

END-OF-CHAPTER EXERCISES

TOOLKIT EXERCISE 2.1

Critical Thinking Questions

Consider the questions that follow.

Giving Voice to Values:

Please read the case at the end of the book, “Not an Option” and consider the following questions:

- Who are the important stakeholders that Ajith needs to work with?
- What are the main arguments that Ajith will need to counter? In other words, what are the reasons and rationalizations that Ajith should expect to encounter with the different stakeholders?
- What levers can Ajith pull to increase the chances that Laurent’s drugs will be registered? In other words, what power and/or influence does Ajith have to get what he wants?

Gentile talks about the importance of Giving Voice to Values in order to frame and address ethical issues and change. Meet in small groups and discuss an issue organizations have to deal with that has conflict of values imbedded in it. Would positive change be advanced if we were to adopt the methodology recommended by Gentile?

This chapter explored a number of change models. Pick one of them and discuss their implications for change leaders.

[Kotter's 8 Step Organizational Change Model – Sydney Boone, Ayushmaan Baweja and Steven Thomsen](#). – Video of 12.67 minutes.

This video delves more deeply into Kotter's process model of change.

- What are the key lessons or takeaways you got from the video?

- How do they help you think about the process of leading change?

- Compare this approach with the Change Path Model. What are their similarities and differences and how would you work with both models if you were leading change?

TOOLKIT EXERCISE 2.2

Analyzing a Change Process through The Change Path Model

Part I

Interview a manager at any level who has been involved in change with his/her organization. Ask the person to describe the change, what s/he was trying to accomplish and what happened. Use the following questions as guides for the interview.

- How was the desired change identified? What was the reason for the change?
- Describe the gap between the organization's current performance and the desire future state?
- What was the vision for the change? How was that vision communicated throughout the organization?
- How were the formal structures, systems, and processes involved in the change?
- How were the recipients of change and other key stakeholders engaged in order to get them on board with the change?
- What tools and trainings were used as the change was implemented and how did the leadership make the change stick?
- What challenges surfaced that weren't accounted for in the original change plan?

- What were the results of the change process? Did the results reflect the original vision? How was measurement used to facilitate change at different stages of the process?

Part II

After the interview, describe the process of the change by answering the following questions that are related to **How** they managed the process:

- How did the manager work to make things happen?
- Who was involved?
- How did they persuade others?
- What resources did they use?

Also describe **What** was being changed? Why were these things important? How did these changes help the organization?

- As you reflect back on the interview, which do you feel was more important to the impact of the change: how things were changed or what was changed?

Building Community at Terra Nova Consulting

INSTRUCTOR'S MANUAL

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CASE OVERVIEW

Building Community at Terra Nova Consulting describes the actual challenges faced by an engineering and environmental services consulting firm that experienced a severe organizational crisis involving deep internal cultural divisions. The firm was founded upon certain core values and principles of collegiality, self-actualization, employee ownership, and technical excellence but had gradually drifted away from these over time. Correspondingly, the junior professional staff perceived a fundamental disconnect between Terra Nova's professed and actual cultures, viewing Terra Nova as having an authoritarian, task focused culture, geared towards serving the partners (as revealed by an Organizational Cultural Inventory.)

Several challenges face the new president (Terry O'Reilly). First, is the need to improve the firm's project management procedures to maintain profitability. Second, is the pending retirement of several long-serving senior partners, and potential impact upon client relations and organizational knowledge. Third, is the lack of new investment in Terra Nova stock, increasing corporate financing costs and creating pressure to go public. Fourth, is the cultural divide between the partners and junior professionals, and negative culture experienced by non-partners. Finally, is Terry's ability to convince the partners to support his plans for change. Survival as an elite firm depends upon Terry's ability to repair the cultural divide and convince the next generation of professionals to continue the founders' vision of a collegial, elite, employee-owned firm, or define a new vision for the firm.

CASE OBJECTIVES

The primary objective of this case is to introduce students to the complexity of organizational cultural change. A secondary objective is to address the interconnectedness of organizational elements, and the importance of alignment between structure, strategy, culture, decision-making, personnel, and management style.

This case involves a particular organizational "crisis," adding a time pressure dimension where management does not have the luxury of detailed analysis but needs to take quick action. The key challenge facing students will be the need to prioritize issues and responses, recognizing that some problems cannot be resolved quickly, nor solutions dictated by senior management. The context of a professional service firm presents an additional dimension, as students are more likely to be familiar with manufacturing, retail, and hierarchically managed organizations.

After completing this case, students should recognize the challenges faced by senior managers of deciding what problems to address, how/when to address them, the difficulty of cultural change, and the subtleties of managing highly educated, semi-autonomous professional workers through cultural controls (Hinings,

Brown, and Greenwood, 1991; Robertson and Swan, 2003; Ouchi, 1980). Specific student learning objectives are outlined in greater detail below within the teaching guide section.

RESEARCH METHODS

This case is based upon a mixed-methods longitudinal case study. Access was obtained through personal contacts between the authors and members of the company (neither author has been employed by the firm.) Terra Nova is the fictitious name of an existing, successful, international engineering and environmental services consulting firm with over 3,000 employees and offices in more than twenty countries. Several measures have been taken to disguise the firm's actual identity. The firm's name was disguised with a pseudonym, fictitious names were given to employees, key dates were altered, and financial data were proportionately adjusted. As this is a privately held firm, limited public information is available on the company, thus students are unlikely to access any additional information.

The key aspects of the case are constructed around the findings from semi-structured interviews, archival documents review, and the results from the third party Organizational Culture Index (OCI) study. Most of the quotes are verbatim (with slight grammatical modifications) in an attempt to preserve their authenticity, and were drawn from the semi-structured interviews. As such, the opinions expressed by the respective members were taken at face value, as they were corroborated by other sources.

