

## CASE

### **Troubled Spain: leading organizational changes through networks and design<sup>1</sup>**

#### **Abstract**

James Reid is the newly appointed GM of Troubled Spain (TS), a subsidiary of the global semi-conductor manufacturer Troubled Inc (T). TS has experienced several years of poor performance. James has been given a mandate T to turn around the subsidiary within six months. The case provides information about interviews that James had with employees and on graphs showing internal collaboration, communication and leadership in the organization. James needs to transform the organization; this implies changing strong relationships and clarifying roles and boundaries. The case concludes by returning to James's situation and highlights potential actions that James could take.

#### **Introduction**

James Reid, the new General Manager (GM) of Troubled Spain knew the challenge ahead of him was huge. He had six months to turnaround the Spanish subsidiary or it would be sold. Mike Low, CEO of Troubled Inc., made this clear during his last visit in January 2013. Mike had come to make sure that everyone – both management and employees – understood how serious the situation was. Troubled Spain had produced disappointing quarterly reports for several years and its management had been unable to correct the situation. The company was no longer sustainable and the board was ready to sell. However, Mike still believed that recovery was possible and he had convinced the board to give the subsidiary a last chance.

During his visit, Mike asked the GM of Troubled Spain to resign and he appointed James Reid as the new GM. He encouraged James to take any actions he deemed necessary to turn around the organization before June. James – a Scotsman with a long history within Troubled Inc.– was VP for Production at Troubled's European Headquarters in the UK. Although Troubled UK worked on a different production technology and looked to a different market, James knew Troubled Spain quite well because many operations were in common between the two sites.

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<sup>1</sup> This case was prepared by the Professors XXX, XXX from the University of XXX and Professor XXX from XXX, with the assistance of Research Associate XXX. Teaching cases are developed solely as the basis for class discussion and are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management. This case has been adapted from the real world –the names of the company and people have been changed for confidentiality purposes.

During his first week on the job, James conducted a series of interviews with key people in the organization. Talking to them, he realized that much seemed to happen behind the organizational chart and through interpersonal relationships – something that he thought could be related to the Spanish culture and he, as a Scotsman, found it hard to understand. To get a grip on these informal dynamics, he asked Human Resources (HR) to hire a team of consultant to analyze the informal structure of the organization.

Looking at his notes from the interviews and at the graphs presented by the consultants, James wondered how he could make sense of all the information and formulate an action plan for the next six months. He knew that he had to be especially careful with his first action. As a newly appointed GM, all the employees were waiting to see what he would do.

### **The Semiconductor Industry**

The semiconductor industry emerged in the 1960's. Semiconductors were crystalline solids with special electrical characteristics. They had high resistance and diverse conducting properties, which made them useful for tasks like amplification, switching, and energy conversion. Because of these properties, the semiconductor industry was considered as a technology enabler business, as well as a driver of economic growth. The countries that dominated the global production were USA, Japan, South Korea, Taiwan, Singapore, and the European Union.

Innovation in the semiconductor industry affected directly electronic systems businesses and services, which represents approximately 10% of the world's GDP. Between 1993 and 2010, the semiconductor industry grew at an average of 13% per year, even though this growth was very volatile. Flexibility, innovation, and time to market were crucial for the industry not only to adapt to global change but also to anticipate it. The industry was associated with many technological devices that had a short life cycle and needed to be reinvented constantly. This growth rate had slowed down since 2010 yet, forecasts were optimistic. In 2012, the industry had a market value of approximately \$290 billion (see Appendix 1 for additional information about the industry and about the company).

### **Troubled Inc.**

Troubled Inc. was a leader in the semi-conductor industry. The company manufactured and commercialized semi-conductor products that leveraged advanced technologies to transmit, amplify, regenerate and receive data. The company was founded in the United Kingdom in the late 1980's and grew very rapidly during the 1990's through acquisitions. The company became US-based at the end of the 1990s.

During the 2000's, the company was affected by the global economic crisis and the reduced growth of the semiconductor industry. Between 2006 and 2009, Troubled stock plunged from 50USD per share to 2USD per share. This resulted in frozen salaries, layoffs and closure of some of its assembly and test facilities in China. In the first quarter of 2009 the company faced losses of approximately 50 million dollars. As a result, Troubled Inc. merged with a large competitor creating one of the main suppliers of semi-conductors components. Out of the merger was born the current Troubled Inc., a company with global presence, with R&D and product/sales support in Europe, Japan, the United States and China. Since then, Troubled Inc. maintained worldwide manufacturing operations, R&D and chip manufacturing in the U.S., U.K., Spain, Japan, China, Malaysia and Thailand.

In 2012, Troubled Inc. underwent a series of additional radical changes in an attempt to overcome a severe organizational crisis. In less than six months, the CEO and Chairman of the Board and the CFO resigned. Both of them had played an important role in transforming the company into an industry leader. Different members of the board with significant operational experience in the industry were appointed as CEO, Chair and CFO to lead the organization towards financial stability. Less than a month after he was appointed as a CEO, Mike decided to sell off non-productive branches of the business for \$88.6 million. Mike explained, "this sale was the first step I took in order to reinvent the company." Yet, at a time when competitors were performing more than decently and forecast for the semiconductor industry showed that sales were expected to increase by 9.9% percent in 2013 and to keep growing through 2016, Troubled Inc. was still underperforming and Mike had to focus on problematic areas.

### **Troubled Spain**

Troubled Inc. acquired Troubled Spain in 2002, which was the last of a long series of acquisitions for the Spanish subsidiary. Over the past twenty-five year it had been acquired three times, resulting in what many managers described as a heterogeneous organizational culture. As a result of this history of acquisitions, most managers knew each other from before Troubled Inc. acquired the company.

Troubled Spain had what industry experts widely regarded as the most innovative technology in the market to produce high-quality semiconductors in a cost-effective fashion. However, these same experts acknowledged that what Troubled Spain gained in technological innovation, they lost in speed of execution. The time from concept to prototype was twice that of competitors and the time from prototype to actual production nearly three times that of competitors.

In 2012, Troubled Spain had approximately 190 employees organized in a functional structure, with 11 departments reporting to the GM (see Appendix 2: Organizational Chart). The core of the company was centered around Manufacturing, Engineering and Research and Development. Together, these departments accounted for roughly 70% of employees in the organization. These core functions were supported by a supply chain department, in charge of ensuring an effective interface with suppliers around the world, and a logistics department, in charge of planning for the priorities in terms of production. Support functions also included a sales department with two employees who dealt with customers and large accounts, a marketing department with three employees, and four employees in charge of Customer Service. Finally, there were two employees in Human Resources.

### **The Production Process**

Manufacturing was organized around two lines of production: front-end and back-end. These manufacturing lines did not actually manufacture a final product, but prototypes. The first production line was called front-end because it was in charge of the chip: the heart of each product. The back-end was a smaller line in charge of assembling prototypes. There were 75 operators working in the front-end production line and 15 in the back end production line. Operators were divided into three shifts that were directly supervised by shift managers. Each shift team had approximately 24 operators and a shift manager. The back-end line, where the prototype was produced, used to be part of the R&D department but it was now part of Manufacturing. The back end line was the interface with subcontractors in Thailand where the manufacturing actually took place.

A typical production process was the following:

- 1) Engineering, Purchasing and R&D worked together to establish the required specifications for the chip.
- 2) After these specifications were defined, Purchasing searched for suppliers that met the company's quality standards.
- 3) R&D produced the prototype of the chip with the front-end line. R&D worked with Engineering and Manufacturing in order to solve potential problems.
- 4) Once the chip was produced, R&D and Manufacturing made a prototype of the assembled product in the back-end line.
- 5) Testing took place at a subsidiary in Thailand. R&D and Manufacturing revised together the assembling process. If it worked correctly, R&D sent the prototype to Thailand to start production.

## **Knowing People At Troubled Spain**

James needed to define an action plan to turnaround the organization within six months. While James was familiar with the production process, he did not know the people at Troubled Spain well and had only a superficial understanding of the challenges that the unit was facing. His first conversation was with Maria Torres, HR Director. Maria was in charge of all strategic Human Resources Management, which included employee evaluation, hiring, remuneration, promotions and terminations. Furthermore, many people saw a confidant in her and, therefore, she was well informed about issues and sentiments across the company.

### **Maria Torres – HR Director**

Answering James's question regarding the problems she perceived in the organization, Maria mentioned issues between R&D and manufacturing:

“It is pointless to hide that there is great tension between Manufacturing and R&D. We try to differentiate between these two teams, but they are actually very similar and their functions and roles get confused. People in R&D want to distinguish themselves from manufacturing to focus more on innovation and research. However, this is only possible when there are sufficient resources. Frequently, they do not know what their responsibilities are: both teams say that the other team has to take care of the job. So even if there is a formal distinction, there is no real distinction in practice. This situation generates conflict, especially because of the lack of communication between the two teams. They barely exchange information and this makes the division of tasks and responsibilities confusing.”

Following the conversation with Maria, James decided to talk to other employees at Troubled Spain, in an attempt to gain a deeper understanding of the issues that he was facing. While a majority of managers and employees had surprisingly little to say to him, a few of them gave him deep insights into the challenges that he was facing (see Appendix 3 for a list of employees that gave Steve insights).

