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## Netflix’s marketing strategy change

Introduction   
Change is an integral part of everyday life both for organizations and individuals. It is often considered negative, since it involves a certain level of stress for the system and a disruption of the conventional organizational practices. However, along with the negative side, change also entails benefits, if it is conducted in the right way. This paper aims to present an example of the recent change in Netflix strategy and to explain the possible reasons for its failure. This example applies change management theories and concepts to the Netflix case, in order to identify what went wrong and, thus to suggest how this process could have been improved.

## Background Information of the topics

Netflix is one of the main players in the movie rental business and a leader in the online rental segment. Its success was always based on the unique business model, which offered customers more than just movies, but a completely new experience. When Netflix started its operation, it did not follow the traditional path of establishing brick-and-mortar movie rental stores, but developed a new DVD mail-delivery, which offered fast and flexible service. Netflix customers could easily browse through movie catalogues online, read reviews and make orders on the website. In just a few days DVDs were then delivered by mail in pre-paid postage envelopes, which could then be used to return the DVDs. Netflix also removed late fees, therefore customers could keep the DVDs for as much as they want, with the only condition to have only a limited number of them at a time. With the development of online technologies, Netflix realized that movies could be delivered to the consumers at a lower cost and almost instantaneously. Thus, Netflix introduced their streaming service (Hitt, Ireland & Hoskisson, 2009). As the percentage of DVD customers started to decrease, with the development of streaming, Netflix’s new strategy became to separate DVD business into a new company, Qwickster, thus focusing on the development of their streaming business. The result of the new marketing strategy was an increase in the subscription price, an introduction of a separate Qwickster website and the need to subscribe to both services separately. As the change communication from Netflix management appeared on the blog, online communities exploded with criticism. The benefits of the change were not clearly understood, while the negative aspects were so prominent, that they reduced Netflix user base by almost one million subscribers. The new strategy was a complete fiasco for the company, therefore, in October 2011 they Netflix had to reintroduce the previous structure (Woo & Sherr, 2011). The reasons for the change failure can be further investigated by using existing change models.

## Kotter’s change model

The model created by John P. Kotter describes eight steps for a successful change. In the first step the author suggests to create an urgency, thus to inspire and to help people relate to the objectives. Netflix failed to do it in the recent changes around Qwickster introduction, since they did not try to prepare their customers, to explain their position clearly and to organize the transition. Therefore, people could not understand the idea behind the change and received it with hostility. In the second step, Kotter recommends to build a team, which would guide the change. Although in Netflix DVD and streaming divisions were separated, in order to provide better guidance for each, there was no joint effort in supporting the transition. Therefore, the interests of each division were put above the ones of the company, thus increasing the likelihood of the change failure. The third step of the model implies establishing a clear vision for the company. Although Netflix defined its objectives to promote efficiency and to serve the needs of the DVD and streaming customers in a more customized way, they failed to communicate the vision to all stakeholders, namely customers, therefore it was not completely effective to drive the change. Communication is emphasized also in the fourth step of the Kotter’s model, and this was the most problematic area for the new Netflix strategy. One blog announcement was not enough for an effective communication, and many customers believed that the company owed them more explanations. Netflix, however, was not deaf to the feedback, which is recommended as the fifth step of the model, therefore, customer complaints were considered and the idea of Qwickster was abandoned. However, this action did not allow Netflix to engage in steps six, seven and eight, which suggest to set short term wins, to introduce continuous feedback and to reinforce change success. The future Netflix strategy is more likely to focus on repairing the damages to its reputation due to the previous change and on convincing consumers in their commitment to customer interests and opinions (Kotter, 1996).

" A Causal Model of Organizational Performance and Change” by Burke and Litwin

The model aims to analyse organizational dynamics in a company, which is based on twelve dimensions. Burke and Litwin note that there is a strong correlation between external environment or the input and organizational performance, or the output. The effect in the external environment can have a significant impact on the organizational output and vice versa (Burke & Litwin, 1992). Thus, a reorientation in Netflix strategy and the division of the company into two units affected consumer demand for Netflix products. The negative reaction of the Netflix customers served as an input for further strategy building and for reconsideration of company objectives. Today, Netflix marketing strategy aims to regain consumer trust and to convince users that the company is committed to its current objectives.

## Discussion

The results of Netflix strategic reorganization earlier in 2011 were not met well by the current users. The basis for their resistance to the new company structure can be explained through the most common reasons for resistance to change, suggested by Kotter in his article “ Choosing Strategies for Change” (Kotter & Schlesinger, 2008). The first reason includes parochial self-interest, or the fear that the change is going to harm personal interests. In case of Netflix, people were unable to realize the benefits of the proposed change, however a sudden price increase and website separation made it clear that the new Netflix is going to be more expensive and less convenient. Therefore, customers were reluctant to accept the change, seeing it as a potential threat to their interests. The second reason is closely connected to the previous and suggests that people resist to the change, when they do not clearly understand the objectives and do not trust that the change is going to be beneficial. The lack of consumer trust was further exacerbated by the inefficient blog communication. Therefore, Netflix was not only unable to send a clear message about the benefits of the new structure, but also harmed consumer trust. Lastly, people often resist change when their situation assessment is different from the one of the change initiators. Thus, since consumers are not interested in the operational benefits of the Netflix two-company structure , they evaluated the change by comparing prices and service convenience. Since the two parties were looking at different change success indicators, the response of the users were likely to be opposite to the opinion of Netflix management.

The failure of Qwickster could have been also predicted, if the process of change introduction was assessed using the eight steps of Kotter’s model. Such analysis could have demonstrated the pitfalls in the administering of the change process, thus suggesting ways for the company to make timely modifications to their strategy and to complete the change integration successfully.

