CHAPTER 3

Organizational Diagnosis

Strategic renewal requires organizational change, including an alteration in patterns of employee behavior: The more transformational the new strategic approach, the more fundamental the requirement for behavioral change. To initiate behavioral change, leaders need to unfreeze "social habits" by creating a sense of dissatisfaction with the status quo. It makes good sense, then, to open an implementation process with diagnosis. A dialogue about the need for change in response to how best to achieve strategic renewal and the requirements for effective implementation constructs the appropriate platform for the upcoming change.

This chapter will describe and analyze diagnostic interventions. In particular, the chapter will:

- Describe the role of diagnosis in assessing behaviors and values and in creating dissatisfaction with the status quo
- Offer a systemic framework for guiding diagnosis
- Explore ways to overcome the "climate of silence" that blocks open, candid dialogue
- Provide the key ingredients of a diagnostic intervention

Before analyzing the specific dynamics of shared dialogue and organizational dynamics, we can look at the early efforts by a newly appointed CEO arriving from outside a company and intent on energizing transformational strategic renewal.

◆ CARLY FIORINA COMES TO HEWLETT-PACKARD

There are not many success stories in the history of American enterprise more impressive than that of Hewlett-Packard (HP). Starting as a small electronic instrument business in a humble Palo Alto garage, HP grew into the defining high-technology innovator in the United States. Under the watchful eyes of cofounders Bill Hewlett and Dave Packard, HP grew "faster, for longer, than any other company in history." [1] Its famed "HP Way" placed extraordinarily high value on technological innovation and reliability of its offers achieved through collaboration, consensus decision making, and long-term employment. The company forged what Apple CEO Steve Jobs described as "the fundamental DNA of Silicon Valley."[2]

HP underwent what was at first blush a subtle shift in strategic focus in the 1960s as it gingerly entered the newly emerging computer market, an industry far more volatile and dynamic than its traditional instruments business. In 1979, HP moved further afield by launching what was to become its most successful internally generated business: laser printers for computers.

HP's successful entry into what, with the advent of ink-jet printing, became a low-cost consumer-oriented market, came at a price. The rapid expansion of printers soon marginalized the core instrument business. Infighting among various unit leaders, particularly in the 1990s under the stewardship of Lew Platt, undermined the company's proud heritage of loyalty and consensus. In 1998, Platt and the HP board agreed to spin off the instrument business into a new and separate organization: Agilant.

Problems plagued the remaining computer and printer business. Performance lagged, while an internal study of employee attitudes revealed that the revered "HP Way" had morphed into a set of far less desirable values: "HP rated off the charts in terms of corporate integrity and employee loyalty, but it had lost its aggressiveness and much of its confidence." [3] Analysts openly wondered whether the cultural traits that had made HP such a resounding success in the past would now hinder efforts to return the company to the ranks of top performers.

After trying unsuccessfully to revive the company, and anxious to avoid the confrontational infighting that had racked the organization in recent years, Platt and his supporters on the board looked outside HP for a charismatic leader, someone who would be willing to question the company's traditional ways of doing things. They found just such a person in Carleton (Carly) Fiorina, then president of Lucent's global service provider business. Known to be the driving force behind AT&T's decision to spin off Lucent into what was then perceived to be a highly successful freestanding business,* Fiorina had already achieved celebrity status as a "superstar" executive. In the summer of 1999, Fiorina took the helm of HP.

Appreciating the urgency of the situation, Fiorina hit the ground running. Her first public appearances were well staged and electric. "She combined the aspirational rhetoric of the New Economy with a keen eye for HP's long-neglected historical strengths," said one observer. "She was ready to take a proud, insular company on an exciting new journey, modeled on what she had helped accomplish at Lucent." [4] What she had in mind was clear: Overcome HP's decades-old drive toward decentralized divisions and autonomous decision making, embrace the Internet, revitalize the sales force, trim costs, and energize employees.[5]

Fiorina also had a clear idea of how she would achieve her goals, which she revealed at her first strategic meeting just a month after her arrival. To reverse the company's "sacred" emphasis on decentralization, she proposed a simpler, more centralized structure: two "back-end" divisions (designing, manufacturing, and distribution—one for printers, the other for computers) and two "front-end" marketing and sales operations—one for consumers and one for corporations. The company would also begin to focus on far fewer products ("This is a company that can do anything; it is not a company that can do everything."). Finally, the culture would change dramatically and immediately from entitlement based to performance based. "Let me make something

*In the two years after Fiorina's departure, Lucent announced a number of accounting irregularities, laid off 16,000 employees, cut costs by $2 billion, and borrowed $6.5 billion to solve its liquidity problems.

very clear," Fiorina told executives. "You will make your numbers. There will be no excuses. And if you can't make your numbers, I will find someone who will." [6]

Fiorina asked for the support of HP's top executives on her centralization and reorganization plan, and she got it. That is not to say, however, that they all *agreed* with her. "I don't know anyone who was in favor of it [her back-end/front-end reorganization plan] other than Carly," said one. "She came in with a recipe," said another, "and come hell or high water, she was going to use it." [7] Carolyn Ticknor, head of laser printing, recalled, "I was a deer caught in the headlights when she [Fiorina] described the front and back end." [8] Perhaps that was just the harping of a few recalcitrant longtime employees upset at the changing of the guard and the altering of past patterns.

After six rocky years that included a nasty public proxy fight over her strategy, with stock prices underperforming compared with the industry, with steady erosion of customer satisfaction as measured by consumer surveys, and with growing demands by board members that the CEO change her leadership style to become more inclusive, Hewlett-Packard's board demanded Fiorina's resignation. The board again looked outside of Hewlett-Packard for a replacement; this time selecting Mark Hurd of NCR.

When reporters asked Hurd about his plans to revitalize the company, he responded that it was too soon to tell. "We'll look at the entire enterprise," he said. "I can't give you any guarantees on anything," he added, noting that his priorities would be "improving operations, creating demand for our technology, and increasing shareholder value." [9]

◆ DIAGNOSING THE ORGANIZATION

Effective change starts with action but not with solutions.

The desire on the part of executives such as Carly Fiorina to hit the ground running with solutions, particularly when their organizations are mired in poor performance, may be perfectly understandable. The tendency to believe that what has worked for them in the past can provide a kind of recipe for the future is also strong. Taking that approach, however, glosses over the diagnostic stage that is so critical in shaping and guiding change. Fiorina's successor, Mark Hurd, cautioned against adopting solutions too quickly, even though expectations for solutions on the part of investors and employees alike were extraordinarily high.

Key learning

Applying formulas—solutions that have worked in the past and are imposed on the current situation—can be an overly simple, misleading, and dysfunctional approach to implementing change.

