part 2

The Process of Organization Development

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Entering and Contracting

The planned change process described in Chapter 2 generally starts when one or more managers or administrators sense an opportunity for their organization, department, or group, believe that new capabilities need to be developed, or decide that performance could be improved through organization development. The organization might be successful yet have room for improvement. It might be facing impending environmental conditions that necessitate a change in how it operates. The organization could be experiencing particular problems, such as poor product quality, high rates of absenteeism, or dysfunctional conflicts among departments. Conversely, the problems might appear more diffuse and consist simply of feelings that the organization should be "more innovative," "more competitive," or "more effective."

Entering and contracting are the initial steps in the OD process. They involve defining in a preliminary manner the organization's problems or opportunities for development and establishing a collaborative relationship between the OD practitioner and members of the client system about how to work on those issues. Entering and contracting set the initial parameters for carrying out the subsequent phases of OD: diagnosing the organization, planning and implementing changes, and evaluating and institutionalizing them. They help to define what issues will be addressed by those activities, who will carry them out, and how they will be accomplished.

Entering and contracting can vary in complexity and formality depending on the situation. In those cases where the manager of a work group or department serves as his or her own OD practitioner, entering and contracting typically involve the manager and group members meeting to discuss what issues to work on and how they will jointly meet the goals they set. Here, entering and contracting are relatively simple and informal. They involve all relevant members directly in the process—with a minimum of formal procedures. In situations where managers and administrators are considering the use of professional OD practitioners, either from inside or from outside the organization, entering and contracting tend to be more complex and formal.[1] OD practitioners may need to collect preliminary information to help define the problematic or development issues. They may need to meet with representatives of the client organization rather than with the total membership; they may need to formalize their respective roles and how the change process will unfold. In cases where the anticipated changes are strategic and large in scale, formal proposals from multiple consulting firms are requested and legal contracts are drawn up.

This chapter first discusses the activities and content-oriented issues involved in entering into and contracting for an OD initiative. Major attention here will be directed at complex processes involving OD professionals and client organizations. Similar entering and contracting issues, however, need to be addressed in even the simplest OD efforts, where managers serve as OD practitioners for their own work units. Unless there is clarity and agreement about what issues to work on, who will address them and how that will be accomplished, and what timetable will be followed, subsequent stages of the OD process are likely to be confusing and ineffective. The chapter concludes with a discussion of the interpersonal process issues involved in entering and contracting for OD work.

ENTERING INTO AN OD RELATIONSHIP

An OD process generally starts when a member of an organization or unit contacts an OD practitioner about potential help in addressing an organizational issue.[2] The organization member may be a manager, staff specialist, or some other key participant; the practitioner may be an OD professional from inside or outside of the organization. Determining whether the two parties should enter into an OD relationship typically involves clarifying the nature of the organization's current functioning and the issue(s) to be addressed, the relevant client system for that issue, and the appropriateness of the particular OD practitioner.[3] In helping assess these issues, the OD practitioner may need to collect preliminary data about the organization. Similarly, the organization may need to gather information about the practitioner's competence and experience.[4] This knowledge will help both parties determine whether they should proceed to develop a contract for working together.

This section describes the activities involved in entering an OD relationship: clarifying the organizational issue, determining the relevant client, and selecting the appropriate OD practitioner.

Clarifying the Organizational Issue

When seeking help from OD practitioners, organizations typically start with a presenting problem—the issue that has caused them to consider an OD process. It may be specific (decreased market share, increased absenteeism) or general ("we're growing too fast," "we need to prepare for rapid changes"). The presenting problem often has an implied or stated solution. For example, managers may believe that because costs are high, laying off members of their department is the obvious answer. They may even state the presenting problem in the form of a solution: "We need to downsize our organization."

In many cases, however, the presenting problem is only a symptom of an underlying problem. For example, high costs may result from several deeper causes, including ineffective new product development or manufacturing processes, inappropriate customer service policies and procedures, or conflict between two interdependent groups. The issue facing the organization or department must be clarified early in the OD process so that subsequent diagnostic and intervention activities are focused correctly.[5]

Gaining a clearer perspective on the organizational issue may require collecting preliminary data.[6] OD practitioners often examine company records and interview a few key members to gain an introductory understanding of the organization, its context, and the nature of the presenting problem. Those data are gathered in a relatively short period of time—typically over a few hours to one or two days. They are intended to provide enough rudimentary knowledge of the organizational issue to enable the two parties to make informed choices about proceeding with the contracting process.

The diagnostic phase of OD involves a far more extensive assessment of the problematic or development issue than occurs during the entering and contracting stage. The diagnosis also might discover other issues that need to be addressed, or it might lead to redefining the initial issue that was identified during the entering and contracting stage. This is a prime example of the emergent nature of the OD process: Things may change as new information is gathered and new events occur.

Determining the Relevant Client

A second activity in entering an OD relationship is defining the relevant client for addressing the organizational issue.[7] Generally, the relevant client includes those organization members who can directly impact the change issue, whether it is solving a particular problem or improving an already successful organization or department. Unless these members are identified and included in the entering and contracting

process, they may withhold their support for and commitment to the OD process. In trying to improve the productivity of a unionized manufacturing plant, for example, the relevant client may need to include union officials as well as managers and staff personnel. It is not unusual for an OD project to fail because the relevant client was inappropriately defined.

Determining the relevant client can vary in complexity depending on the situation. In those cases where the organizational issue can be addressed in a specific organization unit, client definition is relatively straightforward. Members of that unit constitute the relevant client. They or their representatives must be included in the entering and contracting process. For example, if a manager asked for help in improving the decision-making process of his or her team, the manager and team members would be the relevant client. Unless they are actively involved in choosing an OD practitioner and defining the subsequent change process, there is little likelihood that OD will improve team decision making.

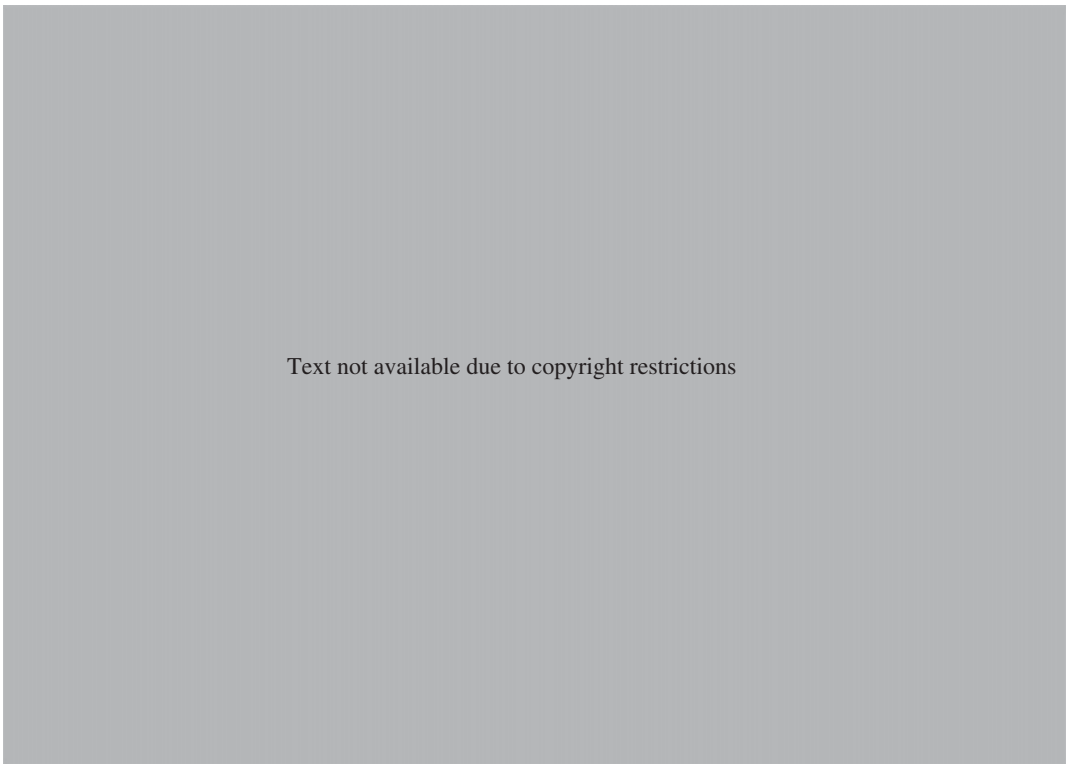
Determining the relevant client is more complex when the organizational issue cannot readily be addressed in a single unit. Here, it may be necessary to expand the definition of the client to include members from multiple units, from different hierarchical levels, and even from outside of the organization. For example, the manager of a production department may seek help in resolving conflicts between his or her unit and other departments in the organization. The relevant client would extend beyond the boundaries of the production department because that department alone cannot resolve the issue. The client might include members from all departments involved in the conflict as well as the executive to whom all of the departments report. If that interdepartmental conflict also involved key suppliers and customers from outside of the firm, the relevant client might include members of those groups.

In such complex situations, OD practitioners need to gather additional information about the organization to determine the relevant client, generally as part of the preliminary data collection that typically occurs when clarifying the issue to be addressed. When examining company records or interviewing personnel, practitioners can seek to identify the key members and organizational units that need to be involved. For example, they can ask organization members questions such as these: Who can directly impact the organizational issue? Who has a vested interest in it? Who has the power to approve or reject the OD effort? Answers to those questions can help determine who is the relevant client for the entering and contracting stage, although the client may change during the later stages of the OD process as new data are gathered and changes occur. If so, participants may have to return to and modify this initial stage of the OD effort.

Selecting an OD Practitioner

The last activity involved in entering an OD relationship is selecting an OD practitioner who has the expertise and experience to work with members on the organizational issue. Unfortunately, little systematic advice is available on how to choose a competent OD professional, whether from inside or outside of the organization.[8] To help lower the uncertainty of choosing from among external OD practitioners, organizations may request that proposals be submitted. In these cases, the OD practitioner must take all of the information gathered in the prior steps and create an outline of how the process might unfold. Table 4.1 provides one view of the key elements of such a proposal. It suggests that a written proposal include project goals, outlines of action plans, a list of roles and responsibilities, recommended interventions, and proposed fees and expenses.

For less formal and structured selection processes, the late Gordon Lippitt, a pioneering practitioner in the field, suggested several criteria for selecting, evaluating, and developing OD practitioners.[9] Lippitt listed areas that managers should consider before



selecting a practitioner—including their ability to form sound interpersonal relationships, the degree of focus on the problem, the skills of the practitioner relative to the problem, the extent that the consultant clearly informs the client as to his or her role and contribution, and whether the practitioner belongs to a professional association. References from other clients are highly important. A client may not like the consultant's work, but it is critical to know the reasons for both pleasure and displeasure. One important consideration is whether the consultant approaches the organization with openness and an insistence on diagnosis or whether the practitioner appears to have a fixed program that is applicable to almost any organization.

Certainly, OD consulting is as much a person specialization as it is a task specialization. The OD professional needs not only a repertoire of technical skills but also the personality and interpersonal competence to use himself or herself as an instrument of change. Regardless of technical training, the consultant must be able to maintain a boundary position, coordinating among various units and departments and mixing disciplines, theories, technology, and research findings in an organic rather than in a mechanical way. The practitioner is potentially the most important OD technology available.

