MANAGING ORGANIZATIONAL CULTURE

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ABSTRACT

Over the past decade, much has been written about organizational culture and the important role it plays in an entity's successful performance. Edgar Schein, one of the leading authorities on culture, has identified its three levels as: (1) *artifacts* (visible, audible, tactile manifestations of the underlying assumptions, such as behavior patterns, rituals, physical environment, dress codes, stories, and myths), (2) *shared values* (espoused reasons for why things should be as they are, such as norms, codes of ethics, company value statements, and (3) *shared basic assumptions* (the invisible but identifiable reasons why group members perceive, think, and feel the way they do about external survival and internal operational issues, such as assumptions about mission, means of problem solving, relationships, time, and space.

Of considerable importance, in Schein's view is the need for senior management to focus on the third level of culture. That is, unless basic assumptions are addressed, the organization's culture will likely remain the same or change only slightly. The central issue for senior management is not choosing the "correct" basic assumptions, however, but rather identifying a culture that will promote the most successful organizational performance, and either maintaining that culture if it already exists, or moving the organization in toward it if it does not.

To maintain or change a culture requires addressing some of the fundamental ways that the organization operates. There are six organizational processes—or "cultural levers"—that senior management can use to either maintain or modify an existing culture: (1) strategy formulation, (2) authority and influence, (3) motivation, (4) management control, (5) conflict management, and (6) customer or client management. In some instances, the use of one of these processes as a cultural lever is relatively easy, and in others it is quite complex and difficult. Importantly, however, all six processes must be used in a consistent and mutually reinforcing way. Thus, a key goal for senior management it to design each process in such a way that it operates in concert with the other five in either preserving the existing culture, or helping to modify it in accordance with senior management's preferences.

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Over the past decade, much has been written about organizational culture and the important role it plays in an entity's successful performance. The purpose of this paper is to define organizational culture, describe its various dimensions, and discuss six organizational processes, or "cultural levers," that senior managers can use to maintain or change it.

ORGANIZATIONAL CULTURE DEFINED

Edgar Schein, a leading authority on culture, defines it as follows:

> A pattern of shared basic assumptions that the [organization] learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.[1]

Schein describes three levels of culture: (1) *Artifacts,* which are visible, audible, tactile manifestations of the underlying assumptions, such as behavior patterns, rituals, physical environment, dress codes, stories, and myths. (2) *Shared values,* which are the espoused reasons for why things should be as they are, such as norms, codes of ethics, company value statements, and so forth. (3) *Shared basic assumptions,* which are the invisible but identifiable reasons why group members perceive, think, and feel the way they do about external survival and internal operational issues, such as assumptions about mission, means of problem solving, relationships, time, and space.

Artifacts

Artifacts are relatively easy to understand. Many organizations have dress codes, such as uniforms or proper business attire, for example, that are indicative of some underlying culture. When IBM and Lotus merged some years ago, the prediction of a cultural clash was due, in part, to this outward manifestation of their cultures—IBM with a dress code that stipulated proper business attire, and Lotus whose employees wore tee shirts and sandals.

More recently, a merger between Beth Israel and Deaconess Hospitals in Boston encountered a clash in cultures. One outward manifestation of this clash was arrival time for meetings. At Beth Israel, meetings started using "BI time," which meant they began about 15 to 20 minutes *after their scheduled* start time. There was no such "artifact" at Deaconess, and shortly after the merger individuals from the Deaconess would become irate while waiting for Beth Israel people to arrive so that a meeting could begin.

Shared Values

Shared values are also quite easily understood. Many organizations have goal or mission statements boldly emblazoned in their reception areas for all to see, informing both their customers and their employees what the organization stands for, and, in the process, saying something about the espoused culture. Similarly, some organizations have codes of ethics, which frequently are related to the professional norms of their employees. Doctor-patient and lawyer-client relationships are examples. Other organizations have rather rigid rules of behavior, some of which, when broken, constitute grounds for dismissal. For example, some companies forbid employees to discuss their salaries, with termination the consequence of breaching the rule.

Basic Assumptions

Basic assumptions are somewhat more difficult to define and examine. They can be viewed most easily in terms of behavior that one would find totally unacceptable, and, of course, its counterpart: highly desirable behavior. As an example, Schein cites a basic assumption underlying capitalism: ". . . it is inconceivable that one might design a company to operate consistently at a financial loss, or that it does not matter whether or not a product works."[2] Some other examples of the underlying assumptions of culture include the importance of "face saving" in some organizations, especially those in Asian countries, the relevance of financial rewards as performance motivators, or the ability in some organizations for a subordinate to question a supervisor's decisions.

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[1] Schein (1992), p. 12.
[2] Schein (1992), p. 22.

Of considerable importance, in Schein's view, is the need for senior management to focus on this third level of culture. That is, artifacts, such as dress codes or an office layout, might be changed, and new espoused values can be articulated by, say, introducing or modifying a mission statement or code of ethics. Unless the basic assumptions are addressed, however, the organization's culture will likely remain the same or change only slightly.

