

**THE WALKERTON INQUIRY**

**Commissioned Paper 20**

**MANAGEMENT AND ORGANIZATIONAL BEHAVIOUR:  
WHY DO PEOPLE AND ORGANIZATIONS  
PRODUCE THE OPPOSITE  
OF WHAT THEY INTEND?**

By

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## Abstract

This paper poses several critical questions. What causes good people and well-intentioned organizations to make bad decisions and produce poor, even disastrous, results? Why are some of our most difficult lessons so often learned as a result of a catastrophe or crisis? Why, indeed, do many people in the wake of catastrophes acknowledge that it was obvious that something bad was likely to happen but did nothing to stop it?

Using the lens of Chris Argyris's theories of individual and organizational behaviour, we provide an explanation for this pattern of behaviour.<sup>1</sup> Argyris's extensive research suggests that people are universally predisposed to engage in counterproductive behaviour – behaviour that produces outcomes contrary to their hopes and wishes. This counterproductive habit is driven by values that are focused on winning, staying in control, and avoiding embarrassment. When pushed beyond our comfort levels, we will engage in defensive behaviour aimed at avoiding failure and the resultant embarrassment and loss of control. We will avoid telling the truth or asking questions, especially if the consequences involve challenging the opinions of others, which could produce embarrassment. So, we cover up our mistakes, even if it means making a bad situation worse.

While this universal frailty lurks at all times, its capacity to produce counterproductive results varies substantially. First, the defensiveness of individuals differs: other things being equal, some people have an enviably high comfort zone, acting without defensiveness most of the time; others frequently feel frightened and defensive. Second, however, is that other things are rarely equal. Organizations also vary in their impact on the defensiveness of individuals. Organizations have steering mechanisms – formal systems, interpersonal patterns, and cultures – that can either exacerbate or ameliorate an individual's tendency toward defensive behaviour.

Because all groups are populated with individuals prone (in varying degrees) to defensive behaviour, organizations must work hard to create a set of formal, interpersonal, and cultural steering mechanisms that ameliorate the tendency toward defensive behaviour. Otherwise, any enterprise will fall prey to the errors generated by self-protective patterns operating at all levels.

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<sup>1</sup> Chris Argyris, 1990, *Overcoming Organizational Defenses: Facilitating Organizational Learning* (Boston: Allyn and Bacon).

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# 1 Introduction

What causes well-intentioned organizations, with good people, to make bad decisions and produce poor, even disastrous, results? Why are some of our most difficult lessons so often learned as a result of a catastrophe or crisis?<sup>2</sup>

These and similar questions have been posed by a variety of organizational and behavioural theorists. Companies, bureaucracies, utility commissions, municipal waterworks, armies – all are organizations of human beings nominally trying to accomplish goals bigger than individuals can achieve alone. The similarities in behaviour at both the individual and organizational levels are much greater than the differences that stem from whether they search for profit or not, or whether they are publicly or privately owned.

Indeed, the organizational development field emerged in the late 1950s and early 1960s as an integrated framework of theories and practices with the goal of increasing individual and organizational effectiveness.<sup>3</sup> Practitioners approached this goal from varied perspectives, at times building on one another's research and, at times, taking diverging points of view.

More recently, organizational thought has shifted from seeing companies as machines, where control is paramount, to viewing them as living systems or networks, where learning and partnerships predominate.<sup>4</sup> Along with this has come a shift in leadership that focuses on the empowerment of employees,

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<sup>2</sup> This paper focuses on the need to understand the management of organizations at a general level, as opposed to the organizational failings in the Walkerton tragedy itself. We study people working together in organizations; we are not water specialists. However, we believe that modern organizational theory has much to contribute to the design of institutions that supply water, treat wastes, measure environmental results, and regulate the system. Modestly, we leave the readers to draw the conclusions for their own organizations.

<sup>3</sup> W.L. French and C.H. Bell, Jr., 1995, *Organization Development: Behavioural Interventions for Organization Improvement*, 5th ed. (Englewood Cliffs, N.J.: Prentice Hall).

<sup>4</sup> M.A. Archer, 2000, *Authentic Teaming: Undiscussables, Leadership and the Role of the Consultant* (Ph.D. diss., OISE/UT, University of Toronto).

with individuals entrusted to make decisions on their own, learn from one another, and assume responsibility for results.<sup>5</sup>

This move toward shared responsibility has highlighted the need for people at all levels to develop the ability to make sound decisions. With increased collaboration comes greater interpersonal complexity and dependence on communication skills. The questions posed above can be addressed from a number of different perspectives. Jeffrey Pfeffer argues that strategy, power, and financial, social, and political barriers all contribute to “smart organizations doing dumb things.”<sup>6</sup> Ross and Staw believe that organizational decisions to persist in or withdraw from a course of action involve the interplay of a number of factors, including project variables and psychological and social determinants.<sup>7</sup> Messick and Bazerman suggest that managers can make higher-quality ethical decisions by understanding how they make the judgments on which they base their decisions.<sup>8</sup>

The structuralist school as represented by Foucault and Levi-Strauss looks at people’s behaviours as related to organizational structure.<sup>9</sup> Elliott Jacques’s “requisite organization” argues for a focus on organizational structure and a top-down hierarchy that establishes clear accountabilities, with managers in a relationship of authority over their subordinates.<sup>10</sup> Jacques would suggest that when a sufficient clarity of goals, roles, and expectations is established, including making people clearly accountable for the learning and performance of their subordinates, then learning is virtually automatic, and unintended results are minimized.

We argue that the organizational context in which people determine their actions is not limited to the formal systems and structures. Rather, we suggest that the questions posed at the outset of the paper can only be answered by looking

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<sup>5</sup> P. Block, 1993, *Stewardship: Choosing Service Over Self-Interest* (San Francisco: Berrett-Koehler); J. Champy, 1995, *Reengineering Management: The Mandate for New Leadership* (New York: Harper Collins); P. Hersey and K. Blanchard, 1977, *Management of Organizational Behaviour* (Englewood Cliffs, N.J.: Prentice-Hall); K.E. Watkins and V.J. Marsick, 1993, *Sculpting the Learning Organization: Lessons in the Art and Science of Systemic Change* (San Francisco: Jossey-Bass).