Thus, in selecting an OD practitioner perhaps the most important issue is the fundamental question, "How effective has the person been in the past, with what kinds of organizations, using what kinds of techniques?" In other words, references must be checked. Interpersonal relationships are tremendously important, but even con artists have excellent interpersonal relationships and skills.

The burden of choosing an effective OD practitioner should not rest entirely with the client organization.[10] As described in the Ethical Dilemmas section of Chapter 3, consultants also bear a heavy responsibility in finding whether there is a match between their skills and knowledge and what the organization or department needs. Few managers are sophisticated enough to detect or to understand subtle differences in expertise among OD professionals, and they often do not understand the difference between

intervention specialties. Thus, practitioners should help educate potential clients, being explicit about their strengths and weaknesses and their range of competence. If OD professionals realize that a good match does not exist, they should inform the client and help them find more suitable help.

Application 4.1 describes the entering process at Alegent Health, a large health care system in Nebraska and western Iowa. The entry process was largely "virtual" in that the researchers worked through two consultants who were conducting OD interventions on a regular basis. The case highlights how OD work can come in different forms and through different channels. It also reflects how quickly the "entry" process can occur. This is the first in a series of applications based on the Alegent project that will be used throughout the text.

DEVELOPING A CONTRACT

The activities of entering an OD relationship are a necessary prelude to developing an OD contract. They define the major focus for contracting, including the relevant parties. Contracting is a natural extension of the entering process and clarifies how the OD process will proceed. It typically establishes the expectations of the parties, the time and resources that will be expended, and the ground rules under which the parties will operate.

The goal of contracting is to make a good decision about how to carry out the OD process.[11] It can be relatively informal and involve only a verbal agreement between the client and the OD practitioner. A team leader with OD skills, for example, may voice his or her concerns to members about how the team is functioning. After some discussion, they might agree to devote one hour of future meeting time to diagnosing the team with the help of the leader. Here, entering and contracting are done together, informally. In other cases, contracting can be more protracted and result in a formal document. That typically occurs when organizations employ outside OD practitioners. Government agencies, for example, generally have procurement regulations that apply to contracting with outside consultants.[12]

Regardless of the level of formality, all OD processes require some form of explicit contracting that results in either a verbal or a written agreement. Such contracting clarifies the client's and the practitioner's expectations about how the OD process will take place. Unless there is mutual understanding and agreement about the process, there is considerable risk that someone's expectations will be unfulfilled.[13] That can lead to reduced commitment and support, to misplaced action, or to premature termination of the process.

The contracting step in OD generally addresses three key areas:[14] setting mutual expectations or what each party expects to gain from the OD process; the time and resources that will be devoted to it; and the ground rules for working together.

Mutual Expectations

This part of the contracting process focuses on the expectations of the client and the OD practitioner. The client states the services and outcomes to be provided by the OD practitioner and describes what the organization expects from the process and the consultant. Clients usually can describe the desired outcomes, such as lower costs or higher job satisfaction. Encouraging them to state their wants in the form of outcomes, working relationships, and personal accomplishments can facilitate the development of a good contract.[15]

The OD practitioner also should state what he or she expects to gain from the OD process. This can include opportunities to try new interventions, report the results to other potential clients, and receive appropriate compensation or recognition.

application 4.1

Entering Alegent Health

Alegent Health (AH) is a five-hospital system that serves the greater Omaha, Nebraska, and western Iowa region. Alegent was formed when two religious-sponsored health care systems merged to leverage health care industry changes and bargain more powerfully with physicians and insurance providers. The system had its own managed care insurance program, was implementing a consumer-directed health care program for its employees, and had about 100 employed physicians in addition to the physicians with privileges at its hospitals.

Two well-known OD consultants had been working with AH for about two years, doing a variety of OD work. By far, the largest piece of work was the design and delivery of large-group interventions known as decision accelerators (DAs) to create strategies for the major clinical service areas, such as orthopedics, cardiology, and women's and children's services. [Note: large-group interventions are multi-stakeholder meetings of over 50 people—see Chapter 13 for more information.]

At an organization design conference in April, one of the consultants was talking with researchers from the Center for Effective Organizations at USC. The conversation turned to a discussion of the work at AH and the possibility of evaluating the change effort. The researchers were excited about the organization development and large-group intervention work in the health care context. The consultant agreed to pitch the idea to AH's Chief Innovation Officer (CIO).

Following some additional background conversations with the researchers and the CIO, the consultant sent the following email in June:

> Dear CIO:
>
> I would like to introduce you to the Center for Effective Organization researchers. As we discussed, the researchers are very interested in the work being done at AH and will be calling you early next week to discuss the possibility of doing a research project on the Decision Accelerator effort. The form of research is typically action research, meaning the data will be valuable for Alegent in not only defining the impact and effectiveness of the DA but learning how to position this capability for improved Alegent organizational effectiveness. This can be quite valuable as Alegent moves into this next round of change and transformation.
>
> Thanks all.

The researchers spent the next few days talking to the two consultants about the organization, its history, strategy, structure, and culture, as well as the motivation for the large-group, decision accelerator process. They also collected data on AH through the Internet. Alegent was indeed a unique organization. It was highly successful from a financial point of view, had a new CEO who had been brought in from Florida, and had a strong faith-based mission.

In the first phone call with the CIO, the researchers introduced themselves, described the mission of the research center, and their interest in doing a case study of change at Alegent. The CIO talked about the history of change at AH and asked questions about the value the project would have for them. He saw several benefits, including the opportunity to generate a history of the change, to learn about the impacts of the change process on the organization's culture and members, and to build a database that could be used to advance the health system's objective of "changing the face of health care." The call ended with the agreement that the CIO would talk with others in the organization, including the CEO, and that the researchers should begin to put together a project purpose, cost estimate, and schedule.

In the second call, the researchers presented their understanding of the project as a case study assessment of how innovation was created and implemented at Alegent. They described a way of working with organizations—the establishment of a "study team" composed of several key stakeholders in the organization. The study team would meet, before the project officially began, to review the objectives of the study and ensure that the work was relevant to the organization. There was some conversation about who might be on that team, including the CEO, CFO, the hospital presidents, and the VPs of the clinical service areas.

Subsequent email exchanges among the consultants, the CIO, and the researchers led to a verbal agreement that the project should begin in October. The CIO believed there was much to gain from the project, and asked the Director of the Right Track office (this was the internal name AH had given to the decision accelerator) to lead the contracting process and to help the researchers schedule meetings and interviews.

Time and Resources

To accomplish change, the organization and the OD practitioner must commit time and resources to the effort. Each must be clear about how much energy and how many resources will be dedicated to the change process. Failure to make explicit the necessary requirements of a change process can quickly ruin an OD effort. For example, a client may clearly state that the assignment involves diagnosing the causes of poor productivity in a work group. However, the client may expect the practitioner to complete the assignment without talking to the workers. Typically, clients want to know how much time will be necessary to complete the assignment, who needs to be involved, how much it will cost, and so on.

Block has suggested that resources can be divided into two parts.[16] Essential requirements are things that are absolutely necessary if the change process is to be successful. From the practitioner's perspective, they can include access to key people or information, enough time to do the job, and commitment from certain stakeholder groups. The organization's essential requirements might include a speedy diagnosis or assurances that the project will be conducted at the lowest price. Being clear about the constraints on carrying out the assignment will facilitate the contracting process and improve the chances for success. Desirable requirements are those things that would be nice to have but are not absolutely necessary, such as access to special resources or written rather than verbal reports.

Ground Rules

The final part of the contracting process involves specifying how the client and the OD practitioner will work together. The parameters established may include such issues as confidentiality, if and how the OD practitioner will become involved in personal or interpersonal issues, how to terminate the relationship, and whether the practitioner is supposed to make expert recommendations or help the manager make decisions. For internal consultants, organizational politics make it especially important to clarify issues of how to handle sensitive information and how to deliver "bad news."[17] Such process issues are as important as the needed substantive changes. Failure to address the concerns may mean that the client or the practitioner has inappropriate assumptions about how the process will unfold.

Application 4.2 describes the contracting process for the evaluation project at Alegent Health. In this case, the contracting process was much more complicated than the entry process. What would you list as the strengths and weaknesses of this example?

INTERPERSONAL PROCESS ISSUES IN ENTERING AND CONTRACTING

The previous sections on entering and contracting addressed the activities and content-oriented issues associated with beginning an OD project. In this final section, we discuss the interpersonal issues an OD practitioner must be aware of to produce a successful agreement. In most cases, the client's expectations, resources, and working relationship requirements will not fit perfectly with the OD practitioner's essential and desirable requirements. Negotiating the differences to improve the likelihood of success can be intra- and interpersonally challenging.

Entering and contracting are the first exchanges between a client and an OD practitioner. Establishing a healthy relationship at the outset makes it more likely that the client's desired outcomes will be achieved and that the OD practitioner will be able to improve the organization's capacity to manage change in the future. As shown in Figure 4.1, this initial stage is full of uncertainty and ambiguity. On the one hand, the client is likely to feel exposed, inadequate, or vulnerable. The organization's current

application 4.2

Contracting with Alegent Health

Following the verbal approval of the CIO to begin the work, the researchers began working with the Right Track director and the consultants to formulate an agreement on how to proceed with the case study and assessment. The contracting process proceeded on two parallel paths. One path was the specification of the formal contract—who, what, how much, and why—and the second path was the project scheduling—who, when, and where.

Formal Contracting Process

The formal contracting process required the researchers to propose a purpose, cost estimate, and schedule for the case study. The researchers' initial proposal looked like this:

WORK STREAM	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY
DA archives	• Collect DA materials • Create coding scheme	• Coding	• Write up archival data		
Interviews	• Finalize interview questions • Arrange interview schedule	• First round of interviews • Develop coding scheme	• Second round of interviews • Coding • Begin analysis of interviews		
Governance		• Meet with "study team"	• Feedback meeting	• Transfer learnings to organization	• Article writing

The first work stream was the DA archives. The researchers had learned, through the consultants and the Right Track director, that the Right Track staff kept nearly verbatim transcripts and descriptions of each of the decision accelerator meetings that took place. Thus, the researchers proposed an analysis of those documents as an important work stream in the process. The second work stream, representing the bulk of the data collection, would be two rounds of interviews with executives, managers, and staff involved in the change process. Finally, the project would be governed by a study team who would work to frame project objectives, receive the feedback and assist in data interpretation, and help to transfer the learnings back to the organization.

In addition to the timeline, the research proposal outlined the purpose of the project; the likely benefits to Alegent; the estimated costs for interviews, data analysis, and direct expenses; the support resources expected from Alegent, including the establishment of the study team; a statement about data confidentiality; and some suggested publication outlets. The Right Track director reviewed the document and asked for some additional detail. As described in the "Project Scheduling Process" section below, the start date had slipped to early November.

Dear Right Track Director

We got a message from the consultants that you need a little extra "drill down detail" on the case study assessment project. We've taken a stab at such a document and it is attached.

The document includes a one-page description of proposed dates, activities, and information to be gathered. Please let me know if this meets your needs.

The document also lists a set of potential questions for the initial round of interviews. There are two issues we could use your

guidance on. First, what is the appropriate time frame for questions about strategy? Second, we've listed a couple of options for using a survey during the interview to collect information that would take too long to collect through just interview questions. Your counsel would be appreciated.

Thanks.

