largest. HP executives felt that the company had a large enough service business that it would get considered for any major contract. Despite this improvement, some analysts doubted HP's ability to match IBM, the industry-leading service provider." In 2000 HP, had tried to acquire Price Waterhouse Coopers for developing their own IT consulting capabilities and competing with IBM.

While Microsoft does not report service revenues separately they too have tried to make the shift into the IT consulting services market through a joint venture with Accenture previously known as Anderson Consulting. Two other cases, Sun and Lucent, only started reporting their product and services revenues separately since 1997 and 2002 respectively. Prior to this period, their revenues were reported under one head – "sales revenues". Even within the way services and product revenues were reported, each company had a different approach to reporting these revenues. In my interpretation this is indicative that the shift to solutions is at an early stage but well underway in some US exemplars such as GE and IBM.

*Exhibit 5.3: Product Revenues & Service Revenues to Total Revenues*

	GE		Lucent		HP		IBM		Sun	
	PR/TR	SR/TR	PR/TR	SR/TR	PR/TR	SR/TR	PR/TR	SR/TR	PR/TR	SR/TR
<b>2006</b>	39%	59%	74%	26%	80%	19%	25%	53%	63%	37%
<b>2005</b>	40%	59%	77%	23%	80%	20%	27%	52%	64%	36%
<b>2004</b>	36%	63%	79%	24%	80%	19%	32%	48%	64%	36%
<b>2003</b>	37%	62%	79%	21%	81%	19%	32%	48%	66%	34%
<b>2002</b>	42%	57%	78%	22%	81%	18%	34%	45%	68%	32%
<b>2001</b>	42%	58%			83%	16%	39%	41%	73%	27%
<b>2000</b>	42%	57%			85%	15%	43%	38%	82%	18%
<b>1999</b>	43%	56%			85%	15%	43%	37%	85%	15%
<b>1998</b>	44%	56%			85%	15%	43%	35%	86%	14%
<b>1997</b>	45%	53%			85%	15%	46%	25%	88%	12%
<b>1996</b>	43%	56%			86%	14%	48%	21%		
<b>1995</b>	47%	52%			86%	14%	49%	18%		
<b>1994</b>	51%	48%			77%	23%	50%	15%		
<b>1993</b>	49%	50%			76%	24%	49%	15%		
<b>1992</b>	52%	47%			75%	25%	52%	11%		

Source: Mergent Online Annual Reports

### Strategic Orientations

#### *Strategic Orientation: MTS*

Secondary archival and interview data of MTS's strategic trajectory indicates that MTS has since the mid 1990s increasingly and explicitly oriented itself towards a solutions strategy. MTS has increased its strategic complexity through divesting product divisions and investing in technologies that enable flexible integration. The company sold off divisions that offered products used in transmission storage and distribution. It also sold off another profitable product division to a company in China. At the same time it invested in companies in Australia, New Zealand, Europe and Asia that specialized in system integration and transmission standards.

After the new CEO joined the company in the early 1990s there were three strategic decisions made at the company that provides evidence of this strategic shift. One was the decision to keep MTS together as one unit and not to break it up. The second was to bring the customer at the center of MTS's business model by restructuring the company and pushing for the company to go to the market as One MTS. The third decision was the strategic shift to an "Integrated Solutions" business model in the early 2000s. In MTS, which was one of the primary research sites, I found that revenues from products as a percentage of total revenues had fallen from 52% during the early 1990s to 25% in 2006. On the other hand service revenues as a percentage of total revenues increased from 11% during the early 1990s to 53% in 2006.

The strategic reorientation as One MTS was initiated by the integration of different divisions inside the organization to improve coordination and control across boundaries. The sales organization was restructured from focusing on geographies and products to focusing on global sales. To help the company improve on its responsiveness to customers' demands and complaints, a customer relationship management function was introduced and staffed. Teams of

sales and service staff were created to focus on needs of key customers. The company also developed a cadre of product executives who would help integrate the work of the sales organization and the R&D units. The company also outsourced noncore manufacturing activities, which were high cost operations. The supply chain process was also integrated with the intention of focusing on customer needs. A senior manager at MTS explained to me how the supply chain was being linked to services:

*“The Integrated Supply Chain business is now the fourth-largest business unit. We handle the procurement and management of billions of dollars in supplies, equipment, parts, and services contracts – in essence all of the goods and services that MTS businesses need to build and distribute their products and run the company. We outsource much of the technology to support these processes to the Global Services, where it has become the foundation for new service offerings that we could sell to customers.”*

From 1998 onwards, the company made the internet a key component in its product and services delivery platform, which has been reported in its annual reports, analysis by Data monitor and case studies on the company. The company shifted its focus from developing new transmission technologies to integrating the transmission technology with internet based technologies. Through this integration MTS would be able to provide customized services based on the customer's specific needs. MTS acquired a number of leading transmission technology companies as part of this strategic shift. MTS had completed a large number of e-business/Web services consulting engagements by 2000. The revenues generated by the consulting services arm of the company during 2000 accounted for more than 35% of MTS annual revenues.

By 2003, another CEO, who had taken over MTS, pushed the company's strategy further towards solutions by increasing MTS's strategic complexity and adaptiveness. This CEO introduced an “Integrated Solutions” strategy. Essentially this strategy proposed a “seamless business process integration and collaboration across organizational and industry boundaries [for delivering customer solutions]”. This strategic shift requires the integration of technology,

research and customer insights. As part of this shift the company acquired a large pool of business consultants with expertise in different industries.

As part of this strategic shift, MTS puts together virtual teams consisting of researchers, consultants and sales executives from different divisions of MTS, based on the clients' problem. These teams focus on the client's key problems and develop solutions by drawing on MTS's in-house expertise or through alliances with external service providers. Managers and employees viewed this strategy as offering the right mix of technology and expertise for solving customer problems and not for selling a product or service. According to a senior technical manager MTS:

*"We are making great strides already by applying research and development talent on business, engineering and scientific services. Clients have access to the analytical minds of our mathematicians our scientists and engineers. They have started to see the results of this. Not only are we doing in this in research but we are doing this in development as well. We have created Integrated Solutions centers in research. These are opportunities for us to become intimate with our customers on a technical basis, and try to figure out given our expertise how can we solve their thorniest most challenging business problem."*

Another employee who had worked at MTS for over 19 years equated the Integrated Solutions strategy to the strategy of the founder. In his opinion this strategy was the next step for the company to sustain its greatness. He also describes working together on a project through a virtual team:

*"In the last four or five months I have been involved with a worldwide team called the global integration portal project. We are trying to bring together in one place anything and everything that a manager needs to do their job. We have serviced well over 20,000 managers in many countries. We have a common approach a common look and feel of how they accomplish their task; approving things, looking at employee information and client information."*

*Exhibit 5.4: Shift from Product Centric to Integrated Solutions Strategy at MTS*

<b>Time Period</b>	<b>Strategic Orientation</b>	<b>Quote</b>
Early 1990s	Product Centric Transmission Technology Business	"As much as half of its' [MTS's] revenues are derived from product lines in secular decline. Maintenance [revenues], tied primarily to declining products, will account for as much as \$0.3 billion in operating profit in 1994 adjust "[Credit Suisse, 1989]
Mid 1990s	Bringing Customer Focus and internet enabled delivery platforms	"The Integrated Supply Chain business is now the fourth-largest business unit. We handle the procurement and management of billions of dollars in supplies, equipment, parts, and services contracts—in essence all of the goods and services that MTS businesses need to build and distribute their products and run the company. We outsource much of the technology to support these processes to the Global Services, where it has become the foundation for new service offerings that we could sell to customers." [Senior Manager, MTS]
Early 2000s	Solutions based on integrating existing product technologies and industry expertise	"We are making great strides already by applying research and development talent on business, engineering and scientific services. Clients have access to the analytical minds of our mathematicians our scientists and engineers. They have started to see the results of this. Not only are we doing in this in research but we are doing in this development as well. We have created Integrated Solutions centers in research. These are opportunities for us to become intimate with our customers on a technical basis, and try to figure out given our expertise how can we solve their thorniest most challenging business problem." [Senior Technical Manager, MTS]

The shift to One MTS focused on the consumer and then to "distribute networking transmission technology" and now more recently the announcement of the "Integrated Solutions" strategy by MTS, has marked a shift to higher strategic complexity and to increased strategic adaptiveness. Thus MTS has shifted from its large scale systems strategy in the 1980s, which was primarily product based, to a solutions oriented Level 4 organization by the early 2000s. Refer Exhibit 5.4.

#### *Strategic Orientation: J&J*

J&J's shift to solutions is not as clear cut as MTS's. From the financial data I did not find evidence of a shift away from product revenues. But from the way J&J was described in annual reports, interviews given by different CEOs senior managers and employees and internal

company reports, I found evidence that J&J too is *trying* to move from a solely product centric company that was focused on the management of drug discovery and development to convergence of existing healthcare technologies and the use of the internet in the delivery of such integration of healthcare technologies to customers. Since the late 1990s, J&J has been trying to offer integrated solutions to its customers, but is having difficulty in doing so. They have increased their strategic complexity and adaptiveness but have not moved into the Level 4 zone yet. Refer Exhibit 5.5.

A November 2007 press release by the company expressed a pure Solutions aspiration:

*We have the know-how across the pharmaceutical, biologics, devices, diagnostics and consumer businesses to bring completely new solutions to market. And we believe we can accelerate growth through a dedicated focus on the intersection of our existing capabilities, customer needs and emerging trends."*

In the annual reports till 1995 the company described itself as "the world's largest and most comprehensive manufacturer of health care products". However, in the annual reports from 1997 onwards, the company started describing itself as, "the world's most comprehensive and broadly-based manufacturer of health care products, as well as a provider of related services". This is early evidence of a strategic orientation towards solutions through an increase in strategic complexity.

The strategic orientation towards a solutions strategy of J&J is also reflected in the way that the CEO's have spoken about the company since the 1980s (refer to Exhibit 5.4): there has been a steady progression from a strategic view based on individual products, to one that emphasizes the integration of multiple products and services and a focus on customer needs. Jim Burke, the CEO during the 1980s, while talking about the company's strategic moves to the Wall Street Journal in 1985, described it around different products. This emphasis on products is less visible in the 1990s. During the 1990s, Ralph Larsen, the CEO, in an interview with Dow Jones, described

the company as, “not just deriving its strengths from diverse products” but also from being a “broadly based business” with a “geographic spread” and research which was scientific and focused (Dow Jones, 1990). Bill Weldon, the present CEO, in an interview with CNBC, described the company’s strategic orientation as examining “how the integration [across its different businesses] goes together” (CNBC, 2005). He gives the example of “when you look at that [different businesses in J&J], our cardiovascular business, the CRM business, you want to know how exactly do those fit together and what are the strengths each brings?”

*Exhibit 5.5: Shift from Product Centric to Solutions Strategy at J&J*

Time Period	Strategic Orientation	Quote
1985	Product Focused	“The CEO of J&J, Jim Burke said the company moved briskly to bring out Tylenol in "caplets," a pill that is a combination capsule and tablet that is selling well and is yet to be copied by competitors. Also, the "painful" decision two years ago to pull the prescription painkiller Zomax from the market will save lives and protect the company from potentially devastating financial damages. Zomax had quickly become one of the company's best-selling products, but encountered problems with side effects.” (Wall Street Journal, 1985)
1999	More than just product focus only	“We're comfortable being a broadly based company," he [Ralph Larsen, CEO, J&J] said, adding that the company derives its strength not only from its diverse product base but also from its geographic spread. J&J is satisfied with another area of competition - research and the capital and resources devoted to it, the CEO said. "We have plenty of critical mass." He said the company spent \$2.3 billion on research last year and \$9 billion over the last 5 years. "The question is not of money," he said, "but of how you deploy the research, how focused it is and how good your science is." (Dow Jones, 1999)
2005	Strategic shift towards solutions	According to Bill Weldon, CEO, J&J: “J&J people really look at how the integration goes together. For example, when you look that [different businesses in J&J] the endo- cardiovascular business, our cardiovascular business, the CRM business. How exactly do those fit together and what are the strengths each brings?” (CNBC/ Dow Jones, 2005)

Source: Dow Jones News Service 1980 to 2006

The strategic orientation towards solutions is also visible in some of the new subsidiaries that the company has set up. A timeline of some of the new subsidiaries that were formed since

the mid 1990s, and which is based on the company's annual reports, is summarized in Exhibit 5.5. The focus in these subsidiaries has shifted from products to systems and processes. Some of the subsidiaries have been created for providing a single interface for customers to the diverse products and services of J&J.

Senior managers and employees reported in their interviews about their difficulty in building synergies between divisions to create companion products. There is also an ongoing attempt to create an integrated supply chain between the different subsidiaries. This supply chain is intended to help J&J collaborate across organizational boundaries to develop synergies in technology, asset, procurement, human resource and maintenance for its clients. A supply chain manager described the focus areas of this as:

*"We work on different areas. We work on Asset Management -- basically trying to get similar campuses around the world to leverage the entire infrastructure on that campus. So one HR group will handle all the company. Similarly one finance group and one maintenance group. We are also looking for technology synergies. So for the first time we are talking about people between the groups that have really executive potential. And then there is procurement. That group has only been put together in the last year."*

Another integrative initiative is the J&J Sales and Logistics Company, formed in 1997. At that time it was described in the J&J annual report as a "one point of contact" for customers. From press releases, it appears that J&J is trying to develop integrated products for its large institutional customers and hospitals. J&J has also partnered with other organizations to form a Global Health Exchange, intended to provide a single source for customer's healthcare purchases (Data monitor, 2007).

However, it appears, based on internal reports and interviews with employees that J&J is still attempting to make headway in developing customized solutions for its customer base. According to the supply chain manager, the attempt to build synergies across the supply chain had not yet resolved the tension between competing priorities. "We really have not worked



through these conflicts, between primary responsibilities and shared responsibilities with others yet.” A sales manager described to me an instance of competing products sold by two different subsidiaries, which were for the same disease. “I can give you one example of how we could have some products that compete with each other that are in two different operating companies. We have a proton pump inhibitor, which is for treating Gastro Intestinal (GI) problems and is a prescription product. And one of our consumer companies has another product which is an over the counter drug. They do compete in the marketplace, so to speak, for similar kinds of patients.” While there is qualitative evidence of J&J’s orientation to solutions, unlike some of the exemplars analyzed above, GM, IBM & Sun Microsystems, there is no trace of this shift in the financial reporting of J&J.

As of 2007, J & J’s financial statements still reported revenues under one single head of total sales. The fact that J&J doesn’t account for services on its financial statements the way that other companies do, is also an indicator that it has yet to make the strategic transition from products to services.

*Exhibit 5.5: Description of Subsidiaries that are Solutions Organizations*

<b>Subsidiary Name</b>	<b>Annual Report Year</b>	<b>Description &amp; Comment</b>
J&J Sales and Logistics Company, LLC	1997	In 1997 it was intended as a “one point of contact” for Consumer products customers and in 2005 it has been described as a provider of “sales, marketing and logistical services” and “leadership for an emerging global customer base in the areas of transportation, enterprise-wide systems, business processes and global customer development.”
J&J Gateway	2000	This has been described as a source for information created for health care professionals by devices and diagnostics companies. Accessed in a global Internet destination are product information, clinical content, professional education, patient materials, and in many countries, e-commerce transaction and inquiry capabilities
J&J Health Care Systems Inc	Before 1990	This division describes itself as “one interface to J&J products and health management services” and

		"provides account management and customer support services to key health care customers, including hospital systems and group purchasing organizations, leading health plans, pharmacy benefit managers, and government health care institutions. The company also provides contract management, logistics and supply chain functions for the major J&J franchises".
J&J OMN, Inc.	2005	"Provides innovative prescription medicines for primary care providers, hospitals and other health care facilities."
J&J Scan Inc.	Before 1990	Has changed its description from "developing, manufacturing and marketing products" to being "dedicated to improving the quality of life for people with diabetes by developing, manufacturing and marketing a wide range of glucose monitoring systems and software" with the aim to transform this information into actionable health care.

Source Annual Reports 1990 to 2006

The shift to Broad Based Business through decentralized subsidiaries denotes a mid level increase in adaptiveness while the recent attempt at integration and fitting together is a mid level increase in strategic complexity. J&J is trying to move towards a solutions strategy but is facing challenges in completing that move.

#### Strategic Orientation: Secondary sites

For the nine secondary cases in this study, only Lucent and SMSystems [a pseudonym] provided evidence of increased service revenues in their financial statements . over the last 15 years. I also analyzed archival data, and where available, internal reports and interviews, to ascertain the strategic orientation of the nine secondary cases. Data sources for the secondary sites are summarized in Exhibit 5.6. Based on this analysis, I concluded that Genzyme and Alcoa were not strategically oriented to solutions. The analysis for the remaining seven cases is presented below.

*Exhibit 5.6: Summary of Data Sources for Secondary Cases*

Research Site	Interviews	Company Documents	Published Documents
ABB	10 interviews by members	Annual reports from	Heckscher, 2007; McKinsey

2000	of project on Collaborative Enterprise in 2000.	1997 – 2007 and confidential internal reports	Case, 2000.
Alcoa		Annual reports 2000 – 2007; Ethics Presentation, 2007; Safety Case Study, 2007	Ethical consumer report, 2002; US Department of Energy Case Study, 2001, 2003,2004; HBS Case Study, 1991, 1999; Data monitor, 2007.
Citibank e-Solutions 2002	20 interviews by members of project on Collaborative Enterprise, 2002.		Heckscher, 2007.
Cummins India 2000	Interviews and experiences by members of project on Collaborative Enterprise.		Heckscher, 2007; McKinsey Case, 2000.
Genzyme		Company brochures and pamphlets from Laboratories in New Jersey, 2008.	Case Study, 2006; Data monitor, 2007.
Highway Hospital 2008	17 personal interviews as a member of project on Healthcare in 2008.	Hospital Website and information documents accessed 2008.	Heckscher, Rubinstein et. al. 2008; Joint Commission, 2007; NJ Hospital Report, 2007; American Hospital Directory, 2007.
Lucent 2000	1 personal interview and 20 interviews by members of project on Collaborative Enterprise, 2000.	Annual reports from 2000 – 2007	Heckscher, 2007; Data monitor, 2007; Mergent Online, 1992 - 2007.
Microsoft Corporation		Annual reports from 2000 – 2007	Heckscher, 2007; Data monitor, 2007 Mergent Online, 1992 – 2007; Gawer & Cusumano, 2002; Cusumano, 1998; Moody, 1995; Ichbiah & Knepper, 1991.
SMSystems 2001	Interviews and experiences by members of project on Collaborative Enterprise.	Annual reports from 2000 – 2007	Heckscher, 2007; Data monitor analysis, 2007; Mergent Online, 1992 – 2007; Gawer & Cusumano, 2002; Case based on interviews and experience, 2000 for project on Collaborative Enterprise; Southwick, 1999.

### *SMSystems*

The analysis of SMSystems [a pseudonym] comes from first-hand accounts and secondary research data. SMSystems, like Microsoft Corporation, and IBM is an organization existing in a

highly competitive landscape. The company has been a long-time proponent and supporter of open source code and cross-industry convergence of its products and services. The company has consistently tried to increase its strategic complexity by moving itself higher up from selling diverse stand-alone hardware and software to offering integrated solutions across diverse customer segments. The company's professional services, providing high-end consulting on complex projects became one of the fastest-growing parts of the company.

SMSystems has also been successful in creating a front-to-back structure that facilitates its ability to deliver on the solutions model. The company has developed a number of collaborative mechanisms around priority areas. However firsthand accounts indicate that this success is tempered by what SMSystem's managers describe as an "independent cowboy culture". This culture prevents the company from building truly extended collaborative mechanisms.

