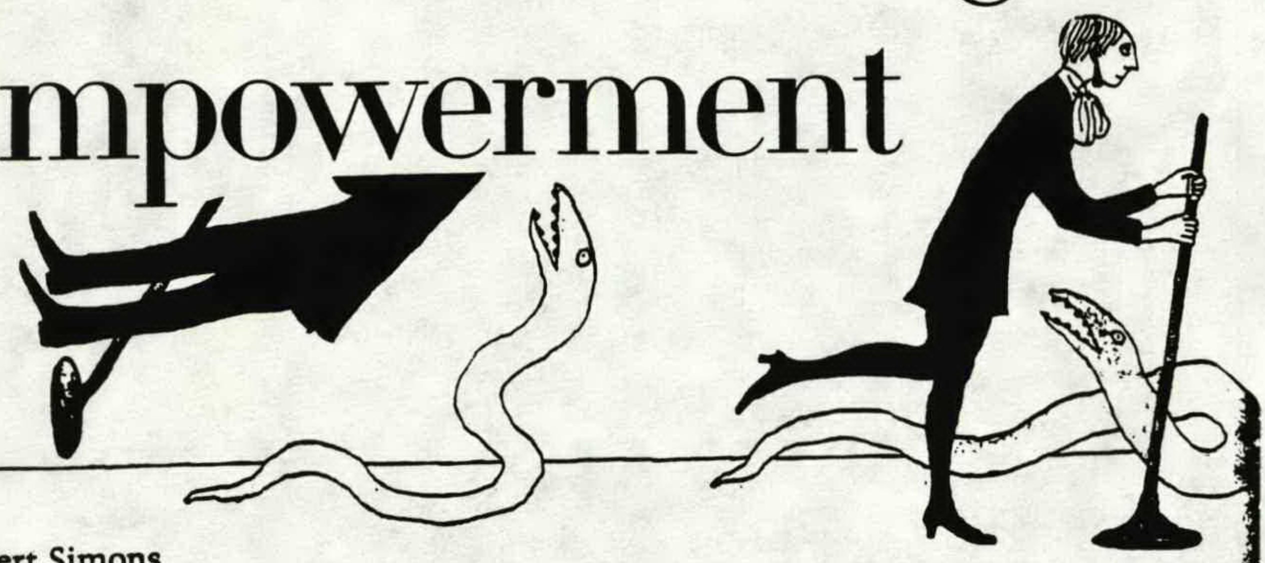
How can managers promote innovation while avoiding unwelcome surprises?

Control in an Age of Empowerment



by Robert Simons

A fundamental problem facing managers in the 1990s is how to exercise adequate control in organizations that demand flexibility, innovation, and creativity. Competitive businesses with demanding and informed customers must rely on employee initiative to seek out opportunities and respond to customers' needs. But pursuing some opportunities can expose businesses to excessive risk or invite behaviors that can damage a company's integrity.

Consider the spate of management control failures that have made headlines in the past several years: Kidder, Peabody & Company lost $350 million when a trader allegedly booked fictitious profits; Sears, Roebuck and Company took a $60 million charge against earnings after admitting that it recommended unnecessary repairs to customers in its automobile service business; Standard Chartered Bank was banned from trading on the Hong Kong stock market after being implicated in an improper share support scheme. The list goes on. In each case, employees broke through existing control mechanisms and jeopardized the franchise of the business. The cost to the companies – in damaged reputations, fines, business losses, missed opportunities, and diversion of management attention to deal with the crises – was enormous.

How do senior managers protect their companies from control failures when empowered employees are encouraged to redefine how they go about doing their jobs? How do managers ensure that subordinates with an entrepreneurial flair do not put the well-being of the business at risk? One solution is to go back to the fundamentals of control developed in the 1950s and 1960s for machinelike bureaucracies. In that era, managers exercised control by telling people how to do their jobs and monitoring them with constant surveillance to guard against surprises. Although this approach sounds anachronistic for modern businesses, it is still effective when standardization is critical for efficiency and yield, such as on an assembly line; when the risk of theft of valuable assets is high, such as in a casino; or when quality and safety are essential to product performance, such as at a nuclear power plant.

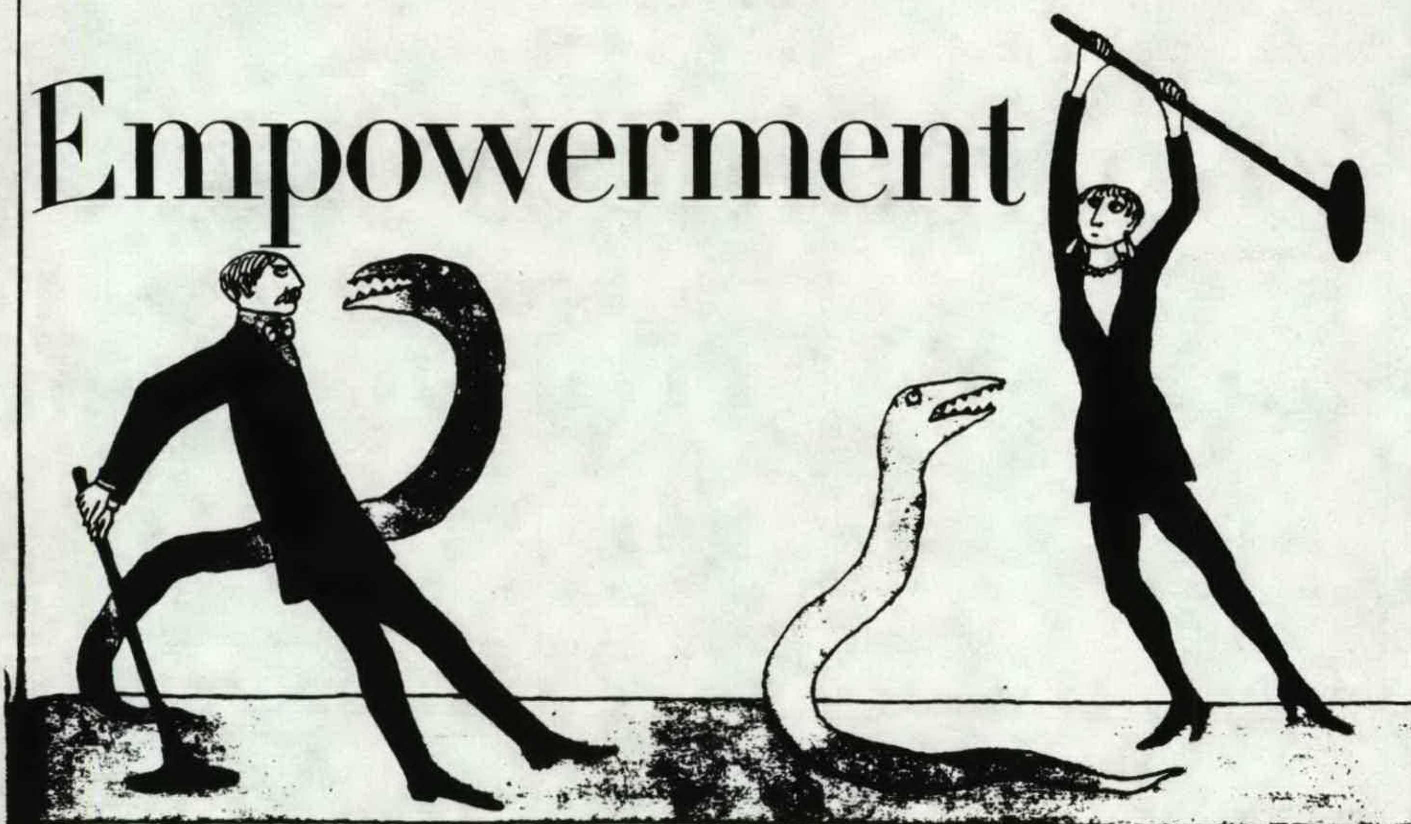
However, in most organizations operating in dynamic and highly competitive markets, managers cannot spend all their time and effort making sure that everyone is doing what is expected. Nor is it realistic to think that managers can achieve control by simply hiring good people, aligning incentives, and hoping for the best. Instead, today's managers must encourage employees to initiate process improvements and new ways of responding to customers' needs – but in a controlled way.