Data Collection Plan—Right Track Assessment Project

DATE	ACTIVITY	DATA TO BE COLLECTED
Day 1 during the week of November 6th	• Meet with study team members to verify objectives and methods and refine them in order to incorporate sponsor concerns • Initial interviews with senior executives[1] to understand broad strategic context of organization and Right Track process	• Executive sense of business strategy, organization design, and Right Track impact on organization • Broad scoping of the post-RT implementation/refinement activities germane to planning remainder of interviews/data gathering • (Initial draft of questions attached)
Day 2 during the week of November 6th	• Initial interviews with senior executives[1] to understand broad strategic context of organization and Right Track process	• Executive sense of business strategy, organization design, and Right Track impact on organization • Broad scoping of the post-RT implementation/refinement activities germane to planning remainder of interviews/data gathering • (Initial draft of questions attached)
Prior to next visit	• Finalize detailed interview questions for different stakeholders • Validate questions and sampling approach with study team	• Work with Right Track office to schedule interviews
Potential dates: November 27, 28 December 4, 5 December 7, 8 December 13, 14	• Detailed interviews with RT participants, non-participants, service-line managers, and other related managers[2]	• Details about perceptions of RT process, service-line strategies, implementation processes, and implementation success
Ongoing	• Telephone interviews with key personnel unavailable during visits to Omaha	
January, 2007 (date to be mutually determined)	• Meeting with study team and/or extended stakeholder group to review and discuss implications of findings	
February	• Work with Alegent sponsors to determine a publication strategy	

[1]Initial interview sample includes as many of the following as possible: [List of executives and physicians]

[2]Interview sample for detailed background information includes: [List of executives, managers, and other roles expected to be important.]

Shortly thereafter, the Right Track director sent the following email:

> CEO Researchers,
>
> Thanks for this added info. I, along with one of my staff members, have taken this along with all the documentation you have sent me to date and have attempted to create one cohesive document that can serve as the contract, statement of work, action plan, cost estimate, etc… This document is attached for your review.
>
> I have also tried to answer some of the outstanding questions we have had in this document and have tried to further narrow the onsite dates and activities to include the interview list and the two questions you mentioned below. On your questions I think the two-year window is appropriate and I preferred option 2 which is incorporated in the attached.
>
> Please review this latest document and provide any feedback and/or changes you might have to us all. I will be out of town for a few days but my staff can keep the process moving through Legal and the CIO's office in my absence. I can also be reached via cell phone through the rest of the week as needed. Thanks.

The attachment referred to in the Right Track director's email was a standard, corporate consulting contract, with the researchers' proposal and revised schedule attached as the scope of work. Within the standard contract was a paragraph noting that all surveys, data, and documents created during the project would become the exclusive property of the Alegent Health corporation. The paragraph directly contradicted the confidentiality statement in the researchers' proposal. A number of conversations among the consultants, the researchers, and the different Alegent departments ensued. Eventually, a paragraph was written that was satisfactory to all parties and allowed for the researchers to use the data in their publications, but also gave Alegent the right to review, edit, and approve any articles, chapters, or descriptions of the organization change effort.

Project Scheduling Process

The project scheduling process—which was done in parallel with the formal contracting process described above—involved working with the Right Track office to pick dates, schedule interviews, communicate with interviewees, and set up other logistical requirements to begin the study. Following a few introductory emails, and based on the CIO's interest in beginning in October, the researchers sent the following message in early September:

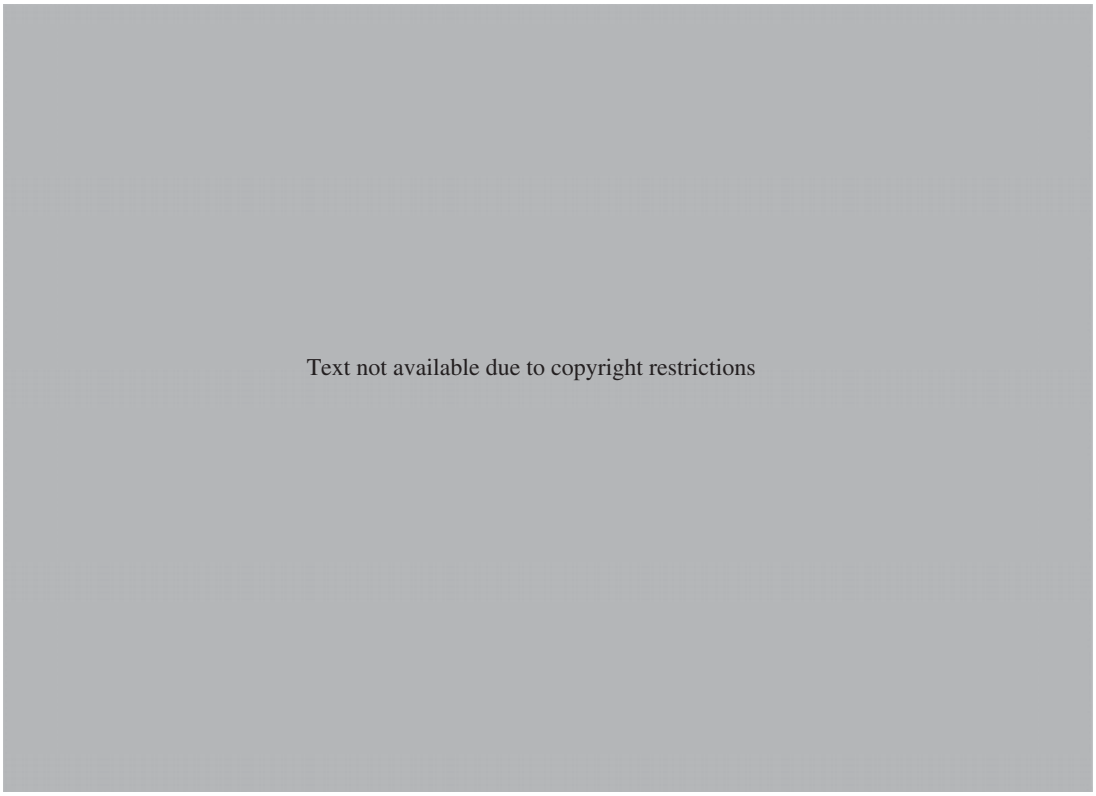
> Hi Right Track Director:
>
> With the CIO's approval, we're ready to begin the Right Track assessment project. The consultants and the researchers are very excited about the effort. We need your help to set up the first couple of days in October, ideally on the 17th and 18th.
>
> On the 17th, we'd like to have a meeting of the "study team." This can be in the morning or afternoon, whichever best fits into the CIO's schedule.
>
> The balance of the 17th and all day on the 18th should be 60-minute interviews with the senior leadership of Alegent. Based on our discussions with the consultants and the CIO, the list for the initial round of interviews would be 10 to 12 of the following people:
>
> [List of top 15 executives and 7 key physicians]
>
> Thanks for your help.

In response, the Right Track director sent back the following email:

> CEO Researchers:
>
> Welcome aboard and looking forward to working with you on this effort. Is there a specific reason you are targeting 10/17 & 18? I ask because there is a DA scheduled those two days that some of these folks are suppose to be in and that I will be helping to support. It is actually an external group, namely the Boy Scouts. Are you planning to come that week because of that or is this just a coincidence? My contact info is enclosed. Thanks.

Thus, there was some initial confusion on the start date of the project, and subsequent phone calls and emails clarified that starting the project in November would be a better fit for the Alegent organization. Some initial dates that fit in the researchers' schedule were not good for the Alegent executives and physicians, while dates that were good for Alegent didn't fit with the researchers' schedule.

Eventually, the beginning of the project was pushed back to early December, and the researchers flew to Omaha to begin the interviewing process. In the rush to schedule interviews, make travel arrangements, and finalize the interview questions and survey items, the meeting of the "study team" was over looked.



effectiveness and the request for help may seem to the client like an admission that they are incapable of solving the problem or providing the leadership necessary to achieve a set of results. Moreover, they are entering into a relationship where they may feel unable to control the activities of the OD practitioner. As a result, they feel vulnerable because of their dependency on the practitioner to provide assistance. Consciously or unconsciously, feelings of exposure, inadequacy, or vulnerability may lead the client to resist coming to closure on the contract. The OD practitioner must be alert to the signs of resistance, such as asking for extraordinary amounts of detail, and be able to address them skillfully.

On the other hand, the OD practitioner may have feelings of empathy, unworthiness, and dependency. The practitioner may overidentify with the client's issues and want to be so helpful that he or she agrees to unreasonable deadlines or inadequate resources. The practitioner's desire to be seen as competent and worthy may lead to an agreement on a project for which the practitioner has few skills or experience. Finally, in response to reasonable client requests, the practitioner may challenge the client's motivation and become defensive. Schein notes that OD practitioners too often underestimate or ignore the power and impact of entry and contracting as an intervention in their own right.[18] With even the simplest request for help, there are a myriad of things the OD practitioner, entering a system for the first time, does not know. Establishing a relationship with a client must be approached carefully; the initial contacts and conversations must represent a model of how the OD process will be conducted. As a result, actually coming to agreement during the contracting phase can be difficult and intense. A number of complex emotional and psychological issues are in play, and OD practitioners must be mindful of their own as well as the client's perspectives. Attending to those issues as well as to the content of the contract will help increase the likelihood of success.

SUMMARY

Entering and contracting constitute the initial activities of the OD process. They set the parameters for the phases of planned change that follow: diagnosing, planning and implementing change, and evaluating and institutionalizing it. Organizational entry involves clarifying the organizational issue or presenting problem, determining the relevant client, and selecting an OD practitioner. Developing an OD contract focuses on making a good decision about whether to proceed and allows both the client and the OD practitioner to clarify expectations about how the change process will unfold. Contracting involves setting mutual expectations, negotiating time and resources, and developing ground rules for working together.

NOTES

1. M. Lacey, "Internal Consulting: Perspectives on the Process of Planned Change," *Journal of Organization Change Management* 8, 3 (1995): 75–84; J. Geirland and M. Maniker-Leiter, "Five Lessons for Internal Organization Development Consultants," *OD Practitioner* 27 (1995): 44–48; A. Freedman and R. Zackrison, *Finding Your Way in the Consulting Jungle* (San Francisco: Jossey-Bass/Pfeiffer, 2001).

2. P. Block, *Flawless Consulting: A Guide to Getting Your Expertise Used*, 2d ed. (San Francisco: Jossey-Bass, 1999); C. Margerison, "Consulting Activities in Organizational Change," *Journal of Organizational Change Management* 1 (1988): 60–67; R. Harrison, "Choosing the Depth of Organizational Intervention," *Journal of Applied Behavioral Science* 6 (1970): 182–202.

3. S. Gallant and D. Rios, "Entry and Contracting Phase," in *The NTL Handbook of Organization Development and Change*, eds. B. Jones and M. Brazzel (San Francisco: Pfeiffer, 2006); M. Beer, *Organization Change and Development: A Systems View* (Santa Monica, Calif.: Goodyear, 1980); G. Lippitt and R. Lippitt, *The Consulting Process in Action*, 2d ed. (San Diego: University Associates, 1986).

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5

Diagnosing Organizations

Diagnosing organizations is the second major phase in the general model of planned change described in Chapter 2 (Figure 2.2). It follows the entering and contracting stage (Chapter 4) and precedes the planning and implementation phase. When done well, diagnosis clearly points the organization and the OD practitioner toward a set of appropriate intervention activities that will improve organization effectiveness.