*Exhibit 5.7: Orientation to Solutions Strategy of Secondary Cases*

<b>Case</b>	<b>Solutions Strategy</b>
Citibank e-Solutions	High on complexity & adaptiveness
SMSystems	High on complexity
Microsoft Corporation	High on adaptiveness
Highway Hospital	High on adaptiveness
ABB	Moderate complexity and adaptiveness
Cummins India	Moderate complexity and adaptiveness
Lucent	Moderate complexity and adaptiveness
Genzyme	No
Alcoa	No

#### *Microsoft Corporation*

My research on Microsoft Corporation is based on secondary data drawn from on site observations, confidential records and books written by researchers from Rutgers, MIT and media reports on the company's software products development process. A summary of the research base for Microsoft Corporation is given in Exhibit 5.6. The Company has a well-developed adaptive capability built around concurrent engineering, strong process management, reviewing and learning mechanisms and acquisitions. They have the capability for fluidly

constructing small product development groups that are acutely aware of the need to be first on the market and the need to integrate their work with other product development teams. The product development is also driven by the need to make the Microsoft look and feel like a consumer-preferred standard. The operational fluidity is supported by standardized processes, such as the need for software architects who may work on multiple projects but will focus solely on those projects that are close to release dates. The company also optimizes lessons learnt in various product development teams through the creation of tools that can be used across different products.

However, Microsoft presently focuses its strategy on developing products that can be used on the internet have not yet developed a services approach centered on customized solutions to differentiated customer preferences. At the center of most decisions, ranging from the direction that the company has to take to the products that have to be developed, sits the CEO and founder of the company. So while Microsoft has a high adaptive capability, its complexity is at a middle level. There is some evidence in the form of internal office communications that the company is trying to move towards an integrated services model and the company had in 2000 set up an IT consulting division to tap into the IT consulting services market. So Microsoft is a company that has high adaptiveness with mid-level strategic complexity.

#### *Citibank e-Solutions*

The Citibank e-Solutions case is based on the data collected for the project on Collaborative Enterprise by Professor Charles Heckscher. A summary of the research base for this case is given in Exhibit 5.6. Citibank e-Solutions was formed to deliver the bank's complex financial products online to its external customers using the internet. This organization is focused on both internal customers, which are the Citibank product divisions, and external customers who are the end users of Citibank financial products.

Citibank e-Solutions had, like MTS, successfully oriented itself to both high strategic complexity and strategic adaptiveness. Its products were internet enabled systems that provided complex and integrated platforms for customers working across countries and with multiple constituencies. To develop the products, the organization had also created cross-functional teams that could be flexibly configured around different internal and external customers' needs. The structural changes made to the organization in 2001 were described in a case study by Heckscher (2007):

*"One manager was responsible for facing "outward" against the industries and regions; another for focusing "inward" on the key E-Solutions initiatives; and a third had responsibility for commercializing any new solutions brought to the marketplace. Geographies remained with the country leaders; there were E-Solutions teams within each major geographic area, as well as teams that cross-cut geographies."* (88-89)

#### ABB

The research base for ABB is summarized in Exhibit 5.6. ABB too has tried to make the shift to a solutions strategy. It has attempted to increase both its complexity by increasing its focus on customers and its adaptiveness by creating a decentralized structure. However, it has had limited success. ABB has made an organization-wide effort to develop products and services based on a dialogue with customers having different needs. This strategic view was described by a senior manager as "Collaborative Commerce". An internal report by McKinsey from 2000, sketched ABB's strategic vision:

*"The vision rests on the idea of "collaborative commerce" between suppliers, manufacturers and customers. At present, large firms such as ABB have broad portfolios of products that are marketed to thousands of customers in many different ways. This tends to limit efforts to make processes more efficient. Typically, companies have focused on making research and development work more closely with their own engineers and sales teams and with suppliers, but not with customers. All that is changing, thanks to new ways of interacting with customers, particularly via the Internet. By rigging its approach to focus on customers, ABB can deliver genuine efficiencies. Ideally, its businesses will operate in a seamless way, with information always trickling to where it can be useful and knowledge quickly being shared across the group. The goal is "highly flexible mass customization" for four groups of customers: in process industries, in manufacturing and consumer industries, in utilities, and in oil, gas and petrochemicals."*

The internal company report on ABB also reports that at times ABB has also taken on turn-key projects, such as the building of the Oslo airport, for which they believed that they had the capability to integrate all the elements for executing the project. However, their ability to collaborate across the decentralized divisions has been highly restricted by the decentralized structure and the power held by the product managers in the organization. A consultant, who was quoted in a subsequent internal report in 2002, described the problem as, “The “one ABB” approach is at odds with individual business unit goals. We continue to struggle with that”. Another manager described the problem as being a cultural one where product divisions are still loyal to their managers from that product division. What I hear is that “there may be a sign ABB on the front door, but I still work for X division” (Internal report, 2002).

### *Highway Hospital*

Highway Hospital [a pseudonym] is a teaching hospital located in New Jersey. A research team led by Professor Saul Rubinstein, conducted interviews about treatment of Congestive Heart Failure in the Cardiac care unit of the hospital. This secondary data is drawn from on site observations, confidential records and case studies by researchers from Rutgers. A summary of the research base for Highway Hospital is given in Exhibit 5.6. The CHF patients in this hospital were scattered throughout the hospital and yet this unit had achieved high levels of care for CHF patients. This unit demonstrated high strategic adaptiveness and low strategic complexity. However, senior management in the cardiac care unit is aiming to increase complexity by also getting involved in outpatient treatment and earning downstream revenues from diagnostics, and other devices. The unit had developed formal and informal inter-disciplinary collaboration between its nurses, physicians, social workers, dieticians and psychiatrists. The unit had also developed a focus on process measures both to improve state mandated performance metrics and also to improve core measures that were needed for improving quality of care. The internal philosophy, which emphasized high involvement, was described in a 2008 case study:

*"Despite the strong emphasis on the lead physician's role, the effort operated on a philosophy of high involvement. A cross-disciplinary problem-solving committee – apparently the first of its kind, at least in this part of the hospital --initially studied current procedures, interviewed people, and recommended improvements. Nurses and other providers at all levels were strongly involved in the discussions, and nurses were empowered to carry out improvements with far less bureaucratic "checking" than usual. In our interviews at lower levels we found that many, though not all, of the care staff "bought in" to the effort, were aware of the main issues involved, and supported the leadership team." [Heckscher, Rubinstein, Cantor, Flynn, Erhardt & Michael, 2008]*

### *Cummins India*

Cummins India is a manufacturer of power back-up equipment. My analysis of this case is based on reports and interviews conducted by a research team led by Professor Charles Heckscher at the Center for Workplace Transformation between the late 1990s and early 2000s. A summary of the research base for Cummins India is given in Exhibit 5.6. The company has attempted to increase both its strategic complexity and adaptability. To do this, it has tried to redefine its business model from offering products such as a diesel generator to offering solutions to customers that go beyond the need for a diesel generator. The company had also started developing relationships with other OEM distributors and other organizations, including competitors. To develop strategic adaptiveness, the company was created new solutions units that would look at specific solutions opportunities. These front-end solutions units were to focus on developing integrated solutions for customers. The back-end support was to be provided by the product units, whose main objective was to act as internal suppliers to the new solutions units. This was also done to weaken the product-focused hold that the existing product managers had on business decisions. However, the CEO's attempts to change existing mindsets of employees to comprehend and deliver on such a solutions business model had met with limited success. A 2001 McKinsey quarterly article reported that Cummins India found it difficult to get employees to think beyond the product-focused business model. According to the CEO of the company, "people still did not get it" and for his efforts he felt that he was mostly getting only "polite nods with no sign of comprehension." (Foote et. al., 2001:87).



### *Lucent Technologies*

Lucent Technologies is a communications network company that provides equipment, services and software. It was created from AT&T's technology and services business in 1996. Like the information technology industry, the telecommunications industry requires diverse integration of existing and emerging technologies for meeting shifting customer demands. Lucent has attempted to increase both its strategic complexity and its strategic adaptiveness. In its annual report of the year 2002, the company emphasized services as one of three core segments, "We are putting more emphasis on our Services business. Even with the telecom market as challenging as it is, Services remains a near and clear opportunity. Our customers spend about \$30 billion a year on the types of services that Lucent can provide—services that they contract for with other outside companies" (3). In 2006, Lucent's product revenues accounted for 74% of the total revenues, while service revenues accounted for 24%. However, it has achieved limited success in increasing its strategic adaptiveness. Like ABB, the company attempted to increase its adaptiveness by creating autonomous decentralized divisions. From company reports and case studies, written between the late 1990s and early 2000s, there is abundant evidence that the company was finding it difficult to coordinate across these autonomous divisions (Company annual reports, 2002/2006; Data monitor, 2006). For a summary of the research base on Lucent Technologies, refer Exhibit 5.6. The company has found it difficult to present one face across its different products to its customers.

Thus Citi E-solutions, ABB, Lucent, Highway Hospital, SMSystems, Microsoft and Cummins India are orienting themselves to a solutions strategy and have achieved different levels of success. In the remaining part of this chapter I will present my analysis of the link between the four value patterns and a solutions strategy.

### *Linking Value Patterns and Solutions Strategy*

In the previous chapter, I presented evidence that MTS and J&J have espoused and enacted different combinations of the four value patterns since the early 1990s. In the previous section of this chapter I also presented evidence that MTS has moved towards a solutions strategy while J&J is trying to make that shift to a solutions strategy but is facing difficulty. In this section, I will examine the link between the four value patterns and the strategic orientation towards solutions at MTS and J&J. This examination will also draw from my analysis of the six secondary research sites that have strategically oriented to solutions. The question I will try to answer here is to what extent do these value patterns support or not support the strategy of the organizations that I researched.

Those who study values generally agree that a strong shared value system can contribute to organizational integration and coherence (Heckscher, 2007; Heckscher & Adler, 2006; Kanter, 2001; O'Reilly & Pfeffer, 2000; Nohria & Ghoshal, 1999; DeGeus, 1997; Kotter & Heskett, 1992; Schein, 1985; Deal & Kennedy, 1982; Ouchi, 1982; Roethlisberger and Dickinson, 1946). This shared value system supports organizational performance by creating shared expectations among employees and setting standards for the employee relationships.

There is, however, much less agreement about what *kind* of value system helps in the current competitive environment. A solutions strategy, as described in the last section, requires particular organizational capabilities that are not normally found in traditional firms:

- Close and flexible integration of various parts of the work force – across product lines, across products and services, across levels.
- Tight connections between external relations to customers and internal processes of development.

The existing literature is not united about what values are best suited for the promotion of integration and external orientation. One stream of writing suggests that Clan values enable people to work together by building trust and unity (Heckscher, 1994; Kanter, 1994; Kotter & Heskett, 1992; Jackall, 1988; Schein, 1985; Merton, 1983; Ouchi, 1982). Others see Clan values, on the contrary, as an obstacle to the needs of the business because they promote an inward focus and an attachment to the past (Kotter & Heskett, 1991; Ouchi, 1981). However, while the Clan values help in integration of the workforce, they do not motivate employee behaviors that support flexibility. “A Type Z [having Clan values] organization runs the risk of becoming an Industrial Dinosaurs, unable to react quickly enough to a major shift in the environment.” (Ouchi, 1981: 89).

Some advocate Performance values as an alternative to Clan values, in order to overcome the inward focus and resistance to change of Clan values. (Cameron & Quinn, 2006; Zammuto, Raymond and Goodman, 2000; Denison, 1990). The Performance values enable people to be entrepreneurial by emphasizing externally orientation over internal cohesion.

Finally, some also reject Performance values as sowing division and creating an individualistic mindset that impedes integration (Heckscher, 2007; Heckscher & Adler, 2006). They forward the Collaborative pattern as a way of building a shared orientation that encourages flexibility.

An important debate, referred to in the last chapter, is whether value patterns can coexist in balance or whether one pattern must dominate. Some theorists believe value patterns can include apparently contradictory values, such as external vs. internal orientation, or flexibility vs. reliability, and can help actors to balance these tensions (Cameron & Quinn, 2006; Zammuto, Raymond and Goodman, 2000; Denison, 1990). For these analysts, value patterns can take an infinite number of forms with different emphases on the constituent values; they plot value

patterns on continuous multi-dimensional diagrams. Other writers believe that value patterns must be defined in terms of predominant values, and that there are clear shifts between one value pattern and another

In my core cases I found evidence that collaborative values provide the basis for employees to work together and values support cross-boundary collaboration in solutions organizations. Refer to Exhibit 5.8. However, I did not find evidence of coexisting values as in the competing values framework. Instead I found evidence of a tension between different value patterns.

*Exhibit 5.8: Hypothesized Link between Values and Solutions Strategy*

Shared values support internal integration and collaboration across boundaries.	(Heckscher, 2007; Heckscher & Adler, 2006; Kotter & Heskett, 1992; Schein, 1982; Ouchi, 1981)
Shared values support external customer focus.	(Heckscher, 2007; Heckscher & Adler, 2006; Kanter, 2001; O'Reilly & Pfeffer, 2000; Nohria & Ghoshal, 1999; DeGeus, 1997; Ramirez, 1997; Handy, 1995; Kotter & Heskett, 1992; Prahalad & Hamel, 1990; Schein, 1982; Ouchi, 1981 )

Some writers have also suggested that values provide an important basis for responding to threats from the external environment and enabling flexibility in dynamic markets (Heckscher, 2007; Adler & Heckscher, 2006). According to these scholars, restructuring alone is insufficient to create flexible organizations; actors need a shared view of the desirable in order to respond to new situations without close direction from superiors; they see shared values as one of the important motivators of intentional collaboration across organizational and divisional boundaries.

### **Values Support Integration of the Workforce and Collaboration Across Boundaries**

Leaders at MTS and J&J believed that values provided a common orientation, which enables people to work with some independence and flexibility, while avoiding chaos and conflict. At

MTS, a top management team member who was also responsible for the Values change effort reflected this view: “If you are a US manager, a Japanese Manager, a Mexican Manager, or you could be in a situation in which there is no manager present and you are by yourself. I have no way of knowing what to do now. Do I stop doing everything, do I convince my teams across the organization to join me and do it with me, and how do I explain to them this is the right thing to do. How will I explain this to the manager? I make the call and say this is what we will do. What we are trying to do is to create a values based decision making system. It can be for small decisions or larger decisions. We want to move away from asking permission all the time or being scared of taking decisions. You have to start taking decisions. Where there is divergence in decision making the values steer me back.

Management at MTS was also attempting to build alignment between the values and its policies. According to the manager responsible for this move, “We are making a full inventory of existing programs, HR programs, business programs, our corporate programs, corporate responsibility programs. We are reviewing them to make sure that they are consistent with the values. In some cases we are having to revamp and re-announce totally some of the programs along with the value.”

The head of HR expressed a similar view: “Part of whole point of doing values work is we need to ground you on things we all agree to. If we do not have the values then we can't delegate those decisions. We want to push decision-making down to all levels. But on what basis would employees make decisions and how can management have the confidence that there will be some consistency in decision making?”

There was also evidence that the values were having an impact on integrating the workforce. One MTS engineer passionately explained that the values were meaningful and they made him feel part of being on a great team, “The values have impacted my retention in this

company. I feel I am part of a group that is about something more than getting rich. I want to be part of a company where I can succeed and play on a great team. And so having these values out there say to me that I am part of something meaningful”.

### **Values Support Innovation and External Customer Orientation**

For MTS to execute its integrated solutions strategy it had to strengthen its innovative abilities and develop a customer focus. The values were viewed as an important source for encouraging widespread innovation in the company. A top management team executive reflected this view.

*“Using the values we want to move the culture from a technical and invention mindset to really a mindset that innovates everywhere. For example it can be a small thing like, an assistant finding a new way to set up the calendar, or something bigger like, it can be a new way of managing supply chains or it can also be innovation around new markets and businesses”*

Another senior manager explained that the values helped provide integrated solutions for the clients by pulling together different employee insights:

*“There are parts of the business units that will promote industry and client insights at their own levels. So we want to encourage innovation. But we also want to make sure that we encourage innovation in a way that it is tightly integrated across the organization. However, this does not mean we want to return to a centralized bureaucracy. We want to be able to pull things [innovation] together from across the organization.”*

The values were also viewed as a source for guiding problem solving for managers across the organization in a consistent manner. The communications manager who was leading the value change initiative explained this view:

*“What we are trying to do is to create a values based decision making system. It can be for small decisions or larger decisions. If you are the manager and there is problem with the business client. You want to make a decision for your guy. It is an emergency. You can say on the spot - yes. Irrespective, if you are a US manager, a Japanese Manager or a Mexican Manager, what we try to do is empower our management on the spot. Different managers across the company should be able to make the same kind of decision for similar situations.”*

The values were also widely viewed as being important for building a client orientation. A customer service representative reflected this as, “The values reflect the need for us to be customer oriented and take the clients interest as our top priority.” Another employee explained the new value that emphasized client focus was aimed at offering differentiated solutions to clients based on building understanding between employees around the world:

*“Our people come from one or the other end of the world. And we're asking people [through the value of client focus] to have enough understanding of both sides to help bring this together in the service of our client. We are trying to make sure that everything starts with the client. The problem is integrating the client's needs with our expertise. How can our technology and people be harnessed to deliver the differentiated solutions for the clients?”*

In the remainder of this chapter I will examine the connection between the Performance, Ethical and Collaborative value patterns that I derived in chapter 4 and the organizational problems posed by a solutions strategy, or attempts to move in that direction.

### **Performance Value Patterns**

Research reviewed in chapter 2 posits that Performance values foster dynamism, creativity and innovation by emphasizing entrepreneurship/initiative and individual achievement (Cameron & Quinn, 2006; Zammuto, Raymond and Goodman, 2000; Denison, 1990).

Several of my sites exhibited Performance value patterns in varying degrees, as discussed in the last chapter. In the two primary sites, there were some efforts by top management to promote Performance values especially in periods of crisis in the mid-1990s. In two secondary sites, Microsoft and SMSystems, Performance values were primary. The Performance values help with one aspect of solutions strategy – customer focus – but not another – flexible integration which draws on the full power of the organization. *Refer Exhibit 5.9.*

#### *Exhibit 5.9: Usefulness & Limitations of Performance Value Patterns*

Value pattern	Usefulness	Limitations
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Performance Value Pattern	<ol style="list-style-type: none"> <li>1. Increases operational efficiency.</li> <li>2. Empowers employees to break with tradition.</li> <li>3. Motivates decentralized / independent activity.</li> </ol>	<ol style="list-style-type: none"> <li>1. Weak at supporting integration across decentralized units.</li> <li>2. Tension with Ethical values.</li> <li>3. Tension with Clan values.</li> </ol>
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### Usefulness of the Performance Value Pattern

In these cases it appears that Performance values supported certain aspects of a solutions strategy, in particular motivating employees to be flexible and responsive to customers. The Performance values called for a great deal of individual initiative and autonomy. The shared Performance values encouraged people to act independently in pursuing their goals, without frequently seeking approval from superiors.

Performance values motivate behaviors focused on individual performance, especially meeting clear numerical targets. At MTS a long tenured engineer who had worked in the services division during the mid 1990s saw the performance values as focused on the bottom line. "Your utilization numbers were the key. How many businesses did you bring in, how many hours did you put in, what was your utilization, what is the gross profit on your contract. If we do not need the skills any more, well we will get different and probably cheaper skills somewhere else."

Managers and employees at MTS recalled that the Performance values were very successful in building customer focus. A top management team member noted that the values forced MTS employees to focus on "who pays the bills [the customer]". According to him, the values had become a, "decision-making and conflict-resolution mechanism. 'We're going to do what the customer wants' became a decision-making criterion."

This emphasis on customer focus was the one value that other employees also recalled as being part of the Guidelines that MTS's new CEO had instituted during the mid 1990s. Employees did not recall the most of the values in the Guidelines; the one value that employees consistently recalled was the focus on customer service. A long tenured engineer remembered:



“When I joined the company, I was given a set of principles that I had to live with. And if I remember them correctly, it had 8 or 10 values, and the one that I remember was about ensuring customer success.” Another long tenured employee from customer service remembered the values in her department as mostly being customer related. “We did have a set of values that were put in front of us. We had to remember them and they were mostly customer related.”

An engineer explained: “Performance meant that I was expected to perform things to the clients’ satisfaction and getting results was important.” This focus on individual performance was coupled with the move away from a hierarchical organization to empowerment of individuals. A manager reflected this view, “The message for all of us was that we are not a hierarchical company. So the outcome [having the Guidelines] was that there were a lot of things that employees didn’t have to get approvals from their superiors”. The expectation during this time was that individual employees would be entrepreneurs who would innovate in their work. Another engineer explained that the emphasis on performance in the values was aimed at entrepreneurial innovation. According to him the emphasis on performance and “winning” meant, “We were expected to innovate at our workplace on a daily basis to excel”.