### **Victoria Rivera – Manufacturing Director**

One of the first conversations James had was with Victoria Rivera, his Manufacturing Director. Victoria explained her role as follows:

“My role has changed a lot over the years. However, to simplify, I mainly deal with production. I am ultimately responsible for both lines of production: front-end and back-end, around 100 employees. I also look after the maintenance of the production equipment and facilities. With my assistant, I analyze the

production and identify the bottlenecks and problems. Our production cycle is quite long because we take approximately 8 weeks to transform raw material and inputs in to the final product: the chip.”

Victoria was highly committed to the organization and had a deep sense of responsibility regarding her role and actions. She also held strong opinions regarding the problems the organization was facing:

“In Troubled Spain all the managers have worked here for a long time and they are all from my generation. We could say that we all know different parts of the process because we have rotated and changed roles several times, working for different specialties such as logistics, quality and process. Instead, the R&D people are more specialized and typically stayed in their job. That is one of the reasons why we remain a divided company. Because since our core as a company is technology all people think that people who are in charge of technology are the most important ones and essential. But this is not true. Our success depends on many factors like production and quality. Nevertheless, those areas are underestimated and we do not even realize it.

I believe that the company is experiencing an identity crisis. If you ask around what company values are or if people feel that they belong to the company, I am not sure of what the answer might be. We are in search of a leader, and it is clear to me that we must begin the pursuit to find one.”

#### **Luis Marin – R&D Director**

The following conversation was with Luis Martin, R&D Director. James asked him about his responsibilities in Troubled Spain. Even though Luis had only been working for the company for 4 years, he was very committed to the organization and to his team. Emphasizing the role of his team, Luis commented:

“My team is composed of about 25 people divided into five subgroups. My R&D department does little research and a lot of development. We are in charge of developing prototypes of new products that will be later the core of our sales. We design the chip that is the heart of our products but we also design the process of assembling all the other parts that revolve around this chip. Our prototype line allows us to produce up to 50 to 100 units, in order to make sure that everything works properly. While we make everything regarding design, research and development of prototypes in Troubled Spain, production is done in Thailand.”

Analyzing the responsibilities of R&D at Troubled Spain, Luis concluded:

“There is a cultural problem in Troubled Spain, especially at the managerial level: people are under the impression that if the development of a product was not successful, it is R&D’s responsibility. R&D is not responsible and cannot be blamed for every mistake that is made along the product development process. I wish people were aware that it is not only R&D’s job to develop and produce new products. Since we work together with Manufacturing, we should share and assume the responsibility of each project. R&D is in charge of the prototype. If the prototype goes wrong it is our responsibility. However, if the development of the prototype is successful but the manufacturing of the prototype goes wrong, this is out of my control and another area should take responsibility.

Even if R&D plays a central role in the company, I think it is difficult to say there is a common identity of the members of the R&D team because everybody feels from a different area.”

### **David Johnson – Product Engineering and Quality Manager**

James was interested in understanding the role of the Engineering team. His conversation with David Johnson, Product Engineering and Quality Manager, was both enlightening and confusing. David stated:

“I am in charge of two teams: Quality and Product Engineering. In Product Engineering, our team focuses primarily on the production line. The Quality team is divided into two sub teams. One team helps suppliers and makes sure that our materials have the required specifications and the other one ensures that our products comply with the clients’ demands. I am also in charge of the improvement and supervision of production processes. Over time, the emphasis of my work has shifted from quality in the prototype line (R&D), to production (raw materials) and finally to Product Engineering, which is a hybrid between engineering and technical support. We are in charge of controlling the production process and solving external problems. In addition, we are in charge of analyzing and forecasting production costs. Finally, I am responsible for supporting R&D during the testing process.”

James asked David to give him his opinion regarding the main challenges faced by Troubled Spain. David commented about the relationships and responsibilities as they had evolved over time:

“I have been in this company for almost 20 years. I have worked as a Process Engineer, Product Engineer, Quality Manager, and I have changed roles many times. I think the organizational structure in Troubled Spain is affected by its history, since now there are unclear boundaries between different areas. Most of the people that work here, at least at a managerial level, have been in this company for over 15 years and have changed responsibilities in numerous occasions. This means that there are informal relationships that were

developed over time that can affect directly the company's performance. For example, business units select senior managers to manage their projects, but without coordinating with other business units that might be affected, or with program management. This means that there are multiple individuals who make decisions (i.e., project managers) but without having enough information about other projects or sufficient authority to make those decisions. Hence, when there is a complication each team makes temporary decisions that are not necessarily in the company's best interest and that are often reverted later in the process."

### **Susana Leal – Program Manager**

James knew that he must have more information about the coordination around product development. His next conversation was with Susana Leal, Program Manager. She explained:

"My formal role is Program Manager. I take care of managing research projects, from the stage of concept creation to production. I define the project scope and deliverables, schedule product transfers to manufacturing and ensure that projects reach their milestones and ultimate completion.

I am a person who has to interact with all levels and roles. My job is basically management, time scheduling and statistical analysis, I serve as a bridge between various positions. I have a slightly odd position within the organization because I am not part of the top management, but I am not a part of the hierarchical level below. So let's say I am in a somewhat intermediate position."

Susana highlighted communication problems at all levels as well as leadership issues:

"There are many people in this company that have serious communication problems because they do not share information. Although we have different projects and roles it is important for everyone to know what the problems and goals are. Sometimes there are production problems that can affect all projects. This organization deals with all issues in an individual way, without realizing that we should all thrive to achieve the same goals. We do not have a clear vision of who our leaders are since all the important decisions are taken outside the company."

### **Ines Medina – Production Manager**

Going deeper into the internal dynamics at Troubled Spain and trying to grasp the work at the Front-End and Back-End production lines, James interviewed Ines Medina, Production Manager. Ines reported to Victoria and was in charge of the Front-End production line. In her words:



“I have to work with Engineering because they are the ones that can help when problems arise and we encounter problems every day. I would say that most of the problems come from difficulties with communication. The hierarchy in this company is incomprehensible and coordination between managers is practically inexistent.”

Commenting about her responsibilities, Ines remarked about the relationship between manufacturing and engineering:

“My main objective is to assure that we are able to produce components on schedule. Every day I supervise the production process and make a list of problems that the operators encounter. There might be all kinds of problems: materials that are missing, design of the product or time delays. The most common problems occur because materials do not arrive on time or because of a lack of information or missing specifications from Engineering. However, when I need help from Engineering because we encounter problems, they act as if they were doing us a favor, and they ask for favors in return. I find this strange because we are supposed to be working together.”

Analyzing the factors that affected her performance and the effectiveness of her team, she concluded:

“It is difficult to identify what the main problems are because we have too many. In theory, we all work for the same company but in reality, this is not how we work. Each area has a different goal, we do not share our objectives, and sometimes they even generate conflicts between areas. Moreover, I think that we have too many managers. They do not help each other, if there is a problem that concerns them but is not directly related to their tasks they ignore it. This is reflected in our formal and informal relations. People are not motivated to come to work, we used to be friends and we organized dinners together, now we barely talk.”

### **Audit Of The Informal Structure**

As James grappled with the issues raised by the interviews, he realized that he would go nowhere if he didn't have a better understanding of the intricate patterns of relationships and conflict in the organization. Consequently, in a conversation with Maria Torres, HR Director, he decided to contract a team of external consultants to do a systematic analysis of the informal structure of his organization. He asked the consultants to provide him with information to answer specific questions. He wanted to understand how strained were the relationships between departments that had to work together. He also wanted to understand if the problem was based on a lack of communication. Finally, he wanted more information on leadership at different levels in the organization.