Diagnosis is the process of understanding a system's current functioning. It involves collecting pertinent information about current operations, analyzing those data, and drawing conclusions for potential change and improvement. Effective diagnosis provides the systematic knowledge of the organization needed to design appropriate interventions. Thus, OD interventions derive from diagnosis and include specific actions intended to improve organizational functioning. (Chapters 12 through 22 present the major interventions used in OD today.)

This chapter is the first of four chapters that describe different aspects of the diagnostic process. This chapter presents a general definition of diagnosis and discusses the need for diagnostic models in guiding the process. Diagnostic models derive from conceptions about how organizations function, and they tell OD practitioners what to look for in diagnosing organizations, departments, groups, or jobs. They serve as a road map for discovering current functioning. A general, comprehensive diagnostic model is presented based on open systems theory. This chapter concludes with a description and application of an organization-level diagnostic model. Chapter 6 describes and applies diagnostic models at the group and job levels. Chapters 7 and 8 complete the diagnostic phase by discussing processes of data collection, analysis, and feedback.

WHAT IS DIAGNOSIS?

Diagnosis is the process of understanding how the organization is currently functioning, and it provides the information necessary to design change interventions. It generally follows from successful entry and contracting, which set the stage for successful diagnosis. Those processes help OD practitioners and client members jointly determine organizational issues to focus on, how to collect and analyze data to understand them, and how to work together to develop action steps from the diagnosis. In another sense, diagnosis is happening all the time. Managers, organization members, and OD practitioners are always trying to understand the drivers of organization effectiveness, and how and why change is proceeding in a particular way.

Unfortunately, the term diagnosis can be misleading when applied to organizations. It suggests a model of organization change analogous to the medical model of diagnosis: An organization (patient) experiencing problems seeks help from an OD practitioner (doctor); the practitioner examines the organization, finds the causes of the problems, and prescribes a solution. Diagnosis in organization development, however, is much more collaborative than such a medical perspective implies and does not accept the implicit assumption that something is wrong with the organization.

First, the values and ethical beliefs that underlie OD suggest that both organization members and change agents should be involved in discovering the determinants of current organization effectiveness. Similarly, both should be involved actively in developing appropriate interventions and implementing them. For example, a manager might seek an OD practitioner's help to reduce absenteeism in his or her department. The manager and an OD consultant jointly might decide to diagnose the cause of the problem by examining company absenteeism records and by interviewing selected employees about possible reasons for absenteeism. Alternatively, they might examine employee loyalty and discover the organizational elements that encourage people to stay. Analysis of those data could uncover determinants of absenteeism or loyalty in the department, thus helping the manager and the OD practitioner jointly to develop an appropriate intervention to address the issue.

Second, the medical model of diagnosis also implies that something is wrong with the patient and that one needs to uncover the cause of the illness. In those cases where organizations do have specific problems, diagnosis can be problem oriented, seeking reasons for the problems. On the other hand, as suggested by the absenteeism example above, the OD practitioner and the client may choose one of the newer views of organization change and frame the issue positively. Additionally, the client and the OD practitioner may be looking for ways to enhance the organization's existing functioning. Many managers involved with OD are not experiencing specific organizational problems. Here, diagnosis is development oriented. It assesses the current functioning of the organization to discover areas for future development. For example, a manager might be interested in using OD to improve a department that already seems to be functioning well. Diagnosis might include an overall assessment of both the task performance capabilities of the department and the impact of the department on its individual members. This process seeks to uncover specific areas for future development of the department's effectiveness.

In organization development, diagnosis is used more broadly than a medical definition would suggest. It is a collaborative process between organization members and the OD consultant to collect pertinent information, analyze it, and draw conclusions for action planning and intervention. Diagnosis may be aimed at uncovering the causes of specific problems, focused on understanding effective processes, or directed at assessing the overall functioning of the organization or department to discover areas for future development. Diagnosis provides a systematic understanding of organizations so that appropriate interventions may be developed for solving problems and enhancing effectiveness.

THE NEED FOR DIAGNOSTIC MODELS

Entry and contracting processes can result in a need to understand either a whole system or some part, process, or feature of the organization. To diagnose an organization, OD practitioners and organization members need to have an idea about what information to collect and analyze. Choices about what to look for invariably depend on how organizations are perceived. Such perceptions can vary from intuitive hunches to scientific explanations of how organizations function. Conceptual frameworks that people use to understand organizations are referred to as "diagnostic models."[1] They describe the relationships among different features of the organization, as well as its context and its effectiveness. As a result, diagnostic models point out what areas to examine and what questions to ask in assessing how an organization is functioning.

However, all models represent simplifications of reality and therefore choose certain features as critical. As discussed in Chapter 2, the positive model of change supports the conclusion that focusing attention on those features, often to the exclusion of others, can result in a biased diagnosis. For example, a diagnostic model that relates team

effectiveness to the handling of interpersonal conflict would lead an OD practitioner to ask questions about relationships among members, decision-making processes, and conflict resolution methods. Although relevant, those questions ignore other group issues such as the composition of skills and knowledge, the complexity of the tasks performed by the group, and member interdependencies. Thus, diagnostic models and processes must be chosen carefully to address the organization's presenting problems as well as to ensure comprehensiveness.

Potential diagnostic models are everywhere. Any collection of concepts and relationships that attempts to represent a system or explain its effectiveness can potentially qualify as a diagnostic model. Major sources of diagnostic models in OD are the thousands of articles and books that discuss, describe, and analyze how organizations function. They provide information about how and why certain organizational systems, processes, or functions are effective. The studies often concern a specific facet of organizational behavior, such as employee stress, leadership, motivation, problem solving, group dynamics, job design, and career development. They also can involve the larger organization and its context, including the environment, strategy, structure, and culture. Diagnostic models can be derived from that information by noting the dimensions or variables that are associated with an organization's effectiveness.

Another source of diagnostic models is OD practitioners' experience in organizations. That field knowledge is a wealth of practical information about how organizations operate. Unfortunately, only a small part of that vast experience has been translated into diagnostic models that represent the professional judgments of people with years of experience in organizational diagnosis. The models generally link diagnosis with specific organizational processes, such as group problem solving, employee motivation, or communication between managers and employees. The models list specific questions for diagnosing such processes.

This chapter presents a general framework for diagnosing organizations rather than trying to cover the range of OD diagnostic models. The framework describes the systems perspective prevalent in OD today and integrates several of the more popular diagnostic models. The systems model provides a useful starting point for diagnosing organizations or departments. (Additional diagnostic models that are linked to specific OD interventions are presented in Chapters 12 through 22).

OPEN SYSTEMS MODEL

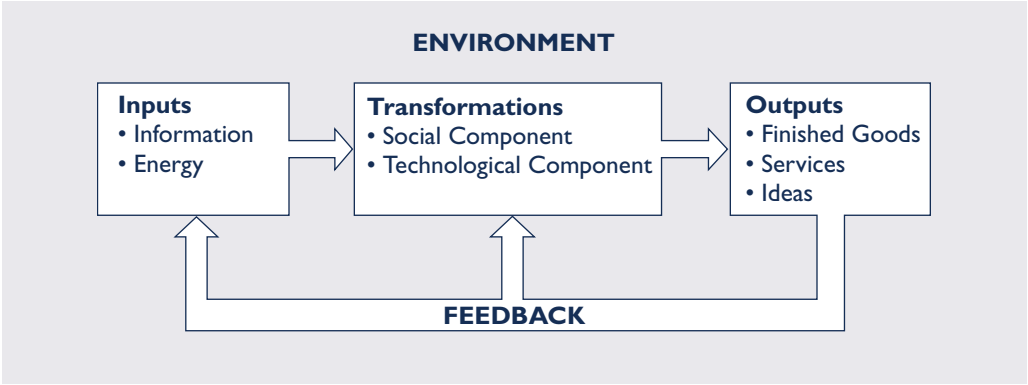
This section introduces systems theory, a set of concepts and relationships describing the properties and behaviors of things called systems—organizations, groups, and people, for example. Systems are viewed as unitary wholes composed of parts or subsystems; the system serves to integrate the parts into a functioning unit. For example, organization systems are composed of departments, such as sales, operations, and finance. The organization serves to coordinate behaviors of its departments so that they function together in service of a goal or strategy. The general diagnostic model based on systems theory that underlies most of the OD is called the "open systems model."

Organizations as Open Systems

As shown in Figure 5.1, the open systems model recognizes that organizations exist in the context of a larger environment that affects how the organization performs and in turn is affected by how the organization interacts with it. The model suggests that organizations operate within an *external environment*, takes specific *inputs* from the environment, and *transforms* those inputs using social and technical processes. The *outputs* of the transformation process are returned to the environment and can be used as *feedback* to the organization's functioning.

[Figure 5.1]

The Organization as an Open System



The open systems model also suggests that organizations and their subsystems—departments, groups, and individuals—share a number of common features that explain how they are organized and function. For example, open systems display a hierarchical ordering. Each higher level of system is composed of lower-level systems: Systems at the level of society are composed of organizations; organizations comprise are composed of groups (departments); and groups comprise are composed of individuals. Although systems at different levels vary in many ways—in size and complexity, for example—they have a number of common characteristics by virtue of being open systems, and those properties can be applied to systems at any level.

The following open systems properties are described below: environments; inputs, transformations, and outputs; boundaries; feedback; equifinality; and alignment.

Environments Organizational environments are everything beyond the boundaries of the system that can indirectly or directly affect performance and outcomes. Open systems, such as organizations and people, exchange information and resources with their environments. They cannot completely control their own behavior and are influenced in part by external forces. Organizations, for example, are affected by such environmental conditions as the availability of labor and human capital, raw material, customer demands, competition, and government regulations. Understanding how these external forces affect the organization can help explain some of its internal behavior.

Inputs, Transformations, and Outputs Any organizational system is composed of three related parts: inputs, transformations, and outputs. Inputs consist of human resources or other resources, such as information, energy, and materials, coming into the system. Inputs are part of and acquired from the organization's external environment. For example, a manufacturing organization acquires raw materials from an outside supplier. Similarly, a hospital nursing unit acquires information concerning a patient's condition from the attending physician. In each case, the system (organization or nursing unit) obtains resources (raw materials or information) from its external environment.

Transformations are the processes of converting inputs into outputs. In organizations, a production or operations function composed of both social and technological components generally carries out transformations. The social component consists of people and their work relationships, whereas the technological component involves tools, techniques, and methods of production or service delivery. Organizations have developed elaborate mechanisms for transforming incoming resources into goods and services. Banks, for example, transform deposits into mortgage loans and interest income. Schools attempt to transform students into more educated people. Transformation

processes also can take place at the group and individual levels. For example, research and development departments can transform the latest scientific advances into new product ideas, and bank tellers can transform customer requests into valued services.

Outputs are the results of what is transformed by the system and sent to the environment. Thus, inputs that have been transformed represent outputs ready to leave the system. Group health insurance companies receive premiums, healthy and unhealthy individuals, and medical bills; transform them through physician visits and record keeping; and export treated patients and payments to hospitals and physicians.

