Strategic Workforce Engagement: Designing the Behavior of Organizations for Competitive Advantage

Strategic Workforce Engagement: Designing the Behavior of Organizations for Competitive Advantage

Yves Morieux and Robert Howard

August 2000

About the Authors

Yves Morieux is a vice president in the Paris office of The Boston Consulting Group and global topic leader for organization design in the firm's Organization practice. Robert Howard is a director of idea and editorial development in BCG's Innovation, Marketing, and Communications organization and editor of *The Learning Imperative: Managing People for Continuous Innovation* (Boston, Mass.: Harvard Business School Press, 1993).

For Further Contact

The ideas in this paper represent ongoing learning from client work and research at The Boston Consulting Group. The authors welcome your feedback, as well as requests for additional information about strategic workforce engagement. They can be contacted at morieux.yves@bcg.com and howard.robert@bcg.com.

For inquiries about BCG's Organization practice, please contact:

The Americas	*Europe*	*Asia-Pacific*
D. Grant Freeland	Felix Barber	David J. Brownell
Vice President	Senior Vice President	Senior Vice President
The Boston Consulting Group	Global Leader, Organization Practice	The Boston Consulting Group Pty. Ltd.
Exchange Place, 31st Floor	The Boston Consulting Group	101 Collins Street, Level 52
Boston, Massachusetts 02109	AG Zürich	Melbourne VIC 3000
United States	Zollikestrasse 226	Australia
Telephone: 617-973-1200	CH - 8008 Zürich	Telephone: 61-3-9656-2100
Fax: 617-973-1339	Switzerland	Fax: 61-3-9656-2111
E-mail: freeland.grant@bcg.com	Telephone: 41-1-388-86-66	E-mail: brownell.david@bcg.com
	Fax: 41-1-388-86-86	
	E-mail: barber.felix@bcg.com	

Strategic Workforce Engagement: Designing the Behavior of Organizations for Competitive Advantage

Strategy is fast becoming a science of behavior. The best strategy in theory will be mediocre in practice if the people meant to execute it cannot be engaged and aligned appropriately. Moreover, in a business environment characterized by continuous innovation and rapid change, an organization's behavior increasingly *is* its strategy. And managers' ability to influence that behavior and use it to realize strategic business goals—or even develop new ones—is central to building sustained competitive advantage.

Consider the following examples:

Capabilities-Based Strategies. In many situations, competitive success depends on building hard-to-imitate organizational capabilities—fast time to market, say, or highly responsive customer service. In such situations, "the essence of strategy is not the structure of a company's products and markets but the dynamics of its behavior."[1]

Mergers and Acquisitions. Realizing the value from a merger or acquisition depends on rapid postmerger integration with minimal organizational disruption—nearly always in a context of high uncertainty and stress. Achieving such integration smoothly requires quickly aligning the behavior of heretofore independent organizations with the strategic goals of the new entity.

Experience Branding. Increasingly, successful companies are not just branding a product; they are branding an entire customer experience. And often, the effective delivery of that brand experience depends on frontline employees— for example, sales associates, flight attendants, hotel reception staff, and telemarketers—who are usually among the lowest paid in the organization. A company's ability to deliver the brand consistently and successfully hinges on how these employees interact with customers and with one another.[2]

1. George Stalk, Jr., Philip Evans, and Lawrence E. Shulman, "Competing on Capabilities: The New Rules of Corporate Strategy," *Harvard Business Review* (March-April 1992), p. 62.

2. See Anthony Miles and Yves Morieux, "A Frontline Without Limits," Opportunities for Action in Consumer Markets, The Boston Consulting Group, February 1999; and Joan T. Dea, James W. Hemerling, and David Rhodes, "Living the Brand," *Banking Strategies* (November-December 1998), pp. 47-56.

3. See Philip Evans and Thomas S. Wurster, *Blown to Bits: How the New Economics of Information Transforms Strategy* (Boston, Mass.: The Harvard Business School Press, 2000).

New Organizational Models. In response to fast-changing economic and technological environments, companies are shifting to new organizational models characterized by flat hierarchies and highly autonomous teams. In such environments, aligning employees with the organization's strategy becomes even more critical at the very time when the traditional command-and-control mechanisms for achieving that alignment are becoming less effective.[3]

Most managers would admit that aligning behavior with strategy is important. Indeed, they spend considerable time and energy trying to shape the behavioral characteristics of the organizations they run. And yet, relatively few are confident that they do so effectively. Part of the problem is that they lack rigorous tools for analyzing organizational behavior and intervening to change it. And so they fall back on a set of simplistic and misguided assumptions about what drives behavior in organizations and how to change it.

This paper attempts to bridge that gap. It describes a systematic approach for understanding organizational behavior and targeting interventions to align that behavior with a company's goals. The approach is based on concepts and principles developed in the field of organizational sociology and adapted by The Boston Consulting Group to the demands of managerial decision-making in a wide variety of real-world business contexts. Because it helps ensure that the behavior of a company's employees is engaged with the goals of its strategy, BCG calls the approach *strategic workforce engagement.*

Strategic workforce engagement has broad applicability in organizations. It can be used with frontline employees, professionals, or even senior executives; within single functions or across multiple functions that need to interact to get a complex job done; within a single company or across a network of companies partnering to achieve shared strategic goals. It is a method both for understanding existing behavior in an organization and for changing that behavior in ways necessary to achieve business success.

The pages that follow describe the typical mistakes executives make when trying to influence organizational behavior; define an alternative approach based on the principles of strategic workforce engagement; and illustrate the differ-

ence that this approach can make through a series of case studies based in part on work BCG has done with its clients.

The Missing Link in Managing Behavior

In all but the smallest and simplest of organizations, managers need to rely on others in order to get things done. Indeed, one of the primary tasks of management is to influence the behavior of others so that they act in ways that are relevant to the business context and effective in achieving business goals.

