MICRO THEORY

TEAMS AND LEADERSHIP

Group is referred to two or more people acting interdependently to achieve a common objective. The strength of the interaction depends on the nature of the common objective, the context in which it takes place and the temperament/social skills of the group members.

Groups are important because they are ubiquitous in organizations and exert an important influence over the conduct of group members. Groups can be formal or informal. In organizations, teams are formal groups intentionally created to achieve an objective set by the organization itself while informal groups can emerge spontaneously and reflect the common interests of their members.

The dynamics of team development

Teams develop over time through stages (forming, norming, storming, performing) and can be designed to improve their effectiveness.

Tuckman's Five Stage Model

1. **Forming**-Members get to know each other and seek to establish rules.

   At this early stage, group members try to orient themselves by 'testing the water'. What are doing here? What are the others like? What is our purpose? The situation of often ambiguous, and members are aware of their dependency on each other.

2. **Storming**-Members com to resist control by group leaders and show hostility.

   Conflict often emerges at this stage. Confrontation and criticism occur as members determine whether they will go along with the way the group is developing. Sorting out roles and responsibilities is often at issue here.

3. **Norming**-Members work together, developing close relationships and feelings of camaraderie.

   At this stage, members resolve the issues that provoked the storming, and they develop social consensus. Compromise is often necessary. Interdependence is recognized, norms are agreed to, and group becomes more cohesive. Information and options flow freely.

4. **Performing**-Group members work toward getting their job done.

   With its social structure sorted out, the group devotes its energies toward task accomplishment. Achievement, creativity, and mutual assistance are prominent themes of this stage.

5. **Adjourning**-Groups disband, either after meeting their goals or because members leave.

   Some groups, such as task forces and design project teams, have a definite life span and disperse after achieving their goals. At this stage, rites and rituals that affirm the group's previous successful development are common, such as ceremonies and parties. Members are often exhibit emotional support for each other.

Distributed Leadership

Barry (1991) developed the concept of 'Distributed Leadership'.

Distributed leadership can be used to improve the effectiveness of task and maintenance activities, in particular in self-managed teams. Importantly, all these leadership qualities are unlikely to be found in one person, and must be shared throughout the team.

There are four types of leadership that must be exercised for a team to be successful.

- **Envisioning**-Creating a strong vision of the purpose of the team that can easily be translated into a set of values (maintenance).
- **Organizing**-Providing structure through a focus on details, deadlines, and structures (task & maintenance).

VALUES, ATTITUDES AND BEHAVIOURS

Organizational culture is a shared understanding or set of beliefs about how people should behave in an organization. Socialization process is the continuous impact of the social environment on organizational members. The process of learning the values, attitudes and behavior patterns which, from the organization's work and work group's point of view, is necessary for any new organizational member to learn.

Socialization

can occur through:

- **Compliance:** Obedience to a request, command, force i.e. coercive power.
  Compliance implies external coercion that we do something because someone tells us to. It usually involves some assessment of the consequences of not complying. It is usually the result of rules, laws, etc.- a formal value system.
- **Conformity:** Voluntary action in accordance with established practice such as norms. i.e. referent power.
  Conformity implies internal acceptance, may be voluntary or involuntary. That means no external instruction is received. Conformity is more often based on intentional reference to an internalized value system.

→**The Milgram Obedience Experiment (Stanley Milgram, 1961 onward)**: Obeying an external instruction (compliance) but we are brought up to obey authority figures as internalized value (conformity).

Cognitive Dissonance

Psychological discomfort experienced in either of the following situations:

- holding two or more incompatible values
- Behaving in a matter that contradicts a value

People are motivated to reduce cognitive dissonance by changing their attitude or changing their behaviour.

Values

Values are expressions of what is 'good' or 'right' i.e. they are normative. Based on underlying core beliefs about the world, values are expressions of the 'right way' to behave to support a preferred set of social arrangements. Values can have an effect on our behaviour e.g. whether we will conform or whether we need to be coerced.

- **Terminal:** The goals that people pursue over the long term (the desired outcome that people try to attain). Terminal values often abstract and related to wider ambitions rather than specific achievements. e.g. to achieve recognition in society.
- **Instrumental:** The means of achieving terminal values (the desired modes of behaviour). Instrumental values are usually concrete and related to specific achievements. e.g. to gain recognition I must work hard.