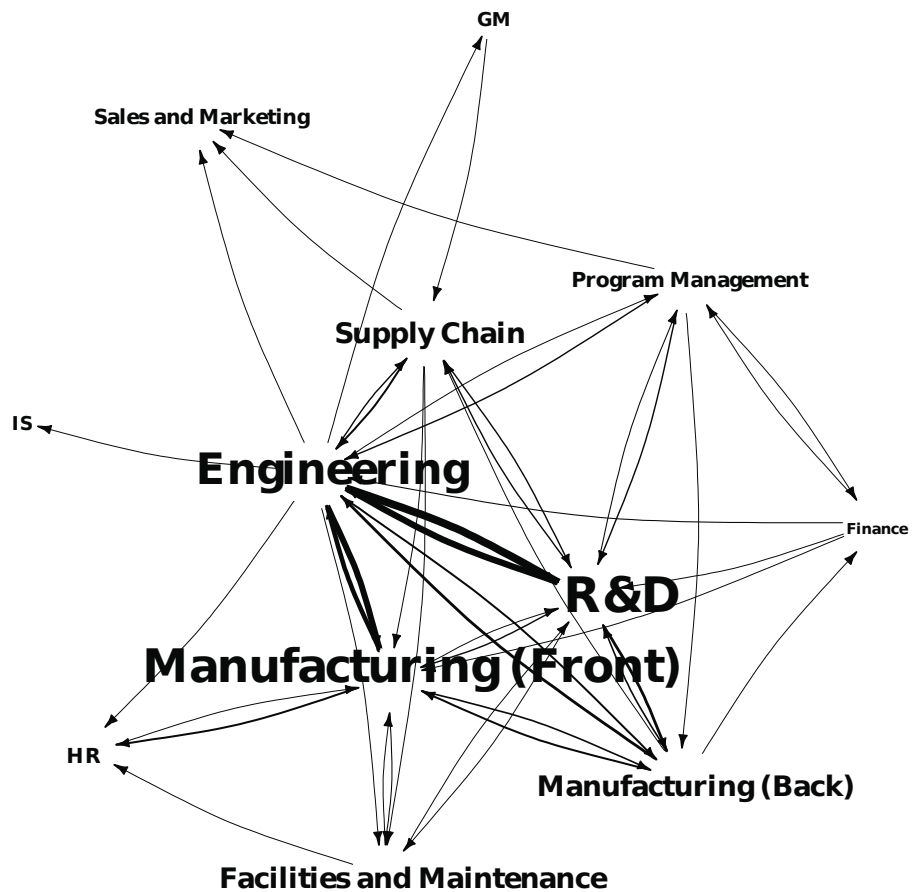
The consultants administered a survey (see Appendix 4) to all employees asking each of them who they depended on for their work and how good was the relationship with that person. They also asked who each employee communicated with on a daily or weekly basis, especially from other departments. Finally, they asked who employees saw as informal leaders in the organization. Figure 1 provides a visual representation of the main difficult interdependencies between departments. Figure 2 provides a visual representation of the communication flows between the departments. Figure 3, represents the distribution of informal leadership in the organization. Complementing the figures, the consultants also provided a table with the number of incoming and outgoing difficult interdependencies and communications links between departments (see Appendix 5).

### **Interdependencies and collaboration**

Figure 1 showed which departments depended on each other and also had difficulties working together. The bigger the name of the department, the more people outside of the department indicated that they depended on this department to do their work and also indicated that the collaboration with employees in this department was difficult.

The position of the department in the chart indicated how central the department was in the network. For example, if a department was in the center of the graph it means that many other departments identified that they depended on and had a difficult relationship with employees in it. By contrast a department located at the periphery of the graph indicated that few other departments depended on and had a difficult relationship with its employees. Also, the more employees in one department identified employees in another department as a source of interdependency, the thicker the lines between the departments.

**Figure 1 – Difficult Interdependencies and collaboration**

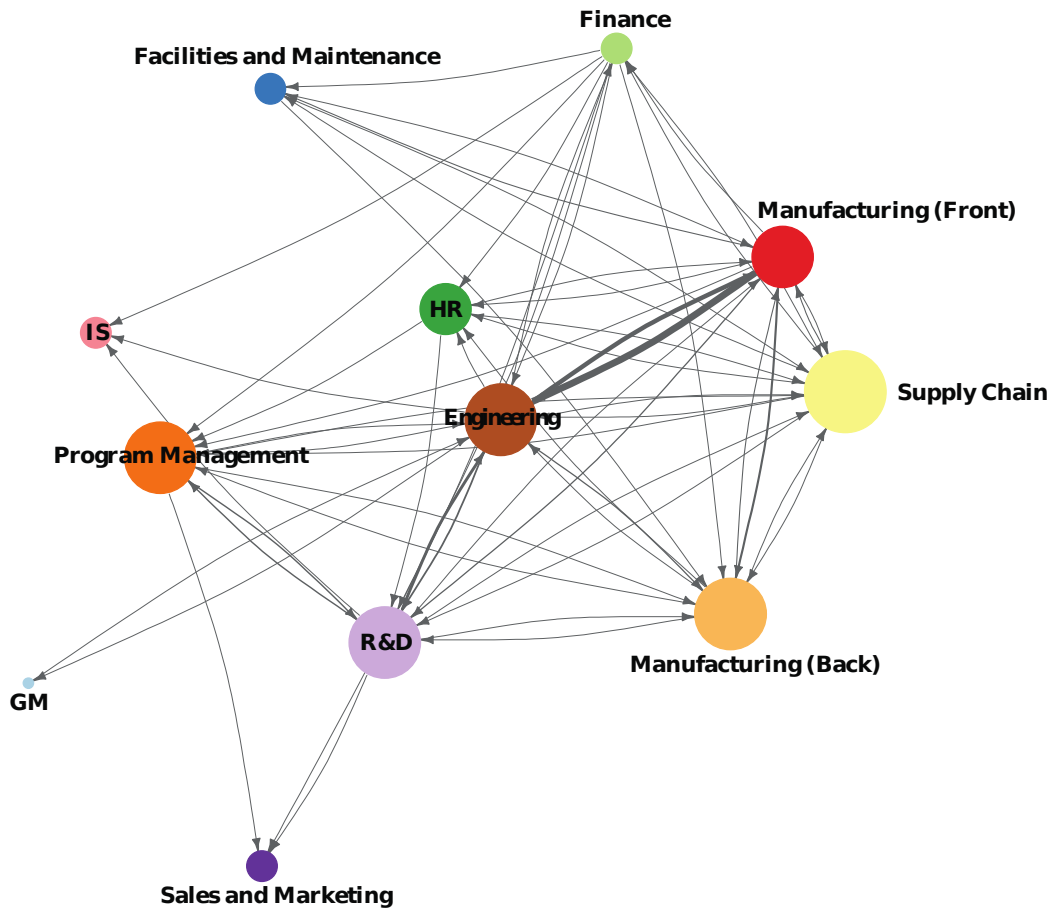


Source: Troubled Spain Consultants' Report, 2015.

### Interdepartmental Communications

Figure 2 provided a map of communications among departments. The bigger the size of the circle corresponding to the department, the more people outside of the department indicated that they communicated with someone in the department. Similarly to Figure 1, the more employees in one department selected employees in another department, the thicker the line between the departments. Again, the position of the circle in the graph provided information about the centrality of the department in the communication network, with circles more central in the graph indicating communications with multiple other departments.

Figure 2 – Communications

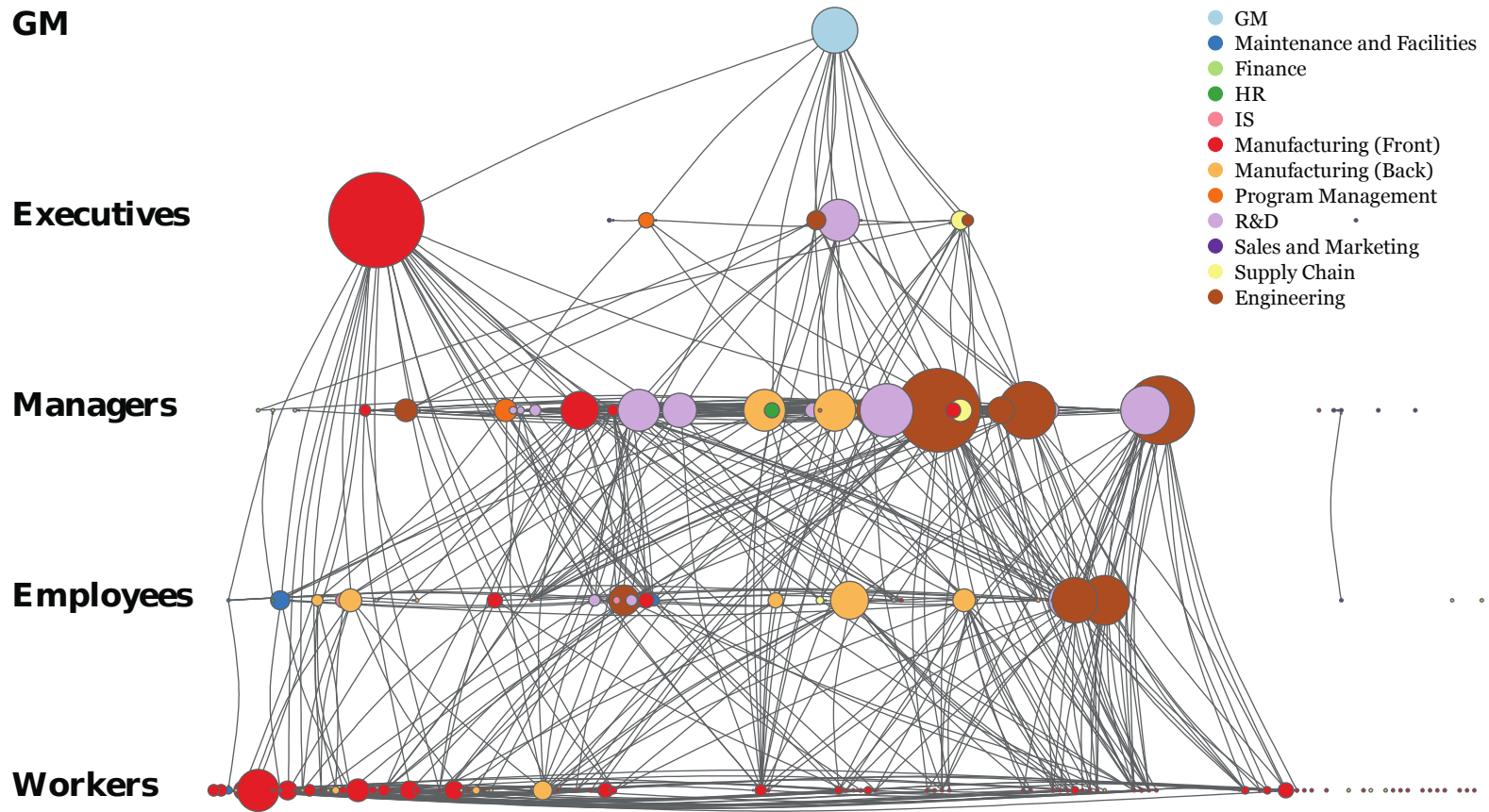


Source: Troubled Spain Consultants' Report, 2015.

