

Values *are* Pervasive in Organizational Change

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Abstract

This study embraces and supports the contention made by Tushman and Romanelli (1985) that values are pervasive in organizational change. Changes in values and organizational design are studied in context. Particular attention is given to pivotal periods, which are periods of perceived crisis and/or significant change in key members. Findings provide insight into the ordering and timing of change in values and organizational design. They also illuminate the role of crises and member change in organizational change. This study found that values and design may wax and wane slowly in some situations and change quickly in others. The most significant finding regarding the pace of change is that values may wax and wane slowly while design elements change quickly during pivotal periods. Three different sequences of change involving crisis, key member change and value change were found: crisis, then key member change, and then value change; crisis, then value change and then key member change; and value changing continuously, then crisis leading to a re-alignment of values with design. Re-alignment in the third sequence includes changes in key members. This third type was the most prevalent in the case.

This study tests and builds theory involving the relationship between changing values and changing organizational design. The design of the study is a single case study. Within the history of an organization (the primary unit of analysis), four pivotal periods (embedded units of analysis) are analyzed. An iterative grounded theory approach is used. That is, the research begins with a theoretical framework in the form of research themes and questions rather than propositions or hypotheses. Based on the findings of the study the theoretical framework is

elaborated.

INTRODUCTION

For many years organizational scholars have recognized that values and organizational design are important antecedents of organizational behavior. They have found values to be important determinants of corporate strategy and to be related to processes such as decision making, recruitment, socialization, and communication (e.g., Sheridan, 1992; Chatman, 1991; Howard, 1990; Barney, 1986; Lorsch, 1985; Beyer, 1981; Child and Kieser, 1981; Evan, 1976; Connor and Becker, 1975; Hage and Dewar, 1973; Child, 1972; Guth and Tagiuri, 1965; Burns and Stalker, 1961; March and Simon, 1958; Clark, 1956; Gouldner, 1954; Selznick, 1949).

Likewise, significant research over the past four or five decades has focused on organizational design. Researchers have shown that several factors influence design: age and size (Weber, 1947), technology (Woodward, 1965; Saraph, 1992), an organization's strategy (Chandler, 1962; Powell, 1991), and the environment (Thompson, 1967; Pugh, Hickson and Hinings, 1969). More significantly, they have found that higher performance results from the appropriate fit between organizational design characteristics and these other contextual factors (Khandwalla, 1973).

Research has shown that the link between values and organizational design is also important (e.g., Ranson et al., 1980a; Bartunek, 1984; Pettigrew, 1987; Hinings and Greenwood, 1988a). For both pragmatic and epistemological reasons, the study of *change* in values and organizational design is also important. While values, or constructs based on values, have emerged as a central element in several (of the leading) change models (e.g., Hinings and Greenwood, 1988a; Tushman and Romanelli, 1985; Bartunek, 1984), there is still a relative

dearth of empirical work investigating the processes of changing values and their relationship with changing organizational design. Some of this work, while pointing to a significant relationship between values and design, fails to develop the intricacies of the relationship (e.g., Tushman and Romanelli, 1985; Romanelli and Tushman, 1994).

This present study contributes to the empirical investigation of this relationship and it extends theory. One of the primary contributions of this study is that it embraces the contention made by Tushman and Romanelli (1985) that values are pervasive in organizational change. It helps explain what pervasiveness means in change situations. It contributes insights into the pace and timing of changes in values and design. It also illuminates the role of crises and how crises interact with key member changes and value changes.

The research design for this study is a single case study. Because a major contribution of this study is to extend emergent theory (Eisenhardt, 1989), I used a quasi-grounded theory approach. This approach is not entirely inductive as in grounded theory (Glaser and Strauss, 1967). Nor is it entirely deductive. It is a type of Iterative grounded theory (Orton, 1997). Rather than beginning with a perspective as Glaser and Strauss (1967, p. 3) suggest, this study begins with more extensive deductive drivers (Pettigrew, 1997, p. 343). These drivers are not in the form of propositions or hypotheses. Rather, following Pettigrew's preference, the theoretical framework is in the form of research themes and questions (Pettigrew, 1997, p. 344). The data from the case study provides the basis for an elaborated theoretical framework.

In the next section a theoretical framework is developed by specifying the key concepts and their interrelationships. This is followed by an explanation of the research design. The findings are presented in a case description section. Finally the findings are discussed and an

elaborated theoretical framework is developed.

PREVIOUS LITERATURE AND THEORETICAL FRAMEWORK

The theoretical framework includes three main elements: values, organizational design, and context.

Values

Values are defined as preferences for particular courses of action and outcomes (Beyer, 1981; Kluckhohn, 1951). I chose values, as opposed to conceptually closely related terms like culture and ideologies, because the term is more specific and it is not in its definition encumbered by assumptions of sharedness or systemness. These are better examined on their own.

The primary values regarding an organization pertain to the organization's *raison d'être*. In using the term *primary*, I am suggesting that when congruity exists in an organization all other values pertaining to the organization will flow from *raison d'être* values. The most common *raison d'être* among private sector organizations is to return a profit. For not-for-profit organizations, the justifications for existence are much more numerous and varied.

A set of values that pertains to the organization's principal and constraining types of activities will flow from the *raison d'être* values forming a logical hierarchy of values. Greenwood and Hinings (1988) and Hinings and Greenwood (1988b) suggest three such types of values: (1) the appropriate domain of operations, (2) the appropriate principles of organizing, and (3) the appropriate criteria to be used for evaluating organizational performance. Simply stated, these three value types specify what an organization should be doing (i.e., products produced and markets entered), how it should be doing it (i.e., structures and systems put in place to carry out

the tasks of the organization), and how what it does should be evaluated (i.e., how organizational success is to be defined).

Salient values are the primary focus of this study. Four factors have been shown to affect the saliency of values: *power* of the individuals holding the values (e.g., Hinings and Greenwood, 1988a; Enz, 1986; Bartunek, 1984; Hage and Dewar, 1973; Lindblom, 1965; Gouldner, 1954), *strength* of commitment the individuals have to the values, the degree to which the values are *shared* within the group or throughout the organization (e.g., Bartunek, 1988; Wiener, 1988; Gray, Bougon and Donnellon, 1985; Van Maanen and Barley, 1984; Beyer, 1981; Connor and Becker, 1975; Lindblom, 1965; Clark, 1956), and the presence or absence of competing *alternative* values (Hinings and Greenwood 1988a). Highly salient values are those that are strongly held by powerful members throughout the organization (i.e., high on the first three dimensions) in a situation where no competing alternative values are present.