Maintaining a balance between instrumental and terminal values is important but challenging. If the balance is lost due to terminal values being recklessly pursued in disregard of the instrumental values, companies are often in trouble if an organization's culture ventures beyond the organizational boundaries.

Attitudes

Attitudes are evaluative statements that relate to a specific proposition. Values provide the normative basis for attitudes.

Attitudes include three main components, usually but not always these components are consistent.

→from attitudes to behaviour

- **Affective:** The emotional evaluation we make (good/bad; strong/weak; etc)
  e.g. I like/dislike my job.
- **Cognitive:** The basis upon which you make your evaluation ('Does who/what we are evaluating measure up to our values?').
  e.g. It does/doesn't provide me with the opportunity to exercise autonomy/to travel/to slack off.
- **Behavioral:** When we hold an attitude, we tend to behave in certain way.
  e.g. I will/will not seek alternative employment.

Job satisfaction

Job satisfaction is an attitude which has important implications for individual/organizational performance. Job satisfaction is a straightforward to measure and can be correlated with a range of outcomes, notably: ·

- positive correlation with productivity
- negative correlation with turnover.

Job satisfaction is also correlated with management practices, notably:

- 'Human Relations' approached to work organization
- Training
- Input to decisions

→This illustrates the fact that attitudes influence behaviour and management can influence attitudes.

Values and culture

Value can have a positive or negative impact on organizational performance. If sufficient people hold the same values over a long enough time, then it can be called a "culture". Shared values can be regarded as a partial expression of a culture. Shared values, attitudes and behaviours are an expression of that shared understanding. Culture is a characteristic of groups, not individuals.

Culture can exist at several levels, notably organizational and national.

National Culture

- **Importance of National Culture-Edward Hall:** Culture is referred to 'The Silent Language'. It provided the rules that govern the way we interact with each other. Edward Hall developed the idea of high-context & low-context cultures.
  - **High-context cultures:** Relationships between people are long-lasting and based on deep personal involvement. Because there is such a high level of shared understanding, communication is fast and efficient. People in authority are responsible for the actions of subordinates. Agreements tend to be spoken rather than written. Insiders and outsiders are well defined. Cultural patters are slow to change.
  - **Low-context cultures:** Relationships between people are shorter-lasting and personal involvement is valued less. Messages must be made more explicit and the sender cannot depend on the receiver's implicit understanding. Authority is distributed throughout social relations. Agreements tend to be written. Insiders and outsider status less important. Cultural patterns faster to change.
- **Impact of National Culture-Geert Hofstede**
  Different national cultures predispose people to different behaviours at work and outside work. In a high-context culture, meetings are likely to be ceremonial, with the decisions made beforehand, but in a low-context culture, decisions are made during the meeting. In a country with low power-distance (e.g. Netherlands) managers are more likely to ask for subordinates' input to decisions than in a country with high power-distance (e.g. China).

MACRO THEORY

CHANGE

Change can occur in an evolutionary, revolutionary planned and unplanned way.

- **Evolution change:** The change is slow and incremental and change individual parts or department. The organization stays relatively stable and the change makes the most of existing structure and management. Existing production technology will be changed incrementally and existing products will be improved.
- **Revolutionary change:** The change is fast and massive and transform the entire organization. The organization seeks for new equilibrium. There will be an introduction of new structure and management and production technology and therefore path breaking new products. The adoption of new production technology will be radically. Revolutionary change mostly emerges as a response to significant technological and environmental changes.
- **Planned change:** The change refers to situation in which organizations have ample time to respond and anticipate change.
- **Unplanned change:** The change when organizations have to deal with unanticipated events.

A change plan requires:

- An assessment of the **internal and external factors** initiating change.
- A **change agent** who plan, implements **interventions** and **assesses** the change (i.e. provides feedback)
  →Change agent is the person who drives force for change or introduces the change. It represents those in power who want to implement change and those who wish either to replace or constrain those powers. Change agents can be internal or external person of the organization. They should have right knowledge, attitude and skills towards change.

Organizational fitness profiling (OFP) can help organizations turn **six silent killers** into organizational strengths.