Fortunately, the tools to reconcile the conflict between creativity and control are at hand. Most

177

DRAWINGS BY EDWARD GOREY

Empowerment



managers tend to define control narrowly – as measuring progress against plans to guarantee the predictable achievement of goals. Such diagnostic control systems are, however, only one ingredient of control. Three other levers are equally important in today's business environment: beliefs systems, boundary systems, and interactive control systems.

Each of the four control levers has a distinct purpose for managers attempting to harness the creativity of employees. Diagnostic control systems allow managers to ensure that important goals are being achieved efficiently and effectively. Beliefs systems empower individuals and encourage them to search for new opportunities. They communicate core values and inspire all participants to commit to the organization's purpose. Boundary systems establish the rules of the game and identify actions and pitfalls that employees must avoid. Interactive control systems enable top-level managers to focus on strategic uncertainties, to learn about threats and opportunities as competitive conditions change, and to respond proactively.

Diagnostic Control Systems

Diagnostic control systems work like the dials on the control panel of an airplane cockpit, enabling the pilot to scan for signs of abnormal functioning and to keep critical performance variables within preset limits. Most businesses have come to rely on diagnostic control systems to help managers track the progress of individuals, departments, or production facilities toward strategically important goals. Managers use these systems to monitor goals and profitability, and to measure progress toward targets such as revenue growth and market share. Periodically, managers measure the outputs and compare them with preset standards of performance. Feedback allows management to adjust and fine-tune inputs and processes so that future outputs will more closely match goals.

But diagnostic control systems are not adequate to ensure effective control. In fact, they create pressures that can lead to control failures – even crises. Whether managers realize it or not, there are built-in dangers when empowered employees are held accountable for performance goals – especially for difficult ones – and then left to their own devices to achieve them. For example, Nordstrom, the upscale fashion retailer known for extraordinary customer

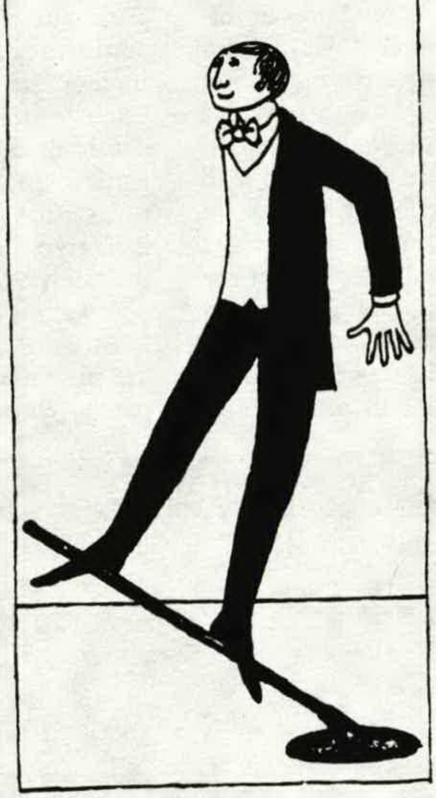
Robert Simons is the Charles M. Williams Professor of Business Administration at Harvard Business School in Boston, Massachusetts. His book Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal *was published in December 1994 by the Harvard Business School Press.*

service, recently found itself embroiled in a series of lawsuits and investigative reports related to its sales-per-hour performance-measurement system. Used to track the performance of its entrepreneurial salespeople, the system was designed to support the service orientation for which Nordstrom is famous. But without counterbalancing controls, the system created the potential for both exemplary customer service and abuse. Some employees claimed that first-line supervisors were pressuring them to underreport hours on the job in an attempt to boost sales per hour. Settling those claims cost Nordstrom more than $15 million.

I recently conducted a study of ten newly appointed chief executive officers to understand better how they used measurement and control systems to implement their agendas. Within the first months of taking charge, many of the new CEOs established demanding performance goals for division managers and increased the rewards and punishments associated with success and failure in achieving those goals. In response to the pressures, several division managers manipulated financial data by creating false accounting entries to enhance their reported performance. The managers were fired, but not before they had inflicted damage on their organizations. In one memorable case, a retail company had been making inventory and markdown decisions based on the falsified data, a practice that resulted in significant losses. These are not isolated incidents. The Big Six accounting firms have observed a substantial increase in errors and fraud over the past five years as organizations downsize and reduce the resources devoted to internal controls. With the elimination of many middle management jobs, basic internal controls, such as segregation of duties and independent oversight, have often been sacrificed.

One of the main purposes of diagnostic measurement systems is to eliminate the manager's burden of constant monitoring. Once goals are established and people have performance targets on which their rewards will be based, many managers believe they can move on to other issues, knowing that employees will be working diligently to meet the agreed-upon goals. Yet the potential for control failures as the performance bar is raised and employees' rewards are put at risk underscores the need for managers to think about the three other essential levers of control.

Each of the four control levers has a purpose for managers attempting to balance creativity and control.



Beliefs Systems

Companies have used beliefs systems for years in an effort to articulate the values and direction that senior managers want their employees to embrace. Typically, beliefs systems are concise, value-laden, and inspirational. They draw employees' attention to key tenets of the business: how the organization creates value ("Best Customer Service in the World"); the level of performance the organization strives for ("Pursuit of Excellence"); and how individuals are expected to manage both internal and external relationships ("Respect for the Individual").

Senior managers intentionally design beliefs systems to be broad enough to appeal to many different groups within an organization: salespeople, managers, production workers, and clerical personnel. Because they are broad, beliefs statements are often ridiculed for lacking substance. But this criticism overlooks the principal purpose of the statements: to inspire and promote commitment to an organization's core values. Still, the statements achieve their ends only if employees believe, by watching the actions of senior managers, that the company's stated beliefs represent deeply rooted values. If employees suspect that managers are going through the motions of the latest fad, cynicism will set in.

Indeed, some managers adopt missions and credos not out of any real commitment but because they seem fashionable. However, managers who use their missions as living documents – as part of a system to guide patterns of acceptable behavior – have discovered a powerful lever of control. At Johnson & Johnson, for example, senior managers

179

meet regularly with subordinates throughout the company to review and reaffirm the beliefs recorded in J&J's long-standing credo, which articulates clearly and passionately the company's responsibilities to customers, employees, local communities, and stockholders. Managers throughout the organization recognize the value that senior managers place on the exercise and respond accordingly. When problems arise, such as when J&J faced the Tylenol crisis, the strong beliefs system embedded in its credo provided guidance regarding the types of solutions to search for.