<sup>6</sup> Jeffrey Pfeffer, 1996, “When it comes to best practices, why do smart companies do dumb things?” *Organizational Dynamics*, summer, pp. 33–44.

<sup>7</sup> J. Ross and B.M. Staw, 1993, “Organizational escalation and exit: Lessons from the Shoreham Nuclear Power Plant,” *Academy of Management Journal*, vol. 36, no. 4, pp. 701–32.

<sup>8</sup> D.M. Messick and M.H. Bazerman, 1996, “Ethical leadership and the psychology of decision making,” *Sloan Management Review*, winter, pp. 9–22.

<sup>9</sup> J.W. Bernauer and D.M. Rasmussen, 1998, *The Final Foucault* (Cambridge, Mass.: MIT Press).

<sup>10</sup> Elliott Jacques, 1996, *Requisite Organization: A Total System for Effective Managerial Organization and Managerial Leadership for the 21st Century* (Arlington, Va.: Cason Hall).

first at the individual and his or her relationship with others. These interpersonal dynamics – in combination with the formal systems and structures – create a culture that shapes the quality of both the decisions that are made and the results that are achieved.

In the past twenty years, a proliferation of studies and writing has emerged on the impact of individual and interpersonal factors on organizational performance. A number of the researchers mentioned above have cited their influence. Probably the most extensive research on the subject is by Chris Argyris, a Harvard University professor with over 50 years of research in organizations and author of 31 books.

Argyris, like many social scientists, relies on qualitative research as the approach of choice for understanding human behaviour.<sup>11</sup> More specifically, he uses an action research methodology termed “action science,” with an emphasis both on seeking “knowledge that will serve action”<sup>12</sup> and on helping people see their behaviour from a systems view – that is, how their actions are shaped by culture and organization. His consistent focus on the impact of individual values on organizational results is unparalleled.

We acknowledge that not all organizational theorists unequivocally support Argyris’s work. Levinthal and March’s views on learning<sup>13</sup> stand in contrast to some of Argyris’s thinking, as does Frederick Taylor’s scientific management theory. Yet even Taylor argues that the mental attitudes and habits of managers and workers are significant barriers to managing effective organizational change.<sup>14</sup>

## 2 Chris Argyris and the Predisposition Toward Defensive Behaviour

Argyris tries to understand why people would choose actions that produce results that are at odds with their intent. More specifically, he seeks to explain why the outcomes are often the polar opposite of the intent and why these undesired outcomes persist and often become progressively worse.

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<sup>11</sup> For a few of Argyris’s titles, see References.

<sup>12</sup> Chris Argyris, R. Putnam, and D. McLain-Smith, 1985, *Action Science* (San Francisco: Jossey-Bass), p. 36.

<sup>13</sup> D.A. Levinthal and J.G. March, 1993, “The Myopia of Learning,” *Strategic Management Journal*, vol. 14 (winter, special issue), pp. 95–112.

<sup>14</sup> F.W. Taylor, 1964, *Scientific Management: Comprising Shop Management, the Principles of Scientific Management and Testimony before the Special House Committee* (New York: Harper and Row).



In his extensive research across cultures, geographic boundaries, age, gender, and socio-economic status, Argyris found that individuals operate on the basis of a highly consistent set of rules or governing values, which he called Model I:

- remain in unilateral control;
- win, do not lose;
- suppress negative feelings;
- act as rationally as possible.<sup>15</sup>

This may be played out in a variety of ways in day-to-day interactions. In a conversation with a colleague about the merits of my plan over his, I would see it as successful if:

1. I convince him that mine is the better course of action;
2. We stick to my agenda throughout and don't go off on tangents;
3. We avoid a contentious and embarrassing exchange about my point of view having prevailed over his.

"I see Rosa's plan and mine for next year's capital spending are up for discussion next week. I know my plan is better. This meeting will be a success if I can convince Rosa of that. That means I'll have to manage the agenda so we don't go off on irrelevant tangents. It will take some finesse. After all, the worst thing would be some contentious and embarrassing exchange about my view prevailing over hers."

Without being aware that they are doing so, individuals become skilled at designing their behaviour to avoid violating their values, even though the cost may be an outcome they neither intended nor desired. As a result, individuals pursue what Argyris calls "defensive routines" aimed at ensuring that they (and others) avoid embarrassment, getting upset, or feeling threatened. (Although I may disagree entirely with someone's point of view at a dinner party, I am more likely to change the subject, skillfully if possible, than to argue. Confrontation may create embarrassment and negative feelings.)

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<sup>15</sup> Chris Argyris, 2000, *Flawed Advice and the Management Trap: How Managers Can Know When They're Getting Good Advice and When They're Not* (New York: Oxford University Press).

"Old Buggins was sounding off again at that dinner party last night. Even if I do say so myself, it took a lot of skill to change the subject and skate him off to the boards. Confronting the old buffer directly is such poor form. It only creates embarrassment."

This same interaction could occur just as easily in a work-related conversation. In each of these scenarios, what is most important is to save face and stay in control.

Because failure is viewed in a negative light – it is seen to violate all four of Model I's governing values – the overriding goal in people's interactions and behaviour is to avoid or, at the very least, cover up any failure. Failure violates the win-don't-lose governing value. With failure comes the possibility that an employee will lose control over the job or task assigned to him.<sup>16</sup> Finally, if he fails at something, he may receive negative and embarrassing feedback and risk reacting emotionally rather than rationally.

Fear of failure becomes the critical trigger for defensive behaviour. In the absence of fear, individuals are inclined to proceed without attempting to cover up potential error or disagreement. However, when an individual is faced with a sufficiently intense fear of failure, it triggers a natural fight-or-flight response.<sup>17</sup> This is instinctive and extreme, either fight or flee and nothing in between. Martin has used the term "responsibility virus"<sup>18</sup> to describe the extreme response of individuals to fear of failure. Either they fight – in which case they seize total responsibility for success – or flee – in which case they abdicate responsibility entirely, in order to distance themselves from failure. In the former case, the fear of failure results in them seizing control, often without any consultation.

"Look, I've been burned by this stuff before. I know a lot more than the others about how to avoid the inevitable embarrassment and risk of it going wrong. It's tough, but the only reasonable choices are to take over and do it myself or to force the others to do it my way – the right way."

<sup>16</sup> Henceforth, we will alternate the masculine and feminine pronouns.