	Six Silent Killers	**Organizational Fitness Profiling**
1	Management style is either too top down or too laisse faire.	Engage leadership-partnership forged o include upper and lower levels.
2	Unclear strategy/conflicting priorities.	Compelling business direction-Top management develops a common business direction.
3	Ineffective senior management team.	Effective management team-Top management is involved in change process.
4	Poor vertical communication.	Open dialogue-Dialogue is established at lower levels about strategy and barriers.
5	Poor horizontal coordination.	Coordination-New role, responsibilities and structurers to get people to work together.
6	Inadequate skills at lower levels.	Lower-down leadership-Skills developed at lower levels via coaching, training, etc.

COMMUNICATION

Communication plays an important role in day-to-day operation of businesses. It is related to how we talk to each other, how the information is shared by people.

Transmission Model of Communication

Communication involves **encoding**, **decoding** and **feedback** process.

Communications takes place when one is consciously conveying a message. The process starts when sender intentionally encodes message and transmits the message through channel to receiver and then receiver decodes the message. Communication means messages and meanings are "passed on" and it is completed when the recipient received the same content that the sender wants to give.

Providing feedback is a good way to remedy the problems of distortion because of two reasons:

- Feedback helps us understand how our messages are received.
- Feedback helps us modify and improve on our communication and behaviour in subsequent attempts to communicate a particular message.

However, providing feedback may not necessarily be effective since feedback is also communication and so it is equally subject to distortion.

Distortion occurs due to bounded rationality, errors, biases, heuristics.

Perceptual limitations distort the communication process. For example:

- Selective perception: we only 'hear' some of the information we receive.
- Selective retention: we only remember some of the information we hear.

Functional Theories

The functional approach is the way of understanding organizational communication by describing what messages do and how they move through organizations. Functional perspective on communication suggests a rational and linear effect in communication that goes through the organization. If a manager has a problem with organizational communication, it is because the message was no well-designed or not transmitted properly.

"**Functional**":

- Organizing: messages can be designed to get people to do things and establish rule, regulations and policies etc.
- Relationships: messages can be useful for establishing relationships between people.
- Change: messages can be important in implementing change by promoting learning, problem-solving and adaption in the process.

→Design your message to fit the function.

Distortion can be identified and eliminated by correctly identifying the messages: function, network, channel, direction, frequency, load. If there is a problem with organizational communication, it is due to the fact that the message is not well designed or not transmitted properly. Organizations can be sees as rational information processing systems where managers can identify and eliminate the barriers to effectiveness communication.

Advantages of Functional Theories

- It assumes a logical approach to communication.
- This perspective allows managers to identify key aspects of the communication process where things can go wrong.
- A simplistic and straightforward way to understand and manage communication in organizations, which helps managers to design different ways of communicating their intended messages. For example, they can make decisions on choosing the appropriate network/channel/direction/information load.

Disadvantages of Functional Theories

- It assumes too much rationality and risk simplicity. Therefore, it does not acknowledge and address the

complexities inherent in organizational communication.
- Communication can take place intentionally or unintentionally, even without deliberately creating and passing on a message.
- Meanings are not "passed on" but rather "shared"; we interact based on these shared meanings.
- Communication has effects far beyond the receiver getting the "what" of my message.

Meaning Centred Theories

Decision-making processes, socialization processes, influencing strategies, language i.e. metaphors all communicate-Meaning Centred Model

Communication in organizations creates shared understandings and meanings, which is crucial to make sense of our performance in terms of communicated, as the shared meanings could shape people's experience. Communication shapes the organization by metaphor, which is a figure containing an implied comparison. It shapes how we think and consequently, how we act.

The meaning-centered approach is the way of understanding organizational communication by discovering how organizational reality is generated through human interaction. The approach describes organization communication as the process for generating shared realities that become organizing, decision, making, sense making, influence and culture. It states that everything in the organization communicates a message, and therefore, shared meanings are created as people interact. All human interaction is communication and communication is the organization.

Metaphor

Managers use metaphors to create meaning and legitimize associated management practices.

In the content of meaning-centered theory of communication, metaphors are often used to frame a particular message in order to create a shared meaning. A metaphor is a figure of speech containing an implied comparison or association. The use of metaphors demonstrates how managers can use language to shape how others think and, consequently, how they act. By changing metaphors we use, we can change the way we think and act as individuals.