Organizational design

Organizational design is broadly defined as organizational structures and systems X both prescribed and emergent. Prescribed structures include formally prescribed means of influencing the division of labor and coordinating mechanisms such as specialization, formalization, training and indoctrination, decentralization, unit size and liaison devices (Weber, 1947; Mintzberg, 1979). This view of design has been the accepted standard in most empirical research in the field (e.g., Pugh, Hickson and Hinings, 1969; Khandwalla, 1973; Miller, 1988; Miller, Droge & Toulouse, 1988). However, it is too narrow. In addition to prescribed structures, all stable patterns of action constitute structure (Bryant and Jary, 1990). Blau and Scott (1962, p. 6) point out that organized groups invariably develop their own practices, values, norms, and social

relations as their members live and work together.≡ Organizational members respond to prescribed organizational design in unanticipated ways (March and Simon, 1958). Therefore, design patterns not formally prescribed by management that *emerge* are part of design.

Systems are also an important part of organizational design because they are what connect and activate structural frameworks≡ (Hinings and Greenwood, 1988a). They provide the processual dimension to organizational design. Systems include decision systems, planning systems, information systems, control systems, employee evaluation systems, reward systems, and other human resource systems.

While choice of domain is more commonly considered to be a part of an organization's strategy, it is the only piece of strategy that is relevant in this study so I include it as a design element for convenience of presentation.

Context: Performance and environment

Previous researchers have suggested that the relationship between values and design should not be viewed in isolation from the organization's context (Pettigrew, 1997; Pettigrew, 1987; Ranson et al. 1980b), which includes the external environment and members' perceptions of environmental effects on organizational performance. The former is what Pettigrew (1997) refers to as the *outer context*≡: the economic, social, political, competitive and sectoral environments in which the firm is located≡ (Pettigrew, 1997, p. 340). Contingency theorists have drawn our attention to the importance of these environmental elements (e.g., Pfeffer, 1982; Miller, 1981; Khandwalla, 1973; Burns & Stalker, 1961). This research suggests that there should be a fit between the environment and organizational structure to achieve efficiency and effectiveness. One thing these theorists ignore is that contingencies do not operate

independently upon structural arrangements but are interpreted through filters of meanings and aspirations of organizational members (Hinings and Greenwood, 1988a, p. 69). That explains why the latter part of context is important X members= perceptions of environmental effects on organizational performance.

Further, institutional theorists recognize that values external to the organization do exist and impact the values and design of organizations. They suggest that organizations are linked to their environments by conforming to shared, institutionalized values about what organizations should look like and how their work should be performed (Meyer and Rowan, 1977; Zucker, 1987). Filtered through members= values, organizational design is affected as organizations adapt by fulfilling appropriate roles and developing appropriate forms.

Values and organizational design form configurations in the organization=s context

Following previous organizational change models (e.g., Hinings and Greenwood, 1988a; Tushman and Romanelli, 1985), I suggest that values and organizational design form configurations or archetypes. These configurations are relatively stable because of forces in place that maintain the status quo. Organizational change occurs when other forces de-stabilize the organization and cause it to move to a new configuration. The focus of this study is on the interaction between values and design during the stable and unstable periods. To accomplish this, the analysis must be holistic and dynamic. (I develop an argument for this position in the research design section below.) As such, my theoretical framework deals with the values and design relationship over the entire history of an organization. Therefore, the framework begins logically with the initiation of the first configuration at the time of founding. Then as the context changes, the configuration of values and design will change. Then the theoretical framework must

confront the forces that maintain the configuration and the forces that lead to change in the configuration.

Initiation of values and organizational design

The initial configuration of the framework is the values and organizational design that are consonant with the environmental factors at the time of founding. At this point it is by definition true that all values come from the environment, because all new members who hold the values enter from the environment (Beyer, 1981). In this way the initial values and organizational design are uniquely important, because the absence of an organizational history provides freedom and openness that does not exist at any other time in an organization's history (Kimberly, 1987; Hannan and Freeman, 1984, 1989). At inception organizational design flows from values as they become established in the organization (Ranson et al., 1980a; Beyer, 1981; England, 1967). This happens because values focus attention, filter information, and dictate new programs (Starbuck, 1983).

While all members impact values and design, leaders (especially founding leaders) have the greatest opportunity (Schein, 1991; Pettigrew, 1979). Leaders have a particularly powerful effect when they respond successfully to critical incidents (Miller, 1993; Schein, 1990; Kilmann, 1985). The founder has an opportunity to put a personal stamp on the fledgling organization by creating the initial values and recruiting members who hold those values (Pettigrew, 1979).

Maintenance of values and organizational design

Once values and design become established, there are forces that operate causing resistance to change in these elements, and there are inertial forces that mutually support established values and organizational design. Power accumulates with those who best exemplify

salient values, because they are associated with the success of the organization (Miller, 1993). Values are maintained by attracting and selecting members whose personal values are congruent with salient values within the organization (Tushman and Romanelli, 1985; Selznick, 1957). Values linger in standard operating procedures (Beyer and Trice, 1976). Organizational design elements (e.g., environmental scanning procedures; human resource systems such as selection, socialization, and compensation) determine at least in part what is seen in the environment, and values direct the exploration of issues and affect interpretations of that which is seen (Weick, 1979). If values are strongly held, organizational members will even manufacture data about what they see to support their convictions (Beyer, 1981). Because of these forces, the internal configuration of values and design may continue with nothing but incremental and fine-tuning change until something more serious triggers major change (Tushman, Newman, and Romanelli, 1986).

Changing of values and organizational design

To this point I have implicitly argued that values and design are tightly coupled in that aspects of design come to embody values. At various points in an organization's history the notion of tight coupling of these elements is problematic. Although a traditional assumption among anthropologists is that values are tightly meshed with the social structure component (Allaire and Firsirotu, 1984), empirical evidence suggests that dissynchronous shifts and conflicts between values and organizational design do occur in organizations (Hinings and Greenwood, 1988a; Pettigrew, 1987).