<sup>17</sup> The tendency of people to either flee from an "enemy" (difficult manager, task, or situation). See W.R. Bion 1975, selections from "Experiences in groups," in A.D. Colman and W.H. Bexton, eds., *Group Relations Reader 1* (Washington, D.C.: A.K. Rice Institute), pp. 11–20.

<sup>18</sup> "The self-reinforcing cycle in which people vacillate unproductively between heroic leadership and passive followership." R.L. Martin, 2000, *Board Governance and the Responsibility Virus*, p. 4. Unpublished manuscript, School of Management, University of Toronto.

When individuals choose to flee, they abdicate responsibility to others, making the case that someone else was responsible, and that there was absolutely nothing they could do in the case of failure.

"Look, I've been burned by this stuff before. The only way to get out of this with your skin intact is to keep out of the line of fire. Let those eager-beavers across the hall stick their heads over the parapet. As for me, it's a good time for my annual leave. See you next month."

## 2.1 Narrow Perfectionism and Avoiding Blame

An implicit technique that individuals use, in either the fight or flight mode (to avoid failure and maintain adherence to Argyris's Model I governing values) is to pursue a stance Martin calls "narrow perfectionism."<sup>19</sup> In this stance, people reduce the range of their responsibilities to such an extent that they can reassure themselves that they will acquit those duties perfectly, and thereby avoid failure and maintain control.

For example, during a storm in which numerous flights are cancelled or delayed, an airline check-in agent may define her job as simply checking in customers for their assigned flights. Faced with a distraught passenger, who needs advice on rebooking, the agent may well respond: "My job is to check in passengers for this flight; you will have to go to the main terminal to rebook." In doing so, the agent ensures that she will be able to do her job of checking in passengers perfectly. The passenger, of course, will be irate, and the agent will know, in the back of her mind, that this passenger will remember the bad service and will choose the competitor airline next time. When a critical number of customers take such actions, the airline will suffer and go out of business, and she will lose her job. However, trying to remedy problems courts failure, and this creates fear. So narrow perfectionism becomes the preferred, though flawed, alternative.

The key problem with the fight-or-flight reaction is that the thinking and actions are unilateral and not open to scrutiny. Driven by narrow perfectionism, people neither share their own thinking nor inquire into that of others. Their reasoning and actions become undiscussable. This airline agent does not share the thinking behind her decision (not to help the passenger), because to share the

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<sup>19</sup> Ibid.

thinking would be profoundly embarrassing, thus violating a governing value. The result is the development of a web of deceit, characterized by a breakdown in communication, assumptions being made without testing, poor choices, and escalating error and cover-up designed to protect the employee (and others) from embarrassment and the appearance of vulnerability.

This cycle of deceit becomes reinforced as individuals attempt to guess at the motivation behind other people's choices. The passenger may try to guess why the agent is being unhelpful. But even the most discerning, intuitive, and empathic person has only a slim chance in accurately speculating about the reasoning of others. Indeed, the passenger's guessing will be biased by his own interpretation of the agent's governing values. As both parties continue to make assumptions, the opportunity for misunderstanding increases. And as misunderstanding increases, people's assumptions tend to be validated, and mistrust and resentment grow.

Misunderstanding, mistrust, and resentment: none of these outcomes is intended, but each is the inevitable result of the fight-or-flight reaction to the fear of failure. With these outcomes comes escalating error. The error can have a small impact, such as the breakdown of a relationship between two individuals. However, the error can have a terrible impact if those practising narrow perfectionism are airplane mechanics or air traffic controllers, for example, rather than just a gate agent. It can also have wider ramifications when the defensive behaviours occur across departments or organizations.

Argyris's research suggests that the propensity to be defensive (when faced with losing control, failing, or being embarrassed) is universal, a result of our early socialization. His thinking is borne out by a wide body of literature that argues that all individuals harbour "wounds" related to their self-images, and that these wounds will surface and be played out defensively in work relationships.<sup>20</sup> However, the degree to which individuals are driven to react defensively to the threat of failure and embarrassment varies. A person whose emotional competence is significantly compromised will be more likely to engage in defensive behaviour, sometimes with disastrous results for the organizations in which he works. Alternatively, individuals with a more positive self-image and higher emotional competence will respond to day-to-day problems with greater resilience.

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<sup>20</sup> W.M. Czander, 1993, *The Psychodynamics of Work and Organizations: Theory and Application* (New York: Guilford Press); R. de Board, 1978, *The Psychoanalysis of Organizations: A Psychoanalytic Approach to Behaviour in Groups and Organizations* (London: Routledge); L. Hirschhorn, 1993, *The Workplace Within: Psychodynamics of Organizational Life* (Cambridge, Mass.: MIT Press).

Having said this, it would be unrealistic to suggest that the emotionally mature individual with a positive self-image will never experience a level of fear that drives defensive behaviour. When faced with unusual or unexpected stress (whether originating at work or in their personal lives), even the most secure of individuals may find themselves operating from Model I values and therefore reacting in unhealthy and unproductive ways.

### **3 Organizational Steering Mechanisms – Their Role**

Every organization comprises individuals who possess the universal frailty identified by Argyris. However, the propensity to experience a fear that will trigger defensive behaviour, including narrow perfectionism, varies among individuals. Organizational dynamics, in turn, influence the degree to which the organization's members are triggered to act defensively, exacerbating the natural tendency toward defensive behaviour or ameliorating it.

Martin suggests that three levels of organizational steering mechanisms – formal, interpersonal, and cultural – create the context in which members determine their actions. These mechanisms must be understood to determine the extent to which they combine to exacerbate or ameliorate the defensiveness of their members. The organizational steering mechanisms operate as a system.

#### **3.1 Formal Mechanisms**

The formal steering mechanisms of an organization are the structures, systems, and processes that are designed to help the organization meet its goals. In turn, three aspects define the heart of the operation of the formal mechanisms: allocation of decision rights, design of performance measurement, and reward and consequence systems.