- **The machine metaphor**
  The organization is perceived as the machine. This metaphor is useful in circumstance where there is a need to fix a problem in the organization. In this case, the change agent is like a mechanic. These change agents could be experts, employed by the organization to fix the problem identified.
- **The developmental metaphor**
  In this case, the change agent is like a coach. The focus of communication is to develop the people and to build an encouraging culture with participative decision-making.
- **The transitional metaphor**
  Change agent is like an explorer or a guide. There is emphasis on leaving the old ways behind and moving onto a new way of doing things. In this case, the culture is often analytical and the power structure is top-down.
- **The transformational metaphor**
  Change agent is like the visionary, creator. There is a need to rethink the business and introduce new vision. In this case, there is a more risk-taking culture with intuitive decision-making process. Also, the change agent as the leader, is often charismatic and prone to thinking "outside the box".

CASE: APPLE

CHANGE

Sculley experienced difficulties in changing the organization because of Jobs's resistance; and in resistance to changes in strategy.

The Early 1980s
-John Sculley's entry into Apple and his initial change plan

1. External forces: By 1983, Apple was facing a very different environment where competition had increased as new competitors had found it relatively easy to enter the personal computer market.

· Technological factors-The technology was not particularly sophisticated.

- Capital was available and distribution channels-the biggest barrier to entry-were expanding rapidly.
- Social-culture factors: The market was dividing into five broad segments (home, education, small business, corporations and the professional users) where each had different needs.

As a result, Apple found itself squeezed on both sides: from both superior proprietary technology and low-priced Apple imitations. And it was losing market share, dropping from 29 to 24 percent (economic factor).

Internal forces: Apple's products like "Apple II" were losing competitive advantage-rapidly aging, too expensive for many home users and unable to meet the needs of the professional and corporate segment. And the Apple III had also not met expectations. In addition, Apple lacked the significant advantage of a "ready made network" and "massive sales force" that IBM had.

2. Internal change agent-right skill, knowledge and attitude: On May 1983, John Sculley became president and CEO of Apple. (In a way, Steve Jobs, who was previously the change agent given his position as board of directors/chairman, abdicated the decision to an expert by courting Scrulley and bringing him to Apple.)

- Skill: He had spent the las five years as President of Pepsi-Cola Co. Inc. He had a degree in architectural design and an MBA.
- Knowledge: He had known the business the Apple well. He also managed to fit into Apple's unique culture by abandoning his business suit in favor of a more casual look.
- Attitude: He was credited with several innovations, and therefore, he was able to adapt to the change culture.

3. What needs to be changed: Apple needed to improve/upgrade and engage itself in innovation of products-in terms of quality to compete with rival's products and to satisfy unmet needs of different market segments. In other words, Apple required a new strategy/plan to achieve sustainable competitive advantage in order to gain back its falling market share.

Type of intervention: Sculley adopted new strategies and reformed the company's structure. As a result, the transformation started as a revolutionary change (big, fast) where there was an organization-wide impact. The new underlying strategy vision of the company transformed the entire organization and the new structure caused shifts in power. However, it is important to note that once the organization settles into its new pattern and people adapt to their new roles, it does not mean that change has stopped. Rather, the change at Apple then becomes evolutionary (small, slow) and can be thought of as a continuum, as Apple continues to undergo further changes in the upcoming years.

4. Implementation of change: Ongoing change of unfreezing-change was infused into Apple. The status quo of an old decentralized structure around loose product groupings was unfreeze to give way to change in Sculley's new strategy by reshaping the structure into two decentralized divisions.

What has been change
- Strategy: Two products focused. These products were the basis a technology-driven, product-oriented strategy.

And Apple continue to target the small business and educational markets as an alternative to IBM. They are going to make a second industry standard which not being IBM compatible.