COURSES AND LEVELS

This multi-faceted case can be used in a variety of ways and contexts including radical organizational change, organizational development/transition (older to younger generation), the management of professional/knowledge workers (Robertson and Swan, 2003), cultural based management control (clan control—Ouchi, 1980), and cultural diagnostic tools (organizational cultural inventory—Cooke and Szumal, 2000; competing values framework—Cameron and Quinn, 2011).

We suggest that this case can be used at the graduate level, but that it would also be suitable for an advanced undergraduate class (as field tested). It would be best suited to an organizational change or organizational development course as the basis for exploring various approaches to change including different models (e.g., Lewin, 1951; Kotter, 1996; Burke, 2008; Collins, 2001), methods (e.g., T-groups, top-down, competing values framework, action plan—Cawsey, Deszca and Ingols, 2012) and processes (e.g., teleological, evolutionary, dialectical, and life cycle—Van de Ven and Poole, 1995). The case could also be used as part of the organizational change component in the following advanced courses: organizational behavior, organizational culture, organization theory, human resource management, and strategy.

We recommend providing students with the case in advance, giving them time to review it in detail, and asking them to consider what the problems are, and how Terry should respond. Alternatively, students could be assigned the case as a group project, allowing them time to consider and develop a more detailed response.

FIELD TESTING

Previous versions were field tested with two classes of fourth-year organizational theory students during the 2011–2012 academic year. There were about fifty students in each class. The case was used late in the

course to illustrate the influence of culture, structure, and management style upon an organization, and test students' ability to integrate and apply course material. The most recent version was field-tested with a fourth-year organizational theory class as a final exam (case distributed in advance), asking students to consider both how to change Terra Nova, and the implications of revising organizational elements (structure, strategy, culture, etc.).

These classes used Daft and Armstrong's (2009) *Organizational Theory and Design* (First Canadian Edition) text (instructors may also use their 2011 Second Edition). The first class used the case as an integrative, open-book final exam, while the second class used it as an integrative, course summary/review case. The first class was provided with the case three days in advance to the examination, with four specific questions posed for the three-hour examination:

1. Terra Nova Consulting is part of the professional service firm industry, providing professional assistance and technical advice to its clients. Given its operating environment and the nature of its business, describe what type of organizational structure, strategy, culture, decision making style, and power relations would be best suited to this firm and why. (30 marks)
2. Discuss the challenges associated with managing professional workers, and how Terra Nova's strategy and structure may affect this. (20 marks)
3. What actions could be taken to make Terra Nova's culture more attractive to junior professionals? How would you bridge the gap between the junior and senior members? (20 marks)
4. Thinking about the various change models/processes covered in class, discuss how the various models could be used to change Terra Nova. Selecting one of these models as the best option, how would you make this a "Great" company? (30 marks)

Student performance on the final exam did not vary significantly from previous final exams using alternate integrative cases. Informal feedback suggested that students found the case interesting, and could relate to the perceived gap between the junior professionals and the partners. Students did not appear to have difficulty appreciating the need for and difficulties of cultural change; however, they were less able to identify with the context of a professional services firm. Field-testing of the most recent version involved questions similar to the discussion questions provided below, and experienced similar results. One aspect some students continue to have difficulty appreciating is the customized nature of work performed, where innovation is often integral to completing the project, as opposed to new product/service development.

LEARNING OBJECTIVES

The primary objective of this case is to introduce students to the complexity of organizational cultural change. One of the key takeaways should be the lack of a simple, easy fix for the cultural divide at Terra Nova. What should become apparent is that successful change will require a series of related, consequential actions. Additional objectives include:

- Understanding the interaction/fit between culture and structure
- Learning about how to manage professional/knowledge workers in the absence of formal hierarchy
- Understanding how to manage with soft social controls through organizational culture

- Addressing intergenerational differences in attitudes, values, and beliefs
- Making decisions under time pressure and ambiguity
- Framing change (as leaders)
- Implementing change (as managers).

By adopting the role of the new president (Terry O'Reilly), students can experience the uncertainty and pressure facing senior decision makers during times of organizational crisis where there are no readily apparent answers, but there is urgency to find a solution. In addition to managing radical change, the president also needs to address the expectations associated with being a new leader.

SUGGESTED TEACHING PLAN

As an integrative case, students should have been exposed to and covered concepts related to organizational structure, culture, strategy, decision-making, leadership, and change. The field test course used Daft and Armstrong's (2009) text, and covered the chapters on strategy (Ch. 2), structure (Ch. 3), environment (Ch. 4), organizational life cycle (Ch. 9), culture (Ch. 10), change (Ch. 11), decision-making (Ch. 12), and politics and power (Ch. 13), prior to in class discussion of the case. The following section highlights some of the key material related to these topics, prior to outlining how a class discussion might unfold.

Theoretical Background

As noted above, we expect that students will have covered a variety of theories and concepts related to organizational theory, change, and management prior to attempting this case, either as part of this course, or in their overall program of study. More specifically, students should have received instruction on organizational structure, culture, strategy, and change. Background in human resource management, leadership, organizational behavior, organizational development (Cummings and Worley, 2005), financial and management accounting would also be helpful, but are not essential.