Boundaries The idea of boundaries helps to distinguish between systems and environments. Closed systems have relatively rigid and impenetrable boundaries, whereas open systems have far more permeable borders. Boundaries—the borders, or limits, of the system—are easily seen in many biological and mechanical systems. Defining the boundaries of social systems is more difficult because there is a continuous inflow and outflow through them. For example, where are the organizational boundaries in the following case? An individual customer installing a wireless home network gets a message that the software is conflicting with another piece of software from the Internet service provider (ISP). The customer calls the network software provider who talks to the ISP technical support people and provides technical support and suggestions that resolve the conflict. The customer feels completely supported by the process and never knew that the network software technical support person he or she was talking to was in India. The continued development of the Internet will continue to challenge the notion of boundaries in open systems.

The definition of a boundary is somewhat arbitrary because a social system has multiple subsystems and the boundary line for one subsystem may not be the same as that for a different subsystem. As with the system itself, arbitrary boundaries may have to be assigned to any social organization, depending on the variable to be stressed. The boundaries used for studying or analyzing leadership, for instance, may be quite different from those used to study intergroup dynamics.

Just as systems can be considered relatively open or closed, the permeability of boundaries also varies from fixed to diffuse. The boundaries of a community's police force are probably far more rigid and sharply defined than those of the community's political parties. Conflict over boundaries is always a potential problem within an organization, just as it is in the world outside the organization.

Feedback As shown in Figure 5.1, feedback is information regarding the actual performance or the output results of the system. Not all such information is feedback, however. Only information used to control the future functioning of the system is considered feedback. Feedback can be used to maintain the system in a steady state (for example, keeping an assembly line running at a certain speed) or to help the organization adapt to changing circumstances. McDonald's, for example, has strict feedback processes to ensure that a meal in one outlet is as similar as possible to a meal in any other outlet. On the other hand, a salesperson in the field may report that sales are not going well and may insist on some organizational change to improve sales. A market research study may lead the marketing department to recommend a change to the organization's advertising campaign.

Equifinality In closed systems, a direct cause-and-effect relationship exists between the initial condition and the final state of the system: When a computer's "on" switch is pushed, the system powers up. Biological and social systems, however, operate quite differently. The idea of equifinality suggests that similar results or outputs may be achieved with different initial conditions and in many different ways. This concept suggests that a manager can use varying degrees of inputs into the organization and can transform them in a variety of ways to obtain satisfactory outputs. Thus, the function

of management is not to seek a single rigid solution but rather to develop a variety of satisfactory options. Systems and contingency theories suggest that there is no universal best way to design an organization. Organizations and departments providing routine services, such as Earthlink's, AOL's, or Microsoft's Internet services, could be designed quite differently and still achieve the same result. Similarly, customer service functions at major retailers, software manufacturers, or airlines could be designed according to similar principles.

Alignment A system's overall effectiveness is partly determined by the extent to which the different subsystems are aligned with each other. This alignment or fit concerns the relationships between the organization and its environment, between inputs and transformations, between transformations and outputs, and among the subsystems of the transformation process. Diagnosticians who view the relationships among the various parts of a system as a whole are taking what is referred to as "a systemic perspective."

Alignment refers to a characteristic of the relationship between two or more parts. It represents the extent to which the features, operations, and characteristics of one system support the effectiveness of another system. Just as the teeth in two wheels of a watch must mesh perfectly for the watch to keep time, so do the parts of an organization need to mesh for it to be effective. For example, General Electric attempts to achieve its goals through a strategy of diversification and a divisional structure that focuses attention and resources on specific businesses such as medical systems, lighting, and consumer electronics. A functional structure would not be a good fit with the strategy because it is more efficient for each division to focus on one product line than for one manufacturing department to try to make CT scanners, light bulbs, and refrigerators. The systemic perspective suggests that diagnosis is the search for misfits among the various parts and subsystems of an organization.

Diagnosing Organizational Systems

When viewed as open systems, organizations can be diagnosed at three levels. The highest level is the overall organization and includes the design of the company's strategy, structure, and processes. Large organization units, such as divisions, subsidiaries, or strategic business units, also can be diagnosed at that level. The next lowest level is the group or department, which includes group design and devices for structuring interactions among members, such as norms and work schedules. The lowest level is the individual position or job. This includes ways in which jobs are designed to elicit required task behaviors.

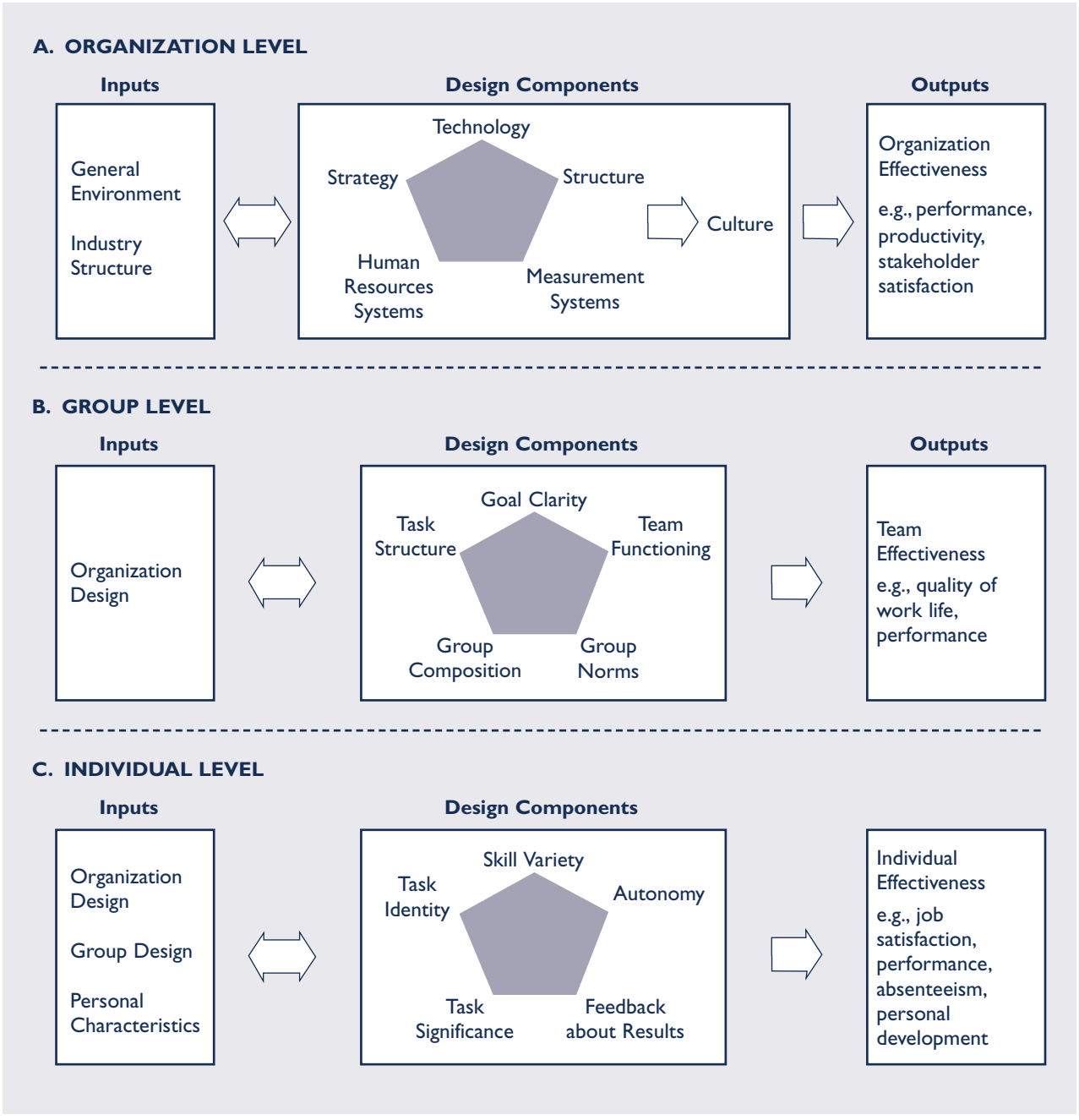
Diagnosis can occur at all three organizational levels, or it may be limited to issues occurring at a particular level. The key to effective diagnosis is knowing what to look for at each level as well as how the levels affect each other.[2] For example, diagnosing a work group requires knowledge of the variables important for group functioning and how the larger organization design affects the group. In fact, a basic understanding of organization-level issues is important in almost any diagnosis because they serve as critical inputs to understanding groups and individuals.

Figure 5.2 presents a comprehensive model for diagnosing these different organizational systems. For each level, it shows (1) the inputs that the system has to work with, (2) the key design components of the transformation subsystem, and (3) the system's outputs.

The relationships shown in Figure 5.2 illustrate how each organization level affects the lower levels. The external environment is the key input to organization design decisions. Organization design is an input to group design, which in turn serves as an input to job design. These cross-level relationships emphasize that organizational levels must fit with each other if the organization is to operate effectively. For example,

[Figure 5.2]

Comprehensive Model for Diagnosing Organizational Systems



organization structure must fit with and support group task design, which in turn must fit with individual job design.

The following discussion on organization-level diagnosis and the discussion in Chapter 6 on group- and job-level diagnosis provide general overviews of the dimensions (and their relationships) that need to be understood at each level. It is beyond the scope of this book to describe in detail the many variables and relationships reported

in the extensive literature on organizations. However, specific diagnostic questions are identified and concrete examples are included as an introduction to this phase of the planned change process.

ORGANIZATION-LEVEL DIAGNOSIS

The organization level of analysis is the broadest systems perspective typically taken in diagnostic activities. The model shown in Figure 5.2(A) is similar to other popular organization-level diagnostic models. These include Weisbord's six-box model,[3] Nadler and Tushman's congruency model,[4] Galbraith's star model,[5] and Kotter's organization dynamics model.[6] Figure 5.2(A) proposes that an organization's transformation processes, or design components, represent the way the organization positions and organizes itself within an environment (inputs) to achieve specific outputs. The combination of design component elements is called a "strategic orientation."[7]

To understand how a total organization functions, it is necessary to examine particular inputs, design components, and the alignment of the two sets of dimensions. Figure 5.2(A) shows that two key inputs affect the way an organization designs its strategic orientation: the general environment and the task environment or industry structure.

Organization Environments and Inputs

At the organization level of analysis, the external environment is the key input. We first describe different types of environments that can affect organizations. Then we identify environmental dimensions that influence organizational responses to external forces.

Environmental Types There are two classes of environments: the general environment and the task environment.[8] We will also describe the enacted environment, which reflects members' perceptions of the general and task environments.

The *general environment* consists of all external forces and elements that can influence an organization and affect its effectiveness.[9] The environment can be described in terms of the amount of uncertainty present in social, technological, economic, ecological, and political/regulatory forces. Each of these forces can affect the organization in both direct and indirect ways. For example, the outbreak of SARS (severe acute respiratory syndrome) directly affected the demand uncertainty for tourism, airline, and other industries in Singapore, Hong Kong, Beijing, and Toronto. Cathay Pacific and Singapore Airlines had to ground much of their fleet as demand plummeted. The general environment also can affect organizations indirectly by virtue of the linkages between external agents. Any business that was dependent on tourism or travel, such as restaurants, hotels, and museums, was also affected by the SARS outbreak. Similarly, an organization may have trouble obtaining raw materials from a supplier because a national union is grieving a management policy, a government regulator is bringing a lawsuit, or a consumer group is boycotting their products. Thus, components of the general environment can affect the organization without having any direct connection to it.