- <u>Structure:</u> One part of Sculley's strategies is to rationalize of product lines into two divisions-a hybrid structure instead of functional structure. It allows each division to focus on their product, Mac or Apple. The aim of the two new divisions, each with decentralized manufacturing, product development and marketing functions was to facilitate a coherent product strategy.
- <u>Communication:</u> Two divisions may benefit the communication with each division since the specialists in each area are able to take to each other and focus on their shared goals. However, the horizontal communication between two product divisions may have conflicts.
- <u>Power:</u> Each head of product division is now in charge of the decision-making. In addition, the new change gives Sculley more powers. Sculley centralized reporting relationship: 15 general managers who had previously reported to group vice-presidents now reported directly to him, which ensures that he could be aware of what is going on in each division.
- <u>Other:</u> downsizing-almost had of the 15 member senior management team was replaced and the workforce was reduced from 5300 to 4600; the generous profit sharing scheme was suspended; marketing budget sharply increased from $12 million to $80 million in two years while the research budget remained stable.

5. Results: By the end of Sculley's his fist year, two products had been successful. The Mac promised to be a major success while the Apple II extended the life of the Apple line which continued to provide more that three quarters of the company's revenue. The record earnings for the quarter ending September 1984, showed that sales were up 54 percent and stock price had rebounded.

Mid 1980s
-Problem surface, which ultimately led to Steve Jobs leaving the company

In 1984, despite the initial success, competitive pressures and various internal problems caused problems resurface and inhabit the successfulness of the initial change plan. Sculley experienced difficulties in changing the organization because of Job's resistance, as well as in resistance to changes in the strategy.

External forces: Competitive pressures continued to affect Apple. IBM's market share rose while Apple's fell from 21 to 19 percent since IBM unveiled two new powerful displace screens; The environment grew increasingly hostile in 1985 and the personal computer industry went into a recession. Now, low-priced products were emerging and threatening Apple II division.

Internal problem: The company still lacked a coherent strategy to sustain growth and maintain market share; The lack of IBM compatibility and its limited communication capabilities continued to hurt sales of the Macs. Job's 'go-it-alone' vision was no longer such an effective strategy'. Apple's advertising strategy also needed changing.

It would be seemed that Apple was not much prepared for this change. The problems that caused the change to originally be failed can be attributed to the "Six Silent Killers". Organizational Fitness Profiling will be applied to help solve those problems.

Six Silent Killers (SK)
   1. Management style is either too top down or too laissez faire
   -Too top down. It appears that much of the authority and power for decision making (e.g. company procedures, strict control of costs/overhead, ect) lies on Sculley as the CEO.
   →SOLUTION: Sculley should aim to forge a leadership including upper and lower levels, so that a more participative leadership and environment will be generated when it comes to decision-making.

   2. Unclear strategy/conflicting priorities
   -Jobs and Sculley advocated different strategies for placing Apple on a firmer footing. Sculley turned to focus

on "how quickly can we bring down inventories and control expenses". Jobs, on the other hand, wanted the original orientation "how fast can we build" to continue.

-Sculley was "sandwiched" between Jobs' two positions of conflicting priorities as vice president of the Mac Division and Chair of the Board.

→SOLUTION: Sculley's and Job's position as top management requires that the two develop a common business direction, instead of the current contradicting strategies that both tries to enforce on each other. Sculley might consider using negotiation to influence Jobs' on his roles and establish boundaries that Jobs need to adhere to, as his situation of being both above and below Sculley will only continue to complicate matters if left unaddressed.

3. Ineffective senior management team

-Jobs' dismissive attitude towards the Apple II Division leading to low levels of morale.

-Business pressure meant that Jobs and Sculley were arguing on different strategies the company should take.

-Jobs' position in the company was both above and below Sculley as vice president and chairman.

-The head of the Apple II division-Del Yocam-a softly spoken found it difficult to compete with Jobs' charismatic personality.

→SOLUTION: Jobs' position must first be sorted out in order to determine of who will have the final say in terms of decision-making power so that management can become more effective. Also, Sculley may find it helpful to involve two department heads-Yocam and Job-and/or other middle level managers to facilitate the change, given that they all act within the standards/duties that Sculley have assigned them with.

4. Poor vertical communication

-Throughout the change process, little evidence exists to show that Sculley or the management team had made efforts in communication towards lower level employees to incorporate them in the change process, employees were simply told what to do and were expected to accept the instructions.

-New organizational processes and structures have been forced down their throats for employees to accept and do with instructions. There were no opportunities for employees to respond to the changes or provide feedback.