- In terms of structure, students should be familiar with the basic organizational design structures (e.g., functional, divisional—Daft and Armstrong, 2009), and/or Mintzberg's (1981; 1983) archetypes (e.g., professional bureaucracy, adhocracy). Given the professional nature of this firm, Mintzberg's archetypes are recommended as models for ways of organizing work and employees.
- For strategy, certain strategic orientations will be better suited to particular environments, and certain structures better suited to executing particular strategies. We suggest discussing Terra Nova's strategy using Porter (e.g., low-cost, differentiation) and Miles and Snow's typologies (e.g., analyzer, defender) as background, prior to discussing how to approach change.
- Terra Nova has been presented as reflective of a clan culture (Ouchi, 1980) where social rather than formal controls are important. Terra Nova has a strong community orientation, built upon mutual adjustment, socialization, and member organizational commitment.
- The management of professional workers differs from that of more directly managed workers (found within traditional hierarchical, functional, and machine bureaucracy organizations), particularly in terms of worker autonomy and expectations. Professional workers are typically more self-directed

and motivated, often engaged in innovative knowledge work rather than the delivery of standardized products and services.

- Finally, with respect to change, a variety of approaches are available, each with particular advantages and nuances (Burke, 2008; Demers, 2007). Among the key distinctions are an incremental vs. radical pace, teleological vs. evolutionary process, top-down vs. bottom-up directed, and the sequencing of actions (Amis, Slack, and Hinings, 2004).

Structure - Terra Nova does not fit the typical machine bureaucracy or product-oriented firm model addressed in many textbooks, but rather is reflective of Mintzberg's (1983) adhocracy form, comprising teams of professionals from across the firm, who come together as needed to complete various projects, and are then disbanded upon completion. Thus, while employees may be physically located in adjacent offices, they may be working on completely different projects (or be from different office locations). Students can be introduced to the differences between the various organizational structures (design), and how these may affect change at Terra Nova (facilitate or impede). The case can also be used to discuss the relationship between different structures and firm size (life cycle stage), and how this may affect managing employees and organizational performance.

Strategy - Two key approaches to describing organizational strategy involve industry position vis-à-vis competitors, and strategic orientation. Porter (1980) discusses positioning in light of a niche versus industry-wide perspective, and low-cost vs. differentiated strategy. One of the challenges firms will experience as they grow involves evaluating transitioning from a niche to a more industry-wide position, versus the relative merits of staying within their current market space. Miles and Snow's typologies address different competitive perspectives, ranging from a first-mover orientation (prospecter) to a follower strategy (reactor). Each strategic orientation will have operational implications (e.g., innovation, risk taking, efficiency focus), including whether the firm pursues emerging opportunities, how it prices its services, their quality, and its emphasis upon cost control.

Culture - Clan culture organizations (Ouchi, 1980) are characterized as having a community orientation, reflective of a natural system. Within natural system organizations, there is greater attention to human relations and a collective consciousness, necessary to achieve a shared purpose among members. Discussion of how such organizations function and the importance of corporate culture, can be related to Collins and Porras' (1994) *Built to Last*, and Collins' (2001) *Good to Great*, to address the importance of organizational vision and mission, core values and beliefs, rites, and ceremonies (Trice and Beyer, 1984), symbols and artifacts, and socialization and social controls (see also Deal and Kennedy, 2000—*Corporate Cultures*). The key here is cultural fit (Collins, 2001—"the right people on the bus"), and the importance of due diligence in the selection and socialization of new members (Merchant, 1998, Ch. 4—personnel and cultural controls).

Professionals - This case involves the management and control of professionals engaged in knowledge work (Hinings, Brown, and Greenwood, 1991; Robertson and Swan, 2003), which involves a different approach from more top-down managerial directed and task oriented organizations. Professional autonomy (Leicht, 2005; Leicht and Fennell, 2001), values and norms are important, and may "conflict" with organizational goals and objectives. Soft management controls are better suited to managing professionals than traditional forms of control (e.g., bureaucratic rules, financial incentives).

Change - If Demers (2007) or Burke's (2008) summary books on organizational change are used as course texts, students could be asked to consider which of the various approaches described would be appropriate. If the focus is upon organizational development or change, approaches such as Lewin's three-stage model, Kotter's (1996) eight-step model, Collins (2001) *Good to Great*, or Cameron and Quinn's (2011) Competing Values Framework could be reviewed as background. If Morgan's (1998) metaphors book is used, the machine, brain, culture, and political systems metaphors may be referenced, along with flux and transformation (for dialectical change). Collins' *Good to Great* (2001) could also be used as the framework for instituting change (Level 5 leader, right people on the bus, flywheel effect, hedgehog concept, stop doing lists). Using Morgan or Collins would also reflect a holistic perspective on change.

Class Discussion

Three factors will be important in shaping how students respond. First, do students believe Terra Nova is in financial difficulty? This is likely to affect their perception as to the urgency of change, and corresponding timing of actions.

Second, do students agree that maintaining the current employee ownership model is critical as suggested by the senior partners? Moving towards public ownership has certain implications for a professional service firm such as a greater focus upon shareholder returns and meeting financial targets that may compromise a focus on quality. Key from the partners' perspective is that a reduction in employee ownership may result in a reduction in personal responsibility for what occurs in the firm, as individuals do not have a vested interest. Going public may also have implications for dividends and share valuation.

Third, can students identify with the challenges associated with managing the professionals at Terra Nova? These challenges include:

- the ambiguity of organizational power and politics for junior professionals
- the changing "needs" of junior professionals (i.e., work/life balance)
- the increasing diversity of professional backgrounds of firm members
- the challenges of managing under a decentralized, flat structure
- the difficulty of building consensus between members across the firm and between levels (junior-senior).

Potential topics for discussion include:

- How do clan cultures work (Ouchi, 1980)?
- How does one manage when there is a lack of formal structure (Mintzberg, 1983)?
- How do various organizational structures affect organizational dynamics (power and politics)?
- The role of organizational commitment (Meyer and Allen, 1991)
- Whether employees are merely voicing or preparing to leave (exit, voice, loyalty and neglect—Withey and Cooper, 1989)
- How should organizations implement change?