To that end, managers make use of a wide range of organizational levers to ensure that employees' behavior is aligned with the company's strategy. They set a strategic direction and communicate it widely. They design the organizational structure and define key roles, procedures, and processes. They establish metrics for performance evaluation and set incentives to motivate behavior. And they create information systems to make sure the right information gets to the right people. In all these ways, managers intervene to shape and direct employees' behavior to desired ends.

4. See Jeanie Duck, "The Seduction of Reductionism," Perspectives, The Boston Consulting Group, 1992.

Managers frequently assume that there is a one-to-one correspondence between the problems they need to solve or the goals they hope to achieve, the specific managerial levers they use, and the behaviors they want to elicit.[4] The typical attitude is, If only we get the incentives right—or define the roles properly, or engineer the right process steps, or train people so they have the right skills—the right behavior will follow.

This point of view is so taken for granted that when employees respond to specific managerial interventions in ways that managers neither anticipate nor intend, it is easy to dismiss the resulting behavior as irrational—a symptom of poor motivation, lack of commitment, or resistance. But such reasoning is an excuse, not an explanation. It begs a whole series of questions: Why aren't employees motivated? Why do they lack commitment? What exactly are they resisting and why? As a result, managers end up addressing the symptoms rather than the real causes of specific behaviors.

In fact, there is no automatic causal relationship between the interventions managers undertake and the ways employees behave. The actions managers take are just one element in a complex and dynamic behavioral system. People, much like companies, act according to strategies for meeting their objectives and solving their problems. These strategies depend on the resources available to them, on the constraints that hem them in, and on the actions and relative power of others in the system.

It's rare for individuals or groups to be able to articulate their personal strategies in specific situations. They may be wrong in their evaluation of what resources they possess or obstacles they face. And usually they can't see how their own strategies interact with those of others to produce unanticipated second- and third-order effects. Nevertheless, by viewing the organization as a dynamic behavioral system, managers can accurately analyze employees' behaviors and understand what's really driving them.

When managers take this systemic approach, it becomes clear that although managerial interventions do influence the behavior of employees, they do so only indirectly—through their impact on a dynamic behavioral system. Put another way, the levers that managers deploy don't cause employees' behavior; rather, this behavior is a complex response—often unanticipated and unintended—to the specific actions managers take. The precise impact of managerial interventions depends on how employees integrate those interventions into their adaptive strategies: how new structures, procedures, metrics, incentives, and training modify the behavioral system and thus shape behavior. The impact of managerial interventions on an organization's behavioral system is the missing link between the traditional levers that managers can deploy and the organizational behavior they want to elicit (see Exhibit 1).

Once managers start focusing on this missing link—on the impact of their interventions on this dynamic behavioral system—two things become apparent. First, human behavior in organizations is *always* rational when viewed in the context of what people consider to be good or useful when it comes to solving their problems and achieving their goals. Behavior that appears to be irrational is not necessarily an attribute of the people who exhibit it. Rather, it

is a signal that management doesn't (yet) understand the real behavioral dynamics at work.

Second, when the design of managerial interventions is informed by a deep knowledge of the relevant behavioral dynamics in the organization, these interventions are far more likely to be effective—to produce the specific behavior and results that managers want. For results are only as real as the behavior that produces them.
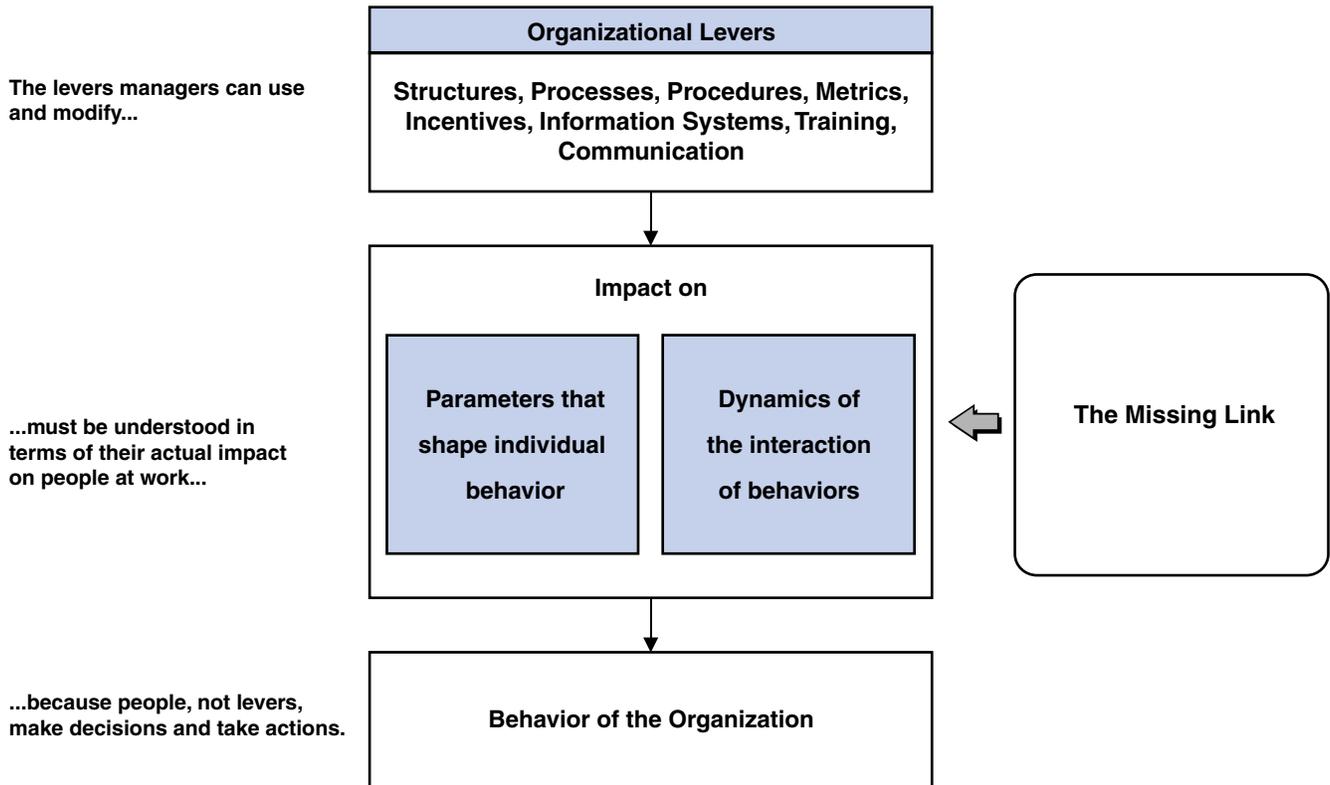
The Behavioral Dynamics of a Distribution Channel

5. This example is an account of research conducted by Hélène Bovais under the direction of François Dupuy. For a different interpretation, see François Dupuy, *The Customer's Victory: From Corporation to Co-operation* (London: Macmillan Press, 1999).