The desire for quick solutions can lead executives to overlook the critical elements that can be provided through diagnosis. Because the dynamics of every organization are unique and external competitive forces are likely to be in a state of flux, the recipe—what worked somewhere else in the past will work here now—can be overly simple, misleading, even dysfunctional. Diagnosis is meant to create learning about the real, current, and unique dynamics impacting the organization's performance.

At its most fundamental level, diagnosis is about learning: learning *what* needs to be changed and *why*. Altered and renewed strategies, new business models, and shifting external realities all may call for new skills, competencies, and patterns of behavior. The diagnostic stage identifies both the current state of skills, competencies, and behaviors as well as the requirements for future outstanding performance. Awareness of the gap between the status quo and the desired future state provides the source of dissatisfaction and the drive for change.

Lewin noted that "lectures" about the status quo—speeches on the need for change or PowerPoint presentations on the new strategy, for instance—will not be sufficient to create the necessary disequilibrium. Effective change requires a diagnostic process that creates learning. Executives learn why the status quo is unsatisfactory: so, too, do employees at all levels and in all units.

In addition to generating insight, diagnosis can create a consensus among the stakeholders not just about *what* needs to be changed but also *how* to bring about that change. Offering employees an opportunity to participate in the process of collecting and learning from data and then using that learning to shape an intervention can help build real commitment to implementing change. Reluctant agreement, such as that which greeted Fiorina when she arrived at HP with her reorganization plans, does not motivate change. It may even create resistance that will have to be addressed later in the change process.

To avoid imposing solutions, change leaders can begin implementation by engaging in diagnosis. **Diagnosis** is the process of learning about the dynamics of an organization's functioning. It is meant to provide a road map that identifies both the current state and the desired future state of the organization.[10] The diagnostic process can be used to create a dialogue among multiple stakeholders concerning the meaning of the data. In addition to shaping the ensuing intervention, diagnosis can build motivation on the part of employees to alter their behaviors, while simultaneously enhancing their capacity to engage in further diagnosis.

Key learning

The diagnostic process is about more than collecting and analyzing data; it is a vital preliminary stage in implementing change.

Diagnosis can occur on any one of three levels (see Exhibit 3-1). At the *individual* level, diagnosis provides an understanding of employees and their assigned tasks. Diagnosis can also focus on the *group* level. At the broadest and most pervasive scope, diagnosis can occur at the *organizational* level. When diagnosis is meant to set the stage for change, it is this all-inclusive and systemic level that will be the appropriate focus.

REQUIREMENT FOR A SYSTEMIC FRAMEWORK

A broad, systemic view of the firm will help guide an organization-level diagnosis. The ideas embedded in open systems (discussed in Chapter 2) are vital to shaping that view. Organizations interact constantly with their external environment. Additionally, the multiple subunits must work in a coordinated manner to achieve outstanding performance. Let us take the time here to explore the implications of each open systems assumption in regard to understanding the dynamics of an organization.

EXHIBIT 3-1 Levels of Diagnostic Focus

Level	Sample Inquiry
Individual	Are jobs designed in such a way as to enhance commitment and creativity on the part of jobholders?
Group	Do work and problem-solving teams function with the dynamics required of top team performance?
Organizational	Do the multiple units and elements of the organization work in a synergistic way to maximize overall performance?

Understanding that organizations exist in constant interaction with a dynamic external environment leads to an important insight: An organization whose internal processes are perfectly well suited for one kind of competitive environment may find those same processes becoming a burden in a new, shifting landscape. Sometimes, the organization itself plays a decisive role in altering that landscape. HP's strategic shifts from high-end control instruments to computers and then to low-cost printers each required new internal dynamics. Sometimes, larger forces beyond the control of any one organization rewrite the rules of competition. That was the situation that EG&G, a large and successful contractor for the Department of Defense and Energy, found itself in with the advent of the 1990s.[11]

With the precipitous demise of the cold war (the Berlin Wall fell in 1989 and two years later the Soviet Union disintegrated), EG&G found its past success suddenly threatened. Defense and weapons spending declined dramatically, and the types of weapons sought by the government shifted away from the large-scale nuclear weapons in which EG&G had specialized to smaller, tactical response armaments. EG&G executives recognized that to avoid obsolescence, they would have to ratchet up the company's presence in nongovernment commercial markets. Instead of selling weapons, guidance systems, and the like, they reasoned, why not leverage the underlying technologies of those systems into commercial applications?

Their intended strategic renewal—shifting from government to commercial customers—may have made good sense. However, it was the company's own internal dynamics that got in the way of successful execution. EG&G enjoyed a high level of alignment with the previous competitive environment. They could not manage the requirements of the new realities, however.

Deliberate development processes designed for the highly regimented and regulated world of government contracting interfered with the requirement to respond quickly to more fickle and cost-conscious private customers. High walls built between operations in order to ensure discrete focus on particular government agencies prevented the transfer of technologies across organizational boundaries. The results of EG&G's inability to implement its new strategy were predictably disheartening: While the company lost 80 percent of its revenues that had come from defense and energy, it failed to make up that huge gap with its lagging commercial offerings.

Like any organization, EG&G needed to respond to shifts in the external environment in order to remain effective. The company's inability to adapt earned it labels such as "couch potato" and "old-economy dullard" from the investment community. Despite the economic boom of the 1990s, the company's organic growth rate (growth due to internal development rather than acquisition) approached zero. When Greg Summe took over in 1998, he established as his first priority remaking the company culture. A corporate name change—from EG&G to PerkinElmer—signaled to investors, customers, and potential employees that Summe intended to transform not just a small part of the organization—technology transfer, as his predecessor had done—but rather the entire organizational system.

In an altered competitive landscape, EG&G executives tried, and failed—at least until new leadership arrived at the end of the decade—to re-create the manner in which the various departments and divisions worked together. Their failure in implementation highlights the second premise of open systems: Organizations are composed of multiple parts and components that must be aligned in their efforts. There are

structural subunits such as functions, product divisions, and national operations. There are also dimensions such as core values, strategy, structure and design, and the business model for generating profits. These components exist in a constant state of interaction with each other, while simultaneously remaining part of an identifiable whole.

Key learning

In order to set the stage for effective implementation, diagnosis can do more than target specific elements of the organization; it can focus on the entire organizational system.