### Informal Leadership

In this graph (Figure 3), employees were organized hierarchically, with James at the top and each row representing a different hierarchical level. The size of the circles represented the number of times that a given employee had been named as an informal leader by another employee. Each line represented an employee naming another. The colors represented the departmental affiliation of each employee.

Figure 3 - Informal Leadership



Source: Troubled Spain Consultants' Report, 2015.

James spent time looking at each of the graphs while sipping his coffee. After a good hour of pondering their meaning, he went to see Maria and commented,

“These graphs on the informal structure are really insightful; they are like a radiography of the organization.”

“Look at this graph with difficult interdependencies (Figure 1). Engineering, R&D and Front End Manufacturing really seem to have difficulties getting along with each other, and with everybody else.”

“But when we look at the second graph, showing communications between departments, R&D and manufacturing are not communicating much with each other (Figure 2). Also, don’t you think that Program Management should be in the center of this graph?”

“It took me much time to understand what the leadership graph (Figure 3) meant. Actually, I think that it provides much information about the internal dynamics at Troubled Spain... It shows the Executives and Managers that are recognized as informal leaders, the leadership structures, and who empowers her/his subordinates; Maria, do you consider that the Executives have been good role models to their employees, helping them grow over time?”

### **What Should James Do?**

James was reflecting back on what he had been able to learn about the company in his first few weeks. Looking at his notes from the interviews and at the graphs presented by the consultants, he felt that he could turn the company around, but he also realized that six months was a very short time and he needed to be careful about which decisions should be made first and how he should proceed.

James pondered about the challenges he was facing. He thought about problems linked to the formal organizational design of the company, as some of the performance issues related to the ability to integrate information, people and activities between departments and especially between R&D and Manufacturing. The second type related to the informal network, the structure behind the chart. James concluded:

“Because employees have worked for years together in different roles and positions, the informal relations that developed between them became more reflective of what they can do than the formal chart. Unfortunately, this also means that deep seated interpersonal conflicts have a disproportionate impact on collaboration.”

Multiple options presented themselves to James, but how and where should he start?

“Will a change in the formal organizational design be sufficient to change people’s patterns of interactions and behavior in the various departments involved or will employees simply ignore these changes in the formal structure?”

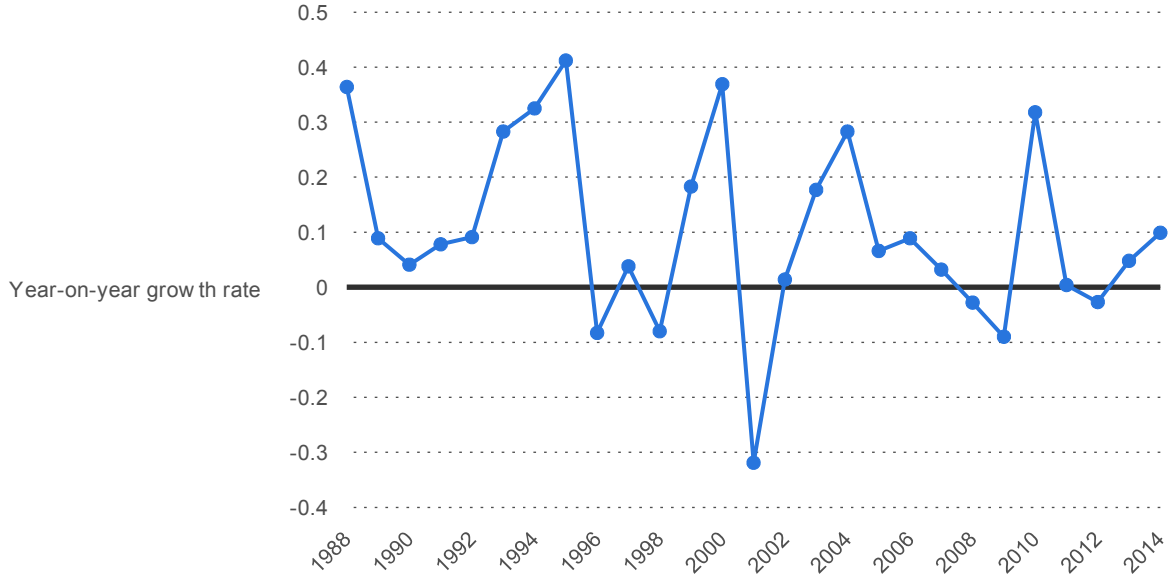
“Should I focus on addressing the difficult relationships between specific individuals in R&D and Manufacturing?”

“Maybe a solution that includes both formal and informal together would make more sense? For example, I could redefine the role of Program Management to act more as a liaison between Manufacturing and R&D”. But James pondered, “Is this change even possible given the informal structure of social relations and especially the informal leadership structure of the organization?”

As James was thinking about these options he thought about the leadership in Troubled Spain. “Which of my executives can I rely on in order to implement the change? James was optimistic, but clearly he needed to find answers to prioritize his actions and elaborate a clear plan to turn a company with such a long history around in six months.

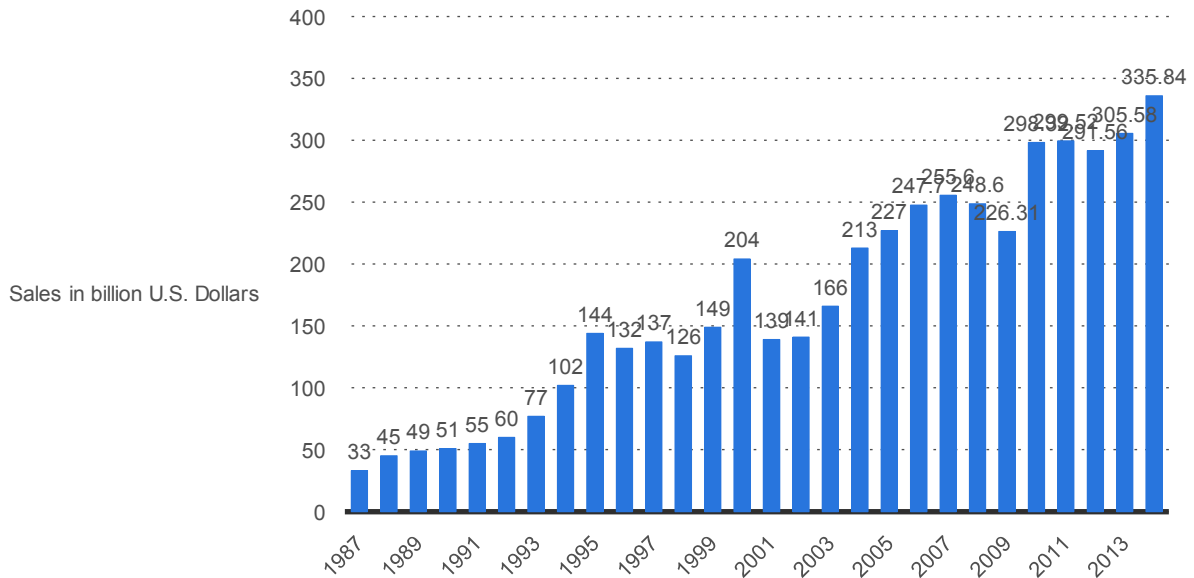
**Appendix 1 – Industry and Company Information**

**Figure A1.1. Global semiconductor industry revenue growth from 1988 to 2015**



Source: WSTS; ID 266976

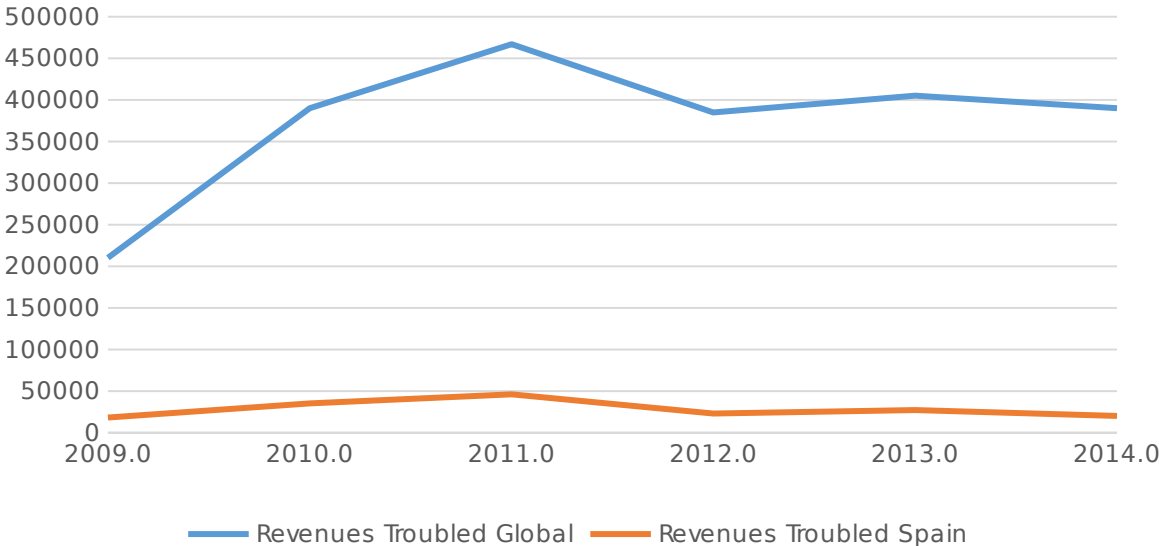
**Figure A1.2. Semiconductor sales worldwide from January 1987 to June 2014 (in billion U.S. dollars)**