##### **3.1.1 Decision-Rights Allocation**

This formal mechanism specifies who has the right and responsibility to make the decisions required to achieve the organization's business goals. Where in the hierarchy choices get made is a function of a tension between choice-making skills and access to data – in particular, what Michael Jensen refers to as “specific

knowledge.”<sup>21</sup> Typically, the higher individuals move in the organization, the greater their decision-making skills – that is, the greater their ability to process more complicated data in more difficult contexts and make difficult decisions. However, as individuals move higher, they typically become more and more distant from the data that are critical to making strategic choices. Such data may include how customers think and react in the moment, what competitors are actually doing in the marketplace, and how the service actually gets delivered to the customer or the product produced on the shop floor. Most of this activity must be seen and experienced to be understood fully.

The irony is that those with the greatest skills and experience in decision-making are most distant from the data needed to make those decisions, especially in today’s large bureaucracies. This creates a natural tension in how to structure the cascade of choices. *Access to data* drives the choices downstream, while *choice-making skill* drives the choices upstream. Organizations can make (more or less) sound decisions as to where to allocate the rights to make decisions based on this tension.

### **3.1.2 Performance Measurement Systems**

This formal mechanism specifies the measurements that will be used to determine how well managers acquit their decision rights. Performance measurement systems can include objective and subjective measures and can measure performance from the individual level all the way to the overall organizational level.

### **3.1.3 Reward and Consequence Systems**

This formal mechanism specifies how individuals will be compensated for the performance measured above. It includes decisions with respect to the level and composition of the rewards or repercussions.

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<sup>21</sup> Michael C. Jensen, 1998, *Foundations of Organizational Strategy* (Cambridge, Mass.: Harvard University Press).

### 3.2 Interpersonal Mechanisms

The interpersonal steering mechanisms govern the manner in which people in organizations work together to solve problems. Examples are the ways in which conflict is handled – discussed openly or bypassed – and how errors are dealt with – shared responsibility or placing blame.

Typically, organizations governed by Model I governing values experience unsatisfactory and counterproductive behaviours in the face-to-face domain, especially when thorny, stressful, or embarrassing issues are on the table.<sup>22</sup> Such issues include disagreements between departments, budget games, and resource hoarding. These interpersonal problems do not tend to foster interpersonal solutions – i.e., engaging in productive dialogue or giving more attention to the interests of the parties disagreeing. Rather, in order to avoid embarrassment and promote face-saving (as dictated by the prevailing governing values), the tendency is to rely on formal mechanism fixes. For example, appointing an ombudsman (on a review board with the decision rights) to resolve differences between warring departments represents a formal mechanism fix to an interpersonal mechanism problem. An interpersonal fix would be the development of a process to help warring departments learn to work with one another.

Hence there is interdependence between formal and interpersonal mechanisms. Interpersonal difficulties tend to produce formal fixes, which, in turn, constrain the interpersonal domain. For example, once an arbitrator (i.e., review board ombudsman) is in place, the parties are not inclined to work out their differences. In turn, this interpersonal shortcoming creates the need for more formal fixes (e.g., a task force to deal with the issue of warring factions).

Where communication breakdowns result in serious error – with widespread ramifications and a public call for action – the tendency is toward demonstrating concrete actions such as the development of complex new regulations and standards, which are embedded into new policy manuals. Attention to the interpersonal dynamics that contributed to the errors often goes missing.

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<sup>22</sup> N.J. Allen, 1996, "Affective reactions to the group and the organization," in M.A. West, ed., *Handbook of Work Group Psychology* (New York: John Wiley & Sons), pp. 371–96; C. Argyris, 1986, "Skilled incompetence," *Harvard Business Review*, Sept./Oct., pp. 74–9; J.B. Harvey, 1988, *The Abilene Paradox and Other Meditations on Management* (San Francisco: Jossey-Bass).

Trade unions are, in many respects, a permanent, formal fix to an initial interpersonal problem – the inability of managers to work out differences with employees in a manner that takes into account the legitimate interests of both sides. With this formal fix in place – and protected by extensive bureaucratic regulations – management and unions have extremely limited ability to achieve productive dialogue with each other at the interpersonal level, even with genuine effort.

Every organization is the product of a long series of developments that have produced a reinforcing set of formal and interpersonal steering mechanisms. And these work best at keeping the organization operating as it currently does – not in a new way.

### **3.3 Cultural Mechanisms**

As formal and interpersonal mechanisms interplay over time, the organization's third steering mechanism, its culture, evolves. Cultural steering mechanisms are the norms, maps, and myths that guide collective interpretations and actions within the organization. Every organization has cultural steering mechanisms, though in most cases they take shape in unplanned ways and are often not documented. Nonetheless, they are powerful mechanisms in guiding behaviour.

By observing interpersonal interactions and how the formal systems actually play out, members of an organization develop an understanding of “how things really get done here.” When they begin to act accordingly, the culture is formed; and that culture begins to influence the interpersonal domain, which influences the formal domain, and so on. For example, if a culture develops in which one department and its members are held in low regard, then interactions with them in the interpersonal domain will tend to go badly. Individuals in that department will feel that they are being ignored or condescended to by others within the organization. They may react by being irritable or uncooperative. This only reinforces the original assumptions about the department, and produces more unproductive interactions, which reinforce both the cultural and the interpersonal steering mechanisms.

Typically, when unproductive situations reach senior management, the reaction tends to be a formal fix, which does little to interrupt the cycle that has been



created. For example, if head office suspects there's a culture of back-stabbing and fighting within the regional offices, they are likely to "fix" the problem by centralizing decision-making authority rather than by dealing with the cultural malaise.

This dynamic becomes even more complex when looking at what happens between organizations. Companies do not operate in isolation. Rather, they form relationships with other companies – in alliances, as business partners, competitors, service providers, or regulatory bodies. All of these organizations will have their own steering mechanisms, which may or may not be similar. For the employees at the front line, this may result in having to confront conflicting messages about how to deal with "routine" problems.

"I am receiving complaints from the people to whom my district provides a service. Because key aspects of that service are monitored by a different organization, ABC Systems, Inc., with whom my organization has a service contract, I need to engage them in finding solutions."

"I find that ABC's norms for customer service are quite different from those of my organization. Yet, when I raise it with my own boss, he doesn't see the problem. In his conversations with his counterpart at ABC, what the ABC manager says is being done is very different from what is actually occurring."

"If I tell the truth, I appear to be snitching on my buddies from ABC. I have to go on working with and even depending on them in order to satisfy my own customers. But if I don't reveal what I know, the issues with my customers do not get resolved and my own performance is negatively impacted."