Consider the experience of a global cosmetics company that tried to create a new distribution channel.[5] The company hoped to spur further growth in its already successful line of shampoos by selling its products in a new outlet: the nearly 40,000 independent hair salons in its home market.

Exhibit **1**

The Missing Link in Managing Behavior

The levers managers can use and modify...

Organizational Levers

Structures, Processes, Procedures, Metrics, Incentives, Information Systems, Training, Communication

...must be understood in terms of their actual impact on people at work...

Impact on

Parameters that shape individual behavior

Dynamics of the interaction of behaviors

The Missing Link

...because people, not levers, make decisions and take actions.

Behavior of the Organization

The company's strategy was to get the salon employees who washed customers' hair—and often were already using its brand for that purpose—to sell shampoo directly to customers. Because these employees (known as shampooists) interacted with customers directly at the moment of need, they were the logical people to make the sale. And because they were the lowest-paid employees in the salon, they would welcome the extra money that the sales commissions would provide. So the company created a dedicated sales force to push its brand with the shampooists and to train them in effective selling techniques. The company also offered considerable incentives in the form of sales commissions to those shampooists who successfully pushed its products.

Despite this effort, initial sales fell well below expectations. So the company decided to step up the sales pressure and increase commissions to the point where, if successful, shampooists could as much as double their income. But one year into the new strategy, there was no significant improvement in sales.

What went wrong? The cosmetics company overlooked the behavioral dynamics in the salon. Marketing managers had assumed that they were dealing with an incentives issue and that poorly paid shampooists would jump at the chance to make more money. A closer look revealed that most didn't want to be better-paid shampooists; rather, they wanted to become hairdressers. And the surest way for a shampooist to have any chance of moving up the ladder was to spend enough time in a particular salon to develop strong relationships with the hairdressers in the hope that one day they would recommend the shampooist for an apprenticeship.

Seen from this perspective, selling shampoo to customers was just about the *worst* thing a shampooist could do. Individual hairdressers jealously guarded their relationships with their clients. The more a particular customer relied on his or her hairdresser, the less likely he or she would be to switch to another. The hairdressers didn't want anyone to intervene in that relationship—not other hairdressers and certainly not the shampooists.

But that is precisely what the cosmetics company's strategy encouraged the shampooists to do. In order to sell shampoo, the shampooists had to engage

customers in a serious conversation about hair care and to develop their own independent relationships with those customers. That meant undermining the hairdresser as the preferred source of advice and expertise—and thus alienating the very group on whom the shampooists' own professional advancement depended. No wonder the shampooists didn't sell much shampoo, despite the cosmetic company's hefty incentives.

Because the cosmetics company misunderstood this behavioral dynamic, it focused on the wrong interaction. The company's marketers thought the key relationship was between shampooists and end customers. In fact, what was key was the entire system of interactions involving shampooists, customers, and hairdressers. The most important player in this behavioral system—the hairdresser—had been left out of the marketing picture.

Once the cosmetics company's marketers understood this behavioral dynamic, they were able to devise a strategy that took it into account. Paradoxically, that strategy involved leapfrogging both the shampooists and the hairdressers to focus on salon managers. And it required a major repackaging and repositioning of the product.

The salon managers were often high-profile celebrity hairdressers who saw themselves as technical experts—artists, even—of coiffure. For them, the real problem with the product was its packaging: it looked too much like a typical mass-market product sold in a supermarket, and that kind of packaging undermined their expert image. As one salon manager put it, "I'm not a shopkeeper, and I don't sell soap."

To make selling the company's shampoo attractive to salon managers (in other words, a rational strategy) required substantial changes in the marketing mix of the company's products (although not in the products themselves). The cosmetics company renamed the product and redesigned its advertising and packaging to emphasize technical standards and specifications—for instance, the shampoo's natural ingredients and healthy impact on hair. The effect of this repackaging was to make the shampoo a resource in a salon manager's strategy to emphasize his or her expertise. Salon managers grabbed this

new opportunity. They recommended the products to their clients as part of the high-quality service that customers had come to expect from the salon. The result was a fast-growing new sales channel for the cosmetics company.

As long as the cosmetics company assumed a simple one-to-one correspondence between its interventions and the behavior of the hair salon personnel, its marketing strategy for the new channel failed. When the company began to view its interventions in the context of their impact on a system of interaction, its efforts became more effective.

The Real Drivers of Behavior in Organizations

Strategic workforce engagement is an approach for anticipating the kind of behavioral dynamics described in the cosmetics company example so that managerial interventions can be designed to take the real drivers of behavior into account. The approach is based on a two-dimensional model that defines, first, the parameters shaping individual behavior and, second, the dynamics of interaction among individual behaviors in an organization. The framework has eight basic elements (see Exhibit 2).

Actors. Every behavioral system consists of a set of actors. They can be individuals or groups (like the shampooists in the hair salons), organizational units or functions (say, the R&D department), even entire companies (an OEM and its suppliers, for example, or two companies involved in a merger). A key first step in strategic workforce engagement is to identify the relevant set of actors for any given business problem or challenge.