Instability occurs when values and design become misaligned either with each other or with the external context (Miller and Friesen, 1984). Instability that leads to change generally

results from a *pivotal event*. There are two broad types of pivotal events. The first is perceived crisis that causes members to feel a need to look beyond their present value systems as a basis for their behavior (i.e., closed value systems are opened) and to place less value on the status quo (Child and Smith, 1987). Perceived crisis means the members believe that the existence of their organization is threatened. The second is change in key members. Crisis situations and key member change often happen virtually concurrently (Starbuck, Greve, and Hedberg, 1978). It is common for both crises and key member changes to be included in change models as significant antecedents to change (e.g., Miller, 1990; Bartunek, 1988, 1984; Dyers, 1985; Tushman and Romanelli, 1985; Miller and Friesen, 1984; Child and Kieser, 1981; Starbuck, Greve, and Hedberg, 1978). Just as personnel selection is an important means of value maintenance, selection is also a significant factor in value change. An example from previous research is Cadbury's adoption of a new model. In the process they recruit[ed] staff from Mars to help change to a new Philosophy (Child and Smith, 1987, p. 576). This suggests an intentional change in the type of recruits sought (i.e., those with new values). However, the extent to which these choices are deliberate about values is not clearly addressed. How crises and key member changes fit chronologically with value changes is not usually made clear in change models.

Although not always explicit, a common sequence is as follows: a crisis is perceived, values are challenged, new leadership with an alternative set of values emerges or is recruited (Dyers, 1985). In these models crises are virtually always expected to precipitate the change. The place of values in the sequence is not so clear. Does the crisis cause a change in values that then leads to the recruitment of leadership who hold the new desired values, or does the crisis cause decision makers to select new leaders who bring in the new values? Previous research does not

make this distinction. For example, Miller (1990, p. 213) following his previous work (Miller and Friesen, 1984) merely states that Most reorientations occur only after two events: a severe decline in performance *and* a change in leadership.≡

Previous researchers have suggested that values and design change together. Several change models either explicitly or implicitly suggest that the most major type of organizational change includes change to a *new* set of values and design and that change happens relatively *quickly* (e.g., Bartunek, 1984; Tushman and Romanelli, 1985; Bartunek and Moch, 1987; Hinings and Greenwood, 1988; Pettigrew, 1985, 1987; Van de Ven and Poole, 1995). Although not always explicitly stated, change occurs in a quick unfreeze/re-freeze scenario (Selznick, 1957). A typical scenario follows. Performance drops to the point where members believe the existence of their organization is threatened (i.e., pivotal event). As a result they no longer have faith in the previous set of salient values, and a new set of values quickly emerges and attains the commitment of sufficient numbers of powerful members to become salient.

This understanding of change is countered by a straight Aevolutionary view, in which certain decisions made relatively early in the life of organizations are powerful shapers of subsequent decisions and actions≡ (Kimberly and Rottman, 1987, p. 596). Here change occurs as values wax (or intensify) and wane (or decay) *slowly* over longer periods of time or even perhaps continuously during *and* between pivotal periods. Value changes occur as commitment gradually, almost imperceptibly weakens or strengthens over time. Value waning may be due to an absence of design elements that reinforce and strengthen that salient value. Greenwood and Hinings (1993), although not addressing the issue of pace of change in values, suggest the possibility that values may wane, leaving the values that are embodied in the organization=s design unsupported

by any participants.

A third possibility is suggested by Cooper et al. (1996). These researchers found that a new configuration may be layered on a previous one. The result is that elements of values and design from an earlier period continue as new elements are added. They call this *Asedimentation*.≡ The pace at which this happens is not a focus of their research.

Summary of research themes and questions

To summarize I will highlight the research themes and questions that come out of this literature review. As an organization forms, its founder(s) will significantly shape the salient values. As values are established, there will be congruity between *raison d'être* values and values that pertain to the organization=s principal and constraining types of activities. Values will become embodied in organizational design. This will be the initial configuration. Stabilizing forces will tend to maintain this configuration. Values and design will be mutually supportive. Decision makers will develop closed systems of value beliefs, placing some things beyond discussion. During most of an organization's history, values and design will form a configuration such that they are congruent, tightly coupled, mutually supportive, and reciprocally relational with neither leading the other. From time-to-time pivotal events will occur that will de-stabilize the configuration. The organization will move to a new stable configuration and the cycle will begin again.

There are some broad research questions that guide this study: What is the relationship between values held by organizational members pertaining to their organization and organizational design? What role do values play in change processes? What role does the environment play in change processes? The above paragraph summary brushes over several

sticky points. These raise more pointed research questions: Do values wax and wane slowly or do they change quickly? Do values and design change at the same pace and at the same time? How do crises interact with key member changes and value changes?

RESEARCH DESIGN

Research into the relationship between changing values and changing organizational design requires a holistic and dynamic analysis (Pettigrew, 1985). Multiple levels of analysis are important because values are individual-level phenomena and shared values are group- and organizational-level phenomena, and change in values may be triggered by environmental-level occurrences to impact organizational-level phenomena. Also the objects of study must be investigated through time, because values held in the past, including, and perhaps most importantly, initial values, affect both present and future values and organizational design. The same can be said of organizational design: past design influences present and future design and values. Therefore, multiple levels of analysis through time are involved. To accomplish this type of Aprocessual analysis \cong (Pettigrew, 1997) of values/design relationship through time, a study involving a large portion or all of an organization's history is necessary.

The research design for this study is a single case study. The intention is to both test and build on to the previous literature. The research design allows for the possibility of new constructs and relationships emerging during the data gathering and analysis stages of the study. The approach is to iterate between deduction (theory-testing) and induction (theory-building). This iterative process increases sensitivity to concepts, their meanings, and relationships (Strauss and Corbin, 1990). This research design is also particularly adept at getting at complex,

subjective constructs like values. It allows the researcher to build trust and to draw out participants' thoughts that are not readily held in Adiscursive consciousness (Giddens, 1984).

In the following sections I first explain the choice of the research site. Then, I discuss the data sources used; finally, I explain how I analyzed the data.