## Closing Comments

The example of Netflix suggests that change processes may turn to be quite unsuccessful. However, it is not always the case. In some instances, changes bring new opportunities and help organizations to thrive. Thus, the story of Royal Dutch Shell shows the success of transition to the new organizational structure, which offered decentralization, diminished governmental control and increased company’s competitiveness in the market. The strategic reorientation of McDonalds to serving a greater variety of more healthy food not only did not drive the company out of business, but helped it to win over some of the competition and to follow current market trends. The switch of Starbucks to Fair Trade inputs was initially considered a threat to company’s profitability, however, it has become the core element of the company’s social responsibility program and now it produces a highly positive brand image in the minds of the customers.   
Backer and O’Hara identify four challenges of any change program, which managers are likely to face: inadequate resources, inability to communicate change benefits to the users, creating awareness of the change success in various settings and the overall complexity of the change process (Backer & O'Hara, 1991). Thus, the change in Netflix strategy failed to meet most of the challenges by its inability to communicate change benefits, to explain the success factors of the change and to anticipate the whole complexity of the process.   
The discussion of the change management process in the organization leads to a number of valuable conclusions. First, the need for change and its benefits should be carefully evaluated prior to the change initiation. Undertaking change requires careful evaluation of organizational preparedness in terms of resources, carefully planned processes and clearly defined change objectives. Lastly, change initiators should be able to get all the stakeholders on board with the change by ensuring effective communication and careful explanation of the benefits, associated with the new processes and structures.   
The same principles can be also applied in personal and professional life. Whenever a change is undertaken on a small scale, it is still important to follow Kotter’s eight steps of change management and to consider the challenges of the change processes. As an example, it is possible to consider the process of looking for a new job, which requires setting clear objectives, such as an improvement in salary or a more flexible working environment. It should also include resource consolidation and a plan of the subsequent steps, such as the application process. Finally, a constant feedback mechanism should be in place in order to identify the reasons for rejections (if any) and to reconsider the change process. Having a structured way to implement change should better organize changes in life, therefore, implementing some of the lessons learnt about change management should make the way I manage change more effective and successful.

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)992, Vi>!. IK. No. 3, .'52. 1-545   
A Causal Model of Organizational   
Performance and Change   
W. Warner Burke   
Teachers College, Columbia University   
George H. Litwin   
The Graduate Center   
To provide a model of organizational performance and change, at   
least two lines of theorizing need to be explored—orgatiizational ftuictioning   
and organizational change. The authors go beyond description   
and suggest causal linkages that hypothesize how performance is affected   
and how effective change occurs. Change is depicted in terms of   
both process and content, with particular emphasis on transformational   
as compared with transactional factors. Transformational   
change occurs as a response to the external environment and directly   
affects organizational mission and strategy, the organiz. ation's leadership,   
atid culture, lit ttirn, tfie transactional factors are affected—strtictute.   
systems, management practices, and climate. These transformational   
and transactional factors together affect motivation, which, in   
turn, affects peifornumce.   
In support of the model's potential validity, theory and research as   
wellaspraetke are cited.   
Orgatiization change is a kind of chaos (Gleick. 1987). The number of variables   
changing at the same lime, the magnitude of environmental change, and the   
frequent resistance of human systetns cteate a whole confluence of ptocesses that   
are extremely difficult to predict and almost impossible to control. Nevertheless,   
there are consistent patterns that exist—linkages among classes of events that   
have been demonstrated repeatedly in the research literature and can be seen in   
actual organizations. The enormous and pervasive impact of culture and beliefs—   
to the point where it causes organizations to do fundamentally unsound things   
ftom a business point of view^would be such an observed phenotnenon.   
To build a most likely model describing the causes of organizational performance   
and change, we must explore two important lines of thinking. First, we   
must understand more thoroughly how organizations function (i. e., what leads to   
what). Second, given our tiiodel of causation, we must understand how organizations   
might be deliberately changed. The purpose of this article is to explain our   
understanding so far. Mote specifically, we present our framework for under-   
standing a causal model of organizational perfonnanee and change. But, ftrst, a   
bitof backgtound.   
In our organizational consulting work, we try very hard to link the practice to   
sound theory and lesearch. The linkage typically is in the direction of theory and   
research to practice: that is. to ground our consultation in what is known, what is   
theoretically and empirically sound. Creation of the tnodel to be presented in this   
article was not quite in that knowledge-to-practice direction, however. With respect   
to theory, we sttongly believe in the open system framework, especially represented   
by Katz and Kahn (1978). Thus, any organizational model that we might   
develop would stem from an input-throughput-output, with a feedback loop, format.   
The tnodei presented hete is definitely of that genre. In other wotds. the fundamental   
framework for the model evolved from theory. The components of the   
model and what causes what and in what order, on the other hand, have evolved   
frotn our practice. To risk stating what is often not politic to admit in academic   
circles, we admit that the ultimate development of our causal model evolved from   
practice, not extensive theory or tesearch. What we are attempting with this article,   
therefore, is a theoretical and empirical justification of what we clearly believe   
works. To be candid, we acknowledge that our attempt is not unlike attribution   
theory—we are explaining our beliefs and actions ex post facto: " This   
seemed to have worked; I wonder if the literature supports our action."   
Our consulting efforts over a period of about 5 years with British Airways   
taught us a lot—what changes seemed to have worked and what activities clearly   
did not. It was from these experiences that our model took form. As a case example,   
we refer to the work at British Airways later in this article. For a more recent   
overview of that change effort, . see Goodstein and Burke (1991).   
Other Organizational Models   
Frotn the perspective of both research about organizations and consultation to   
organizational clients, we have experienced some frustration about rnost if not all   
current organizational tnodcls that do little more than describe or depict. A case in   
point is the 7S model developed by Pascale and Athos (1981) and futthcr honed   
by Peters and Watertnan (1982). Parenthetically, lot us quickly add that by cotnparing   
our tnodel with others, particularly those the teader may be familiaj" with,   
if not fond of. we wish to clarify the nature of our thinking and. ideally, its distinctive   
contribution, not cast our comments in a competitive manner.   