Source: WSTS; ID 266973

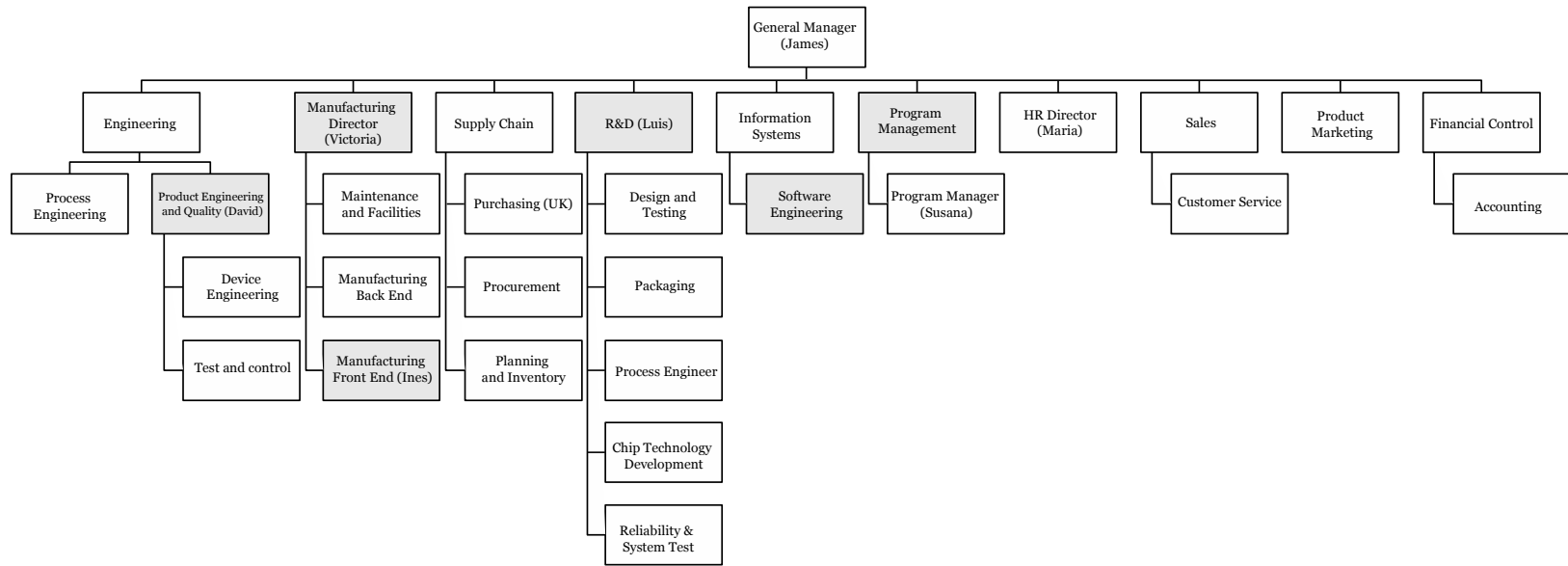


**Figure A1.3: Troubled Global and Troubled Spain Revenues (2009 - 2014) In Thousand USD**



Source: Reconstituted from Company's Archives.

## Appendix 2 – Troubled Spain’s Organizational Chart



Source: Reconstituted from Company’s Archives.

**Appendix 3 – Employees that Gave James Reid Deep Insights into Troubled Spain’s Challenges: Profile Information**

<b>Name</b>	<b>Position</b>	<b>Key background information</b>
Victoria Rivera	Manufacturing Director	Victoria was the Manufacturing Director. She has been in this role at Troubled Spain for 3 years. Victoria had a wide range of functions within her job because she also was in charge of supervising the Maintenance of infrastructure and Quality. She also worked for 7 years in Troubled Spain as the Quality System, Facilities & EHS Manager from 2004 until 2010. Before that she worked as a Quality System Manager for 6 years at Troubled Spain.
Luis Martin	R&D Director	Luis had worked for Troubled Spain since August 2009 as the Engineering and R&D Director. He was previously a Product Development Manager and Packaging Technology Manager at another company for 2 years and 4 years, respectively. He studied Engineering and Physics and worked for several years in semi-conductors.
David Johnson	Product Engineering and Quality Manager	David worked for Troubled Spain in the Engineering Department, as a Product Engineering and Quality manager. He had worked for the company since 1995 occupying different positions in engineering and quality.
Ines Medina	Production Manager	Ines worked for Troubled Spain as Production Manager in the Front-End line since 2009. Before that, she had a similar role at a large organization for about 10 years.
Susana Leal	Program Manager	Susana was the Program Manager at Troubled Spain and had worked for the company for over 4 years. Susana was in charge of managing projects, coordinating team meetings, and structuring and scheduling project plans.
Maria Torres	HR Director	Maria has worked at Troubled Spain, as Human Resources Manager, for 3 years. Prior to her employment at Troubled Spain, she had worked in multiple companies in various Human Resources roles. She has a wide experience developing organizational projects, recommending policy improvements and implementing organizational changes.

Source: Elaborated based on Company Official Documents.

**Appendix 4 – Consultants’ Report: Survey Items Used by the Consultants**

<p><b>Work Relationships, Interdependencies and collaboration (Figure 1)</b></p> <p>Q1. Often, the quality of our own work depends not only on ourselves, but also on the work done by other people. The quality of our work may depend on colleagues operating within or outside our function or workgroup, and it may include our collaborators, peers, superiors, or reports. We want to understand whom you depend on when carrying out your work. By "depend on", we mean that if a person does not do his/her job well (for example, he/she does not provide you with the information you need or does not complete his/her task competently) then, doing your job well becomes difficult. If this person does his/her job well, on the contrary, the quality of your work increases. Keeping this definition in mind, select the persons on whom your work depends. You may select as many persons as you wish.</p> <p>Q2. Consider your experience, over the past year, with each of the persons your work depends on. To what extent would the quality of your work improve if the two of you managed to work better together?</p> <ol style="list-style-type: none"> <li>1. Substantial room for improvement, we often fail to coordinate effectively</li> <li>2. Some room for improvement, we sometimes fail to coordinate effectively</li> <li>3. No room for improvement, we always coordinate effectively</li> </ol> <p>In figure 1, only relationships where there is substantial room for improvement are represented.</p>
<p><b>Communications (Figure 2)</b></p> <p>Q1. Over time, people tend to develop informal relationships with colleagues with whom they regularly discuss work-related issues. The ideas that we exchange with our contacts may have to do with technical problems (e.g., how to improve a product, process or service on which we are working), or with issues related to the internal “political” or organizational dynamics of the company. Think about the past twelve months: who among your colleagues was a stable source of communication and information exchange for you? You may select as many persons as you wish.</p> <p>Q2. Going back to the last question, how often over the past 12 months did you exchange ideas and information with each of the persons you mentioned?</p> <ol style="list-style-type: none"> <li>1. Once every 2-3 months</li> <li>2. Once or twice a month</li> <li>3. Once or twice a week</li> <li>4. Every day or almost</li> </ol> <p>In figure 2, only communication relationships with a frequency of “Once or twice a week” or “Every day or almost” are represented.</p>
<p><b>Informal Leadership (Figure 3)</b></p> <p>Sometimes, in the workplace, there are people who are role models for us, in the sense that their ideas and behaviors influence the way we think and act and are for us a source of inspiration. Please indicate who, among your colleagues, is a role model for you. You may select as many persons as you wish.</p>

Source: Troubled Spain Consultants’ Report, 2015.

**Appendix 5 – Consultants’ Report: Number of Incoming and Outgoing Communication and Difficult Interdependencies Links by Department**

	Communications (Figure 2)		Difficult Interdependencies (Figure 1)	
	Incoming Links	Outgoing Links	Incoming Links	Outgoing Links
GM	1	1	1	1
Facilities and Maintenance	3	3	4	3
Finance	3	9	2	4
HR	5	4	3	1
IS	3	0	1	0
Manufacturing (Front)	6	8	7	5
Manufacturing (Back)	7	6	4	5
Program Management	7	5	3	5
R&D	7	7	7	6
Sales and Marketing	3	0	3	0
Supply Chain	8	8	4	5
Engineering	7	9	6	10

Source: Troubled Spain Consultants’ Report, 2015.