Alignment does not ensure outstanding performance. Organizations that boast of highly aligned internal systems—General Motors, Kmart, and Sears are examples—seriously underperform their competitors.[12] Even a company as apparently successful and robust as McDonald's—where every effort aligns with the goal of offering efficiency, consistency, and value to fast-food customers—has been sluggish in responding to shifting consumer tastes and expectations.[13] Alignment is a necessary component of outstanding performance but not a guarantee.[14]

Appreciating the linkage between an organization's subunits and elements is a complex task. For that reason, diagnosis can be aided by an organizational framework: a model that identifies the key components of the organization and suggests relationships and interdependencies among those elements. "Using a model," Hausser writes, "facilitates communication," which can help those involved in a diagnosis "approach their task with a common set of terms and frame of reference." In addition to providing a shared frame of reference, an organizational framework "makes clear the factors and relationships that are of interest and, by implication, those that are not."[15]

There are numerous frameworks available for judging alignment.[16] Exhibit 3-2 (based on "A Congruence Model of Effectiveness" presented in Exhibit 2-3) offers one such framework that can guide organizational members in a diagnostic process. The goal of this or any other diagnostic framework is to provide a common guide to participants as they seek to understand the interconnected linkages that affect organizational performance.

The first diagnostic task for top managers applying this framework is to define the three vertical elements:

1. *Purpose*—What are the overriding aims and goals of the organization? Purpose, in the words of Bartlett and Ghoshal, is something with which employees at all levels "can identify, in which they share a sense of pride, and to which they are willing to commit." [17]
2. *Business model*—How will the organization generate revenues and make a profit? Questions here relate to the chain of interrelated activities in which employees engage to add, create for, and capture value from customers. Relationships with external suppliers will also need to be considered.[18]
3. *Industry analysis*—What are the important elements of the competitive environment that create the context for the organization? Organizational leaders can analyze both the current state of the industry and potential changes to and disruptions in the status quo.

After addressing those questions, diagnosis can proceed with a dialogue among employees. Now they can identify the three horizontal elements:

1. *Strategy*—What are the means by which the organization or business unit is differentiating itself from its competitors? How responsive is that strategy to changes,

EXHIBIT 3-2 Diagnostic Matrix*

	Strategy	**Structure and Design**	**Patterns of Behavior**
	• Differentiated from competitors? • Responsive to dynamic environment?	• Focus of structural elements? • Coordination and decision making?	• How do employees enact their roles and responsibilities? • What are the enacted values of the organization as demonstrated by those behaviors?
Purpose • Overarching goals and aims of organization? • Sense of pride and commitment on part of employees?	**Alignment or misalignment?** Does strategy forward purpose of organization while also responding to external shifts?	**Alignment or misalignment?** Do the design and structure enhance or detract from the goals of the organization and the commitment of employees?	**Alignment or misalignment?** Does the purpose create the desired commitment on the part of employees in their day-to-day enactment of their jobs?
Business Model • How to generate revenue and make profit? • Alignment of value chain?	**Alignment or misalignment?** Is the explicit business model congruent with the strategy?	**Alignment or misalignment?** Are the requirements for business model implementation supported and reinforced by structure and design?	**Alignment or misalignment?** Do employees behave in a way that supports and enables the business model?
Industry Analysis • Competitive context? • Expectations? • Expectations / power of suppliers and customers?	**Alignment or misalignment?** Is the strategy sustainable within the selected industry?	**Alignment or misalignment?** Do the structure and design focus internal activities toward the external, competitive environment?	**Alignment or misalignment?** Are patterns of behavior consistent with the requirements for outstanding performance within the chosen industry?

*Created by Leonard Glick and Bert Spector

both current and potential, in the expectations of customers? How do employees understand and enact the choices that have been made?

2. *Design*—What are the means by which the organization will achieve required levels of creativity, responsiveness, and coordination. At its core, design refers to what Greenberg calls "the process of coordinating the structural elements of organizations in the most appropriate manner." [19]

3. *Behaviors*—What are the enacted values of the organization, the belief systems, assumptions, and norms that guide and shape everyday behavior? Are those behaviors aligned with the requirements of outstanding performance?

Key learning

An organizational framework can help shape dialogue and focus diagnosis.

What makes a framework effective is that it leads people toward systemic thinking that can focus diagnosis on disjunctions that are impeding implementation of the renewed strategy and achievement of outstanding performance. A framework helps employees understand that outstanding performance can be achieved or sustained only with alignment between and among all the elements.

◆ STARTING WITH DIALOGUE

Organizational diagnosis involves a dialogue among employees focused on performance and the impediments and barriers to achieving an organization's strategic goals. **Dialogue** is a structured, collective discussion among two or more parties. "In dialogue," Senge writes, "a group explores complex difficult issues from many points of view. Individuals suspend their assumptions but they communicate their assumptions freely. The result is a free exploration that brings to the surface the full depths of people's experience and thought and yet can move beyond their individual views." [20] The purpose of dialogue is to move beyond the understanding of any one individual and create an enriched and shared understanding.

Key learning

Dialogue creates the opportunity for an open and honest conversation among employees concerning how to implement a new strategy and sustain outstanding performance.

Because the goal of dialogue is learning, it is a process that leads to unexpected conclusions. The process of participating in dialogue enriches both the understanding and the commitment of all parties to the implications and conclusions of that dialogue.

In hierarchical organizations, dialogue can be difficult to achieve. Success in creating a dialogue depends on a number of factors. Because all dialogue involves, at its core, individuals, those individuals must possess and display certain attributes that will contribute to the effectiveness of the process. And because all dialogue occurs in an organizational context, that context must be one that enables rather than impedes openness.

INDIVIDUAL ENABLERS OF DIALOGUE

Effective dialogue requires that participating parties enter the exchange with two beliefs.[21] First, they must accept *mutuality*, which is the belief on the part of individual dialogue participants that the *other* participants have both the capacity and the desire to learn and to change. If a manager believes that employees are simply unwilling or unable to change, that manager will have little incentive to initiate a dialogue. Second, the participating parties must accept *reciprocity*, which is the belief on the part of individual dialogue participants that *they* have something to learn from the other participants. Individuals who believe that they know what the problems are and have a recipe for attacking those problems will have little incentive to enter into an open and freewheeling exchange of ideas.

EXHIBIT 3-3 Prerequisites for Participation in Dialogue

Mutuality	Belief on the part of individual dialogue participants that the *other* participants have both the capacity and the desire to learn and to change
Reciprocity	Belief on the part of individual dialogue participants that *they* have something to learn from the other participants
Advocacy	Willingness and ability of individual dialogue participants to *reveal positions* and the *assumptions* underlying those positions
Inquiry	Willingness and ability of individual dialogue participants to open their own positions and underlying assumptions to *questions and challenges* by others

Mutuality and reciprocity grow out of values and assumptions regarding learning. Only individuals who believe that learning, adaptation, and change are core to their role and responsibilities within the organization will enter into a real, shared dialogue. At the same time, individuals must accept and welcome the participation and contribution of others as vital to that learning.