→SOLUTION: Establish an honest, fact-based dialogue at lower levels to inform them about the company's new strategies and barriers.

5. Poor horizontal coordination

-The rivalry between Apple II and Mac personnel that had sapped morale.

-Company's biased attention which was centered on the Mac division and Job's dismissive attitude towards the Apple II proved that there was poor horizontal coordination at Apple. The situation suggests that a greater amount of focus and resources were allocated towards Jobs' department, which Apple II employees were segregated company's annual meeting.

-The lack of attention and a culture that they perceived to be becoming increasingly corporate in nature may contribute to the reasons as to why several of Apple's key personnel left the company.

→SOLUTION: Sculley needs to be clear in the new roles, responsibilities and structures that have been set to get the right people to work together the right way. In the case of Apple, an inclusive culture between the product divisions must also be handled with care.

6. Inadequate skills at lower levels.

-No evidence shows that. It seems that employees in Apple are highly-skilled.

Late 1980s

-Life at Apple after Steve Jobs left

1. Internal forces: Sculley aimed to reduce duplication and ensure a lower breakeven point. It was hoped that the rivalry between Apple II and Mac personnel that had sapped morale can be end up with.

2. Internal change agent: Sculley would be primarily in charge of making sure that the change is successfully

implemented.

3. What needs to be changed: The moral and culture between the two product divisions need to be reinstated and improved, not only for the sakes of the organization's productivity but to increase employees' motivation as well. It would appear that Sculley also needs to implement cost-cutting measures in order to lower the breakeven point and this increase profit.

Type if intervention: At first glance, a one-off change of unfreezing-change-refreezing was infused into Apple. The unfreeze stage removed the status quo of the old two decentralized divisions and changed to a new centralized marketing devision. This is a revolutionary change which transforms entire structure and strategy. The refreeze process consisted of reinforcing the change through norms, policies and practices.

4. Implementation of the change: Sculley decided that Apple should undergo centralized structure by splitting Apple into two functional groups instead of the previously decentralized divisions: one for product development and manufacturing and the other for marketing and sales. In addition, Sculley also laid of one third of the 6000 workers and closed three of its six factories. Finally, he reinforced the change by instituting strict financial controls, formal reporting procedures, and tough product development deadlines.

5. Results: Sculley was able to pare the breakeven point to quarterly sales of $325 million from $400 million. Profits also doubled between 1985 and 1987 and the price of Apple stock soared more than 500 per cent. Hence, Apple's 1986 earnings increased by 150 per cent to $154 million and shares were trading at over $40.

Despite the company's improved results, Sculley restructured the company again in 1987-into three sales and marking divisions covering the USA, Europe and the Pacific, and a separate division to handle development and manufacturing. This is an evolutionary change in structure. However, the results proved to be dismal. The new product development caused some problems, where Apple's share of the market dropped to 9 per cent in 1990 and major cuts including salary freezes and layoffs were announced to reduce spending levels, and senior managers were forced to resign.

1990s
-Onwards: Sculley as Chief Technologist and Jobs' return to Apple
Sculley's last campaign: In 1990, Sculley became Chief Technologist. The following year, IBM and Apple announced a technology-sharing alliance, perceived to be the decade in which Apple moves from being a wild card in the industry to playing in the mainstream. Despite Sculley's best efforts and strategy of joint ventures with IBM, Apple's shares fell over 60% in 1993 while the new hand-held digital note taker, the Newton Notepad, was a major disappointment. In the end, Sculley exited the company as he became too enchanted with the future technology to manage Apple in the here-and-now.

Jobs back the helm: In 1996, Job was reunited with Apple, initially to act as part-time product strategy adviser to Gil Amelio. But after Amelio's departure within a year, Jobs was made interim CEO and installing his NeXT executive team at the top of Apple.

CASE: ENRON

STRATEGY

Porter's Five Competitive Forces
Competitive Rivalry
- During the 1980s and 1990s, there were other natural gas companies trying to hold onto a regulated market.
- After Enron successfully moved from an energy producer to energy trader, the competition is limited. A totally free market.