It's not always obvious. The cosmetics company assumed that the critical actors for selling its shampoo in hair salons were the shampooists. The company's managers didn't realize that the hairdressers were also important because they strongly influenced the shampooists' behavior—even though the shampooists did not work directly for them.

Goals. Actors act with a purpose. Put another way, they pursue goals. These goals define what the actors are trying to achieve, the problems they are trying

to solve, the stakes for them in a particular situation. For example, the shampooists' real challenge was how to become hairdressers, not how to become rich shampooists.

Goals are important because they set the context for what is rational behavior for a given set of actors in a particular situation. It's not that the shampooists wouldn't have liked to make more money. But doing so by selling shampoo didn't make sense to them, given their dependence on the hairdressers for achieving the goal of becoming hairdressers themselves someday. What appeared to the marketing managers as irrational behavior according to a traditional managerial logic—that financial incentives make a difference—made perfect sense given the shampooists' actual goals.

Actors aren't always willing—or even able—to articulate their goals. They are much like consumers who can't always describe what it is they want from a new

Exhibit **2**

A Framework for Analyzing Organizational Behavior
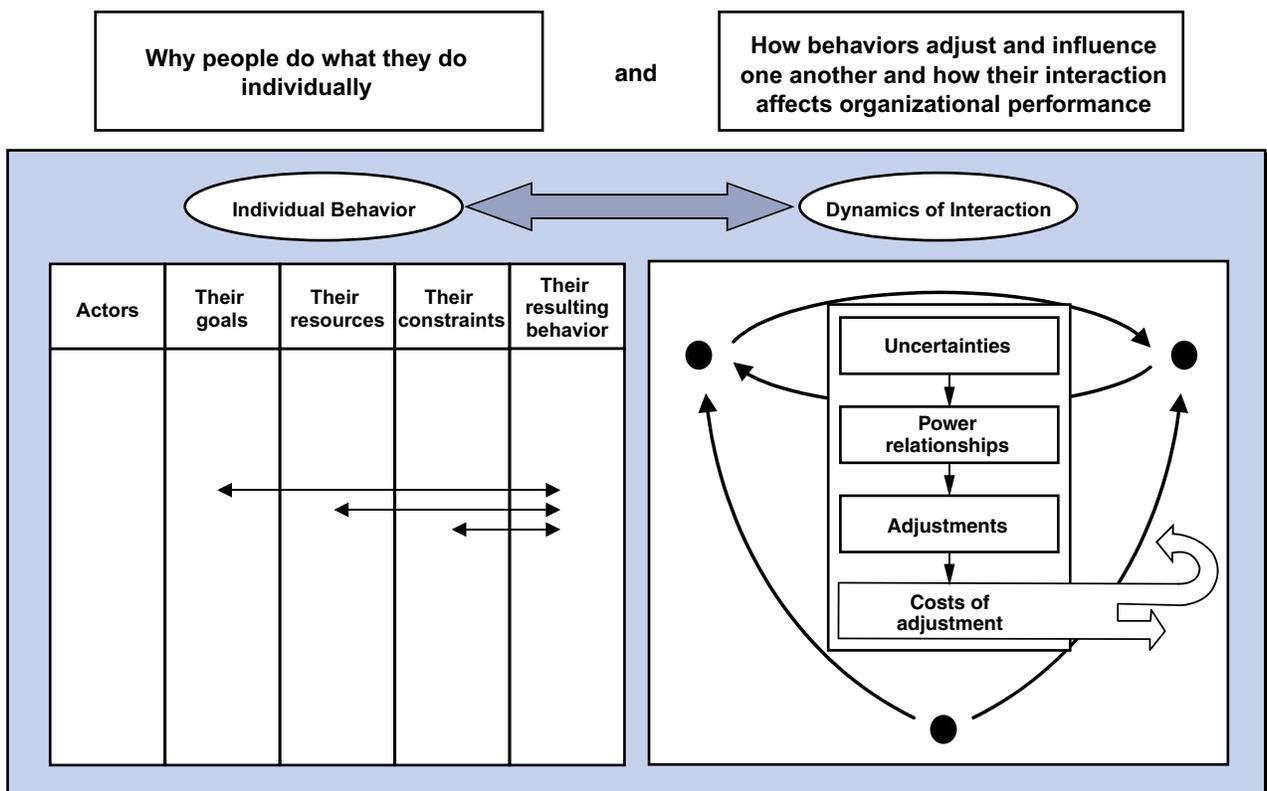
product. For that reason, it's unwise to take actors' descriptions of their goals at face value. Such descriptions reveal only what people say, not what their behavior really means in the context of the behavioral system—let alone what managers should do about it. Nevertheless, it is possible to uncover actors' implicit goals by treating their responses to interviews as one source of data among others—including, for example, interviews with other actors in the organization and direct observation of the interactions among different actors.

Resources and Constraints. To achieve their goals, actors draw on resources available to them in the environment and try to overcome constraints or obstacles posed by the environment. Anything actors perceive as useful to achieve their goals can function as a resource—technical know-how, access to information, even formal work rules and procedures. For example, one of the reasons unions have traditionally fought for highly specified job definitions and work rules is that these definitions and rules can serve as a resource for union members to limit demands by management.

But what may be a resource for one set of actors can mean a constraint for another. The work rule that serves the unionized worker can become a constraint for the manager trying to improve operational effectiveness by encouraging flexibility and cross-functional cooperation. By the same token, a resource in one context may become a constraint for the same actor in another—for instance, if the actor develops new goals.

Actors, goals, resources, and constraints are all concepts for diagnosing the behavior of actors in an organization—in other words, their actions and decisions. Think of this behavior as the coping strategy that actors develop to achieve their goals or solve their problems according to their evaluation of the resources they have available to them and the constraints they face. Managers who want to change individual behavior can begin to do so by mapping the relevant actors, their key goals or problems, and their understanding of current resources and constraints.

But while an analysis of individual behaviors is necessary, it is not sufficient. It needs to be supplemented by an analysis of the organizational system. What

happens in an organization is not merely the result of the sum of its actors' behaviors. Rather, it is the product of a dynamic interaction of behaviors. To analyze this systemic dimension of behavior, managers need another set of conceptual tools.