Research site

The site for this study was selected for theoretical rather than statistical reasons (Eisenhardt, 1989; Glaser and Strauss, 1967). That is to say, the theory provides hints as to where to go in order to uncover the phenomena important to this study (Strauss and Corbin, 1990). The circumstances of the selected site, a furniture manufacturer (called the AFactory in this study) provide a unique opportunity to study values and organizational design and their interrelationships. It is an extreme case. It was owned during most of its approximately 40-year life by a religious educational organization (called the ACollege) that was associated with a religious organization (called the AChurch). The Church owned the Factory directly for several years. The College founded the Factory in 1954 for purposes of education rather than for profit, but the Factory always operated in a traditional profit-oriented business domain. The primary product manufactured was upholstered furniture. The Factory went bankrupt in 1991. A group of entrepreneurs, who were members of the Church, purchased it. Through its history the organization went through significant changes in values and organizational design. My study covered the period from 1953 to 1993.

This site was also attractive because I had excellent access to the data. I am a member of the Church and I am personally acquainted with many of the key participants. Also, the organization is small enough (approximately 80-120 employees during virtually all its history)

and its history is short enough that analysis at multiple levels through time is tractable.

Data sources - interviews

I conducted 59 interviews with 52 interviewees. The average length of the interviews was approximately one and one half hours. Forty nine of the interviews were completely transcribed. I interviewed ten of the eleven general managers (one is deceased). In addition I selected employees and other knowledgeable and interested individuals as interviewees to represent all involved segments throughout all time periods of the study. Table 1 provides a breakdown of the

TABLE 1 HERE

interviewees by position. The majority of the management personnel had previously worked in the Factory as students and then as full-time workers prior to their management tenure. Thus, these interviewees generally presented their student perspective as well as their management perspective.

I used a semi-structured interview schedule adapted to the interviewees= positions and time of tenure or involvement. A primary objective of early interviews was to identify pivotal events. I asked questions relating to salient values, organizational design, and the context. I also sought the interviewees= explanations for changes in these elements.

Data sources - archival materials

Archival materials available for the various periods of the focal organization are listed in Table 2. These data are presumed to be less distorted than interview data. Therefore they were

TABLE 2 HERE

analyzed to confirm or refute factual matters, such as dates of events, flow of participants through the organization, etc. as well as provide markers of salient values held at various times.

Analysis

To facilitate analysis I developed a case study data base (Yin=s (1989) terminology) as a management system to ensure the systematic analysis of the data. Following Yin=s (1989) suggestion, the case study data base includes four components: notes, documents, tabular materials, and narratives. The case study notes are comprised of field notes from a small observational study, interview transcriptions, direct quotations from other documentary data, and accompanying commentary notes. Documents are comprised of the company documents and other documents listed in Table 2. Tabular materials include quantitative data such as the financial statements and other quantifiable data extracted from interviews and archival documents. The writing of narratives entailed the initial attempts at description and analysis of the study. In these I developed alternative plausible explanations (Aworking hypotheses≡ (Marshall and Rossman, 1989)). For support I cited case notes, documents and tabular materials to provide a Achain of evidence≡ (Yin, 1989) and a Adecision trail≡ (Guba and Lincoln, 1981, p. 122).

To facilitate the writing of narratives, I coded data from the case study data base into categories. Previous theoretical and empirical work on this topic suggested initial categories (e.g., types of values, organizational design elements, and contextual elements). I also used time categories (e.g., happenings during and between each pivotal period), categories peculiar to or especially salient in this case that emerged during the analysis process (e.g., the specific *raison d=être* values held by the members), and categories of a general nature (e.g., events that were part of the general narrative of the Factory=s history).

Segments of the data pertaining to values were the most difficult to identify, because

participants often did not explicitly separate their values (i.e., their preferences and desires) from their perception of reality. To identify value statements I looked for words and phrases such as Ashould,≡ Aought,≡ Aprefer,≡ Adesire,≡ Awant,≡ Alike,≡ Ahave to have,≡ Ahad to,≡ etc. Also I looked for other words that participants used that likely referred to values such as Aobjectives,≡ Aphilosophy,≡ and Amentality.≡ Unstated values may affect behavior and thereby impact organizational design. However, in order to avoid tautological reasoning I did not attribute values to the actors based on their behavior. Values must have been explicitly stated either in archival documents or in interviews.

Coding involved several iterations as codes were developed. Once finished, I used *The Ethnograph* (a computer program designed to aid in the management of qualitative data) to aid in the analysis of the notes and transcribed interviews.

CASE DESCRIPTION

I identified four pivotal periods in the history of the factory. I analyzed each pivotal period as an embedded unit of analysis (Yin, 1989). The primary unit of analysis is the organization from founding to 1993, with pivotal periods being analyzed within the context of the case and the case within the larger external context X the environment. The pivotal periods are listed in Table 3

TABLE 3 HERE

and described in the following sections. Table 4 summarizes the values and design elements for each of the four pivotal periods.

TABLE 4 HERE

P₀ - Founding period

Because all members were new, the Factory's founding period was its first pivotal period. The founding period began in 1953 when the founders first began planning for the new venture, and it continued until the initial configuration of values and design was established by 1955. The Factory began very small, but grew rapidly.

***Raison d'être* values** The most salient *raison d'être* value during the founding period was the desire to provide work opportunities for students attending the College. Two different valued outcomes from the provision of student labor emerged. The first is of an economic nature: the desire to aid students in paying their tuition at the College. The second is of an educational nature: the desire to teach students the value of work, how to work in general, and a trade. These are not logically mutually exclusive values, so individuals could hold both at the same time without experiencing dissonance. The participants also valued profitability secondarily. They wanted the Factory to at least break even. They viewed this as a minimal *raison d'être* value.

Values that pertain to the principal and constraining types of activities These values were congruent with the educational *raison d'être* values. The decision makers desired products that were labor intensive so that low-skilled students could be centrally involved in production. The typical bottom line measure of success was eschewed for student-centered measures: success should be evaluated by the extent of students' development.

Also congruent with educational values the founders desired the Factory to be an integral part of the College, and they wanted to primarily recruit students as first-line workers. Members disagreed about how integrally the Factory should be organized with the College. The College president wanted a very close relationship, organizationally. He wanted no separate board, banking or record keeping. His values in this regard were the salient ones.

Organizational design Organizational design very clearly embodied the salient values.

The organizational structure began with two levels: the founding co-managers and first-line workers who were almost entirely students. The College president was also directly involved in day-to-day management. The products were simple and the markets were geographically close. There was little job specialization or formalization. Selection criteria included unique factors: all student workers were drawn from the College's student body and all full-time employees were members of the Church. During this period the College's class schedules and the Factory's work schedules were mutually adjusted to accommodate student's work and class schedules.