In the past, a company's mission was usually understood without reference to core values or formal beliefs; employees knew that they worked for a bank or a telephone company or a company that made shock absorbers. However, businesses have become much more complex in recent years, making it more difficult for individuals to comprehend organizational purpose and direction. Moreover, in many businesses, downsizing and realignment have shattered strongly held assumptions about the values and foundations of businesses and their top-level managers. Employees no longer know whom to trust. At the same time, their expectations for meaningful careers have risen as education levels have increased. Without a formal beliefs system, employees in large, decentralized organizations often do not have a clear and consistent understanding of the core values of the business and their place within the business. In the absence of clearly articulated core values, they are often forced to make assumptions about what constitutes acceptable behavior in the many different, unpredictable circumstances they encounter.

Beliefs systems can also inspire employees to create new opportunities: they can motivate individuals to search for new ways of creating value. We all have a deep-seated need to contribute – to devote time and energy to worthwhile endeavors. But companies often make it difficult for employees to understand the larger purpose of their efforts or to see how they can add value in a way that can make a difference. Individuals want to understand the organization's purpose and how they can contribute, but senior managers must unleash this potential. Effective managers seek to inspire people throughout their organizations by actively communicating core values and missions. As top-level managers rely increasingly on empowered employees to generate new ideas and competitive advantage, participants from all parts of an organization need to

Harness Employees' Creativity with the Four Levers of Control

Potential	Organizational Blocks	Managerial Solution	Control Lever
To contribute	Uncertainty about purpose	Communicate core values and mission	Beliefs systems
To do right	Pressure or temptation	Specify and enforce rules of the game	Boundary systems
To achieve	Lack of focus [illegible] resource[illegible]	Build and suppo[illegible] clear targets	Diagnostic control systems
[illegible]	[illegible]	[illegible] organization[illegible] [illegible]	[illegible]eractive control systems

180

understand as clearly as possible their company's purposes and mission.

Beliefs systems can augment diagnostic control systems to give today's managers greater amounts of control. But they are only part of the answer. Think of them as the yang of Chinese philosophy – the sun, the warmth, and the light. Opposing them are dark, cold boundaries – the yin – which represent the next lever of control.

Boundary Systems

Boundary systems are based on a simple, yet profound, management principle that can be called the "power of negative thinking."[1] Ask yourself the question, If I want my employees to be creative and entrepreneurial, am I better off telling them what to do or telling them what *not* to do? The answer is the latter. Telling people what to do by establishing standard operating procedures and rule books discourages the initiative and creativity unleashed by empowered, entrepreneurial employees. Telling them what *not* to do allows innovation, but within clearly defined limits.

Unlike diagnostic control systems (which monitor critical performance outcomes) or beliefs systems (which communicate core values), boundary systems are stated in negative terms or as minimum standards. The boundaries in modern organizations, embedded in standards of ethical behavior and codes of conduct, are invariably written in terms of activities that are off-limits. They are an organization's brakes. Every business needs them, and, like racing cars, the fastest and most performance-oriented companies need the best brakes.

Human beings are inventive, and, when presented with new opportunities or challenging situations, they often search for ways to create value or overcome obstacles. But empowerment – fueled by inspiration and performance rewards – should never be interpreted as giving subordinates a blank check to do whatever they please. People generally want to do the right thing – to act ethically in accordance with established moral codes. But pressures to achieve superior results sometimes collide with stricter codes of behavior. Because of temptation or pressure in the workplace, individuals sometimes choose to bend the rules. As the recent problems at Kidder, Peabody and Salomon Brothers show, entrepreneurial individuals sometimes blur or misinterpret the line between acceptable and unacceptable behavior. At Salomon Brothers, a creative trader attempting to increase investment returns violated U.S. Treasury bidding rules and short-circuited existing controls; the aftermath of the scandal destroyed careers and impaired Salomon's franchise. Similar problems at Kidder, Peabody involving fictitious securities trades resulted in massive losses and ultimately led to the sale of the business. Clearly, the consequences of a misstep can be severe.

Beliefs systems can be thought of as the yang to the yin of boundary systems.

181

Boundary systems are especially critical in those businesses in which a reputation built on trust is a key competitive asset. A well-respected bank with a global franchise states as a part of its business principles that its three main assets are people, capital, and reputation. Of all these, it notes, the last is the most difficult to regain if impaired. To guard against damage to its reputation, the bank's code of conduct forbids individuals both from developing client relationships in "undesirable" industries, such as gambling casinos, and from acting as intermediaries in unfriendly takeovers, which senior managers believe could undermine the perceived trustworthiness of the company.

Large consulting firms like McKinsey & Company and the Boston Consulting Group routinely work with clients to analyze highly proprietary strategic data. To ensure that their reputations for integrity are never compromised, the firms enforce strict boundaries that forbid consultants to reveal information – even the names of clients – to anyone not employed by the firm, including

1. My colleague, Professor Charles Christenson, coined this term in a 1972 Harvard Business School working paper.

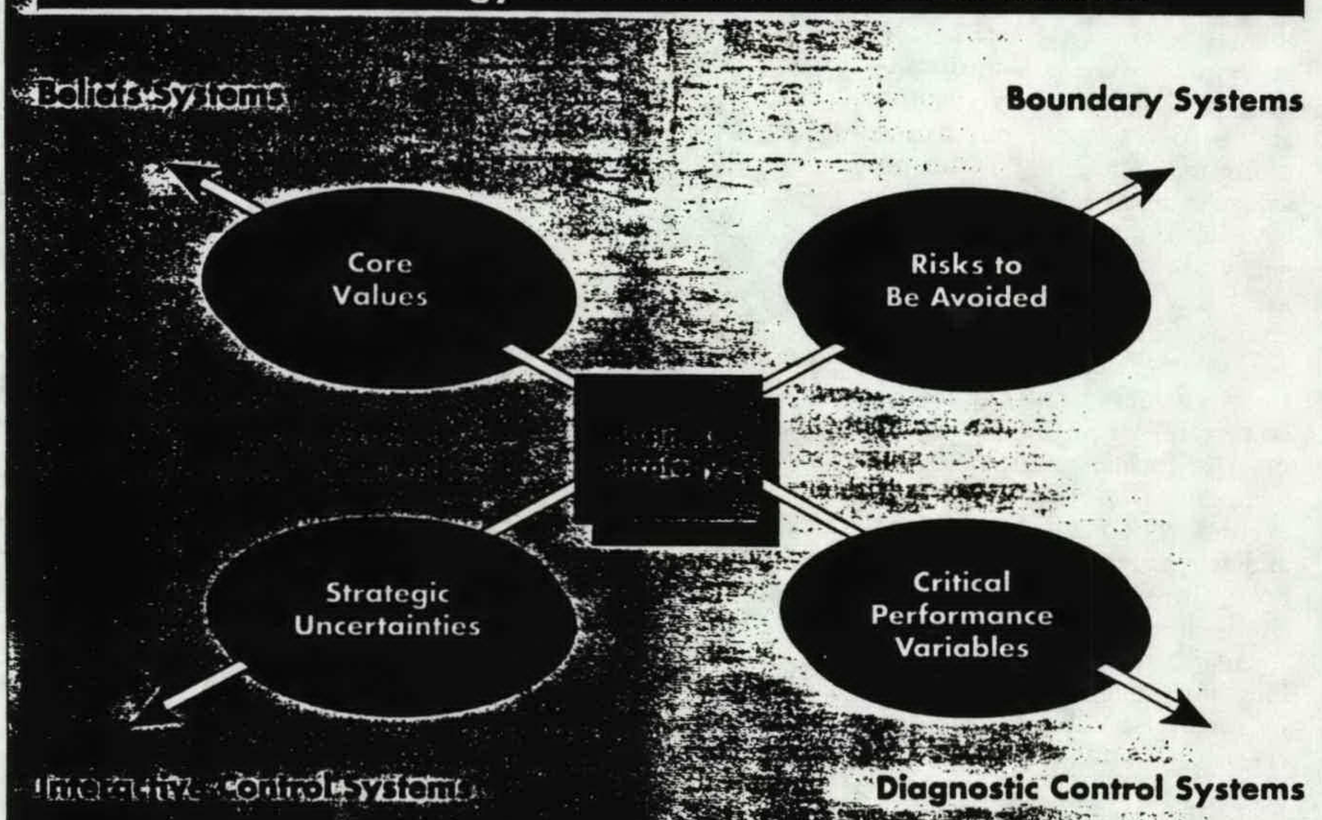
spouses. They also clearly state in their codes of professional conduct that individuals must not misrepresent themselves when attempting to gather competitive information on behalf of clients.