Uncertainties. Every actor is enmeshed in a complex web of interdependencies. The resources available to actors and the constraints they have to overcome are rarely under their complete control but rather depend on the behavior of others. As long as the behavior of these other players is not entirely predictable, such interdependencies subject actors to uncertainty.

Consider the shampooists again. The ability of individual shampooists to achieve their goal of becoming hairdressers depends to a large extent on the strength of their relationships with the hairdressers in the salon. The hairdressers are free to support or oppose a shampooist in his or her efforts. The shampooist has no control over their actions. Thus, those actions represent a major uncertainty for the shampooist—an uncertainy that ultimately will determine whether his or her relationship with the hairdressers functions as a resource or a constraint.

Power Relationships. The concept of uncertainty provides the basis for a rigorous understanding of power in human behavioral systems. Power is the capability to act in—and on—the system: it is a function of the uncertainties one controls for other members of the system. Actors with power set the rules of the collective game and thus influence the behavior of others. The hairdressers have power over the shampooists because they have something the shampooists need. In exchange for their support, the hairdressers can get the shampooists to behave in a certain way—that is, not to disrupt the hairdressers' relationships with clients by selling them shampoo. In this way, actors who have power are able to minimize their own uncertainty and thus expand their freedom to pursue their goals.

Adjustments. In any organization, the resources, constraints, and goals of different actors are bound to diverge or even conflict. Nevertheless, there is a tendency in any organization to find compromises. Put another way, organiza-

tions are self-regulating systems. Actors constantly adjust their behavior and interactions with others according to the distribution of power in the organization. Although the shampooists would have liked to make more money, they adjusted their behavior—they didn't sell very much shampoo—because of the power that the hairdressers had over them.

Adjustments are the compromises developed by actors, whether implicitly or explicitly, to keep their strategies compatible within the context of a specific behavioral system. They tend to produce organizational compromises that are nobody's best preference but are still acceptable enough to all actors so that no one actor withdraws altogether.

Costs of Adjustment. But adjustments do have organizational costs. Often, they are borne by the least powerful actors in the system. The shampooists, for instance, bore the costs of the adjustment between themselves and the hairdressers: they gave up the money they could have earned selling shampoo. An important clue to the detection of adjustment costs and power relationships is to observe who "suffers" the most—who cannot pass the costs of adjustment on to others and must accept them at the expense of his or her own situation.

The costs of adjustment can also be externalized onto third parties—say, customers or, in the salon example, the cosmetics company itself. A common behavior in many organizations might be termed *dysfunctional adjustment.* A group of actors gets along well and seems to work smoothly together but only by externalizing the costs of its adjustment onto third parties. (For an example, see the case about the software engineers starting on page 19.)

Identifying the costs of adjustment in a behavioral system helps managers understand the real functioning of the system. Armed with these data, they can grasp the root causes of performance and results. Costs of adjustment also furnish managers with a set of levers for change. For instance, an organization can try to make people pay for the cost of their uncooperative adjustments— in effect, to pay the costs that they had previously externalized onto others. By directly aligning costs with the behavior of those who generate them, an organization can free up energy for new behavior. Behavioral dynamics that

seem frozen or stuck can suddenly be freed to be redirected to more constructive ends.

The value of the strategic-workforce-engagement framework is that it provides managers with a means to decode the complexity of interactions between individual actors and the behavioral system. It allows managers to understand, beyond the screen of structure and procedures, the real human system they must govern. Finally, it provides a means for managers to shape employees' behavior more effectively and with greater confidence about the likely outcome of their interventions.

Changing an organization is not merely a matter of applying pressure or trying to convince people by appealing to their intelligence and goodwill. Rather, it means changing actors' strategies and the dynamics of their interactions: acting directly on the goals, resources, constraints, uncertainties, and power relationships that drive employees' behavior. Change happens when managers create a behavioral system that makes the desired types of behavior rational within the system.

Reviving a Stalled Customer-Service Strategy

For an example of how managers can use these concepts to solve a serious business problem, consider the experience of a major hotel chain that set out to implement a new customer-service strategy. By systematically improving service, the chain hoped to build customer satisfaction and brand loyalty, thereby raising occupancy rates and substantially increasing profit margins.

As part of the new strategy, the company undertook a comprehensive reengineering of the main functions in its hotels, emphasizing productivity and quality. But the primary focus of its efforts was a major redesign of the hotel-customer interface—specifically, the job of the reception-desk clerk. The hotel chain's executives reasoned that the clerks were on the frontline of customer service. Their encounters with customers—when guests checked in to the hotel or when they had a question, request, or complaint—represented key "moments of truth" in the brand experience the hotel provided.

Chain managers organized training sessions to inform the clerks about the new strategy and train them in techniques for interacting effectively with customers and delivering high levels of service. Managers changed the metrics for performance evaluation to incorporate direct feedback from customers—such as responses to satisfaction surveys and records of compliments and complaints. They also empowered the clerks to hand out rebates in response to major service breakdowns or customer complaints.

In addition, managers educated the clerks about the economics of the business. Hotels, like airlines, are often victims of last-minute cancellations. The frequency of these cancellations can be predicted statistically with a high level of accuracy. Thus, it makes sense to overbook a hotel in order to reduce the number of rooms left unoccupied each evening. The chain drilled the clerks in the economics of overbooking, then offered bonuses on the basis of the hotel occupancy rate to give them an incentive to keep booking levels high.

After two years of effort, however, senior executives came to the conclusion that the strategy wasn't working. Service wasn't improving, and customer dissatisfaction remained high. Among the complaints filtering up to senior management were breakdowns on the part of the clerks that involved fairly simple customer requests: a guest unable to get a functioning remote control delivered despite repeated assurances from the front desk that it was on its way; a broken thermostat that was never fixed; a vegetarian meal ordered for late check-in that was unavailable when the guest arrived; a prospective guest who was turned away even though the hotel had vacant rooms.