## 4 Organizational Steering Mechanisms – As a System

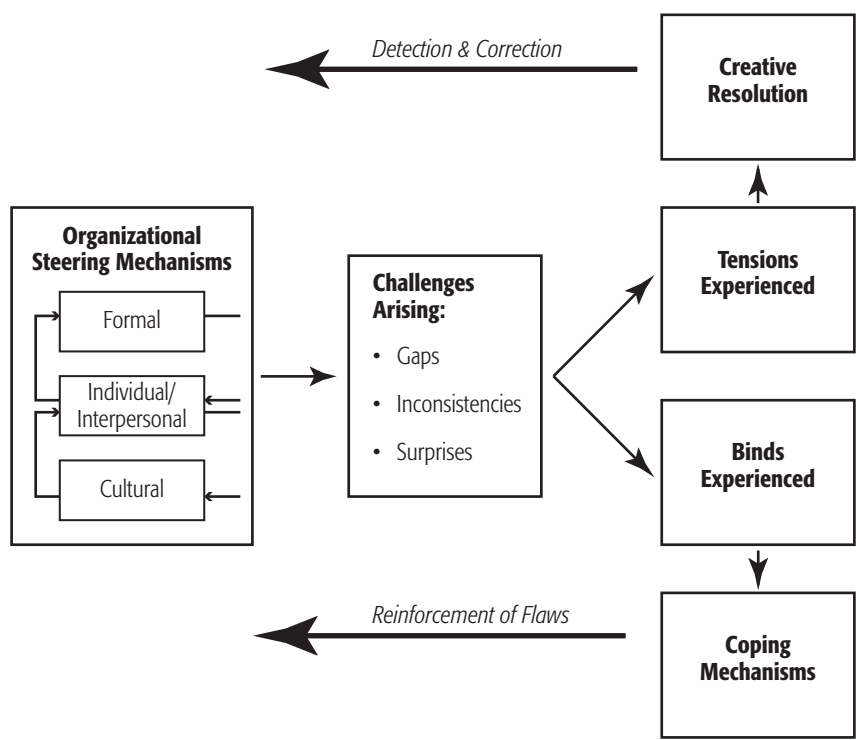
The three organizational steering mechanisms form a highly interrelated, mutually reinforcing structure. Working on only one of the mechanisms to bring about change is rarely effective; the reinforcing nature of the mechanisms tends to overwhelm the individual change. In this system, the interpersonal is the mediating domain: it plays the central role in creating *and* constraining both the formal domain and the cultural domain. Understanding this helps explain why attempts to bring about change, either through formal mechanisms alone or through trying to change the culture directly, very rarely work. Simply

announcing a new culture is nothing more than a formal fix, which is assured to have little effect on the true culture.

We now turn our attention to an examination of the process by which individuals respond to the everyday challenges that arise within the work environment. In so doing, we look at the impact of these steering mechanisms on their choices.

Leaders establish formal steering mechanisms to advance their strategic objectives. Employees at all levels make choices and take actions based on these objectives. Inevitably decision-makers, and indeed all employees, will experience challenges either because the external business environment changes or because they recognize inconsistencies or gaps in the decisions they have made. As a result of these challenges, organizational decision-makers at all levels face a critical “fork in the road” as shown in Figure 4-1.

**Figure 4-1 Decision Makers’ Choices**



Source: R.L. Martin, 2000, Board governance and the responsibility virus. Unpublished manuscript.

Along one fork, managers experience the challenge as a tension that must be creatively resolved.<sup>23</sup> Along the other fork, they experience it as a painful bind with which they must cope. The fork is profound in that the two paths lead to dramatically different outcomes for the organization.

"Mr. Mitchell, boiler number three on the main line has just gone down again. The whole line will have to be shut down for at least two days. That is the fourth time this quarter, and I think it is getting dangerous for the men on the line. We have got to replace it."

"Oh Lord, not again! It'll cost hundreds of thousands to fix, and there's no budget for it! Better tell Cheng to patch that balky intake valve again and crank it back up. It ain't pretty, but what choice have we got?"

When a challenge – revealed gap, inconsistency, or unexpected change – is seen as bad and intensely worrisome, with the potential of failure, rather than embrace it, the tendency is to disbelieve, distance from, and/or distort the nature of the challenge, to see it as the product of somebody else's mistake or omission.

Along this route, members of the organization feel caught in a bind. On the one hand, they can admit the mistake, which is painful, and then attempt to make changes, which they may see as scary and unwanted. On the other hand, they can avoid the pain and maintain the status quo, realizing that, inevitably, the challenges are likely to hurt them.

Individuals in this Catch-22 situation may tend to develop defensive coping mechanisms designed to avoid or minimize the pain of the bind, not systemically address the underlying challenge. As we saw earlier, the most effective mechanism for dealing with the bind is narrow perfectionism – the individual retreats to a level of responsibility narrow enough to protect him from the possibility of blame for failure.

It has become obvious in a meeting with my manager and colleagues that I did not follow through on what we had specifically talked about at previous meetings. I will generate all the reasons why the task was not completed, none of them having anything to do with me or my own shortcomings. My peers will know that I am "in trouble" and rally around me to protect me from the boss.

<sup>23</sup> H. Austen, 1998, *Artistry in Practice* (Ph.D. diss., Stanford University).

Another example could be an organization with an unspoken cultural norm to look good in the eyes of the public. When equipment or systems become outdated and potentially unsafe, the cost to upgrade may result in rate increases to the customers. The unspoken message to the front-line service provider may be, “Do whatever you have to, but it can’t result in an added cost to the customer.” The employee is caught in the bind of having to make do with unsafe equipment, covering up the flaws that result, and hoping there are no serious consequences.

In failing to examine the reinforcing patterns in organizational steering mechanisms, the defensive coping mechanisms tend to perpetuate and even reinforce these patterns.

Along the other “fork in the road,” challenges are seen as normal tensions, to be expected in the natural course of business. A particular manifestation might be a surprise, but not the fact that surprising challenges arise. Along this fork, surprise is good; it represents a call for creative redesign of the organizational steering mechanisms. Resolving the tension could produce a better solution than the current design, one that is more robust and integrative.