Those beliefs are not enough to ensure effective dialogue, however. Participants must also be willing and able to engage in advocacy and inquiry.[22] *Advocacy* involves the willingness and ability of individual dialogue participants to reveal positions and the assumptions underlying those positions. *Inquiry* involves the willingness and ability of individual dialogue participants to open their own positions and underlying assumptions to questions and challenges by others.

Advocacy invites individuals to reveal their ideas about *how things ought to be done* and to place on the table the data and assumptions that have led to that position. But advocacy can deteriorate into posturing, even browbeating, if it is not accompanied by inquiry that seeks alternative views, welcomes challenge, and probes one's own thinking. When those four elements—mutuality, reciprocity, advocacy, and inquiry (summarized in Exhibit 3-3)—are in place, dialogue is possible.

ORGANIZATIONAL ENABLERS OF DIALOGUE

Dialogue does not occur within a vacuum. It is up to organizational leaders to create and maintain a culture that allows, encourages, and enables an open and candid dialogue, particularly across hierarchical and vertical levels and units. Dialogue that is truthful in nature and systemic in focus requires that employees take risks. But the fact is that most employees in most organizations feel inhibited when asked to speak up concerning organizational problems and barriers to outstanding performance.[23]

When Carly Fiorina presented her back-end/front-end reorganization plans at her first strategic planning meeting with top HP executives, she elicited no overt resistance or opposition. Some of the participating executives wanted to be supportive of their newly arrived CEO. Others believed there was little instrumentality in speaking up, assuming that Fiorina was determined "come hell or high water" to see her plans implemented. Perhaps others were concerned with how advocating an alternative position might impact their careers at HP. In any case, no honest dialogue accompanied Fiorina's strategic presentation.

The phenomenon that inhibits or even eliminates opportunities for the free and open exchange of ideas and views is known as organizational silence.[24] **Organizational silence** refers to the pervasive set of assumptions on the part of employees that candid feedback and open, shared dialogue is to be avoided. As the HP experience suggests, fear and cynicism do not simply apply to lower hierarchical levels. Executives can be equally inhibited.[25]

Key learning

Organizations can develop a "climate of silence," which discourages subordinates from speaking up and discourages bosses from seeking feedback.

The absence of "speaking up" within organizations compromises effective diagnosis and change, note Morrison and Millikin. Silence compromises an organization's ability to engage in learning, "which entails a questioning and modification of underlying policies and goals."[26] Without adequate learning, mistakes can be repeated, errors and unsupported assumptions can persist, and change can move organizations away from outstanding performance.

In order to overcome organizational silence, leaders can pay attention to particular dynamics that may block openness. Large power distances, for example, present a barrier to open and candid dialogue. When one participant in the dialogue possesses significantly more organizational power than the other, both parties tend to filter their communication. They engage in distortion intended to protect and/or advance their self-interest.

Walton has written that power inequality—real or perceived differences in organizational power possessed by participating parties—undermines trust and inhibits dialogue.[27] Participants with lower power tend to believe that those with greater power will use what they learn to the detriment of the person with less power. Furthermore, people with greater power tend to underestimate the positive intentions of those with less power. As a result, participants with greater power tend to rely on advocacy at the expense of inquiry, while participants with lower power are more prone to inquire rather than to advocate. The unwillingness/inability to advocate one's own views reduces the likelihood that individuals will modify their views. Large power distance, then, may lead to compliance; it is not, however, conducive to the creation of a shared understanding.

Key learning

A large power distance between parties in a dialogue inhibits openness and risk taking while distorting communications.

In a hierarchical organization, some power distance is inevitable. Filtering cannot be avoided entirely. Nevertheless, organizations have undertaken a number of approaches meant to lessen the distance and increase the effectiveness of the dialogue. One approach to reducing power distance involves *delayering*; that is, eliminating multiple levels of hierarchy.

Many of today's business units have significantly reduced the number of supervisory and managerial levels existing in a plant. In a traditionally organized automobile parts plant, for instance, shop floor workers in a unit reported to a supervisor who reported to a general supervisor who reported to the unit superintendent who reported to the production manager who reported to the manufacturing manager who reported to the plant manager. If the worker found herself on second or third shift, a shift superintendent was inserted between the shift workers and the production manager. With far fewer levels—at GM's Livonia plant, for instance, shop floor workers report to team leaders who report directly to business unit managers—the distortion that arises from filtering is reduced significantly.

Decentralizing pushes decision making down to lower levels and can occur separately or be combined with delayering. By granting lower-level managers the

autonomy to make decisions, those managers have the opportunity to involve their direct staff in diagnosis, thus eliminating hierarchical levels that more typically exist between workers and managers.

Many organizations have taken the symbolic step of creating an *egalitarian culture*, eliminating many of the perquisites often associated with hierarchical status. Doing away with executive parking and cafeterias is a now-common characteristic in new work facilities. Putting the entire work force on salary (rather than separating hourly from salaried employees) erases the distinction between hourly and salaried employees. Informal attire, forms of address (calling everyone by his first name, for example), and an end to opulent executive offices removes obvious external signs of status. These symbolic actions will have little if any positive impact if they are experienced by employees as empty gestures or even as contradictions to an otherwise hierarchical, highly differentiated power structure. If, on the other hand, they are experienced as manifestations of a deeply embedded egalitarian culture, they can help reduce perceived power differentials and enable open dialogue.

Third-party facilitation can also be a powerful antidote to power differentials. In a structured dialogue where multiple hierarchical levels are involved, facilitators can suggest—and even enforce—communication rules meant to establish openness and trust. Third-party facilitators can create what Walton calls "situational" power equity. The consultant, for example, can offset communication skill disadvantages by setting communication ground rules: "By active interventions which ensure equal air time to less assertive participants, by helping a person who feels 'one down' to make his point, by including others who will provide relatively more support to the participant with less organizational power, etc." [28] Real-time feedback on dysfunctional behaviors relating to power distance as well as defensiveness not only enables open dialogue but also helps develop vital communication skills on the part of organizational members at all levels.

Most power equalization steps focus on power differences based on hierarchical position. Power distance can also exist *horizontally*. Horizontal power distance involves units that, in essence, compete for power within the organization. The most obvious example would be unions and management. Most often one side retains more organizational power than the other. When management—typically but not always the advantaged side—wishes to enter into a collaborative partnership with the union, it will have to pay careful attention to the need to make union representatives relatively equal partners. That is why, for instance, leaders at GM's Livonia plant ensured that the union was significantly represented at every phase of the decision-making process.

