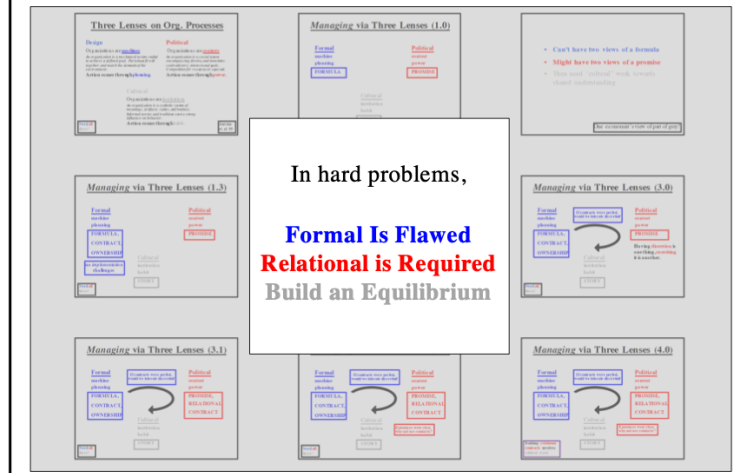


Framework 2: *Managing via 3 Lenses*



Three Lenses on Org. Processes

Design

Organizations are machines

An organization is a mechanical system crafted to achieve a defined goal. Parts must fit well together and match the demands of the environment.

Action comes through planning.

Political

Organizations are contests

An organization is a social system encompassing diverse, and sometimes contradictory, interests and goals. Competition for resources is expected.

Action comes through power.

Cultural

Organizations are institutions

An organization is a symbolic system of meanings, artifacts, values, and routines. Informal norms and traditions exert a strong influence on behavior.

Action comes through habit.

Need all three!

Ancona et. al. 99

Managing via Three Lenses (1.0)

Formal

machine
 planning

FORMULA

Political

contest
 power

PROMISE

Cultural

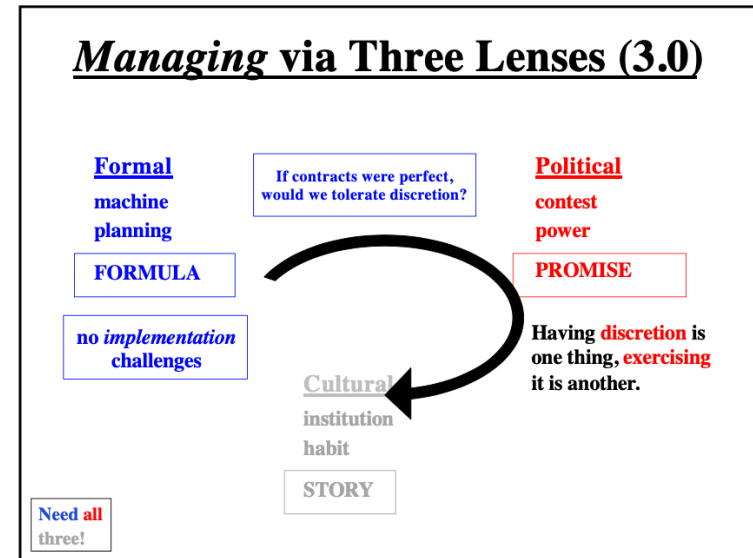
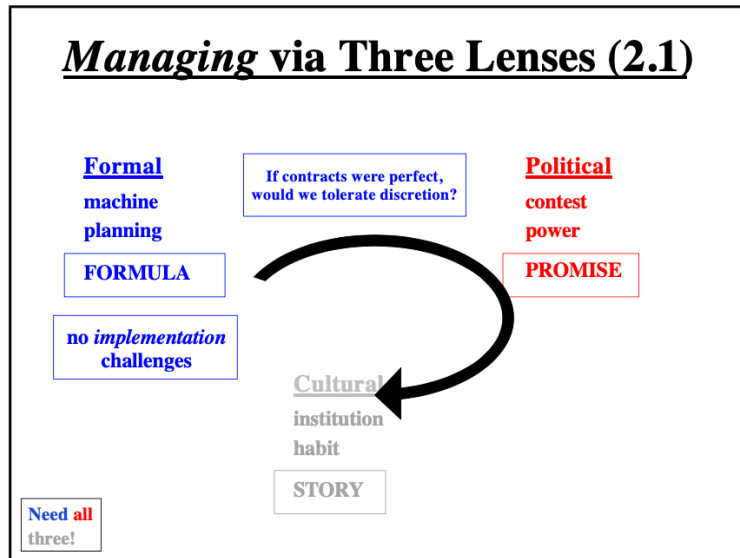
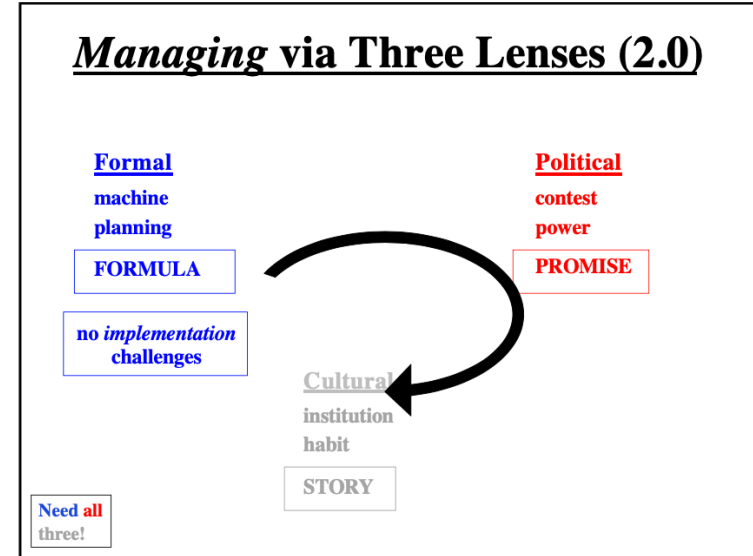
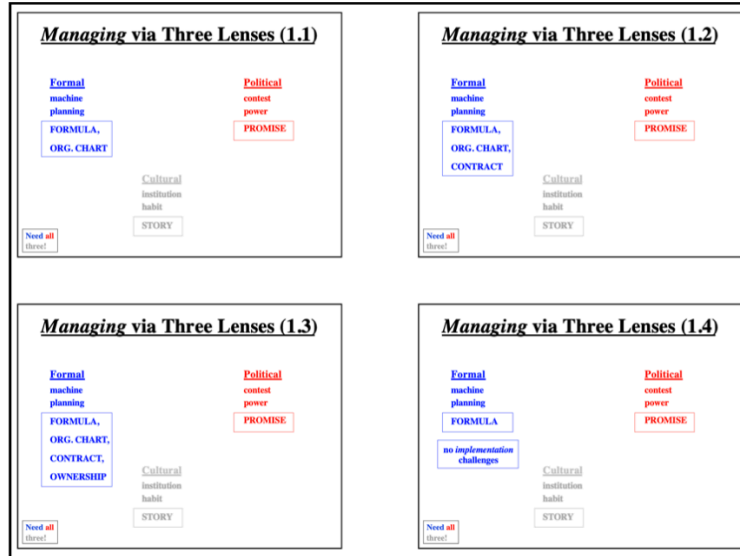
institution
 habit