During this period success was measured with both financial data and with student employment data. Management in board reports and students in their student paper commonly reported both financial data and student labor data.

Context As was true throughout the Factory's history members viewed two especially important elements in their external environment as significantly impacting performance: the economic environment and the Church constituent environment. The economic environment that the Factory faced during the founding period was quite munificent. A statement by one of the original student workers, who later became sales manager, epitomizes participants' perceptions during this period: A what you could make, you could sell. Following this period members perceived ever increasing competitiveness. The College's constituency was comprised of the students' parents and other interested Church members. Members of the constituency (especially parents) valued having work opportunities available for students. These values waned throughout the Factory's remaining history.

P₁ - Key member changes and financial crisis

Two significant factors support the contention that the period from 1966 to 1972 was a pivotal period. First, the Factory's top management changed relatively rapidly, including the departure of the last of the three founders. Because founders have an especially powerful opportunity to determine the direction of the organization, their departure is a particularly significant key member change (Schein 1991).

The second significant factor during this pivotal period was the extremely poor financial performance of the Factory and the College. In 1967 the College board was on the verge of closing the Factory due to excessive losses. The perception of financial crisis had abated by 1968, but it was not until 1972 that top management had stabilized and charted a new direction for the Factory. Four general managers held that position during this period. Of these two had completed business degrees, a significant factor in their selection.

Raison d'être values Through to the end of P₁ the three *raison d'être* values established in the founding period continued to be widely held by members. However, their commitment strength changed. In this way the saliency of the desire for profit increased during this period. The educational values had waned when compared to the founding period. As a result of these changes, by the end of the period the desire for profit had become the most salient, but it was only slightly more salient than the desire to provide work for students for economic reasons.

Values that pertain to the principal and constraining types of activities Once the founder, who was president of the College, departed, the desire to separate the governance and decision making of the Factory from the College became salient. At the same time a value that continued to strengthen throughout the Factory's history emerged: the desire to formalize budgetary planning and control.

Organizational design Some separation between the College and the Factory happened during this pivotal period. The Factory began sponsoring two important social events apart from College personnel: Christmas parties and summer picnics. A symbolic indication of the separation was a Factory name change. The name of the Factory was changed from a name associating it with the College and with an educational program to a name that identified it with the region where the Factory is located.

Specialization and formalization increased somewhat during this period. Simple assembly lines were implemented. The first available archival evidence of any written regulations, policies, job descriptions, etc. were written during this pivotal period. Student worker absenteeism for purposes of education (e.g., need to study) and extracurricular College activities (e.g., music group tours) was tolerated. Willingness to work around student life was not as strong as it had been at founding.

During this period several issues surrounding planning and control surfaced. Managers attempted to implement more controls in the form of budgets, goals, costing, etc. With board approval, they established a separate accounting system. They also attempted to make decision-making processes more independent from the College.

Reports made to board members and constituents typically included a combination of financial data and student employment data. However, by this time growth in sales was also becoming an indicator of success.

P₂ - Key member change, change in ownership and financial crisis

Again both defining aspects of a pivotal period apply to the period from 1983 to 1987 (period P₂). Key individual changes were made due to members' perceptions of crisis. After ten

years of virtually no change in top management, significant turnover occurred in these positions. One interested outside observer noted that Athey went through some traumatic experiences. They were changing managers like dirty underwear.≡ All of the top managers established in period P₁ left, and five new general managers came and four left before things stabilized. Changes in key members occurred outside the Factory when the ownership of the Factory changed from the College to joint ownership by the provincial and national conferences of the Church.

A new plant built in 1980 followed by a general economic recession in 1981 contributed to poor financial performance that continued through P₂. This led decision makers to again question the wisdom of continuing to operate the Factory. As was the case during P₁ College members perceived financial crisis in their institution concurrently.

To alleviate perceived financial crisis in the two entities, the College board decided to legally separate the Factory from the College and to conduct a fund raising drive within the College constituency. In mid-1986 the separation was implemented by transferring all three of the enterprises owned by the College to a new holding company (referred to in this paper as AHoldco≡) owned by the provincial and national conferences of the Church. Once the enterprises were in a separate holding company, the decision makers anticipated the possibility of selling shares to Church members. Factory management was disappointed with the outcome of this transfer. While the College's debt was virtually eliminated, the new corporations were burdened with more debt, and no shares were sold.

Raison d'être values From period P₁ to period P₂ neither the list of *raison d'être* values nor their rank ordering changed. However, the saliency of these values changed. The saliency of the educational values continued to weaken while the desire for profit strengthened. A new

perception regarding values emerged: to some extent participants came to believe that the desire for profit and the desire to provide work for economic purposes were competing values. Decision makers perceived the losses as so severe that they must be stopped regardless of the effect on student employment. As a result the desire to provide work for students came to be held in abeyance.

Values that pertain to the principal and constraining types of activities These values were largely unchanged from P₁ to P₂. The desire to separate from the College and the desire to formalize continued and strengthened. Management wanted the separation because they believed the denomination-mandated salary scale was too egalitarian, the governance system was too cumbersome and slow, and the College board members lacked expertise. The desire to measure success by the Abottom line≡ and other financial measures became much more salient. A new value issue arose during this period: should recruitment and selection of employees be exclusively from Church membership?

Organizational design The most significant design change occurred in the relationship between the College and the Factory. Even prior to their formal separation with the inception of Holdco, the Factory began taking a more independent path in its personnel policies and in the organizing of its functions. A separate Factory operating board was established. Official socializing between Factory and College personnel decreased gradually and then ended entirely when Holdco took ownership of the Factory. This caused emotional pain for some of the Factory employees. However, more significantly, the financial or business relationship between the College and the Factory became hostile. Factory members resented the College; as one interviewee put it Aall our problems are because of the College. If they hadn=t stuck us in this

new building ... we=d be fine.≡ On the other hand, College members attributed the College=s financial problems to the Factory. It was an Aalbatross.≡ The College had retained ownership of the land and building that housed the Factory. Rent charged by the College was a contentious issue. In these areas the relationship had become adversarial.