There is no one "right" set of basic assumptions. One could not imagine the U.S. Army being successful, for example, with a culture like that of a university, or vice versa. Similarly, a basic research laboratory, such as a biotech firm, would not function well if its leaders tried to institute the kind of rules-oriented culture that one finds in, say, a welfare office. Thus, the issue for senior management is not choosing the "correct" basic assumptions, but rather identifying a culture that will promote the most successful organizational performance, and either maintaining that culture if it already exists, or moving the organization toward it if it does not.

To maintain or change a culture requires addressing some of the fundamental ways that the organization operates. These operational activities or processes can be thought of as "cultural levers." As the next section emphasizes, not only are these levers important tools by themselves, but, if senior management is to be successful in either changing or maintaining a culture, all six must be used in a mutually reinforcing way.

CULTURAL LEVERS

Senior management can use six organizational processes to either maintain or modify an existing culture: (1) strategy formulation, (2) authority and influence, (3) motivation, (4) management control, (5) conflict management, and (6) customer or client management. They are shown in Exhibit 1. In some instances, the use of one of these processes as a cultural lever is relatively easy, and in others it is quite complex and difficult. Importantly, however, as the lines in Exhibit 1 indicate, they all must fit together in such a way that they are mutually reinforcing.

Strategy Formulation

The strategy formulation process relates to the way an organization defines itself and its overall direction. There are two broad schools of thought on how the process works: the coalitionists and the top-down theorists. The coalitionists argue that an organization's strategy is the end result of a series of struggles among competing interest groups, or coalitions.[3] If there are sufficient resources in the organization, there is room for multiple strategies, and each coalition can pursue its own strategic direction. The result is an "amalgamated strategy," which is the sum total of all the individual coalition strategies. This situation could arise in a large, multidivisional conglomerate, in which the conglomerate's strategy is the summation of the individual division strategies, or it could exist in a single organization, such as an academic medical center, where different physician groups are emphasizing different programs, such as oncology and cardiology.

By contrast, the top-down theorists argue that strategy formulation follows a three-step process.[4] Senior management (1) examines the organization's environment and assesses the financial, programmatic, and other signals—both positive and negative.,(2) compares these environmental signals with the organization's strengths and weaknesses, and incorporates its values and the organization's values into the analysis,[5] and (3) selects a strategic direction. This approach generally is called a SWOT (strengths, weaknesses, opportunities, and threats) analysis.

An especially difficult aspect of the top-down process is assessing environmental signals. How does senior management discover what the environment wants, the competitive and regulatory forces at work, the most appropriate programmatic efforts to select or emphasize, the resources available to support them, and the constraints on the delivery of products and services?[6] If these signals are misread (and if there are sufficient resources), several coalitions may be able to pursue differing, perhaps even competing, strategies.

Beyond this, senior management must recognize that a SWOT analysis never considers *real* environmental opportunities and threats or *real* organizational strengths and weaknesses. Instead, the analysis focuses on *perceived*

[3] Cyert and March (1963).

[4] Andrews (1980).

[5] For a discussion of organizational values see Selznick (1957), and Peters and Waterman (1982).

[6] For a discussion of these issues, see Porter (1980) and Drucker (1992).

strengths,weaknesses, opportunities, and threats as filtered through the eyes of senior management, middle managers, professionals, and other participants in the strategy formulation process.

Strategy Formulation Levers. The end result of these considerations is that senior management must answer two key cultural questions as it designs or redesigns the strategy formulation process:

- Does it wish the organization to have a single, unified strategy, or does it wish to allow coalitions within the organization to pursue their own strategies with only limited central direction? Both approaches can work, but each will exhibit a quite different culture.

- If senior management prefers a unified strategy, does it wish to solicit input from middle managers and others so as to gain as much knowledge as possible about opportunities, threats, strengths, and weaknesses? There are organizations that solicit relatively little input from middle managers, as well as ones that invite considerable involvement from these individuals. Again, the two approaches will exhibit contrasting cultures.

Authority and Influence

Authority and influence can flow in a variety of ways in an organization, ranging from hierarchical to collegial. The former is exemplified by the military; the latter by many universities. Although an organization chart can identify the formal authority arrangements, it frequently excludes many key decision-makers.[7] In some hospitals, for example, physicians who admit a large number of patients have a great deal of influence on organizational decision making, even though they may be independent practitioners and not even appear on the organization chart.[8] Similarly, in some consumer product organizations, the R&D department has considerably more power than the organization chart might indicate. In Michel Crozier's classic study of bureaucracy, he identified maintenance workers as having a great deal of influence in an industrial monopoly due to their ability to reduce machine down time.[9]

For a unified culture, the authority and influence (A&I) process must reinforce senior management's decisions concerning the strategy formulation process. A decision by senior management to allow coalitions, for example, cannot be accompanied easily, if at all, by a hierarchical A&I process. Similarly, if senior management decides to formulate strategy without the involvement of middle managers and others, it will have a difficult time espousing a collegial A&I process.