Threat of new entrants
- Low threat of new entrants, because the high entry barrier for energy trading. Enron owed utilities in South America, North America, the United Kingdom and Canada. It had the technology and resources to allow economics of scale and entering into an energy market requires lot of time, money and resources.

Threat of substitution
- As natural gas is a necessity, it is less likely to be substituted.
- At that time, no clear fact of new perfect substitute for gas.

Supplier power
- No supplier power, Enron has its own pipelines so that it can supply is own products to customers.

Customer power
- Weak buyers, because there is limited competition and no perfect substitute for gas.
- Enron was the only company that was trading natural gas, for those who need the nature gas to run their company, do not have much bargaining power on the price of the natural gas.
- Buyers are seeking to hedge against the future fluctuation of gas prices.

Porter's Competitive Strategies
Differentiation
Aim to achieve a unique position in its industry in ways that are widely valued by customers.
- Targeting the board market and product diversity.
- While other trying to hold on to regulated market, Enron moved on to unregulated business, a trading company, to explore a new market. Enron embrace deregulation and free market.
- "Forget about the pipeline stuff", Enron took initiative in becoming an energy trader, providing different services to the public, differentiating them with other energy industry. Enron's new strategy of being an energy trader in deregulated market is widely valued by buyers who are seeking to hedge against the future fluctuation of gas prices. Enron erased the risk of paying high price for energy in inflation period by allowing customers to make a contract with Enron to buy at agreed prices and can withdraw at a later date.
- Lay and Skilling both promoted the big ideas and creativity. Employees in Enron were ambitious of creating new products such and 'Enron Online' under this strong culture and belief. Enron Online' was a differentiated product that allows direct online trading.
- Enron also moved to expand the business to the non-energy market such as fiber-optic bandwidth, pollution-emission, etc.

Miles and Snow Framework

Prospector: find and exploit new product and market opportunities.

Enron is continuing searching for new products and new market opportunities.

- During the 1980s and 1990s, while other natural gas companies were trying to hold onto a regulated market, Ken Lay saw the opportunity to gain profits by moving Enron into unregulated business, where the free market sets price. The risk-taking exploration makes Enron as a prospector in that period.
- Enron became an energy trader which is a bank for trading gas.
- Enron had been a slow moving, regulated natural-gas company dominated by engineers and hard assets.

Enron's domain tends to be large.

- Enron had its energy trading business covering all around the world.
- Enron moved to expand the business to the non-energy markets.

Experiment with emerging environmental trends

- To encourage entrepreneurial and risk-taking behavior, Enron offered "plant equity" to the start-up teams of the new businesses.

Flexible in terms of structure.

- Enron allows ad hoc groups to be formed to realize new business ideas, these groups became highly autonomous, developing their own infrastructure and poaching staff from other parts of the company.
- Enron hired young graduates and MBA since CEO believed in innovation and these new graduates can bring in new thinking.

Enron is the creator of change and uncertainty to which its competitors must respond.

- Advertising campaign "the wisdom of open markets" & "being a laboratory for innovation" demonstrates the importance of innovation and prospection at Enron.
- Enron started to sell gas futures to customers at agreed prices with contract.
- Enron ventured into new deregulated energy trading and online trading by Enron Online. Enron had changed the whole gas industry in to a new era.

Growth is jumps and spurts.

- Enron had been a slow moving. Now, Enron had moved into trading business where it shed physical assets to become more flexible and adaptive.

Mintzberg Theory
Planned (deliberate) approach

- Strategic change is deliberate
  Lay was from a HNG and understand that the merged company, Enron could not grow unless go beyond regulated energy market.
- Process is linear
  Lay stated that deregulated market would give the company opportunities to differentiate its product and make more profit. To achieve this goal, Lay became heavily-involved in state-level political campaign.
- Formulation and implementation are separate
  Lay knew the current situation of regulated energy market at Enron. He formulated a strategy that is sponsoring politics candidates in supporting deregulation of market. Afterwards, he managed to convince the state to deregulate the energy market. He then introduced energy trading and acted like a bank for trading gas. There is clear distinction between formulation and implementations.
- Decisions are result of rational analysis
  Lay understand that the current regulated market is full of competition and rivalry. Enron must be able to differentiate its product and entering new market for a greater growth. Therefore, Lay put much effort in market deregulation.