- The implications of adopting alternate organizational structures (e.g., matrix)?
- How do senior managers envisage and manage change (as a natural—life cycle/evolutionary, or a managed process—teleological)?

From a process perspective, an issue to consider and address is the relative success of linear, top-down managed processes (Demers, 2007), versus regarding change as involving spirals or loops (Burke, 2008), or emergent change, and the ability of managers to manage change.

POSSIBLE DISCUSSION QUESTIONS AND ANSWERS

Several questions may be posed to students to facilitate discussion and/or test their understanding of the issues addressed by the case.

1. What is the need for change at Terra Nova?
 - a) Finances are in trouble (see case **Exhibits 2 and 3**).
 - b) The culture is in trouble as shown by:
 - i. Low job satisfaction among junior staff.
 - ii. The unwillingness to invest in the company.
 - iii. The OCI data.
2. What are the barriers to change?
 - a) The lack of negative financial performance. Revenues are increasing, reducing urgency to change (though profitability is declining).
 - b) Senior partners are happy and think things are fine.
 - c) O'Reilly has lost credibility with the partners by focusing on rebranding without building advance support for his ideas.
3. What alternatives does O'Reilly face?
 - a) Adopt a more formal organizational structure and increase management control through explicit rules, policies, and procedures.
 - b) Attempt to rebuild the former collegial culture by building renewed commitment to their stated core values.
4. How should O'Reilly go about making desired changes?
 - a) First, O'Reilly has to decide the key changes that must be made.
 - b) Second, he has to convince the key partners that change is needed. This would entail a detailed plan of approaching each partner, and having Doug and Matt work on their networks to sell change.
 - c) Third, once he gets two-thirds of the partners onboard, he can try to roll the plan out to the firm. If he cannot get certain partners to support his plan, he needs to ensure that they do not actively oppose it.

POSSIBLE DISCUSSION POINTS

1. What is the need for change at Terra Nova?

a) Finances are in trouble (see case Exhibits 2 and 3).

Instructors may require students to undertake an analysis of the financial statements to understand Terra Nova's financial condition. Analysis of the financial statements (see **IM Exhibits 1 and 2**) does not indicate any imminent bankruptcy. However, it does indicate that Terra Nova requires some serious changes to reverse the recent shortcomings that have negatively affected profitability. Each attachment will be discussed in turn.

IM Exhibit 1 shows the trends for the income statement and the balance sheet by dividing the respective 2007 line item by its 2001 counterpart. On average the number is 1.7, indicating a 70 percent change or growth. Anomalies are indicated with bolding (i.e., there has been a more rapid growth in overhead, both allocated to clients and general overhead). More serious was the evidence that net income actually decreased during the seven years, while banks overdrafts were 9.2 times more in 2007 than in 2001. In brief, costs are increasing faster than revenues, reducing profitability, and the lack of patient new capital (share purchases) has been offset by more expensive debt financing.

IM Exhibit 2 consists of percentage breakdowns for the income statements and the balance sheets for each year from 2001 to 2007 (significant trends are noted in bold). The trends for income before taxes and net income have been unfavorable in recent years, with 2007 only showing a modest improvement. Work in progress has risen, suggesting possible problems with timely billing and overall project management. Overhead has also been increasing, and may negatively affect profitability.

IM EXHIBIT 1: FINANCIAL STATEMENT ANALYSES (CHANGE 2001 TO 2007)

Income Statement:

	2007/2001
Gross revenue	1.7
Subcontracts	2.2
Fee revenue	1.7
Direct labor	<u>1.7</u>
Gross profit	<u>1.7</u>
Allocated overhead	2.0
General overhead	2.1
Charge backs	<u>1.3</u>
Income before taxes	0.9
Income taxes	<u>0.9</u>
Net income	<u>0.9</u>

Balance Sheet:

	2007/2001
Assets	
Current assets	
Cash, investments	1.2
Accounts receivable	1.6
Work in progress	2.0
Prepaid expenses	<u>NA</u>
Investments	75.6
Net fixed assets	1.3
Other assets	<u>1.6</u>
Total assets	1.7
Liabilities and Shareholders' Equity	
Current liabilities	
Bank overdrafts	9.2
Accounts payable	1.4
LT debt due	NA
Deferred revenue	<u>NA</u>
Long-term debt	0.9
Shareholders' equity	
Capital stock	1.9
Retained earnings	<u>1.9</u>
Total shareholders' equity	1.9
Total Liabilities and equity	1.7

IM EXHIBIT 2: FINANCIAL STATEMENT ANALYSES (%)**Income Statement:**

	2001	2002	2003	2004	2005	2006	2007
Fee Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct labor	<u>-40.2</u>	<u>-40.7</u>	<u>-40.6</u>	<u>-40.7</u>	<u>-39.5</u>	<u>-39.1</u>	<u>-39.3</u>
Gross profit	<u>59.8</u>	<u>59.3</u>	<u>59.4</u>	<u>59.3</u>	<u>60.5</u>	<u>60.9</u>	<u>60.7</u>
Allocated overhead	-27.2	-31.1	-30.3	-31.4	-32.2	-33.0	-32.3
General overhead	-17.0	-18.5	-19.6	-20.9	-22.6	-23.7	-20.5
Charge backs	<u>1.2</u>	<u>2.5</u>	<u>3.3</u>	<u>2.0</u>	<u>1.1</u>	<u>1.0</u>	<u>0.9</u>
Income before taxes	16.8	12.2	12.8	9.0	6.8	5.2	8.8
Income taxes	<u>-6.7</u>	<u>-4.9</u>	<u>-5.1</u>	<u>-3.6</u>	<u>-2.7</u>	<u>-2.1</u>	<u>-3.5</u>
Net income	<u>10.1</u>	<u>7.3</u>	<u>7.7</u>	<u>5.4</u>	<u>4.1</u>	<u>3.1</u>	<u>5.3</u>