Defining Responsibility Centers. One of the most important decisions that senior management faces in designing (or redesigning) the A&I process lies with the organization's network of responsibility centers.[10] In particular, senior management must decide if it wishes to have investment or profit centers and, if so, whether there will be cross-subsidization among them. Investment or profit centers without cross-subsidization, and with rewards linked to bottom line performance, constitute a powerful motivating device in an organization, essentially creating a series of small business units, sometimes referred to as "every tub on its own bottom," or "ETOB."

An ETOB structure can create a "fortress-like" mentality among the affected responsibility center managers, however, leading to a quite different culture than would exist in an organization with cross-subsidization among its responsibility centers. The ETOB culture would be consistent with the coalition approach to strategy formulation, but would present difficulties if senior management attempted to implement a more unified strategy formulation process, i.e., one that entailed coordination and subsidization. In short, senior management must align the organization's responsibility center structure with the strategy formulation process.

Regardless of the type of responsibility centers it uses, senior management must consider whether and how it will give the organization's responsibility center managers the ability to control their revenues and/or costs. If, for example, senior management asks a manger to function as a profit center and then allows the accounting staff to allocate corporate overhead costs into that center, it has created a largely unworkable arrangement. That is, it has

[7] For a discussion of authority, influence, and power in organizations, see Kotter (1978).

[8] For a discussion of power and influence in hospitals, see Young and Saltman (1985).

[9] Crozier (1964)

[10] For a discussion of the different types of responsibility centers that an organization can use, see Anthony and Young (2003).

asked the manager to be responsible for some costs which he or she cannot control.[11] Such a situation can create considerable conflict between responsibility center managers and senior management, leading to both a less than optimal management of resources and a quite different culture than in an organization where managers have considerable control over their responsibility center's costs.

Authority and Influence Levers. Rapid change in an organization's culture can result from modifying the organization's responsibility center structure, shifting it from, say, an ETOB approach to one involving cross-subsidization, or vice versa. Dramatic change also can result from centralizing revenue and establishing a series of expense centers. As a result, the responsibility center network constitutes an powerful, but often neglected, cultural lever available to senior management.

In addition to the lever of responsibility center design, senior managers have four other levers they can use to maintain or modify an organization's A&I process: recruitment, training, promotion, and severance.[12] In the absence of an organizational "blood bath," however, using these levers to affect a change in the organization's culture can take considerable time, perhaps several years.

Regardless of the approach, changing an organization's A&I process can be extremely difficult, and senior management can expect considerable resistance. In academic institutions, for example, most university faculties have a profoundly embedded collegial culture, which coupled with the presence of tenure, limits a dean's ability to affect the A&I process. In general, only the recruitment lever is available to a dean, and even that usually requires faculty consensus. Other organizations have a somewhat easier time employing the A&I levers, although employment contracts and various forms of managerial resistance can slow the pace of change.[13]

Of importance in this regard is the fact that an organization's external environment may constrain the A&I choices. For example, legislative and regulatory requirements may make it impossible for the head of a welfare office to shift the office from a hierarchical, rule-oriented culture to a more collegial one. Similarly, military combat conditions all but dictate that the U.S. Army have a hierarchical culture. As such, an important task for senior management it to determine where it has "A&I maneuvering room," and to determine its approach accordingly.[14]

Motivation

In considering the motivation process, senior managers must focus on a fit among (1) employee personalities, (2) the five other organizational processes (strategy formulation, A&I, management control, conflict management, and customer/client management), and (3) the organization's "external environment" (customers, competitors, regulators, lenders, and shareholders).[15] For example, a hierarchical A&I process—with many controls on decision-making and highly structured ways of organizing employee behavior—is appropriate when the external environment is relatively certain, and when members of the organization prefer dependent authority relationships, and have a relatively low tolerance for ambiguity (such as in a hospital operating room). By contrast, a more collegial A&I process—with few controls on decisions and relatively unstructured ways of organizing employee behavior—is appropriate for an uncertain external environment, where employees prefer considerable autonomy, and where they have a high tolerance for ambiguity (such as new product development in a biotech firm).

The motivation process can reinforce this A&I process. Motivation for workers on an assembly line, with a strong hierarchical A&I process, might be tied to work standards, for example, with supplemental compensation linked to increased productivity. By contrast, motivation for scientists engaged in exploratory research, with a more collegial A&I process, might be related to collaboration and the sharing of ideas, with recognition and peer approval seen as more important than financial rewards. In either case, by rewarding "appropriate" behavior, the motivation process constitutes a important lever to affect the organization's culture.

11 In Richard Vancil's classic work (Vancil, 1973), this situation constitutes a violation of the "fairness criterion."

12 For a discussion of these matters in a healthcare context, see Young and Barrett (1997).

13 For a discussion of change management and the various difficulties it poses, see Kotter (1995).

14 Senior management must be careful not to interpret its constraints too literally. See, for example, the "New York City Sanitation Department" case in Anthony and Young (2003), in which the department's manager was able to create "pseudo" profit centers in a public sector agency with no earned revenue.

15 For additional discussion of these matters, see Lorsch and Morse (1974). They use the term "internal environment" to refer to what I call "organizational processes," and they define it somewhat differently, but the general idea is the same.

