CEO Center for Effective Organizations

A Conditional Theory of CEO Intervention and Strategic Change

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Abstract

Research reveals that new CEOs frequently intervene to attempt major strategic change but, on average, make a minimal impact on the economic performance of their organizations. This paper integrates three domains of literature -- the individual, the organization, and the environment -- and develops a series of matching configurations wherein the interacting conditions influence the initiation, magnitude, and results of the CEO intervention process. Propositions for four related questions are developed: 1) What factors influence whether a CEO will intervene? 2) What alternative intervention approaches are different CEOs likely to use? 3) What factors influence whether a particular CEO's intervention approach will actually produce intended changes in strategy and organization? and 4) What factors influence whether a particular intervention approach will actually lead to improved financial performance?

U.S. companies have long had a consistently high rate of CEO turnover (James and Soref, 1981; Reinganum, 1985) and, recently, an increasing reliance on outsider candidates for CEOs (Vancil, 1987). New CEOs in general, and outsider CEOs in particular, frequently intervene to attempt major strategic changes (Grinyer & Spender, 1979; Helmich & Brown, 1972; Tushman, Newman & Romanelli, 1986; Beatty and Zajac, 1987). New CEO efforts at strategic change, however, appear on average to make a minimal impact on economic performance (Chung, Rogers, Lubatkin & Owers, 1987), and some studies report a relatively high rate of CEO exit early in their tenure (Fredrickson, Hambrick, and Baumrin, 1988). Fredrickson et al found that almost 50% of departing CEOs in major food processing firms left within the first three years of their tenure.

The appointment of a new CEO, therefore, is merely the start, not the assurance, of a possible strategic change process leading to improved corporate performance. Certain CEOs are more likely to initiate major changes than others (Miller, Kets de Vries and Toulouse, 1982). In addition, Pettigrew (1973; 1985) and others (Johnson, 1988; 1987) confirm that the process of implementing strategic change is, in itself, a source of uncertainty that affects the outcomes of change. Unfortunately, most studies of the effects of CEOs on corporate performance are based on large sample, cross-sectional methodologies using public data that leave unexplored the specific behavioral dynamics of CEO interventions and their outcomes (Ginsberg, 1988; Bowman, 1986; Hambrick, 1986; Aguilar, 1988). We assume that successful change strategies are situation specific, resulting from the combined effect of the CEO's personality, style and the particular organizational and strategic context. Therefore, there should be, at least hypothetically, different CEO interventions for different situations. A few authors (Johnson, 1987; Pettigrew, 1985; Greiner and Bhambri, 1989) present case studies describing the intricate internal dynamics of strategic change in individual settings. Yet the literature provides no differential typology of the relationship between CEO intervention, situational context, and the likelihood of strategic change. Certain existing strategy implementation paradigms, such as the McKinsey 7-S framework, tend to be abstract, insensitive to longitudinal dynamics, and lacking in empirical validity. Other empirically derived frameworks, such as Quinn's theory of logical incrementalism (1980), preclude the possibility of deliberate CEO-led strategic change that is achieved in a consciously planned and rapid sequence of decisionmaking. In contrast, radical change is called for and supported in Tushman & Romanelli's (1985) theory of the need for periodic strategic reorientation; their data from a subsequent study of strategic change revealed changes in selected strategic variables (e.g., top management composition, market strategy, and organization structure) that are correlated with improved corporate performance over a limited timeframe (Tushman, Viraney & Romanelli, 1987). However, Tushman et al's data do not permit a dynamic formulation of how these specific changes occurred, nor do they explain why strategic change was not attempted in companies in performance decline, or were attempted but unrealized. Furthermore, OD theories of intervention have not advanced since the pioneering work of Lewin (1951), who postulated a general theory of three broad stages of unfreezing, changing, and refreezing, and a second theory of force field analysis which hypothesized that organization change can advance only if a balance of unspecified "positive" forces outweighs "negative" forces opposed to change.

What is needed to address these identified problems is a grounded and conditional theory of management intervention that focuses on how strategies are actually changed, on who and what sets the process in motion, and who and what facilitates its successful realization over time. Such a theory should allow for both incremental and radical change, explain why such changes are not initiated even when called for by performance conditions, why strategic changes may be initiated but never realized, and what are the likely consequences of various paths to strategic change for not only corporate performance but the CEO initiators of strategic change. Obviously, this is an ambitious undertaking that is only in its formative stages and to which many scholars will have to contribute. In this paper, we take a first step by presenting a conceptual framework and accompanying set of propositions that hopefully can prove useful in guiding vitally needed long-term research inquiring into CEO intervention and strategic change. Our ultimate objective is to develop empirically derived and differential configurations of the dynamics of CEO intervention and strategic change. We focus here on four related questions:

1. What factors influence whether a CEO will intervene? i.e., the **likelihood** of CEO intervention.

2. What alternative intervention approaches are different CEOs likely to use? i.e., the **type** of CEO intervention.

3. What factors influence whether a particular CEO's intervention approach will actually produce intended changes in strategy, organization, etc? i.e., the probability of **change realization.**

4. What factors influence whether a particular intervention approach will, in fact, lead to improved financial performance? i.e., the adaptation to **environmental contingencies**.

These questions are considered within an overall framework, depicted in Figure 1, that integrates three domains of literature --- the individual, the organization, and the environment --- in terms of their interactive relevance for understanding the unfolding dynamics of CEO intervention. The central premise underlying our propositions is that the CEO's personality, style, and prior company performance largely determine both the CEO's propensity to intervene and his/ her type of intervention; while the match between the CEO's type of intervention and the surrounding organization and environment largely determine success or failure in implementation and performance. For purposes of our research, we define intervention success along two key dimensions; one indicator is internal change realization, which is defined as the attainment of changes planned by the CEO and reflects the match between the CEO's intervention approach and the organizational context. The second indicator is improved corporate financial performance which depends on how well the changes fit external environmental contingencies.

Insert Figure 1 about here

Propensity Toward Intervention

Personality and Career Determinants

What are the factors that make some CEOs more likely to intervene in attempting strategic change? A substantial body of research concludes that certain personality types are likely to exercise more initiative and are more comfortable with change than others. Miller, Kets de Vries & Toulouse (1982) used locus of control (Rotter, 1966) as a key personality dimension in studying CEO behavior and its impact. An "internal" person perceives a greater sense of control over life events whereas an "external" person attributes life events to fate and destiny (Miller et al, 1982). Miller et al's findings indicate that "internal" top executives are more prone to make dramatic changes in their company's product lines. McClelland's (1961) work on goal setting and need for achievement (nAch) also suggests that individuals are driven by different unconscious motives, with high nAch individuals tending to be more entrepreneurial in their behavior (Driver, 1979). Sturdivant, Ginter & Sawyer (1985), building on Wilson's (1973) study of conservatism, distinguished between "conservative" and "liberal" managers. Conservative managers tended to cope with conflict and anxiety arising from multiple stimuli by adhering to simplistic rules of conduct, whereas liberals were more comfortable with variety and various stimuli for change. The fundamental difference between the two managerial categories is that conservative managers appeared to be more resistant to change. In addition, individual differences in career background and work experience are also likely to be reflected in the CEO's propensity towards intervention. A CEO with multiple company and industry job experience has de facto demonstrated a personal proclivity towards change and would seem more likely to make an intervention. Outsider CEOs, in particular, are more likely to intervene (Helmich & Brown, 1972; Grinyer & Spender, 1979; Tushman et al, 1986; Beatty & Zajac, 1987). They do not have a strong stake in the company's existing strategy and are not necessarily committed to maintaining the established power structure. Similarly, a CEO with a prior history of attempting change interventions would seem more likely to intervene in a new situation.