Balance Sheet:

	2001	2002	2003	2004	2005	2006	2007
Asset							
Current assets							
Cash, investments	15.0	13.9	12.3	11.9	11.1	12.3	10.8
Accounts receivable	36.0	33.3	30.9	30.0	32.4	31.1	33.6
Work in progress	30.6	35.7	41.3	43.1	41.5	40.1	36.1
Prepaid expenses	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.8</u>
	81.9	82.9	84.5	85.1	85.0	83.5	81.3
Investments	0.1	0.1	0.1	0.1	1.5	2.7	4.8
Net fixed assets	15.9	15.0	13.6	13.2	12.0	12.3	11.9
Other assets	<u>2.1</u>	<u>2.0</u>	<u>1.8</u>	<u>1.6</u>	<u>1.5</u>	<u>1.5</u>	<u>2.0</u>
Total assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Liabilities and Shareholders' Equity

Current liabilities							
Bank overdrafts	0.4	0.2	0.9	1.1	1.6	3.8	2.0
Accounts payable	22.4	19.7	18.1	19.0	24.3	23.3	18.3
LT debt due	0.0	0.0	0.0	0.0	0.0	0.0	1.1
Deferred revenue	<u>0.1</u>	<u>0.2</u>	<u>0.0</u>	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.8</u>
	22.9	20.1	19.0	20.4	25.9	27.1	22.2
Long-term debt	16.8	15.0	13.0	12.0	10.5	10.2	9.1
Shareholders' equity							
Capital stock	10.1	9.1	9.0	8.2	8.6	9.7	11.4
Retained earnings	<u>50.2</u>	<u>55.8</u>	<u>59.0</u>	<u>59.4</u>	<u>54.9</u>	<u>53.0</u>	<u>57.3</u>
Total shareholders' equity	60.3	64.9	68.0	67.6	63.6	62.7	68.7
Total liabilities and shareholders' equity	100.0	100.0	100.0	100.0	100.0	100.0	100.0

b) The culture is in trouble as shown by:

- i. Low job satisfaction among junior staff**
- ii. The unwillingness to invest in the company**
- iii. The OCI data**

- i. Case **Exhibit 6** (employee satisfaction survey results) illustrates that newer employees are less satisfied than long-tenured staff with the conditions at Terra Nova. Many of the junior professionals do not foresee a long-term future with the company, citing a lack of adequate financial compensation, recognition, and/or opportunity for advancement (see quotes by Mark Davis and Chris Barker). Several are thinking about leaving the firm, though it is uncertain what percentage will actually follow through (EVLN—Withey and Cooper, 1989). Notwithstanding complaints about inadequate compensation, this may also be symptomatic of larger concerns about the overall work environment at Terra Nova, and emphasis upon chargeability.
- ii. As noted in the case, there is a lack of new investment in the firm by both junior professionals and senior partners (see Doug Hunter), though for different reasons. For junior professionals, the issue is one of a less than ideal work environment, combined with a lack of desire to spend their career with the firm. This lack of investment is important for two reasons. First, according to Meyer and Allen (1991), the highest level of affective commitment (strongest form of organizational commitment), involves personal financial investment, and junior professionals have not been convinced of the benefits of making that commitment. For the partners, the lack of investment was described as their way of signaling to management that they had concerns about the direction of the firm. Second, the lack of new investment means that the company is forced to increase its external debt financing, which negatively impacts profitability. It may also restrict the ability of senior partners to sell their shares when they retire. This raises the issue of whether Terra Nova should consider going public or remain employee owned.
- iii. The Organizational Cultural Inventory (OCI) utilizes a self-administered paper questionnaire containing 96 items with a five-point Likert scale (1 = not at all, 5 = to a very great extent) to measure the company's culture according to twelve sets of behavioral norms. These twelve styles (see **Appendix B**, middle column) describe how members are expected to work and interact with others. The styles are divided along two dimensions representing concern for people versus tasks, and fulfilling satisfaction versus security needs. The twelve styles are divided into three main groups, and reflect particular orientations or modes of thinking, behaving, and interacting:

Constructive: Achievement, self-actualizing, humanistic-encouraging, affiliative.

Aggressive/Defensive: Oppositional, power, competitive, perfectionist.

Passive/Defensive: Approval, conventional, dependent, avoidance.

Members were asked to complete two questionnaires, one indicating what they perceived to be the firm's actual current culture, the other their preferred ideal culture. Scores were plotted for each style (see case **Exhibits 4 and 5**), with the highest score representing the organization's primary or dominant cultural style, and the second highest the secondary style.

Exhibit 4 in the case indicates the degree of gap between the perceived actual and ideal cultures. The wider the gap, the more Terra Nova fails to match employees' notion of an ideal culture. Negative gaps indicate less than desired levels with respect to matching the ideal culture (lack of affiliative culture), whereas positive gaps indicate greater than desired levels (too competitive culture). Correspondingly, Terra Nova needs to do both more and less of certain things to come closer to matching their ideal culture (from the perspective of employees).