The strengths of the 7S model arc (a) its description of organizational variables   
that convey obvious importance—strategy, structure, systems, style, staff, skills,   
and shared values (as will be seen, we have incorporated these dimensions in one   
form or another in our model)—and (b) its recognition of the importance of the   
intenelationships among all of these . seven variables, or dimensions. The 7S   
model, on the other hand, does not contain any external environment or performance   
variables. The model is a description of these seven impotiant elements   
and shows that they interact to create organi/ational patterns, but thete is no explication   
of how these seven dimensions are aflected by the external environment.   
Nor do we know how each dimension affects the other or what specific performance   
indices may be involved.   
Some organizational rnodcls that in our jtidgtnent are largely descriptive do at   
least stipulate certain " shoulds." Weisbord (1976), for example, states that the role   
of the leadership box in his six-box model is to coordinate the remaining five. The   
Nadler-Tushman (1977) model is one of congruence. They atgue that for organizational   
effectiveness the various boxes composing their model should be congruent   
with one another (e. g.. organizational arrangernents. or structure, should be   
congruent with organizational strategy).   
Even contitigeticy models of organizations, which imply that " it all depends"   
and that there is no one best way to organize or to manage (e. g.. Lawrence &   
Lorsch. 1969, and Burns & Stalker, 1961. before them) have cetiain causal implications.   
Organizational effectiveness is, in patl. contingent on the degree of match   
between the organization's external environment (whether static or dynamic) and   
the organization's internal structure (either mechanistic or organic).   
To some degree, then, tnodels such as Nadler-Tushman and the positions taken   
by Burns and Stalker and by Lawrence and Lor. sch suggest a cause-effect linkage.   
Nadler and Tushman at least imply that little or no congruence between, say, strategy   
and structure produces low organizational petformance. and the contingency   
models posit that an improper match between the tirgani/ation's external environment   
and its internal structure " causes" organizational ineffectiveness. The issue   
in both is that the number of items that might be congruent (or tiiatched in the case   
of contingency) is great and the models provide neither a formula for determining   
which are central nor an objective means for knowing when congruence or   
matching has occuned or what levels of congruence/matching or incongrucnce/   
nonmatching produce desirable or undesirable effects. In shott, our desire is for a   
tnodel that will serve as a guide for both organizational diagnosis and planned,   
tnanaged organization change—one that clearly shows cause-and-effect telationships   
and can be tested empirically.   
With respect to the latter half of this desire, a tnodel of organization change, we   
arc attempting to provide a catisal framework that encompasses both the what and   
the how—what organi/ational dimensions are key to successful change and how   
these dimensions should be linked causally to achieve the change goals. In other   
words, we are attempting to integrate two categories of change theory ftom the   
world of organization development (OD), what Portas and Robertson (1987) as   
well as Woodtnan (1989) refer to as (a) implementation theory and (b) change   
process theory. The fonner concerns activities that tnust be undertaken to affect   
planned change (e. g., survey feedback) and the latter tefers to specific changes   
that need to occur as a consequence of these implemetitation activities (e. g., embtacing   
a pailicular value such as emphasizing service to customers more than adhering   
rigidly to procedures tegarding how to deal with customers, rather than   
vice versa). As these OD researchers have pointed out. theory in OD is typically   
either one or the other—implementation or change process. With the model presented   
in this article, we are striving for an integration of both theories.   
An additional desire, as noted already, is to link what we understand from our   
practice to what is known from research and theory. It is clear that, for example,   
the 7S model catne from consulting practice (see Peters & Waterman. 1982: 9-   
12), and we know firsthand that Weisboid's six-box model evolved trom his prac-   
tice. We believe that these models have valid components because they are in fact   
based on practice and do not convey iirelevant or the so-called ivory tower thinking.   
Yet these and other models do not go far enough. For example, such critical   
dimensions as the external environment, performance, and organizational culture   
are not accounted for sufficiently. Moreover, depicting organizational models as   
simply as possible can be beneficial, especially when attempting to explain systemic   
ideas to people who are relatively naive about large organizations; however,   
reality is much more complex than most, if not all. models depict. And when attempting   
to account for organizational functioning and change at the same time,   
we must depict a considerable degree of complexity while maintaining coherence—   
no mean feat. We know of no organizational models that attempt this degree   
of complexity, coherence, and predictability (i. e.. causality).   
Background: Climate and Culture   
Climate   
The early, original thinking underlying the model presented here came from   
George Litwin and others during the 1960s. In 1967. the Harvard Business School   
sponsored a conference on organizational climate. The results of this conference   
were subsequently published in two books (Litwin & Stringer, 1968: Tagiuri &   
Litwin, 1968). The concept of organizational climate that emerged from this series   
of studies and articles was that of a psychological state strongly affected by   
organizational conditions (e. g.. systems, structure, manager behavior, etc).   
The importance of this early research and theory development regarding organizational   
climate was that it clearly linked psychological and organizational variables   
in a cause-effect model that was empirically testable. Using the model,   
Litwin and Stringer (1968) were able to predict ami corro the motivational and   
performance consequences of various organizational climates established in their   
research experiment. They were working with motivation analysis and arousal   
techniques developed by McClelland (1961), Atkinson (1958), and others over a   
period of more than 20 years.   
Cullure   
In recent years, there has been a great deal of interest in the concept of organizational   
culture. Drawn from anthropology, the concept of culture is meant to describe   
the relatively enduring set of values and norms that underlie a social system.   
These underlying values and norms may not be entirely available to one's   
consciousness. They are thought to describe a " meaning system" that allows   
members of that social system to attribute meanings and values to the variety of   
external and internal events that are experienced.   
In this article, we attempt to be very explicit about the distinction between climate   
and culture. Climate is defined in terms of perceptions that individuals have   
of how their local work unit is managed and how effectively they and their dayto-   
day colleagues work together on the job. The level of analysis, therefore, is the   
group, the work unit. Climate is much more in the foreground of organizational   
members' perceptions, whereas culture is more background and defined by beliefs   
and values. The level of analysis for culture is the organization. Climate is, of   
course, affected by culture, and people's perceptions define both, but at different   
levels. We attempt to clarify in more depth these distinctions later in the article, as   
has Schneider (1983) before us. Futiher, we are attempting to create a model of   
organizational behavior within which both climate and culture can be described in   
terms oi their interactions with other organizational variables. Thus, we are building   
on earlier research and theory with regard to predicting motivation and pertbrtnance   
effects.   