There is an important link between the motivation process, the organization's responsibility center structure, and its management control process (discussed below). Some organizations clarify this link by paying bonuses to key operating managers for achieving budgeted targets. However, many organizations, especially those in the nonprofit sector, frequently have difficulty finding a link between job satisfaction and rewards. Some encourage entrepreneurial behavior, and provide extra budgetary resources to successful managers. Others provide non-financial bonuses, such as sabbatical leaves. In some instances, the creation of a "game-playing" culture can have an important impact on motivation, as when the manager of a public sector vehicle repair garage created teams, and began comparing each team's productivity, using shadow costing, to the cost of a similar repair job in a private garage.[16]

Motivation Levers. In short, the design of the motivation process depends to a great extent on the kind of culture that senior management seeks. Entrepreneurial behavior by profit center managers will be difficult to achieve with a hierarchical A&I process, for example, or if the strategy formulation process seeks to create a unified strategy rather than allowing individual coalitions some strategic latitude. At the same time, entrepreneurial behavior will be difficult to put into place unless the motivation process provides appropriate rewards for the kinds of risks being taken, or if there is an absence of fairness in the way costs are assigned to profit centers.

In effect, one approach to developing a unified culture and linking the strategy formulation, A&I, and motivation processes is to (a) establish profit centers, (b) give profit center managers some latitude to do as they wish, and (c) develop a motivation process with a large risk-sharing, incentive-compensation component. Importantly, however, unless these levers are used in a consistent and mutually reinforcing manner, considerable frustration will result with a concomitant undermining of the culture that senior management is seeking.

Management Control

The management control process consists of four phases: programming, budgeting, measuring, and reporting of both financial and non-financial results.[17] As the discussion below argues, these activities are linked to several other organizational processes.

Programming. In many organizations, decision-making about new programs and large capital expenditures tries to assure that programs (or product lines) are consistent with—and flow from—strategy.[18] For this to happen, program and product line managers must understand the linkages between their activities and the organization's overall strategic direction. According to the top-down theorists, this can be a difficult issue for senior management. That is, if an organization's strategy is to evolve over time because of shifting environmental demands and changing organizational strengths and weaknesses, senior management must find ways to monitor and manage the organization's programs and product lines so they remain consistent with and supportive of it.

By contrast, in a culture with a coalition approach to strategy formulation, programming decisions may not be reviewed by senior management at all. Or senior management might review only those programming decisions above a certain financial threshold. For example, a large multidivisional corporation may require that a division's decision to construct a new plant receive corporate approval, reasoning that while individual coalitions may make some programming decisions on their own, big-ticket decisions have a major impact on the overall strategic direction of the corporation, and thus require senior management approval.[19]

In short, the way senior management establishes the constraints on, and the approaches to, programming can have a profound impact on the organization's culture. Indeed, in most organizations, programming is an especially important cultural lever in that, unlike the A&I process, senior management can influence it quickly and significantly as one step in shifting the culture. Stated bluntly, the "power of the purse" is a major lever that senior management has at its disposal to affect the autonomy of its line managers, and hence the organization's culture.

16 For details, see the "New York City Sanitation Department" case in Anthony and Young (2003).

17 For a more detailed discussion of the management control process, see Anthony and Govindarajan (2003). For a discussion of it in a nonprofit context, see Anthony and Young (2003). I am using the term "programming" here to refer to what Anthony and his colleagues call "strategic planning."

18 Anthony and Govindarajan (2003).

19 For additional discussion of these kinds of issues, see Sloan (1965), Bower (1967), and Solomons (1965).

Budgeting. The budgeting phase, also reflecting the "power of the purse," must fit well with both the strategy formulation process and the programming phase of the management control process. Indeed, by budgeting for non-financial, as well as financial, goals and objectives, senior management can relate each program or product line to the organization's overall strategic direction.[20]

If senior management has established profit centers as part of the A&I process, it must address several important issues in formulating annual budgets: (a) setting the profitability goal of each profit center, (b) deciding whether there should be cross-subsidization among the profit centers, and (c) if there is cross-subsidization, determining the subsidy amounts. Because reaching acceptable answers to these questions and related ones is quite difficult, some organizations have designated their operating entities as standard or discretionary expense centers, and have either centralized all revenue or created separate revenue centers.[21]

These sorts of decisions can have an important impact on an organization's culture. Centralizing revenue, and establishing expense centers, for example, is consistent with a hierarchical culture, whereas the use of ETOB profit centers is more consistent with a collegial, coalition-based culture. Profit centers with cross-subsidization —sometimes called the "portfolio approach"—lie somewhere between these two.

Transfer Prices. The issue of transfer prices arises in conjunction with the above sorts of decisions, and, more generally, whenever responsibility centers use each other's services. Intra-organizational transactions can exist between two profit centers in a relatively small organization or between two divisions in a large multidivisional corporation. A transfer price is equally appropriate, for example, in a hospital when a department of pediatrics orders a test from the hospital's laboratory, or in a large corporation such as General Motors when the Chevrolet Division uses batteries produced by the Delco Division.