## **Teaching Note**

### **1. Case summary**

James Reid is the newly appointed GM of Troubled Spain, a subsidiary of the global semi-conductor manufacturer Troubled Inc. Troubled Spain has experienced several years of poor performance that cannot be explained by either a sluggish demand or a lagging technology. James has been given a mandate by the CEO of Troubled Inc., to turn around the subsidiary within six months. If performance is not recovered within those six months, the subsidiary will be sold.

After providing a brief overview of Troubled Inc. and Troubled Spain, the case provides information about interviews that James had with several employees: Maria Torres (HR Director), Victoria Rivera (Manufacturing Director), Luis Martin (R&D Director), David Johnson (Product Engineering Manager), Ines Medina (Front End Production Manager), and Susana Leal (Program Manager). Each interview describes the role of the employee and gives insights into the issues that they see the company facing. Accompanying the interviews are three graphs prepared by a consulting company that James hired to do an internal audit of collaboration, communication and informal leadership in the organization.

James needs to transform the organization within six months, however this implies changing relationships that have been developed over decades and clarifying roles and boundaries that have been blurred over many years. The case concludes by returning to James's situation and highlights potential actions that James could take.

The case challenges students to take the position of James and 1) identify the issues of troubled Spain and 2) develop an action plan in order to address the challenges facing Troubled Spain. The case emphasizes that the first action taken by James is critical. The conclusion of the case also highlights the challenges that James needs to think about when developing his action plan. More specifically, James needs to address: 1) issues with the formal structure, 2) issues with the informal structure, including leadership issues, and 3) issues of the combination of both formal and informal structure.

### **2. Case usage and approach**

Courses and programs: This case can be used in courses on Organizational Behavior, Organizational Theory, Organizational Design, Change Management and Leadership at the Undergraduate, MBA and Executive levels. This case mainly deals with the interplay between formal structure and informal organizations and networks. It also deals with issues of shared leadership.

We anticipate that this case could be used at the end of an organizational design or organizational change class to illustrate the challenges of managing formal and informal organizational structure, incorporating leadership topics. For graduate programs, it is advisable to ask the students to read the first three articles; if only two can be set as required readings then the second one can be removed. For executive education programs, if only one article can be kept, we recommend the third one.

### 3. Learning Objectives

This case may enable the development of the following competencies:

- a. Concept-knowledge:
  - i. Role of formal structure, informal structure and their interplay.
  - ii. Familiarization with current network analysis techniques and methods.
- b. Skills:
  - i. Learn how to maneuver informal networks to promote organizational change.
  - ii. Analysis of the social and distributed dimensions of leadership.
  - iii. Problem identification, prioritization and decision making.

### 4. Suggested Assignment Questions

- a) What are the organizational challenges that may explain the difficulties of Troubled Spain?
- b) What should James Reilly do to address the challenges that you identified and turnaround the organization? Your action plan needs to account for the time contingencies that James faces.

### 5. Suggested Readings

- Formal Structure
  1. Pitts, T. and Clawson, J. B. (2000) Organizational Structure. Darden Business School Technical Note.
- Informal Structure
  2. Cross, R., Nohria, N. and Parker, A. (2002). Six Myths about Informal Networks: And how to overcome them. MIT Sloan Management Review.
  3. Krackhardt, D., & Hanson, J. R. (1993). Informal networks: The company behind the chart. Harvard business review, 71(4), 104-111.
- Combining formal and Informal Structure (For instructors)
  4. This reading is more geared towards providing a general academic understanding of the link between formal and informal structures. McEvily, B., G. Soda, M. Tortoriello. 2014. More Formally: Rediscovering the Missing Link between Formal Organization and Informal Social Structure. Academy of Management Annals. 8(1) 299–345.

### 6. Class Discussion and Analysis

**Table 1. Class discussion questions, learning objectives and time**

<b>Question</b>	<b>Learning Objective</b>	<b>Time</b>
Should James fire Victoria Why?	Connect students with the case First approach to the analysis of the social and distributed dimension of leadership	10 min
What are the organizational challenges that may explain the difficulties of Troubled Spain?	<b>Concepts:</b> <ul style="list-style-type: none"> <li>• Role of formal structure</li> <li>• Role of informal structure</li> <li>• Role of the interplay between formal and informal structure</li> <li>• Familiarization with current network analysis techniques and methods</li> </ul> <b>Skills:</b> <ul style="list-style-type: none"> <li>• Learn how to maneuver informal networks to promote organizational change</li> <li>• Analysis of the social and distributed dimension of leadership</li> </ul>	30 min
What should James do to address the challenges that you identified and turnaround performance?	<b>Skill:</b> Problem identification and prioritization and decision-making	30 min
Conclusion: Lessons learned	Connection of the case with students' experiences and identification of practical challenges -understand and analyze formal and informal relationships in their own organizations	10 min

**a) Block 1: Vote: Should James fire Victoria? Why?**

There are multiple potential entry points to the case. One potential approach is to ask students what is the first action that they would take and ask them to explain and justify this first action. We chose to ask a more specific (and controversial) question (should James fire Victoria?) to engage students with the case through a concrete decision. This question can be addressed again at the end of the discussion of the case to evaluate whether students change their initial position after listening to the arguments of their peers.

To engage class participants, instructors may ask students: why should James fire Victoria? When we discussed the case in class, some students were able to identify in Figure 3, Informal Leadership, that the only two executives to be recognized as role models were Victoria Rivera, the director of Manufacturing, and Luis Martin, the R&D director. Other class participants recognized - referring to Figure 1 - that R&D (Luis Martin) and Manufacturing (Victoria Rivera) have interdependent but difficult relationships. Some students stated that this information is validated by the interview of Maria. Perceptive students also noticed from the interviews that Luis feels manufacturing blames R&D for difficulties in the organization and that Victoria feels that R&D is working in isolation. Other class participants noticed that



the transcripts of the interviews from Victoria and Luis show that Victoria is quite individualistic in explaining her role and situation of the company while Luis does not refer to himself but to his team and the way in which they work or do not work together. We advise the instructor to have a power point presentation with the figures 1, 2 & 3 as well as the Appendices of the case to be prepared in case students refer to them in their analysis.

At some point during this initial discussion, students may already mention that firing or demoting Victoria is not necessarily a good solution to the problem. They may have also mention other challenges that explain the difficulties at Troubled Spain. The instructor may simply record them on a different part of the board or use these interventions as a natural transition to the next pasture. This brings an opportunity to ask the following question:

**b) Block 2: What are the organizational challenges that may explain the difficulties of Troubled Spain?**

In our class experience, students were able to pinpoint that the challenges of Troubled Spain do not come from market or technology issues, but from internal organizational problems. Also, students recognized that the case highlights that critical success factors in this industry are innovation and speed to market. Both have deep organizational implications because they require R&D and Manufacturing (as well as other support departments) to work seamlessly together. If students do not express these ideas, the instructor might ask: what are the critical success-factors in this industry? Where do the problems of Troubled Spain come from?

The instructor may simply record the arguments provided during the discussion by organizing them by formal structure, informal structure and a combination of both on the blackboard. The instructor could show Figures 1, 2 and 3 if the class participants mention them in order to support class discussion. The instructor could also make the distinction between formal and informal structures explicit in a question (please see suggested questions below in each section). One way to guide the analysis is to address the issues of formal and informal structure separately and then combine them in the blackboard. If students become stuck, the instructor may show the graphs presented in Figures 1 and 2 and ask students to describe what they see.

**a. Formal Structure (Appendix 2 in the case)**

The instructor may start this section by asking: Is the formal structure of Troubled Spain accomplishing its role?

Students would comment that formal structure typically serves to differentiate the activities of departments, clarify the resource allocation process, ensure accountability, and establish a single line of command (Pitts and Clawson, 2000). However, this differentiation usually creates a problem of integration of activities across departments. The simplest mechanism to solve integration issues is hierarchy. There are more complex integration mechanisms, such as integration roles or departments (Pitts and Clawson, 2000). Based on reading 3, the instructor could mention that a slightly different but consistent way to understand the role of formal structure is that it serves to focus interactions in organizations with an increase of interactions inside departmental boundaries and a decrease of interactions (exchanges, coordination, among others) across boundaries.

When we discussed the case in class, students then identified that in Troubled Spain, the formal structure does not provide much focus for interactions. On the contrary, the blurred boundaries of the formal structure increase ambiguity in terms of roles and responsibilities. Also, the confusing hierarchy does not provide rational decision making, accountability or clarity in the distribution of responsibilities. Finally, the formal integration mechanisms (i.e., hierarchy or Programs department) do not appear to work in coordinating activities across departments.

More specifically, students identified the following issues regarding formal structure:

**Blurred boundaries:**

- The boundaries between R&D and Manufacturing are not clear. This is mentioned in the interview of Maria “We try to differentiate between these two teams, but they are actually very similar and their functions and roles get confused.
- The people of R&D want to distinguish themselves from manufacturing to focus more on innovation and research.
- The boundaries between other departments are not very clear either, such as between Engineering and Manufacturing.