There was widespread agreement among the top management team members that the emphasis on customer, innovation and entrepreneurship by the CEO through the new Guidelines that he wrote up in the early 1990s was “stiff medicine” but it did help link the employees actions to customer needs, “We were able to execute and deliver every minute and every day for our clients”. This also helped in turning the company around. I have shown earlier in this chapter that MTS, after an initial crisis during the early 1990s were able to strategically reorient themselves to a solutions strategy.

### Limitations of the Performance Value Pattern

However, Performance values proved inadequate for key some aspects of a Solution

strategy. In particular, they did not encourage or motivate employees to work together across organization boundaries: Performance values focused employees on their own particular goals. In many cases this created an atmosphere of competition among employees, in which they sought to meet their own performance targets and disputed with others over credit.

**Limitation: Division in workforce:** This tension between Performance values and previously-existing Clan values was compounded further with the workforce being divided between those who subscribed to different values. In the earlier vignette, the employee alludes to this division by referring to “mid-term and long-term employees”. Like this employee, other long-tenured employees at MTS talked about a “lack of community” and differentiated themselves from the newer employees by referring to them as the “MTV generation”. The evidence indicates that the newer employees too found it problematic working with the long-tenured employees. A newer employee, while talking to me, referred to the posts by old timers as “flame wires” that indulged in “name calling”, created “noise” and was not “constructive”:

*“We can separate people into two categories - one would be people just complaining / ranting - I do not like this – MTS sucks. This kind of thing really does not add much value. There was a lot of noise. And there were posts that had constructive information either a criticism or an acknowledgement of things that we do well.*

*Looking at the latter categories - there were questions about resource policies. But people who had been at MTS for a long time complained about loss of benefits or changes in the healthcare plan. There were other people who thought that the benefits were fair and the existing benefits were competitive.*

*I felt frustrated by the first category of people who were ranting without offering any suggestions on how things should improve. They were making me waste my time reading their postings. I could have been reading something more constructive. It was hard to skip through all the noise.”*

The difficulty in balancing competing values and the fragmentation of the workforce was creating problems for MTS in achieving its new solutions-oriented business strategy. Earlier in this chapter, I described the new strategy as requiring an integration of the diverse technical expertise of MTS’s workforce. An employee explained that building trust was an important

challenge that MTS had yet to address in order for this strategy to be operationalized. Employees at MTS were especially distrustful of MTS around the manner in which MTS was handling outsourcing, job loss and internal office procedure.

*“Implementing our strategy will depend on how we trust employees. Now you do not have a boss going after you finding out how you are spending your time. Nobody comes behind you. A lot of the work now depends a lot on trust. For example when you bid for proposals and when you submit your hours, travel expenses and bills all of this requires trust. But if trust is low then that is a problem.*

*MTS has been moving jobs overseas. Closing a lot of engineering and manufacturing plants. There have been massive layoffs. There is a certain amount of trust that gets eroded when such actions happen. People are not sure if they are next. People say that executive reviews and promotions are based on the number of people they replace [layoff]. When you hear such statements, especially if you are a long timer, trust does not develop as much.” [MTS Employee]*

I noted earlier that in several cases, most clearly at Citibank (as a whole, not just the E-Solutions unit I discussed previously), that Performance values also created problems for an integrated customer focus. In that case, Customer Relationships Managers had been put into place to pull together the Bank’s resources for major customers. But this was also a period in which Sandy Weill was advocating a strong Performance orientation (“meeting the numbers”): Customer Relationships Managers complained that they had great difficulty in gaining cooperation from the operating units in focusing on new customer needs.

**Limitation: Integration not supported:** One of the key requirements of a solutions strategy is the integration of diverse technologies across the decentralized organization structure. This was an area in which Performance values did not support the strategy at MTS. People told me that the adoption of Performance values had resulted in a division of the workforce and organizational silos within the company. These silos were making it increasingly difficult to integrate the diverse technologies across the decentralized MTS organizational structure. An example that reflects this problem relates to the decentralized research labs within the company.

A top management team member, talking about the Performance emphasis of the 1990s, saw it as creating a segmented organization: “We needed to improve trust in the organization which had become very segmented, especially because collaboration was becoming key to our business.” Another long tenured MTS employee described the early to late 1990s as a period in which the company’s brand improved but that the company’s workforce was divided: “The new CEO during the early 1990s came in and said that we are a global brand and we need to move the brand forward. He was very successful in doing this. But our huge diversity and internal segmented workforce – we have got a huge range of people – became our greatest challenge”.

Two of the secondary research sites, SMSystems and Microsoft, are also strategically orienting towards solutions but are finding it difficult to integrate technologies across their independent business divisions. In the previous chapter, I argued that these two companies, which were incorporated in the 1980s, had Performance value patterns. At SMSystems, there is an interesting case on the revival of software, one of their key software products, by an entrepreneurial group. This was described in an early 2000 internal report, as well as in other internal reports [refer exhibit 5.6]. However, the company is finding it difficult to integrate the technology into the other divisions of the company.

For example, the company is facing difficulties in getting its sales force to sell as one company and not compete with each other. According to a manager, the structural realignment is in place but the existing values at SMSystems that he describes as “free agent” – similar to what I am calling “Performance,” focused on individual achievement – are not supporting the attempt to integrate the sales force:

*“The big shift is to scrap the division and P & L’s and form a single sales force. We’ve done the structural piece but haven’t changed the original infrastructure. It’s not brain surgery to get together and share your plans and be open. Instead, every single employee believes that he or she is a free agent. As long as they get their day job done they can go off and do whatever they want.” [Manager, SMSystems]*

There was similar evidence at another secondary research site, Microsoft. From archival data on Microsoft, which is summarized in exhibit 5.6, I found evidence that developers and testers often reinvent solutions to the same problem that may already exist within the company. A research team from MIT's Sloan School concluded that engineers "often reinvented the wheel" or they "belatedly discovered good practices for software development that already existed" (Cusumano, 1998). Besides this, senior managers, including the CEO, found it difficult to get people across the organization to "cooperate and share what they create and learn".

*"Strategically and technically, the arguments for doing more sharing and integrating are compelling. The problem is that Microsoft's underlying organization by products is firmly entrenched in the company culture ...Furthermore, managing two or three interdependent projects simultaneously is far more complex than managing one project at a time, which Microsoft is still in the process of mastering."*[Cusumano, 1998]

## Conclusion

Based on the evidence at MTS and J&J, I conclude that Performance values are useful in motivating entrepreneurship and flexibility, but that this is limited by the emergence of a divided workforce, the inability to integrate the workforce across a decentralized organization and the unresolved tension that employees feel between Performance values and the previous values that were enacted within the company. When faced with this tension, J&J senior management rejected the Performance values and reemphasized Ethical values.

I will next evaluate the usefulness and limitations of the Ethical values against the two key organizational requirements for solutions that I had introduced earlier in the chapter, the ability to work together across organizational boundaries and the ability to integrate internal development with external relations.

## Ethical Value Patterns

In the previous chapter I had discussed that three of my research sites exhibited Ethical

value patterns in varying degrees. However, earlier in this chapter I had concluded that out of these three research sites, there was evidence of attempts to reorient to solutions only at J&J. Since the mid 1990s J&J's top management had promoted Ethical values. The Ethical values did help motivate and coordinate employees around ethical issues, which is one aspect of solutions strategy, but it did not motivate cooperation around other strategic issues. Also, it remained in tension with other values. *Refer Exhibit 5.10.*

### Usefulness of the Ethical Value Pattern

Ethical values at J&J supported decentralized organization with a great deal of individual initiative and autonomy around issues with clear ethical dimension. Employees also felt empowered to debate and challenge their supervisors around ethical values. Historically, the values had helped the company overcome problems that had put at risk the reputation of the company.

*Exhibit 5.10: Usefulness & Limitations of Ethical Value Patterns*

	Usefulness	Limitations
Ethical Value Patterns	<ol style="list-style-type: none"> <li>1. Builds cross boundary collaboration around ethical issues.</li> <li>2. Empowers employees to debate ethical issues with peers and superiors.</li> <li>3. Supports strategy and builds organizational reputation around ethical issues.</li> </ol>	<ol style="list-style-type: none"> <li>1. Does not motivate cooperation around other strategic issues</li> <li>2. Provides Weak support for integration around non-ethical issues across the decentralized structure.</li> <li>3. Tension with Performance values.</li> <li>4. Tension with Clan values.</li> </ol>

**The ethical value pattern supports decentralization & integration around ethical issues:** In another narrative, which is described in the previous chapter, a manager described to me how J&J was able to get employees from different operating companies to collaborate and overcome the issue of counterfeit surgical gauze that was in the market and a threat to patient safety. In this case, which was also reported in the Wall Street Journal, employees and managers from different

operating companies and subsidiaries worked together to resolve the problem. Since this has also been described in the previous chapter, it is therefore not reproduced here.

My interviews and secondary data indicate that the ethical values at the company supported the company's decentralized structure. A long-tenured manager at the company described the relationship between the Credo and the decentralization of the company:

*"I think over time as the diversity of people in the organization, the diversity of thought the skills needed to address the business environment required, which were clearly much more complex than they were back in the 80s - The Credo, has been a beacon for helping all of us become more comfortable with the approach of having people with different ideas - be able to share those ideas for the advancement of our business and our culture."*

The Credo has been described as one of the three critical legs on which J&J operates, the other two legs being the company's decentralized structure and its strategic orientation. Another manager described the relationship this way: "I think the two drivers here are the Credo, which sets up the commitment to the groups, and the decentralized structure, which sets up the behavioral expectations."

**The Ethical values motivate and coordinate employees around ethical issues and builds organizational reputation:** A number of my interviews suggested that ethical values motivate behaviors that go beyond job definitions and hierarchical roles. Around ethical issues, employees and managers demonstrate their willingness to collaborate across decentralized structures by orienting to the values of ethical responsibility to stakeholder interests.

Employees, managers, old timers and new employees, while describing defining moments at J&J, consistently referred to the Tylenol tampering incident in the 1980s as making a lasting impression on employees about the importance of the Credo to J&J's different stakeholders, and its influence on employee behaviors. A Senior Sales Manager referred to the Tylenol incident to explain how ethical values guided behaviors in otherwise decentralized units:

*"The best example of that [the usefulness of the ethical values] was during the product tampering incident [in the 1980s]. We literally used the Credo as a road map for addressing an issue that no one had ever faced before. I don't know if the founder intended the Credo to be used for something like the tampering incident when he wrote it, but it certainly provided us with the right guidance and direction."*

J&J's response to the product poisonings was costly. The Wall Street Journal reported that the company's profitability had suffered from the ethical response to the product-tampering incident.

*"Earnings first were hurt when the company spent heavily - \$ 100 million before taxes to withdraw and then reintroduce its hugely profitable product line following the contamination of several batches of the medication that affected a number of our patients." [Dow Jones News Service, 1985]*

There were also narratives in my interviews and secondary data of employees questioning their superiors' decisions around ethical considerations. Some of these decisions resulted in loss of revenues for the company. A long tenured product manager at J&J described a decision of hers and its revenue implications:

*"We had a product on the market and we started getting some customer complaints on the product. Patients had not been harmed. But there are laws and regulations that we have to comply with to appropriately investigate every complaint that comes in from a customer. And so we went through our process as expeditiously as possible. Unfortunately could not come up with a cause and effect. We could not indict the product, nor could we say with all certainty that everything was okay. We knew we were manufacturing to specification, we just did not understand the problem.*

*And so I made the decision to voluntarily withdraw the product from the market -- to go to the FDA, who had not come to us. It put a significant hole in my business plan. And we were advised that we would never get the product back on the market. In the coming weeks we had pulled the product - it was a global withdrawal, so it was pretty hefty in terms of the resources it took from the organization" [Product Manager, J&J]*

In my interviews at J&J, I also found specific instances where employees questioned authority based on the value of ethical responsibility to external stakeholders. For example, one employee challenged his superior's decision to change an existing vendor and hire a new vendor in the company's supply chain.



*"A manager called up and said, 'I can get you a tremendous price on cartons. Here is your new supplier.' And I went right to the Credo and it said, our suppliers must have the opportunity to make a fair profit.*

*And I said to him, 'our suppliers' [as defined in the Credo], means the supplier that I have now. I cannot just go to a new supplier because you got a better deal. I have to give our existing supplier an opportunity to make a fair profit. And it was a tremendous argument with this guy. He just felt that mine was not the right interpretation of the Credo. And I said the words were there: 'our supplier'. And in the end that is what I used to convince my management that we were going to give our existing supplier a chance to compete. For me that was a Credo moment. It was a multimillion-dollar deal. It was not a trivial amount of money we were talking about."*

The ethical values influence in decision making went beyond influencing employee's and manager's behaviors. Managers reported that it also influenced a number of strategic decisions. According to a senior HR manager, the ethical values, was one leg of the three legged stool important for J&J becoming a successful healthcare company.

*"We say at J&J that there are three defining principles. Abide by the ethical principles of the credo, capitalize on our decentralize structure and run the business for the long term. That is the three legged stool view. It is a form of management, that is harder to manage but in the long term it pays off. And it is all under the umbrella of achieving to be the fastest growing most successful human healthcare company."*

Another senior manager reflected back on merger and acquisition decisions that the company had made and explained that alongside strategic fit, good values was an important factor in influencing such merger and acquisition decisions.

*"We acquired 52 companies in the last 10 years. The financial value of these 52 companies was in range from either 150 M to 1 Billion. And we have paid between 500 M to 12 B dollars for these companies. Now when you do that you are bringing people into your environment who have worked in a different company and are not familiar with the Credo. So one of the things we do in our acquisitions strategy, is not only trying to find the strategic fit - fill the right spaces to complement what we already have - but we also find companies who have we believe good values, who have operated although without our credo, have operated well ethically."*

The Ethical values at J&J supported J&J's decentralized organization structure and empower employees to make decisions on issues that have a clear ethical dimension. Around ethical issues, J&J has been able to build integration across its decentralized structure. The ethical values also

helped build the organization's ethical reputation.

This evidence shows real behavioral consequences of the company's values which support internal collaboration around maintenance of ethical standards. Company leaders argue that this has an important strategic consequence: it builds reputation and trust among customers. This is a piece of a Solutions strategy, which depends on building lasting customer relations and a belief that the company is acting in their interests; but it is only part of such a strategy. At MTS, which had a more explicit and complete Solutions strategic approach, there was an emphasis on building trust not only in ethical areas but also in terms of helping customers reach their own business goals. This was lacking in the enactment of the Ethical pattern at J&J.

### Limitations of the Ethical Value Pattern

Ethical values did not fully support a solutions strategy because they did not motivate cooperation around other strategic issues. The Credo's rather narrow focus on ethics left out some other important aspects of business strategy, such as innovation which was espoused in the Credo as an ethical responsibility to investors/ stockholders and efficiency which was espoused as a responsibility to doctors and patients. J&J was weak on these dimensions, which seemed to be an important reason for J&J's limited success in implementing a solutions strategy.

**Limitation: integration across decentralization:** According to company documents, J&J is finding it difficult to balance the need for decentralized operations and centralized integration. This is viewed as important for the company in order to move toward "integrated solutions". As a result, J&J is facing difficulty in building companion products and an integrated supply chain.

Earlier, I presented evidence that the Credo supported the decentralized structure, but also that the decentralized structure was facing difficulties. One story that reflects this problem was narrated to me by a senior manager. According to him some major decisions taken at the

corporate office impacted his unit, yet he and other senior managers in the subsidiary were unaware of them.

*"We went through a merger with a company. At that time I was heading up the sales organization. I had hired some 30 to 40 representatives for our organization from other pharmaceutical companies. None of us had an idea that this merger was going to take place. When we found out, we realized that we did not need these newly hired representatives some of whom had been on board only two weeks. "*

In this and similar cases, J&J seems to be struggling with decentralization and building collaboration across the decentralized organization.

To try to address this, the company is currently (2007) conducting an internal review called "Perspectives" that is examining the role of decentralization and its support to the future strategy of J&J.

*"Perspectives is a process leveraged by the executive committee around getting real good senior level people together across global groups to focus on issues. This one happens to be decentralization. There is recognition that as we become more global and as we continue to grow as we looked at efficiencies and things have started to come together in more shared services and more centralized models in some cases that it [decentralization] continues to be a strong competitive advantage for us - but it also can be a barrier."*

Another manager at the company explained that the challenge of integrating different units across the decentralized organizations was to empower people closest to the customer and to stop them from looking towards the top for directions:

"As we have become larger and larger and more complex people continue to look up for the answers. They look up to the EC [Executive Committee], they look up to the GOCs [Group Operating Committees], instead of being true to decentralization and empowering people to make decisions on their own. That was the message in the beginning of the year: you empower people closest to the customer. Don't have a sense of continuing to look up. And Guys it's in your hands." [Communications Manager, J&J]

**Limitation: Inefficiencies in operations and weak innovation:** The ethical values at J&J are weak in influencing behaviors on issues that do not have an ethical dimension.

Weakness in innovation: The Ethical values put little emphasis on innovation and are often connected to a Clan-like focus on tradition. Thus it is not surprising that the company has had considerable problems with innovation. This is an area in which the Ethical values seem limited and inadequate.

In the Credo Survey, the company had rated itself as weak on innovation. From financial data presented in Exhibit 5.11a shows that J&J's R&D investment as a percentage of total revenues is lower than Pfizer's. From an internal report based on the Credo Survey, I found that the company's internal evaluation by employees on Innovation had fallen by 20 points between 2001 and 2006.

Inefficiencies in operations: Another area in which the Ethical focus was insufficient is around operational efficiency. There was in fact some suspicion of efficiency in that company's value system: many interviewees emphasized that they were attentive to placing ethical values above efficiency, and were concerned that the reverse did not happen. The two dimensions were poorly integrated.

When I examined financial data of J&J and its closest competitor, Pfizer, I found that J&J was consistently less efficient in its operations. The efficiency ratios for J&J and Pfizer are summarized in Exhibit 5.11 a and 5.11 b: these figures indicate that J&J's operational expenses, inventory levels and inventory turnover are worse Pfizer's.

A tele-servicing employee provided an insight into the internal operational inefficiencies. She described a number of instances when the customer services division serviced different clients repeatedly around similar problems. She said that all it would have required for the tele-

service marketing executives to give this feedback to their managers, who in turn could solve the problem systematically so that it does not recur repeatedly. However, since the company was so focused on its ethical responsibilities to its customers, the managers were not attentive to the feedback and the possibility of problem solving that these executives could do at their level. According to her, the operating company that she worked for, in order to fulfill their ethical responsibility to clients and patients had put in place an emergency procurement system for distributors.

*"The operating company that produces the product put an emergency order process on a product. The operating company restricted the item to one per customer on emergency basis because we incur extra costs to execute delivery, for example all overnight and shipping fees are waived, approximately \$150 per delivery."*

However in this case some of the distributors had figured out a way to use this special procurement process to their own advantage, one of which she went on describe.

*"One of our distributors required this product quickly and discovered that he could use the emergency order system to get this product at short notice and at no extra cost. So this distributor started calling in regularly for the emergency order to be put through using the same purchase order."*

When this employee attempted to bring this to the notice of her supervisor, the supervisor got annoyed.

*I called to tell one of the bosses that the process is being abused. They were annoyed that I had called. I could not get the message across that essentially we are absorbing more costs than if it was not rationed by over-nighting and that some distributors are filling orders using the emergency process. We were not unethical in any way, so it did not need immediate attention. It would take someone in the sterilization company to notice they are being taken advantage of before this would be changed."*

I found evidence that the customer service division was facing difficulties in problem solving in its day-to-day business. A frontline customer service employee narrated this story as an example of employees' inability to solve problems that was resulting in inefficiencies in J&J's customer servicing.