#### **4.1 The Bind/Tension Trade-off**

The key factors in determining whether the challenges are seen as binds (to be avoided) or tensions (to be productively managed) are twofold. The first factor is the individual’s own tendency to respond defensively. This, we have argued, can vary widely – from a predisposition to defensiveness to a creative-solutions approach. The second factor is the degree to which the organizational steering mechanisms combine to either exacerbate or ameliorate defensive tendencies. Since any organization includes a spectrum of individuals who vary widely in their predispositions to defensive behaviour, it is important that institutions develop organizational steering mechanisms that serve to ameliorate the natural tendency towards defensiveness. This is the only way such an organization can protect its customers/constituents well against the lowest common denominator of its most defensively inclined employees.

## 5 Organizational Steering Mechanisms – Exacerbating Features

Since the interpersonal steering mechanisms represent the mediating domain, we will start with this first, then discuss the formal and cultural domains.

### 5.1 Interpersonal Mechanisms

Communication governed by Model I values will exacerbate an individual's tendency to see challenges as binds. In organizations with these values, each interaction will be seen as a win-lose contest in which the loser faces embarrassment and loss of face. In such an environment, admitting that we don't have all the answers puts us at risk of being seen as failing. If acknowledging one's limitations and errors is seen to be career limiting, narrow perfectionism will extend to the organizational level, driven by a search for "quick fixes." The need for learning will be linked with "not knowing" and will be viewed in a negative light. There will be little questioning of the way things are done, of decisions that are made, or of underlying norms and assumptions.

"Look, sir, you just said that we have to recover all our costs – but we all know the council won't let us!"

"That's all very well, Tremblay, but we'd all get this done faster if you'd just stick to the topic we're discussing. Now, if there are no more questions ... ?"

Rather than seek new ways to correct errors or gaps in the operations of the organization, new ways tend to be sought for covering up gaps and inconsistencies. Leaders will most likely act as if there are no inconsistencies in their messages or policies. Argyris coined the phrase "skilled incompetence" to describe the pattern of communicating inconsistent messages. In this mode, leaders act as if the messages are not inconsistent, making the previous actions undiscussable – and making the undiscussability undiscussable.<sup>24</sup>

The impact of such an interpersonal environment on defensive behaviour is dramatic. In a study of 22 American companies, Ryan and Oestreich interviewed

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<sup>24</sup> C. Argyris, 1986.

260 individuals to identify both the issues people tended to avoid and why they avoided them.<sup>25</sup> At least 70% of those interviewed admitted that they avoided issues and hesitated to speak up because they felt threatened by possible repercussions. This remained true even where there was no evidence that repercussion was likely to occur. When asked to describe the nature of the consequences they feared, the majority named threat of embarrassment or appearing vulnerable. Other consequences feared included loss of credibility or reputation, lack of career or financial advancement, damage to one's relationship with the boss, loss of employment, and rejection.

Thus, interpersonal steering mechanisms that are driven by Model I governing values, especially when leaders exhibit these values, will exacerbate the tendency of members of the organization to treat challenges as binds to be coped with and covered up, rather than tensions to be tackled and overcome.

## **5.2 Formal Mechanisms**

### **5.2.1 Decision-Rights Allocation**

Defensive behaviour can be exacerbated when decision rights are allocated to individuals who do not possess the specific knowledge necessary to acquit those rights properly. Excessive centralization or decentralization can produce this outcome. Under excessive centralization, data-starved senior administrators are obliged to make the choices. Charged with implementing "bad" or less-than-ideal decisions, lower-level managers or employees typically feel in a bind. They see the decisions as bad, but are fearful of challenging their superiors who, after all, have the clear decision rights.

The reverse situation can occur when employees at lower levels are charged with making decisions without adequate knowledge, training, or relevant information. Typically they are fearful of admitting lack of skill because they know it is their job and they may be fired if they admit they are incapable of doing it competently.

An additional problem arises when employees are given the accountability for providing a service or producing results without being authorized to control

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<sup>25</sup> K.D. Ryan and D.K. Oestreich, 1998, *Driving Fear out of the Workplace: Creating the High-Trust, High-Performance Organization* (San Francisco: Jossey-Bass).

the resources (staff or budget). This mismatch between decision rights and resource allocation creates a challenge, which can feel like a bind that cannot be resolved.

At the root of many decision-rights problems are the Model I governing values. Sharing responsibility requires that we engage in potentially embarrassing conversations about people's capabilities to make decisions and take on added responsibility. Indeed, in smaller offices where assumptions are made about who is "next in line for the job," the risk of offending long-time, "deserving" employees may result in this difficult territory remaining unexplored.

"Henry will get the job because he is next in line."

"The only way Marco will lose his job is if he dies or leaves town."

Sharing responsibility also requires us to relinquish control. This puts us in danger of "losing" and being seen in a negative light. For the manager, collaboration can bring the threat of failure. Taking joint responsibility for the production of an outcome is scary and problematic. Instead of entering into a discussion about the way to manage the challenge together, the manager often decides, unilaterally, whether to seize the opportunity or distance herself from the responsibility. Either way, employees are rarely engaged in the dialogue as to whether responsibility will or will not be shared.

## 5.2.2 Performance Measurement Systems

Certain approaches to performance measurement can exacerbate the tendency toward defensive behaviour. Unilateral setting of performance measures and unilateral measurement of actual performance exacerbates defensiveness. If employees have no input into the performance measures, or input into the measurement of their performance, or recourse in case of an evaluation that they think is inaccurate or unfair, they will be less likely to take risks or look for innovative solutions to problems. Instead, they will want to narrow their options and work within a safe, manageable playing field, where the possibility of error is minimized.

"I know we are supposed to follow the five-step start-up procedure in the operations manual, but it is boring and time-consuming. And quite frankly, I don't understand why it is so important to do each of the steps. I remember when Stuart bypassed a couple of the steps and nothing bad seemed to happen."

There may be no attempt to link individual performance targets to the overall strategic direction of the organization. Without an understanding of "the big picture," employees will lack the motivation to "go the extra mile." If an individual is unaware of how his job fits into the larger organizational purpose, he may not understand why the boring, repetitive tasks that are a routine part of his job may be critical to the goals of the organization.

Another exacerbating factor is a measurement system that is unclear, leaving room for error and inadequate monitoring of performance. Individual targets are either not established at all or poorly monitored. Employee evaluations are not completed, and compensation is offered regardless of the quality of results. When this kind of neglect results in serious error and under-performance by an employee, the manager himself feels caught in a bind, fears negative repercussions, and he engages in defensive behaviour. Cover-up may occur at many levels when organizational leaders attempt to avoid embarrassment and save face.