In addition, we are attempting to distinguish between the set of variables that   
influence and are intluenced by climate and those influenced by culture. We postulate   
two distinct sets of organizational dynamics, one primarily associated with   
the transactional level of human behavior—the evetyday interactions and exchanges   
that more directly create clitnate conditions. The second set of dynamics   
is concerned with processes of organizational transformation: that is. rather fundatnental   
changes in behavior (e. g., value shifts). Such transfortnational processes   
are required for genuine change in the culture of an organization. In our effoti to   
distinguish between transactiona! and transformational dynatnics in organizations,   
we have been intluenced by the writitigs of James McGregor Burns (1978)   
and by our own experience in modem organizations.   
The Model   
Figure I is a diagtam summarizing the tnodel. As noted earlier, this model   
owes its original development to the work of Litwin and his associates (Litwin &   
Stringer, 1968; Tagiuri & Litwin. 1968). and has been tefined through a series of   
studies directed by Burke and his colleagues (Bern. stein & Burke, 1989; Michela,   
Boni, Schecter, Mandcrlink, Bernstein. O'Malley,& Burke. 1988). Recent collaboration   
has led to the cuirent fonn of this model that (a) specifies by arrows which   
organizational variable (see the boxes) influences more directly which other i -   
ablcs and (b) distinguishes transformational and transactional dynamics in organizational   
behavior and change.   
Conforming to accepted ways of thinking abt)ut organizations from general   
systetns theory (Katz & Kahn. 1978). the external environment box represents the   
input, and the individual and organizational performance box the output. The   
feedback loop goes in both directions: that is. otganizational perlbrmanee affects   
the system's external cnvirontnent via its products and services, and the organization's   
performance may be diiectly affected by its external envitonmcnt (e. g.. a   
change in govemtnent regulations or trends on Wall Street). The remaining boxes   
in the tnodel represent the thtoughput aspect of general systetns theory.   
The total of 12 boxes tepresent, of course, our choices of organizational variables   
we consider to be the most itnportant ones. These choices were not made in   
isolation. We have been inlluenccd by others' thinking. To a large degree, therefore,   
we have followed precedence. For example, in one form or another, and perhaps   
using diffctcnt labels, we have incorporated the seven S" s of the McKinsey   
model explained by Peters and Waterman (1982). The same can be said of Weisbord's   
(1976) model and the one by Nadler and Tushman (1977). In addition, we   
have attempted to account for key variables at a total system level, with such variables   
as mission,, strategy, and culture, at a group or local work unit level (e. g., cli-   
mate) and at ati individual level (e. g., motivation, individual needs and values,   
and job-person match).   
It is no doubt an understatement to say that the model is complex. At the same   
time, however, we recognize the need for the human mind to simplify the rich   
complexity of organizational phenomena. And though complex to depict and describe,   
our model, exhibited two-dimensionally, is still an oversimplification. A   
hologram would be better, but is not available.   
Arrows going in both directions are meant to convey the open-systems principle.   
A change in one (or more) " box(es)" will eventually have an impact on the   
others. Moreover, if we could diagram the model such that the arrows would be   
more circular—the hologram idea—reality could be represented more accurately.   
Yet this is a causal model. For example, though culture and systems affect one another,   
we believe culture has a stronger influence on systems than vice versa. Kerr   
and Slocum {1987), for example, have provided data that suggest a strong linkage   
between corporate culture and the organization's reward system. They show how   
a company's reward system is a manifestation of its culture. They also point out   
that the organization's reward system can be used to help change the company's   
culture. Their data lend support lo ihe linkage notion. We would simply take their   
evidence and suggest a step further by arguing that corporate eulture (beliefs and   
values) detei" mine the type of reward system an organization has. Yet we would   
strongly agr'ee that to change eulture the reward system should be used (i. e., to   
reward the behaviors that would reflect the new values we might wish to incorporate).   
Displaying the model the way we have is meant to make a statement about organizational   
change. Organizational change, especially an overhaul of the company   
business strategy, stems more from environmental impact than from any   
other factor. Moreover, in large scale or total organizational change, mission,   
strategy, leadership, and culture have more " weight" than structure, management   
practices, and systems: that is. having organizational leaders communicate the   
new strategy is not sufficient for effective ehange. Culture change must be   
planned as well and aligned with strategy and leader behavior". These variables   
have more weight because when changing them (e. g.. organizational mission),   
they affect the total system. Changing sti" ucture, on the other hand, may or may   
not affect the total system. It depends on where in the organization a structural   
change might oeeur.   
We are not necessarily discussing at this stage where one could slarf the   
change, only the relative weighting of change dynamics. When we think of the   
model in terms of change, then, the weighted order displayed in the model is key.   
This point will be elaborated in the next section.   
To summarize briefly so far, the model shown in Figure I attempts to portray   
the primary variables that need to be considered in any attempt to prediet and explain   
the total behavior output of an organization, the most important interactions   
between these variables, and how they affect change. Again, in leality, all boxes   
would have bi-directional an" ows with every other box. We are displaying with   
our model what we consider the most critical linkages. Later in this article we deflne   
each of the variables and give some examples of typical interactions.   
TVansformational and Transactional Dynamics   
The concept of transformational change in organizations is suggested in the   
writings of such people as Bass (1985). Burke (1986). Burns (1978). McClelland   
(1975), and Tichy and Devanna (1986). Figure 2 contains a display of the transformational   
variables—the upper half of the model. By iraiisformalional we   
mean areas in which altetation is likely caused by interaction with environmental   
forces (both within and without) and will require entir" ely new behavior sets from   
organizational members.   