We propose the concept of CEO Action Orientation (AO) as an integrating concept for the previously mentioned literature. The CEO's AO refers to the likelihood of a CEO's strategic change intervention as a function of his/ her personality and career background. A high AO CEO is an outsider CEO who is also a high nAch, internal locus of control, liberal individual with multi-industry and multi-company experience. In comparison, a low AO CEO is an insider CEO who is also a low nAch, external locus of control, conservative individual with single industry and company experience.

> **<u>Proposition 1</u>: CEOs with a high Action Orientation are more likely to make strategic change interventions than CEOs with a low Action Orientation.**

Reinforcing Conditions for CEO Intervention

An urgent, visible stimulus greatly facilitates the introduction of organization change (Cyert & March, 1963; Van de Ven, 1986). An urgent stimulus helps to break down resistance because the cost of not taking action becomes obvious (Dutton & Duncan, 1987), and practically demands that the CEO take action to preserve his/her credibility. Severe performance decline is one such stimulus; a CEO entering a poorly performing organization is likely to feel pressure for initiating immediate change (Gabarro, 1987). If prior performance is good, the likely inference by the CEO is that the current strategy and organization are effective and do not need to change. Singh (1986) found that poorly performing organizations engaged in more risk taking than organizations that were performing well. The impact of pressure on the initiation of change has also been consistently reinforced in the organization development and change literature. Pressure, caused by poor performance or other sources of dissatisfaction, provides a stimulus for "unfreezing" (Greiner, 1967; Beer, 1980). In addition, new CEOs are often expected to fulfil explicit expectations upon adopting their roles. According to Brady & Helmich (1984:30), "predominance of pioneer work in the field of succession suggests that the outside executive successor is typically brought in with a prescribed mandate to change the task, social structure, or performance of the organization." A CEO entering with a change mandate from a higher authority is likely to have his/her performance evaluation and incentive compensation package geared to short-term measures that focus on the extent of change (Greiner and Bhambri, 1989). In addition, the CEO with a prescribed mandate for change does not need to overcome at least one of the usual major hurdles, that of convincing his/ her superiors regarding the need for change and the necessity for additional support and resources. An executive with a strong mandate usually has more latitude for action (Gabarro, 1987).

We propose the concept of Intervention Reinforcing Conditions (IRC) to encompass the various situational factors that enhance or reduce the expectation of CEO intervention for strategic change. A situation with historically poor performance and an explicit mandate for change has high IRC; in comparison, a situation with historically good performance and where the CEO does not have an explicit mandate for change has low IRC.

> **<u>Proposition 2</u>: A CEO is more likely to make a strategic change intervention in situations with high Intervention Reinforcing Conditions than in situations with low Intervention Reinforcing Conditions.**

If high AO CEOs match well with high IRC situations, one is likely to see immediate attempts at strategic change. However, when a high AO CEO enters a low IRC situation, the CEO is likely to experience frustration because the CEO's change agenda may receive lukewarm support from his/ her superiors. The CEO may then try to build support for his/ her change agenda, failing which, the CEO may exit the situation. Similarly, if low AO CEOs match well with low IRC situations, one is likely to see the status quo maintained. However, when a low AO CEO enters a high IRC situation, the CEO's reluctance to initiate change is likely to lead to disappointment on the part of superiors and ultimately to dismissal of the CEO.

Insert Figure 2 about here

This reasoning leads to the following propositions:

> **<u>Proposition 3:</u> A high Action Orientation CEO under high Intervention Reinforcing Conditions is likely to result in immediate intervention for strategic change.**

> **<u>Proposition 4:</u> A high Action Orientation CEO under low Intervention Reinforcing Conditions is likely to result in the CEO seeking a change**

in IRC (e.g., a stronger mandate from higher authority), but in his/her resignation if IRC remains unchanged.

Proposition 5: **A low Action Orientation CEO under high Intervention Reinforcing Conditions is likely to result in the early dismissal of the CEO.**

Proposition 6: **A low Action Orientation CEO under low Intervention Reinforcing Conditions is likely to result in the status quo being maintained.**

Types of CEO Intervention

Scope of Intervention

The magnitude of strategic change that CEOs attempt in their organizations varies widely (Mintzberg & Waters, 1985). On the one hand, we see cases like Black & Decker's Nolan Archibald who replaced the entire top management team, transformed the company's manufacturing mentality to a market-driven culture, and developed a global business strategy to reposition the company's power tool business (Huey, 1989). John Sculley, similarly, initiated a comprehensive strategic transformation at Apple Computers, redefining Apple's approach to the business segment and changing the organization "from a hippie culture to a yuppie culture," in the words of an executive. Other CEOs, however, attempt strategic changes that are more limited in scope, concentrating on, for example, the compensation system, or the planning system, or the acquisition or divestiture of a single business unit. Such limited changes, though frequent, are not often considered newsworthy items.

The distinction between limited and comprehensive strategic change is strongly supported in the strategy literature (Greiner, 1972; Miller and Friesen, 1980; 1982; Tushman and Romanelli, 1985). Greiner, for example, makes the distinction between prolonged periods of evolutionary change in an organization interrupted by short organization upheavals, or revolutions. Similarly, Miller & Friesen make the distinction between piecemeal and quantum changes. Quantum, or comprehensive, changes are not undertaken very frequently; piecemeal changes are more frequent because they are likely to cause the least dissension and conflict, are more reversible, cheaper, and less disruptive (Miller & Friesen, 1982). In addition, organizations have a high degree of momentum because of self-affirming organization ideologies, attachment to past successes, and the vested interests of political coalitions (Miller & Friesen, 1980). Tushman & Romanelli (1985) distinguish between convergence and reorientation; reorientation refers to frame-breaking simultaneous changes in strategy, structure, people and processes, while convergence refers to implementation-type changes within a prior reorientation. However, continued piecemeal changes can dusrupt the internal consistency of the strategy/structure configuration (Miller, 1986; Miller & Friesen, 1984), leading eventually to quantum change in order to reestablish a more complementary gestalt.

