

## Organizational Behavior and Development

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Organizational studies is a fragmented field. Its foundations are the disciplines of Psychology, Sociology, and Economics and applied fields such as Industrial Psychology, Labor Relations, Human Resource Management, Organization Development and Management. Each field of inquiry focuses on different phenomena, employs different research methods and makes different assumptions about the nature of people and about organizations and their purpose in society. This diversity has prevented the emergence of a common language or theory of organizations (Pfeffer, 1997).

This chapter will attempt to synthesize diverse perspectives by adopting the following meta framework and assumptions about the nature of people and organizations (Katz and Kahn, 1978; Pfeffer, 1997; Schein, 1970; Schein, 1990):

- People are multifaceted and complex. They have needs to acquire, the dominant view of economists, but they also have needs to bond with others, to learn and grow, and to defend their self esteem (Lawrence, 1998). While people join organizations with a mix of these needs, organizations are capable of reshaping their relative salience and strengths through selection and socialization .
- Organizations are complex open social systems that adapt and cope to survive and prosper. Successful adaptation requires an effective exchange with the environment. The value of the organization's outputs (satisfaction of members, customers, shareholders and other stakeholders) must exceed the cost of resources utilized to produce those outputs. By complex is meant that a variety of organizational facets, its

design, people, culture, leadership behavior and human resource policies and practices as well its various sub-units - divisions, groups, and geographic entities - are interdependent and are continuously engaged in a process of mutual adaptation to achieve “fit” or congruence. By an open system we mean that the organization is subject to influence by the external environment, largely through the influence of the society on its members.

- Over time organizations develop a distinctive and persistent pattern of behavior or culture. Culture is defined as the assumptions, beliefs and resultant behaviors leaders invent or discover to solve problems in the external and internal environment and which they teach new members as the correct way of perceiving, thinking and acting to solving problems (Schein, 1990). The tendency of managers to attract, select and attrit people based on how similar they are to those already in the organization increases the strength of the culture (Schneider, 1994). Organizations vary in the strength of their culture, however, and subcultures typically exist in their various parts and sub-units.
- Organizational behavior is resistant to change due to human cognitive processes and defensive routines. People make sense of past behavior by forming beliefs that rationalize them and by escalating commitment to them. They also avoid embarrassment and threat to self and others. These human characteristics prevent managers from learning that their actual behavior - their theory in action -is inconsistent with their stated aspiration - their espoused theory. These human characteristics cause organizational policies and practices to persist in the face of new realities unless skills and norms of inquiry are developed (Argyris and Schon, 1996).

Organizational behavior appears to be a product of the confluence of several forces whose interaction and mutual adaptation governs the evolution of the organization over time. It

has led to a number of so called “fit” or “congruence” frameworks and theories (Beer, 1980).

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FIGURE 1  
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Figure 1 suggests that organizational behavior is shaped by four forces - the organization’s environment and the choice its leaders make about strategy, the organization’s design, the people selected and promoted, and the behavior of leaders and their top team.

Organizations naturally evolve toward alignment of these elements. Implicit in this formulation is a contingency perspective which holds that the best way to organize and manage people depends on the situation (Lawrence and Lorsch, 1967). While contingency theory has dominated the field of organizational design, the field of Organization Development (OD) has had a normative perspectives (Burke, 1982). Though concerned with improving organizational performance, its intervention theories and methods embrace values such as trust, collaboration, empowerment, participation and open confrontation of conflict. Since OD practitioners are concerned with changing behavior through developing commitment to new norms this normative stance is not surprising.

Both the contingent and normative perspectives are valid given the demands for high performance in the ever more turbulent environment most organizations face at the end of the twentieth century. Efficiency and effectiveness considerations demand congruence between environment, people, leadership and organization design. Intense competition demands continuous change and adaptability. Adaptability requires confrontation of conflict, collaboration and commitment, the underlying values of Organization Development.

The remainder of this chapter will discuss the four forces in Figure 1 and how they relate to organizational behavior/culture, how organizational behavior/culture affects organizational performance and what is known about how managers can respond to misalignment with planned change.

### Organizational Culture/Behavior and Performance

Cross-sectional studies demonstrate that organizational behavior and culture are correlated with firm performance. Collins and Porras (1994), for example, showed that firms with strong “cult” like cultures, founded by CEOs who focused on building an institution not just making a profit, outperformed comparison companies who did not have these characteristics. The so called “built to last” companies showed a return of \$6356 compared to a return of \$955.00 in 1990 for 1 dollar invested in 1936. These firms adapted strategically through experimentation rather than planning. Other studies have shown that organizations with intergroup cooperation, a strong culture, a multiple stakeholder orientation and a reputation for having good leaders had better financial performance than comparison organizations in the same industry. Employee centered organizational climates have been found to be associated with high customer satisfaction. Action research studies have shown that interventions to change organization design and behavior result in improved productivity and faster product development. New manufacturing plants which involve and empower employees perform more effectively on a number of dimensions than their traditional more hierarchical counterparts (Beer and Walton, 1990; Pfeffer, 1998)

The relationship between organizational behavior and performance found in study after study begs the question of causality. The fact that organizational interventions to change organizational design and behavior lead to improved performance supports the view that behavior causes performance. Good performance could, however, also cause changes in behavior, given new lessons and resources. From the managerial point of view, however,

planned change in organizational behavior is the essential first step to improving performance. Improving performance may, however, reinforce management's planned change efforts and provide resources which enable further investment in organization development.