It is tr" ue. of course, that members ean influence their organization's environment   
so that certain changes are minimized (e. g.. lobbying activities, forming or   
being involved in trade associations and coalitions). Our feedback loop in the   
model is meant to reflect this kind of influence. Our point here is that for the most   
part organization change is initiated by forces from the organization's external en-   
vironment (e. g., changes in the competitive environment, government regulations,   
technological breakthroughs). Not everyone would agree with our premise.   
Torbert (1989), for example, argues that organizational transformation emanates   
from transformational leaders, not from the environment. We would agree that   
strong leaders make a difference, especially in the early stages of their tenure.   
These leaders are responding, nevertheless, to forces in their organization's environment,   
we contend. This leader responsiveness does not mean passivity. Astute   
leaders are people who scan their organization's external environment, choose the   
forces they wish to deal with, and take action accordingly. This leadership process   
is neither passive nor in isolation, as Torbert's contention might imply.   
Figure 3 contains the transactional variables^—the lower half of the model.   
These variables are very similar to those originally isolated earlier by Litwin and,   
in part (structural effects on climate), later by Michela et al. (1988). By transactional   
we mean that the primary way of alteration is via relatively short-term reciprocity   
among people and groups. In other words, " You do this for me and I'll   
do that for you."   
This transformational-transaetional way of thinking about organizations that   
we are using for the model, as noted earlier, comes from theory about leadership.   
The distinetion has been eharacterized as differences between a leader and a manager.   
Burke (1986) combined both the theorizing of Zaieznik (1977) and Bums   
(1978)—that is, transformational (Buni[S)-leader (Zaieznik) and transactional   
(Bums)-manager (Zaieznik)—to clarify further these distinctions and to hypothesize   
how each type, leader or manager, could empower others effectively. With respect   
to the model, and in keeping with the leader (transforinational)-manager   
(transactional) distinctions, transformational change is therefore associated more   
with leadership, whereas transactional change is more within the purview of management.   
With this broad distinction of transformational-transactional in mind, we now   
proceed with a more specific explanation of the model. And, at the risk of erring   
on the side of brevity, the next section defines each category or box in the model.   
With eaeh box definition we have provided at least one reference from the literature   
that helps to clarify further what we mean.   
External environment is any outside condition or situation that influences the   
performance of the organization (e. g., marketplaees, world financial conditions,   
politieal/govemmental eircumstances). For a broad view of the changing nature   
of our world economy, see Drucker (1986). For a more specific perspective on   
how the external environment affects the organization, see Pfeffer and Salancik   
(1978).   
Mission and strategy is what the organization's (a) top management believes is   
and has declared is the organization's mission and strategy and (b) what employees   
believe is the central purpose of the organization. Apparently, the mere fact of   
having a written mission statement is important to organizational effectiveness   
(Pearce & David, 1987). Strategy is how the organization intends to achieve that   
purpose over an extended time scale. We prefer Porter's (1985) more reeent way   
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of conceptualizing strategy (as opposed to. say. the Boston Consulting Group's   
way) because he links it directly to environment (industry structure), organizational   
structure, and corporate culture.   
Leadership is executives providing overall organizational direction and serving   
as behavioral role models for all employees. When assessing this category we   
would include followers' perceptions of executive practiees and values. As our   
model shows, we make a distinction between leadership and management. This   
difference follows the thinking of Bennis and Nanus (1985), Burke (1986), Burns   
(1978), and Zaleznik (! 977).   
Ciilttire is " the way we do things around here." This elear. simple definition   
comes from Deal and Kennedy (1982). To be a bit more comprehensive in our   
definition, we should add that culture is the collection of overt and covert rules,   
values, and principles that are enduring and guide organizational behavior. Understanding   
an organization's history, especially the values and customs of the   
founder(s). is key to explaining culture fSchein, 1983). Also, as stated earlier, culture   
provides a " meaning system" for organizational members.   
Structure is the arrangement of functions and people into specific areas and   
levels of responsibility, decision-making authority, communication, and relationships   
to assure effective implementation of the organization's mission and strategy.   
Perhaps the classic articles on stmcture and no doubt some of the ones cited   
most often are by Duncan (1979) and Galbraith (1974). For perspectives about organizational   
structure and the future, see Jelinek, Litterer. and Miles (1986) and   
Peters (1988).   
Management practices are what managers do in the normal course of events to   
use the human and material resources at their disposal to carry out the organization's   
strategy. By practices we meanaparticularcluster of specific behaviors. An   
example of a behavioral management practice is " encouraging subordinates to   
initiate innovative approaches to tasks and projects." As a practice, two managers   
may " encourage subordinates" to the same extent, but how specifically each one   
does it may differ. Thus, we are following the work of such people as Boyatzis   
(1982). Burke and Comzzi (1987), and Luthans (1988).   
Systems are standardized policies and mechanisms that facilitate work, primarily   
manifested in the organization's reward systems, management information   
systems (MIS), and in such control systems as peiformancc appraisal, goal and   
budget development, and human resource allocation. This category of the model   
covers a lot of ground. Some references that help to explain what we mean by the   
subcategories include Lawier (1981) on reward systems. Keen (1981) on MIS,   
Flamholt/. (1979) on control systems, and Schuler and Jackson (1987) with their   
linkage of human re. source management systems and practices to strategy.   
Climate is the collective cunent impressions, expectations, and feelings that   
members of local work units have that, in turn, affect their relations with their   
boss, with one another, and with other units. For further clarification of what we   
mean by climate, see James and Jones (1974). Litwin. Humphrey, and Wilson   
(1978). and Michela et al. (1988).   
Task requirements and individual skills/abilities are the required behavior for   
task effectiveness, including specific skills and knowledge required of people to   
accomplish the work for which they have been assigned and for which they feel   
directly responsible. Essentially, this box concerns what is often referred to as   
job-person match. This domain of the model represents mainstream industrial/organizational   
psychology. Almost any good textbook, such as Maier and Verser   
(1982). will provide thorough coverage of this category of the model. On the job   
side, see Campion and Thayer (1987) for an up-to-date analysis of job design, and   
for the person side, at the general manager level. Herbeii and Deresky (1987) provide   
a useful perspective on matching a person's talents with business strategy.   