An organization's *task environment* or *industry structure* is another important input into strategic orientation. Michael Porter defines an organization's task environment by five forces: supplier power, buyer power, threats of substitutes, threats of entry, and rivalry among competitors.[10] First, strategic orientations must be sensitive to powerful suppliers who can increase prices (and therefore lower profits) or force the organization to pay more attention to the supplier's needs than to the organization's needs. For example, unions represent powerful suppliers of labor that can affect the costs of any organization within an industry. Second, strategic orientations must be sensitive to powerful buyers. Powerful retailers, such as Wal-Mart and Costco, can force Procter & Gamble, Johnson & Johnson, or other suppliers to lower prices or deliver

their products in particular ways. Third, strategic orientations must be sensitive to the threat of new firms entering into competition. Profits in the restaurant business tend to be low because of the ease of starting a new restaurant. Fourth, strategic orientations must be sensitive to the threat of new products or services that can replace existing offerings. Ice cream producers must carefully monitor their costs and prices because it is easy for a consumer to purchase frozen yogurt or other types of desserts instead. Finally, strategic orientations must be sensitive to rivalry among existing competitors. If many organizations are competing for the same customers, for example, then the strategic orientation must monitor product offerings, costs, and structures carefully if the organization is to survive and prosper. Together, these forces play an important role in determining the success of an organization, whether it is a manufacturing or service firm, a nonprofit organization, or a government agency.

In addition to understanding what inputs are at work, the environment can be understood in terms of its rate of change and complexity.[11] The *rate of change* in an organization's general environment or industry structure can be characterized along a dynamic–static continuum. Dynamic environments change rapidly and unpredictably and suggest that the organization adopt a flexible strategic orientation. Dynamic environments are high in uncertainty compared to static environments that do not change frequently or dramatically. The *complexity* of the environment refers to the number of important elements in the general environment and industry structure. For example, software development organizations face dynamic and complex environments. Not only do technologies, regulations, customers, and suppliers change rapidly, but all of them are important to the firm's survival. On the other hand, manufacturers of glass jars face more stable and less complex environments.

While general environments and task environments describe the specific, objective pressures an organization faces, the organization must first recognize those pressures. The *enacted environment* consists of the organization members' perception and representation of its general and task environments. Weick suggested that environments must be perceived before they can influence decisions about how to respond to them.[12] Organization members must actively observe, register, and make sense of the environment before it can affect their decisions about what actions to take. Thus, only the enacted environment can affect which organizational responses are chosen. The general and task environments, however, can influence whether those responses are successful or ineffective. For example, members may perceive customers as relatively satisfied with their products and may decide to make only token efforts at developing new products. If those perceptions are wrong and customers are dissatisfied with the products, the meager product development efforts can have disastrous organizational consequences. As a result, an organization's enacted environment should accurately reflect its general and task environments if members' decisions and actions are to be effective.

Environmental Dimensions Environments also can be characterized along dimensions that describe the organization's context and influence its responses. One perspective views environments as information flows and suggests that organizations need to process information to discover how to relate to their environments.[13] The key dimension of the environment affecting information processing is *information uncertainty*, or the degree to which environmental information is ambiguous. Organizations seek to remove uncertainty from the environment so that they know best how to transact with it. For example, organizations may try to discern customer needs through focus groups and surveys and attempt to understand competitor strategies through press releases, sales force behaviors, and knowledge of key personnel. The greater the uncertainty, the more information processing is required to learn about the environment. This is particularly evident when environments are complex and rapidly changing. These kinds of environments pose difficult information processing problems for

organizations. For example, global competition, technological change, and financial markets have created highly uncertain and complex environments for many multinational firms and have severely strained their information processing capacity.

Another perspective views environments as consisting of resources for which organizations compete.[14] The key environmental dimension is *resource dependence*, or the degree to which an organization relies on other organizations for resources. Organizations seek to manage critical sources of resource dependence while remaining as autonomous as possible. For example, firms may contract with several suppliers of the same raw material so that they are not overly dependent on one vendor. Resource dependence is extremely high for an organization when other organizations control critical resources that cannot be obtained easily elsewhere. Resource criticality and availability determine the extent to which an organization is dependent on the environment and must respond to its demands. An example is the tight labor market for information systems experts experienced by many firms in the late 1990s.

These two environmental dimensions—information uncertainty and resource dependence—can be combined to show the degree to which organizations are constrained by their environments and consequently must be responsive to their demands.[15] As shown in Figure 5.3 organizations have the most freedom from external forces when information uncertainty and resource dependence are both low. In such situations, organizations do not need to respond to their environments and can behave relatively independently of them. U.S. automotive manufacturers faced these conditions in the 1950s and operated with relatively little external constraint or threat. Organizations are more constrained and must be more responsive to external demands as information uncertainty and resource dependence increase. They must perceive the environment accurately and respond to it appropriately. As described in Chapter 1, organizations such as financial institutions, high-technology firms, and health care facilities are facing unprecedented amounts of environmental uncertainty and resource dependence. Their existence depends on recognizing external challenges and responding quickly and appropriately to them.

Design Components

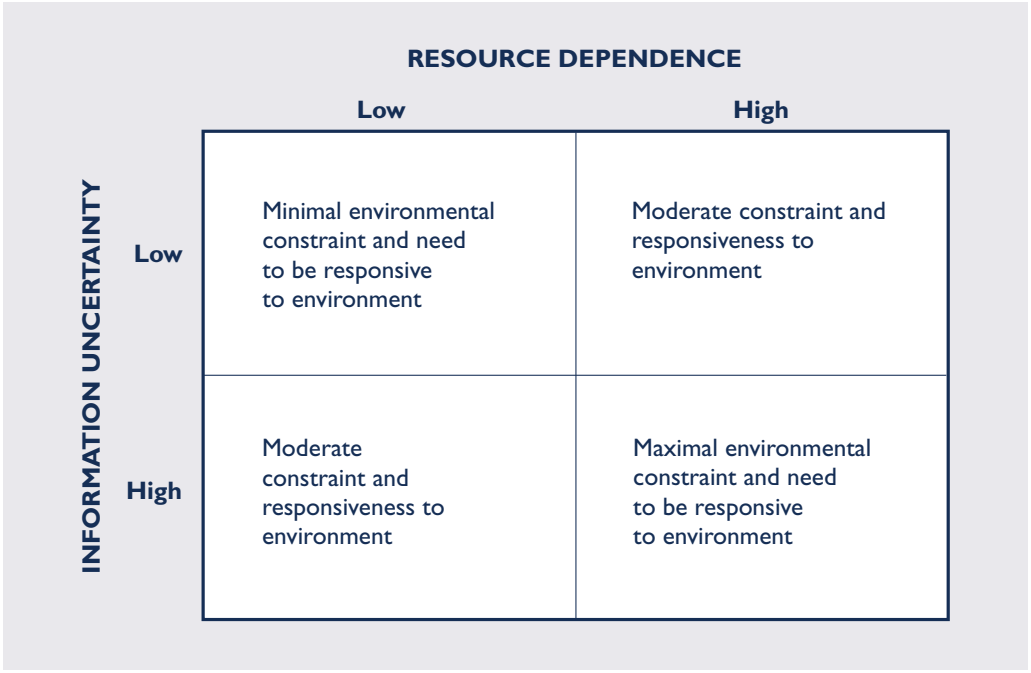
Figure 5.2(A) shows that a strategic orientation is composed of five major design components—strategy, technology, structure, measurement systems, and human resources systems—and an intermediate output—culture. Effective organizations align their design components to each other and to the environment.

A strategy represents the way an organization uses its resources (human, economic, or technical) to achieve its goals and gain a competitive advantage.[16] It can be described by the organization's mission, goals and objectives, strategic intent, and functional policies. A mission statement describes the long-term purpose of the organization, the range of products or services offered, the markets to be served, and the social needs served by the organization's existence. Goals and objectives are statements that provide explicit direction, set organization priorities, provide guidelines for management decisions, and serve as the cornerstone for organizing activities, designing jobs, and setting standards of achievement. Goals and objectives should set a target of achievement (such as 50% gross margins, an average employee satisfaction score of 4 on a 5-point scale, or some level of productivity); provide a means or system for measuring achievement; and provide a deadline or time frame for accomplishment.[17]

A strategic intent is a succinct label or metaphor that describes how the organization intends to leverage five dimensions of strategy to achieve its goals and objectives. For example, Starbucks' metaphorical strategic intent can be described as "creating great experiences." Great experiences are created combining five points of strategic intent. First, they create great experiences by shifting the *breadth* of coffees, drinks,

[Figure 5.3]

Environmental Dimensions and Organizational Transactions



food, music, and other offerings. Second, they can alter the *aggressiveness* with which they promote themselves or develop new products/services. Third, Starbucks emphasizes certain points of *differentiation*, such as price, quality, service, and surroundings to distinguish themselves from the competition. Fourth, they must *orchestrate* their short-term goals with long-term plans, and finally, they can adjust the *economic logic* they use to generate revenues and hold down costs.[18] Finally, functional policies are the methods, procedures, rules, or administrative practices that guide decision making and convert plans into actions. In the semiconductor business, for example, Intel had a policy of allocating about 30% of revenues to research and development to maintain its lead in microprocessors production.

Technology is concerned with the way an organization converts inputs into products and services. It represents the core transformation process and includes production methods, work flow, and equipment. Automobile companies have traditionally used an assembly line technology to build cars and trucks. Two features of the technological core have been shown to influence other design components: technical interdependence and technical uncertainty.[19] Technical interdependence involves ways in which the different parts of a technological system are related. High interdependence requires considerable coordination among tasks, such as might occur when departments must work together to bring out a new product. Technical uncertainty refers to the amount of information processing and decision making required during task performance. Generally, when tasks require high amounts of information processing and decision making, they are difficult to plan and routinize. The technology of car manufacturing is relatively certain and moderately interdependent. As a result, automobile manufacturers can specify in advance the behaviors workers should exhibit and how their work should be coordinated.

The structural system describes how attention and resources are focused on task accomplishment. It represents the basic organizing mode chosen to (1) divide the overall

work of an organization into subunits that can assign tasks to individuals or groups and (2) coordinate these subunits for completion of the overall work.[20] Structure, therefore, needs to be closely aligned with the organization's technology.

Two ways of determining how an organization divides work are to examine its formal structure or to examine its level of differentiation and integration. Formal structures divide work by function (accounting, sales, or production), by product or service (Chevrolet, Buick, or Pontiac), by customer (large, medium, or small enterprise), or by some combination of both (a matrix composed of functional departments and product groupings). These are described in more detail in Chapter 14. The second way to describe how work is divided is to specify the amount of differentiation and integration there is in a structure. Applied to the total organization, *differentiation* refers to the degree of similarity or difference in the design of two or more subunits or departments.[21] In a highly differentiated organization, there are major differences in design among the departments. Some departments are highly formalized with many rules and regulations, others have few rules and regulations, and still others are moderately formal or flexible.

The way an organization coordinates the work across subunits is called integration. *Integration* is achieved through a variety of lateral mechanisms, such as plans and schedules, budgets, project managers, liaison positions, integrators, cross-departmental task forces, and matrix relationships.[22] The amount of integration required in a structure is a function of (1) the amount of uncertainty in the environment, (2) the level of differentiation in the structure, and (3) the amount of interdependence among departments. As uncertainty, differentiation, and interdependence increase, more sophisticated integration devices are required.