Determinants of Intervention Scope

While certain conditions within the organization may dictate the need for more comprehensive versus limited strategic change, this does not assure that the CEO in fact perceives and is responsive to these varying alternatives. Social constructionists believe that managers impose meanings on external stimuli based on their own beliefs, biases, and assumptions, rather than rational/ objective characteristics of the stimuli (Isenberg, 1986; Smircich & Stubbart, 1985), through pre-existing schemas (Ireland, Hitt, Bettis & De Porras, 1987), or through "scripts" of behavior patterns for specific situations (Gioia & Poole, 1984). Underlying these various findings is the notion that differential managerial responses to similar stimuli reflect the idiosyncracies of individual decisionmakers. Researchers in decision-making define decision style as "a learned habit pattern in making decisions" (Driver, 1983). Individuals vary in their tendency towards complex multidimensional cognition. Various dimensions referring to complexity of cognition and decisionmaking include open vs. closed-mindedness (Rockeach, 1960), sensing vs. intuitive (Slocum & Hellriegel, 1983), unifocus vs. multifocus, information satisficing vs. information maximising (Driver & Mock, 1975; Driver, 1983), tolerance for ambiguity vs. need for structure (Rowe & Boulgarides, 1983), and conceptualising capacity of the mind in terms of habitual level of abstraction (Jaques, 1976). The cognitively complex executive is an "intuitive" individual whose mind has the capacity to pattern and organize seemingly unrelated information and diverse cues into a wholistic view of the problem; such an individual, by taking a wide perspective and high level of abstraction, can cope with a greater information input load and operate with a long time span of discretion (Jaques, 1976). Such an individual, in our view, seems more likely to make an intervention of comprehensive scope. In contrast, the low cognitive complexity executive is a "sensing" individual who is most comfortable with tangible events and details (Slocum & Hellriegel, 1983). Such an individual will shy away from creative leaps and nonroutine problems, preferring to focus on narrowly defined issues. With such an executive, one would expect to observe strategic interventions that are more limited in scope.

In addition, many links between managerial backgrounds and decision choices have been proposed (Hambrick & Mason, 1984) and partially verified (Chaganti & Sambharya, 1987). Hambrick & Mason, among a series of wide ranging propositions, propose a close relationship between an executive's functional experience, formal management education, and age, serving as independent variables, and the firm's strategy emphasis, performance, and decision process, acting as dependent variables. They expect, for example, a positive correlation between output functional experience and growth, and between peripheral functional experience and unrelated diversification, and so on. Extending this line of reasoning to the individual CEO, a new CEO with prior general management and/or multi-functional experience seems more likely to make a comprehensive intervention because his/her prior career experience has evolved from a broader perspective than a CEO possessing only single-functional job experience. CEOs with prior single functional experience, possess narrow, in-depth expertise, which we believe conditions them to make limited interventions confined to those areas of greatest personal comfort.

Based on these cognitive and career determinants, we can draw a comparative profile between CEOs who, when confronting similar stimuli, are more likely to make comprehensive than limited interventions.

> **Proposition 7:** Comprehensive strategic change interventions are more likely to be made by:
> a) CEOs who score high on cognitive complexity; and
> b) CEOs who have prior general management and/or multi-functional experience.

> **Proposition 8:** Limited strategic change interventions are more likely to be made by:
> a) CEOs who score low on cognitive complexity; and
> b) CEOs without prior general management or multi-functional experience.

In addition,

> **Proposition 9:** A CEO with prior single functional experience is more likely to make limited interventions in areas of his/her dominant expertise.

Style of Intervention

Limited versus comprehensive scope of change, however, offers only a partial view of CEO intervention. CEOs also differ in their behavioral styles when they intervene to initiate strategic change. Jack Welch of GE, dubbed "Neutron Jack" by the popular press, has taken GE through a comprehensive transformation in his first five years as CEO (Aguilar & Hamermesh, 1985). He has done so by largely using a style of intervention we label "unilateral," in that he, individually, was not only the driving force behind the conception of the new vision but also assumed personal responsibility for its implementation down the organization hierarchy. Other CEOs have adopted a more "collaborative" approach in developing a vision and strategy for change (Greiner & Bhambri, 1989). Such an approach was followed by James J. Renier of Honeywell Systems when he took his executive team to a series of off-site retreats to decide on changes necessary in the organization (Renier, 1987). This distinction between unilateral and collaborative approaches refers to the essence of the decision-making process. In the unilateral approach, the CEO is the key decisionmaker; while the CEO may consult with others, he/she decides and directs. The collaborative approach, on the other hand, refers to participative, consensus-based decisionmaking by the executive team. Although oversimplified, this distinction between unilateral and collaborative intervention styles is supported in both the leadership and organization development literatures (Greiner, 1967; Bass, 1981). Greiner (1967) distinguishes between unilateral action, in which organization change is implemented through an emphasis on positional authority and other approaches in which power is shared or delegated. Bass (1981), in an exhaustive synthesis of the leadership literature, concludes that, in spite of the many different existing stylistic labels, there are two underlying clusters of leadership behavior. He writes, "the same leaders who are described as autocratic or authoritarian will also be described as directive, 'Theory X', coercive and persuasive, concerned with production, lone decision makers, initiators of structure, production-centered, goal emphasizers and work facilitators, and task oriented ......the second cluster will emerge around leaders who are considerate, democratic, consultative and participative, employee-centered, concerned with people, supporting and facilitating interaction, relations-oriented, joint decision makers, 'Theory Y' ideologists, and group decision makers" (p.291, 292, citations excluded). The former style relies on position power to obtain compliance with what the CEO has unilaterally decided, while the latter style is based on respect and persuasion as subordinates collaborate in the decisionmaking process.

Determinants of Intervention Style

Behavioral styles have been related to leaders' personalities (Farrow & Bass, 1977; Vroom, 1960; Miller, Droge & Toulouse, 1988), age (Heller & Yukl, 1969; Pinder, Pinto & England, 1973), and educational level (Bass, Valenzi and Farrow, 1977). Farrow & Bass (1977) found that managers who were assertive individuals and regarded people as fundamentally unfair were directive towards their subordinates regardless of the situation and the subordinates' personal attributes. Vroom (1960) found that the higher the managers' need for independence and the higher their degree of authoritarianism on personality scales, the greater was their directive behavior. Miller et al (1988), studying the CEO's need for achievement (McClelland, 1961) in a survey of 77 small firms, found that high nAch managers tend to centralize power, and while they score high on interactive strategy-making, their interactions are by way of discussion rather than democratic choice. In other studies, it has been found that "internals" rely more on persuasive power, compared to the use of coercive power by "externals," and are more satisfied in a participative work environment (Mitchell, Smyser & Weed, 1975). The CEO's likely intervention style also depends on his/ her information search patterns. Executives have been classified as information-satisficers vs. information-maximizers (Driver & Mock, 1975; Driver, 1983). A maximizer continues to seek information until additional information is of no further value whereas a satisficer only gathers enough information to meet some minimal criteria until a decision is reached. Limited information search types also tend to be dogmatic (Taylor & Dunnette, 1974) and closed-minded (Rockeach, 1960). An information-satisficer CEO is more likely to make a unilateral intervention; he/she is likely to reach decisions quickly and not value additional information that could surface from consulting subordinates. An information-maximizer, in comparison, is likely to keep an open mind to obtain as much information as possible. This search is likely to include getting inputs from subordinates through the use of a collaborative decision-making process.