The way senior management establishes transfer prices, whether it allows buying entities to purchase from outside the organization if they wish to do so, and how it fashions a variety of other "transfer pricing rules," not only can influence the budget-formulation phase in a significant way, but also will have a profound impact on the organization's culture. A "hands-off" approach by senior management is consistent with a more decentralized, coalition-based culture, whereas an interventionistic approach is consistent with a hierarchical culture. As with many other cultural levers, there is no single "right" approach to transfer pricing, but the approach taken by senior management can have a significant impact on the organization's culture.

Measuring and Reporting. Organizations typically provide their responsibility center managers with information concerning their programs' (or product lines') performance compared to budgeted objectives. As a result, there is a need to measure and report both financial and non-financial information. The measuring and reporting phases can be designed in a wide variety of ways depending on considerations such as each person's responsibilities, the kinds of action that senior management expects line managers to take, and, more generally, the culture that senior management wishes to establish.[22]

The measuring and reporting phases also can be related to budget formulation and the organization's motivation process. For example, some organizations identify their "cost drivers,"[23] link the budget to them, measure and report variances by cost driver in each responsibility center, and reward responsibility center managers in light of their performance with respect to the cost drivers under their control. Other organizations do not have this sort of rigor in their management control process; they formulate budgets more generally, perhaps using line items and trend analysis, they measure and report financial and non-financial information in an equally general way, and they reward responsibility center managers on the basis of something other than performance against the budget. Clearly these two kinds of organizations will have quite contrasting cultures.

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20 The idea of budgeting for non-financial goals and objectives as well as financial ones is not new. One of the first organizations to introduce it was Texas Instruments. More recently it has been described in terms of a "balanced scorecard." For additional details, see Kaplan and Norton (1992 and 1993).

21 For an assessment of the choice between profit centers and standard expense centers, and the associated managerial motivation in a healthcare context, see Young and Pearlman (1993).

22 See Anthony and Govindarajan (2003) and Anthony and Young (2003) for a discussion of different approaches to reporting both financial and non-financial performance. See also Kaplan and Norton (1992, and 1993).

23 For a discussion of cost drivers, see Cooper and Kaplan (1988) and Cooper (1989). For an application of the cost driver concept to management control in hospitals, see Young and Pearlman (1993).

The Management Control Lever. In general, the management control process constitutes an important cultural lever. It includes the approach used to establish (and retain or eliminate) programs, the nature of budget formulation, the information that is measured, the kinds of reports responsibility center managers receive, and the actions that senior management expects managers to take—and rewards via the motivation process—on the basis of those reports. And, like responsibility center design, it is a lever that senior management can influence relatively quickly.[24] Indeed, these three levers—authority and influence (including responsibility center design), management control, and motivation—cannot be effective in creating an internally consistent culture unless they are used in concert, both with each other and with other processes such as strategy formulation.

Conflict Management

Conflict can be either beneficial or detrimental to an organization. The tension that exists between line managers and the controller's staff during budget formulation is an example of potentially beneficial conflict. Each party brings an important, but usually conflicting, perspective to the table, the resolution of which can lead to improved organizational performance. For a good decision to emerge, however, the conflict must be well managed. In the above example, well-managed conflict might lead to a tight but attainable budget that directly supports an organization's strategy, helps to assure that customers receive high quality products and/or appropriate services, and motivates line managers to stretch themselves to attain the agreed-upon goals.

Similar conflict can exist in a wide variety of situations. Examples include: (a) new product design, where design engineers would prefer a lengthy design and testing period but marketing personnel want an early launch; (b) production scheduling, where manufacturing personnel prefer long lead times and sales personnel want to respond to customers' requests for immediate delivery; and (c) product research, where basic research personnel wish to do "good science," and applied research personnel wish to develop new materials or products quickly.

There are two related aspects to the conflict management process: the *type* of conflict management, which must fit with the level of conflict, and the *mode* of conflict management, which must fit with the organization's A&I process. As a result, both the type and mode can influence the organization's culture.

Types of Conflict Management. The various types of conflict-management are shown in Exhibit 2, along with an example of where each might be appropriate. Research has indicated that each type works best when it is aligned with the degree of conflict that exists in a particular situation.[25]

As Exhibit 2 indicates, the types of conflict management can range from information flows (such as the exchange of interoffice memos or e-mails) to permanent committees. A manager might use the former to schedule a meeting (where there usually is a relatively low level of one-time conflict), and the latter to make resource allocation or operational decisions (where there tends to be a relatively high level of continuing conflict).