STORY

Need all three!

- **Can't have two views of a formula**
- **Might have two views of a promise**
- Then need "cultural" work towards shared understanding

One economist's view of part of grey!



Managing via Three Lenses (3.1)



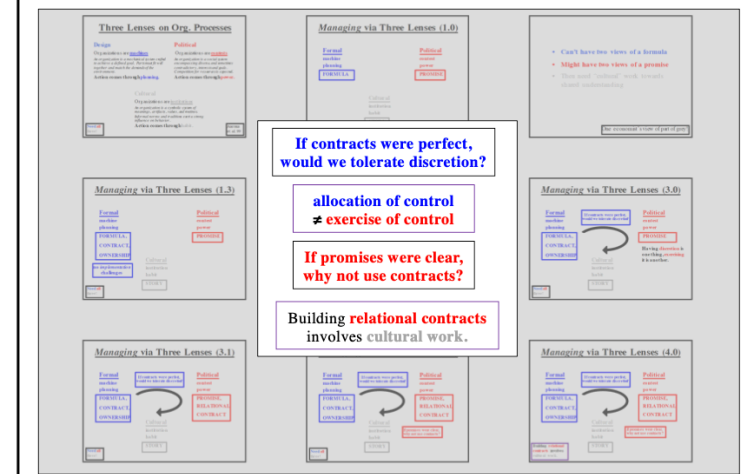
Managing via Three Lenses (3.2)



Managing via Three Lenses (4.0)



Framework 2: Managing via 3 Lenses



Summary of Formal + Relational

- a) Problems where **formal instruments (alone) do poorly** are hard.
- b) **Discretion** differs from a formula in two important respects:
 - (i) under discretion, **someone has a choice**, whereas **under a formula, nobody has a choice**; and
 - (ii) under a formula, **there is a shared understanding** of how things will proceed, whereas under discretion, **there may not be a shared understanding** of how things should proceed.
- c) *In theory*, **discretion can help** solve **the problems that rules alone create**—for example, by increasing a bonus when low output was not the worker's fault, or decreasing the bonus when high output was due to luck.

Summary of Formal + Relational

- d) *In practice*, there are long-standing **relational contracts** that have been **key sources of competitive advantage** (such as decentralization at J&J).
 - A relational contract is a shared understanding of the appropriate exercise of discretion (or, in different words, of the parties' roles in and rewards from collaborating together).
 - The “shared understanding” of J&J's relational contract about decentralization probably could not have been enforced by a court.
- e) *In practice*, there can be substantial hiccups (or worse) in building or updating relational contracts—recall Lincoln going overseas or CSFB or Oticon. In this sense, **building relational contracts that support appropriate exercise of discretion is a key managerial challenge**.

Alternative Summary

- 1) We are studying the economics of goods and services actions that cannot be cleanly transacted via pricing. Such transactions can arise both within organizations and in other organized settings.
- 2) Formal interventions—such as formal incentive plans, or formal allocations of control via org charts or contracts or ownership—may be useful but in hard problems are unable *on their own* to induce consummate performance. (Indeed, this inability might be the definition of a “hard” problem.)
- 3) Discretion (i.e., power or control over *something*) is almost everywhere: bosses have discretion over many things, but subordinates do, too; likewise for headquarters and divisions, and for the firms in supply chains or alliances or joint ventures.

- 4) Numerous high-performing organizations seem to owe much of their success to abiding by promises about the appropriate exercise of discretion—consider the bonus at Lincoln (before going overseas), empowerment at J&J, the “ProPub” system at Merck, and the relationship between Crown Equipment and Richardson Smith, as just four examples.
- 5) Among experienced members of these organizations, these promises seem to have passed both the *credibility* test (“Should I believe the promise I understand you to have made?”) and the *clarity* test (“Do we have a reasonably shared understanding of the promise you just made?”)
- 6) If these promises were simple to state, they could have (and should have?) been **contracts**. Thus, we should expect it to be very difficult to pass the *clarity* test—probably involving ongoing rather than one-shot managerial attention (in part because new members will join the organization, but also because the environment will change and the old understanding, if taken literally, may now be inappropriate).