*"I am working on the front-line in an organization. I am almost always the first to find out about a problem, but the last to know about the proposed solution. People tend not to listen to those who actually serve the customer. There is a view that those in the role of servicing are not capable of diagnosing problems or helping improve things"*

**Limitation: Conflict with Performance values, insufficient integration of cost and**

**efficiency:** As mentioned in the last chapter, the introduction of Performance values in the 1990s led to an unresolved tension with the Ethical pattern that led to some examples of unethical behavior. To the extent that J&J's strategy was based around building deep trust from customers, these instances certainly ran counter to the strategy; they also undermined the nascent Solutions strategy, which also depends heavily on customer trust.

In spring 2007, the head of the devices and diagnostics group operating company, which is one of the three group operating companies, had to resign as a result of a case of bribing of government officials by J&J representatives in Asia. While the head was not directly involved he had taken moral responsibility for the situation and resigned from the company. The announcement of this resignation through a company press release is reproduced below.

*"J&J today voluntarily disclosed to the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC) that subsidiaries outside the United States are believed to have made improper payments in connection with the sale of medical devices in two small-market countries. The actions were contrary to the Company's policies, and the payments may fall within the jurisdiction of the Foreign Corrupt Practices Act. The Company will provide additional information to DOJ and SEC, and will cooperate with the agencies' reviews of these matters".*

On the flip side, the unresolved tension between Performance and Ethical values led to an inability to integrate cost and efficiency issues. I heard about incidents that suggested that the Ethical orientation was leading to a one-sided focus which might hurt the company. A senior executive recounted:

*"Recently I pulled a product off the market. It was the right thing to do. That's the way I grew up in this organization.*

*What you have to do is, ask yourself the question," would I want this product used on*

*my mother, my significant other or my child"? And if you cannot immediately with conviction say "'Yes!" Then you just have to do the right thing. And business plan be damned.*

*And so there has been more than several times during my career where I have had to take products off the market. I have had to make decisions where I have significantly impacted the financial targets with no way of making them up."*

An investment company described the implications of such delayed release of a new drug on the market and its implications for the investment attractiveness of the company:

*"J&J suffered one minor setback to its drug pipeline when it indicated a potential delay in its US launch of a drug-device painkiller that could generate peak sales of \$700M. ... Based on the US delay, however, our model now assumes 2006 sales of \$101M, down from \$181M previously." [Reuters, 2004]*

*Exhibit 5.11 a: Comparison of Financial Data J&J and Pfizer in 2006*

2006		
	PP	Pfizer
Cost of Products % TR	28%	16%
Net Profit Margin %	20.73	39.98
Revenue per Employee	437,565	493,582
Selling Gen & Admin % TR	32.69	32.23
Current Ratio	1.2	2.2
Inventory Turnover	12.09	7.96
Inventories % TA	6.93	5.32
R&D Exp % TR	13%	16%

*Exhibit 5.11 b: Comparison of Financial Data J&J and Pfizer from 1999 to 2005*

		2005	2004	2003	2002	2001	2000	1999
Cost of Products % TR	<b>PP</b>	27.62	28.35	29.09	28.78	28.89	30.41	30.73
	<b>Pfizer</b>	16.62	14.36	21.76	12.49	15.60	16.59	15.60
R&D Exp % TR	<b>PP</b>	12.50	10.99	11.19	10.90	10.88	10.04	9.46
	<b>Pfizer</b>	14.51	14.63	15.78	15.99	15.03	15.00	17.13
Net Profit Margin	<b>PP</b>	20.61	17.97	17.19	18.17	17.17	16.47	15.17
	<b>Pfizer</b>	15.76	21.63	8.65	28.19	24.14	12.6	19.62
Revenue per Employee in Dollars	<b>PP</b>	438,173	423,860	379,539	336,082	325,095	296,640	281,661
	<b>Pfizer</b>	483,943	455,413	370,393	330,337	358,433	327,702	318,350
Selling Gen & Admin % TR	<b>PP</b>	33.41	33.5	33.76	33.65	36.33	37.32	38.23
	<b>Pfizer</b>	33.13	32.19	33.73	33.5	35.03	38.69	39.19
Current Ratio	<b>PP</b>	2.48	1.96	1.71	1.68	2.3	2.16	1.77
	<b>Pfizer</b>	1.47	1.5	1.26	1.34	1.35	1.43	1.22
Inventory Turnover	<b>PP</b>	13.15	12.71	12.18	11.56	11.35	9.84	9.26
	<b>Pfizer</b>	8.08	8.38	10.61	11.95	11.85	13.54	9.31
Inventories % TA	<b>PP</b>	6.82	7.02	7.43	8.14	7.77	9.07	10.61
	<b>Pfizer</b>	5.14	5.38	5	5.78	7	8.06	8.04

### Conclusion

The ethical values at J&J have supported the organization's decentralized structure and empowered individuals to make decisions. However from my interviews it appeared that this support is visible where the issues that the company faces have a clear ethical dimension. I conclude that the company was having trouble supporting a solutions strategy around issues that did not have an ethical dimension.

The narratives at MTS and J&J indicate that some employees desire Clan values since they had been a source of security and predictability in their employment terms and conditions. Managers and employees also acknowledged the importance of these values as supporting MTS and J&J's greatness historically. However, from this analysis I conclude that the desire for community based on Clan values emerges because there is no other visible template for an alternate value pattern that balances the tensions between Performance, Clan and Ethics. In the next section I present my analysis of the fourth value pattern; Collaborative value patterns.



### *Collaborative Value Pattern*

So far I have evaluated the link between Performance and Ethical values and a solutions strategy against two criteria: supporting integration and collaboration across a decentralized structure and building external customer focus. While these value patterns have advantages they also have limitations, and therefore are weak at supporting the orientation towards solutions. The analysis above indicates that Performance values help build customer focus and innovation but do not support flexible integration across a decentralized organization. . Ethical values on the other hand, appear to motivate and coordinate employees around ethical issues but it does not fully support a solutions strategy because it did not motivate cooperation around other strategic issues. Both of these values also remain in tension with other values.

MTS, since 2003, has sought to build an alternate configuration of values that is similar to the Collaborative value pattern. These values have supported the reconstruction of a new form of community, which helps in integration across a decentralized structure. The collaborative values also help employees resolve the tension between the need for Performance, Community and Ethical standards. Within the Collaborative value pattern, interdependent contribution to the success of peers and the organization's mission is considered central (Heckscher, 2007; Heckscher & Adler, 2006). Two other values that constitute the Collaborative value pattern are open dialogue among peers and supervisors and openness and diversity to multiple stakeholder interests. In this section I will analyze the usefulness and limitations of the Collaborative value patterns. *Refer Exhibit 5.12.*

*Exhibit 5.12: Usefulness & Limitations of Collaborative Value Pattern*

	Usefulness	Limitations
Collaborative Value Patterns	<ol style="list-style-type: none"> <li>1. Balances Tension between Ethical, Clan &amp; Performance.</li> <li>2. Supports integration across decentralization.</li> <li>3. Builds a shared context for cross</li> </ol>	<ol style="list-style-type: none"> <li>1. Enactment of Collaborative values is difficult as it depends on the value change process.</li> </ol>

	boundary collaboration.	
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### Usefulness of the Collaborative Value Pattern

*Supporting integration across decentralization:* There was evidence at MTS that the Collaborative values were helping break down silos and supporting collaborative work among employees across different brands. At MTS employees were increasingly engaging in complex work arrangements for servicing the customer. This complex work arrangement was characterized by the need for cross boundary collaboration for handling multiple projects simultaneously. Employees had explained to me that MTS had till the early 2000s, been a siloed organization that did not collaborate well across divisional boundaries.

An employee described the way work was being done in different R&D laboratories, which in the past she described as being “isolated”, another employee had described as being “siloed” and another employee had characterized as “segmented”.

*“Historically we have been separated in labs. I am part of one Lab and we are very different from other Labs. We may be part of the same division but traditionally our groups and people have been isolated from each other. So we would not always share information. And the same is true for a number of our other divisions.”*

However she explained that since 2003, “this [siloed approach to work] is becoming less and less true” as MTS has increasingly engaged in cross brand work. She clearly saw this change in direction as desirable and widely shared across the company. MTS is moving big time towards cross brand horizontal day to day jobs as opposed to being in silos like we used to be.”

Another employee spoke approvingly about collaborating across silos. Her narrative indicates the significance of the value of “open dialogue,” helping integrate different functions and divisions.

*“If there is a mistake made consciously or unconsciously we encourage dialogue. We are in a kind of test and learn approach. Even the finance people they are very open to this and have been very supportive. In case there is something strange we encourage them to also have the dialogue so it is also a way to have more dialogues and*

*collaborations between organizations across silos. ”*

*Vignette: Collaborating through Cross Brand Nodes*

Another employee described the use of complex work arrangements through which they were servicing multiple customers directly and indirectly. This work arrangement is termed a “Cross Brand Node” and was supported by the three Collaborative values of Interdependent Contribution, Openness & Diversity, and Open Dialogue. This work arrangement shows the successful enactment of Collaborative values.

MTS’s customer support division has traditionally had teams focusing on a single brand at a time. Each brand would have different customer support teams. However, with customers demanding convergence of technologies that are often managed by different brands, MTS had to migrate from single brand support and develop cross brand client service support capabilities. The “Cross Brand Nodes” are intended to break existing silos and foster cross brand collaboration.

A Cross Brand Node is a person from a particular product division who is assigned as an interface between that division and another product division with which its clients’ technology needs converge. For complex products, there can be multiple Nodes, with each node representing key features of the product. So instead of multiple members from a brand or product division being viewed as a point of contact, the “Cross Brand Node” is the single point of contact for a specific brand. Typically the person manning a Cross Brand Node is an engineer who understand the technology but who also has marketing and project management skills.

Each Cross Brand Node acts as a two way interface with other brands. One interface is for understanding the convergent technology needs of clients from other product lines [brands]. The second interface acts as a channel for matching convergent technology needs of their existing clients with other product lines in the company. So a single Cross Brand Node may interface with

multiple Cross Brand Nodes from other brands and help create one face for the brand and smoothen information flow between different product teams. Instead of dealing with 50 to 100 different project team members' clients and team members from other brands have to deal with the Cross Brand Node only for a specific brand.

*"The aim is to make internal communication easier. Where in the past communicating across brands was difficult, now contacting the Cross Brand Node easily gets access to the necessary information. Also through these nodes, the information network gets multiplied significantly – in some cases by a factor of 100".*

One employee explained her role in this arrangement. "I am the Cross Brand Node for my product line. I roughly represent 200 customers. Obviously I am using a handful of people that in turn are themselves Cross Brand Nodes to their area. It is interactive." This employee had to interact across geographies, brands and projects with clients and other MTS employees. At the time I interviewed her she was working on 5 projects concurrently. Her roles varied from a project leader in one team to a resource on another teams, brand representative on another group and a coordinator for a lab within one of the R&D Laboratories.

**Building a shared context:** At MTS there was also evidence of Collaborative Value Patterns supporting the building of a shared context for undertaking work. I found evidence that the value of "openness and diversity" had supported the building of a common context around which employees can find answers to difficult questions.

*"Whereas the whole idea is to share information, participate in one big MTS. We are all part of the same thing. So even though we work on different things, we don't have the same customers, we do have a lot of things in common. And the information tools that we have including the culture dialogue, including the 'MTS Facebook' [online employee information system] makes that possible. So we all have MTS Facebook page entry with the list of projects that we have worked on. " [MTS Customer Service Executive]*

**Balancing competing values:** In my analysis of the interview and secondary data, I found that Collaborative values balance the tensions among ethical, performance and clan values. For

example, one manager at MTS discussed how the new values, with their emphasis on collaboration, struck a balance among orientations:

*"There has to be a balance - and you hit a sweet spot - in the sense that if you have an organization where people view their job as an entitlement then you innately have people in the organization who are just going to bill time and not excel. On the other end of the spectrum if you have an organization where people know that they are expendable that their division may just go away or their particular skill that the company has been training them for 20 years may just fall to the wayside they are just going to be let go and then people don't have any innate drive or personal connection to the success to the company. They are just hired servants.*

*You need a balance. You know the idea that as employees we want to be able to trust the company more importantly we also want to be able to trust each other and sort of in response the company expects us to take responsibility of the company's goals and for our own careers."*

Another manager similarly unpacked the complexity of the new value statement about innovation, showing that it contains both a Performance and an Ethical dimension, but with a focus on making a contribution:

*"Innovation has a lot to do with business, and how well we can apply technology. MTS is very good in creating business values faster. But it [innovation] is not just experts in what we do and it is not just being a technology-based company, yes we [MTS] are all of those things. But it is "innovation that matters." It is also about innovation that matters for the company and for the world because we are very much built like that."*

**Balancing Clan value patterns:** In the interviews I found evidence that the new values at MTS were helping overcome the tension with Clan values. A long tenured employee at MTS who had spoken favorably to me about MTS's Clan values expressed his satisfaction with the new values "as a remolding of the Founder's Corporate Values." This is indicative of a new form of community that balances the tension between the Clan values and the Collaborative values. Another long tenured employee, explaining the link between the Founder's Corporate Values and the new values expressed satisfaction that the new values were an attempt to reconstruct a new form of community that was more than just a restatement of the Clan values.

*"It goes back to the original Founder's values. I think the Founder's values that*

*emphasized trust through respect over the years and early in my career was the one you would hear the most. I related and bonded more to the new one that emphasized trust through responsibility.' That is a continuation of 'trust through respect'. But when I looked at 'Trust through Responsibility', it said to me – "gotcha!" 'Trust through respect' was probably more focused on us, the employees by their managers or others within the organization. But the new version extends it to client relationships. This value is the one that grabbed me there the quickest."*

**Integrating business imperatives:** The pursuit of Collaborative values was integrated with business goals, unlike the Ethical values which were separate and often in conflict with efficiency and profit.

The pursuit of Collaborative values did not lead to declines in operational efficiency. I found that the efficiency ratios of the company had improved and was comparable to its competitors since 2003. For a detailed analysis of the financial data of MTS in comparison to two of its' leading competitors is listed in Exhibit 5.13. In these financial figures MTS demonstrates better net profit margins, inventory and operational cost ratios in comparison to its competitors.

Collaborative values did contribute to the core of Solutions strategy, building a new kind of relationship with its customers. The corporate value statements at MTS revealed a profound change in values relating to the customer. The Founder's version of this value was "Customer Service"; the new value was "Helping Clients Succeed." As people explained to me in interviews, this shifted the focus from internal measures of performance – How good is my service to external engagement with customers? Am I helping this customer succeed? An old timer described the difference this made.

*"Every time I talk to the customer the one that hits me – that customers' success is important. I think I present to the customer in a different way than I did pre December 2003. Before it was customer satisfaction and best customer service. And now it is the customer has to succeed. So when I am in front of the customers, and talking about what we are doing internally, I view success as their eyes light up and their view on what we are doing as something that is not just of interest to them but of value to them. Something that they would like to use and head them in the right direction."*

In general perspective at the company is now more than simply providing products and

services that satisfy existing needs of the customer and earn revenue for the division in that quarter. Instead the value now focuses on building a long - term relationship based on offering a product or service that will ensure that the client will succeed in their goals. And for this, there is an understanding that the best product or service may be offered by a different department within MTS. This an important element of achieving success for a Solutions strategy.

Collaboration did modify the interpretation of business performance within the company in important ways. The Performance value pattern of the 1990s had emphasized short-term achievement and making the numbers. The Collaborative pattern included both short-term and long-term values. For example, an equity research firm in 2006 evaluated the company's performance in one of its product lines as below expectation. MTS responded to this report by issuing a press release clarifying that the company was focused on managing for the long term and for this reason did not consider the deficit in its financial targets as a long term problem.

A manager described the limitations of the pure Performance orientation in contrast to the emerging Collaborative pattern:

*"No I do not think the work culture before our present CEO was miserable. But I guess what I am trying to say is that it is something that you see play out over a very long period of time. So if we had sort of continued on the track that we were going where it is all about the bottom line and the employee is not particularly valued and that we do not have a core vision that is motivating to the people I think over a period of time it would have impacted our culture and strategic objective negatively. Something that looks good in the short term has tremendous costs and repercussions in the long term."*

I also found evidence that the value of "openness and diversity," which I had hypothesized in the theoretical framework in chapter 2, helped balance the tension with Performance values. In one case bad quarter results were openly discussed in the company without fear of repercussions.

Exhibit 5.13: Comparison of Financial Data MTS, Comp A and Comp B: 1999 to 2006

		2006	2005	2004	2003	2002	2001	2000	1999
Net Profit Margin	MTS	10.38	8.71	8.75	8.51	4.41	8.99	9.16	8.81
	Comp A	6.76	2.77	4.38	3.48	-1.6	0.9	7.58	8.24
	Comp B	6.39	6.18	6.38	5.99	4	6.83	6.59	8
Cost % TR	MTS	58.11	59.91	62.58	62.96	62.70	62.99	63.32	63.53
	Comp A	75.47	76.39	75.28	73.43	73.14	73.50	71.47	70.14
	Comp B	82.20	81.68	81.78	82.07	82.33	79.79	79.35	77.49
Revenue per Employee	MTS	231,718	248,766	260,048	250,962	242,042	234,236	242,390	247,048
	Comp A	587,551	577,973	527,726	514,514	401,333	524,664	549,703	502,014
	Comp B	843,617	893,844	903,432	907,961	903,284	784,307	694,093	
Inventory Turnover	MTS	32.36	29.6	30.69	29.27	21.79	18.94	18.3	17.39
	Comp A	12.53	12.43	12.13	12.32	10.29	8.3	9.21	7.67
	Comp B	106.29	125.55	131.3	121.58	92.19	79.32	76.31	72.7
Inventories % TA	MTS	2.72	2.69	3.04	2.82	3.26	4.87	5.39	5.56
	Comp A	9.45	8.89	9.29	8.12	8.2	15.97	16.76	13.78
	Comp B	2.49	1.98	1.69	1.98	2.05	2.98	3.41	3.97
Revenues in \$	MTS	3,047,466,667	3,037,800,000	3,209,766,667	2,971,033,333	2,706,200,000	2,862,200,000	2,946,533,333	2,918,266,667
	Comp A	3,055,266,667	2,889,866,667	2,663,500,000	2,435,366,667	1,886,266,667	1,507,533,333	1,626,066,667	1,412,333,333
	Comp B	1,863,600,000	1,640,166,667	1,381,466,667	1,180,133,333	1,038,933,333	1,062,933,333	842,166,667	608,100,000
Cost of sales in \$	MTS	1,770,966,667	1,820,066,667	2,008,700,000	1,870,433,333	1,696,733,333	1,802,800,000	1,865,733,333	1,853,966,667
	Comp A	2,305,933,333	2,207,466,667	2,005,000,000	1,788,266,667	1,379,666,667	1,108,000,000	1,162,133,333	990,666,667
	Comp B	1,531,933,333	1,339,666,667	1,129,733,333	968,500,000	855,366,667	848,166,667	668,233,333	471,233,333
Selling Gen & Admin % TR	MTS	21.64	21.49	19.65	19.29	23.08	20.03	17.69	16.82
	Comp A	12.29	12.9	13.8	15.07	15.96	16.05	15.13	15.39
	Comp B	9.19	8.73	8.55	8.61	8.93	10.01	9.45	9.8
Current Ratio	MTS	1.11	1.3	1.18	1.19	1.21	1.21	1.21	1.09
	Comp A	1.35	1.38	1.5	1.54	1.48	1.53	1.53	1.51
	Comp B	1.11	1.2	0.98	1.00	1.05	1.45	1.48	1.72



*"Here is an example of our values at work. Well, for example I saw very good communication from two of our leaders in Europe from the Services division. It was an interesting communication because for the first time they presented their first quarter results on the web for the whole company to review. The quarter was not so good and they mentioned one value – which was 'Trust through Responsibility'. They did not finger point at anyone.*

*In the past the one division guy would do his own report about the quarter and the other division guy would do his own report on the quarter. This time they mixed those reports and they co-signed the letter. And they explained it as something beyond their control but that needed greater collaboration across MTS and that needed to be rectified in the future. Now other business heads have started doing that."*[MTS, Manager]

Employees also sought to enact the value of Interdependent Contribution. One of the challenges for successfully adopting this value and getting past inter departmental competition that was referred to by employee as "political infighting". Operationally this also requires resolving how to book revenues a department may have earned due to leads provided by a different department. The challenge for MTS is to recognize and reward employees who live by this value. They are presently struggling with implementing a reward system that will motivate revenue sharing by providing incentives to those who provide sales leads to other departments by booking the value of the order as "collaborative dollars" – as opposed to orders directly booked to the same department, called "equity dollars."