## Environment and Strategy

Organizational environments can be characterized by the certainty of information available to managers, the intensity of competitive rivalry, the industry, the operating technology employed, the labor markets from which the organization recruits, the societal culture in which the organization is located and the institutional and political context in which top management is embedded. These facets of the environment affect behavior in the organizations through their influence on choices leaders make about strategy, organization design, people, human resource policies and leadership style.

Lawrence and Lorsch (1967), for example, found that high performing companies in uncertain environments differed from high performing companies in certain environments in their structure and mode of conflict resolution. The former were characterized by horizontal team structures that facilitate coordination across functional departments and by an openness to constructive conflict. The strategy a firm chooses - how it will compete with its rivals - has also been found to be consistently associated with the type of organization structure adopted and with the leadership style employed (Miles and Snow, 1978). Thus managers appear to make choices about organization design and management process based on their functionality - how well organizational arrangements will enable the implementation of the organization's strategic task.

Another body of research and theory argues for the view that managers make choices based on cultural and political dimensions of their environment. National culture, for example, has been shown to be associated with employee tolerance for uncertainty and their attitude toward and acceptance of hierarchical authority (Hofstede, 1980). These national characteristics in turn affect management's choices about how to organize and manage people. Institutional theorists argue that managers adopt new management practices to imitate what other firms are doing, particularly in their industry. Resource dependence theories argue that managers are influenced by constituencies in their environment on whom they rely for resources (Pfeffer, 1997). In a competitive environment, however, managers must design organizations to function effectively even if that design deviates from norms imposed by national culture and the political context.

### Organizational Design

The structure, systems and human resource policies and practices of a firm shape organizational behavior. Decisions about structure and systems are key to implementing strategy (Galbraith, 1973). Decisions about human resource policies affect levels of employee commitment (Pfeffer, 1998).

All organizational design decisions must balance two opposing considerations - differentiation and integration. Differences between departments in the type of work performed, the time horizon of the work and people's skills and interpersonal orientation are the source of creative energy needed for innovation. Integration across differentiated departments is required to respond to market needs, speedily, efficiently and effectively (Lawrence and Lorsch, 1967).

Functional structures - departments coordinated by a common boss - are most effective in implementing a low cost strategy in a relatively stable environment. A decentralized

divisional structure is most effective when the strategy is to innovate by moving into new markets and geographic regions. In this structure integration occurs primarily within decentralized units, though the larger corporation also strives to coordinate, though more loosely, the activities of its separate divisions. As the environment has become more dynamic and demanding, matrix or team based structures have emerged as a means of obtaining both high differentiation and integration. “Integrators” as program, product, business or project managers lead cross-functional teams. Team members are accountable to both their functional department manager and the coordinating business or program manager. In the 1990s pressures for performance have led to the Network organization (Nohria & Eccles, 1992). It enables independent organizations to integrate their efforts through informal relationships and contractual agreements called alliances and partnerships.

Companies with higher than average economic performance have been found to adopt a similar set of mutually reinforcing high commitment human resource policies and practices. Pfeffer (1998) finds that seven policies characterize these companies:

- Employment security
- Selective hiring of new personnel
- High involvement in self managed teams and decentralized decision making
- Comparatively high compensation contingent on organizational performance
- Extensive training
- Reduced status distinctions and barriers with respect to language, offices, wage differences, and dress.
- Extensive sharing of financial information throughout the organization

The key to an effective organization is to align the structure with strategy and at the same time to design high commitment human resource policies and practices.

## Leader and Top Team

There is little doubt that leader values and style influence organizational behavior through choices about organizational design and human resource policies. Traditional assumptions that hierarchy must be used to control uncommitted employees cause managers to impose top down control as opposed to exploring organizational designs that foster employee involvement and commitment (Walton, 1985). Leaders who have high needs for control are unlikely to be comfortable with matrix or team based structures which delegate authority and rely on commitment as the source of control. Efforts to change organizations toward less traditional structures like matrix or high commitment human resource systems have often stalled due to inconsistency between the leader's assumptions, values and skills and the behavioral profile demanded by the organizational design to which the leader made a commitment in the design stage.

Leadership style also affects employee attitudes and motivation directly. Virtually all studies of leadership point to the importance of two concerns which effective managers must balance and integrate (Yukel, 1998). One has to do with people - how to involve, motivate and even inspire them to achieve organizational goals. The other has to do with task accomplishment - how to structure work so that it is accomplished efficiently and effectively. Which of these dimensions leaders choose to emphasize and how they integrate them reflects their assumptions about people and the situation in which they manage. To the extent to which leaders assume that people are incapable and uncooperative they control what people do and how they do it. To the extent that leaders assume people are responsible and capable they rely on people to plan and structure work.