- <u>Strategic decisions are taken at the top</u>

  It was Lay's decision to spend company money in supporting political campaign hoping to deregulate the market. Besides, Enron allows ad hoc groups to be formed to realize new business ideas, these group became highly autonomous, developing their own infrastructure and poaching staff from other parts of the company. Afterwards, Skilling who is the CEO have to approve the project.

Emergent approach

- Enron expanded the business to non-energy markets as they were successful in a trading company.
- After Skilling resigned, Lay took back the running of the company. The presentation implemented by him seemed as emergent since he did not expect this crisis to happen.

Recommendation

- Enron should reduce its energy price and get profit by increasing its supply capacities significantly. Enron also needs to investigate into the accounting scandal.

STRUCTURE

Hybrid Structure

Functional structure: Human Resources, General Counsel, Chief Financial Officer

Division geographical structure: Enron International & Enron North America

Divisional market structure: Enron Energy Service, Enron Oil & Gas, Enron Broadband Service

→All departments were under CEO Skilling, who reported to the chairman Lay. Each department had a specific focus and employees knew what had to be done, to a specific level of quality.

Cellular division was designed by Enron wherein entrepreneurial new businesses, which challenged established business models, and became separate division. Risk-taking entrepreneurial behavior was highly encouraged through "phantom equity".

- Offered phantom equity to the start-up teams of the new businesses. When a business began to show a profit, the phantom equity was swapped for real Enron shares.
- Once business were up and running, they became highly autonomous, developing their own infrastructure and poaching staff from other parts of the company.
- Communication upwards was discouraged. Senior managers were often not aware of what was going on.

There was both **vertical** and **horizontal** divisions of labor prevalent. There is high complexity in the structure of the organization because both the vertical and horizontal levels have been highly divided.

- The vertical division of labor meant that those in higher levels of management such the Chairman and CEO had a higher levels of autonomy and control. However, ad hoc groups are able to report directly to CEO which makes the vertical communication easier.
- The horizontal division of labor is evident as the Enron had 8 different departments making differentiation occurs.

Strengths

- Teams are completely focused on what they are supposed to do i.e. members in the Enron Energy Service team only focuses on energy service.
- Allow the board or CEO to recognize the profit generating departments.
- Enhanced communication within each department.
- Flexible, aligned with the strategy of being creative, gives autonomy and allows employees to be creative and constantly develop new products.
- Highly autonomous structure generates numerous new businesses from bottom-up, like 'Enron Online'.

Weaknesses

- May be inefficient in inter-communication between departments.
- Unhealthy competition between departments. Rank and yank system.
- Senior vertical communication problem from highly flexible structure.
- Highly autonomous structure limits the senior manager's awareness of what was going on. Lack of supervision from top management may cause serious issues like guilty of fraud.
- It is not formalized because the work roles are assigned to a territory and/or specialty but the main target is to find ways to help the company making money.

The 7-S Framework

- **Strategy:** successfully realized its strategy of being a gas trading company due to political support of unregulated market; pursing differentiation strategy which promotes creativity and risk-taking; the divisional structure aligned with this strategy by allows employees in each division to focus on thief designs ad work; lots of innovations coming from the bottom.
- **Structure:** hybrid; aligned with strategy, flexible structure allows both product and function can be shared among employees; the highly autonomous division allows employees to focus on their own products or functions and it allows innovative and entrepreneurial behavior.

- **Superordinate goals:** goals consistent with overall strategy of being a laboratory for innovation and constantly exploring new markets.
- **Style (culture):** strong style, culture created deliberately by CEO; advertising campaign promoted innovation and change; CEO often emphasize risk-taking in staged-performed presentation; selection process was designed to recruit only young, ambitious and bold employees; cut-throat; reward system designed to keep competitive which only focuses on financial incentives.
- **Staff:** embrace culture; develop their own set of systems; "Enronians"; constantly pushed themselves to open new markets and creating new products and service; intense hiring process.
- **Skills:** highly skilled, intense competition, only best can stay.
- **Systems:** strict set of systems, a set of policies, rules and procedures; unspoken rules of not to question the authority and no bad news; not compatible with overall strategy and cultures-flexible structure and strategy of innovation should allow more horizontal and vertical communication.