Measurement systems are methods of gathering, assessing, and disseminating information on the activities of groups and individuals in organizations. Such data tell how well the organization is performing and are used to detect and control deviations from goals. Closely related to structural integration, measurement systems monitor organizational operations and feed data about work activities to managers and members so that they can better understand current performance and coordinate work. Effective information and control systems clearly are linked to strategic objectives; provide accurate, understandable, and timely information; are accepted as legitimate by organization members; and produce benefits in excess of their cost.

Human resources systems include mechanisms for selecting, developing, appraising, and rewarding organization members. These influence the mix of skills, personalities, and behaviors of organization members. The strategy and technology provide important information about the skills and knowledge required if the organization is to be successful. Appraisal processes identify whether those skills and knowledge are being applied to the work, and reward systems complete the cycle by recognizing performance that contributes to goal achievement. Reward systems may be tied to measurement systems so that rewards are allocated on the basis of measured results. (Specific human resources systems, such as rewards and career development, are discussed in Chapters 17 and 18.)

Organization culture is the final design component. It represents the basic assumptions, values, and norms shared by organization members.[23] Those cultural elements are generally taken for granted and serve to guide members' perceptions, thoughts, and actions. For example, McDonald's culture emphasizes efficiency, speed, and consistency. It orients employees to company goals and suggests the kinds of behaviors necessary for success. In Figure 5.2(A), culture is shown as an intermediate output from the five other design components because it represents both an outcome and a constraint. It is an outcome of the organization's history and environment[24] as well as of prior choices made about the strategy, technology, structure, measurement systems, and human resources systems. It is also a constraint in that it is more difficult to change than the other components. In that sense, it can either hinder or facilitate

change. In diagnosis, the interest is in understanding the current culture well enough to determine its alignment with the other design factors. Such information may partly explain current outcomes, such as performance or effectiveness. (Culture is discussed in more detail in Chapter 20.)

Outputs

The outputs of a strategic orientation can be classified into three components. First, organization performance refers to financial outputs such as sales, profits, return on investment (ROI), and earnings per share (EPS). For nonprofit and government agencies, performance often refers to the extent to which costs were lowered or budgets met. Second, productivity concerns internal measurements of efficiency, such as sales per employee, waste, error rates, quality, or units produced per hour. Third, stakeholder satisfaction reflects how well the organization has met the expectations of different groups. Customer satisfaction can be measured in terms of market share or focus-group data; employee satisfaction can be measured in terms of an opinion survey; investor satisfaction can be measured in terms of stock price or analyst opinions.

Alignment

The effectiveness of an organization's current strategic orientation requires knowledge of the above information to determine the alignment among the different elements.

1. **Does the organization's strategic orientation fit with the inputs?** For example, the organization's products and services should respond to real needs or demands in the environment. Similarly, the organization should be designed in such a way that it supports general environmental demands, such as operating in an ecologically sustainable manner.
2. **Do the design components fit with each other?** For example, if the elements of the external environment (inputs) are fairly similar in their degree of certainty, then an effective organization structure (design factor) should have a low degree of differentiation. Its departments should be designed similarly because each faces similar environmental demands. On the other hand, if the environment is complex and each element presents different amounts of uncertainty, a more differentiated structure is warranted. Chevron Oil Company's regulatory, ecological, technological, and social environments differ greatly in their amount of uncertainty. The regulatory environment is relatively slow paced and detail oriented. Accordingly, the regulatory affairs function within Chevron is formal and bound by protocol. On the other hand, in the technological environment, new methods for discovering, refining, and distributing oil and oil products are evolving at a rapid pace. Those departments are much more flexible and adaptive, very different from the regulatory affairs function.

Analysis

Application 5.1 describes the Steinway organization and provides an opportunity to perform the following organization-level analysis.[25] A useful starting point is to ask how well the organization is currently functioning. Steinway has excellent market shares in the high-quality segment of the grand piano market, a string of improving financial measures, and strong customer loyalty. However, the data on employee satisfaction are mixed (there are both long-tenured people and an indication that workers are leaving for other jobs), and the financial improvements appear modest when contrasted with the industry averages. Understanding the underlying causes of these effectiveness issues begins with an assessment of the inputs and strategic orientation and then proceeds to an evaluation of the alignments among the different parts. In diagnosing the inputs, two questions are important.

application 5.1

Steinway's Strategic Orientation

Steinway & Sons, which turned 150 years old in April 2003, is generally regarded as the finest piano maker in the world. Founded in 1853 by the Steinway family, the firm was sold to CBS in 1972, taken private in 1985 by John and Robert Birmingham, and sold again in 1995 to Dana Messina and Kyle Kirkland, who took it public in 1996. Steinway & Sons is the piano division of the Steinway Musical Instruments Company that also owns Selmer Instruments and other manufacturers of band instruments (http://www.steinwaymusical.com). Piano sales in 2002 were $169 million, down 7.6% from the prior year and mirroring the general economic downturn. Since going public, Steinway's corporate revenues have grown a compounded 6–7% a year, while EPS have advanced, on average, a compounded 11%. The financial performance for the overall company in 2002 was slightly below industry averages.

The Steinway brand remains one of the company's most valuable assets. The company's president notes that despite only 2% of all keyboard unit sales in the United States, they have 25% of the sales dollars and 35% of the profits. Their market share in the high-end grand piano segment is consistently over 80%. For example, 98% of the piano soloists at 30 of the world's major symphony orchestras chose a Steinway grand during the 2000/2001 concert season. Over 1,300 of the world's top pianists, all of whom own Steinways and perform solely on Steinways, endorse the brand without financial compensation.

Workers at Steinway & Sons manufacturing plants in New York and Germany have been with the company for an average of 15 years, often over 20 or 30 years. Many of Steinway's employees are descendants of parents and grandparents who worked for the company.

The External Environment

The piano market is typically segmented into grand pianos and upright pianos, with the former being a smaller but higher-priced segment. In 1995, about 550,000 upright pianos and 50,000 grand pianos were sold. Piano customers can also be segmented into professional artists, amateur pianists, and institutions such as concert halls, universities, and music schools. The private (home) market accounts for about 90% of the upright piano sales and 80% of the grand piano sales, with the balance being sold to institutional customers. New markets in Asia represent important new growth opportunities.

The piano industry has experienced several important and dramatic changes for such a traditional product. Industry sales, for example, dropped 40% between 1980 and 1995. Whether the decline was the result of increased electronic keyboard sales, a real decline in the total market, or some temporary decline was a matter of debate in the industry. Since then, sales growth has tended to reflect the ups and downs of the global economy.

Competition in the piano industry has also changed. In the United States, several hundred piano makers at the turn of the century had consolidated to eight by 1992. The Baldwin Piano and Organ Company is Steinway's primary U.S. competitor. It offers a full line of pianos under the Baldwin and Wurlitzer brand names through a network of over 700 dealers. In addition to relatively inexpensive upright pianos produced in high-volume plants, Baldwin also makes handcrafted grand pianos that are well respected and endorsed by such artists as Dave Brubeck and Stephen Sondheim, and by the Boston, Chicago, and Philadelphia orchestras. Annual sales are in the $100 million range; Baldwin was recently sold to the Gibson Guitar Company. The European story is similar. Only Bösendorfer of Austria and Fazioli of Italy remain as legitimate Steinway competitors.

Several Asian companies have emerged as important competitors. Yamaha, Kawai, Young Chang, and Samick collectively held about 35% of the vertical piano market and 80% of the grand piano market in terms of units and 75% of global sales in 1995. Yamaha is the world's largest piano manufacturer with sales of over $1 billion and a global market share of about 35%. Yamaha's strategy has been to produce consistent piano quality through continuous improvement. A separate handcrafted concert grand piano operation has also tried to use continuous improvement methods to create consistently high-quality instruments. More than any other high-quality piano manufacturer, Yamaha has been able to emulate and compete with Steinway.

The Steinway Organization

Steinway & Sons offers several different pianos, including two brands (Steinway and the less expensive Boston brand) and both upright and grand piano models. The company handcrafts its grand pianos in New York and Germany, and sells them through more than 200 independent dealers. About half of the dealers are in North and South America and approximately 85% of all Steinway pianos are sold through this network. The company also owns seven retail outlets in New York, New Jersey, London, Munich, Hamburg, and Berlin.

The dealer network is an important part of Steinway's strategy because of its role in the "concert bank" program. Once artists achieve a certain status, they are invited to become part of this elite group. The performer can go to any local dealer, try out different pianos, and pick the one they want to use at a performance for only the cost of bringing the piano to the concert hall. The concert bank contains over 300 pianos in more than 160 cities. In return for the service, Steinway is given exclusive use of the performer's name for publicity purposes.

Creating a Steinway concert grand piano is an art, an intricate and timeless operation (although alternate methods have been created and improved, the basic process hasn't changed much). It requires more than 12,000 mostly handcrafted parts and more than a little magic. The tone, touch, and sound of each instrument is unique, and 120 technical patents and innovations contribute to the Steinway sound. Two years are required to make a Steinway grand as opposed to a mass-produced piano that takes only about 20 days. There are three major steps in the production process: wood drying (which takes about a year), parts making, and piano making.

Wood-drying operations convert moisture-rich lumber into usable raw material through air-drying and computer-controlled kilns. Time is a critical element in this process because slow and natural drying is necessary to ensure the best sound-producing qualities of the wood. Even after all the care of the drying process, the workers reject approximately 50% of the lumber.

After drying, the parts-making operations begin. The first of these operations involves bending of the piano rim (the curved side giving a grand piano its familiar shape). These rims are formed of multiple layers of specially selected maple that are manually forced into a unified shape, held in presses for several hours, and then seasoned for 10 weeks before being joined to other wooden parts. During this time, the sounding board (a specially tapered Alaska Sitka spruce panel placed inside the rim to amplify the sound) and many other case parts are made. The final critical operation with parts making involves the fabrication of the 88 individual piano action sets that exist inside a piano. Piano "actions" are the intricate mechanical assemblies—made almost completely of wood and some felt, metal, and leather—that transmit finger pressure on the piano keys into the force that propels the hammers that strike the strings. The action is a particularly important part of a piano because this mechanical linkage gives Steinways their distinctive feel. In the action department, each operator was responsible for inspecting his or her own work, with all assembled actions further subject to 100% inspection.

Piano-making operations include "bellying," finishing, and tone regulating. The bellying process involves the precise and careful fitting of the soundboard, iron piano plate, and rim to each other. It requires workers to lean their stomachs against the rim of the piano to complete this task. Because of individual variations in material and the high degree of precision required, bellying takes considerable skill and requires several hours per piano. After the bellying operations, pianos are strung and moved to the finishing department. During finishing, actions and keyboards are individually fit to each instrument to accommodate differences in materials and tolerances to produce a working instrument. The final piano-making step involves tone regulating. Here, the pianos are "voiced" for Steinway sound. Unlike tuning, which involves the loosening and tightening of strings, voicing requires careful adjustments to the felt surrounding the hammers that strike the strings. This operation is extremely delicate and is performed by only a small handful of tone regulators. The tone regulators at Steinway are widely considered to be among the most skilled artisans in the factory. Their voicing of a concert grand can take as much as 20 to 30 hours. All tone regulators at Steinway have worked for the company in various other positions before reaching their present posts, and several have more than 20 years with the firm. Finally, after tone regulation, all pianos are polished, cleaned, and inspected one last time before packing and shipment.