**Confusing hierarchy:**

- The case highlights issues of coordination at management level and more specifically, problems with the hierarchy. For example, Ines Medina mentions: “The hierarchy in this company is incomprehensible and coordination between managers is practically inexistent.”

**Lack of accountability:**

- It is clear from the interviews that departments blame each other when things go wrong. Because of blurred boundaries and role ambiguity it is difficult to know who is responsible for what.

**Lack of integration:**

- The departments or roles that should have ensured integration and collaboration between key departments, such as Program Management or Engineering do not have “the incentive nor the power to affect the work of people in Manufacturing or Engineering or R&D.”
- As such, there is very little formal integration of activities in the organization. Because there is confusion in the hierarchy and a feeling of a lack of leadership, it does not seem that hierarchy acts as an integrator.

**Lack of formal rules and procedures:**

- Even though the organization appears to have processes developed, decisions do not seem to follow these processes and there are few rules that appear to clarify decision making in the organization.

**b. Informal Structure (Figures 1, 2 & 3)**

There are also very specific issues with the informal structure. The instructor may ask: what are the issues that are specifically related to the informal structure of the organization? The instructor may show the graphs presented in Figures 1, 2 and 3 while the class participants cited them. If students have read the article by Krackhardt and Hanson (1993) they typically have an idea of how to read the graphs. During class discussion, the students usually have pointed out:

**Difficult Relationships (Figure 1):**

- Figure 1 as well as the transcripts of the interviews highlight difficulties in interpersonal relationships across departments. People do not get along with each other and this has led to the emergence of a blame culture in which responsibility for problems is systematically transferred to other departments. Managers, appear to be particularly caught in this dynamic.
- There is a specific problem between Manufacturing and R&D. Maria mentions the ambiguity in the roles, the lack of communication and the tension between R&D and Manufacturing, the traditionally higher status but also higher insularity of R&D that may make R&D employees hard to work with.
- Luis provides the R&D perspective, highlighting that R&D typically gets blamed for anything that goes wrong in the production process (implicitly saying that manufacturing blames R&D).

- However, Figure 1 actually shows that R&D doesn't have such a difficult interdependent relationship with Manufacturing (divided into Front End and Back End). R&D is quite distant from Front End and the line that links them is not very thick.
- There seem to be some difficulties between R&D and Back End, but nothing like between Engineering and R&D.
- If students have not identified this earlier, it is possible to suggest at this stage that the issues between R&D and Manufacturing are also focalized in a conflicting relationship between Luis and Victoria.

#### **Lack of communication (Figure 2)**

- Figure 2 shows that there are communication deficits, between front end and back end or between program management and front end or between R&D and Manufacturing (again divided into Back End and Front End). The interviews provide more background information to argue that information is not flowing across departments.

#### **Long term social relations:**

- A key point in the case is that these problems are made all the more complex by the fact that many managers have worked for the company for several decades. As such, these are relationships that are difficult to change.

#### **Job Rotation:**

- When the topic of job rotation surfaces, instructors may choose to promote a debate explaining that job rotation typically facilitates integration between departments because it allows people to see and relate to each other across silos. Then the instructor may ask: what happen though in Troubled Spain? The students comment that in this case the role of managers who have worked in many different positions over time become blurred and individual skills or activities are more relevant than positions. This increases the confusion associated with hierarchy and functional boundaries.

#### **Cultural Issues:**

- Students may also identify more general problems such as a blaming culture that comes with a charged work atmosphere.

#### **Generational issues:**

- The history of acquisitions of Troubled Spain, resulting in different layers of employees with little shared history provides another angles to understand the difficulties in collaboration in the organization.

At the end of this discussion, the instructor may conclude this section with a closing remark stating that it is important to recognize that some of these issues may not be a problem by themselves. For example, not all departments should communicate heavily, or long term social relations might be beneficial because they create trust and facilitate coordination. However, in the context of the issues with formal structure these features of the informal structure become problematic.

### **c. Formal and informal structure**

If the students do not identify the issue of the interplay between formal and informal structures, the instructor may want to ask them more specifically about the interaction between them, and explain why this discussion is relevant for evidence-based decisions. The rationale is that in many organizations, the problems of the formal structure can be compensated by informal structure, for example by providing communication channels between departments (McEvily, Soda & Tortoriello 2014). However, the analysis of Troubled Spain reveals that the problems in the informal structure exacerbate the issues of the formal structure. The instructor may want to ask students if the formal and informal structures are neatly separated? And if they are not neatly separated, how do they relate to each other? What is their combined effect on the organization? Our class experiences indicate that this analysis leads to students to the following issues regarding formal and informal structures interaction:

#### **Confusing hierarchy:**

- If the formal definition of roles and responsibilities might be ambiguous, this is made even worse by the fact that most managers have known each other for many years and have developed relationships that go beyond formal definitions of roles. Furthermore, when this is added to the rotations of employees in different roles it increases role ambiguity. Individuals are more important than positions in understanding what managers do and who makes decisions for what.

#### **Differentiation and Integration between departments - R&D and Manufacturing:**

- This is a key point to explore during the discussion and it can be addressed using the example of R&D and Manufacturing. The analysis that students did of R&D and manufacturing may lead them to observe that:
  - 1) Boundaries are blurred between the two departments with ambiguous definition of roles and responsibilities (Formal)
  - 2) The departments are interdependent (from the typical production process) (Formal)
  - 3) There is little communication across the departments (Informal), and
  - 4) There is conflict between the departments (Informal).

- As such, between R&D and Manufacturing the problems of the formal structure are actually made worse by additional difficulties in the informal structure.

**Role Ambiguity: Engineering:**

- While the interviews focus on the problems between R&D and Manufacturing, the figures show that Engineering is in the middle of everything (literally).
- In Figure 1, Engineering has a strongly interdependent and difficult relation with both R&D and Front End and it seems to have difficult relationships with most departments in the organization.
- Figure 2 shows again that Engineering has a very central role in the communications between departments, with an especially strong link with Front End. This is to be contrasted with the interview of David (Engineering), which is instructive in its ambiguity. It is hard to understand from him what is the exact role of the department. Additionally, the typical production process doesn't particularly indicate that Engineering should have such a central role.
- As such, Engineering seems to have a central role in terms of interdependencies and communication, but with little formal clarity as to what this role is. Students who work in manufacturing companies may argue that the centrality of engineering is normal for this type of company, however the point is that difficult relationships with engineering make it an important source of friction in the functioning of the organization.

**Integration Role - Program Management:**

- Program Management should be the natural integration mechanism between Manufacturing, R&D and Engineering. Susana explains her role as exactly the type of coordination that would be needed between R&D and Manufacturing. However, this formal role is not reflected in the figures. In Figure 1, Program management appears very peripheral, which could be good because it might indicate that the department has good relationships with other departments. However, Figure 2 shows that Program Management is quite peripheral to the communication network of the organization, implying that it is not central in the day to day activities of the organization and as a coordination link between R&D and Manufacturing. The interview with Susana gives one hint that this might be the case when she mentions that her hierarchical level is unclear. This means that the status of the department is probably not clear. Finally, the quote from James is completely unambiguous regarding the problems facing Program Management highlighting issues in terms of incentives and authority for Program Managers.

**d. Leadership (Figure 3):**

There is information in the case to map informal leadership onto the formal structure of the organization (Figure 3). The instructor may invite the students to return to the opening discussion in relation to Victoria (first block) showing Figure 3 and asking them to describe what they see. Some students who are already familiar with Social Network Analysis representations may already use Figure 3. These students may point out in the graph that the most nominated and influential role model is Victoria Rivera, the director of the Manufacturing. The only other executive that was recognized as a leader was the R&D director, Luis Martin. Students could also mention that Figure 3 also shows that there are also differences in how leadership is distributed across the hierarchy in the different departments. Manufacturing and R&D have very different leadership structures. There is very little recognized leadership across the hierarchy in Manufacturing (Front End), while managers and employees are recognized as leaders in R&D. The students may conclude that Manufacturing and R&D are different in the sense that there is very little recognized leadership across the hierarchy in Manufacturing compared to Victoria. By contrast, in R&D managers and employees are also recognized as leaders. Finally, very few of the executives seemed to nominate each other as role models which also may indicate issues in collaboration at the higher levels of the organization.

Some students mentioned the interviews stressing that they also indicate that the company is facing a leadership crisis. Interviewees suggest a company that lacks strategic vision and direction. For Susana, R&D would seem to be a natural place for leadership since this is a technology company with a high reliance on the R&D department, yet, this leadership does not seem to be well accepted in the company and the R&D director himself seems to indicate a certain reluctance to take this leadership role. Furthermore, Luis provides information about internal difficulties in R&D mentioning that there is no common identity of the team members.

The instructor may ask: if you were James, what would be your concerns regarding your executives? The students may highlight a lack of leadership at the executive level because it could be expected that executives should be seen more generally as role models and as influential. Other students could emphasize -ratifying their initial vote- that Victoria is not the type of executive who empowers her subordinates and, as such, removing her might lead to the emergence of new and different leaders in Manufacturing. By contrast, Luis' style as a leader might be more consistent with empowering his subordinates. Other students on the contrary could mention that Victoria has a long and successful experience in the organization with key knowledge of the business and of the production process.