Unfortunately, the benefits of establishing business conduct boundaries are not always apparent to senior managers. Too often, they learn the hard way. Many codes of conduct are instituted only after a public scandal or an internal investigation of questionable behavior. Over the years, General Electric has instituted codes of business conduct that prohibit activities relating to improper payments, price fixing, and improper cost allocation on government contracts. Each of those codes was instituted after a major crisis impaired the integrity of the business. For instance, when GE was forced to suspend its $4.5 billion business as supplier to the U.S. government in 1985, CEO Jack Welch responded by strengthening internal controls and issuing a clear policy statement that forbade the behaviors that had landed GE in trouble: improper cost allocations on government contracts. Similarly, senior managers at Wall Street investment firms did not pay much attention to business conduct boundary systems until the disclosure of improper behavior by a small number of employees at Salomon Brothers nearly destroyed the business. Again, senior managers at investment firms across the country scrambled to install compliance systems to avoid a similar crisis in their own firms.

Boundary systems are an organization's brakes. And, like racing cars, the fastest companies need the best brakes.

Effective managers anticipate the inevitable temptations and pressures that exist within their organizations. They spell out the rules of the game based on the risks inherent in their strategy and enforce them clearly and unambiguously. Some behaviors are never tolerated: the firing of the manager who inflated his or her expense report by $50 is a familiar story in many organizations. On the sur-

Renew Strategy with the Four Levers of Control



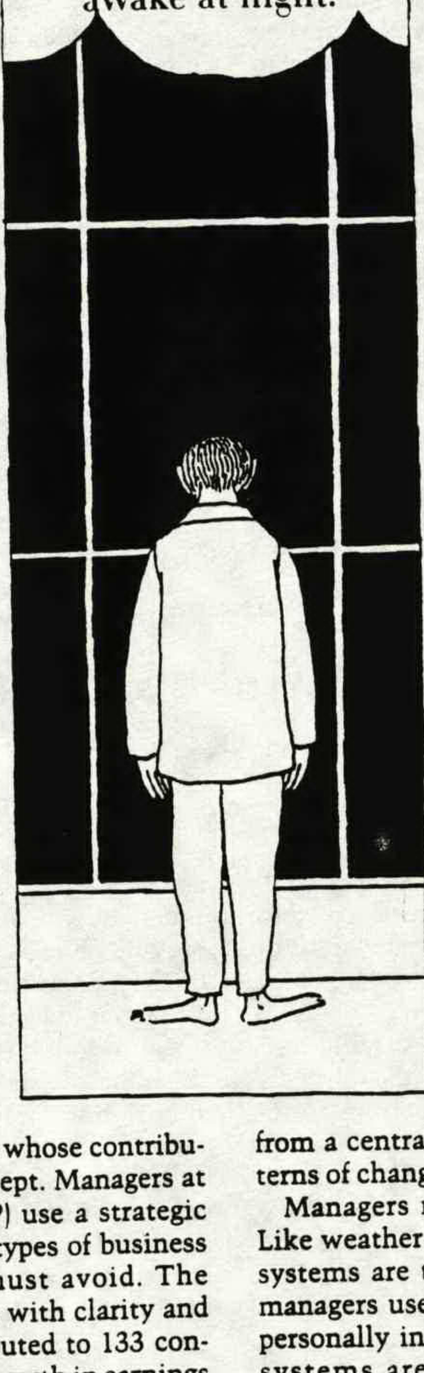
182

face, the punishment may seem too harsh for the crime, but the purpose of such punishment is to signal clearly to all managers and employees that the consequences of stepping over ethical boundaries are severe and nonnegotiable. As performance-oriented organizations grow and become more decentralized, the risks of failure increase. Managers must rely more and more on formal systems in order to ensure that the boundaries are communicated and understood.

Not all boundaries concern standards of ethical conduct. Strategic boundaries focus on ensuring that people steer clear of opportunities that could diminish the business's competitive position. A large computer company, for example, uses its strategic planning process to segregate its product and market opportunities into what managers call *green space* and *red space.* Green space is the acceptable domain for new initiatives. Red space represents products and markets in which senior managers have decided they do not want to pursue new opportunities, although the organization could compete in those products and markets given its competencies. A British relief organization uses a similar system to monitor strategic boundaries; it maintains a *gray list* of companies whose contributions it will neither solicit nor accept. Managers at Automatic Data Processing (ADP) use a strategic boundary list that delineates the types of business opportunities that managers must avoid. The guidelines provide ADP managers with clarity and focus. This technique has contributed to 133 consecutive quarters of double-digit growth in earnings per share–a record unmatched by any other company traded on the New York Stock Exchange.

Working together, boundary systems and beliefs systems are the yin and yang that together create a dynamic tension. The warm, positive, inspirational beliefs are a foil to the dark, cold constraints. The result is a dynamic tension between commitment and punishment. Together, these systems transform limitless opportunity into a focused domain that employees and managers are encouraged to exploit actively. In combination, they establish direction, motivate and inspire, and protect against potentially damaging opportunistic behavior.

Interactive control systems track the uncertainties that keep senior managers awake at night.



Interactive Control Systems

When organizations are small, key managers and employees can sit around the same table and informally explore the impact of emerging threats and opportunities. But as organizations grow larger and senior managers have less and less personal contact with people throughout the organization, new formal systems must be created to share emerging information and to harness the creativity that often leads to new products, line extensions, processes, and even markets. Unfortunately, diagnostic control systems, which highlight shortfalls against plans, won't suffice. Instead, senior managers need sensing systems more like the ones used by the National Weather Service. Ground stations all over the country monitor temperature, barometric pressure, relative humidity, cloud cover, wind direction and velocity, and precipitation. Balloons and satellites provide additional data. These data are monitored continuously from a central location in an effort to identify patterns of change.

Managers need similar scanning mechanisms. Like weather-tracking systems, interactive control systems are the formal information systems that managers use to involve themselves regularly and personally in the decisions of subordinates. These systems are generally simple to understand. Through them, senior managers participate in the decisions of subordinates and focus organizational attention and learning on key strategic issues.

Making a control system interactive invariably demands attention from participants throughout the business. At Pepsico, for example, the weekly release of new Nielsen market-share numbers creates a flurry of activity as 60 or 70 people throughout the organization begin working on the data in

183

anticipation of the inevitable scrutiny and queries of senior management. Senior managers schedule weekly meetings to discuss the new Nielsen information, to challenge subordinates to explain the meaning of changed circumstances, and to review action plans that subordinates have developed to react to problems and opportunities.

Interactive control systems have four characteristics that set them apart from diagnostic control systems. First, they focus on constantly changing information that top-level managers have identified as potentially strategic. Second, the information is significant enough to demand frequent and regular attention from operating managers at all levels of the organization. Third, the data generated by the interactive system are best interpreted and discussed in face-to-face meetings of superiors, subordinates, and peers. Fourth, the interactive control system is a catalyst for an ongoing debate about underlying data, assumptions, and action plans.