### Limitations of the Collaborative Value Pattern

**Meaning of Collaborative values and change:** From the interviews I found evidence that creating a shared understanding about collaborative values is not easy. Employees who support either ethical, clan or performance values will incorrectly interpret the meaning of collaborative values. This means that they will continue to interpret collaborative values in terms one of the earlier value patterns and not as a value that recognizes the interdependence between the organization's purpose, co-workers success and the employee's contribution. The enactment of values could slip from values that support Collaborative value patterns to values that support performance, ethical or clan value patterns.

There were some narratives where employee referred to the new values as a “recast version of the Founder’s Beliefs for the MTV generation”. One of the long tenured employees that I spoke to stated that:

*“We did not need a new set of values. Instead we needed to put our original values in practice. I don’t believe the values that were just defined are new; they are an iteration of the values we had.*

*You get into a team of people that you like working with. You are self-selected to that kind of values, and people that don’t are not selected. Previously that held at our core of our Founder’s values and it was more ingrained in everything that we do.”*

*Clarifying the meaning of Collaborative values also requires a process that builds trust. MTS had undertaken a difficult process for influencing value change towards Collaborative values. This was termed a “culture dialogue” in which employees and managers across the world debated the values of the company. Both managers and employees described this experience as a very emotional one. I will discuss this more at length in the next chapter.”*

## Conclusion

There is evidence that the Collaborative value patterns at MTS helps build a shared context and supported integration across a decentralized structured necessary for the organization’s strategic objectives. There is also evidence that the Collaborative values integrate business performance and ethical demands rather than seeing them as opposed. . However, the challenge for enacting such values is a great challenge. This has important implications for the process used to influence value change, which is what I will examine in the next chapter.

## ***Concluding Comments***

In the theoretical framework in Chapter 2, I presupposed that values play a role in supporting an organization’s strategy (Kotter & Heskett, 1992; Schein, 1984/1985; Deal & Kennedy, 1982). I also presupposed that organizations since the mid 1990s have started strategically reorienting themselves from competing based on core products to competing based on core competencies (Heckscher, 2007; Kanter, 2001; O’Reilly & Pfeffer, 2000; DeGeus, 1997; Ramirez, 1997; Prahalad & Hamel, 1990; Bartlett & Ghoshal, 1988; Porter, 1986). I hypothesized

that one form of this strategic reorientation by organizations was offering customized solutions based on core competencies (Heckscher, 2007). I also hypothesized two possible ways that values support a solutions strategy. One, I hypothesized based on the work of Heckscher (2007) and Heckscher & Adler (2006) that values support an organization's strategy through building trusting interdependent relationships, which I termed Collaborative value pattern. Two, based on the thesis of Cameron & Quinn (2006), Zammuto, Raymond and Goodman (2000) and Denison (1990) I hypothesized that values support an organization's strategy by motivating individual behaviors without the need for trust, which I termed Performance value pattern.

In my two primary research sites and nine secondary sites I found evidence of Performance Collaborative value patterns. I also found evidence of an Ethical value pattern, which I had not drawn from the existing literature, in which ethical action based on responsibility and stakeholder interests is emphasized.

I also found evidence that some employees who had joined the company before the late 1980s continued to support a Clan value pattern which emphasizes collective security and caring. This desire was expressed around the question of job security and careers and remained as an unresolved tension with Performance values.

In this chapter I examined the link between the three value patterns and a solutions strategy. My analysis of the strategic orientation of the two primary research sites, MTS and J&J, is based on Heckscher's (2007) thesis that Level 4 solutions organizations either increase their strategic complexity or strategic dynamism and sometimes both. Based on this analysis I concluded that:

- MTS has increased its strategic complexity and dynamism since the 1990s to become a Level 4 solutions organization.
- J&J has increased its strategic complexity and dynamism since the 1990s but it is not yet a

Level 4 solutions organization and is trying to get there.

Based on the existing literature, I hypothesized that values support a solutions strategy in two ways:

- Close and flexible integration of various parts of the work force – across product lines, across products and services, across levels.
- Tight connections between external relations to customers and internal processes of development.

My analysis of interview, secondary archival and financial data of the research sites, leads me to conclude that:

- Performance values do not fully support a solutions strategy even though they lead to improved efficiency in operations. Based on the analysis of the evidence on MTS, J&J, Microsoft and SMSystems, I found evidence that Performance values are weak at building collaboration around a shared purpose and result in organizational silos that do not share information. Also, there are unresolved tensions with ethical standards and the need for community.
- Ethical values did appear to motivate and coordinate employees around ethical issues but it did not fully support a solutions strategy because they do not motivate cooperation around other strategic business issues. They often remain in conflict with business need.
- The Collaborative value pattern more successfully supports a solutions strategy. These values support integration of the workforce by building a shared context and support employee collaboration in a decentralized structure. Also, Collaborative values offer an

alternate value template to the desire for community and also balances the tension between Performance and ethical standards. The challenge for Collaborative value is that an incomplete or narrow understanding of the meaning of these values will result in the enactment of values that are oriented towards performance, clan or ethics. For this reason the process for influencing value change is important, and that is what I will examine in the next chapter.

## Chapter 6: Processes for Effecting Value Change

In the theoretical framework I identified a priori three processes that influence value change in organizations: top down, bottom up, which based on the data I reclassified as spontaneous decentralized, and interactive.

In the top down approach the need for change is defined by higher levels of the organization and articulated by leaders through strategic planning; this is followed by top-down implementation of policies and programs (Kotter and Heskett, 1992; Atkinson, 1990; Maccobby, 1976; Lawrence & Lorsch, 1968; Chandler, 1962).

The second was the bottom up process, which based on the data, I reclassified to spontaneous decentralized change process. The spontaneous decentralized occurs when leaders do not successfully define values. Sometimes this is simply a matter of leaders not believing that values are important. Sometimes it may be a deliberate leadership choice to allow lower-level employees to spontaneously identify and commit to new values in a work place that has experienced significant change that put the previous value consensus in doubt. However, unlike the bottom up process that I had reviewed in chapter 2, in the spontaneous decentralized there is no systematic upward value change, instead value change is scattered and takes on different value orientations. (Heckscher, 2007; Heckscher & Foote, 2006; Hammer & Champy, 2003/1990; Beer, 2002; Beer & Nohria, 2000; Zell, 1999; Heckscher, 1995; Creech, 1994; Trice & Beyer, 1993; Seely Brown and Dugid, 1991; Beer et. al., 1990). Sometimes this spontaneous decentralized change may result from top management's failure to define values that make sense in employees' day-to-day work. This often involves employees having to manage their work in a workplace changed by mass layoffs and reengineering.

The interactive approach to change is based on public dialogue aimed at building shared values and task alignment (Heckscher, 2007; Heckscher & Foote, 2006; Beer, 2003; Beer et. al.,

2002/1990; Beer & Rogers, 1997; Beer et. al., 1990). In this approach changing employee behaviors depends on building commitment among employees.

Based on existing research, I hypothesized that successful value change would emerge from three main steps: the identification of new values, the overcoming of previous value commitments and the building of shared commitment to the new values (Heckscher, 2007; Heckscher & Adler, 2006; Beer et. al., 2002/1990/1990; Beer and Nohria, 2000; Beer & Rogers, 1997; Argyris & Schon, 1996/1978; Kotter & Heskett, 1992).

My goal was to find answers to two research questions: “Which are the processes through which value change is influenced as organizations strategically orient themselves to solutions?” and “Of these processes, which most successfully effects value change?”

In the chapter on values and strategy, I concluded that the Collaborative value pattern supports a solutions strategy. This analysis will also specifically examine the process through which companies – using MTS as my main case – have successfully enacted the Collaborative value pattern.

### ***Value Change Processes at J&J & MTS***

I found evidence of the use of all three of these processes since the late 1980s at both MTS and J&J, used at different periods and by different leaders. In the timeline below I have summarized the type of processes that MTS and J&J used to influence value change (Refer Exhibit 6.1 and Exhibit 6.2).

#### ***Value Change at MTS***

At MTS, until the early 1990s, the Founder’s Corporate Values were initiated in the 1950s and maintained over a 50 years period through a top down process. After the crisis of the late 1980s, attention was paid to modifying those values to fit the new business realities. These efforts

went through three stages:

- 1) During the early 1990s, the CEO attempted to influence value change through a top down process, scripting values in the form of Guidelines for the company.
- 2) In the late 1990s, this top-down effort faded. In its place, a spontaneous decentralized process began, with employees spontaneously committing to variations of existing values or new values based on their experiences after reengineering and employee layoffs.
- 3) Starting in the early 2000s, MTS used an interactive process, based on a companywide culture dialogue on company values to effect value change.

The timeline of the value change processes is presented in Exhibit 6.1.

#### Top Down Process:

MTS's values – which we will call the Founder's Corporate Values – had been instituted through a top down process in the 1940s. The CEO of MTS at that time had instituted the Founder's Corporate Values based on a set of values that had been established decades before by the company Founder but never formally codified.

Employees and managers over the years came to share the expectation that each would follow the Founder's Corporate Values. A long tenured employee described the relevance of the values:

*"The reason the Founder's Corporate Values worked was because, people believed them. The values were demonstrated on a daily basis. You knew your manager, the way he was trained, the way he would take processes, and the management processes watching the manager that he treated individuals as per the values."*



*Exhibit 6.1: Timeline of Value Change at MTS*

	Late 1980s	Early 1990	Mid 1990s	Since early 1990s
Top down	X	X		
Interactive				X
Spontaneous decentralized			X	
	Founder's Corporate Values	Guidelines by new CEO	Employees' spontaneous values after Layoffs & Reengineering	New Values Culture Dialogue Managers Value Fund

In late 1980s, during a business crisis, the board broke away from its past practice of hiring a CEO from within the organization. For the first time a new CEO was appointed from outside MTS. One of the things that the new CEO did was to seek to change values through a top down approach. He wrote up new Guidelines for the company and directly communicated them to employees through written documents and during meetings. Managers had no advance knowledge of the values or involvement in their development and received them from above at the same time as their subordinates. The Guidelines were viewed by the employees as a break from the past since the CEO did not include any of the founder's corporate values.

#### Spontaneous Decentralized Process:

The new top-down approach around the Guidelines had a rather short life span: the leadership abandoned formal implementation by the mid-1990s. After that point, value change continued but primarily through a spontaneous decentralized approach till the early 2000s. I did not observe this value change spread upwards as per the bottom up process. Instead the value change was scattered and employees took on different value orientations. During the early to mid 1990s, MTS had completed and continued to initiate multiple rounds of mass layoffs in the company to lower its cost structures. The company had also started re-engineering its work

systems to make them more efficient. The layoffs and reengineering were also intended to break down the old values shared by employees, which the company's top management considered as a barrier to achieving its strategic goals.

As a result of these initiatives employees started committing to varied sets of values. Some continued their commitment to the Founder's Corporate Values; others followed the newer Guidelines; still others developed their own definitions of core values in a changing environment. Even though MTS's CEO had drawn up Guidelines for the organization to follow, each department developed its own principles for guiding daily work. The customer service department, for example, adopted a set of customer service principles while one of the product departments chose a product-focused set of principles. People I interviewed in these two departments had a vague memory of the departmental principles during this period but were almost completely unable to remember the Guidelines scripted by the CEO.

#### Interactive Process:

A primary example of an interactive process was MTS's Culture dialogue event in the early 2000s.

- First, the CEO with a team of senior executives developed a draft of new values for the company, different from the original Founder's Corporate Values instituted by the founder in the 1940s, and also from the CEO's Guidelines drafted by the previous CEO in the early 1990s.
- This top-level sketch of values, however, was only a first step. Focus groups were held across the company, with employees from different functions, levels and geographies, to discuss and modify the initial draft.

- Then the CEO invited all the employees of the company to participate in a 72 hour online Culture dialogue to debate, evaluate, and modify, the draft.

Employees and managers posted comments about the previous values, the draft values and also other values that employees considered important.

- Finally, the team of senior executives used the themes that emerged from the dialogue to prepare a final version of the values.

The new values that were finally accepted were significantly different from the draft values that had been introduced by the top team. For example one of the draft values emphasized the building of trust through integrity. The new value that emerged from the Culture dialogue emphasized personal responsibility for building trusting relationships.

The process as a whole involved a back-and-forth movement between top-level definition and guidance, and wider debate and assessment. The critical Culture dialogue process was, as I observed it, extraordinarily open. At first, there were waves of heavy criticism of the company and its leadership by long-term employees who felt that the social contract had been violated in the restructurings and layoffs, and who believed that leadership was abandoning the core values of the company. Gradually there emerged a more textured debate between this group and others who believed that the current economic climate required something different from the strong paternalist values of the Founder. The CEO himself, and other top leaders, were actively involved in these debates, challenging and being strongly challenged in turn.

The process did not end with the final draft: it also involved the periodic discussion of the values in several formats: company-wide surveys, accountability reviews, and further rounds of open “culture dialogues” in successive years.

As a result of this process, all those I interviewed felt that the redefined values had real

credibility as a reflection of widespread discussion. A long tenured manager who was initially skeptical of the culture dialogue, reflected that the process involved an unrestricted dialogue, “We never noticed a lack of candor. Not all. They [those who participated in the culture dialogue] felt very comfortable just saying whatever was on their mind. So, I am a believer now [in the process]”. Another newer employee who had felt that MTS had been insensitive to its’ employees in the late 1990s, added: “I do not think any other company in an open forum would allow employees to criticize its policies and executives. The form [culture dialogue] was very free. There was no moderation. There was no fear of retribution as to what happens if you express your comments if it does not go with the corporate view. I was reading some of the posts that said these executives are wrong and they should step down. These posts were entertained and not taken off and people actually replied to them.”

### **Value Change at J&J**

At J&J there were three main phases in the management of values:

- 1) The values were introduced during the 1940s and maintained through the 1990s through a top-down process, starting with General Johnson and continuing through successive CEOs.
- 2) From the late 1970s until the early 1990s, top management organized an interactive process based on periodic formal small group discussions with employees at all levels, led by HR managers but inviting the grouped to challenge the company’s values and to inviting employees to discuss their relevance. Sometimes changes were made to the values through this process.
- 3) After the early 1990s, this process shifted: it was less open and more management-driven, and no longer discussed serious changes to the values; it was aimed more at inculcating

the existing code. At that time, real change did occur spontaneously through decentralized local initiatives.

The timeline of the value change processes is presented in Exhibit 6.2.

### Top Down Process:

The values codified in the Credo at J&J were introduced by General Johnson, the founder of the company, in the 1940s based on values that were in use at J&J and his understanding of the values required to operate a pharmaceutical business. Subsequent CEO's of the company since the early 1960s used a top down approach to maintaining compliance with these values till the early 1980s. This is how one such attempt to keep the Credo alive when one of the CEO's perceived that the Credo's influence was waning.

*"In the years following his death, Robert Wood Johnson's cherished Credo philosophy began losing some of the influence it once had within Johnson & Johnson..... Philip B. Hofmann sensed this waning, and in the closing months of his chairmanship conducted a series of ten Credo dinner meetings attended by some 4,000 management employees. At these events, he spoke about preserving the values inherent in the Credo and making them a part of the decision making process." (Foster, 1999: 613)*

From the late 1970s to the early 1990s J&J used an interactive process, which I will describe shortly. From the mid 1990s, J&J reverted back to a top-down process for teaching the values to employees. This top down process was operationalized through the Credo Challenge and a Credo survey. The Credo Challenge, which had in the past been used for evaluating and making changes to the values in the Credo, from the early 1990s onwards was used for teaching the values to employees rather than effecting value change. The Credo survey was used to provide employees the opportunity to evaluate the alignment between the values in the Credo and the actions of employees and managers but did not evaluate or challenge the Credo itself.

A senior HR manager, speaking of the shift during the 1990s, said, "it [the Credo Challenge] was really a teaching approach but it was under the Credo Challenge Label". The Credo survey

which was first instituted by Jim Burke in the late 1980s was used by the top management and administered to employees across the organization and its subsidiaries for getting employee feedback on the alignment between the values and actions in J&J. The feedback was used for identifying areas where alignment of employee and manager behaviors with values needed to be improved. The manager responsible for the Credo survey process explained its objective to me; “It’s [the Credo Survey] asking the question: Do you think the organization lives up to these values?”

The top-down process for maintaining the values was not sufficient to deal with business pressures, and a number of employees suggested that the revised Credo was no longer in touch with the performance pressures. Managers and employees expressed the need for re-examining the existing values. One of the areas this came up was around the question of job security. A J&J senior executive felt that “because the world has changed so much since the 1970s, there are no guarantees anymore.”

*“So why even talk about it [sense of security]. Maybe we need to express this in a different fashion that speaks about value that we place on employees in the way that we treat our employees - with dignity, with integrity as opposed to the words around security”.*

#### Interactive Process:

The interactive process instituted by Jim Burke, the CEO of J&J in the 1980s, was known as the Credo challenge and was continued by the next CEO, Ralph Larsen until the early 1990s. The process was characterized by companywide focus group discussions about the relevance of the Credo, which is the value statement that J & J’s founder, General Johnson wrote for his company. Based on these discussions, significant changes were made to the Credo.

The first time the Credo was challenged, debated and changed through public discussions among senior managers was in the early 1980s. These discussions about the Credo were initially

restricted to senior management, but were subsequently extended to include large groups of employees across the company. The changes made to the Credo during the 1980s emerged from focus group discussions in subsidiary units of J&J. One of the senior sales managers described his experience with the Credo Challenge process in the early 1990s when he was a sales executive:

*"We went through the Credo and we were then asked to make some recommendations on what we thought the Credo should do. We sent our suggestions to the Corporate Headquarters. They get executives and employees throughout the world to provide input [about the relevance of the Credo]. It is a process that they have to go through and its pretty drawn out. It could be a number of days that people go through this."*

The changes that were made were meant to make the Credo more representative of the real enacted values of the company. An example of this was the deletion of the reference to God from the Credo. "(T)his change made to the Credo drove the strongly religious CEO of J&J wild," according to one of the people I interviewed. The company-wide debates came to be accepted as being reflective of the different perspectives of the new people hired by the company as it grew to be a global organization.

In addition, changes were made to create aspirational values, such as the need for work-life balance, which was one of the last changes made in the early 1990s. A manager said:

*"We added a line to the Credo and that was the shot heard around the world. At the same time we added fathers and nurses in the first paragraph we added the line that we have to be mindful of ways to fulfill their family responsibilities. And I know who wrote that - I was the person who helped write that line."*

These changes marked a shift overall towards less focus on Clan deference to authority, towards a greater focus on Ethical issues.

After the mid-1990s, however, as I have described, the interactive process declined and there was a shift towards a more top – down approach. I did not come across any instances in which someone had participated in a Credo Challenge after the early 1990s that was intended for making changes to the Credo.

### Spontaneous Decentralized Process:

The revival of the top-down approach in the 1990s masked a growing problem: the Credo values did not reflect changing business realities, and many employees felt it failed to provide guidance for their day-to-day work. Thus I found evidence, from the recollections of a few employees and secondary materials on the Credo, of spontaneous decentralized shifts in enacted values that were no longer influenced by or influencing the formal Credo. This was quite different from the bottom up theory that I had offered in the theoretical framework in chapter 2. So while I did not find evidence of a bottom up process, I found evidence at J&J, similar to MTS, of a spontaneous decentralized value change process.

On one hand, there was an emergence at local levels of Performance value patterns, and on the other some who attempted to hold on to the historical Clan value patterns. One long tenured J&J employee reflected this continued commitment to the original founder's values:

*"For us the way our Founder did it still works. It is helping the corporation make critical business decisions that really encompasses those four key paragraphs [stakeholders] that are in the Credo."*

There were other employees whose commitment to the existing value system was eroded and were searching for an alternate value system. During the mid 1990s, as decentralization and efficiency were emphasized, managers and employees were influenced by Performance values, which emphasized revenues and the business model over the value system that the Credo prescribed. A manager who was present during that period commented, "Some decisions were being made which on the surface appeared to be smart, but they were counter to the value system."