As noted in the case, for partners, Terra Nova was virtually aligned with respect to the match between its ideal and actual cultures. However, from the perspective of junior professionals, there was a wide gap between the actual and ideal cultures. Therefore, the actual culture scores should be regarded as reflective of the opinions of junior employees, while the ideal culture scores should be interpreted as reflective of the partners' perspective. These cultural scores may also be regarded as indicative of the way Terra Nova was in the past, compared to what it is like today, and what elements of its culture would need to change to restore the former culture (see **IM Exhibit 3**).

Case Exhibit 5 indicates the degree of consistency in members' responses. Low standard deviations or "strong" intensity indicate strong agreement between members as to whether Terra Nova performs well on this dimension. This should be interpreted as indicating strong consensus. High standard deviations indicate "weak" intensity or strong disagreement between members as to how well Terra Nova performs on this dimension. This would indicate the presence of a significant gap between members, reflective of the noted junior-senior professional divide. Actions to address these aspects of culture would be beneficial. Terry should seek to build upon areas of strong consensus, while attempting to alleviate areas of strong disagreement.

IM EXHIBIT 3: COMPARISON OF TERRA NOVA'S CULTURE

Style	Prior	Today
Constructive		
Humanistic/Encouraging	Very Strong	Weak
Affiliative	Strong	Weak
Achievement	Very Strong	Medium
Self-Actualizing	Very Strong	Weak
Passive/Defensive		
Approval	Very Weak	Weak
Conventional	Very Weak	Medium
Dependent	Very Weak	Weak
Avoidance	Weak	Medium
Aggressive/Defensive		
Oppositional	Medium	Strong
Power	Weak	Medium
Competitive	Weak	Medium
Perfectionistic	Medium	Medium

2. *What are the barriers to change?*

- The lack of negative financial performance. Revenues are increasing, reducing urgency to change (though profitability is declining).**
- Senior partners are happy and think things are fine.**
- O'Reilly has lost credibility with the partners by focusing on rebranding without building advance support for his ideas.**

Students could be requested to use Lewin's force field analysis to identify and gauge the level of opposition and support for change within Terra Nova, and which parties need to be influenced to effect change. Some of the factors/parties are identified below.

- Kotter (1996) states that the first step for change involves creating a sense of urgency, typically through some form of crisis. As noted above, although profitability is declining, the company is not in significant financial difficulty yet. However, there are negative trends in terms of increasing debt load, significant capital stock holdings, and growth in overhead costs. Each of these factors contributes to reducing profitability. The lack of significant financial urgency, though, means that the partners are less likely to accept the need for change. The OCI results can be used as an additional lever to convince staff of the need for change.
- According to the OCI results, the partners are happy with the current state of Terra Nova. Their perceptions of the actual and ideal cultures are aligned, so from their perspective, there is no crisis/problem. However, internal "gossip" (see Jindal's comment) about OCI's conclusion that Terra Nova would cease to be an elite firm provides Terry with leverage with the partners. The partners' lack of awareness of the junior professionals' perspective, though, suggests a deeper disconnect between levels, and that the partners are "out of touch" with the

junior staff. Comments by George Garcia, Henry Cooper, Jeff Tavere, and Naveen Jindal are meant to illustrate that the OCI results served as a wake-up call for the partners. What remains to be seen is whether the partners will choose to do something about this (either active participation, or by not standing in the way). “Support” by the partners is critical as they not only represent the majority shareholders, but also wield significant informal power.

- c) Terry has lost a certain amount of political capital amongst the partners by his lack of attention to the cultural and political dimensions at Terra Nova (changes to logo and slogan). As indicated at the beginning of the case, and reinforced by Doug Hunter and Matt Ferguson later, Terry did not follow the tacit decision making process for major decisions by involving the partners.

Matt Ferguson’s comments here are key. Although Terry “lost” the first round, it may just be a reflection of their cynical nature and tendency to reject new ideas initially. Terry still has the opportunity to make his case for his ideas, and build support among the partners. Both Doug and Matt appear to be willing to help him at least attempt to convince the partners of the need for change. This may or may not include the initiatives presented at the meeting. Part of the challenge will involve identifying not only partners supportive of and opposed to change, but also those who have the greatest potential to influence their peers (e.g., Adam Danyluk).

3. *What alternatives does O’Reilly face?*

- a) Adopt a more formal organizational structure and increase management control through explicit rules, policies, and procedures.**
- b) Attempt to rebuild the former collegial culture by building renewed commitment to their stated core values.**

Terry may be facing an inflection point at Terra Nova. He can either choose to make Terra Nova a more formally managed company by introducing additional structure, hierarchy, and control, or he can seek to rekindle the sense of community and mutual adjustment. Theoretically, these options are described by Cooper, Hinings, Greenwood, and Brown (1996) as the Managerial Professional Business (MPB), or the Professional Partnership (P2) forms. The MPB introduces business management principles and bureaucracy to govern the firm, including formal hierarchy, rules and procedures, while potentially introducing market discipline by going public (ownership). The P2 form relies upon traditional notions of a community of professionals, guided by a representative democracy based upon a combination of ownership and control, and a clan culture built upon professional norms and values. In brief, these two forms can be used to contrast organizations as rational versus natural systems.

Terry’s decision needs to take into consideration the challenges of managing professionals. In general, there are higher expectations for individual discretion and autonomy (from both sides) in a professional environment. In the absence of sufficient individual responsibility, firms may introduce more formal management systems and controls, including the adoption of a more formal organizational structure. This in turn will increase the need for greater management skills by those in authority. These structural changes will likely prompt corresponding cultural changes.