Interactive control systems track the strategic uncertainties that keep senior managers awake at night – the shocks to the business that could undermine their assumptions about the future and the way they have chosen to compete. Depending on the business, these uncertainties might relate to changes in technology, customers' tastes, government regulation, and industry competition. Because interactive control systems are designed to gather information that might challenge visions of the future, they are, by definition, hot buttons for senior managers.

A senior manager's decision to use a specific control system interactively – in other words, to invest time and attention in face-to-face meetings to review new information – sends a clear signal to the organization about what's important. Through the dialogue and debate that surround the interactive process, new strategies often emerge. Consider the case of a well-known hospital supply company. The company is a low-cost producer, supplying disposable hospital products for intravenous drug delivery such as plasma containers, tubing, and syringes. Even though efficiency, quality, and cost control are important competencies, these concerns do not keep managers awake at night. (They are well understood and can be managed effectively with diagnostic control systems.) Instead, senior managers worry that technological breakthroughs will undermine their ability to deliver products valued by the market. Accordingly, they use a project management system interactively to focus organizational attention on a dozen or so emerging technological issues. Senior managers meet monthly for several days to debate the impact of technologies – introduced by competitors or in related industries, or developed in-house – on their business. These meetings become intense as the managers challenge one another to assess the impact of new information and develop responses. From this dialogue, new strategies emerge.

Senior managers at *USA Today*, Gannett Company's daily newspaper, use a similar process to review information contained in a simple package of reports delivered each Friday. Three weekly reports give senior managers a picture of how they have done in the previous week and what conditions lie ahead for the upcoming few weeks. The data in the Friday packet range from year-to-date figures to daily and account-specific information. These data provide insight into changing industry conditions and the advertising strategies of key customers. They allow managers to look at the big picture and provide enough detail to identify specific vulnerabilities, opportunities, and the source of any problems that require proactive responses.

Interactive control systems focus on constantly changing information that senior managers consider potentially strategic.

Each week, senior managers at *USA Today* schedule intensive face-to-face meetings with key subordinates to analyze and interpret the report data. Among the regular topics of discussion and debate are advertising volume against plan, committed future volume by issue, and new business by type of client. In addition to looking for unexpected shortfalls, managers also look for unexpected successes. From these meetings, significant innovations have been proposed to deal with unanticipated downturns and to capitalize on unanticipated opportunities. Innovations have included launching a new market-survey service for automotive clients, introducing fractional-page color advertising, selling exclusive inserts dedicated to specific customers and products, and using circulation salespeople to sell ad space in regional locations.

Of course, managers in other businesses choose different kinds of control systems to use interactively depending on the strategic uncertainties as-

134

sociated with their business strategies. For example, Johnson & Johnson uses its profit-planning system interactively to focus attention on the development and protection of innovative products in its various markets. Managers periodically reestimate the predicted effects of competitive tactics and new product rollouts on their profit plans for the current and the following year. The recurring questions posed by managers are: What has changed since our last forecast? Why? What are we going to do about it? The results are new ideas and action plans.

Balancing Empowerment and Control

Effective managers empower their organizations because they believe in the innate potential of people to innovate and add value. For instance, the reason Nordstrom salespeople provide exceptional customer service is that they are selected and trained to act entrepreneurially. In turn, they have the freedom and motivation to tailor their service to each customer's needs. To unleash this type of potential, senior managers must give up control over many kinds of decisions and allow employees at lower levels of the organization to act independently. Good managers work constantly to help employees rise to their potential. In small organizations, managers do this informally. While eating or traveling together, they communicate core values and missions, the rules of the game, and current targets – and they learn about significant changes. As companies become larger, more decentralized, and geographically dispersed, senior managers are no longer in constant contact with all the employees who will identify and respond to emerging problems and opportunities. Nonetheless, the guiding principles of communication and control are every bit as important.

A large international construction company respected for its quality and customer service provides a clear illustration of how the control levers support one another. The company has more than 25 offices in the United States and abroad; as a result, project managers and employees make multimillion-dollar decisions far from the company's top-level managers. The senior managers who set the company's overall direction and strategy ensure that they have adequate control of their far-flung operations by using all four levers of control.

To communicate core values, they rely on a beliefs system. The company's widely circulated credo refers to the importance of responsibility, of collective pride in engineering quality, of financial success, and of integrity. It concludes with an overall objective handed down by the founder: "To be the best."

These inspirational beliefs are offset by clear boundaries. Managers are forbidden, for example, to work in certain countries where facilitating payments and bribes are required to do business, because these sorts of actions jeopardize the company's belief in integrity. The company also maintains a *turkey list* to communicate to managers the types of projects that the company has learned are not profitable and should be avoided. (For example, senior managers have learned from bitter experience to steer clear of sewage-disposal-plant construction.) The list is adjusted from time to time as managers learn where their competencies lie and where they don't.

Managers gain still more control by using a variety of diagnostic controls – among them profit plans, budgets, and goals and objectives. These control systems do not require very much attention from senior management other than the time spent setting annual goals and monitoring exceptions to see that events unfold according to plan. One control system, however, is used interactively. The project management system focuses attention on the strategic uncertainties that managers want everyone to monitor: the company's reputation in the trade, the shifting perceptions of customers, and the ideal skill mix required in various project teams. The new data are used as a catalyst to force regular face-to-face discussions in which managers share information and attempt to develop better ways to customize their services and adjust their strategies in a changing market.

Collectively, these four levers of control set in motion powerful forces that reinforce one another. As organizations become more complex, managers will inevitably deal with increasing opportunity and competitive forces and decreasing time and attention. By using the control levers effectively, managers can be confident that the benefits of innovation and creativity are not achieved at the expense of control.

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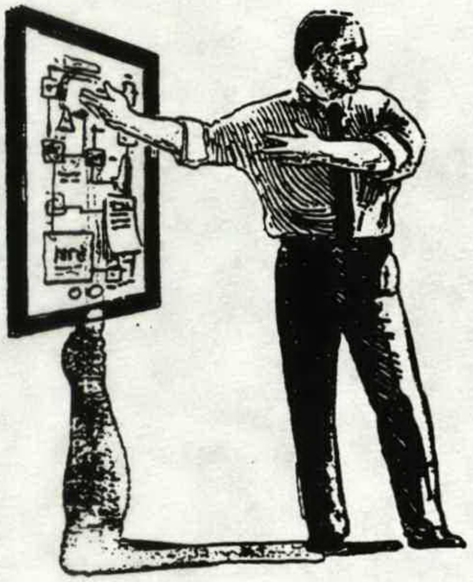
185

CASE STUDY

SportsGear needs change urgently. So why is nothing changing?



The Empowerment Effort That Came Undone

by Lawrence R. Rothstein

George Marlow, a manufacturing vice president at SportsGear, stopped by the buffet table, scooped up his usual breakfast of coffee and a bagel, and headed for a seat. He had been looking forward to this month's companywide meeting. Martin Griffin, SportsGear's CEO, was going to proclaim a new era of empowerment at the company.

A week before, George had attended a meeting of senior management at which Martin had unveiled his ideas about empowerment. A dynamic 44-year-old, Martin was hired to revive the 80-year-old publicly held company. Once a leading manufacturer and retailer of recreational clothing and footwear, SportsGear had a host of problems. Its market share was declining in the face of foreign and domestic competition. New product ideas were scarce. Departments like manufacturing and sales barely spoke to one another. Morale was low, and resumés had been flying out the door.