The economic impact of the stalled strategy was devastating. Occupancy did not increase as much as expected, hurting hotel revenues. The number of rebates given out to assuage dissatisfied guests skyrocketed, cutting into profit margins. Finally, turnover among the clerks went through the roof, lowering the average level of experience among the clerks and increasing training costs.

Senior executives cast about for an explanation of the failure. Perhaps the clerks didn't really understand the new strategy. Communications and training efforts were redoubled, but without much impact. Perhaps the problem was

the type of people being recruited for the reception-desk position. Most were young people taking their first full-time job: maybe the high turnover rate was the result of the short time horizons typical of this population. The chain began to hire older individuals for the job. But within months, these clerks were acting in precisely the same way as the younger ones. Neither customer satisfaction nor employee retention improved significantly.

At this point, the hotel chain decided to take a more systematic approach. A team mapped the formal processes and procedures at the hotels and analyzed their impact on the behavioral dynamics of the organization. It interviewed clerks and other key actors—such as restaurant, maintenance, housekeeping, and room service employees—for clues about their implicit strategies and goals. The team also observed these employees as they interacted with customers and with one another. Finally, the team used all the data to map the goals, resources, constraints, and power relationships of the various actors. Out of this process came a rich picture of the complex behavioral dynamics shaping action at the hotels.

The team discovered that the problems at the hotels weren't caused by any misunderstanding of the company's strategy. Most of the clerks understood the strategy full well. Indeed, because the clerks' primary goal was to ensure the smooth functioning of the hotel in order to avoid any unpleasant confrontations with guests, there was potentially a strong alignment between the clerks' personal goals and the business goals of the company.

But in pursuing those goals, the clerks encountered a massive constraint. Although they were indeed the main point of contact with the customer, they were highly dependent on other departments—backstage functions such as housekeeping, maintenance, and the restaurant—to deliver high levels of service. For the clerks to have a real impact on customer service, cooperation from and among these other departments was essential.

Unfortunately, the employees in these departments had little reason to cooperate with the clerks or with one another. Because they interacted with

customers only intermittently, they rarely experienced customers' anger, frustration, or disappointment when things went wrong. And because these departments had strong functional cultures, there were few incentives to work closely with the clerks or with one another to make sure customers' needs were quickly met.

What's more, this tendency not to cooperate had been made worse by the very emphasis on total quality that had been part of the reengineering effort. Tasks had been defined so precisely that employees were working scrupulously to optimize the functioning of their own individual departments at the cost of the interfaces among the departments and with the desk clerks. But it was precisely at the interfaces where most of the moments of truth for customers were located—within the no man's land of the interplay between, say, reception and the restaurant or housekeeping and maintenance.

Consider just one example. Because housekeeping employees focused on cleaning rooms, they never bothered to check whether the lights, the TV remote, and other equipment were working properly. As a result, customers discovered malfunctioning equipment themselves—usually on arrival, late at night, when the maintenance department was short-staffed. Often the clerk would bear the brunt of the customer's unhappiness, even though the cause—lack of cooperation between housekeeping and maintenance—was something over which he or she had no control.

In effect, the clerks were caught in a no-win situation. On the one hand, they were exposed to customer pressure (and to the pressure of their own performance objectives); on the other, they had no organizational means to obtain the cooperation they needed to succeed. The clerks' efforts to cope with the impossible demands of the behavioral system led to four interrelated behaviors that served only to make things worse.

Overcompensation. Because they were committed to the new standards of customer service, many clerks would go out of their way to solve a customer's problem. In effect, they would compensate for the failures of other departments by trying to do the work themselves. For example, they would go to a

customer's room to fix a malfunctioning heater, change a light bulb, or find a working TV remote control. This effort was admirable but, in the long run, unsustainable. The result was increased stress, burnout, and high turnover.

Conciliation. Another response was to do anything to avoid conflict—even at the cost of engaging in uneconomic behavior. For example, some clerks took advantage of their new freedom to provide rebates and discounts, and distributed them automatically in response to any inconvenience or complaint. This practice defused confrontations with customers, but at the cost of sharply eroding price realization in the hotel chain.

Avoidance. As the job pressure increased, many clerks began to use the few resources they possessed to protect themselves from the consequences of poor service and angry customers. For instance, they discovered that one of the best ways to reduce the risks of service complaints was to make sure the hotel wasn't filled to capacity. So they would systematically underbook the hotel as a way of making sure that there was always a bit of slack—even though it meant a reduction in the occupancy rate and in their own bonuses.

Retreat. Things got so bad that many clerks, frustrated by their lack of authority, retreated into narrow definitions of their responsibilities: "That's not my job. Try housekeeping." But this attitude contradicted the intent of the new strategy and only exacerbated customer dissatisfaction (which in turn meant that the clerks distributed even more rebates to assuage angry customers).

All these behaviors were rational—the least bad response—within the context of the clerks' resources and constraints. The problem was not the clerks' behavior; that behavior was merely a symptom—the inevitable result of the very structure of the behavioral system in which they were acting.

But the costs of these rational adjustments to their situation were high. For the clerks themselves, the costs took the form of stress, turnover, and lost bonuses. For customers, they took the form of poor service and high levels of dissatisfaction. And for the hotel chain, they took the form of higher recruiting and training costs, underutilized capacity, eroding prices, and lower market share. Indeed, the only actors that didn't bear any costs of adjustment were the

employee groups whose behavior had caused them: the backstage functions of housekeeping and maintenance, and the restaurant.

The behavioral analysis completely transformed management's understanding of the problem. It wasn't that the reception-desk clerks didn't understand their role in the new strategy; rather, they didn't have the resources and power to execute the strategy, given the structure of the game. Instead of telling the clerks to listen to customers, management needed to get other departments to listen to the clerks.

To get the backstage departments to start bearing the costs of their own lack of cooperation, senior executives instituted two kinds of changes. One set served to increase the power of the clerks over other departments. For example, managers revised the hotel chain's organization chart so that the housekeeping and reception departments reported to the same senior executive. They also changed the performance evaluation process so that the clerks would have a say in the evaluation of employees from other departments.