Individual needs and values are the specific psychological factors that provide   
desire and worth for individual actions or thoughts. Many behavioral scientists   
believe that enriched jobs enhance motivation and there is evidence to support   
this belief, yet as Hackman and Oldham (1980) have appropriately noted, not everyone   
has a desire for his or her job to be enriched. For some members of the   
workforce, their idea of enrichment concerns activities off the job. not on the job.   
As the American workforce continues to become even more diverse, the ability to   
understand differences among people regarding their needs and values with respect   
to work and job satisfaction increases in impoilance. See. for example,   
Kravetz (1988) regarding changes in the workforce and Plummer (1989) on our   
changing values (i. e.. more emphasis on self-actualization).   
Motivation is aroused behavior tendencies to move toward goals, take needed   
action, and persist until satisfaction is attained. This is the net resultant motivation:   
that is. the resultant net energy generated by the sum of achievement, power,   
affection, discovery, and other important human motives. The article by Evans   
(1986) is especially relevant because his model for understanding motivation in   
the workplace is not only multifaceted but the facets are very similar to our   
model.   
Individual and organizational performance is the outcome or result as well as   
the indicator of effort and achievement (e. g., productivity, customer satisfaction,   
profit, and quality). At the organizational level the work of Cameron. Whcttcn.   
and their colleagues is especially relevant to this box: . see. for example. Cameron   
(1980). Cameron and Whetten (1982). and Cameron and Whetton (1981), and at   
the individual level the article by Latham, Cummings. and Mitchell (1981).   
Climate Results From Transactions, Culture Change Requires   
Transformation   
In attempting to explain this model so tar. we have encountered many questions,   
but perhaps most have focused on the distinction between climate and culture.   
An additional explanation is no doubt appropriate.   
In our causal model, we argue that day-to-day climate will be a result of transactions   
around such issues as   
1. Sense of direction: effect of/? 7/. sv/o/? clarity or lack thereof.   
2. Role and responsibility: effect of stmctun'. reinforced by manager practice.   
3. Standards and commitment: effect of manager practice, reinforced by culture.   
4. Fairness of rewards: effect of ^y^/^ms, reinforced by manag   
5. Focus on customer versus internal pressures, standards of excellence: effect   
oi vulture, reinforced by other variables.   
In contrast, the concept of organizational culture has to do with those underlying   
values and meaning systems that arc difficult to manage, to alter, to even be   
aware of totally (Schein, 1985). We do not mean to use culture to describe another   
way of understanding the short-term dynamics of the organization. Rather, it provides   
us with a theoretical framework for delving into that which is continuing   
and more or less permanent. By more or less pennanent, we mean that change can   
be arranged or may come about through the application of uncontrolled outside   
forces, but it will involve substantial upheaval in all transactional-level systems   
and will take time.   
When we describe culture as the underlying values and meaning systems of an   
organization, we describe those forces that create the dimensions of climate, those   
underlying ideas and images around which specific attitudes and behaviors cluster.   
Thus, when we attempt to alter the organizational cluster, we change the climate   
framework (i. e.. the gauge by which organizational members perceive their   
work climate). You might even think of such a period as involving a destabilized   
climate that would have quite distinctive properties of its own. The new organization   
culture, as it becomes accepted, would create a modified, if not an entirely   
new set of dimensions around which climate would be perceived, described, and   
responded to. Take, for example, customer service. The culture change desired is   
one of establishing a value that the customer comes first, to be served as quickly   
and as pleasantly as possible with the highest degree of quality, and a norm that   
behavior in a given work unit should be externally oriented first (i. e.. focused on   
customers or those who members of the work unit serve) and internally oriented   
second (i. e.. how members work together), The impact of this change in the culture-—   
a significant shift of priority—on work unit climate might be to replace a   
former dimension of teamwork with one of interunit (or customer) relations. Or,   
at a minimum, this latter focus on unit relations might become an added dimension   
of climate.   
Applying the Model   
For major organizational change to occur, the top transformational boxes represent   
the primary and significant levers for that change. Examples from our experience   
include (a) an acquisition where the acquired organization's culture, leadership,   
and business strategy were dramatically different from the acquiring   
organization, even though both organizations were in the same industry, requiring   
yet a new merged organization to come about, (b) a federal agency where the mission   
had been modified, the structure and leadership changed significantly, yet the   
culture remained in the 1960s—obviously a culture change effort—and (c) a   
high-tech firm where leadership had recently changed and was perceived negatively,   
the strategy was unclear, and internal politics had moved from minimal   
(before) to predominant (after). The hue and cry in this latter high-tech organization   
was something like, " We have no direction from our leaders and no culture to   
guide our behavior in the meantime." These examples represent transformational   
change (i. e.. the need for some fundamental shifts).   
For organizations where the problems are moreof a fine tuning, improving process,   
the second layer of the model serves as the point of concentration. Examples   
include some changes in the organization's structure, modification of the reward   
system, management development (perhaps in the form of a program that concentrates   
on behavioral practices), or conducting a climate survey to obtain a current   
measure of such variables as job satisfaction, job clarity, and degree of teamwork.   
We have been involved recently with one organization where almost all of the   
model was used to provide a framework for executives and managers to understand   
the massive change they were attempting to manage. This organization,   
British Airways, became a private coiporation in February 1987, and changing   
from a government agency to a market-driven, customer-focused business enterprise   
required quite a change indeed. All boxes in the model have been and still   
are being affected. Data were gathered based on most of the boxes and summarized   
in a feedback report for each executive and manager. This feedback, organized   
according to the model, helped executives and managers understand which   
of the boxes within his or her organizational domain (or " patch." as the British   
call it) needed attention.   