There were some significant changes in selection. The values held by recruits had never been an explicit criterion in selection. Membership in the Church and previous Factory or similar organization experience had been relied upon to ensure congruent values. The final general manager hired was a Church member, but he had not had previous Factory experience. He held the educational values with little commitment strength. He was selected for his experience and business acumen. The difference was that decision makers explicitly de-valued educational *raison d=être* values because of the need to deal with the financial crisis. For similar reasons, just prior to this pivotal period (in the late 1970s), management made a significant change in the selection and hiring of full-time employees: non-Church members were hired. The rationale was based on need; not enough Church members were willing and able to work to maintain the production levels desired. The proportion of non-Church members in non-management positions gradually increased through this period.

Success was measured more by financial scales (e.g., profitability measures) and less by student labor measures (e.g., number of students employed, wages paid to students, etc.). This trend continued to the end of the case study period.

P₃ - Bankruptcy and change in ownership

In comparison with previous pivotal periods, the final pivotal period of this case study was brief. The defining aspect of this pivotal period was the perception of crisis. This pivotal

period continued from the time the owners decided against any further investment in February, 1991 until new owners were established following bankruptcy in April, 1991. A degree of instability had been ongoing since P₂. Decision makers repeatedly considered the possibility of selling the Factory. They discussed bankruptcy and then declared it in 1991.

Raison d'être values The desire for profit continued to strengthen and the desire to educate students and provide tuition-earning opportunities continued to weaken, although it had not disappeared entirely. The top managers were no longer content to merely avoid losses. They had aspirations of leading the Factory to a highly profitable position. The general manager came to view student-related values as a by-product of profit attainment. That is, he believed that if the Factory was managed in the most profitable way, desired educational outcomes would be achieved concurrently.

Values that pertain to the principal and constraining types of activities In their pursuit of profitability, Factory management desired higher price/quality products and domain growth both in size of customers and in territory. Also consistent with this pursuit, financial criteria became the only desired evaluation criteria.

Management believed that in order to be profitable they must operate the Factory much more rationally. Organizing principles values were expressed about virtually all aspects of organizing. Management wanted reports, policies and procedures *written* and then explicitly implemented. They wanted to rid themselves of the vestiges of the egalitarian compensation system prescribed by the Church prior to Holdco. They wanted to improve product flow and reduce indirect, non-productive labor (statement made by the general manager). They wanted accurate and timely cost information. Management and the board came to believe that the

governance system mandated by the Church did not work for operating business. Therefore, they believed that the Church *should not* own and operate businesses. Finally, just prior to this pivotal period, the general manager came to believe that management positions should be open to non-Church members.

Organizational design By this time virtually no relationship existed between the Factory and the College. Decision making became much more formalized. Formal planning sessions and meetings were common. Several human resource design elements were significant. The requirement that management personnel must be Church members became an issue during this period. Under pressure from the general manager, in 1988-89 the Factory board approved the hiring of three top-level managers who did not hold Church membership. According to one top manager (not one of the three), this was cause for some flack and a little static among Church administrators and membership. Some members and constituents thought it especially scandalous that one of the three smoked in the Factory office.

One of those three managers hired told me that he was invited to work in the Factory to help change the mentality of the supervisors and workers. Based on the available data this hiring is the first one in the history of the Factory that a manager was hired with the explicit purpose of changing values. In fact, it was the first time that managers consciously attempted to change values.

DISCUSSION AND CONCLUSIONS

The central purpose of this section is to elaborate the theoretical framework based on the findings. To do this I begin by discussing the initiation and maintenance of values and organizational design. Secondly, I discuss the pace and timing of changes in salient values and

organizational design. Thirdly, I explore the roles of perceived crises and key member change in organizational change. I conclude the section with an elaborated theoretical framework.

The initiation and maintenance of values and organizational design

As expected, the founders of the Factory significantly shaped the salient values present in the Factory. The principal founder founded the Factory because of strongly held values. He passionately worked to fulfill these values. He was a strong leader with significant influence on other organization members.

Selection of personnel was a significant factor in the establishment of initial salient values. The principal founder purposefully selected people who either held values similar to his or were amenable to adopting and implementing his values. His deliberate hiring did play a vital role in defining the ... central values of the organization (Kimberly, 1987, p. 235).

Congruity between *raison d'être* values and values pertaining to organizing activities developed during the founding period consistent with the theoretical framework. All of the values that pertain to the principal and constraining types of activities were congruent with the most salient *raison d'être* value, the desire to provide work for students for educational reasons. These values became embodied in organizational design in order in time as expected.

As proposed in the theoretical framework, some forces caused resistance to change, and other inertial forces mutually supported established values and organizational design. Evidence shows that Factory decision makers developed closed systems of value beliefs that led them to place some things beyond discussion. An example of this relates to recruitment and hiring. For many years the hiring of non-Church members was unthinkable. This served to provide the Factory with management and other employees who held the value of providing work for

students so that they could pay for a Christian education that propagated the Church's beliefs. Recruitment and hiring of individuals who held salient values helped maintain values and organizational design. Resistance developed when recruitment was extended to non-Church members, particularly when nonmembers were recruited for management positions. Eventually, of course, management overcame this resistance.

There was another significant aspect of selection that helped maintain values. Beginning as early as period P₁ most new managers had previously worked in the Factory as students. Also, many of the board members and College administrators had previously worked in the Factory or similar organizations in other Church-operated educational institutions. It was common for interviewees to point out that these members with previous Factory experience valued the benefits they had received from their work (both educational work experience and financial remuneration used for tuition). They desired to provide that opportunity to other students. This desire to provide work opportunities for students was a salient value throughout most of the Factory's history, and recruitment was a primary means of maintaining it. Because management members were Church members devoted to making a Church-centered education available to students, and they were former students with Factory experience themselves, they were well entrenched in the salient values of the Factory.

Pace and timing of changes in salient values and organizational design

In the theoretical framework section I suggest that significant changes in *both* values and design generally occur concurrently either in a rapid, discontinuous fashion or in a slow waxing/waning fashion. This case sheds light on the pace and timing of value and design changes. Values and design did not always change concurrently. The pace and timing of change

of values and design were more complex. There was a mixture of waxing/waning and rapid, discontinuous changes.