In other studies of individual background characteristics, Pinder et al (1973) found in a study of 200 managers that younger managers tended to be more directive while older managers tended to be more participative. Heller & Yukl (1969), similarly, in a study of 203 British managers, found that senior managers, particularly those with long tenure in their positions, were more likely to collaborate in decision-making. Bass, Valenzi & Farrow (1977), in a study of seventy-six managers, found that participative behavior was negatively related to level of education. Task orientation was also found to be higher among males than females, and among those with greater maturity, education, status, and technical training (Bass, 1981). Such studies suggest that executive style is, to some extent, independent of situations and is, instead, idiosyncratic, depending on personality characteristics, job tenure, age, and educational level. Based on the preceding research, we propose:

<u>Proposition 10</u>: Unilateral strategic change interventions are more likely to be made by CEOs who are:
a) high nAch;
b) assertive personalities;
c) information-satisficers;
d) younger;
e) have short tenure in their jobs; and
f) have graduate education.

<u>Proposition 11:</u> Collaborative strategic change interventions are more likely to be made by CEOs who are:
a) low nAch;
b) high need for affiliation;

c) information-maximizers;
d) older;
e) have long tenure in their jobs; and
f) undergraduate degrees or less by way of formal education.

Integrating Scope and Style

The two dimensions underlying intervention approach, scope and style, are essential for understanding how a CEO acts to implement strategic change. Scope is sensitive to the "content," or what is being changed (Snow and Hambrick, 1980; Ginsberg and Grant, 1985; Gray and Ariss, 1985). It includes market strategy, structure, systems, personnel, and so forth; and has implications for resource requirements, the extent of new learning needed, the number of individuals affected, and the extent to which the organization's status quo is to be transformed. Style is concerned with the "process," or how the change is conceived and implemented. It includes decision making behavior, group dynamics, and political influence; and it has implications for acceptance and resistance, and whether the change will be sustained in altered behavior patterns among managers and the workforce. The two dimensions of scope and style also interact, since the content of change can be affected by who contributes to its formulation, or resistance can be affected by structural alteration. In practice, the two dimensions cannot be separated; they are interwoven when intervention takes place. Therefore, by combining these two perspectives of scope and style, as shown in Figure 3, we define four possible intervention types:

- Comprehensive Scope - Collaborative Style
- Comprehensive Scope - Unilateral Style
- Limited Scope - Collaborative Style
- Limited Scope - Unilateral Style

Insert Figure 3 about here

We further propose that the various background and personality determinants of intervention style and scope presented in the preceding propositions can be integrated into four internally consistent CEO intervention profiles that match the four intervention types. Depending on his/her intervention profile, each CEO has a likely intervention approach that he/she will adopt, regardless of situational conditions. These hypothesized profiles are summarised in Figure 4.

Insert Figure 4 about here

Organization Receptivity to CEO Intervention

Whether an intervention is successful in terms of effective change realization depends, we hypothesize, on the situational match between the CEO's intervention type and the existing organizational conditions. If the CEO's approach is appropriate given the organizational context, we propose that change will likely be realized. Different organizations, however, are receptive to different kinds of interventions; factors such as the characteristics of the top management team (Hambrick & Mason, 1984) and the internal management process (Jaeger & Baliga, 1985) influence organizational receptivity to different types of intervention. We do not explicitly discuss strategic predisposition (Meyer, 1982; Miles, 1982) as a determinant of organization receptivity. It is assumed instead that strategic predisposition is manifested in the organizational and top team factors that we do discuss, and which have a more direct effect on change realization.

Organization Receptivity and Intervention Scope

Top Team Tenure: The relationship between top management team composition and corporate performance has been advanced by Hambrick & Mason (1984) and demonstrated empirically (Norburn & Birley, 1988). Norburn & Birley (1988:236) posit that "top management teams which demonstrate a preponderance of output functional experience, of multiple company employment, and of wider educational training will outperform those which do not.." They also find that executive team years of tenure are negatively associated with financial performance and growth in turbulent industries, and positively associated in stable industries. This finding implies that executive teams with low average tenure are less attached to past practices and better able to cope with large amounts of change, and is also consistent with Hambrick & Mason's proposition that firms with younger managers will be more inclined to pursue risky strategies. Hambrick & Mason also argue for a positive association between output functional experience and growth, and with profitability in turbulent industries. In stable industries, they suggest that throughput functional experience (production, engineering, accounting) will be positively associated with profitability.

> **Proposition 12: Comprehensive interventions are more likely to be realized when the top executive team is young, possesses low tenure in the company, and is dominated by output functional experience.**

> **Proposition 13: Limited interventions are more likely to be realized when the top executive team is relatively older, possesses long tenure in the company, and is dominated by throughput functional experience.**

Management Process: Jaeger & Baliga (1985) distinguish between organizations dominated by culture control and organizations dominated by formal planning and control systems. They conceptualize the former as "cultural defenders" (1985: 128) and propose that a shared cultural paradigm facilitates incremental change but makes radical change difficult. A shared paradigm is similar to the notion of organization belief structures (Dutton & Duncan, 1987) and collective mind (Mintzberg, 1987). The internal consistency of such a paradigm is self-preserving so managers only adapt to signals that coincide with the existing paradigm (Johnson, 1988; Miller & Friesen, 1980). The alternative to "cultural control" organizations are organizations dominated by "bureaucratic control" with formal planning and systems (Jaeger & Baliga, 1985: 127,128). Organization ideologies are not as strongly entrenched in bureaucratic control organizations and, as a result, radical change is easier to implement. In addition, the notion that top-down strategic change may be facilitated by the existence of established, formal strategic decision-making systems and processes has wide support (Lorange, 1980; Lorange & Vancil, 1977). As Jaeger & Baliga state, "Strategies in bureaucratic control organizations are a function of the gestalts of top management as compared to the gestalt of the whole organization in cultural control systems. Hence, strategic adaptation in bureaucratic control systems can be influenced greatly by changes in top management" (p.128).

> **<u>Proposition 14</u>: Comprehensive interventions are more likely to be realized in formal planning control organizations.**

> **<u>Proposition 15</u>: Limited interventions are more likely to be realized in cultural control organizations.**

<u>Intervention History:</u> The scope of change being attempted needs to be considered against the recent history of similar interventions in the organization. Comprehensive strategic change is costly, disruptive, and likely to cause a high level of dissension and conflict (Miller & Friesen, 1982). These major changes require a high degree of effort and commitment from different levels of the organization; as a result, people can only take so many major changes in rapid succession. Major change upsets the status quo and becomes a focus of political gamesmanship and tension within the

organization (Pettigrew, 1973). As one might expect, research confirms that each comprehensive change period is followed by a prolonged period of limited, incremental changes (Miller & Friesen, 1986; Tushman & Romanelli, 1985). An organization that has had a flurry of change attempts is less likely to support yet another major change attempt with enthusiasm. Frequent changes can lead to the "annual reorganization" syndrome where even major changes are treated, in the manager's mindset, as temporary measures that will become obsolete in short order. In such a context, a CEO attempting a major intervention faces an uphill task.