It is also useful to consider the model in a vertical manner. For example, in one   
large manufacturing organization (Bernstein & Burke. 1989) we examined the   
causal chain of culture-management practices-climate. Feedback to executives in   
this corporation showed how and to what degree cultural variables influenced   
management practices and, in turn, work unit climate (our dependent variable in   
this case).   
Some Preliminary Support for the Model's Validity   
Within the context of general system theory, all variables affect one another,   
and the hologram notion, introduced earlier, is a useful way to visualize organizational   
reality. But with respect to organization change, our contention is that external   
environment has the greatest impact and, internally, the transformational variables   
(mission/strategy, leadership, culture) have the greatest impact, and next the   
transactional variables, etc. If we were able to conduct the statistical procedure of   
path analysis on all variables (boxes) of the model, the beta weights for the downwardly   
directed aiTows would be larger than the beta weights in the opposite direction   
{e. g.. the structure-to-climate direction would be larger than the climateto-   
structure one).   
What follows are citations of research studies that provide support for our organization   
change argument. These citations are limited to one or two per " arrow"   
and do not represent an exhaustive listing.   
The Influence of External Environment   
Because our model is based on open-systems theory, we believe in the causal   
nature of environments. An excellent framework for understanding this causal relationship   
is the one provided by Fmery and Trist (1965). More specifically and   
recently, Prescott (1986) has empirically demonstrated how environment influences   
strategy and, in turn, performance. Miles and Snow (1978) have provided   
evidence to show that executive perceptions of their organization's environment   
and their consequent decision making is directly and causally linked. With respect   
to organizational culture, if we limit ourderinition of external environment to industry   
group, for example, then Gordon (1985). who studied utility companies   
and financial institutions, has shown that corporate culture is directly influenced   
by the industry category (external environment) ol the firm.   
The Transfonmilkmal Variables   
Chandler's (1962) classic study cleai'ly demonstrated the differential impact of   
strategy or structure. More recently. Miles. Snow, Meyer, and Coleman (1978)   
have shown how strategy affects structure. And. as noted earlier, company mission   
apparently influences strategic decisions, which in turn affect perfomiance   
(Pearee & David, 1987). When mission statements include corporate values and   
philosophy, or at least imply certain values, they also reflect the organization's   
culture, as Wilkins (1989) has noted. The influence of culture on policy and systems,   
in this ease the reward system, has been shown by Kerr and Slocum (1987)   
and Bernstein and Burke (1989) have demonstrated the impact of culture on management   
practices. It also seems that culture makes a difference with respect to organizational   
pertbmiance: that is. some cultures are more efficient than others   
(Wilkins &Ouchi, 1983).   
It should be mentioned at this stage that we are quite aware of the fact that   
models may only help us to understand reality; they do not necessarily depict it.   
With respect to our three transfonnational boxes, they can be thought of more realistically   
as being in the minds of organization leaders and as part of their behavior,   
not in organizational categories. The thinking of Tregoe and Zimmerman   
(1980) is helpful here. They define nine different categories of strategy, or what   
they call strategic driving forces; product or services offered, market needs, technology,   
production capability, method of sale, method of distribution, natural resources,   
size and growth, and profit-return on investment. They contend that any   
given company has only one, singular strategic driving force. This idea, incidentally,   
is similar to Galbraith's (1983) " center of gravity" notion. The strategic   
driving force is a manifestation of the company leader's beliefs about how to succeed   
in a particular industry or line of business. Beliefs are part and parcel to corporate   
culture, and the leadership category is where they (strategy and culture)   
come together—in the minds of organization leaders and as part of their behavior.   
When these executives believe differently about which strategy brings success,   
the company is in trouble (see Burke, 1991, for a case example). Incidentally, in   
this organizational case, there was a clear need for transfortiiational change; that   
is, in particular, change in leadership and in corporate culture. In the end, however,   
at best, there was only a transactional change limited largely to a modification   
in the organization's structure.   
And, finally, for this transformational category, do leaders make a difference   
organizationally? It is not difficult to find research to verify the hierarchical effect   
on behavior (i. e.. that bosses affect subordinates). One of the early studies that   
showed how supervisors were directly affected by their bosses' managerial style   
was Fleishman's (1953). But even through mediating variables, as our model reflects,   
do leaders have an impact on organizational pertbrmance? Sui" prisingly, lit-   
tie research has been conducted to address this question. And the studies that have   
are not always consistent with one another. Salancik andPfetTer(! 977), for example,   
showed that turnover of mayors had little effect on the city's pertbmiance.   
Two more recent studies do provide support, however. Weiner and Mahoney   
(1981) found that leadership accounted tor more variance in organizational performance   
than other variables, and Smith. Carson, and Alexander (1984). in a   
longitudinal study, showed empirically that leadership was associated with improved   
organizational performance.   
The Transactional Variables   
These variables, structure, management practices, and systems, are more operational   
and are more incremental with respect to organization change. Although   
our main variable to consider as the dependent one is cliniaie. structure also has a   
direct impact on task requirements and individual skills/abilities (^job-person   
match). Systems, especially rewards, also directly aftect individual needs and values.   
Joyce and Slocum (1984) have shown that both management practices and   
structure influence climate, and an earlier study by Schneider and Snyder (1975)   
also demonstrated that climate is affected by the same two variables and by the reward   
system (i. e.. pay and promolion policies). Schneider has also shown a direct   
linkage between management practices and climate in a series of studies in the   
service sector (Schneider. 1980: Schneider & Bowen, 1985).   
With respect to the impact of structure on variables other than climate, the   
work of Lawrence and Lorsch (1967. 1969). of course, has shown its influence on   
management practices. The relationship between structure and systems has been   
demonstrated in numerous ways, just one example being Ouchi's (1977) study of   
structure and organizational control. And the relationship between structure and   
task requirements has also been demonstrated many times, perhaps the work by   
Galbraith (1977. 1973) being one of the best illustrations.   
Regarding the impact of systems, perhaps the most important subsystem of the   
policy and procedures (systems) box is the organization's reward system. The belief   
that " people do what they are rewarded for doing" is practically a cliche.   