Occasionally, there is a need for an individual or department outside the official organizational hierarchy to help manage conflict. Sometimes called an "integrator," this person's (or department's) job is to thoroughly understand the two or more perspectives that create the conflict, and to work with the involved parties to resolve their differences. Some years ago, a hospital hired such a person to manage the conflict between the fiscal affairs department and the managers of its various laboratories. Fiscal affairs did not have the expertise to assess the validity of a laboratory manager's request for an additional technician, and the laboratory manager requesting the technician did not have the expertise to prepare the request in a way that was meaningful to fiscal affairs. The integrator worked with the laboratory managers to assess their needs, helped them structure their requests in a way that demonstrated the need to fiscal affairs in terms of the associated costs and benefits,

Modes of Conflict Management. At one end of the spectrum of conflict management modes is "forcing," which has a heavy, top-down emphasis. The conflicting parties appeal their differences to a supervisor (or other "authority") and that individual makes a decision. At the other end is "direct confrontation," where the individuals resolve their differences jointly without intervention by supervisors or others. Between the two is "smoothing," where the conflict is resolved by having a third person find a solution that is acceptable to the conflicting parties.

[24] For additional discussion of the idea of culture and its relationship to management control, see Ouchi (1979).

[25] For additional discussion, see Lawrence and Lorsch (1967).

To be successful, the mode of conflict management must fit with an organization's A&I process as well as with the type of conflict being addressed. To attempt a *forcing* mode in an organization with a collegial culture would be difficult, as would *direct confrontation* in an organization where the decision ultimately would be made by the supervisor of the conflicting parties. In this latter instance, the mode not only would be a poor fit with the A&I process but likely would be a poor use of time for the involved parties.

Direct confrontation frequently is used in situations where two professionals of equal status need to make a decision or reach an agreement. Examples include researchers seeking an appropriate study design, engineers agreeing on an effective product design, physicians finding a suitable test or procedure for a patient, and professors preparing a fair exam policy for students.

The above discussion of the hospital integrator is an example of *smoothing*. It is unlikely that *direct confrontation* would have been successful in this situation since the two parties (laboratory managers and fiscal affairs personnel) were unable to understand each other's perspective. Moreover, given the frequency of requests by the hospital's several laboratory managers, having the hospital's chief operating officer (the individual above the two parties in the hierarchy) resolve the conflict (*forcing*) would have occupied a great deal of this person's time. Thus, the use of an integrator and a *smoothing* mode of conflict management was deemed the most appropriate approach.

Conflict Management Levers. The above discussion suggests several conflict management levers that senior management can use, each of which will influence the organization's culture. For example, senior management's response to a situation of ongoing conflict can be to (a) become involved in resolving it, (b) appoint a committee or task force to deal with it, or (c) hire an integrator. All three approaches can be effective, but each leads to a different culture. Similarly, the membership of both permanent committees and ad hoc task forces sends important cultural signals. If senior management combines, say, an equal number of middle managers and assembly line workers on a reengineering task force, it is sending a signal to the organization about both the importance of line workers' opinions and the value it attaches to middle managers' time. More generally, the approaches taken by senior management to dealing with the several kinds of organizational conflict shown in Exhibit 2 constitute highly visible intra-organizational signals of the kind of culture it desires.

Customer Management

Most organizations have a process that identifies customers or clients and "manages" them. This customer management process includes activities that take place *within* the organization as well as ones designed to attract customers *to* the organization. The activities combine both operations management and marketing, and include product design and manufacture, service provision and scheduling, price setting, siting of facilities, and provision of after-sale services.[26] All of these activities have a heavy cultural overlay. Indeed, the customer management process is perhaps the most visible external indicator of an organization's culture.

Decision-Making Steps. With any product or service, there are five steps in customer decision-making: awareness, interest, trial, repetition, and commitment. At each stage, an organization needs to engage in different activities. Promotion is relatively important for the first three activities, for example, but relatively unimportant for the latter two. That is, creating awareness of a product or service, generating the customer's interest in it, and convincing him or her to make an initial trial or purchase is not enough to assure success. Repetition and commitment depend mainly upon the quality of the product/service provided and the customer's satisfaction with value.[27] That is, customers must be pleased with what they receive, both initially and over time, and they must be charged a price that they perceive as fair. For example, some years ago, now-defunct Eastern Airlines mounted an extensive promotional campaign that convinced thousands of people to fly Eastern for the first time. Because of Eastern's poor on-time performance and cabin service in delivering the product (the flight), most of these people flew another airline on their next flight.

Segmentation. In undertaking the customer management process, an organization frequently needs to "segment" its market; that is, to divide potential customers into relatively homogeneous groupings. For example,

[26] These activities and the link between marketing and production have been discussed at length in the literature. In addition to any good textbook on marketing or operations management, see Deming (1986), Hammer and Stanton (1995), Ishikawa (1986), Juran (1989), and Levitt (1972).

[27] For additional discussion of this idea, see Heskett (1986), and Hart, Heskett, and Sasser (1990).

in marketing products and services to the elderly, management might divide the market into several groups: couples versus individuals living alone, well elderly versus sick elderly, elderly with involved adult children, and homebound versus mobile. Each group will tend to make decisions differently.

The complex nature of the customer management process is illustrated in Exhibit 3, which depicts a large, integrated healthcare delivery system. For this and many other organizations, decisions about the customer management process include not only product lines, but delivery sites and provider personnel. Moreover, the combination of these three factors will vary from one market segment to another, such as between children and the elderly.