- a) Adopt a more structured environment including specifying formal roles, responsibilities and reporting relationships, and codifying company policies and procedures. This would involve evolving towards the MPB form. As noted by Chris Barker, some of the junior professionals appreciated the higher level of structure in the Toronto office (reflective of the MPB), which included a clearer sense of career path/progression. Several issues should be considered as part of adopting the MPB form:
- Should Terra Nova develop a formal organization chart, clearly outlining the roles, responsibilities and qualifications of partners, project managers, senior and junior professionals? Up until now, firm managers have not seen the need for clear definition of roles and responsibilities, in part as this allowed flexibility in terms of work arrangements and assignments.
 - While the introduction of a formal hierarchy would address junior professionals' concerns about the lack of a clearly defined career path, and whom they should listen to, it may constrain individual discretion and autonomy. Moreover, many existing managers/partners do not have formal management training, and may have difficulty adapting.
 - How will formalization of the firm through the introduction of rules and controls affect individual initiative and overall innovation? One of the key success factors for Terra Nova in the past has been its innovative orientation, and the ability of individuals to develop new lines of business.
 - Terra Nova could consider adopting the matrix organizational structure, where professionals are grouped by client market (e.g., mining, environmental studies), and by office location into teams. This formal structure would allow individual offices to continue to operate independently, while facilitating the need for inter-office cooperation. It would, however, retain a measure of ambiguity regarding who is in charge.
 - If the firm proceeds to go public in terms of ownership, how will this affect its culture? Until now, the partners have resisted taking the firm public, but the decline in new investment has created pressure for access to new sources of capital. This, however, would also reduce the sense of ownership and control by current shareholders (described as working for oneself).
- b) Attempt to rebuild the former collegial environment based upon professional codes of conduct and mutual adjustment. This will include getting all members to buy into the firm's stated core values (see case **Exhibit 1**).

Professional service firms following the P2 form are more likely to feature clan cultures. Professionals in general are more likely to be internally motivated (Theory Y), goal oriented (i.e., self-actualization), and guided by internalized values and codes of conduct. Relying upon internalized codes of conduct to ensure appropriate individual behavior consistent with the clan culture depends upon selecting the right people and proper socialization. Several aspects of Terra Nova's culture need to be addressed as part of helping new members become properly acclimatized such as:

- Proper socialization of new employees (Ouchi, 1980; Barker, 1993). Clan cultures rely upon building a sense of community through member socialization and shared values. In

the past this was facilitated through informal mentoring relationships between Terra Nova partners and new junior professionals. Does Terra Nova want to revive this practice (requiring cooperation and commitment by partners), or attempt to institute more formal programs (e.g., employee orientation sessions)?

- Convince new employees of the value of Terra Nova's employee ownership model. A key value among the partners and long tenure employees of Terra Nova is the importance of employee ownership and individual investment. Individual investment is important as it is linked to trust (i.e., we can trust you to do the right thing as your fortunes are tied to those of the firm), and compensates for the absence of direct controls.
- Promote and support individual initiative and personal development. Younger professionals at Terra Nova seemed discouraged by a perceived lack of opportunities or support for their personal development, advancement and/or achievement. Terry may need to provide options for both facilitating personal development, recognizing that this will also negatively affect their chargeability.
- As noted by Henry Cooper, Terra Nova partners were often entrepreneurial in their approach to developing the business. However, younger professionals seem constrained by their perceived inability to exercise similar initiative. How should Terra Nova balance its need for risk-taking (innovation), with pressures for more "managed" growth?
- Building bridges between junior professionals and partners. Should Terry encourage/facilitate a transition between generations (new core values), or seek to pass down their traditions? Informal sessions (socials), where partners are encouraged to tell stories about how Terra Nova developed and became successful, can serve to pass down traditions and provide role models for junior professionals to follow.

Although the following do not need to be addressed as part of solving the case, related issues include:

- An appropriate balance between formal structure and individual autonomy. Professional workers value autonomy in how they perform their activities (Robertson and Swan, 2003) and are less likely to accept micromanagement and bureaucratic rules.
- Each profession at Terra Nova may have slightly different norms and values. As Terra Nova employs an increasing diversity of professionals, it may need to promote shared organizational values, norms, and goals to avoid competing values.
- Internalized codes of conduct increase the importance of having the "right people on the bus" (Collins, 2001). How does Terra Nova screen candidates on whether they have compatible/similar values?
- Resolving the differences between the senior partners and junior professionals may require some turnover of personnel, either through firing or early retirement.

4. *How should O'Reilly go about making desired changes?*

- a) First, O'Reilly has to decide the key changes that must be made.**
 - b) Second, he has to convince the key partners that change is needed. This would entail a detailed plan of approaching each partner, and having Doug and Matt work on their networks to sell change.**
 - c) Third, once he gets two-thirds of the partners onboard, he can try to roll the plan out to the firm. If he cannot get certain partners to support his plan, he needs to ensure that they do not actively oppose it.**
- a) The key changes O'Reilly needs to make will depend upon whether students believe that Terra Nova should become a more structured company, or attempt to rebuild its former clan culture. Several of the needed changes will fall out from that decision, and have been outlined above.
 - b) Bridging the cultural divide at Terra Nova will be challenging given the size of the gap between junior and senior professionals as indicated by the OCI study. One way to attempt to build senior partner support will involve linking these actions to some of Terra Nova's "historical" approaches:
 - In the past, many Terra Nova partners took new staff under their wing as informal mentors. This facilitated Terra Nova's partner system, which required sponsorship of candidates by existing partners. Instituting a formal mentoring system (while encouraging informal mentoring), will help open lines of communication.
 - Actively reinforce member commitment to the firm's shared values of collegiality, personal development, achievement, and technical excellence (part of ideal culture— see case Exhibits 4 and 5). In Morgan's (1998) terminology, this would involve creating a holographic organization where the whole is replicated throughout (Brain metaphor).
 - Terra Nova should encourage the notion of community, where one works with friends, rather than it just being a place to work. This will require building informal social bonds between members across the firm (horizontal and vertical), and may include rites of enhancement or integration (Trice and Beyer, 1984).
 - Senior partners need to commit to the continuation of Terra Nova as a going concern (see Carbonell and Cooper comments). This will provide Terry with critical leverage to get the partners to support the proposed changes. Terry needs to convince the partners that this will only occur if the next generation is properly groomed for succession.
 - c) Recognizing that Terry is unlikely to get all of the partners onboard through appealing to a nostalgic view of Terra Nova, there are some additional actions he could take:
 - Get the partners to discuss possible "sanctions" for "unacceptable behaviors" (by both junior and senior professionals). As noted by Collins (2001), create a "stop-doing" list of harmful activities in addition to a "to-do" list.
 - Provide additional training and development sessions (e.g., cultural diversity, sensitivity training), and make changes to Terra Nova's project leadership (greater opportunities for junior professionals).