These shifts were uncoordinated and controversial. Attempts from the top to maintain the Ethical values through the Credo Survey did not engage the employees or have a consistent impact on behavior.



A manager expressed his criticism, which he claimed was also shared by the CEO:

*"You can have a rapidly accelerating business model in which bringing in the numbers is critical. However, you can start to lose sight of what is the basis or the foundation - what is really the value system."*

I have described in chapter. 4 incidents in which employee and managerial behaviors during this period were contrary to J&J's espoused Ethical value system.

More recently, after the early 2000's, more employees felt that the Ethical values espoused in the Credo were incomplete. According to a customer service employee there is an unresolved tension between the focus on ethics and the need to solve problems and be efficient around non-ethical issues. In her opinion this unresolved tension resulted in operational inefficiencies and weak problem solving. Her attempts to solve problems were not encouraged by her managers.

*"Working on the front-line for an organization, I am almost always the first to know the problem, but change does not start at the very bottom. There are other departments that have to share that area where the problem is. But people tend not to listen to those who actually serve the customer."*

Exhibit 6.2: Timeline of Value Change at J&J

	Pre 1980	1980s early 1990s	Since early 1990s
Top down	X		X
Interactive		X	
Spontaneous decentralized			X
	Top-down value definition	The Credo Revised Credo Challenge achieves value change	The Credo Stabilized Credo Challenge for value learning Credo Survey Case Study Simulations Employees' spontaneous values emerge

As a result of this inconsistency employees began to improvise spontaneously and in a decentralized manner. In addition to violation of the Ethical values, employees felt that the focus on ethics was limiting their ability to participate in their routine work. and restricting their ability to address issues that did not have an ethical dimension. This was resulting in operational inefficiency and weak problem solving.

Another employee suggested that the top-down approach was also restricting them in their routine work: “in an attempt to create clarity, the principles, roles and policy documents are becoming too prescriptive and what you end up doing is you are only becoming more constraining.”

In sum, it appeared that value change at J&J and MTS after the late 1980s had been influenced at different times through the three processes that I had identified in the theoretical framework in Chapter 2. This analysis answered my question on which processes influenced value change. In the next section I will answer the second question, which of these three processes successfully effects value change.

### *Influencing Value Change*

In the theoretical framework in chapter two, I hypothesized that effecting value change would involve the identification of new values, the breaking down of old value commitments and the building of commitment to the new values. Existing theory that is also reviewed in chapter two suggests that this influence could be exerted top down, spontaneously or through interactive processes Also, in the previous chapter, I concluded that effecting value change towards collaborative values is important in both these companies.

The key characteristics of the three processes are summarized in Exhibit 6.3. While, the top down and interactive processes are purposeful attempts to influence value change, in the

spontaneous decentralized approach value change happens spontaneously and is out of touch with efforts by leadership to shape values. Senior leaders drive the top down attempts to influence values through teaching and compliance. Also, value change happens through individual employee experiences and choice.

In the interactive process dialogue between the top and bottom levels of the organization is important. In this process consensus and shared experience are primary for identifying values and managing value commitments.

*Exhibit 6.3: Key Characteristics of the Processes for Influencing Value Change*

	Top Down	Spontaneous Decentralized	Interactive
Value identification	By leaders	Spontaneously by employees	Consensus
Overcoming Existing Commitments	Compliance	Independent Choice	Understanding through Dialogue
Building Commitment	Teaching and Learning	Independent Experience	Shared Experiencing

A summary of the change processes is given in Exhibit 6.4. The period of spontaneous decentralized approaches at J&J and MTS resulted in employees spontaneously identifying and committing to multiple values. But this approach did not result in the breaking down of previous value commitments. Also, the multiple value frameworks that emerged spontaneously resulted in an unresolved tension between the multiple value commitments expressed by employees and managers.

In the case of the top down process:

- At MTS indicates the process resulted in the formal identification of new values – those proposed by the CEO of the early 1990s – but was weak in building commitment to these new values and overcoming previous value commitments.

- At J&J the use of the top down process to maintain the existing value pattern led to a growing gap between the espoused values and the reality of day-to-day working life. Employees recognized a disconnect between the desired values and the changed workplace.
- It is the interactive process that provided the strongest shift in identifying and building commitment to new values and overcoming existing commitments to old values. This process successfully effected value change towards Ethical values at J&J in the 1980s and towards Collaborative values at MTS after 2003.

*Exhibit 6.4: Summary Evaluation of Processes for Influencing Value Change*

	Identify new values	Break old value commitments	Build shared commitment to new values
Top Down	Yes	No	Weak
Spontaneous decentralized	Yes – Multiple	No	Yes – Multiple
Interactive	Yes	Yes	Yes

In the following sections I will expand on the analysis above. I will first present my analysis of the top down process and then of the spontaneous decentralized process at J&J and at MTS. I will then present the analysis of the interactive process for influencing value change at J&J and at MTS.

### **Top Down Process**

The top down process is characterized by the espousal of values by senior leaders of the company. The senior leaders identify the espoused values for the workforce and build employee commitment to the values through teaching and the expectation of compliance. In this process employees may be given the opportunity to evaluate the alignment between the espoused values and the enacted values through providing feedback. However, only senior leaders can change the

values.

### Summary of Change Processes at J&J and MTS:

In this section I will present my evaluation of the top down process at J&J and MTS, which is summarized in Exhibit 6.5 and explained below. MTS's CEO used a top down process during the mid 1990s to change values by instituting Guidelines for employees to follow. J&J has used the top down process since the mid 1990s to maintain the existing values that are codified in the Credo.

*Exhibit 6.5: Top Down Process for Influencing Value Change*

	Identify new values	Break old value commitments	Build shared commitment to new values
J&J	Yes	No	Weak
MTS	Yes	No	Weak

### Identifying Values:

One of the main advantages of the top down process is that it clearly and quickly identifies a value template for the organization. This could be the identification of a new value template or re-affirming an existing value template. At MTS the top down process was used by the new CEO to identify new values in the form of the guidelines that the CEO scripted at his home. At J&J, Ralph Larsen, the CEO in the mid 1990s, used the top down process to re-affirm the values in the Credo.

Historically, the founders at MTS and J&J had used top-down processes in the early 1900s to codify for the first time a set of values based on existing practices within the companies. An employee commented: "Everybody who comes into work usually Johnsonizes their way of working." At MTS, according to a long tenured MTS employee, the founder's values were "demonstrated on a daily basis" till the late 1980s. This top down process institutionalized the values that were codified by the Founders of these two companies for close to 50 years.

Subsequently, the content and form of these values that were scripted by the Founder's of J&J and MTS continued to influence attempts at value change at these two companies.

The top down process is useful for identifying new values for the first time in a company, defining new values to replace old values, and for re-affirming existing values in an organization. It is not effective, however, in building commitment to new or changed values.

### Overcoming Existing Value Commitments:

At MTS and J&J, efforts to redefine values through top-down initiatives failed to maintain a consensus. One problem was that in both cases, many employees continued to hold on to the traditional codes.

At MTS the use of the top new guidelines drafted by the new CEO in the early 1990s did not overcome support among many for Founder's Corporate Values. As one manager put it: "We never retired the Founder's values". My interviewees were generally able to remember the Founder's values far better than the newer Guidelines. Only ten years after the CEO's guidelines were scripted, employees found it difficult to recall them. At J&J, one employee who joined the company in the late 1960s said he felt that if one looked at the way some managers behaved "you would have thought the Founder was still alive".

These commitments were very visible in the early phases of the interactive value dialogue that I observed: thousands of posts lamented the loss of the original values and expressed the feeling that the company had become too focused on its stock price and had lost its way: "The only company value at MTS is stock value"; "Human assets are viewed as numbers on a balance sheet that have to be maximized"; or "Our new values are to drive as much profit as possible without caring about the employees." Contentious issues such as plant closures, layoffs and outsourcing were also discussed in the posts. One newer engineer at MTS felt that the company

had become insensitive to employees. "From an employee point of view it seems wrong [closing of plants and outsourcing] since MTS is using US tax payers as an advantage and sending jobs overseas. The only important thing is to stay profitable."

At J&J the top-down effort was not aimed at changing values but at maintaining them; thus I do not have evidence there of whether this approach could overcome existing commitments, however, there was evidence among long tenured employees of a desire for the earlier Clan values.

*"I just went for a retirement dinner for a fella I used to work with. He had worked here for 35 years and now he retired. He was a good employee and he worked hard all the time. And you go out with style. It was a pleasure to see him retiring. It was kind of like Lance Armstrong going out in his last race - he won the Tour de France. And I don't know the young people today. They are looking to get ahead maybe too quick. And the people that I know that are the longer term employees - we came through differently. Came through manufacturing. They were groomed to go where you have got to go."*[J&J old timer]

In particular, there was a considerable development of Performance values in response to competitive pressures; but this shift was not widely consensual. J&J management rejected the enactment of Performance values in the mid 1990s as in conflict with its Ethical values.

The top down value change process is weak at overcoming commitment to existing values. The top down process is also weak at overcoming commitment to alternate values where the objective is to re-affirm the existing values.

#### Building Value Commitments:

In the 1990s both MTS and J&J were facing the need to redefine values to deal with an increasingly turbulent, insecure, and competitive business environment. They approached it in different ways. MTS, as just mentioned, tried to define new values from the top; J&J tried to maintain its previous values through top-down inculcation. The results differed in detail, but neither was able to build wide agreement on a value orientation.

At MTS, the failure of both the old Founder's values and the new CEO Guidelines to make sense of rapid business changes, including layoffs and restructurings, led to a scattering of values: individuals and groups went in different directions. The result was a disorganized value system that included some individuals and groups who held onto the traditional values and others who gravitated more to a Performance orientation in a localized and uncoordinated manner that was not explicitly voiced by company leadership.

The first group viewed the initiatives introduced to improve efficiency at MTS with suspicion. They viewed the Performance values as being driven by the stock price on Wall Street rather than by real commitment to managing MTS for the long term. Some of them described this period as one during which HR had reduced people to the numbers on a balance sheet and a time during which the company had reneged on a social contract with them. Many employees and managers in my interviews felt that the company had ceased to be the Great Corporation that it had been in the past.

The Performance oriented group, by contrast, often felt frustrated that the old values had not been more clearly or successfully repudiated, and believed that the continuing power of the Founder's values was impeding the growth of the company.

There were also employees who felt that a completely different set of values were needed which could address the issue of a lack of community and distrust that the changed workplace was causing: one said, "Over the last 8 to 9 years there has been a move to a mobile workforce and this has resulted in issues around the lack of community."

This unstructured conflict often resulted in a kind of cynicism, in which employees felt that no values were accepted and therefore everyone had to go it alone. As one put it:



*"We had a slogan: "make it your business." And we translated that to mean, "do it yourself." Ok, I got nobody behind me, nobody is going to do this, so I am just going to do this myself - there is no structuring."*

At J&J, the development of Ethical values in the early 90s did not help much in dealing with increased competitive pressure. I found considerable evidence from employees and managers of a lack of commitment to the Ethical values. Even though employees were given the opportunity to learn about the values through the Credo challenge and give feedback on the values of the company through the Credo survey, this process was facing difficulty in sustaining commitment. Employees said that the Ethical focus resulted in inefficiencies in business operations and weakness in problem solving. Managers talked about this in terms of a need to focus on business problems such as building convergence across a decentralized structure and the need to clarify the meaning of job security at the company.

The problems were very visible in action. There continued to be periodic instances of actions taken by managers and employees that violated the Ethical standards of the Credo. I heard of many incidents that were clearly driven by Performance rather than Ethical orientations, including the sale of drugs on the market for which the results of the clinical trial did not meet J&J's ethical standards; unfair intelligence gathering techniques; delaying recall of drugs that had encountered adverse reports after use and use of unfair advertising techniques; and individual oriented career advancement attempts by some employees; and an illegal document shredding incident.

Based on these two companies, it appears that the top down approach does not overcome commitment to existing values and it is weak in building commitment to new values when it is used for influencing value change. The top down process is also weak in sustaining commitment to existing values when the process is used for re-affirming existing values. Thus while the top down process is useful in the initial codification of the original values for the first time, it is weak

where the process seeks value change or value re-affirmation.

### *Spontaneous Decentralized Process*

The spontaneous decentralized approach is characterized by employees spontaneously identifying and committing to new values in a work place that has experienced significant change that put the previous consensus in doubt; such change usually involves employee layoffs and organizational restructuring. This spontaneous decentralized process was different from the bottom up value change process reviewed in chapter 2. The value change did not spread upward, instead I observed at the two primary sites that value change was scattered and employees took on different value orientations.

### Summary of Spontaneous Decentralized Change Process at J&J and MTS:

Earlier in this chapter I presented evidence that value change at MTS and J&J has been influenced through a spontaneous decentralized process since the early 1990s. Both J&J and MTS had changed their workplace by undertaking layoffs and organizational restructuring. The objective of these changes to the workplace was to improve and emphasize in MTS and J&J a need for customer focus and cost – efficient performance.

*Exhibit 6.6: Spontaneous Decentralized Process for Influencing Value Change*

	Identify new values	Break old value commitments	Build shared commitment to new values
J&J	Yes – Multiple	No	No
MTS	Yes – Multiple	No	No

### Identifying Values:

Both MTS and J&J experienced periods in which the “official” values defined by the top leaders were inadequate to motivate and orient employees. I found evidence during these periods of the emergence of multiple value frameworks and no clear identification of a common

set of values. These multiple value frameworks were a source of discomfort for the employees: they recognized a disconnect between the values that they desired and the changed workplace.

At MTS, as I described earlier, the business crisis of the early 90s led to layoffs and other management actions that violated the previous value consensus defined by the Founder. A new set of top-down values defined by a new CEO gained little commitment. At that point, according to my interviews and secondary records, employees in different divisions started designing their own principles to fit their localized needs. An employee who had worked in MTS during the time that the CEO had written the guidelines said:

*"I think there are different principles within the different segments of MTS. So for instance, we have a set of 6 principles. Similarly each department or business section sets its own principles as well with the corporate principles."*

Another manager described the emergence of multiple value frameworks:

*"There is a void there and if we do not fill it then people will continue to mourn and they will continue to fill it with their own version of principles and goals and we will see a proliferation of frameworks."*

At J&J too, there was similar evidence of multiple value frameworks. During the early 1990s the espoused values of the company, which involved a strong Ethical component, were often in conflict with the business needs and were seen as insufficient by many employees. There were numerous instances, where employees and managers behaved in ways contrary to the formal ethical values.

A number of interviewees at multiple levels expressed clearly a sense that there was another value that was important to the company but not reflected in the formal code: operational or business efficiency. In this view, the Ethical focus was important but insufficient, and the single-minded focus on it distorted behaviors or led to a kind of cynicism. A customer service employee, for instance, told me that her supervisor would not accept feedback unless it was focused on the

ethical obligation to customers; her suggestions for efficiency improvements were ignored. She was frustrated by this inability to act on what she saw as an important part of the company's values.

There was also evidence that there was a tendency among the decentralized subsidiaries at J&J to follow policies that were contrary to the values of J&J. The management expected this as an accompaniment of the move towards decentralization. However, they felt that when the policies were contrary to the values of the company then it had to be controlled. A senior manager explained:

*"We found that some companies were trying to shape some solutions independently – which is how the decentralized structure is expected to work. But again we do not want one company going off and setting policy which is different from the whole corporation."*

#### Overcoming Existing Value Commitments:

Top management at MTS in the early 1990s believed that it was important to break employee commitment to the traditional values, which emphasized security and stability, in order to deal with changed business realities. The series of restructuring and layoff initiatives were a clear violation of the old values. Yet for many long-time employees, even the sustained crisis and new initiatives from the top failed to break their commitment to the Founder's values. These employees were upset not only by business decisions from the top that violated those values, but also by the decentralized actions of many of their fellow employees that seemed to express a different orientation.

One employee reflected this commitment to the Founder's values when he talked about his continued strong attachment to the old sense of community and tradition at MTS in the 1980s:

*"The first time as an employee I took my wife and children to the company picnic, I kind of turned to my wife at one point and said, 'This is what MTS is all about.' Because when you were there in the golf course there are thousands of people there. It*

*was a real super day: the kids had a great time, we had a great time. I don't know if I said to my wife at that time that these are our MTS values. I kind of sat back and said, 'what a great company I work for.'"*

Although the old social networks broke down to a considerable degree due to layoffs and re-engineering, this did not reduce the commitment of employees to the values written by the Founder. Long tenured employees continued to express strong and widespread commitment to these values as is reflected in this quote from an old timer at MTS.:

*"I think I am being very frank and I do not necessarily feel very positive [about the breakdown in community and the demise of the Great Corporation]. I feel comfortable saying I have been at MTS 20 years. This is my MTS! I have as much stake as the CEO does or anybody else does in what this company says and acts and behaves."*

*I take objection to the sentiment that well we cannot do that anymore because the industry does not do that anymore, we have always striven to be an industry leader, just because an industry does not do X, does not mean we shouldn't. Just because somebody else does not provide this for their employees or services, does not mean we shouldn't."*

Another old timer evaluated the values by comparing MTS's policies before and after the mid 1990s. According to him, the policies not just for benefits but also training were better before the mid 1990s.

*"There is less differentiation between the organizations in the marketplace than it used to be [before the mid 1990s]. When I joined MTS, the pension was reasonable, the disability package was excellent, the vacation was excellent, the career progression and in job training was excellent. A lot of these have either disappeared, have been diluted or the marketplace [competitors] has caught up [with MTS] in terms of the benefits packages. In the past MTS had been an innovator and provider of superior benefits and operations. However, since the mid 1990s when MTS is compared to similar organizations in the marketplace, one ends up with the lowest common denominator approach to managing people".*

One manager at MTS summed it up: "We had never retired the Founder's values".

At J&J too there was similar evidence of long-term employees commitment to the Founder's values when they were faced with a changed workplace. An employee with long tenure said, "the only Credo that I have in my office is the one that was written by the Founder. I don't keep the revised version of it. I keep this only." A more behavioral example of this commitment to the

unchanged Credo consists of an employee class action suit against J&J.

*“There was actually a lawsuit brought by a group of employees, claiming that the Credo is in essence an employment contract. This was around the time when we had started closing plants and positions that just no longer were meaningful in the workplace. These employees were arguing that in effect the phrase a sense of security in their jobs in the Credo was an employment contract. What it meant to them was that if you are doing a good job, you are in effect employed for life.”[Senior Legal Consult, J&J]*

### Building Value Commitment:

Although the spontaneous decentralized process had little impact on many longer-term employees, who continued to express commitment to the traditional codes, many of their fellow employees expressed a different orientation. At MTS and J&J, employees and managers, talked about a divide between longer term employees and newer employees that acted as a barrier to these two groups building a shared value commitment. However, employees also felt that the values that they desired had limitations since it did not work in the changed workplace.

At MTS long tenured employees felt that newer employees were focused on the job only and did not take the time to build relationships. A long tenured employee described the way newer employees interacted with him as,

*“‘I need something. Can you answer this question?’ There is very little social interaction, very little of the back and forth – ‘What you doing today?’ The aim is to get an answer to a question as opposed to building a relationship.”*

Newer employees too expressed a frustration with older employees who were always talking about the past. This especially came up during the culture dialogue, in which employees debated the values of the company. One newer employee felt that older employees were making a lot of “noise” while another felt that they were “ranting”.

*“I felt frustrated by the people who were complaining about loss of benefits and changes in the pension plan, without offering any suggestions on how things should improve. They were making me waste my time reading their postings. I could have been reading something more constructive.”*

Managers at MTS talked about a divide within the workforce between old and new. A senior manager said: “the newer employees with less than 5 years experience that represented a significant proportion of the population were not able to relate to the feelings of the older employees. They wanted the older employees to ‘cut it out and get a life.’ And they were calling for a new kind of MTS”

At J&J too there were newer employees who were critical of the older employees. According to a newer employee who reflected this view, “There is a somewhat elitist attitude. I think that people become more exclusive than inclusive. This may be true because there are older people with more tenure and this means old ideas and old way of thinking.” Old timers also felt that they did not understand the newer employees’ values. One old timer reflected:

*“My generation – the baby boomer generation – you were looking for security; that you go to one company and stay there. You worked for a good company and you retire from it. You give it your all. I don’t know what the younger generation is lacking. ... I am not sure that the newer employees are here for the long term.”*

At both MTS and J&J the old timers were aware that while they desired the traditional values, the older values were incompatible with the changed workplace in which competitiveness had become key. The newer employees on the other hand felt that a focusing on the market by itself was also a problem. Employees’ commitment to the espoused company values was weak and they were struggling to identify alternate value templates.