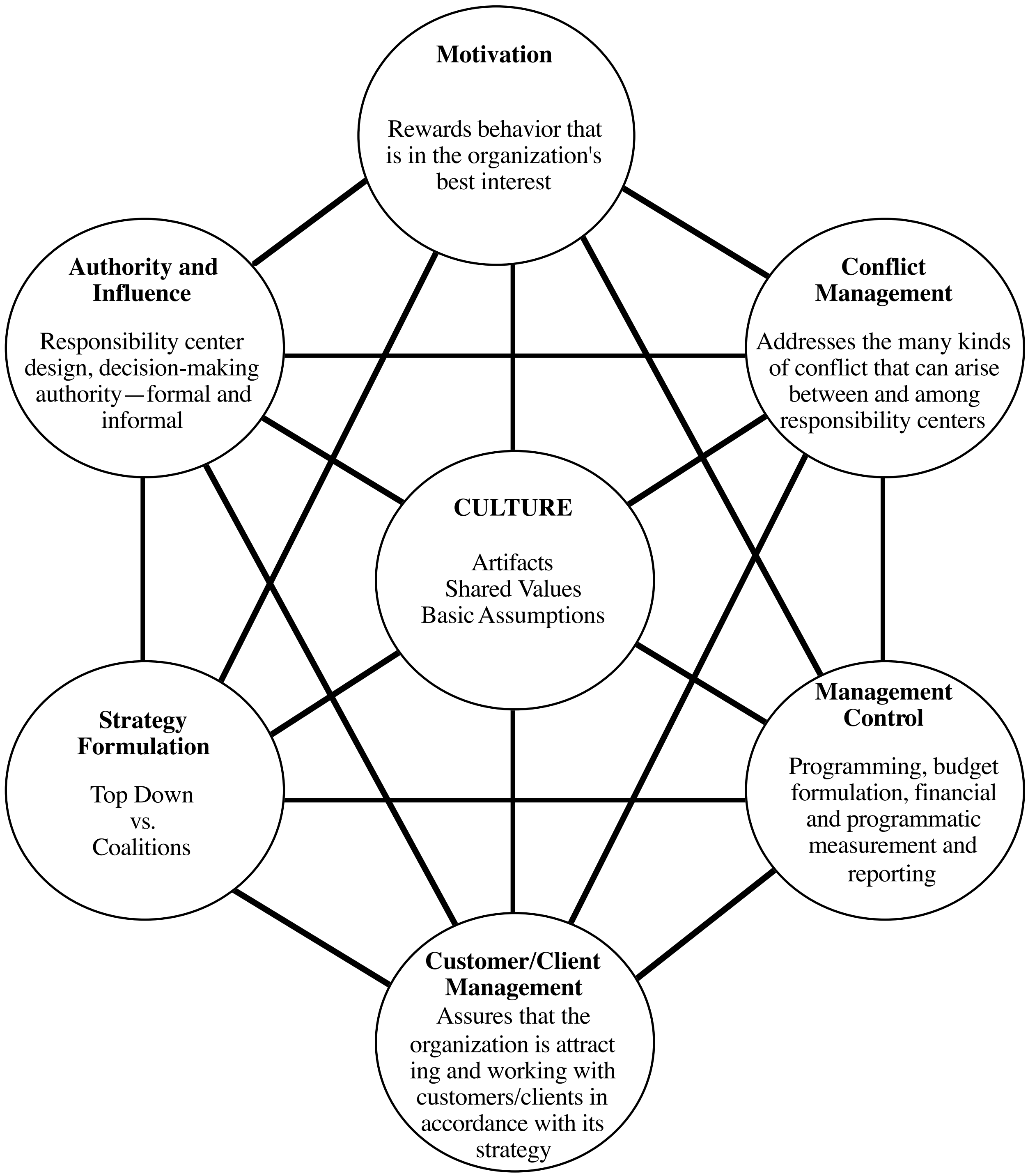
Customer Management Levers. As with other processes, the customer management process can be influenced by senior management in a variety of ways. Segmentation decisions can be decentralized to responsibility center managers or other coalitions, for example, or they can be determined more hierarchically, as can product design, facility siting, and a variety of other similar decisions concerning customers. Moreover, there frequently will be conflicting views about the best way to approach these decisions, and senior management's approach to addressing the resulting conflict will play an important role in maintaining or modifying the organization's culture.

SUMMARY

As Exhibit 1 and the above discussion suggest, the six processes all constitute levers that senior management can use to either help maintain or change an organization's culture. The lines among the six process indicate that no process operates in isolation from the others. Indeed, as discussed above, there are important linkages among all six processes, and a key goal for senior management it to design each process in such a way that it operates in concert with the other five in moving the organization toward the desired culture.

Perhaps most importantly, senior management must recognize that there is no single correct culture. Rather, the culture that is most suitable for a given organization will depend partially upon the environmental constraints that the organization faces and partially upon senior management's wishes. It is in the latter category where the six processes can be used as levers to either help preserve the existing culture or modify it in accordance with senior management's preferences.