- Terra Nova's partners should engage in succession planning, where they are responsible for identifying and grooming their replacements. This may include a plan to encourage knowledge transfer between senior and junior professionals (both technical and relationships). It may also involve "pulling" senior professionals from projects so they have time to codify their knowledge (e.g., getting their personal files in order).
- Build a stronger overall people culture within Terra Nova by employing T-groups or similar forums that allow members to voice their opinions and build shared understanding.
- Build a team-based culture through increased sharing of information (like survey results) between management and staff. Employees should be "trusted" with information about the state of Terra Nova, its challenges, and future prospects. Management will need to find an appropriate communication medium for this.
- Terra Nova may also need to decrease its chargeability expectations for junior professionals to allow them time for developmental activities (training, client relationship building, mentoring). The challenge will be facilitating greater work-life balance without sacrificing chargeability and timely project completion.

Action Plan for Change (Cawsey, et al., 2012)

Students could be directed to follow Cawsey, et al.'s action plan (Ch. 9) to outline practical steps needed to implement change at Terra Nova. Among the actions required are:

- Developing senior management awareness and support.
- Basing change upon an understanding of how the organization works and what tactics are more likely to be successful.
- Determining whether suitable or novel solutions are required, and whether change may involve trial and error.
- Determining whether change is dependent upon implementation, negotiation, or incremental adjustment.
- Building employee engagement through communication and feedback.
- Where attitudinal change is required, engaging employees (participative) as part of the process will be key.
- Finally, being willing to take risks are part of attempting change.

Building upon this analysis, students would then flesh out the following:

1. **To-do list:** What specific actions need to be taken as part of attempting change at Terra Nova? This may include group discussions between junior and senior professionals, increased mentoring to foster ties between the two levels, and/or team building activities. Additional changes may involve increasing junior professional salaries to at least the industry average, providing additional opportunities for international projects and/or developmental assignments, and developing additional training sessions that help introduce junior professionals to the consulting industry and socialize them to Terra Nova's culture.

2. **Responsibility charting:** Outlining who is responsible for what in the change effort will include getting partners to understand how their actions will affect change (lead, support, or obstruct), how office and project managers can support change (de-emphasize chargeability and deadlines as part of work-life balance), and partners and managers can promote their core values (and hold each other accountable when they fail to walk the talk).
3. **Contingency planning:** This may be less important under the circumstances than scenario planning. Although there may be an element of trial and error concerning change initiatives, flexibility in terms of being prepared to adopt or discard certain actions may be more important. Terra Nova senior management should identify alternative courses of action in the event particular initiatives prove less than effective.
4. **Surveys and feedback:** Employee surveys will be important for tracking whether change is occurring, and in the direction hoped for. In this situation, employee attitudes and perceptions about the firm and its culture will be key. The guidelines of the OCI can be used as the basis for subsequent in-house surveys, or OCI Consulting can be contracted for follow-up surveys (may be expensive).
5. **Project planning and critical path:** Students should map out the sequence and timing of particular initiatives, taking into account what can be accomplished quickly and easily at Terra Nova, versus longer term initiatives. For example, given Terra Nova's clan culture, group meetings may be necessary prior to taking action to "show" staff they are taking their comments and suggestions into consideration. Other actions such as increasing salaries or formalizing mentoring may be less timing/sequencing sensitive.
6. **Force field and stakeholder analysis:** An internal stakeholder analysis regarding those who are more or less supportive of change should be conducted. Although it is recognized that insufficient information is available for students to perform this, students can at least identify that such an analysis should be conducted. As a general guideline, partners with a substantial personal financial investment in the firm, long-tenure (twenty-plus years), and those close to retirement (who need to sell), may be more likely to accept the need for change.
7. **Leverage analysis:** Actions that may build leverage among the Terra Nova partners include: formal policy against selling out/going public, commitment to remaining an elite firm, vetting future change proposals through the board. With respect to junior professionals, opening lines of communication, pay increases, and greater attention to work-life balance may help.

EPILOGUE

Terra Nova survived this organizational crisis and proceeded to become recognized as a top employer by the business press (based upon an annual survey of employee engagement). Since the crisis, the firm has grown in terms of its sales, staff size, and has returned to double-digit profitability. However, this change was not easily achieved, and took several years to effect. More importantly, Terry O'Reilly did not survive as President, resigning about two years after taking over. He was succeeded by a long-term internal candidate who was able to gain the needed support from the partners to enact change. Terry's successor managed to introduce the Balanced Scorecard as a mechanism to communicate overall firm goals and objectives and build a shared vision, while promoting actions to strengthen its people policies and provide greater work/life balance. The firm, however, did not introduce financial incentives for managers.

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