### 5.2.3 Reward and Consequence Systems

Features of the reward-and-consequence structure can also exacerbate the defensiveness of employees. If rewards and consequences are asymmetric – when the reward for excellent performance is low and the punishment for below-average performance is extreme – then employees will use extremely conservative and narrow-perfectionism tactics to minimize expectations of their performance. This is a special problem in organizations responsible for, or linked to, public utilities. The general expectation of constituents is that the system (electric, health, water, or defence) will always work, and those responsible are given little reward when the system works as expected. However, when something goes wrong and the expected service is not received, the punishment tends to be extreme.

A reward system that includes meaningful 'kinks' can exacerbate problems. A kink is a point in the reward system at which the reward level rises or falls



dramatically with a small change in performance. The classic example of this is providing a substantial bonus for coming in on budget. In such a system, spending one dollar more than budget results in zero bonus, while earning or saving a single dollar more results in a substantial bonus for (perhaps) the entire employee base. Under such structures, employees are encouraged to cover up and manipulate in order to earn the substantial reward. In addition, they are encouraged to underestimate what they are potentially capable of achieving. So, they set future budgets as low as possible. An important aspect of such underestimation is the hoarding of information at lower levels. If revealed, upper management would learn what the organization is actually capable of accomplishing (but this, of course, would result in a higher and harder-to-achieve budget).

### **5.3 Cultural Mechanisms**

Culture is the derivative domain, which means that cultural mechanisms are negatively influenced by the exacerbating features of the formal and interpersonal mechanisms discussed above. If the formal mechanisms create an environment in which decision rights are allocated to employees without appropriate skills or resources, if performance measurement is arbitrary and unilateral, and if reward systems are kinked and skewed, the culture will generate fear and mistrust. If, in addition, the interpersonal mechanisms feature winning, control, and the avoidance of embarrassment, the culture will create extensive cover-ups. In particular, if poor performance is treated as a sin or a signal of hopeless inadequacy, then employees will use every tactic to cover up poor performance.

In such a world, employees experience their world as full of impossible binds, not stimulating challenges. The culture that develops is one of cover-up and narrow perfectionism. To counter this, managers turn the screws tighter to get the performance they want; distrust heightens and backs up into the interpersonal domain, creating more distrust and dishonesty; and, finally, managers clamp down even more, with new formal fixes. Meanwhile, the workforce plays games with management and their systems.

This pattern of cover-up shuts down dialogue among co-workers, between departments, and across strategic alliances and partnering organizations. In due course, the culture is fully ensconced and becomes impervious to change.

## **6 Organizational Steering Mechanisms – Ameliorating Features**

Having established the tenacity with which this defensive cycle can take hold in organizations, a question arises: what can be done either to prevent it from occurring – or to apply remedies once it is in place? The answer is that each of the organizational steering mechanisms can be designed to mitigate the natural human tendency toward defensiveness. As the mediating dimension, the interpersonal mechanisms stand first in priority.

### **6.1 Interpersonal Mechanisms**

At the heart of the process to ameliorate the interpersonal domain is the adoption of a more-productive set of governing values, because Model I governing values lead inexorably to defensive behaviour. Argyris advocates more-productive governing values (termed Model II) aimed at:

- valid or verifiable information,
- free and informed choice,
- internal commitment to the choice.<sup>26</sup>

Our strong desire to suppress negative feelings, act rationally, and avoid embarrassment can be replaced by a commitment to obtaining valid information by ensuring that there is open testing of our choices, our performance, and our perceptions. Also, rather than taking on responsibility unilaterally, or abdicating responsibility by relying on or blaming others, we would subject our reasoning to the scrutiny and testing of others before making choices. The imperative for open testing extends to all choices, whether made by others or us. If we adopt this value, we may open ourselves up to being challenged, but we will make better choices. And, when our choice turns out to have a bad result despite our best thinking, open testing will help us learn from the mistake and improve rather than repeat the same pattern.

Rather than “winning,” the highest value should be making the most-informed choice possible, regardless of whose point of view it represents. The goal of making the most-informed choice requires dialogue rather than dependence

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<sup>26</sup>C. Argyris, 2000.

on unilateral choice. Although unilateral choice helps ensure winning (at least in the short run), it fails to take into account the data, insights, experience, and interests of others, thereby resulting in suboptimal choices. Conversation that includes suspending our assumptions or judgments, offering our ideas for feedback, and inquiring into others' reasoning will produce a more robust and informed choice. However, since there is a strong chance that our initial positions will not prevail, this "new" type of dialogue is only possible if our drive to "win" is curtailed.

Finally, our obsession with maintaining control can be replaced with the value of generating internal commitment. When we let go of our desire to maintain control and, instead, value generating internal commitment, we can engage in true dialogue and the exchange of ideas. The result is that better choices are made, choices that are based on the logic and reasoning of both parties. This produces followers and leaders who are personally committed to the choices they have made together in a bilateral conversation.

Armed with the governing values of informed choice, internal commitment, and open testing, we can forge relationships that are bilateral rather than unilateral. We can shift from a position of defending ourselves against the possibility of failure to a commitment to learning, to seeing reality clearly. Further, challenges that arise will be viewed as normal (and indeed expected) tensions that we are prepared to meet head-on and resolve, rather than as insoluble binds that must be avoided and defended against.

The organization comprises many individuals, all of whom bring their own world views to the actions they take (whether they are cognizant of that or not). The quality of decision-making and learning in the overall organization is a function of the capabilities and makeup of the individuals within. The leader cannot single-handedly shape the governing values and, therefore, the actions taken for the entire organization. She can, however, influence the choices that others make as to which governing values to use.

If my actions are governed by winning and being in control, employees that report to me will avoid telling me the truth, especially if the truth results in my losing face or admitting failure. If my actions are governed by valid information and free and informed choice, my staff are more likely to provide me with accurate information, even if the latter involves delivering "bad news" or questioning my thinking or decisions.