Proposition 16: **Comprehensive interventions are more likely to be realized in companies that have not recently attempted comprehensive changes.**

Proposition 17: **Limited interventions are more likely to be realized in companies that have recently attempted comprehensive changes.**

Organization Slack: The effects of slack on organizational decision-making have been discussed in considerable depth (Cyert & March, 1963; Yasai-Ardekani, 1986; Miles, 1982; Singh, 1986). Low slack restricts the range of managerial choices; and low slack organizations must adopt structures that closely match their environments (Yasai-Ardekani, 1986). Singh (1986) made the distinction between absorbed slack and unabsorbed slack; the former referring to slack absorbed in organizations through increased overheads and salaries, and the latter reflecting the level of uncommitted liquid resources. Based on a sample of 64 medium to large U.S. and Canadian corporations, Singh found that higher absorbed slack was associated with increased risk taking. Major interventions are inherently risky and ambiguous, and high slack permits experimentation, learning, and the opportunities to recover from error. Low slack organizations may be so either because of a history of poor performance or because of a conscious strategic choice, such as, to be "lean and mean" in a commodity business. Such organizations have little margin for error, and their executives are more likely to be risk averse, and, hence, receptive to limited interventions.

Proposition 18: Comprehensive interventions are more likely to be realized in organizations with high slack.

Proposition 19: Limited interventions are more likely to be realized in organizations with low slack.

Organization Receptivity and Intervention Style

Team Dialectic: The concept of team dialectic builds on existing research in team composition. Homogeneous groups have been found to be effective for routine problem-solving and heterogeneous groups for ill-defined, novel problem-solving because the diversity of opinion promotes a better airing of alternatives (Filley, House & Kerr, 1976). Heterogeneity also encourages conflict (McNeil & Thompson, 1971) whereas homogeneity may lead to groupthink (Janis, 1972). Similar conclusions were reached by Bourgeois (1985) who found that both, increased agreement within top management teams regarding level of perceived environment uncertainty and increased goal consensus, were associated with lower economic performance. This apparently happened because agreement within top management increased as the executive group's perceptions deviated from reality. Conflict within the top management team is also likely to reduce as managers embrace conservative values (Sturdivant, Ginter & Sawyer, 1985). Liberal managers are more likely to articulate the need for and to support change.

We label a homogeneous executive team, consisting largely of conservative individuals, as a low team dialectic because they have a relatively low level of conflict and "voice" (Hirschman, 1970). The homogeneity of a low dialectic team leads to a focused perspective on problems and stimuli for change. In Hirschman's terms, they are not likely to use the option of voicing dissenting opinions. When faced with such a team, a unilateral intervention is likely to prove acceptable and more efficient. On the other hand, a high team dialectic refers to a heterogeneous executive group dominated largely by liberal values. Such an executive team is likely to articulate differences of opinion, and their diversity can lead them to approach problems from different perspectives. As a result, multiple causes are more likely to be identified for problems facing the organization. Thus, a collaborative approach that legitimates and facilitates the airing of different opinions seems more congruent with a high dialectic team.

Proposition 20: Collaborative strategic change interventions are more likely to be realized when the top team has a high team dialectic (i.e., heterogeneous, liberal).

Proposition 21: Unilateral strategic change interventions are more likely to be realized when the top team has a low team dialectic (i.e., homogeneous, conservative).

Problem-solving Routine: Kanter (1983) distinguishes between integrative and segmentalist approaches to problem-solving in organizations. Integrative organizations encourage the treatment of problems as "wholes." They are team-oriented organizations with mechanisms in place for exchange of information across unit boundaries. Organizational norms encourage cooperation and innovation. In segmentalist organizations, by comparison, work units are kept independent and often compete with each other. Problems are isolated and only the minimum number of exchanges take place across departmental boundaries. Innovation is treated as a narrowly confined specialty and collaboration across departmental boundaries is a novelty. A unilateral intervention in such an organization is able to target each sub-unit and proscribe its role and boundaries. A collaborative CEO intervention fits well with the integrative organization because it is consistent with existing interdependent problem-solving routines.

Proposition 22: Collaborative interventions are more likely to be realized in integrative problem-solving organizations.

Proposition 23: Unilateral interventions are more likely to be realized in segmentalist problem-solving organizations.

Organization Stress: High stress situations, such as crises, have been found to produce significant effects on accepted leader behavior. Rapid, non-consultative decisions which may, in low stress situations, generate resentment are, in fact, preferred as a consequence of stress (Sherif & Sherif, 1953; Korten, 1962; Janis & Mann, 1977). In such situations, promptness and decisiveness become valued leader characteristics. Stress has been found to lead to more autocratic leader behavior (Fodor, 1976). In addition, these studies reveal that subordinates also prefer more directive, autocratic leader behavior in emergencies. The increased anxiety of subordinates makes them more accepting of leader influence in crisis periods compared to non-crisis situations. In the absence of a crisis, however, collaboration is needed to persuade others about the need for action.

Proposition 24: Unilateral interventions are more likely to be realized in situations of high stress.

Proposition 25: Collaborative interventions are more likely to be realized in situations of low stress.

Figure 5 summarizes the previously mentioned organizational dimensions that influence receptivity to different interventions, which can be integrated into four internally consistent organization receptivity profiles matching the four intervention types.

Insert Figure 5 about here

CEO Intervention and Corporate Performance

Organizations are commonly viewed as open systems whose performance depends on how effectively they fit with and adapt to conditions in their environment (Lawrence & Lorsch, 1967; Miles, 1980; Miles & Snow, 1984). In this view, whether a CEO intervention, even if realized in a receptive organization, actually leads to improved corporate performance depends on whether the intervention's scope and style are also appropriate for coping with environmental contigencies facing the organization. Furthermore, these environmental factors must be perceived by human actors and incorporated into the strategic problem-solving process. Certain aspects of the environment are obvious to all concerned, while other factors are highly subtle and apparent to only a few people. Moreover, these executives must process this varied information among themselves so as to reach a synthetic decision based on human judgement. Hence, the importance of intervention scope in recognising or ignoring vital information about both obvious and subtle environmental threats and opportunities, and style in including or excluding actors with relevant information about the environment (Aguilar, 1967; Ansoff, 1984; Miles, 1987; Bhambri & Sonnenfeld, 1988). The decision quality that results from whether a particular intervention approach adequately incorporates and processes information about relevant environmental contingencies becomes a precursor of future corporate performance.

Intervention Scope and Environmental Contingencies

Problem Symptoms: Ginsberg (1988), in a review of strategic change, notes that less than half the reviewed studies examined the performance outcomes of changes in strategy, and he concludes that the empirical literature does not support any generalisable conclusions regarding the effects of changes in strategy on performance. Most strategic change studies are cross-sectional and cannot explicate the causal relations between change and performance (Ginsberg, 1988). As a result, researchers do not understand, in a systematic way, the links between performance symptoms, underlying causes, and change strategies. In the absence of clear knowledge, we assume that managerial interventions in strategy are driven by an assessment of symptoms and causes. Symptoms of performance decline may include internal indicators, such as, employee dissension, conflicts, declining morale, absenteeism, and so forth, and external indicators, such as declining market share, lost sales, customer complaints, and so forth. If a company confronts widespread problem symptoms which include internal and external indicators, a comprehensive intervention has a better probability of hitting on the right solution. With isolated symptoms, however, a limited intervention may be more efficient.

> **Proposition 26:** Comprehensive interventions are more likely to lead to improved financial performance in companies that show widespread, internal and external, symptoms of performance decline.