Other changes were aimed at fostering cooperation among the different hotel functions. The hotel chain redesigned management career paths. Instead of moving up within a single function, middle managers would have to rotate among the various departments. This new path would sensitize managers to the needs of the different units and make it in their self-interest to cooperate across functional lines. The company also redefined roles and jobs—for example, making housekeeping responsible for some preventive-maintenance tasks, such as checking that light bulbs, remote controls, and thermostats functioned properly. These changes served to enlarge the domain of reciprocity among departments, thereby raising the potential cost of uncooperative behavior.

In one respect, these changes were classic managerial interventions, involving new hierarchies, job definitions, performance metrics, and incentives. The key difference, however, is that these interventions were used with full knowledge of their likely effect on actors' behaviors. Senior executives targeted the specific root causes in the organization's behavioral system. As a result, they were able to align the behavior of employees with the company's strategic and busi-

ness goals. Within two years, the hotel chain enjoyed a double-digit increase in its gross margins.

Fixing a Dysfunctional Product-Development Process

In the hotel chain example, the strategic-workforce-engagement process focused on frontline employees in a service business where behavior is itself the product. But the principles of strategic workforce engagement apply to *any* organizational setting, including nonservice industries, and to professional and managerial employees. Indeed, the less routinized and more autonomous the working environment, the more imperative it becomes to understand a system of behavior in order to align it with business goals.

Take the example of a software product-development group at a large telecommunications-equipment company. Managers were confronted with a software development process that was routinely behind schedule. Time to market of new software releases averaged 25 percent longer than the industry standard. Even worse, the software was riddled with bugs, and defects often went uncorrected from one generation of the software to the next. Despite relentless pressure from project managers to speed up new releases and reduce defects, the problems persisted over time.

Software development at the company followed a rigorous process (see Exhibit 3 on page 20). A systems architecture unit was responsible for setting specifications for new releases on the basis of both the latest technological developments and an analysis of customer requirements (including customers' experience with the previous release). Next, a number of software development units were responsible for designing different modules of the new software on the basis of the specifications provided by the systems architecture unit. Finally, an assembly-and-test unit integrated and tested the new software for bugs before releasing it to the marketplace. A project manager was in charge of each new product release, supported by subsystem project managers for each development unit.
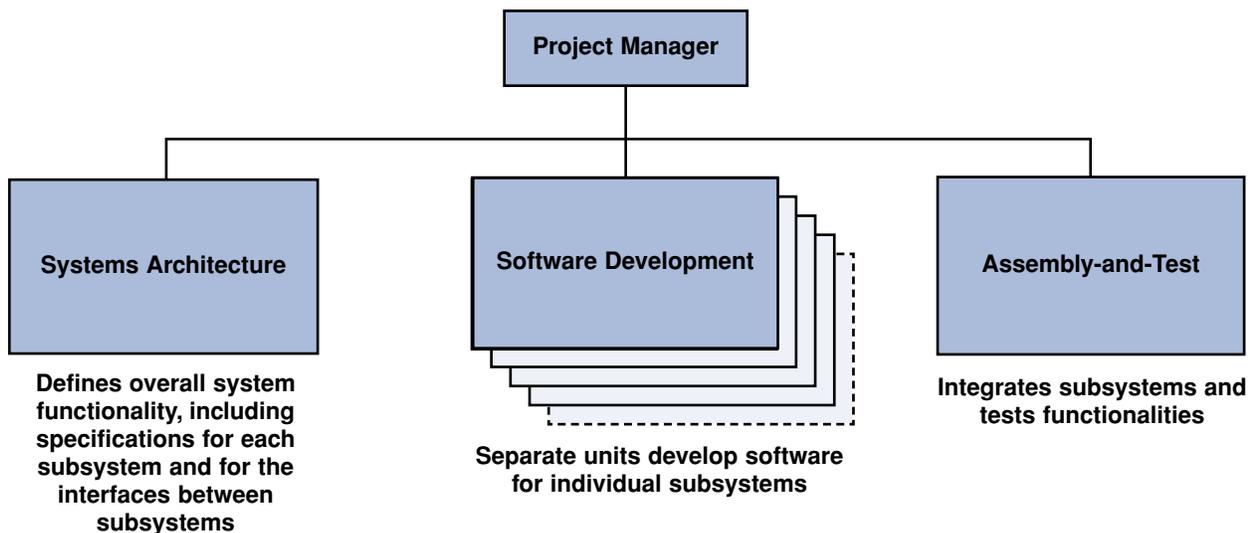
Within the framework of this formal process, however, many dysfunctional behaviors were at work. For example, even though a given software release was behind schedule, the project manager of the subsequent release typically refused to adjust his schedule for fear that doing so would only institutionalize and prolong delays. But that refusal meant that specifications for the new release were behind schedule from the very start.

Because the specs were already late, the software development units would start to work without them in an effort to anticipate what the next generation would need and therefore make up for lost time. By the time new specs were finalized, the development of the next generation of software was already well under way—so much so that frequently the specs were adjusted to reflect the work that the development units had already done (and in that way avoid even more delays). As a result, customers' suggestions for improvements were regularly excluded from the new software, thus locking in old problems.

Some faults that should have been identified in the design phase weren't discovered until testing, causing further delays when the product was sent back

Exhibit **3**

The Software Product-Development Organization at a Telecommunications Equipment Company

Project Manager

Systems Architecture

Defines overall system functionality, including specifications for each subsystem and for the interfaces between subsystems

Software Development

Separate units develop software for individual subsystems

Assembly-and-Test

Integrates subsystems and tests functionalities

for additional development. Others were completely missed because the assembly-and-test unit skipped certain procedures in order to make up for lost time. This led to failures after release, requiring expensive fixes in the field and rebates to customers.

It was easy to identify the behaviors that led to the organization's problems. But the real question was, Why did the organization persist in behaviors that were so clearly dysfunctional? In this case, the strategic-workforce-engagement analysis focused on the role that delays and anticipation played in the behavioral system: How did they function as resources or constraints for the various actors? The analysis led to three conclusions.