At MTS newer employees described the business model before the early 2000s as one in which the attempt was to push products onto customers. According to one employee in the past MTS had short term thinking in which it was only concerned with selling larger volumes of a product to customers whether they required it or not.

*"Short term thinking says, sell whatever you can in order boost this quarter's profits. You know if you can cram a product that the customer probably does not need, then go for it. If you can sell them 10 units instead of 5 then do it – because that was how it happened in MTS's past."*

At J&J there were instances, especially in the early 1990s to the mid 1990s, when employees were committing to performance values that deviated from the traditional values of the company. I referred earlier to such instances: pushing products on the market early or delaying the recall of products that have encountered adverse events, of bribery.

At J&J long tenured employees expressed an awareness that the old values would not fit in the new workplace. While the perception was that the older values had been "tarnished" and that there were many colleagues that still desired "security", they also expressed an understanding that focusing on the business was important and sometimes this would mean plant closures.

*"I don't want to go through another plant closure. In order to be competitive, we have to be doing things differently. I think a part of it is awareness and not living in denial."*

*"You can't be too complacent. If you get too complacent, doing what you are doing, you will always get the old adage from folks that's the way we always did things. There is always a better way of doing things, a smarter way of doing it. We should be looking at that."*

These employees were struggling to articulate an alternative value that would satisfy their desire and also fit in with the changed workplace. Like the MTS customer service employee who was looking for "better ways to get customer support," long term employees at J&J were struggling to connect and articulate the values that they desired with the reality at the workplace.

Newer employees were particularly frustrated that the company did not empower them to solve problems in their work. According to a customer service representative: "A lot of people think that those in the role of servicing are not capable of diagnosing problems or implementing change."

Managers at J&J also saw the disconnect between the espoused company values and the real



values governing day-to-day work. Some explicitly called for a new updating of values:

*"It's interesting that in the Credo challenges of the past [the values] were changed. And I don't think people remember that. Changes were made and they updated it. People's views about family are very different than they were 20 years ago.*

*"So how do you update and refresh the Credo. The Credo challenge of the past has not happened. They call these orientations the Credo Challenge, but it is more about teaching people to be proactive about issue spotting. It's not about: Is this document contemporary? Is it still timeless? And how do you update it for time? It's chiseled in there. You would have to really take down the wall."*

My conclusion is that at MTS and J&J the spontaneous decentralized approach emerged as employees recognized a disconnect between the values and the changed workplace. However this recognition did not lead to a consensus on new values. Some fell back on value patterns others adopted newer performance-based values; each group was critical of the other.

The spontaneous decentralized process has two weaknesses. One is that it does not break down existing value commitments and the second is that it results in the proliferation of multiple value frameworks. The spontaneous decentralized process is unable to build shared commitment across these multiple value frameworks and results in discontent among employees.

### **Interactive Process**

The interactive process is characterized by a public dialogue on values jointly undertaken between management and employees within the organization. This dialogue facilitates the identification of new values through consensus. This joint dialogue also facilitates overcoming of existing value commitments and building commitment to the new values. Another characteristic of the interactive process is that old value commitments are overcome and new value commitment is built through shared experiences in value influenced decision-making and periodic reflection on the relevance of the changed values. In this section I will present my evaluation of the interactive process at J&J and MTS, which is summarized in Exhibit 6.5 and explained below.

### Identifying Values:

Earlier in this chapter I presented evidence of the use of the interactive process at both J&J and MTS, which was useful in identifying a value template for employees to build shared commitment. At J&J this process involved focus groups across the organization during the late 1980s and early 1990s, questioning the relevance of, and making changes to, the values in the Credo. At MTS the Culture dialogue during the 2000s involved online dialogues on the company's values between employees and managers across the organization

*Exhibit 6.7: Interactive Process for Influencing Value Change*

	Identify new values	Overcome old value commitments	Build shared commitment to new values
J&J	Yes	Yes	Yes
MTS	Yes	Yes	Yes

At MTS, employees generally evaluated the process very positively. A relatively new manager said:

*"I have to give kudos to MTS on the Culture Dialogue. The form was very free; the dialogue was a perfect exhibition of free speech. There was no facilitation. There was no fear of retribution if you expressed comments not in line with the corporate view. Some of the posts suggested executives were wrong and should be relieved of their posts. Management did not remove these posts, and people actually replied to them. You could vote on these threads.*

*Many of these threads did not say that MTS was one of the best companies. But every thread, it seemed, did share a common goal that MTS should change in a certain way. Kudos to MTS and to the CEO. I do not think any company on an open forum would allow employees to criticize executives and their policies."*

The emotional levels that were reached during the Culture Dialogue were high. Another new employee said:

*"The place was depressed and there was a need for people to be heard. There was sort of low morale, several of us were concerned about the future, and were thinking why would we work here [at MTS] if we had an offer from somewhere else. Maybe it was*

*felt by our CEO too, that it was time to bring back a little why are we MTSers: What made us different from other people?"*

But not only the new employees were favorably impressed: this process bridged the gap I have described between newer and older employees. One employee who fondly remembered the past and was critical of the changes that had happened at MTS also expressed an appreciation of the need for the new values and its link to the strategy of the company:

*"We [MTS] have moved on to Integrated Solutions and as a place of growth in the future. I think it [Culture Dialogue] is excellent and it is innovative. Our CEO, unlike the earlier CEO, is a long tenured MTS employee.*

*He looked at the company and said, 'Have we lost our core values and what makes us MTS?' When I first joined 16 years ago we were differentiated in our mode of operation and benefits package and the way we handled our personnel. I think that differentiation became diluted.*

*The "Culture Dialogue" focuses on what are the core values of MTS as a corporation. Can we return to those values that we had in the 1950s 1960s - how can we regenerate those today and how can we refocus on the Integrated Solutions strategy of the company?"*

The uniqueness of the Culture Dialogue at MTS was elaborated by a long tenured employee:

*"All of us decided on these values. You won't see that in other companies. When I was in the online Culture Dialogue I thought - who else does this? I do not know if anyone else could, but we did."*

At J&J since the interactive approach, the Credo Challenge happened some time ago -- in the 1980s -- it was difficult to find clear evidence of the extent to which existing value commitments were given up and commitment to the Ethical values were built. Secondary evidence indicates that the CEO of J&J introduced the Credo Challenge to overcome commitment to Clan values by inviting employees to question and challenge the relevance of the Credo, which were representative of the values at J&J. The CEO in an interview explained the intent of the process being to overcome and build value commitment:

*"Now I don't really think that you can impose convictions or beliefs on someone else. However, I do believe that if I really understand what makes the business work, then I can prompt you to think through the facts and come to see just how pragmatic the*

*philosophy is when it comes to running a business successfully ..... And I think that's happened here."* (Aguilar & Bhambri, 1983: 5)

### Overcoming Existing Value Commitments:

At MTS I was able to observe fairly directly the connection between the Culture Dialogue and the reactions of employees over a year later. This was not the case at J&J since the Credo Challenges for evaluating and changing the values were last conducted during the early 1990s. What I saw at MTS was that many employees who had begun with strong commitments to a single value set – either traditional Clan values or emergent Performance values – began, after the Dialogue, to express an understanding of the inadequacies of their former orientations. These employees in their narratives about the new values demonstrated evidence of overcoming older value commitments. There was similar but limited evidence in the archival data of the CEO and senior managers at J&J initially resisting the Credo Challenge and subsequently seeing the usefulness of the process.

At MTS, old timers who had expressed a need for community and had lamented the treating of people as numbers on a balance sheet also expressed an understanding that had emerged from the Culture Dialogue that the marketplace had become more competitive and that needed MTS to undergo a lot of changes:

*"We have grown over the last few years through acquisitions especially where we have noticed we have missing areas in our portfolio or where we have competitors producing better products. We have been bringing in people who have come in from different cultures. We have moved from being a bottom level supplier to getting up to senior level executives. So introspection [about existing values through the Culture Dialogue] is important. Having those discussions about how we can partner and take those businesses forward also requires us to state the values of the organization and the values framework that you are operating within the organization."*

Another old timer, who had fondly recalled the good old days in which he felt individually respected in the company, also felt that extending the internal focus to include other stakeholders externally was important.

*"In the past we were probably more focused on ourselves, the employees, the managers or others within the organization. But it [the culture dialogue] has moved to also extend our focus to client relationships."*

Newer employees who were impatient with the old timers' consistent yearning for the good old days also expressed an understanding that it was important to have a dialogue about values.

Some new employees felt that the Culture Dialogue helped in initiating a timely discussion around non revenue generating activities and the need for community around shared values.

One newer employee said, "The Culture Dialogue was exciting. It was saying that we were again going to be a company that was values driven"

At J&J, since the interactive process was last held fifteen years before my research, it was difficult to document the extent to which it overcame existing value commitments. A story from a contemporary Harvard Business Case Study, gives at least one illustration of the overcoming of resistance through the interactive process.

*"When the outgoing CEO heard about the {Credo Challenge} meeting, he went bananas. It was the only time the incoming CEO could recall him losing his temper. He said, "You're not about to challenge the Credo as long as I'm here. I'm chairman, and no one has the right to challenge that document." However, after he saw the tape [tape that was shot of the Credo Challenge between 20 senior managers], and as he began to think about what was happening, he gradually became a supporter of the idea." (Tedlow & Smith, 1989: 15)*

Even Jim Burke, who had initiated the interactive process, had an experience where he had to overcome his existing value commitments. In one famous case the Credo Challenge resulted in the omission of the reference to God, which according to a manager, "many employees [including the CEO] in the company were distressed to find out [that the reference to God had been dropped from the Credo]". However, that change to the Credo has remained to this day and Jim Burke accepted this change and did not make any attempt to rescind the change that came out through this process.

### Building Commitment to Values:

At MTS after the interactive process employees expressed clear commitment to the Collaborative values that they had jointly identified. Employees at MTS also narrated changes in their behaviors based on the new values that came out from the Culture Dialogue.

I have addressed in chapters. 4 and 5 evidence that the Collaborative value system had successfully taken root at MTS. It is worth emphasizing that both long-term and newer employees had overcome their differences in adopting these new values. A long tenured employee, who reminisced about MTS being a great corporation in the past, also expressed commitment to these new values in this way.

*"Sure the values would make a difference. I think our values, the old ones ... let's leave them behind. The new ones really act and feel how MTS moves forward as a culture and I think they are key to our ongoing and continued success."*

Another newer engineer said that the new values had personally motivated him to stay on with the company.

*"The values have impacted my retention in this company. I want to be part of a group that is more about something more than getting rich. I want to be part of a company where I can succeed and play on a great team. And so having these values out there say to me that I am part of something meaningful. And part of their value is the tone that it sets for employees."*

Old timers and newer employees at MTS also appeared to be seeing each other's perspective. One newer employee, who was critical about the fixation of old timers with the past era, explained that after the Culture Dialogue, he was impressed with the way the company had in the past been focused on employees.

*"I wholeheartedly agree with the values. This was one of the things that was a very pleasant surprise: how much MTS recognized and respected the individual. Even the fact that MTS had values."*

Another newer employee expressed a similar understanding of the old timers' perspective

in this way:

*"It was also important to do it [Culture Dialogue] this way because it gave a lot of people that had some pent up frustration from the layoffs in the 90s a chance to vent that and put that on the table. The way I see it, the Culture Dialogue has helped re-engage trust within the employees."*

*Older employees while being unhappy about the newer employees' approach to work, at the same time acknowledged the "task orientation" and "problem solving" capabilities of the newer employees. One old timer, who acknowledged that the new values were necessary for the new business model, also agreed that all of the MTS employees had contributed in designing the values."*

Once again, finding evidence of building commitment to the new values at J&J was not easy since the interactive process had been used last in the early 1990s. However, I did find one change on work and family balance which provided evidence of building commitment to new values. One of the additions that J&J made to the Credo through the interactive process of Credo Challenge was a recognition of the Ethical responsibility to balance work and family life. The enactment of this value is one of the things that came up consistently in the interviews that I conducted in 2006.

*"The company has always been very good on the work and family piece of it. At Skilman we have an onsite day care center. We have live for life, which is a work out facility. It is very good as far as the family is concerned."*

The VP of Public Affairs explained the impact of the Credo Challenge in the 1980s in his book on the company, published in 1999.

*"At the time, the CEO had no way of knowing how important his decision to challenge the Credo would be when J&J was faced with the greatest crisis in the company's history [the Tylenol poisonings]... By encouraging the worldwide managers to discuss and debate the details of the document freely, the CEO had paved the way for further institutionalizing the same set of beliefs throughout the company. Having been part of the evaluation process, the managers of all J&J companies now felt a new sense of ownership in the principles of the Credo, and many of their employees felt the same way." (Foster, 1999: 616)*

My conclusion is that the interactive process is useful in effecting value change. This process facilitates employees giving up existing value commitments and building shared commitment to

new values.

The difficulty with this process is ensuring its continuance: top management tends to take control of the process rather than leaving it genuinely open and interactive. Although J&J used an interactive process in the 1980s, it later switched to a top down process to maintain the values. Some top managers I interviewed said clearly that value change should be the prerogative of management only and that involving employees would only be problematic. At MTS too, while the Culture dialogue was being held, some senior managers put pressure on the CEO to shut down the discussion before it became too negative.

### *Concluding Comments*

In this chapter I looked for answers to the question: Which processes influence value change in organizations?

In the theoretical framework in Chapter 2, I suggested that value change may be effected through top down, bottom up, which based on my observations at the primary sites I reclassified as spontaneous decentralized, or interactive processes (Heckscher, 2007; Heckscher & Adler, 2006; Beer et. al., 2002/1990/1990; Beer and Nohria, 2000; Beer & Rogers, 1997; Argyris & Schon, 1996/1978; Kotter & Heskett, 1992). The top down process is leadership driven. In the spontaneous decentralized process values are spontaneously identified and committed to by employees independent of centralized management attempts to influence values in a restructured workplace. Value change in the interactive process is influenced through public dialogues and reflection on values. Based on this framework I had hypothesized that effecting value change involves three steps. These are the identification of new values, overcoming of previous value commitments and the building of shared commitment to the new values.

My analysis of the archival and interview data of MTS and J&J suggested that value change



at these two companies had involved each of these three processes at different points in time since the late 1980s. My evidence concerning these processes is somewhat variable, since some of it involves time periods in the past for which I have relatively weak data: recollections of my interview subjects combined with archival data. The totality of the evidence is, however, consistent with the argument that interactive processes are most effective for value change.

In both companies I have fairly good evidence of the weakness of top-down processes. At J&J such a process has been dominant from the mid-1990s to the present, and my interviews provided direct evidence that it had failed to build a shared commitment to a set of values that helped in dealing with the current business needs. At MTS a top-down process was instituted in the mid-1990s and remained formally in effect, though rather weak implementation, until shortly before my research began. Thus there as well I was able to get quite direct quotes and evidence from employees about the lack of impact of this initiative.

In both companies, the weakness of the top-down initiative led to the emergence of decentralized, spontaneous processes in which employees sought to enact their own definitions of values for the changing environment. This spontaneous decentralized process was different from the bottom up value change process reviewed in chapter 2. The value change did not spread upward, instead I observed at the two primary sites that value change was scattered and employees took on different value orientations. This generally focused either on the old Clan values or on a strong Performance orientation. The evidence in J&J is stronger because the situation existed at the time of my interviews: it was clear that most of my subjects felt that the scattered efforts to develop a more adequate pattern of values had failed, over a considerable period of time, to come together in a shared view. There was still considerable tension among different groups and widespread feelings of frustration. At MTS the spontaneous decentralized process had ended a year or two before as the top launched a new, interactive process. But with

memories relatively fresh, my subjects recalled the same basic pattern of frustration and division from that time.

For the interactive process, my evidence is relatively strong at MTS that it succeeded, unlike the other two, in overcoming prior commitments and building a new shared vision. In interviews during the interactive dialogue and a year later, I was able to document both the surfacing of previously-existing divisions and the significantly increased unity and enthusiasm after the process. At J&J I have much weaker data based on recollections of an interactive process in the 1980s, but that evidence is also consistent with the claim that the process was effective in building new shared values.

In these two cases the top down process identified new values but was weak in overcoming existing value commitments and building commitment to new values. The spontaneous decentralized process identified and built commitment to multiple values but was weak in overcoming existing value commitments. The interactive process identified new values, overcame commitment to existing values and built commitment to new values. At J&J value change towards ethical values and at MTS value change towards Collaborative values was effectively brought about through an interactive process.

## Chapter 7: Conclusion

Scholars in the organizational theory field have contended that shared values are an important predictor of successful execution of business strategy (Schein, 1985; Deal & Kennedy, 1982; Ouchi, 1981). For a solutions business strategy, in which organizations integrate their diverse competencies into solutions that are customized to different customer needs, there are two different views on the role of shared values. One view is that shared values influence employee behaviors to support strategy based on community primarily built on trusting interdependent relationships (Heckscher, 2007; Heckscher & Adler, 2006). A second view is that shared values influence employee behaviors to support strategy primarily based on empowered individualism (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1990). The purpose of my research was to clarify the relationship between shared values and business strategy. I have evaluated these two different views and also looked for evidence of alternate relationships that may exist between shared values and business strategy.

To clarify the relationship between values and strategy, I drew on existing research to define values as “*conceptions of the desirable*” (Parsons, 1968: 214; Kluckhohn, 1951:399) that influence the manner in which employees relate to each other within an organization. Drawing on existing research I proposed a theoretical framework in which the sharing of these “conceptions of the desirable” are a source of legitimating authority and mediating social exchange between employees (Blau, 1967; Gouldner, 1960; Parsons, 1937/1951; Weber, 1947). The shared values stabilize relationships among employees and stakeholders within an organization.

Identifying and analyzing values within an organization is not easy. This is because quite often what organizations say and what organizations actually do are quite different. In the theoretical framework I have also drawn on existing research to contend that values exist at two levels in organizations (Heckscher & Adler, 2006; Argyris & Schon, 1996/1978; Kotter & Heskett,

1992; Schein, 1985). One level is values that are talked about by employees and may or may not influence employee behaviors. These are *espoused values*. The other level is values that influence employee behaviors. These are *enacted values*. The existing research reports another challenge to studying values. Quite often organizations simultaneously hold competing values – for example, being externally or internally oriented and being flexible or consistent (Cameron & Quinn, 2006; Zammuto, Gifford and Goodman, 2000; Denison, 1990). In this *competing values* view value patterns within an organization's culture will emerge from reconciling different configurations of the competing goals of the organization. Typically these competing goals have been studied as being internally or externally focused and being efficient or flexible.

Clarifying the link between values and strategy also requires an understanding of the process through which value change is influenced in organizations. This is because the nature of the value change process in itself represents a value (Parsons, 1968; Blau, 1967; Weber, 1947). As part of this analysis, I hypothesized that value change will require three core elements: the identification of new values, overcoming old value commitments, and building commitment to the new values. There appear to be three value change processes. 1) Organizations may attempt to influence value change through *top down* processes that are driven by senior leaders. 2) Some value change is influenced *bottom up* through employees spontaneously identifying new values in response to a changed workplace. 3) Value change may also be influenced through an *interactive* process that involves the top and bottom levels of the organization jointly having dialogues on values.

For the analysis of an organization's business strategy I drew on Heckscher's (2007) thesis that "Level 4 Organizations" have strategically reoriented themselves towards offering customized solutions based on an integration of multiple competencies. This strategic orientation is done either by increasing their strategic complexity across multiple strategic dimensions or by

increasing their capability for rapid and dynamic responsiveness -- and in a smaller group of organizations, by increasing both concurrently.

In this research the link between values and strategy has been analyzed by conducting the following analyses.