Less obvious but equally vital are the power distances that can develop over time between functional units within an organization. "Engineering is king." "Marketing is everything." "We're completely numbers driven." All of these slogans are expressions of precisely this type of inequity among functions.

Horizontal power distance can be harmful to open dialogue. Communication can be filtered and ideas dismissed. A powerful research and development function can make it difficult for sales and marketing people to inject the customer perspective into the dialogue about product design decisions. An overly dominant finance function might block the voice of employers and customers. An isolated but influential research and development department might offer new products that business units feel are

unattractive to their local markets. A well-balanced top management team with shared purpose and mutual responsibility will help maintain a balance of power in which all voices are respected and influential. In that circumstance, the voices of multiple functions and units are more likely to come through unfiltered in a diagnosis concerning barriers to outstanding performance.

Steps to equalize power (summarized in Exhibit 3-4) help set the groundwork for dialogue. The skills of management allow that dialogue to move forward. Power distance interferes with dialogue because it undermines trust. Organizations seeking to create a dialogue will need to create what is known as **psychological safety**—a belief on the part of employees that the organizational climate is conducive for taking personal risks, especially around dialogue. Leaders can look at all the elements that create or undermine trust between and among stakeholders. Creating a psychological safety zone in which all employees feel safe from threat and reprisal for both advocating and inquiring will help nurture a context in which such a dialogue can and will continue.

◆ THE CONSULTANT ROLE

The diagnostic process requires employees to enact roles and possess competencies that differ markedly from the daily job requirements. Understandably, the dynamics of diagnosis may be unusual for an employee who spends her days working within a function or unit or directly with customers and suppliers. Participating in an open dialogue where views—both positive and negative—are freely expressed and performance focused might prove both unusual and uncomfortable. Participating in such a dialogue, not to mention facilitating the participation of others, might be alien to his experience.

EXHIBIT 3-4 Power Equalization Steps

Steps	Lead to
Delayering	Removing hierarchical barriers that create distance and distort communications
Decentralizing	Pushing down decision making to close gap between decision makers and "doers"
Egalitarianism	Removing "artifacts" of status differentials
Third-party facilitation	Structuring effective "rules-of-engagement" around feedback and dialogue
Representation	Inserting voice from multiple levels, both vertical (managers, shop floor employees, etc.) and horizontal (union and management, various functions, etc.) into dialogue
Teamwork	Building shared purpose and mutual responsibility to ensure equal participation and influence by all members in dialogue

Employees *can* learn these skills. In fact, one of the goals of change can be to develop such skills and competencies among employees. But because diagnosis calls for new roles and skills that have yet to be developed, it often proceeds with the help of a consultant. A **consultant** is any individual possessing a broad range of diagnostic and developmental skills who facilitates a change intervention.

Key learning
Consultants play a vital role in implementing dialogue and diagnosis by introducing and teaching new skills to organizational employees.

Consultants may arrive from outside the organization: professional consultants or academics with a specialization in organizational change and development. They may also come from within the firm: specially trained employees, often within the company's human resource or organization development staff. Whether internal or external, the task of the consultant is the same: to facilitate diagnosis and dialogue and to do so in a way that allows employees to develop those skills themselves.[29]

Although consultants act primarily as facilitators, they also bring with them expertise. They possess knowledge of organizational frameworks, research methodology, forms of analysis, and so on. Consultants contribute their expertise to the diagnostic process. They can do so in a way that is either more or less involving of employees. There is a choice to be made by the consultant and the client (usually the upper manager who has contracted with that consultant) regarding just how *consultant centered* or *client centered* the relationship will be.[30]

The consultant-centered approach to diagnosis emphasizes the expertise of the consultant, placing him in strict control of the process. Employees play the role of information providers, while the expert consultant determines the critical variables to be addressed, undertakes the analysis, and then provides the fruits of the resulting discovery to organizational members. The categories measured and instruments used are provided by the expert consultant.

Key learning
Client-centered consultants can build commitment to learning, motivation to change, and competency on the part of employees to implement diagnosis in the future.

At the other end of the spectrum lies a fundamentally more client-centered approach, one that creates a natural environment for integrating efforts and transferring skills. Employees are full partners in establishing the dimensions of the intervention, in collecting and analyzing the data.

◆ GETTING STARTED WITH ORGANIZATIONAL DIAGNOSIS

To increase the effectiveness of diagnosis as an opening stage of organizational change, the process can follow the principles outlined in Exhibit 3-5. It is now time to explore the specific steps that can be pursued based on these principles. These steps involve:

- *Collecting data* on the organization and its environment
- Entering into a *dialogue of discovery* that makes sense of and provides insight into the data that has been amassed
- Receiving and providing *feedback* on what has been learned
- *Institutionalizing dialogue and diagnosis* so that they become an organic and ongoing part of the organization's activities.

Let us explore each step.

EXHIBIT 3-5 Principles Guiding Organizational Diagnosis

Systemic focus	Target organizational system guided by a framework that focuses on interactions
Consultant facilitated	Specially trained individual(s) to bring external perspective and required skills
Client oriented	Employees participate in all stages as full partners in order to build commitment and competency
Honest conversation	Multiple stakeholders engage the requirements of shared dialogue: mutuality, reciprocity, advocacy, and inquiry
Psychological safety	Active steps taken to overcome climate of organizational silence

DATA COLLECTION

Diagnosis needs to be data driven; that is, infused with and informed by valid information concerning the factors that impact the performance of the organization and its ability to implement its renewed strategy. A diagnostic framework, such as the one provided in Exhibit 3-2, will point to the target areas for data collection.

Key learning
The process of collecting data can help build motivation and commitment to altering patterns of behavior.

Data are more than a collection of cold, hard facts. Data amassed through the diagnostic process can have a powerful impact on the ensuing change by motivating employees to alter their behavior in ways that will support strategic renewal. The motivational impact of data occurs as feelings are aroused and forces unleashed that bring about behavioral change. The act of collecting data potentially becomes a key way of mobilizing the considerable energy needed to abandon the status quo.[31]

So the challenge of data collection becomes twofold: To collect data on the key elements impacting an organization's capacity to support the new strategy and to achieve and maintain outstanding performance; and to do so in a way most likely to build motivation and commitment on the part of employees. There are three basic forms of data collection: questionnaires, interviews, and observation. Each holds strengths and weaknesses, especially in light of that dual requirement.

Questionnaires

The most popular form of collecting data involves written questionnaires. **Questionnaires** are self-administered paper-and-pencil or computer-based data-collection forms. Questionnaires often stress areas of behavioral interaction such as communications, goals, and coordination. Employees may be asked, for instance, to rate the clarity of the organization's strategy, the quality of information that is shared, or the nature of supervision. Although questionnaires can be developed internally, they are more typically packaged by an external consulting firm or an academic center.