Value changes most often followed the continuous pattern of waxing and waning. The relatively distinctive >personality= [comprised in part by values]≡ of the Factory was not easily changed≡ (Kimberly, 1987, p. 233). For example, the *raison d=être* value of student labor provision for educational reasons gradually lost saliency throughout the Factory=s history. Likewise, the desire to earn a profit intensified gradually. Along with this, the desire to be like a regular for-profit business grew stronger throughout the Factory=s history.

The pace of change in design varied. Some organizational design elements changed gradually, closely following waxing or waning values. One example is the gradual increase in formalization: more formal meetings and more written memos, rules and regulations, job descriptions, etc. This incrementally increased throughout the history beginning in P₁. The pace of change was no quicker during pivotal periods than it was between pivotal periods. There has been much research to support a strong correlation between formalization and age and size (Weber, 1947; Pfeffer, 1981; Mintzberg, 1989; Kimberly, 1987). While I have attributed this elaboration to the increasing desire to be business-like and seek profit, I must recognize that aging and growth also likely contributed to the increasing formalization.

Another incremental design change example is that of performance evaluation mechanisms. The decrease in the reporting of student employment data happened quite gradually in small incremental steps. First the regular reporting (always a part of the financial statements) of these data ended in the late 1970s. Then the inclusion of these data in reports from time-to-time gradually diminished. Then finally the data were not even gathered. The desire to measure

success by these data apparently decayed or waned imperceptibly over many years, and the measurement mechanism followed this decay.

Other design elements changed more rapidly and discontinuously during pivotal periods. The changes re-aligned them with values that were waxing or waning continuously. Throughout the Factory's history there was an ever increasing desire to separate from the College. The design elements that embodied this desire changed during pivotal periods. Separate accounting and banking were implemented during period P_1 . During P_2 a separate operating board was set up and then the Factory was legally separated from the College. During the final pivotal period bankruptcy and sale to private owners occurred.

Another example of waxing/waning values associated with a series of abrupt design changes during pivotal periods involves the desire for profit and to be more business-like. These values gradually intensified, while the selection criteria for top managers changed in stages. During the founding period profit values were explicitly secondary to educational values. The fact that both of the general managers were previous employees of the College and one of these was an educator reflects this value. During the second pivotal period decision makers actively sought business-oriented general managers.

During P_2 decision makers continued to desire business-educated and/or business-experienced people to fill the top management positions. They hired several managers who met this qualification, but lacked previous Factory (or similar student-employing organization) experience. These managers were Church members, so they valued the furtherance of the Church's interests. However, student employment provision values had not been ingrained experientially as had been the case with previous managers. Finally, in the last few years of the

case study, managers were hired who had neither previous Factory experience nor Church membership. These selections were congruent with a highly salient desire for profit.

It is interesting to note that the most significant design changes occurred during pivotal periods. The above examples of sudden changes during pivotal periods (i.e., separate accounting and banking, separate board and legal separation, and bankruptcy and sale; and changes in selection criteria) are the most significant changes that moved the Factory from an educational department of the College to a profit-oriented manufacturing business.

The roles of perceived crises and key member change in organizational change

As I note above, previous research implicitly suggests two possible sequences involving crises and key member changes: (1) crisis, then key member change, and then value change; and (2) crisis, then value change, and then key member change. In addition, as found in this case, a third sequence may occur: (3) value changing continuously, then crisis leading to a re-alignment of values with design. A part of the re-alignment is the recruitment and selection of key members who espouse the current salient values.

Because of the elusive nature of participants' values, it is difficult to determine precisely whether changed values led to recruitment of members holding those values or recruitment of members with different values (perhaps unintentionally) led to drift in values. However, I identified examples where each of the three sequences occurred. An example of the first sequence (i.e., crisis, then key member change, and then value change) is the recruitment of the final general manager. Decision makers valued educational outcomes, but they held this value in abeyance due to extremely poor performance (i.e., perceived crisis). Ignoring valued educational outcomes (because they were held in abeyance), they recruited this general manager who valued

educational outcomes only as a by-product of pursuit of profit. He deliberately tried to reduce the saliency of the educational values.

An example of the second sequence (i.e., crisis, then value change, and then key member change) is found in the recruitment of two general managers during P₁. The poor performance (perceived crisis) caused decision makers to value a stronger business orientation. They deliberately sought general managers who were business-educated. They had become more concerned with profit and therefore selected managers who were more profit-oriented and able to attain profit, rather than selecting education-oriented managers.

The third sequence (value changing occurs continuously, then crisis leading to a re-alignment of values with design) characterizes the most significant changes in this case. The desire for profit and the desire to separate continuously strengthened throughout the Factory's history. During each pivotal period (i.e., times of crisis), design elements were realigned with the changing values (e.g., separate board, separation in ownership within the Church, and finally entirely separate ownership).

Elaboration of the theoretical framework

Figure 1 diagrammatically illustrates the theoretical framework elaborations I have discussed based on these findings. It highlights the most predominant change type found in this case (i.e., the third sequence discussed above X value changing occurs continuously, then crisis leading to a re-alignment of values with design).

FIGURE 1 HERE

This new theoretical framework significantly adds to our understanding of transformations by highlighting how values change. Tushman and Romanelli (1985, p. 175) were

correct in stating that a firm's core values are the most pervasive aspect of organizations. However, my current study fills a gap in their work. Their understanding that core values and beliefs are highly pervasive combined with a suggestion that a degree of coupling [exists] between activity domains [i.e., core values and beliefs, strategy, power distributions, structure, and control systems] is the basis for arguing that changes in core values will be associated with cascading effects in strategy, power, structure and controls and that the most radical form of reorientation [i.e., re-creations] involve discontinuous change in core values (Tushman & Romanelli, 1985, pp. 175 & 179). In their 1994 research (Romanelli & Tushman, 1994), they explore whether organizational transformations fit the pattern predicted in the punctuated equilibrium model (p. 1160) which is one of radical, brief, and pervasive change ... including most or all key domains of organizational activity [as listed above, except in their 1994 article they call the first domain >organizational culture= rather than >core values and beliefs=] (p. 1143). Evidently, they assume that the coupling among the key domains of organizational activity is tight enough that it is not necessary to gather data pertaining to the most pervasive domain (i.e., core values and beliefs or organizational culture), because they dropped the culture and control systems domains of activity (p. 1147) due to infrequent and inconsistent reporting of these domains by organizations. They found no evidence ... to support an argument that very small changes accumulated over longer periods to accomplish fundamental transformation (p. 1159). My current study shows that change in some elements of organizational activity (i.e., design elements) may change discontinuously and rapidly, following the punctuated equilibrium model, while others (i.e., values) may follow an incremental pattern

(i.e., wax and wane slowly). Thus, there is a challenge here to some of the conventional wisdom about change.