> **Proposition 27:** Limited interventions are more likely to lead to improved financial performance in companies that show isolated, either internal or external, symptoms of performance decline.

Environmental Discretion: For successful response to be possible, CEOs need to have some degree of discretion in selecting and formulating appropriate strategic choices. One school of thought (Hannan & Freeman, 1977; Aldrich, 1979) argues that the environment is relatively immutable and deterministic with respect to the organizations that depend on them. Another school of thought, however, argues in favor of executive choice in strategy formulation (Child, 1972; Porter, 1980). Hambrick & Finkelstein (1984) reconcile these two schools by defining executive discretion as the latitude of action available to the CEO in exercising strategic choice. The extent of discretion defines just how much the executive team can actually accomplish within existing environmental constraints. Certain kinds of environments simply provide much more discretion to executives, and Hambrick & Finkelstein suggest that factors, such as high market growth, product differentiability, monopolistic or pure competition, demand instability, and lower quasi-legal constraints, all increase the discretion available to executives. Interventions that encompass or ignore discretionary boundaries are likely to affect the quality of solutions affecting performance.

> **<u>Proposition 28:</u> Comprehensive interventions are more likely to lead to improved financial performance in environments of high executive discretion.**

> **<u>Proposition 29</u>: Limited interventions are more likely to lead to improved financial performance in environments of low executive discretion.**

Intervention Style and Environmental Contingencies

As pointed out earlier, the content of an intervention's scope interacts with, and is dependent on, intervention style. Depending on environmental contingencies, certain intervention styles are more likely to enhance the probability that the content of the change is appropriate for the particular situation.

<u>Environmental Uncertainty:</u> Environmental uncertainty has been defined to include clarity of information, rate of change, and the unpredictability of change (Lawrence & Lorsch, 1967). Ashby's (1968) law of requisite variety proposes that only variety can regulate variety; thus, in terms of intervention, its implication is that a viable intervention in a complex, turbulent environment must possess a corresponding degree of complexity of its own. Consistent with this conclusion, Duncan (1973) found that effective decision-making structures in uncertain environments were more differentiated and contained a complex mix of routine and nonroutine processes as compared with those operating in relatively stable contexts. Duncan found that rigid decision-making structures are more effective when time is of the essence, the problems are routine, there is minimal change, and environmental demands are clear. Other research has also confirmed that rational synoptic decision-

making structures are associated with lower performance in unstable environments (Fredrickson & Mitchell, 1984) and higher performance in stable environments (Fredrickson, 1984). As uncertainty increases, greater reliance is placed on informal decision-making behavior that surfaces information without the use of formal structures (Conrath, 1967). The generation of concrete ideas for action is also described by Kanter (1984) as the real benefit of participative management. In less complex situations of higher predictability, unilateral decisionmaking has been found to be more successful (Driver, 1979).

Proposition 30: **Collaborative interventions are more likely to lead to improved financial performance in situations of high environmental uncertainty.**

Proposition 31: **Unilateral interventions are more likely to lead to improved financial performance in situations of low environmental uncertainty.**

Environmental Slack: When companies are reacting to a crisis, environmental slack is low and immediacy of action becomes of the essence. Reactive changes, whether crises driven or not, are usually "catch up" situations where the need for change, and the cost of delay, are obvious. As Ansoff (1984) points out, by the time information about a change is clear enough to permit a well defined response, a threat may be about to strike or an opportunity about to be missed. In contrast, anticipatory changes occur when environmental slack is high. Such changes are usually graduated responses to weak signals which means that executives need to act without waiting for sufficient or clear information (Ansoff, 1984). The paradox, however, is that, while anticipatory adaptation guided by weak signals may position a company better for the future, it is difficult to generate management understanding and commitment for supporting weak signals. By definition, weak signals are vague, unfocused, and open to multiple interpretations in terms of potential relevance and impact. As a result, an intervention style that facilitates persuasion and commitment is required.

> **Proposition 32:** Collaborative interventions are more likely to lead to improved financial performance when dealing with anticipatory changes in response to weak environmental signals and high environmental slack.

> **Proposition 33:** Unilateral interventions are more likely to lead to improved financial performance when dealing with reactive changes in response to strong environmental signals and low environmental slack.

We further propose that the environmental contingencies recognized or ignored by the particular intervention approach can be integrated into four internally consistent profiles that match the four intervention types. These profiles are summarized in Figure 6.

Insert Figure 6 about here

Matching Conditions and CEO Intervention

Our discussion so far of individual, organizational, and environmental contingencies shows that CEO interventions and strategic change are not likely to occur in the same way or with the same outcomes in different situations. Instead, as shown in Figure 7, we postulate a series of matching configurations wherein the interacting conditions influence the initiation, magnitude, and results of the strategic change process.

Insert Figure 7 about here

In this closing section, we propose four overarching and summary hypotheses about the likely outcomes when the CEO's intervention approach interacts across the totality of variables contained within organization receptivity and environmental contingencies. All prior hypotheses have been stated in bivariate form, but we think it unlikely that any single variable or limited combination of variables will predict and explain the outcome variance in attempted strategic change. Our concept of "matching" borrows from the medical field when a transplant is made in the human organism. A liver transplant, for example, consists of many variables within the donated liver itself, which in turn interacts with affected variables within the surgical procedure, the transplant recipient, and the recipient's surrounding environment. Successful matching does not require perfect symmetry or conformity across all variables, but rather enough positive interaction among the critically aroused and interacting variables for the transplant to take hold. Moreover, some negative reactions can be controlled through appropriate preventive procedures.

Similarly, the CEO's intervention approach can seriously interrupt the functioning of an on-going organization with its strong inertial properties, even when there are strong environmental signals of maladaptation. The rejection possibilities ("mismatches") are high at the intersection of two moving organisms, one with the CEO with his/her personality and the other with the organization and its values and practices, each striving to maintain internal consistency. Attesting to the low probability of an intervention match and successful "transplant" is substantial negative empirical evidence on the ability of CEOs to affect corporate performance (Lieberson & O'Conner, 1972; Chung et al, 1987; Beatty & Zajac, 1987), and the infrequency of turnaround change in organizations caught in a downward spiral (Hambrick & D'Aveni, 1988).

The "Natural" Match

> Proposition 34: When the CEO's intervention approach matches organization receptivity and environmental contingencies, it is likely that strategic change will be realized and lead to improved financial performance.

This is a state of "perfect" chemistry, rare we believe, where the fit of a particular CEO's intervention's scope and style inherently "takes" without causing substantial resistance and still effectively encompasses unique environmental conditions into the decisionmaking process. Here sufficient receptivity exists in the organization for the CEO's intervention approach to proceed and achieve substantive changes that improve environmental fit. The micro-dynamics of the change process itself, of course, still requires the CEO to exercise considerable intellectual and political skill in framing the content of the change agenda and in overcoming instances of individual resistance (Greiner & Bhambri, 1989).