Martin had acted quickly to jump-start SportsGear by installing improved information technologies and pushing for customer-service excellence. Now, as he paced aggressively in front of the auditorium, Martin boomed out his latest message: "As we face increasing competition, we need new ideas, new energy, new spirit to make this company great. And the source for this change is you" – he paused for dramatic effect – "each one of you."

Martin moved on from passionate generalities to specifics: "Under our new empowerment campaign, you'll be getting more information about how this company is run. You'll work with your fellow employees in new and creative ways. And, perhaps most important, you'll be able to follow your dreams."

Not bad, not bad at all, thought George. SportsGear needed a shot of hope after the past couple of years. What had once been a job that George had found fun and exciting had turned into a grind. George swallowed the last bit of his bagel and leaned forward to catch more of Martin's speech. As he did, he glanced at Harry Lewis, his friend and a SportsGear veteran of more than 20 years. Harry rolled his eyes, dropped his left hand near his coat pocket, and made a subtle little circling motion with his index finger that always meant he believed someone was crazy.

The Meeting at Harry's Office. "I say it's just another pile of corporate crap. One minute they try downsizing. The next minute reengineering. After that, they dabble in restructuring. Now Martin's pushing empowerment. What in the world does *empowerment* mean? If Martin really wants to empower us, he can give us a raise."

Harry was on a roll this morning. Opinionated, proud, fiercely protective of his staff, Harry, a manufacturing engineer, was like an old-fashioned craftsman ready to battle any misguided patron who didn't understand the artistic process. Harry was extremely loyal to the company but

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Lawrence R. Rothstein is an associate editor at HBR.

187

DRAWING BY CHRISTOPHER B[illegible]

CASE STUDY

That Came Undone

potentially a huge obstacle in any empowerment movement.

George tried to find some ground for a counterargument. "Why don't you give empowerment a chance?" he asked. "You know how hard I've tried for the past year to make improvements in manufacturing. We're slow in delivering products to stores and making design changes, but I couldn't get other departments to work with us to solve problems. If we don't turn things around, we all might be out of work. Martin might decide to go offshore or to outsource what we do, like a lot of other companies are doing."

As he thought about George's remarks, Harry puffed on his ever-present cigar, a habit he indulged even though it went against company policies. Then he said, "Yeah, that's a danger, but empowerment isn't going to save one job. All that's going to happen is a whole lot of meetings, a whole lot of money being spent on consultants, and a whole lot of wasted time. Garbage like empowerment isn't a substitute for hard work and a little faith in the people who have been with the company for years. We made it great once, and we can do it again. Just get out of our way."

George knew it was no good arguing with Harry when he was that adamant. Whatever changes Martin was thinking about would have to win over a lot of Harrys – something that George, for one, found difficult to imagine.

The Self-Managed Team. Several weeks later, at a fifth-floor conference room, the manufacturing team's first meeting took place. George and Harry were there, along with representatives from marketing, IT, design, and the retail stores. Susan Starr, a young consultant from Evans Associates, would lead the meeting on implementing the empowerment program. Susan walked over to the overhead projector and began speaking, "Empowerment means many things to many people, but to me..." Using a penlight she underlined each word on the screen: "Empowerment is an act of building, developing, and increasing power through cooperating, sharing, and working together."

Susan then began passing out written material while she continued her lecture. Her voice rose. "As managers, you'll have new roles: coach, facilitator, resource developer. You'll be involved in new relationships: you'll be helping, informing, evaluating, and motivating people." She pointed the penlight back on the overhead underneath the word *trust*. "This is the cornerstone of any relationship. And without trust, no empowerment scheme can work."

Susan continued, explaining that the team's assignment was to improve how retail stores got the merchandise they needed when they needed it. George was delighted – that was precisely the problem he had been working on so unsuccessfully for the past year.

Susan then began to describe how the team would work: "In the self-managed team, you'll be trying on your new roles. The team can structure itself any way it wants; it can

188

use whatever information it needs, and it can draw on any company resources." She added, "You must work together to achieve a consensus. You must believe in the solutions you propose. As we consultants say, 'You must own them.' Once you've determined your solutions, you'll issue a written report, and then you'll give an oral report to the relevant department heads and to Martin Griffin."

George caught Harry's eye. He could almost see the words *corporate crap* floating above the room like one of those balloons in a comic strip. "Harry, give it a chance," George said to himself. "Please just give it a chance."

The Rangers began the project in high spirits, eager to reach its goals.

George, in fact, gave the team every chance he could and wound up loving his assignment as the team leader. He christened the team the Mighty Morphin Power Rangers after his son's favorite superheroes. The Rangers began the project in high spirits, eager to accomplish its goals. The members flourished in the initial phase. The group was a revelation for George. Instead of the usual cross-functional turf fighting, people worked together. Trust blossomed. Team members learned about the business by studying marketing, design, manufacturing, and sales information; visited a number of SportsGear stores; and talked with salespeople and customers.

Most important, they met with Martin to understand better his vision of empowerment. As dynamic as Martin had been in the expanse of an auditorium, he was still more persuasive in the intimacy of his office. He talked passionately about how much he wanted to make SportsGear competitive again. Martin had used and loved the company's products since he was a child. He had even been wearing a SportsGear running suit and shoes when he first met his wife at a health club.

"This was a great company, as you all know," he said, addressing the team. "Empowerment can make us great again because it puts authority and decision making in your hands, where it has to be. The world changes too fast for companies to function any other way."

Martin went on to say that George's team was vital for the success of the change effort. He had chosen manufacturing to be the pilot team because, in most companies, that was the area in which empowerment made the most rapid progress. "What you recommend will set the tone for all the other teams."

Martin's talk inspired the Rangers. Although it was under a strict deadline, the Rangers still managed to complete its report on time, working many nights and spending most of the final weekend camped out at George's house. The members thought their ideas were innovative but easily achievable: permit a manager to follow a product from design through sales to customers, allow salespeople to refund up to $500 worth of merchandise on the spot, make information available to salespeople about future SportsGear products, swap sales and manufacturing personnel for short periods to provide insight into one another's jobs, and establish a hot line so that salespeople could keep manufacturing informed about how SportsGear products were selling.

Hopes were high the Sunday evening the Rangers completed the report. George, in particular, was optimistic. The teamwork of the Rangers reminded him of the camaraderie of his high school basketball team. But Harry remained skeptical. "You never know what's going to happen," he remarked, "until the rubber meets the road."

The Wall of Resistance. Unfortunately, Harry proved to be correct. A week later, George and the other team members presented their oral report. Martin presided over the meeting and was his usual enthusiastic self. He again endorsed the idea of empowerment and said he looked forward to hearing the oral argument of what he considered an interesting proposal. But shortly after George began the presentation, Martin had to excuse himself because of a late-breaking deal with a major department-store chain. Without Martin's presence, the department heads formed a wall of resistance. First, Liz Fernandez of human resources worried that expanding a manager's responsibilities and swapping manufacturing and sales jobs, even for a short time, could destroy the carefully crafted job categories that had just been developed. Jackie Wells of the finance department was concerned that allowing salespeople to make refunds could create a gold mine for unethical customers and salespeople. Jim Vrabel of the legal department claimed that providing information to salespeople about future products could invite industrial spying. Rich Tourangeau of strategic planning declared that salespeople

At the presentation, department heads formed a wall of resistance. The Rangers were stunned by the reaction to the report.

couldn't appreciate how complicated manufacturing was and that a hot line would ring off the hook every five minutes and waste everyone's time. At the end of the meeting, the department heads concluded that they thought the team had made a good start but that more research and analysis were necessary before any action could be considered.