Finally, insightful students could mention that the company has a strong Spanish culture with a new general manager who is Scottish and doesn't speak Spanish. An important element of class discussion may be James's ability to understand and communicate to individuals who speak a different language and think through different cultural assumptions.

**c) Block 3: What should James do to address the challenges that you identified and turnaround performance?**

The instructor may want to ask slightly different questions, such as: If you were James, what would you do? What is your first action? Another option is to invite the students to assume that James has been called by Mike to present his plan for turning Troubled Spain around at the next board meeting of Troubled Inc., what is your proposal? However, depending on class dynamics and the level of students' participation, the instructor could also open the discussion inviting the students to review the questions James posted at the end of the case:

“Will a change in the formal organizational design be sufficient to change people's patterns of interactions and behavior in the various departments involved or will employees simply ignore the formal structure?”

“Should I focus on addressing the difficult relationships between specific individuals in R&D and Manufacturing?”

“Maybe a solution that includes both formal and informal together would make more sense? For example, I could redefine the role of Program Management to act more as a liaison between Manufacturing and R&D”. But James pondered, “Is this change even possible given the informal structure of social relations and especially the informal leadership structure of the organization?”

“Which of my executives can I rely on in order to implement the change? Have the Executives been good role models to their employees, helping them grow over time.”

The instructor may also explain that the general idea is that James needs to reduce frictions in the organization by working on both the formal and the informal structure. He has to reestablish the clarifying and dividing role of formal structure while maintaining, replacing or creating links between the departments in a way to improve communication and coordination. In order to do that, he needs to redefine departmental roles and responsibilities and work on existing problematic relationships and foster new collaboration relationships to match the focus of the activity of the organization. The instructor should use the diagnosis proposed by the students in Block 2 in order to start with this discussion. The instructor



should also encourage students to relate their proposed solution with the diagnostic of the formal, informal and combination of formal and informal structure that they did earlier.

In our class discussion, students suggested multiple potential alternatives. The best alternatives include a combination of formal and informal structure, incorporating decisions regarding leadership, using the network information, and includes a prioritization of potential actions to be taken recognizing the limited amount of time, resources and credibility that James has at its disposition. If students propose too much formal structural change, it is important to challenge this on the basis of existing social relations. The instructor may ask if a change in the formal organizational design would be sufficient to change people's patterns of interactions and behavior in the various departments involved because these have been consolidated over decades. By contrast, if students focus too much on informal network solutions, the instructor should challenge this by asking whether the confusion and ambiguity associated with the formal structure will mean that coordination will not improve. Ultimately, the instructor should reinforce solutions that involve changes combining formal and informal elements and that recognize that formal and informal structure should complement each other. An important element to remind students –if necessary- is that they need not only to decide what to do, but what to do first. The sequence of actions that James will take is probably as important as the actions themselves. Subsequently, the instructor may ask: If you were James, what would be your first action?

### **Potential actions mentioned by students**

#### **1) Formal actions:**

- a) Demote or fire people who are important in the formal structure but act as bottlenecks or divide employees in the informal structure. The objective is to give the students the opportunity to analyze this solution and its consequences to the organization. For example, students can identify that the problem between R&D and Manufacturing can be caused by personal issues between Victoria and Luis. Both are recognized by their subordinates as role models, and they embody the division between the two departments. If they are not able to work together and more importantly to ensure that the two departments work together at multiple levels, then James needs to handle the conflict by providing a strong signal. Class participants are expected to understand that two of the most influential executives in the organization have a potentially conflictive relationship, and that this problem has consequences for the way in which the two departments work together. The students could recognize that addressing this conflict is a priority for James. The

instructor may come back to the initial vote and ask whether firing Victoria would solve the problems of formal and informal structure identified earlier. This question is conducive to a discussion regarding the impact of firing one of the executives and focuses on reestablishing good working relationships between R&D and Manufacturing.

**Pros:**

Firing or demoting Victoria might

- Be a quick way to improve the collaboration between R&D and Manufacturing.
- Send a clear signal to incentivize collaboration to the rest of the company.
- Send a clear message of decisive leadership from the GM.
- Open up opportunities to reorganize roles and responsibilities in one of the departments by promoting someone else.
- Disrupt existing and ineffective relationships and force other employees to reassess their relationships in the organization.

**Cons:**

Firing or demoting Victoria might

- Alienate a lot of manufacturing employees who view the executive as a role model.
- Polarize even more the organization by having people take sides for R&D or for Manufacturing.
- It is a risky move for a newly appointed GM if he fires the wrong person.
- Losing an executive implies a loss of knowledge of the organization and of the production process.
- Quite disruptive to the whole organization, creates tension and stress.
- Optionally, instructors interested in gender issues may want to challenge students regarding their choice based on the gender of Victoria and Luis. What would be your recommendation if Victoria were a man?

- b) Clarify roles and responsibilities.
  - c) Reestablish clear authority relationships and decision-making process across the hierarchy.
  - d) Emphasize the role of Program Management as an integration department. Clearly, Program Management could (and perhaps should) work as an integration department between Manufacturing and R&D, but also between Back End and Front End. However, that coordination role is not working at the moment and Engineering is filling the void, unsuccessfully. James could either give a stronger integration mandate to Program Management or refocus the role of Engineering by expanding the role of the Engineering managers who score high as role models to facilitate the integration between R&D and Manufacturing.
  - e) Change rewards and evaluation systems to ensure a common goal to all employees.
- 2) Informal actions**
- a) Address difficult relationships between specific employees.
  - b) Informal socialization activities.
- 3) Combined Formal and Informal actions**
- a) Empower mid-level managers. Identify employees who reach beyond their formal role in order to empower them and start distributing leadership across the organization. Some employees are recognized as role

models. James could select them for special training and ask them to take more visible roles in the organization, for example by leading specific projects

- b) Train the executives. Many of the executives are not recognized at all as influential role models in the organization. James should work on developing leadership in the organization by ensuring that all executives share the same vision and can act as leaders and mentors to other employees in the organization. In that way, they can help diffuse the message of empowerment and distributed leadership at multiple levels in the organization.

- c) Identify bridges in the communication network. Individuals whose communication relationships cut across departments should be identified and some of them can be given a formal role to facilitate the flow of information between specific departments. Create cross functional teams composed of individuals from different departments tasked to solve specific problems and to facilitate coordination.

### Lessons learned

In conclusion, in an attempt to relate the case with the practical challenges and experiences of the students, the instructor may want to ask the students about specific insights that they could use to understand and analyze formal and informal relationships in their own organizations. At this juncture, some students link what happened in Troubled Spain to their organizations and arrived as for example to the following take away:

- 1) Social relationships have real consequences on individual, group and company performance.
- 2) Social relationships complement the formal structure and provide avenues for coordination when formal divisions or blockages exist. However, they may also disrupt coordination when the social relations are sour and conflicting at critical points of the formal structure.
- 3) Acting on both formal and informal structure is most likely to be effective to change an organization.
- 4) Observing social relations, identifying specific patterns and recognizing more general patterns of relationships in the organization are key to become more effective leaders.
- 5) Key persons and coalitions are strategic to change an organization.
- 6) Balancing the power of people is needed to complement the changes in the formal structure.

### 7. Blackboard Plan

#### Blackboard 1:Vote, Reasons to Fire Victoria

- Victoria and Luis: the only role models
- R&D and Manufacturing: interdependent but difficult relationships
- Luis feels that manufacturing blames R&D for difficulties
- Victoria feels that R&D is working in isolation
- Victoria is quite individualistic

#### Blackboard 2: Challenges

### 1. Formal structure

- Blurred boundaries
- Confusing hierarchy
- Lack of accountability
- Lack of integration
- Lack of formal rules and procedures

### 2. Informal Structure

- Difficult relationships
- Lack of communication
- Long term social relations
- Job rotation
- Cultural issues
- Generational issues

### 3. Formal & Informal Structure

- Confusing hierarchy
- Differentiation and integration between departments: RD & Manufacturing (Tension and conflict between R&D and Manufacturing)
- Role ambiguity: Engineering
- Integration role: Program Management

### 4. Leadership

#### Blackboard 3: Action Plan

##### 1. Formal

- Fire or demote executives

Firing or demoting Victoria Pros:

- Improve the collaboration
- Clear signal to incentivize collaboration
- Message of decisive leadership
- Promoting someone else.
- Disrupt ineffective relationships and reassess relationships in the organization.

Firing or demoting Victoria might Cons:

- Alienate manufacturing employees.
- Polarize the organization
- It is a risky move for GM
- Loss of knowledge
- Quite disruptive, creates tension and stress.

- Clarify roles and responsibilities
- Reestablish authority
- Program Management role: integration department
- Creation integration linkages from more formal to more informal
- Change rewards and evaluation system

##### 2. Informal

- Address difficult relationships
- Informal activities

##### 3. Formal & Informal

- Empower mid-level managers
- Train executives
- Communication

- Cross-functional teams

#### **Blackboard 4: Lessons Learned**

- Social relationships & performance.
- Interplay, coordination & blockages
- Effective change: acting on formal and informal
- Effective leaders: observe the social world
- Key persons and coalitions: key for a change
- Balancing people power
- Key role of Integration Management