The software development units were the power players in the behavioral system. The development units controlled many more uncertainties than either the systems-architecture or the assembly-and-test unit. Although systems architecture set the specs, its members did not have a very deep understanding of market requirements and thus were ineffective representatives of the customer. What's more, they were dependent on the development units' estimates of how long it should take to design each new module of software. So once a development unit had already done some work, it was far more difficult for the systems architecture unit to impose rework than to adapt its specifications to the design choices the development unit engineers had made.

Although the assembly-and-test unit had the formal power to reject software and send it back for redesign, its location at the end of the chain meant that it was constantly forced into a "firefighting" mode. Any attempt to carry out rigorous testing led to grumbling that the unit was slowing down the process and preventing software from getting out the door. It is not surprising that, given this situation, the unit's engineers opted for the role of crisis facilitators. They prided themselves on their ability to test selectively in order to reduce overall delays—even when that meant cutting corners to get the job done.

Because of their power in the behavioral system, the development unit engineers were able to force others to bear the costs of adjustment. Systems architecture had to reverse-engineer its specs and justify the variance to cus-

tomers. Customers had to put up with products that didn't meet their needs—and would then negotiate rebates in order to push some of the costs back onto the company. And assembly-and-test had to validate loosely integrated subsystems and take risks regarding test protocols. Not surprisingly, this unit exhibited both the highest level of overtime work and the highest turnover—more than 10 percent per year.

For the software development units, delays weren't a problem; they were a solution. Although the entire organization seemed obsessed with time ("delays are our worst enemy"), delays had actually become a resource for some actors in the system—specifically, the engineers in the software development units. Delays justified anticipation. In turn, anticipation provided the engineers with autonomy and a high degree of flexibility. The fact of anticipation meant that they didn't have to integrate the upstream requirements of the systems architecture unit and, in general, could ignore the constraints of other departments in the organization. In short, anticipation served as a kind of protective bubble within which the engineers were free to exercise maximum autonomy and, thus, organize their work in terms of their own routines, expertise, and priorities. This autonomy caused the engineers to feel, as they put it, "more efficient" and better able to save time and get back on schedule.

From the perspective of the behavioral system, delays weren't a problem but a solution; they were the adjustment mechanism that allowed the engineers to reconcile a tightly integrated formal work process with relative independence. This fact helps explain why the situation had proved to be so difficult to change: delays were a key regulating mechanism in the system.

The best-performing software-development unit was the biggest source of the problem. Management at the company had always believed that the highest-performing unit in the software organization was a team known as SDU1. It had always come closest to completing its modules on time. The behavioral analysis, however, put the unit's performance in a sharply different light.

Part of the reason SDU1's performance looked so good was that it was the most powerful of all the development units and, as such, was implicitly setting

the rules of the game regarding distribution of tasks among the units. Given the nature of the product and the sequence of the product development process, the decisions made by this unit determined the choices of the others. In this respect, SDU1 controlled key uncertainties for the other units. What SDU1 decided affected everyone else, but what the other development units did had little impact on SDU1.

SDU1 possessed a key resource that put it in this advantageous position. The subsystem that it was responsible for was the one most dependent on industry-wide standards. Moreover, the engineers in SDU1 determined the implications of these standards for the subsystem design. Their role as interpreters of the standard made it relatively easy for them to set their own specs and, therefore, anticipate more freely—always justifying their decisions as necessary for meeting industry standards. These design choices then created "facts on the ground" to which the other development units had to respond.

At stake in the interaction was how to design—and who should design—the software interfaces that linked the various subsystems together. Given its relative power, SDU1 could design its subsystem as it saw fit—in effect, forcing the other development units to take extra time developing the interfaces that were necessary for their subsystems to connect to that of SDU1. In addition, because the choices SDU1 made went a long way toward determining how easy or difficult the tasks of the other development units would be, engineers in these units tried hard to develop good working relationships with their colleagues in SDU1. Faced with such a "cooperative" environment, it was all the more natural for SDU1's engineers not to question their own choices or consider alternative designs. The cost of adjustment of SDU1's good performance, however, was the poor performance of the other software development units.

Once these behavioral dynamics became clear, the company was in a position to change them. The key step was to force the engineers in the development units (especially in SDU1) to negotiate tradeoffs rather than just externalize the costs of their lack of cooperation.

One solution was to increase the relative power of project managers so that they could function more effectively as integrators of the behavior of the various actors in the system. The company provided them with more access to information and allowed them to play a more central role in defining the product development methodology, evaluating the performance of engineers in the development units, and influencing decisions about project staffing and career development. Another step was to develop metrics to evaluate the development units on their collective performance rather than on each unit's individual performance—in effect, forcing them to cooperate.

A third key change was to strengthen the ability of the systems architecture unit to represent customer needs inside the company. The company hired engineers with strong backgrounds in marketing and a much deeper knowledge of customer needs. It also increased the frequency of reviews and gave the engineers a role in evaluating the development units on their responsiveness to customer needs. In effect, the company used customer satisfaction as a major uncertainty to which other units in the system had to respond.

Although it may appear that all these changes represented a loss of power for the development units, that's not quite how things turned out. Power is not a zero-sum game. In fact, it is possible to increase the total amount of power in an organization. The main impact of these changes on the development unit engineers was to cause them to reframe their own goals. Whereas in the past the main concern for engineers had been to protect their autonomy, in the new behavioral system they began to focus more on getting selected for the most attractive projects and, once selected, getting the good evaluations that were now perceived as essential for career development.

As a result of these changes, project managers were able to integrate behaviors across the software product-development organization. The systems architecture unit was able to convey the logic of customers to the rest of the organization more effectively. The development units adjusted to more cooperative strategies. And these changes allowed the assembly-and-test unit to play its proper role. Over the next 18 months, development times were cut by more than 40 percent.

The Boston Consulting Group

BCG   www.bcg.com