Situational factors such as how routine the task is, the ability, needs, and commitment of subordinates, and the culture of the organization also determine which leadership style will

be most effective and will be chosen (Yukel, 1998). In general, the more defined the task and the less capable and committed people are, the more leaders will adopt a controlling style. For example, top down leadership is most prevalent in businesses that are implementing cost driven strategies and organized vertically by function. Collaborative styles are most prevalent in complex multi-product organizations with horizontal team based matrix structure. To the extent, however, that managers want to develop subordinates, they must delegate authority beyond the capability or readiness of subordinates to be self-controlling.

## People

Without people who possess capabilities and a personal predisposition needed to implement the strategy and structural design, the organization cannot be effective. Selective hiring is therefore critical for effectiveness. What this means will differ from one organization to another depending on its strategy and values. Whatever the capabilities required, however, companies can help their cause by a favorable selection ratio. Many companies do not invest sufficient resources to do this (Pfeffer, 1998). It is also essential that companies assess essential personal qualities (intelligence, judgment, cooperation, initiative or ability to learn) not easily changed through training as opposed to selecting based on technical capabilities that can be taught. Equally important is careful assessment of candidates for promotion to ensure that their attitudes and capabilities fit the culture the organization wants to develop. Only in this manner, can the culture be changed or maintained. Sophisticated methods for developing and validating assessment methods have been developed by industrial psychologists.

## Organization Change and Development

While organizational alignment is essential for harmony and efficiency, it also creates a persistent pattern of behavior that is not easily changed. Yet an increasingly turbulent and changing environment demands change.

Two overarching opposing theoretical perspectives about organizational change exist. Agency theory, propagated by economists, emphasizes the importance of linking top management's incentives to the creation of economic value for shareholders. Behavioral theories emphasize the importance of participative processes which develop commitment to the change. Embedded in these two theoretical perspectives are different levels of analysis and values. Economists are concerned about economic outcomes and do not typically concern themselves with organizational behavior inside the firm. Behavioral scientists study behavior in the firm and focus on intermediate outcomes such as commitment and teamwork and less on economic returns. Though economists and behavioral scientists approach the question of organizational effectiveness from different perspectives, they are both concerned with how to overcome the tendency of managers to avoid hard truths about their effectiveness and that of their organization.

Agency theorists see capital markets as the means for regulating the behavior of managers. They argue for financial incentives to motivate managers. Failure is to be met with removal of top management. Their view is supported by research. Firms that survive a dramatic shift in the basis of competition seem to do so only after they undergo change in their top management team. Organization Development theory and practice, on the other hand, stresses diagnosis of behavioral problems based on data collection and feedback to leaders (Beer, 1980; Burke, 1982; Beer and Walton, 1990). Both fields are concerned with improving performance, but their assumptions about how sustained commitment to high performance can be achieved are quite different. Economists emphasize extrinsic motivation and external control while OD theorists and practitioners emphasize high

involvement processes that will develop internal commitment to organizational and personal change. These typically require process consultants to help the organization confront its own inadequacies and plan change.

Despite the fact that a comprehensive theory which resolves these different views does not exist, research in the field of organization development has yielded considerable insight into how corporate leaders motivated by environmental pressure can lead planned change effectively. (Beer, Eisenstat and Spector, 1990). Effective change leaders mobilize energy for change by clarifying for organizational members why it is needed and by articulating a new vision of the future. They avoid imposing change programs from the top, however. Instead, effective corporate leaders encourage, even demand, that leaders of various sub-units manage performance improvement by involving their top teams in redefining goals, strategy and values. This is followed by data collection about the alignment of the organization and people with the new direction and the use of the data to stimulate personal and organizational change. Staffing changes must follow if and when individuals do not develop the commitment or skills demanded by the new organizational arrangements.

Organizational changes often stall, however, due to the inability of the leader to confront resistance to change and develop required commitment and skills. Only effective governance mechanisms advocated by economists, pressures from capital markets and a responsive board of directors, can influence corporate leaders to confront painful realities. Of course, within the larger firm, top management must play the same role with respect to leaders in lower level units.

In practice, many actors - top management, external constituents such as shareholders, employees or their union representatives and consultants, are involved in the drama of organizational change. No commonly accepted organization change and development

theory or practice exists that specifies how these diverse actors and their disparate values and intervention methods might be integrated to achieve a speedy, efficient and effective organizational transformation. An overarching theory would have to be able to predict performance and human outcomes expected from alternative organization change and development strategies. To be actionable, such a meta theory would also have to specify the means by which a variety of actors and stakeholders with different values might be brought together to craft a consensus about the process -sequence and speed - by which the organization will be changed. This is the challenge faced by the field of organizational behavior and development .

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FIGURE 1