Exhibit 1. LINKAGES AMONG CULTURE AND THE SIX ORGANIZATIONAL LEVERS



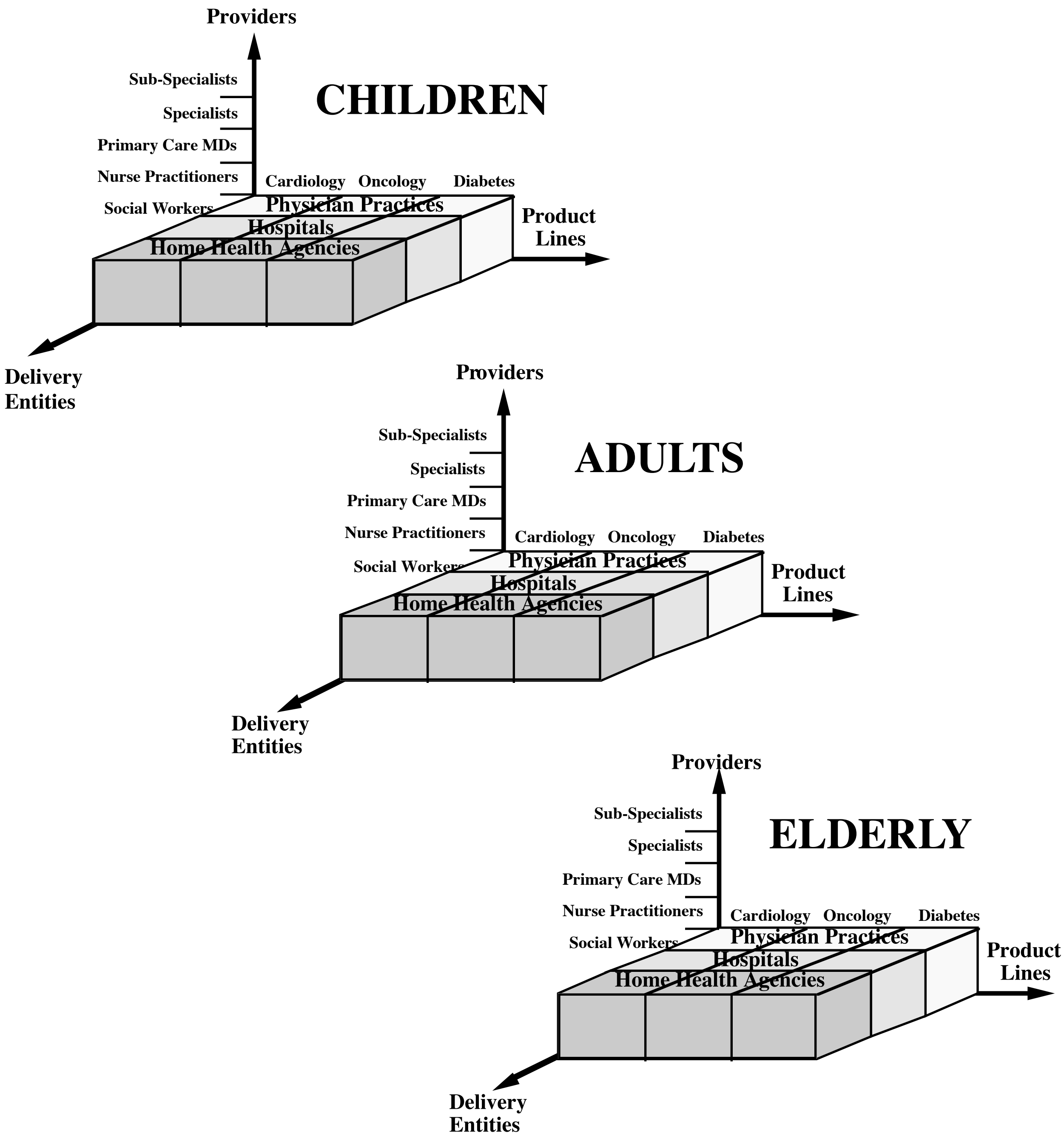
Source: Prepared by author

Exhibit 2. TYPES OF CONFLICT MANAGEMENT MECHANISMS

Type of Conflict	Example	Conflict Management Mechanism
Low level, one-time with multiple perspectives	Scheduling a meeting	Information flows (paper, e-mail, telephone)
Moderate, one-time, with two perspectives	Determining who will attend a conference	Hierarchy
Moderate, one-time, with multiple perspectives	Designing and launching a new product	Ad hoc cross-disciplinary teams
High, continuing, with two perspectives	Obtaining fiscal approval for additional staff in a laboratory	Integrator
High, continuing, with multiple perspectives	Capital investment decisions; production scheduling for several product managers	Permanent cross-disciplinary teams

Source: Prepared by author

Exhibit 3. THE MULTIPLE DIMENSIONS OF CLIENT MANAGEMENT IN A LARGE INTEGRATED HEALTHCARE DELIVERY SYSTEM



Source: Prepared by author. See Young and McCarthy (1999) for a discussion of the underlying issues.

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