Academics and consultants have debated the value of questionnaires when used as part of a change process (see "Join the Debate" feature). Neither side of the debate, however, would question that questionnaires can play *some* significant role in a change process. By providing a benchmark measurement against either other organizations or

against best-practice units within the organization, questionnaires can help build dissatisfaction with the status quo and awareness of the need for change.[32]

Join the Debate—Should Questionnaires Be Used as a Data Collection Tool?

"Yes"—Questionnaires can be administered to a large number of employees and results compiled in a short time period. Because they are administered and returned anonymously, questionnaires can help overcome the climate of silence by allowing employees a greater sense of freedom and protection. They can provide a valuable benchmark for the organization to measure itself against. When administered to multiple units, they can offer comparisons and highlight units in the organization where results are especially positive or negative. When administered to the same unit over time, they can track progress or regression.

"No"—The preconceived categories represented in the questionnaires may measure theoretical constructs that are relevant to the developer of the questions, but do not necessarily speak to the true needs of the organization. Questionnaires, write Fordyce and Weil, "do not create the kind of personal involvement and dialogue that is so valuable in changing hearts and minds. The information generated by questionnaires tends to be canned, anonymous, ambiguous, and detached—i.e., cool data rather than hot." [33] Because of that lack of personal involvement and deep sentiment, managers may be more likely to respond with token reaction rather than significant response.

What do *you* think?

Interviews

Other methods of data collection can provide far richer and more detailed insight into the dynamics of an organization. **Diagnostic interviews** involve a trained diagnostician sitting down with an employee, or occasionally small groups of employees, and soliciting information. Interviews can provide far richer data than questionnaires.

Diagnostic interviews can be either structured or unstructured. In structured interviews, the interviewer prepares a set of questions to be asked of all respondents. In an unstructured interview, a small number of general questions—"What are the organizational barriers to achieving your strategic objectives?" or "What are the goals of your unit and what are the organizational barriers you perceive for achieving those goals?" for example—are intended to precipitate what Manzini calls "the respondent's own definition of relevant problems and issues."[34] What follows those broad questions is an open dialogue between the interviewer and the interviewee that helps determine the direction of the remainder of the interview.

In addition to generating data, open-ended interviews offer the opportunity to clarify the data as they are being generated. The interviewer can ask questions of the respondent and probe more deeply: *What did you mean by that response?* Or, *can you tell me more about why you think that is true?* Because unstructured interviews can become a forum for personal issues that have little to do with improving organizational performance, interviewers will need to keep focus on pertinent, performance-related issues.

Professional consultants can conduct these interviews. There is also an advantage to training employees as interviewers. The involvement of employees in the data collection

process enhances their commitment to the changes suggested by the process. Also, organizational members inevitably know more about the hidden but critical aspects of organizational life than would any outsider. They bring, in other words, their own expertise to the process. Finally, by participating in the data collection process, employees are gaining the skills necessary to engage in ongoing data collection and diagnosis in the future.[35]

Observations

Apart from questionnaires and interviews, another source of data is **behavioral observation**.[36] The diagnostician can watch actual behaviors of employees: the meetings of top management teams, efforts of work groups to solve problems, interactions between boss and subordinate, and so forth. Behavioral observation has the advantage of eliminating self-reports by focusing directly on behaviors. The observer remains apart from the behaviors themselves, acting as a sort of a nonobtrusive fly-on-the-wall. Or, the observer may involve himself in the behaviors being observed. The participant-observer becomes immersed in the actual behaviors of employees as a way of reaching a deep understanding of their behaviors.

> **Key learning**
> Diagnostic interviews and behavioral observation offer the opportunity to collect extremely rich and valid data about how employees behave and how the organization functions.

A broad literature in the social sciences exists on the strengths and weaknesses, validity and pitfalls, even the ethics of the participant-observer role.[37] For a well-trained observer, the interactions that result from participation in meetings, problem-solving groups, and the like can provide an indispensable source of data concerning the cognitive and emotional state of key organizational stakeholders.

Summarizing Data Collection Methods

The three types of data collection (summarized in Exhibit 3-6) do not have to be thought of as mutually exclusive. Used together—interviews and observations to collect rich data and questionnaires to validate data on a wider scale—the various methods of data collection provide invaluable input into the next stage of the diagnostic process: creating a dialogue about the organization's functioning.

CREATING A DIALOGUE OF DISCOVERY

Data collection is only the preliminary step in diagnosis. In the **discovery** stage, employees enter into a process, typically facilitated by a consultant, to analyze the data, make sense of what they have learned, and consider the steps to take to act upon that learning. When diagnosis is the first step of a change process, the responsible leaders of the organizational unit being targeted—if it is the entire organization, then the responsible leaders are the top management team—can be involved in that discovery.[38] The involvement of the individuals, groups, and teams required to take action enriches the understanding of the data while simultaneously building their commitment to the resulting change. Because their own behaviors will likely be part of the collected data, their involvement in the discovery process and commitment to respond to their learnings becomes particularly valuable.

> **Key learning**
> The discovery phase of diagnosis involves a dialogue among employees concerning the validity and meaning of the data that has been collected.

Determing *whom* to involve is the first requirement of the discovery process. A blend of individuals representing a multitude of perspectives on the organization (say, representatives from various functions and units and from multiple hierarchical levels) will help ensure a broad, systemic view. The next vital question in designing the discovery process is *how*.

EXHIBIT 3-6 Data Collection Methods for Organizational Diagnosis

Methods	Advantages at Initial Stage of Change	Disadvantages at Initial Stage of Change
Questionnaires	• Can be administered to large number of employees • Can be processed quickly • Data is collected anonymously • Can be used to create benchmarks and make comparisons across organizations and over time	• Based on preconceived ideas about what issues and areas should be examined • Can over simplify vague and complex issues like culture • Do not expose root causes of problems • Do not create commitment to outcomes or motivation to change
Diagnostic interviews	• Collect rich data • Begin process of creating dialogue • Teach communication and active listening skills to employees	• Require up-front investment in training interviewers • Data may be hard to summarize and quantify • Lack anonymity
Behavioral observation	• Provides current work-based behavior as data • Offers deep and rich data on interactions among people • Can surface underlying emotions that impact behavior	• Act of observation will impact behaviors of those being observed • Time-consuming data collection process • Requires highly skilled observers

The discovery process can take place in face-to-face meetings: employees gathered in the same room when possible and connected via electronic means when necessary. Face-to-face interaction provides the richness required to help understand the complexity of the opportunities and problems to be addressed. When employees themselves have been involved in the data collection process, they can deliver their data directly to the responsible individuals. The consultant can facilitate that exchange by setting ground rules for productive and open dialogue. The leadership group hearing the feedback, for example, can be allowed to ask clarifying questions but be stopped by the consultant if their responses represent defensiveness or denial.[39]

The process of discovery is critical to determining the effectiveness of the change process. To ensure the systemic nature of the discovery process—that is, a focus on how the multiple elements of the organization do or do not align—the consultant can use a framework such as the one presented in Exhibit 3-2. A discovery process guided by a systemic diagnostic framework will channel energy, in Harrison and Shirom's words, "toward decisions and actions likely to provide the broadest organizational benefits."[40] By creating disequilibrium with the status quo, discovery provides a vital staging for the upcoming change process.