Demonstrating this relationship of rewards and behavior in the workplace is not   
as obvious and straightforward as one might presume, however. Witness the payfor-   
performance controversy for a case in point. There is evidence, nevertheless.   
Research on gainsharing shows linkage among management practices, climate,   
and motivation/performance. Gainsharing positively influences performance   
(Bullock & Lawler. 1984). As Hammer (1988) has noted, however, the presence   
of worker participation is close to being a necessary condition for success (in particular.   
Scanlon Plans). In other words, when management establishes a working   
climate of participation coupled with pay for performance, positive results occur.   
For more direct evidence that a participatory climate affects productivity, see   
Rosenberg and Rosenstein (1980).   
And for evidence that reward systems affect individual needs/values, and vice   
versa, see Deutsch (1985). For a more specific example, see the research of Jor-   
dan (1986). a field study indicating that Deci's (1975) contention that extrinsic rewards   
have a negative effect on intrinsic motivation is probably correct.   
Another subsystem within the policy and procedures box and one that is intertwined   
with the reward system is the organization's performance appraisal system.   
For evidence that this subsystem affects management practices and climate   
and, in turn, motivation and ultimately performance, see the work of Cummings   
(1982) and Cummings and Schwab (1973).   
Yet another major sub. system within the poiiey and procedure box is the organization's   
management information system. Perhaps the latest and broadest research   
in this area—the impact of information technology on worker behavior—   
istheworkofZuboff(1988).   
To summarize, these transactional dimensions are central to the model. They   
affect and are affected by a greater variety of variables than most other dimensions.   
Motivation and Performance   
With respect to the differential impact of individual needs and values on motivation   
and job satisfaction, the work of Hackman and Oldham (1980) shows   
some of the clearest evidence. Among other findings, their research indicates that   
a majority of people probably have a need for growth and development on the job   
and therefore would respond to and be more motivated by job enrichment, but not   
everyone would be so motivated. Among other findings that certain psychologically   
based interventions affect productivity positively. Guzzo. Sette, and Katzeil   
(1985) more recently have provided evidence that work redesign (i. e., job enrichment)   
does as well.   
Compared with other boxes in the model, finding evidence to support our contention   
that congruence between persons' skills/abilities and job requirements   
leads to enhanced motivation and. in turn, higher pertbrmance is very easy. For a   
summary of this area of research, see M. J. Burke and Pearlman (1988) and for an   
example of impressive evidence, see Hunter and Schmidt (1982).   
Summary   
Table I provides a summary of the studies that we have cited as preliminary   
support for the model's validity, particularly in terms of arrows that are in the   
downward direction.   
A summary word of qualification: The studies we have chosen to demonstrate   
support for our ideas about organizational performance and change are highly selective.   
There are no doubt numerous other studies that both support and perhaps   
question our arguments. The fact that evidence does exist, however, is the point   
we wish to make.   
The evidence that we have cited comes from disparate sources and, with respect   
to the model, is piecemeal. Ideally, a proper test of the model would be a   
study that simultaneously examines the impact of all boxes across a variety of organizations.   
The closest we have come so far is to examine organizational members"   
perceptions and beliefs: how managers' beliefs about mission and strategy,   
for example, relate to (if not predict) their perceptions and their subordinates" perceptions   
of work unit climate. To cite an actual example, at British Airways one   
of the performance indices used was perceived team effectiveness. Data were also   
collected from BA managers regarding their beliefs and perceptions about (a)   
team manager practices (e. g.. degree of empowering behavior toward subordinates),   
(b) the usefulness of BA's stmcture toward subordinates, (c) the clarity of   
BA's strategy, (d) the extent to which BA's culture supports change, and (e) the   
team's climate (e. g., goal and role clarity). These data categorized according to   
just these five boxes from the model accounted lor 547c of the variance in ratings   
of team effectiveness for this organization, British Airways (Bernstein. 1987). We   
are not implying that the model always explains this degree of variance. We are illustrating   
how the model can be used methodologically for particular client organizations.   
Figure 4 shows these relationships diagrammatically from the model as they   
were apphed to the client organization, in this case, BA.   
In another more recent, direct attempt to test the vahdity of the model in assessing   
primarily (but not exclusively) the culture of a hospital. Fox (i990) showed   
significant support for the causal relationships of certain dimensions {'" boxes").   
Using the model as a causa! predictor, her path analysis outcomes demonstrated   
that leadership, culture, and management practices predicted significant variance   
in employees\* perceptions of work unit climate and organizational performance.   
The two transformational dimensions, leadership and culture, were clearly the   
two strongest predictors.   
Conclusions   
By covering the choice of variables (boxes) that we have selected, we have   
made an attempt with this article to describe and define an organizational model   
that, at least at face value, makes good, common sense. Yet others have done this   
kind of modeling work as well. It is our contention, however, that we have taken   
an additional step by hypothesizing causality (arrows), particularly in the   
weighted direction; that is. top-down, the transformational then transactional factors.   
We have searched and have found, from the literature and from our own   
work, at least in part, empirical support for this hypothesized causality. We are as   
a consequence encouraged, and we intend to search further and conduct more re-   
search. For a recent and further application of the model in a corporate setting, see   
Burke and Jackson (1991).   
We do not always obtain evidence that supports precisely the eausal chain depicted   
in the model, however. We have found from our experience, for example,   
that on occasion perceptions regarding strategy or structure explain more variance   
in ratings of climate or some index of performance than do management practices,   
usually a heavy indicator. These occasions are when the organization is in   
the midst of a change in strategy, a change in structure, or both. It may also be that   
national differences would affeet the causal chain in ways that are not quite the   
same as the model predicts. In the UK, for example, beliefs about " the team"" and   
what constitutes satisfaction may not be the same as American beliefs. When   
given the opportunity to complain or criticize, the British seem to attribute their   
feelings of dissatisfaction more toward distant factors—the culture, the structur