1. In Chapter 4 the values shared by employees at eleven research sites and the patterns that these values supported is reported.
2. In Chapter 5 the link between the value patterns delineated in chapter 4 and a solutions strategy is analyzed and evaluated from eight research sites that had been analyzed as being oriented towards solutions.
3. In Chapter 6 the processes through which value change is influenced is analyzed and reported from the two core research sites.

### ***Study Findings***

In this section I will summarize the findings of the analysis on value patterns, link of value patterns to strategy and the value change process. In the next section I will discuss the implications of these findings.

Based on an action oriented and reflexive methodology (Heckscher, 2007; Burawoy, 2001/1998; Barley & Kunda, 2001; Miles & Huberman, 1994; Trice & Beyer, 1993; Schein, 1985; Argyris & Schon, 1978), I interpreted the values that were *espoused* and *enacted* at the two core research sites and the nine secondary research sites. I interpreted the values by attributing meaning to primary and secondary narratives on employee experiences and organizational events. This interpretation of meaning was based on existing theory on values and value change and the context of the narratives.

I found four empirical value patterns in the organizations that I studied. This analysis is reported in chapter 4 and summarized next. I also found support for the thesis that the Collaborative value pattern is more effective than the Performance and Ethical value patterns in supporting a Solutions strategy. This analysis is reported in chapter 5 and summarized after the next section.

Value patterns hypothesized *a priori*: Three of the value patterns were hypothesized *a priori* based on existing research and are theorized in the framework in chapter 2. The three were the Clan, Performance, and Collaborative value patterns.

- The Clan value pattern motivates collective employee behaviors. I found evidence of this at J&J prior to the 1980s and at MTS prior to the mid 1990s. I also found evidence of the Clan value pattern influencing change attempts at Lucent, ABB and Cummins India. The evidence indicates that employee behaviors during stable periods are influenced by the expectation to conform, respect and follow tradition and not step across hierarchical boundaries, which supports organizational performance. During times where organizations redefine their strategy and restructure, the employees' expectation of conformity, predictability and security becomes espoused by the desire for Clan values and is a reason for change initiatives being unsuccessful.
- The Performance value pattern motivates individual independent employee behaviors. At J&J during the mid 1990s and at MTS from the mid 1990s till the early 2000s I found evidence that employees' actions were influenced by getting the job done in order to improve operational efficiency and be responsive to customers. I saw this as indicative of the values of entrepreneurship and individual achievement, primary elements of the Performance value pattern. At two secondary sites, **Microsoft** and SMSystems (a pseudonym), there was evidence that the Performance value pattern influenced

employee behaviors and that the values of entrepreneurship and adaptiveness were primary.

- The Collaborative value pattern motivates interdependent employee behaviors. I found evidence of this at MTS since early 2003 and at Citi e-Solutions and Highway Hospital. The evidence indicates that employee behaviors are influenced by not just the need to do a job independently, but to contribute to peers and organizational success. This contribution depends on recognizing the need for interdependence in which being inward and outward focused, being flexible and efficient and being united across differing interests are all concurrently important. There was support in the data that the values of interdependent contribution, openness and diversity and open dialogue are primary in the Collaborative value pattern.

Value pattern analyzed inductively: One value pattern was inductively identified in the organizations that I researched. I termed this the Ethical value pattern.

- The Ethical value pattern motivates employee behavior that is ethically responsible and attentive to the interests of stakeholders. I found evidence of this at J&J since the 1980s and at Alcoa and Genzyme. The ethical value pattern support routines that maintain the ethical responsibility to stakeholder interests. At J&J the ethical value pattern supported flexibility around issues that had an ethical dimension.

Values and strategy: On the link between values and a solutions strategy, this research suggests that the Collaborative value pattern is more effective than the Performance and Ethical value patterns.

- I concluded that MTS, J&J, Citi e- Solutions, ABB, Lucent, Microsoft, SMSystems and Cummins India were strategically orienting to solutions. Of these cases, MTS and Citi e-

Solutions had been able to achieve this strategic goal. J&J in my analysis based on the data is clearly trying to orient to solutions but is facing difficulty. Lucent, SMSystems, Microsoft and ABB have each achieved some degree of success but were not at the same level as MTS and Citi e-Solutions.

- I hypothesized that for values to support a solutions strategy, they have to (1) support integration of the organization across a decentralized structure through employee collaboration and (2) supports external client focus.
- Of the three value patterns, the Collaborative value pattern best met the three criteria for values supporting solutions. The Performance values motivated individual employee behaviors focused on efficiency and customer needs. However, this value pattern resulted in silos and a divided workforce, which limited the extent of the customer focus. The Ethical value pattern supported a cooperative orientation towards solutions, but only around issues that had a clearly defined ethical dimension. Where the issue did not have a clearly defined ethical dimension the Ethical value pattern motivated conformity and predictability similar to the Clan value pattern. The Collaborative value pattern supported individual and collective action around issues that had both ethical and non-ethical dimensions.

Value change: The second research question was: what are the best processes for influencing value *change*. I found that the interactive process achieved change towards the Ethical value pattern at J&J and towards the Collaborative value pattern at MTS. This analysis is reported in chapter 6.

- The top down process is useful for building commitment to existing value patterns during periods where no value change is required, such as the initial phases of a company's formation. The top-down process is effective in *identifying* new values but not



at building commitment to them and overcoming commitment to existing values.

- The data provided evidence of a spontaneous decentralized process in which value change was scattered with multiple value orientations than the bottom up process which I had theorized in chapter 2 in which there was systematic upward value change. This spontaneous decentralized process to value change results in the commitment to multiple values that are incompatible and does not overcome existing value commitments.
- The interactive process, through its emphasis on joint dialogue between the top and bottom has been successful in effecting value change towards Collaborative values at MTS and Ethical values at J&J, by identifying new values, overcoming commitment to old values and building commitment to new values.

### ***Contribution***

This study contributes to existing research on values by clarifying the link between shared values and strategy. Also, as organizations restructure into loosely – coupled systems, understanding the link between values and strategy has important implications for practitioners too.

Contribution to research: There are two ways in which this study contributes to existing research on values.

There has been disagreement over the best way to motivate and orient people in solutions-focused organizations: through individualistic performance values (Cameron & Quinn, 2006; Denison, 1990), or through collaborative values stressing interdependence (Heckscher, 2007; Heckscher & Adler, 2006). This research finds that values which stress collaborative interdependence work more effectively than Performance and Ethical values for Solutions strategies. Also, by identifying Performance, Collaborative, Clan and Ethical value patterns as

empirically relevant in solutions organizations, this study helps parse the link between values and strategy into four specific value patterns. By examining processes that influence value change, the study provides a not frequently undertaken, empirical evaluation of value change processes. My research suggests that it is the interactive process that effects value change.

Stackman, Pinder, and Connor, (2000) have called for research on values at an intermediate level linking research on values at an abstract level with research on values at an operational level. "In this ... [intermediate level], the values would still be defined non-operationally, but in terms that make particular sense to work, working and workplace issues" (42).

This study by delineating a value complex of four value patterns and examining its link to business strategy falls within the research that the scholars call for at the intermediate level. The study integrates existing research on employee relationships at the workplace being influenced by values that emphasize ethical responsibility, individual action and collective action with a more recent view that emphasizes interdependent community.

This study also links research on business ethics to research on values and strategy. Much of the existing research has linked ethics in organizations for profit to the social responsibility of the firm.

## ***Methods***

The use of comparative case studies, data displays and attention to disconfirming evidence has contributed to the validity of this study. The interview excerpts about employee behaviors, value commitments and key events provided direct evidence to the key concepts that were claimed to be emerging as patterns within the core and secondary research sites.

The similarities between the cases helped in strengthening the validity of the analysis. At the same time the case studies helped surface unexpected patterns that disconfirmed certain *a priori*

propositions. Analysis of the disconfirming evidence helped resolve inadequacies in the existing propositions and also resulted in the rethinking of the theory altogether. This analysis helped surface Ethical value pattern and to clarify the link between values and strategy. The reduction of the patterns into data displays helped describe and explain causal relationships from the data. This was especially helpful in the analysis of the link between values and strategy and the process of value change. Triangulation of the patterns with existing theory, data from primary and secondary research sites, primary data from interviews and secondary data from archival records has also helped strengthen the validity of the findings of the study.

This approach has also helped integrate different views on values that exist in the organizational theory literature. It has also linked ethics to business strategy, which has in the existing research been mostly linked to the social responsibility of organizations.

Limitations: However, there are limitations in the data. First, there was no data from a secondary research site that could confirm the link between the ethical value pattern and strategy that was found in J&J. The two secondary research sites with an ethical value pattern were not oriented towards a solutions strategy. Another limitation in the data pertained to the value change analysis: while there was data on the use of the interactive approach to achieve value change towards ethical and collaborative value patterns, there was no data on whether such value change had been attempted by a top down approach. These limitations are the next steps for this research study and the subject of the discussion in the next section.

### ***Future work***

The study of values in organizations is not a new research topic. However, the emergence of solutions organizations as a major category is new. The link between shared values in the culture of a solutions organization is therefore a topic that has received limited attention. So the replication of this study in other organizations and industries will be a useful next step. The

development of a survey instrument based on the findings of this study and using it as an accompaniment to the interviews will help strengthen the generalizability of the study.

One of the future areas of research that emerges from this study is to evaluate the usefulness and limitations of the Collaborative value pattern in organizations that are oriented towards solutions. A proposition that the analysis of this research puts forward is that the Collaborative value pattern balances tension between alternate value patterns and will support a solutions strategy.

This study has focused on primary values. However, clearly there will be other, secondary values. For example an organization that espoused the Ethical value pattern may also have secondary values of individualism, collectivism and interdependence. Identifying these secondary values and how they are linked to the primary values is another area for future study.

Future studies need to also clarify if different cultural types that have been identified in the research would have different combinations of the value patterns. Otherwise the difference between value patterns and cultural types becomes unclear.

### ***Concluding Comment***

This study deals with the role of values and the process for value change in solutions organizations that integrate multiple competencies to offer customized solutions to customers.

Based on the analysis of data at eleven research sites, there was evidence of a tension among value patterns that motivate individual performance, support clan community and maintain ethical standards. These were termed Performance, Clan and Ethical value patterns.

Organizations that try to emphasize one of these three value patterns find that the tension does not get resolved and are therefore unable to strategically orient themselves towards solutions.

There are some organizations that have instead reconstructed a fourth value pattern, which

emphasizes interdependent contribution to the success of peers' work and organizational goals. This fourth Collaborative value pattern supports the strategic orientation towards solutions by building external customer focus and internal integration across a decentralized organization, which is something the Ethical and Performance values cannot do consistently.

This study also finds that value change may be influenced either purposefully or spontaneously. In organizations in which value change is spontaneous, multiple value orientations emerge in a scattered manner; building shared commitment across these multiple values becomes difficult. Organizations that attempt to influence value change purposefully through a top down process find that this process is weak at managing value commitments towards both old and new values. The use of an interactive process by some organizations has effected value change purposefully in the direction of both collaborative and ethical value patterns.

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## Appendices

### *Appendix 1: Sample of Questionnaire for Interviews*

1. Tell us something about yourself and the role that you perform / or used to perform at XXXX company. Also tell us something about the company.
2. Over this period have you ever been involved in a reorganization, downsizing or layoff event within the company? Could you describe the event – when was it, how long did it last and what were the outcomes?
3. Has your organization adopted a set of values or a credo? When were these values adopted, what are the values and how were they defined? How has this value impacted the nature of employee and employer relationship? How would you have defined it prior to the event that you described earlier?
4. Has the event that you have defined impacted the values in any way? Especially how has it impacted the employer and employee equation within the company?
5. How have these values been implemented within the organization? Please describe 2 processes pertaining to the period before the disruptive event and 2 processes after the adoption of the values.
6. Why was it important to define new values or why was it not necessary to look at new values in the period after the disruptive event?
7. How did you in the past before the disruptive event and in the period after the disruptive event evaluate the extent to which these values were being imbibed within the organization?
8. Do you have a couple of stories on the impact of not operating the values and a couple of stories of how the organization lived by the values and what were the benefits?
9. When could we meet again to continue this interview and could I talk to Mr. XXXX that you mentioned during your interview?
10. Could you also share the following material that I believe is not publicly available and that we discussed during the interview with us? Would you agree to sign this authorization document before giving us the documents for using in our research?

Thank you for your time.



## **Appendix 2: Sample of Verbal Consent Form**

### ***Sample of Script for Oral Consent***

Dear ,

Thank you for agreeing to this interview on - "How has your company built shared value in the post 1990's knowledge marketplace?" .

This informed consent is in compliance with the protocol laid out under Title 45 Code of Regulation Part 46, Protection of Human Subjects (45 CFR 46). The intent of the form is to inform you of the potential risks accompanying your involvement in this research project.

If you have any questions about your rights as a research subject, you may contact the Sponsored Programs Administrator at Rutgers University at:

Rutgers University Institutional Review Board for the Protection of  
Human Subjects

Office of Research and Sponsored Programs 3 Rutgers Plaza

New Brunswick, NJ 08901-8559

Tel: 732-932-0150 ext. 2104

Email: [humansubjects@orsp.rutgers.edu](mailto:humansubjects@orsp.rutgers.edu).

If the objective of the research, procedure, risks and benefits are understood and agreeable to you, then kindly provide your verbal consent.

This research is about the new employee employer relationship in a knowledge marketplace. The focus is to understand the process, content and purpose of shared values among employees

in a company.

1. There are no experimental procedures. The only procedure being used is a structured interview process and questions that have already been communicated to you before the interview.
2. You are hereby informed that the interview will be recorded on a computer, subsequently transcribed, analyzed, interpreted and made public through a thesis and publication in which source names and job titles will not be quoted.
3. I do not foresee any risks or discomfort to you from this project. In case you do, then kindly make them known immediately or during the course of the interview.
4. The total amount of time required for the interview will be not more than 90 minutes over 1 or 2 sessions.
5. Participation is voluntary with no compensation and you can withdraw at any point
6. In case you have any questions, then you may communicate with the undersigned at [bmichael@vsnl.com](mailto:bmichael@vsnl.com); 732 932 2730 (Office Phone) or 732 932 8766 (Fax).

## End Notes

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<sup>1</sup> Over the last two decades a number of scholars in the strategic management and change literature have contended a shift from sequential production to concurrent value co-production (Heckscher, In press; Zell, 1997; Ramirez, 1999; Prahalad and Hamel, 1990; Bartlett and Ghoshal, 1988). Essentially it means that corporations are moving from standardized sequential production models to production models that are based on customized solutions. This requires having the ability to have an external orientation and flexibility. It also requires the ability to utilize the expertise of downstream and upstream activities to create solutions that have to be subsequently integrated into customer processes or products.

<sup>2</sup> Kotter and Heskett (1992) in their research showed that it is not just strong cultures or cultures that are aligned with a specific institutional context that ensures success. Instead organizations that have been evaluated as having cultures that have the capability to adapt to changing stakeholder demands are the ones that will succeed in the long run.

<sup>3</sup> The equivalent of tradition and the rational legal model to culture in organizational culture can be found in the conceptualization of strong and weak culture model. The emphasis here is on the way things are done here (Deal and Kennedy, 1982; Kotter & Heskett, 1992).

<sup>4</sup> Beer and Canon, 1994; Nohria and Ghoshal, 1996 are some of many researchers who contend that developing a shared social context around values is an important mechanism that both market based incentives and hierarchical arrangements cannot match in its ability to create knowledge. (some others are O'Reilly & Pfeffer, 2000, Harmon, 2005; Heckscher et. al. 2006; Heckscher, In press).

<sup>5</sup> This theory is relevant for three reasons (1) it has emerged through over two decades of consistent work about values that in turn is based on an influential theoretical tradition drawing from Weber (1947) and Parsons (1968) (2) it is one of the few theories that addresses the question of alienation and valorization of work effects and (3) finally while it recognizes the competing priorities of the capitalist system it still offers a solution around interests.

<sup>6</sup> However Blau, (1967). Contends that there are four values. Particularistic that simultaneously unites members and creates segregating boundaries. Universalistic that provides universal agreement in a community on a standard of value that can be used to compare attributes. Legitimizing values that transcend personalities and finally Opposition values that are the medium of social reorganization.

<sup>7</sup> Heckscher et al. (2006) contend that in societies the thick forms of *Gemeinschaft* (collective) trust are comforting but stifling, while the thin forms of *Gesellschaft* trust are liberating but alienating. Their contention is that there is emerging a collaborative community that moves beyond the *Gemeinschaft* (thick trust/community) versus *Gesellschaft* (thin trust/individual) model and operationalizes Durkheim's organic solidarity around the shared feeling of interdependence. One of the areas around which this happens is the nature of values that support an ethic of contribution to a common purpose.

<sup>8</sup> For goal oriented social systems, trust has been conceptualized around (1) consistency in

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meeting commitments (2) competence emerging from knowledge and (3) congruence based on objectivity (Sako, 1992). Trust has also been defined as reflexive that obligates acceptable behavior in the present but also allows the partners to explicitly question each other on what conditions can they continue to trust and work together (Sabel, 1992). Adler (1999) has conceptualized trust as reflective; that is based more on norms based on open dialogue among peers. Here integrity and competence is important. Trust has also been looked at as “calculative” which is similar to the notion of thick trust. Here trust is built by placing ones self in a vulnerable position in relation to another.

<sup>9</sup> Theories of Change – Institutional etc: Institutional theory (Tushman, 1977; Selznick, 1957) New Institutional theory (DiMaggio & Powell, 1983; Perrow, 1979) Ecological Theory (Hannan and Freeman, 1989), Neo Institutionalism (Greenwood et al, 1996; Dougherty, 1994) and Organizational Culture (Schein, 1985; Jo Hatch, 1993) have offered influential theories for explaining organizational change or similarity. Population ecological theorists have been critiqued due to their implied rejection of radical change and emphasis on peremptory environmental determined change. While the others have been faulted for its weak explaining power of how the internal dynamics of change are consciously or unconsciously enacted at the workplace. The change models within the culture literature have their limitations too. All these theories address the issue of values but not its relationship to trust and the nature of contribution expected from employees.

<sup>10</sup> Heckscher (1995) found the emergence of three types of employee responses to attempts at transformation (1) loyalists who were survivors after the reengineering, (2) professionals who bought into the new ethic and (3) those who became free agents.

<sup>11</sup> Miles & Huberman (1994) allude to this as internal validity where “negative evidence” that contradicts and where there are “rival explanations” to the propositions that have been developed. Barley & Kunda (2001) also address this issue in their contention that for comparative research integration of theories need to be organized on the lines of similarities and differences.

<sup>12</sup> Ford, closed down its manufacturing facility in New Jersey in 2003. I got access to the union members of the plant who are presently employed in the company but their job essentially entails community service. This community service required them to work at the Labor Education Center at Rutgers. I was able to interview three members who worked on the assembly line.

<sup>13</sup> I conclude that he subscribes to neither, Collaborative or Clan values. This data point from one single interview does not disconfirm the proposition, but instead may also surface an alternate value pattern.

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## Curriculum Vitae

Boniface Michael

### Education

2009	PhD (Industrial Relations & Human Resources) School of Management & Labor Relations, Rutgers University, USA
2006	MS (Industrial Relations & Human Resources) School of Management & Labor Relations Rutgers University, USA
1996	Masters in Business Administration (Human Resource Management) FORE School of Management, India
1989	Bachelor of Arts (Honors) Economics Hindu College, University of Delhi, India

### Academic & Professional Work Experience

Fall 2008 onwards	Assistant Professor, College of Business Administration, California State University, Sacramento
2003 – 2008	Teaching Assistant, School of Management and Labor Relations, Rutgers, The State University of New Jersey, New Jersey, USA
2006	Research Assistant, Center for Workplace Transformation, New Jersey, USA
2001 – 2003	Consultant, B M & Associates, India
2000 – 2001	Assistant Vice President, HR, Consolidated Futuristic Solutions, India
1998 – 2000	Manager, HR, IKOS Private Limited, India
1997 – 1998	Deputy Manager, HR, Whirlpool, India
1996 – 1997	HRD & Personnel Coordinator, Risk Management Software, India
1993 –1994	Research Fellow, Foundation for Organizational Research and Education, India
1991 – 1993	Executive, Confederation of Indian Industry, India
1990 –1991	Master, Lawrence School, India