CLOSING THE FEEDBACK LOOP

Employees who have been involved in the data collection and discovery phases will expect to learn how their efforts have been translated into action. There is an expectation, in other words, that feedback will be part of the diagnostic process. **Feedback** refers to the process of receiving information concerning the effectiveness of one's actions and performance.

The entire diagnostic process involves feedback, of course. By receiving data from the organization about performance and about the manner in which various organizational elements align, or do not align, in order to implement strategy, management benefits from rich and valuable feedback. In the discovery phase, management receives feedback not just about the particulars uncovered through data collection but also about the perceived meaning, importance, and performance implications of that data.

Key learning

Top management can feed back to employees what it has learned from the diagnostic process and use that feedback as an opportunity to generate more learning.

Feedback can also be a discrete step that occurs following discovery. Managers can report to employees on the conclusions reached as part of that process and on the plan of action intended to address what has been learned. When groups of employees participate directly in collecting data, the feedback loop can be closed directly if upper management communicates directly with those participants.

As top management reports its conclusions, it can take the opportunity to learn, this time from employees as they react to its plan of action. The feedback loop can thus become continuous and ongoing. Two mechanisms that advance the feedback process are:[41]

1. The feedback from the top management group empowered to lead the change can occur in face-to-face sessions in order to increase the richness of the process as well as to create responsibility and accountability for taking actions.[42]
2. The learning from the discovery process as well as the change plans that result can be presented as tentative rather than final, thus inviting additional dialogue and discovery.

Closing the feedback loop will work to keep dialogue and diagnosis continuous during the change process.

◆ CONCLUSION

If the need for change is urgent, executives may be tempted to rush toward a "solution." That instinct, while understandable, is likely to harm the effectiveness of the change implementation process. By involving employees in dialogue and diagnosis, organizational leaders can generate vital data. The process can also create commitment to learning and motivation to change on the part of participants, while building diagnostic competencies into the organization.

In order to target the performance of the entire organization and its ability to implement a renewed strategy, diagnosis can be shaped and guided by a systemic framework. With the facilitation of a consultant, employees can engage in data collection and a dialogue of discovery concerning those elements and their fit with each other, with the strategy, and with the external environment.

Creating a dialogue within the organization is hampered by many factors, both individual and organizational. Power distance encourages participants to filter information rather than to be completely open. Organizational silence discourages honesty and must be overcome by organizational leaders. Only by creating a sense of psychological safety will employees willingly engage in a candid exchange of information and insight concerning the performance of the organization.

Once dialogue and diagnosis have been engaged, implementation can proceed. Dialogue and diagnosis likely will target patterns of behavior, asking if employees at all levels of the organization are enacting their roles and responsibilities in a way that is aligned with the demands of the strategy and the requirements of outstanding performance. The ability of an organization to create and sustain a climate of openness and honest conversation depends a great deal on the culture of the organization and the values of that organization's managers. The next chapter will focus explicitly on an understanding of values and culture.

Chapter Vocabulary

Diagnosis the process of learning about the dynamics of the organization in order to take action intended to improve performance.

Dialogue a structured, collective discussion among two or more parties with no predetermined conclusion.

Organizational silence the lack of truthful dialogue in organizations caused by the widespread assumption on the part of employees that candid feedback and the open exchange of ideas will have either no positive impact or negative consequences to the individual, or both.

Psychological safety a belief on the part of employees that the organizational climate is conducive for taking personal risks, especially around dialogue.

Consultant an individual possessing a broad range of diagnostic and developmental skills who contracts with the organization's leaders to facilitate an intervention.

Questionnaires self-administered paper-and-pencil data collection forms, often stressing areas of behavioral interaction such as communications, goals, and coordination.

Diagnostic interviews a form of data collection in which a trained diagnostician meets with an employee, or small groups of employees, to solicit information pertaining to the performance of the organization.

Behavioral observation a form of data collection in which a trained diagnostician can watch actual behaviors of employees.

Discovery the process of analyzing and making sense of data that has been collected as part of an organizational diagnosis.

Feedback the process of receiving information focused on the effectiveness of one's actions and performance.

Discussion Questions

1. How might Carly Fiorina have structured her initial several months at Hewlett-Packard differently to create greater internal commitment to change while simultaneously infusing the company with a heightened sense of urgency?
2. What are the potential advantages of relying on an open systems framework for guiding diagnosis? Are their any potential disadvantages?
3. Why is open dialogue so difficult to achieve in many organizations?
4. In what specific ways can an executive actively promote a sense of psychological safety among employees to engage them in an honest conversation about performance?
5. How might the three forms of data collection be used together in the opening stages of a change process?

Case Discussion

Read "Managing Transformation at National Computer Operations" and prepare the following questions:

1. Prepare an implementation plan for change that would enable Gar Finnvold to create a fully competitive computer service within two years.
2. How could Finnvold conduct an organizational diagnosis that would lead off his implementation? Be specific about how he could ensure an open, candid dialogue from employees at all levels of the unit.

Managing Transformation at National Computer Operations

Gar Finnvold knew his organization needed to change, to transform itself over the next two years.[43] His 1,000 employees had enjoyed for their entire careers what amounted to monopoly status. They had been the exclusive provider of computer support services to the immense, global enterprises of the U.K.-based National Banking Group. All that was about to change. National Bank's newly appointed chairman had decreed that, starting in two years, all bank operations would be free to purchase their computer services from any vendor who could supply excellent value. Finnvold's operation would be competing against the best in Europe. At the same time, Finnvold would be free to market his computer operations on the outside, to build a customer base external to the bank.