Steinway produced more than 3,500 pianos in 2002 at its New York and Hamburg, Germany, plants.

Almost 430 people work in the New York plant and all but about 100 of them work in production. They are represented by the United Furniture Worker's union. Seventy-five percent of the workers are paid on a straight-time basis; the remainder, primarily artisans, are paid on piece rates. Keeping workers has proved increasingly difficult as well-trained Steinway craftspeople are coveted by other manufacturers, and many of the workers could easily set up their own shop to repair or rebuild older Steinway pianos. Excess inventories due to weak sales both pre- and post-September 11 forced Steinway to adjust its production schedule; workers in its New York plant reported to work every other week rather than lay off the highly skilled workers needed to build its pianos.

1. **What is the company's general environment?** Steinway's external environment is only moderately uncertain and not very complex. Socially, Steinway is an important part of a country's artistic culture and the fine arts. It must be aware of fickle trends in music and display an appropriate sensitivity to them. Politically, the organization operates on a global basis and so must be attuned to different governmental and country requirements in its distribution and sales networks. The manufacturing plant in Hamburg, Germany, suggests an important political dependency that must be monitored. Technologically, Steinway appears reasonably concerned about the latest breakthroughs in piano design, materials, and construction. They are aware of alternative technologies, such as the assembly line process at Yamaha, but prefer the classic methods they have always used. Ecologically, Steinway must be mindful. Their product requires lumber and they are very picky (some would say wasteful) about the choices, rejecting many pieces. It is likely that environmentalists would express concern over how Steinway uses this natural resource. Together, these environmental forces paint a relatively moderate level of uncertainty. Most of these issues are knowable and can be forecast with some confidence. In addition, while there are several environmental elements that need to be addressed, not all of them are vitally important. The environment is not very complex.
2. **What is the company's task environment?** Steinway's industry is moderately competitive and profit pressures can be mapped by looking at five key forces. First, the threat of entry is fairly low. There are some important barriers to cross if an organization wanted to get into the piano business. For example, Steinway, Yamaha, and Baldwin have very strong brands and dealer networks. Any new entrant would need to overcome these strong images to get people to buy their product. Second, the threat of substitute products is moderate. On the one hand, electronic keyboards have made important advances and represent an inexpensive alternative to grand and upright pianos. On the other hand, the sophisticated nature of many of the artists and audiences suggests that there are not many substitutes for a concert grand piano. Third, the bargaining power of suppliers, such as providers of labor and raw materials, is high. The labor union has effective control over the much-sought-after craft workers who manufacture and assemble grand pianos. Given the relatively difficult time that most high-end piano manufacturers have in holding onto these highly trained employees, the

organization must expend considerable resources to retain them. Similarly, given the critical nature of wood to the final product, lumber suppliers can probably exert significant influence. Fourth, the bargaining power of buyers varies by segment. In the high-end segment, the number of buyers is relatively small and sophisticated, and the small number of high-quality pianos means that customers can put pressure on prices although they are clearly willing and able to pay more for quality. In the middle and lower segments, the number of buyers is much larger and fragmented. It is unlikely that they could collectively exert influence over price. Finally, the rivalry among firms is severe. A number of well-known and well-funded domestic and international competitors exist. Almost all of them have adopted marketing and manufacturing tactics similar to Steinway's in the high-end segment, and they are competing for the same customers. The extensive resources available to Yamaha as a member of their *keiretsu*, for example, suggest that it is a strong and long-term competitor that will work hard to unseat Steinway from its position. Thus, powerful buyers and suppliers as well as keen competition make the piano industry only moderately attractive and represent the key sources of uncertainty.

The following questions are important in assessing Steinway's strategic orientation:

1. **What is the company's strategy?** Steinway's primary strategy is a sophisticated niche and differentiation strategy. They attempt to meet their financial and other objectives by offering a unique and high-quality product to sophisticated artists. However, its product line does blur the strategy's focus. With both Boston and Steinway brands and both upright and grand models, a question about Steinway's commitment to the niche strategy could be raised. No formal mission or goals are mentioned in the case and this makes it somewhat difficult to judge the effectiveness of the strategy. But it seems reasonable to assume a clear intent to maintain its dominance in the high-end segment. However, with new owners in 1995, it is also reasonable to question whether goals of profitability or revenue growth, implying very different tactics, have been sorted out.
2. **What are the company's technology, structure, measurement systems, and human resources systems?** First, Steinway's core technology is highly uncertain and moderately interdependent. The manufacturing process is craft based and dependent on the nature of the materials. Each piano is built and adjusted with the specific characteristics of the wood in mind. So much so that each piano has a different sound that is produced as a result of the manufacturing process. The technology is moderately interdependent because the major steps in the process are not linked in time. Making the "action sets" is independent of the "bellying" process, for example. Similarly, the key marketing program, the concert bank, is independent of manufacturing. Second, the corporate organization is divisional (pianos and band instruments), while the piano subsidiary appears to have a functional structure. The key functions are manufacturing, distribution, and sales. A procurement, finance, and human resources group is also reasonable to assume. Third, formal measurement systems within the production process are clearly present. There are specific mentions of inspections by both the worker and the organization. For example, 100% inspection (as opposed to statistical sampling) costs time and manpower and no doubt is seen as critical to quality. In addition, there must be some system of keeping track of work-in-progress, finished goods, and concert bank system inventories. Fourth, the human resources system is highly developed. The reward system includes both hourly and piece rate processes; the union relationships; worker retention programs; and global hiring, compensation, benefits, and training programs.

3. **What is Steinway's culture?** While there is little specific information, Steinway's culture can be inferred. The dominant focus on the high-end segment, the craft nature of the production process, the importance of the concert bank program, and the long history of family influence all point to culture of quality, craftsmanship, and responsiveness. These values are manifest in the way the organization chooses its raw materials, the way it caters to its prized customers, the care in the production process, and the image it works to retain.

Now that the organization inputs, design components, and outputs have been assessed, it is time to ask the crucial question about how well they fit together. The first concern is the fit between the environmental inputs and the strategic orientation. The moderate complexity and uncertainty in the general environment argue for a strategy that is flexible enough to address the few critical dependencies but formal enough to control. Its focus on the high-end segment of the industry and the moderate breadth in its product line support this flexibility. On the one hand, the flexible and responsive manufacturing process supports and defends its preeminence as the top grand piano in the world. On the other hand, this also mitigates the powerful buyer forces in this segment. Its moderate product line breadth gives it some flexibility and efficiency as well. It can achieve some production efficiencies in the upright and medium-market grand piano segments, and its brand image helps in marketing these products. The alignment between its strategic orientation and its environment appears sound.

The second concern is the alignment of the design components. With respect to strategy, the individual elements of Steinway's strategy are mostly aligned. Steinway clearly intends to differentiate its product by serving the high-end segment with unique high-quality pianos. But a broad product line (both uprights and grands as well as two brand names) could dilute the focus. The market for higher-priced and more specialized concert grands is much smaller than the market for moderately priced uprights and limits the growth potential of sales unless Steinway wants to compete vigorously in the emerging Asian markets where the Asian companies have a proximity advantage. That hypothesis is supported by the lack of clear goals in general and policies that support neither growth nor profitability. However, there appears to be a good fit between strategy and the other design components. The differentiated strategic intent requires technologies, structures, and systems that focus on creating sophisticated and unique products, specialized marketing and distribution, and the concert bank program. The flexible structure, formal inspection systems, and responsive culture would seem well suited for that purpose.

The technology appears well supported and aligned with the structure. The production process is craft based and deliberately ambiguous. The functional structure promotes specialization and professionalization of skills and knowledge. Specific tasks that require flexibility and adaptability from the organization are given a wide berth. Although a divisional structure overlays Steinway's corporate activities, the piano division's structure is functional but not rigid, and there appears to be a cultural willingness to be responsive to the craft and the artists they serve. In addition, the concert bank program is important for two reasons. First, it builds loyalty into the customer and ensures future demand. Second, it is a natural source of feedback on the instruments themselves, keeping the organization close to the artist's demands and emerging trends in sound preferences. Finally, the well-developed human resources system supports the responsive production and marketing functions as well as the global nature of the enterprise.

Steinway's culture of quality and responsiveness promotes coordination among the production tasks, serves as a method for socializing and developing people, and establishes methods for moving information around the organization. Clearly, any change effort at Steinway will have to acknowledge this role and design an intervention

accordingly. The strong culture will either sabotage or facilitate change depending on how the change process aligns with the culture's impact on individual behavior.

Based on this diagnosis of the Steinway organization, at least two intervention possibilities are suggested. First, in collaboration with the client, the OD practitioner could suggest increasing Steinway's clarity about its strategy. In this intervention, the practitioner would want to talk about formalizing—rather than changing—Steinway's strategy because the culture would resist such an attempt. However, there are some clear advantages to be gained from a clearer sense of Steinway's future goals, its businesses, and the relationships among them. Second, Steinway could focus on increasing the integration and coordination of its structure, measurement systems, and human resources systems. The difficulty of retaining key production personnel warrants continuously improved retention systems as well as efforts to codify and retain key production knowledge in case workers do leave. This would apply to the marketing and distribution functions as well since they control an important interface with the customer.

SUMMARY

This chapter presented background information for diagnosing organizations, groups, and individual jobs. Diagnosis is a collaborative process, involving both managers and consultants in collecting pertinent data, analyzing them, and drawing conclusions for action planning and intervention. Diagnosis may be aimed at discovering the causes of specific problems, or it may be directed at assessing the organization or department to find areas for future development. Diagnosis provides the necessary practical understanding to devise interventions for solving problems and improving organization effectiveness.

Diagnosis is based on conceptual frameworks about how organizations function. Such diagnostic models serve as road maps by identifying areas to examine and questions to ask in determining how an organization or department is operating.

The comprehensive model presented here views organizations as open systems. The organization serves to coordinate the behaviors of its departments. It is open to exchanges with the larger environment and is influenced by external forces. As open systems, organizations are hierarchically ordered; that is, they are composed of groups, which in turn are composed of individual jobs. Organizations also display six key open systems properties: environments; inputs, transformations, and outputs; boundaries; feedback; equifinality; and alignment.

An organization-level diagnostic model was described and applied. It consists of environmental inputs; a set of design components called a strategic orientation; and a variety of outputs, such as performance, productivity, and stakeholder satisfaction. Diagnosis involves understanding each of the parts in the model and then assessing how the elements of the strategic orientation align with each other and with the inputs. Organization effectiveness is likely to be high when there is good alignment.

NOTES

1. D. Nadler, "Role of Models in Organizational Assessment," in *Organizational Assessment*, eds. E. Lawler III, D. Nadler, and C. Cammann (New York: John Wiley & Sons, 1980), 119–31; M. Harrison, *Diagnosing Organizations*, 2d ed. (Thousand Oaks, Calif.: Sage Publications, 1994); R. Burton, B. Obel, H. Starling, M. Sondergaard, and D. Dojbak, *Strategic Organizational Diagnosis and Design: Developing Theory for Application*, 2d ed. (Dordrecht, The Netherlands: Kluwer Academic Publishers, 2001).