The "Misleading" Match

> **<u>Proposition 35:</u> When the CEO's intervention approach matches organization receptivity but not environmental contingencies, it is likely that strategic change will be realized without an improvement in financial performance.**

Here we find a "pseudo-success" scenario -- the CEO's intervention approach is accepted by the organization while failing to achieve a more successful outcome in the marketplace. We expect this case to be a fairly frequent pattern in companies where the incumbent CEO has been groomed from within, or when a new outsider CEO is selected for his/her resemblance to the outgoing CEO. The new CEO follows an intervention approach that is politically acceptable to the organization while failing to take account of important environmental factors. Only later when the absence of performance success appears is the ineffectiveness of the CEO's earlier intervention approach revealed. But then it may be too late for the organization and the CEO to recover.

The "Unforunate" Mismatch

> **<u>Proposition 36:</u> When the CEO's intervention approach matches environmental contingencies but not organizational receptivity, it is unlikely that strategic change and improved financial performance will**

be realized unless the CEO intervenes further to change the organization's receptivity profile to fit his/her intervention approach.

This scenario is "unfortunate" because, while the CEO's intervention approach is "in tune" with environmental needs, it is not consonant with organizational characteristics. We expect to find this pattern among new outsider CEOs selected for their industry experience but lacking in sensitivity to organization and interpersonal differences. As a result, they are likely to encounter substantial resistance. At this point, the CEO is faced with a dilemma -- the unperceptive CEO may persist in a contest of wills, resulting either in the CEO's dismissal or in a stand-off with key subordinates who reluctantly acknowledge the "correctness" of some of the CEO's solutions while continuing to resist the CEO's approach to decision-making. A more constructive alternative, according to our proposition, is for the perceptive CEO to reassess the situation and intervene further to change attributes of organization receptivity under his/her control to fit his/her intervention approach, such as by altering the composition of the top management team (Tushman et al, 1987). An alternative intervention is to retain the executive team but use outside consultants to re-educate the team in accepting the CEO's intervention approach (Tichy, Dotlich and Lake, 1986; Greiner & Bhambri, 1989).

The "Doomed" Mismatch

<u>Proposition 37:</u> **When the CEO's intervention approach matches neither organization receptivity nor environmental contingencies, it is likely that strategic change will not be realized and financial performance will not improve unless the CEO is replaced.**

This is a situation of complete misfit, and it does not offer much hope for positive results. The CEO is out of touch with both the organization and its environment, and it is doubtful that the CEO will personally adopt another approach, given our earlier discussion of the deeper personality roots to intervention type. In essence, the wrong CEO for the situation was selected from the outset, and further improvement is unlikely to occur until the CEO is replaced by intervention from higher authority.

Conclusion

Our purpose here has been to lay out a future research focus and agenda on strategic change, including a conceptual framework and wide-ranging set of propositions. The topic of strategic change is vitally important and urgent for both scholars and practitioners to understand -- many CEOs today are faced with adapting their organizations to changing environments, yet little empirical evidence or systematic theory exists to yield clearer insight and guidance into this complex change process.

Empirical research will need to utilize longitudinal design, path analyses, and scenarios (Fredrickson, 1983; 1986) to unravel causal patterns in the strategic change process. Public data is currently available for measuring many of the variables in our propositions, but new data about the internal dynamics of the change process will be required through the use of questionnaires, interviews, and observations. While we are attempting to build a large data base for testing the complete model, we also encourage other researchers to test the model in various parts, since there are four dependent variables -- initiation, intervention type, realization, and performance -- that can be examined independently. Furthermore, not all variables or propositions need to be measured in making progress toward refining the model. However, particularly central to the propositions on realization and performance is the need to ascertain the CEO's intervention approach, which can be obtained only through self-reports and validated through data from key subordinates. Access to CEOs is difficult, but recent research on obtaining measures of sensitive topics, such as CEO personality, show that it is possible and promising (Miller et al, 1982; 1988).

Without additional empirical research on the process of CEO intervention and strategic change, we will be unable to shed light on why so many CEOs fail to achieve their intended results or why so few seem to succeed. Nor will we be able to develop integrative theories that resolve current empirical and ideological differences between willful theories of strategic choice and deterministic theories of environmental dependence. Significant progress, we believe, can be made through assigning greater priority to empirical research on the dynamics of CEO intervention and strategic change.

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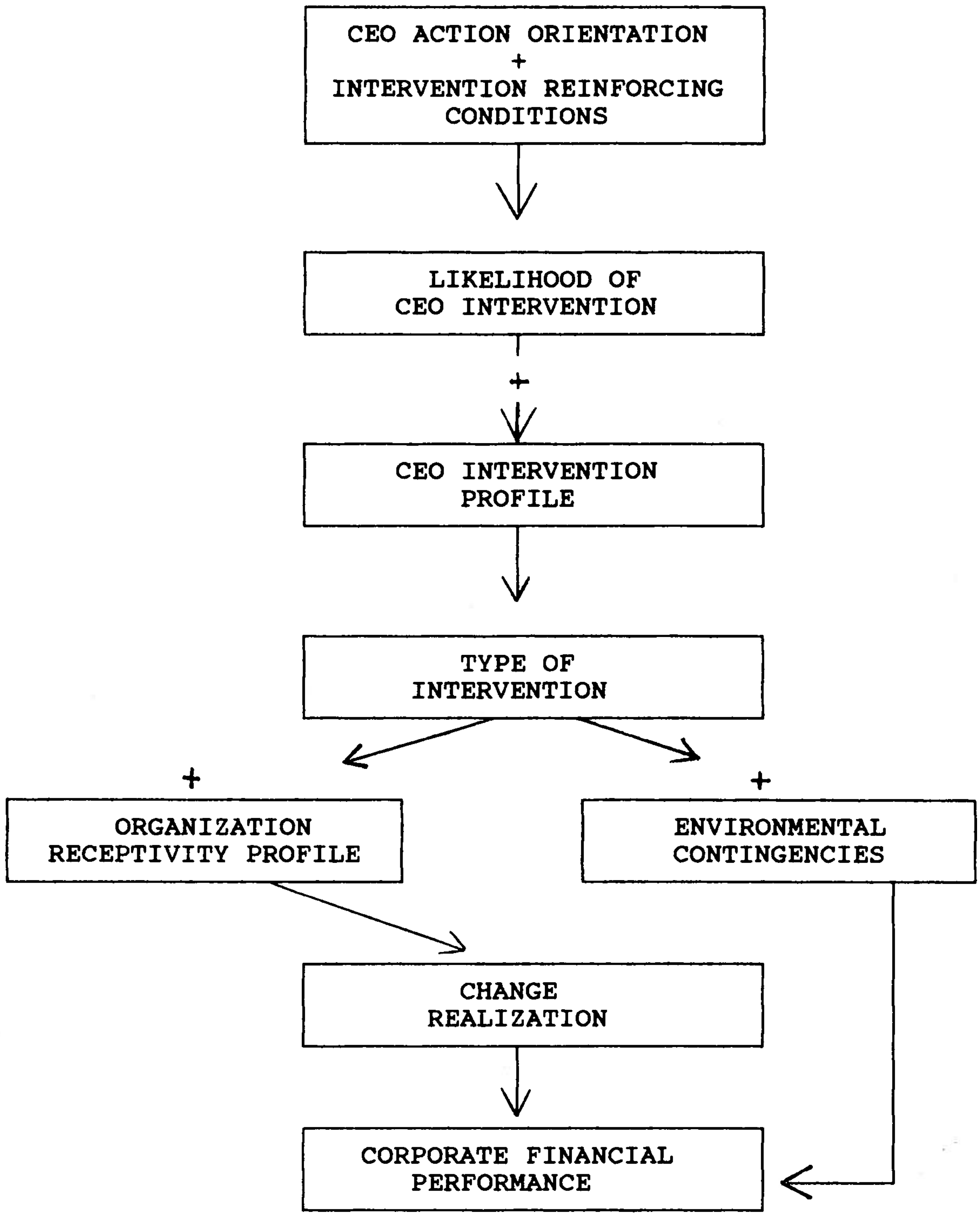