The team members were stunned by the response to their report. They had felt confident in their sound research and thoughtful presentation. But it appeared their efforts had been a waste of time. George thought Harry had called it from the beginning. And, as usual, Harry had the most

continued on page 26

189

fitting remark: "They beat you up with wet noodles," he commented as they walked back to George's office. "Finally you just fall over and say forget it."

George shut the door to his office and mulled over the latest turn of events. He went through his options: Keep his mouth shut, which would perhaps condemn manufacturing to an early death. Take a chance and confront Martin about how sincere he was about making empowerment work. Push slowly for reform, maybe in a few SportsGear stores, and hope for support from the other teams. Or look for another job, leaving a company that he really cared about and had once enjoyed working for.

No easy choices or easy answers. But George knew that whatever he did Harry would be making that circling motion with his index finger.

HBR's cases are derived from the experiences of real companies and real people. As written, they are hypothetical, and the names used are fictitious.

Can Empowerment Work at SportsGear?

Five experts examine the process of empowering employees.

J. RICHARD HACKMAN *is the Cahners-Rabb Professor of Social and Organizational Psychology at Harvard University in Cambridge, Massachusetts.*

Martin Griffin and Susan Starr have their causes mixed up with their hoped-for effects. The aspirations for empowerment that Martin articulated sound great: generating new ideas, new energy, and new spirit; working with colleagues in new and creative ways; following one's dreams at work. The process of achieving empowerment, as Susan told the Rangers, was inspiring because it involves "building, developing, and increasing power through cooperating, sharing, and working together." The cornerstone of such relationships, Susan added, was trust, without which "no empowerment scheme can work."

If an organization aspires to fundamental change, it must change the fundamentals.

But trust isn't something you can mandate, a lever you can simply pull to improve an organization. Trust is an *outcome*, something that develops gradually in organizations that are well designed and well led. To say, "Now you're empowered," or "Now you're a coach," or "Now we must all trust one another" is to say nothing at all.

What was actually done at SportsGear, beyond Martin's speeches and Susan's seminars, was to create problem-solving teams. The Rangers, like many such teams in organizations that have adopted TQM or empowerment programs, is off-line. That is, its purpose is to develop solutions that help *other* people do a better job of carrying out the company's work. For George's team, those other people included department heads, and they weren't having any of it. This is not unusual. Groups in organizations often resist suggestions made by another group about how they should do their work. Such resistance is particularly prevalent when the problem-solving team has been granted status and recognition, elevating it above those employees who continue to toil in the organizational trenches.

Management made several tactical errors in implementing empowerment at SportsGear. Martin should not have left the meeting at which George's team presented its recommendations. He made it easy for the department heads to build their wall of resistance. Susan should have provided managers with real training that included actual practice and feedback in empowering subordinates instead of merely exhorting them to behave differently. And George should have brought the department heads into the loop, soliciting their ideas and reactions, long before the formal presentation.

But the main problem at SportsGear is that the empowerment process is an add-on. The program has not fundamentally changed how the company uses its human resources to conduct its business. If an organization aspires to fundamental change, it must change the fundamentals. To gauge whether or not this is happening, I use a simple four-question checklist: Who decides? Who is responsible? Who learns? Who gains? If a change program alters the answers to those four questions, then it just may make a real difference in how, and how *well*,

190

the organization operates. If it does not, then things are likely to remain about the same after the change program has run its course.

Unfortunately, SportsGear's empowerment program has not generated new answers to the four diagnostic questions. The distribution of decision-making authority has not changed. The design of work and assignment of responsibility for work outcomes have remained unaltered. Except for the handful of managers asked to serve on the problem-solving teams, employees' opportunities for learning and professional growth have not expanded. And there has been no revision of compensation arrangements. Harry Lewis was wrong when he said, "If Martin really wants to empower us, give us a raise." Handing out raises does not empower anybody, but offering members of an organization a piece of financial action can do wonders.

Empowerment programs like SportsGear's are safe in that they do not throw an organization into chaos. But they are unlikely to generate large or enduring improvements. Harry, who has been around the block a few times, saw the pattern: "One minute they try downsizing. The next minute reengineering. After that it was restructuring. Now Martin's pushing empowerment."

Actually, the trail of hope for the management community extends back much farther than that. Remember Theory Y, Theory Z, T-groups, management by objectives, job enrichment, work simplification, employee involvement, or quality circles? All those programs, and more, have had their day. At first, everything looks bright and promising. But evening inevitably comes; the brightness fades; and the wait, which is usually not long, begins for a new dawn to bring yet another program.

The events at SportsGear help us understand the reasons for the seemingly endless cycle of management fads. They remind us that managers, to keep from falling victim to that cycle, must take far more fundamental actions than making speeches, running seminars, and creating off-line problem-solving teams.

ELIOS PASCUAL *is the chairman and CEO of Mack Trucks, Inc., in Allentown, Pennsylvania.*

Martin and George must see the Rangers' proposal for what it is: an opportunity to improve the company's empowerment process and ensure its success.

If Martin truly supports empowerment, he must meet soon with George's team and with his department heads. There, Martin can discuss the Rangers' recommendations, the process that led to those recommendations, and the department heads' reactions. In order to begin to understand some basic lessons, he should allow – even encourage – the team's frustration and the department heads' resistance to surface at this meeting.

Like SportsGear, Mack Trucks faced serious challenges in the late 1980s. We had seen our North American market share fall from more than 20% in the early 1980s to 13% in 1989. Over the same period, employment fell by more than 60%, and in 1989, Mack Trucks suffered the first in a string of nearly five years in the red.

Somewhere along the way, the company had become a segregated, rigid organization that discouraged communication and created the kind of disconnection and frustration that SportsGear seems to be experiencing. We realized that in order to turn things around, we would have to change the corporate environment radically and foster an environment in which employees had the information and the authority they needed to make things happen.

Because empowerment is new at SportsGear, it is critical that all the players understand the rules–and, in an empowered organization, *everyone* is a player. It is not enough for a CEO to understand and be committed to an empowerment process. A CEO must engender understanding and commitment through continuous training and communication across the *entire* organization. The whole organization must understand how the company defines empowerment, how teams function, what their missions are, and how those missions relate to the overall business strategy. Empowerment implies accountability, and team members must accept responsibility for what they do. But first, they must understand the company's expectations. Moreover, because empowerment spreads the responsibility for decision making throughout an organization and across functional disciplines, top-level managers, in particular, must be committed to the company's new values. Regardless of the quality or quantity of training the Rangers receive, the team can't be effective without the support of senior management.

SportsGear must keep in mind that one round of training, however comprehensive, cannot pave the way for a wholehearted embrace of a new corporate culture. At Mack, we are continually trying to create a culture in which corporate spectators – people like Harry who work

Empowerment implies accountability, and team members must accept responsibility for what they do.

191

hard but are disillusioned and don't feel part of a larger team – can become players. A key to achieving this kind of involvement has been maintaining a complete, consistent, and accurate flow of information about our business, from monthly performance indicators to ongoing strategies. We give some of this information to managers at quarterly meetings so that they can share it with their staffs. Still more information is posted monthly on bulletin boards and distributed through corporate newsletters, videos, and letters. If employees are to become stakeholders in the success or failure of a company, communication is absolutely necessary. Without it, misunderstanding, mistrust, and resistance will block the efforts of a team like the Rangers.