Implications for future research

Following Yin's (1989, p. 43) suggestion to apply Analytical generalization, as opposed to Statistical generalization, involves identifying contextual conditions that give clues about other cases to which this study's elaborated theoretical framework will apply and equally important, not apply. There are four contextual elements involved in this case organization that typify the case. Firstly, the Factory could be described as a normative organization with a relatively high degree of value homogeneity. The active constituents tended to be single-minded in the fundamental purpose for the Factory: the furtherance of the Church and its mission. Throughout most of the Factory's history its members were selected from this constituency. The compensation system (i.e., egalitarian, thus not attractive for top positions) helped ensure management recruits self-selected only if they held the salient values. This contributed to the high degree of homogeneity of values.

A second significant contextual element was the type of ownership. The constituent/owners had no expectation of receiving profit. A third significant contextual element is the combination of *raison d'être* values held by Factory members. In the view of its members, this organization existed to provide work for students as well as attain at least a minimal level of profit. A fourth contextual element is the association with education. The Factory started as a department of an educational institution and was closely associated with this institution throughout most of its history.

The search for further case sites to test the generalizability of this theoretical framework

should be done first to establish literal replication; that is, select cases with similar contextual conditions predicting similar results (Yin, 1989, p. 53). The best cases to establish this type of replication are other enterprises owned by the College or other similar educational institutions. As a part of educational reform, some schools are developing school-based enterprises and cooperative education programs to address arguments that students need more hands-on work experience, more exposure to business, and more chances to learn useful skills and acquire good work habits (Stern et al. 1995; Pauly, Kopp and Haimson, 1995). That is, they are pursuing values similar to those pursued by constituents in this case.

The logical next step is to begin to select cases that involve somewhat varied contextual conditions. There are organizations with traditional ownership (i.e., owners expect to receive profit) that espouse a combination of *raison d'être* values including the pursuit of profit and some other non-financial pursuit. For example, Ben & Jerry's Homemade, Inc. strives to be a values-led business meaning they want to have fun, ... earn a living, and ... give something back to the community (Cohen and Greenfield, 1997, p. 29). The Body Shop espouses a similar desire to achieve non-financial ends for the benefit of people other than owners along with the pursuit of profit. These types of value-driven organizations stress value congruity in their selection processes and they stress socialization processes resulting in a high level of homogeneity among members. These similarities suggest that the findings of this case may be generalizable to these organizations.

As contextual conditions become increasingly dissimilar I would expect that the findings of this case will not apply. Organizations with less homogeneity among members would not likely have the same absence of value conflict. In this type of organization I would expect it more

likely that crises would be confronted by more drastically changed values, because it is more likely that members holding competing alternative values would be ready and willing to present their values as replacements. Therefore, the model developed from this case study would not likely fit. More abrupt discontinuity (and less waxing and waning) may occur.

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Table 1 Interviewees by position

| Position | Number of interviewees |
|-----------------------------|------------------------|
| General managers | 10 |
| Other top managers | 7 |
| Middle & low level managers | 14 |
| Full-time workers | 5 |
| Students | 7 |
| Others | <u>9</u> |
| TOTAL | 52 |

Table 2 Archival data sources

Minutes of the College - regarding the Factory
Minutes of the Holding corporation
Minutes of the Factory board
Minutes of the National Conference of the Church - regarding the Factory
Minutes of the Provincial Conference of the Church - regarding the Factory
Records regarding Acquisition of industries by the Holding corporation
Internal memos
Employee records
Correspondence files
Financial statements
Other financial records including breakdown of student/non-student labor
Payroll records
Planning documents (e.g., break-even analysis, sales meetings, and numerous committees)
College student newspaper
College alumni newsletter
College student yearbook
College history studies for Masters Theses

Table 3 Pivotal events

P₀ - Founding (1953-55)

P₁ - Changes in key members and financial crisis (1966-72)

P₂ - Key member change, change in ownership and financial crisis (1983-87)

P₃ - Bankruptcy and change in ownership (1991)

Table 4 Hierarchy of values and embodiment of values in design

| | P ₀ | P ₁ | P ₂ | P ₃ |
|--|--|---|---|---|
| <i>Raison d'être</i> values | Desire to provide work for students for educational reasons (most salient) | Desire for profit (most salient) | Desire for profit (most salient) | Desire for profit (most salient) |
| | Desire to provide work for students for economic reasons (somewhat salient) | Desire to provide work for students for economic reasons (somewhat salient) | Desire to provide work for students for economic reasons (held in abeyance) | Desire to provide work for students for economic reasons (by-product) |
| | Desire for profit (least salient) | Desire to provide work for students for educational reasons (least salient) | Desire to provide work for students for educational reasons (least salient) | Desire to provide work for students for educational reasons (product) |
| Values that pertain to the organization's principal and constraining types of activities | Desire to produce labor-intensive products | | | Desire for new compensation system to hire non-Church members |
| | Desire to organize as an integral part of the College | Desire to separate governance from College | Desire to separate | Desire for the Church get out of business |
| | Desire to recruit students for all first-line positions | Desire to be more formalized and business-like | Desire for increased formalization | Desire for increased formalization |
| | Desire to measure success by student development | | Desire to measure success by Abottom line | Desire to measure success by financial measures |
| Organizational design | Accounting & banking & governance tied to College | Separate social events | Separate operating board and then legal separation | Almost no relations with College |
| | Simple structure | Name change | Rental rates contentious | |
| | Simple products and close markets | More complex products | More complex products and more distant markets | |
| | Little job specialization or formalization | Increased specialization and formalization | | Increased formalization |
| | Work force almost entirely students & all full-time employees Church members | Attempt to implement more controls | Non-members hired | Non-members hired top management positions |
| | Mutual adjustment of work and class schedules | Student absenteeism tolerated | | No special treatment student employees |
| | Success measured with both student employment and financial data | Success measured by financial and student employment data and growth | Success measured with financial scales and somewhat by student labor scales | Success measured by profit and sales |