EVOLVING CONDITIONS IN CEO INTERVENTION

FIGURE 1

Intervention Reinforcing Conditions		CEO Action Orientation: Low	CEO Action Orientation: High
	High	Disappointment, possible dismissal of CEO	Immediate change in Organization
	Low	Status quo maintained	Frustration, possible exit by CEO

Entry Conditions and likely Outcomes
Figure 2

	Collaborative Style	Unilateral Style
Comprehensive Scope	Comprehensive Scope/ Collaborative style	Comprehensive Scope/ Unilateral Style
Limited Scope	Limited Scope/ Collaborative Style	Limited Scope/ Unilateral Style

Types of CEO Intervention
Figure 3

	Collaborative Style	Unilateral Style
Comprehensive scope	High cognitive complexity Prior GM experience Low nAch High need for affiliation Information maximizer Older person Long job tenure Undergraduate or less education	High cognitive complexity Prior GM experience High nAch Assertive Personality Information satisficer Younger person Short job tenure Graduate education
Limited scope	Low cognitive complexity Single function experience Low nAch High need for affiliation Information maximizer Older person Long job tenure Undergraduate or less education	Low cognitive complexity Single function experience High nAch Assertive personality Information satisficer Younger person Short job tenure Graduate education

CEO Intervention Profile

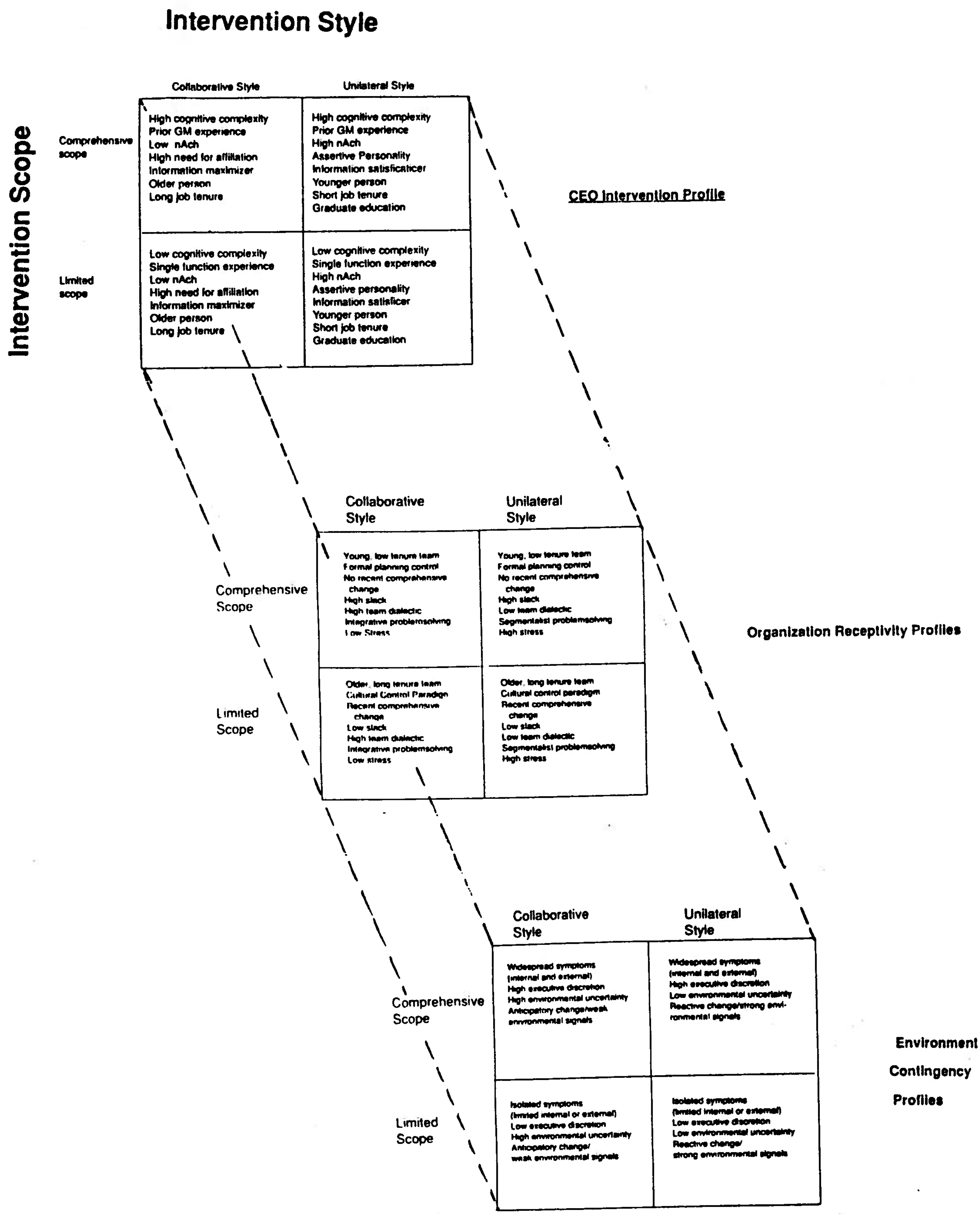
Figure 4

	Collaborative Style	Unilateral Style
Comprehensive Scope	Young, low tenure team Formal planning control No recent comprehensive change High slack High team dialectic Integrative problemsolving Low Stress	Young, low tenure team Formal planning control No recent comprehensive change High slack Low team dialectic Segmentalist problemsolving High stress
Limited Scope	Older, long tenure team Cultural Control Paradign Recent comprehensive change Low slack High team dialectic Integrative problemsolving Low stress	Older, long tenure team Cultural control paradigm Recent comprehensive change Low slack Low team dialectic Segmentalist problemsolving High stress

Organization Receptivity Profiles
Figure 5

	Collaborative Style	Unilateral Style
Comprehensive Scope	Widespread symptoms (internal and external) High executive discretion High environmental uncertainty Anticipatory change/weak enivronmental signals	Widespread symptoms (internal and external) High executive discretion Low environmental uncertainty Reactive change/strong environmental signals
Limited Scope	Isolated symptoms (limited internal or external) Low executive discretion High environmental uncertainty Anticipatory change/ weak environmental signals	Isolated symptoms (limited internal or external) Low executive discretion Low environmental uncertainty Reactive change/ strong environmental signals

Environment Contingency Profiles
Figure 6



Matching Conditions in CEO Intervention
Figure 7