The Rangers' problems began with its composition. Key functional areas – for example, human resources, legal, and finance – were not represented. The team should have discussed recommendations that affected individual departments with those departments before finalizing and presenting its report.

Empowerment cannot exist in a vacuum. It requires involvement at every step of the way – from identifying problems to analyzing them to proposing and implementing solutions. While the Rangers correctly focused on SportsGear's *external* customers, it neglected many *internal* customers.

The new era of empowerment can work only with Martin's involvement and unconditional support. No CEO truly committed to empowerment would discourage team leaders from talking about their frustration with the process. Employees, in turn, should not judge corporate commitment to empowerment until they give the company a chance to respond to their frustrations. The fact that everything hasn't worked out initially does not mean that Martin is not sincere or that the organization won't change. But change at SportsGear, like change at any other company, will inevitably encounter temporary setbacks.

Since 1991, Mack Trucks has formed nearly 400 employee teams to study and improve everything from workstation design to order-cycle times. Along the way, we've reduced the number of hours required to build a truck by 37% and slashed in half both our inventories as a percentage of net sales and our break-even sales point. Thanks to the work of the teams, we are on track to gain market share for the second consecutive year and to celebrate our first profitable year since 1988. Results like these have confirmed our faith in teamwork and empowerment.

MARY V. GELINAS AND ROGER G. JAMES *are the principals of Gelinas-James, a consulting firm based in Oakland, California, that specializes in collaborative approaches to organizational redesign.*

Improvement initiatives fail when consultants lead them.

Organizational improvement initiatives, such as the one at SportsGear, succeed only if a CEO and department heads work together to build a strong foundation for change. When they do, company leaders make informed and conscious choices about the purpose, scope, and approach to change, and they take an active role in leading the effort. Improvement initiatives fail when consultants lead them. Under such conditions, senior managers never own the improvement initiative. In other words, they don't have a vested interest in seeing the process succeed. Change ceases to become a priority.

If senior managers don't have a vested interest in seeing empowerment succeed, change will cease to be a priority.

At SportsGear, it was Martin and the department heads' job, not the consultant's, to define what empowerment meant and what was expected of the Rangers. Ironically, Martin disempowered his senior managers by going around them to invest authority, however poorly defined, in the teams. In so doing, Martin signaled that the department heads had nothing of value to add to the Rangers' research process. Not surprisingly, the department heads responded negatively to the team's recommendations. Managers won't empower others if they feel disempowered themselves.

Consider a recent change effort in which we served as consultants to

192

the international division of a global apparel company. The president of the division and his leadership team asked their general managers to gather customer-service data from retailers around the world. The president, his leadership team, and the general managers then used this information to understand the gap between the company's current performance and the retailers' requirements. For example, they discovered that it often took 150 to 200 days to move from developing an apparel idea to delivering it to stores. To remain competitive, retailers thought the time should be cut to 90 days.

Next, the president, the leadership team, and the general managers determined the targets for a change initiative (one of which was dramatically reducing the time required from product conception to delivery). We then spent a number of days with them exploring a variety of change approaches. After these sessions, they defined the limits of their initiative – desired outcomes, boundaries, and guiding principles – and which model of change best fit the division. Finally, they introduced the change effort to all employees. The president sent a videotape throughout the division. Management included the plan in the division newsletter. General and senior managers attended all-day meetings to discuss the plan. Senior managers and employees held meetings in groups of about 100. After that initial explanation, senior managers formed small groups in which they could listen to employees' reactions and solicit their comments about the change initiative. Such meetings continued on a regular basis thereafter. Throughout the initiative, we provided division leaders with guidance, information, and alternative approaches to solving problems. However, the leadership group held itself accountable for managing the change effort from inception through implementation.

Organizational leaders must take responsibility for establishing a solid foundation before introducing any change effort. Creating that foundation includes developing a consensus about the initiative's purpose, scope, and process. They must also stay involved at key decision-making points throughout the change effort, not just when recommendations are being made. Consultants must help their clients understand and carry out their leadership roles. The SportsGear case demonstrates that when the consultant and the leadership team do not do this successfully, everybody loses.

W. ALAN RANDOLPH *is a professor of management and the director of Leadership and International Programs at the University of Baltimore's Merrick School of Business in Maryland. He is coauthor with Ken Blanchard and John Carlos of* Empowerment Takes More Than a Minute *(Del Mar, California: Wharton Publishing, 1994).*

Empowerment is not about increasing the power of employees.

Martin Griffin's empowerment effort got off to a rocky start, but a few important adjustments can put the challenging process of transformation back on course.

First, Martin needs to recognize the enormity of the task in front of him and the company. After many years, managers and employees have to shift from believing in the efficacy of a hierarchical, command-and-control organization to one that is egalitarian, open, and team driven. Because it requires a fundamental cultural transformation, empowerment is a long and difficult journey. Resistance to it is frequent, predictable, and often fierce. Martin must involve himself in the process and provide ongoing direction and encouragement.

Second, Martin and SportsGear's senior managers need to realize that empowerment is not about increasing the power of employees; rather, it is about releasing the knowledge and motivation that employees already have. Harry Lewis, for example, has high standards, passion, and internal motivation: "We made [SportsGear] great once, and we can do it again. Just get out of our way." He could have a significant impact on SportsGear if empowerment works correctly.

How does Martin tap the knowledge and enthusiasm of a Harry Lewis? He needs to do three things:

Sharing Information. Employees need full information about company performance. Without it, they cannot take responsibility for their performance because they do not know the dimensions of the company's problems. For example, employees cannot cut response rates to customer complaints if they do not know how long it currently takes for the company to respond.

Martin should supply his employees with information such as sales figures, percentage of rejects, profits, and product turnover. He should also keep them abreast of sensitive information such as sell-off options and the possibility of downsizing. He should present this information on a frequent basis and in a variety of ways, including companywide meetings, written documents, and E-mail messages. When management provides complete information, trust grows and the empowerment process moves forward.

Developing Self-Managed Teams. The Rangers were far from a self-managed team when it presented its report. Self-managed teams are capable of making and implementing their decisions, and they are held accountable for results. Martin gave the Rangers too much responsibility too quickly and not enough time and direction to develop into a self-man-

193

aged team that could deal effectively with diversity.

Teams pass through several stages before they can manage themselves. A team begins as simply a collection of individuals. It must learn how to work together, make decisions, resolve conflicts, and delegate roles. In the next stage, as team effort starts to pay off, members usually become excited and enthusiastic. But the team's identity remains in an embryonic phase. If the team runs into obstacles, members can quickly become disillusioned. But with proper guidance and support, the team moves on to self-management. At this stage, team members support and encourage one another, believe fully in their recommendations, work together to overcome obstacles, and effectively make decisions and take action.

Creating Autonomy Through Boundaries. Because empowerment involves a radical departure from past behaviors, Martin needs to create *more* structure for the teams and senior management in the early stages of empowerment, not less. As the teams and management evolve, he can grant the teams more freedom and responsibility. Structure enables people to handle the uncertainty they may feel as they try out new behaviors. Martin can create structure by establishing clear boundaries concerning what the teams can and cannot do. For example, Martin should set limits on where a team's responsibilities end and where the department heads' responsibilities begin. At future meetings of the Rangers and the department heads, Martin can reaffirm the boundaries and encourage and support the empowerment process.

Although the Rangers were dismayed and the department heads resistant, empowerment can still develop at SportsGear. Martin needs to learn from – and help *others* learn from – these initial experiences. Sharing information, allowing teams to manage themselves, and creating autonomy through boundaries are the three keys to turning around the empowerment process at SportsGear.

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194