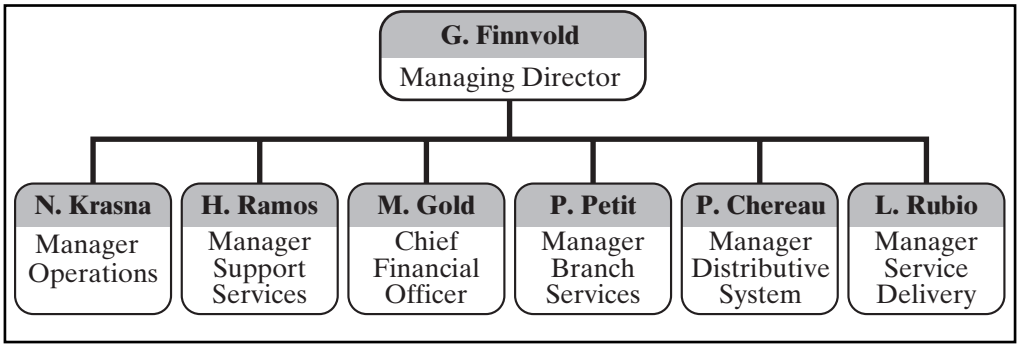
Finnvold's excitement at the challenge of transforming his National Computer Operations (NCO) into a truly world-class competitor was matched by his anxiety (see Exhibit 3-7 for a partial organization chart). As the longtime manager of computer operations, he understood only too well that NCO was unprepared to compete, not internally and certainly not externally. Internal bank customers had complained for years of the high-cost/low-responsiveness culture of the NCO. Buffered by their monopoly status, NCO's computer technicians didn't worry much about whether the customer perceived them as providing value. We understand better than the customer both what that customer needs and how much they should be willing to pay for it. We'll define value.

In two years, Finnvold knew that equation would be reversed. Given a free market choice to seek the best provider of computer services, would they reup with NCO? Not likely, he thought.

At least inside the bank, NCO enjoyed a substantial cost advantage over potential external interlopers. National tax laws exempted bank operations from having to pay a nearly 20 percent tax on internally provided services. That tax advantage evaporated when NCO left the safety of the bank to hunt external customers.

What's more, no one at any level in NCO possessed real general management experience. No one, Finnvold included, had ever run a freestanding

EXHIBIT 3-7 Partial Organization Chart—National Computer Operations



commercial enterprise with all that implied: managing costs, customers, and operations within a fiercely competitive environment. Was two years even close to enough time to undergo the radical transformation required to make such a venture successful?

NCO OPERATIONS

Listen to how Peter Kapok, a longtime NCO manager, described what his organization was like in the 1980s: "We weren't client oriented. We very much told our clients what they could and couldn't have. We came to work for ourselves and did pretty much what we wanted. We simply didn't consider ourselves working for a client." The notion that customers might define the ultimate value of their services was alien to NCO.

Henri Vieuxtemps, who entered the computer operations in 1988, recalled his amazement at how little the operation resembled a true business. "What surprised me," he said, "was that money was no object. Service was not a major consideration." What might be called the arrogance of technology permeated NCO's approach to the business. "We spent money on technology that really didn't matter," continues Vieuxtemps, "not to the customer anyway. It was just something that appealed to *us*. In fact, we didn't think of internal clients as customers at all. They were just other departments in the bank."

Vieuxtemps may have believed that the culture of NCO was fundamentally flawed, but to many of his fellow managers, things were going quite nicely. National Bank, after all, had eliminated the need for NCO to respond to market forces. Think of the situation in which NCO found itself: Guaranteed customers who would always cover the costs that the computer operation passed along, assured profitability.

It's little wonder that for most of NCO's managers, effectiveness was not measured by organizational performance or client satisfaction. Their focus turned inward instead. *How can* I *build up* my *functional domain? Enhance* my *personal career*?

"We were an organization of little empire builders," Kapok observed. "The more people you had working for you, the more likely you were to get promoted. There were few performance measures, and almost no coordination of our efforts." The functional silos of the organization were so powerful, said Kapok, that NCO's own staff "didn't quite consider ourselves working for the same operation. If someone from one unit went to someone from another to ask for help, they were considered a nuisance. We certainly never considered the impact of any of this on our costs."

NCO's high spending, customer-what customer? attitude could only lead to resentment on the part of client operations within the bank. That resentment finally boiled over into open rebellion. The bank's new chairman hired a consulting firm to evaluate internal computer operations. The findings were as disturbing as they were predictable. "They confirmed our worst fears," recalled an NCO manager. "We were moribund."

Until the consulting report provided irrefutable evidence to the contrary, computer operations managers felt they did an excellent job of providing these services to the bank. "If you had asked us how we were doing," admited Gar Finnvold, "we would have said, 'We meet our customer service levels most of the time. We are improving our unit costs year-on-year. And *of course* we're adding value.'" It was only later that Finnvold came to recognize that customers held a view of NCO's effectiveness that stood in diametric opposition to the opinion of NCO's managers. "Our customers were saying, 'You're too expensive. Your damn system is always breaking down. And *what* added value?'"

At the time of the consulting report, computer operations were billing approximately $240[†] million annually (within an overall annual information technology expenditure of $1.5 billion), almost entirely to internal bank customers. Although NCO offered myriad services, including processing, project management, and technical support and consultancy, they pointed with pride to two distinct competencies. The first was facilities management. "NCO can take the responsibility for all or part of a company's Information Technology requirement," announced their official literature, "which can include every aspect from providing the workforce and premises to the systems and services." The second vital core competency was disaster recovery. "NCO provides planning and backup facilities for unforeseen crises or disasters such as fire and flood. Planning and backup facilities can be provided either separately or together and can be offered in either a 'hot start' or 'cold start' environment."

[†]Figures given in equivalent U.S. dollars.

THE CHALLENGE

The bank's new chairman quickly recognized that NCO customers and managers held completely different views of value. He knew that his first task was to force NCO managers to adopt the customer perspective. The way to do that, he reasoned, was to inject market forces into NCO's protected, monopoly-like world.

Using the consulting report as a driver, he first designated NCO as a profit center. He made clear that NCO would be expected to pare costs severely. Within a year, NCO dramatically downsized its workforce from 1,500 to 1,000. The chairman then called on Gar Finnvold to oversee more sweeping change, change that would be governed by two new ground rules:

1. NCO could actively and aggressively market its services to external customers.
2. In two years, all of the bank's internal units would be allowed to purchase computer services from outside vendors.

NCO, in other words, would have to become fully competitive in order to survive.

Finnvold said he welcomed the challenge, particularly the notion of becoming a true market competitor. "I had this gut feel that we should try to sell external from day one," he said. "If we didn't, we'd never learn the lesson of what being commercial is all about. It was the way out of our cocooned environment." He believed that there were external customers waiting to snatch up NCO's services. The facilities management business was expected to grow 50 percent annually worldwide. NCO planned on being part of that growth. "We thought we really had things to sell and that we were the best," said Finnvold. ■

Endnotes

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