A number of organizational experts have suggested that as long as the boss/subordinate relationship is endemic to our organizational structures, the level of candor that can be achieved between manager and employee will be limited.<sup>27</sup> In a research study with a senior management team (where the focus was on exposing undiscussables and learning to engage in bilateral conversations), a key finding was the impact of authority relationships on people's willingness to be candid.<sup>28</sup>

The effective leader can and should model learning-oriented behaviours and, in doing so, lead by example.<sup>29</sup> He can support and encourage his managers and employees as they, in turn, try to demonstrate behaviour that fosters learning. Modelling and encouragement are the leader's most powerful tools in fostering learning-oriented behaviour throughout the organization.

Such a leader will receive "bad news" as a challenge that can be met and resolved. She will suspend her assumptions about what might have happened, seek out valid information from those involved, and be open to looking at her own part when less-than-desirable results happen. She will partner with the appropriate parties to learn from any mistakes that might have been made. She will work diligently to establish procedures and systems that assist the organization in moving forward to create the desired outcomes in the future. In offering her ideas and opinions for comment and testing, she engages in bilateral conversations and decision-making, thus setting the stage for a culture of trust and informed choice.

"Our meetings are so different now; my manager asks a lot of questions, not to 'get us' but to hear our ideas and challenge our thinking. She also encourages us to ask questions of her and test her opinions too. The most amazing thing happened last week – she actually admitted that she might have taken us down the wrong path."

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<sup>27</sup> S. Helgesen, 1995, *The Web of Inclusion* (New York: Doubleday); L. Hirschhorn and T. Gilmore, 1992, "The new boundaries of the boundaryless company," *Harvard Business Review*, May/June, pp. 104–16; J. Krantz, 1989, "The managerial couple: Superior-subordinate relationships as a unit of analysis," *Human Resource Management*, vol. 28, no. 2, pp. 161–75.

<sup>28</sup> M.A. Archer, 2000.

<sup>29</sup> N.M. Dixon, 1997, *Making Use of the Minds of Organizational Members*, paper presented at the International Federation of Action Learning, Toronto; G. Roth and A. Kleiner, 1996, *The Learning Initiative at the AutoCo Epsilon Program, 1991–1994* (Cambridge, Mass.: Center for Organization Learning, MIT Sloan School of Management); and E.H. Schein, 1996, "Leadership and organizational culture," in F. Hesselbein, M. Goldsmith, and R. Beckhard, eds., *The Leader of the Future: New Visions, Strategies, and Practices for the Next Era* (San Francisco: Jossey-Boss), pp. 59–69.

The problem at the interpersonal level is the degree of self-awareness that is required of leaders. The leader who operates from Model II governing values must be willing to risk being challenged. He must demonstrate that he has the confidence and humility to acknowledge when he is wrong.<sup>30</sup>

Daniel Goleman's concept of "emotional intelligence" triggered a major shift in thinking about personal and professional excellence. In his most recent book, *Working with Emotional Intelligence*, he cited research (conducted by dozens of different experts in more than 500 organizations) into the skills that distinguish the star performers in every field and at every level. As well, he analyzed competence models for 181 different positions drawn from 121 companies worldwide. Finally, he commissioned a study by Hay/McBer, including in-depth interviews and extensive testing and evaluation of hundreds of workers.

Goleman's findings revealed that rather than advanced degrees, IQ, or technical expertise, the single most important factor in determining the truly outstanding from the run-of-the-mill was the degree to which one had developed the key emotional competencies. Indeed, in each study, the findings were consistent: self-regulation, motivation, empathy, and social skills were found to be twice as important in contributing to excellence as pure intellect and expertise. Goleman's framework suggests that the most successful individuals will be emotionally self-aware and self-confident and also able to empathize and communicate openly with others. Indeed, he described star teams as those whose members have high emotional intelligence and are able to balance lively, rigorous debate and the challenging of ideas with respect for differences, empathy, and commitment to the collective purpose.

While Goleman's research focuses on leaders, his findings are applicable to those without management responsibilities. The Model II organization will require employees at all levels to develop their emotional competencies. Managers may be asked to lead the way, but employees must be prepared to follow.

## 6.2 Formal Mechanisms

Given that Argyris's work confirms a universal tendency toward Model I governing values, it is critical that an organization develops formal mechanisms

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<sup>30</sup> M.A. Archer, 2000.

that reinforce and support Model II values. Otherwise, the tendency to migrate back to Model I governing values will be strong.

### **6.2.1 Decision-Rights Allocation**

The key to productive decision-rights allocation is the co-location of decision rights with specific knowledge holders, regardless of whether these people are at lower or higher levels of the organization. Institutions that apportion decision rights according to a balance between access to data and choice-making skill will ameliorate the likelihood that either managers or employees will view everyday challenges as binds to be defended against.

As much as possible, managers should engage in bilateral decision-rights conversations with their employees, rather than set decision rights unilaterally. The purpose is to divide tasks in order to match the responsibilities of each party most closely to their capabilities. In addition, responsibility for tasks would be aligned with allocation of resources (staff and budget), with the employee either taking ownership of or having input into resource decisions. Such conversations would build internal commitment and accountability for the responsibility assumed. And finally, these processes would develop a sense of collaboration and mutual support with respect to the overall responsibilities.

Critical to these conversations would be attention to the choice of language used. The apportioning of responsibilities for choice would be ineffective in inoculating against Model I values if the language system starts from “I’m in charge” or “You’re in charge.” In a bilateral conversation, the language would embody a more subtle, graduated scale of responsibility, to provide a way of discussing responsibility that communicates shades of grey. This would enable those involved to talk productively through the division of tasks.<sup>31</sup>

### **6.2.2 Performance Measurement Systems**

The key feature of performance measurement in an ameliorating system would be evaluation based on valid information and open dialogue. When employees are informed and, indeed, consulted as to the allocation of decision rights,

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<sup>31</sup> R.L. Martin, 2000.

performance measurement becomes a seamless extension of the kind of dialogue that permeates the culture.

"I hate doing these boring safety checks, but I know they have to be done. I can't afford the serious risks if I don't do them."

Employees at all levels, including senior executives, would be engaged in the performance management process. Staff would understand both the intricacies and importance of this system, and managers would see its implementation as an ongoing and critical part of their jobs.

Many of the desirable features of a robust performance management system (e.g., joint planning, interim reviews, multiple feedback sources) exist in the manuals of organizations. However, without an alignment between what is written in the policy manual and what actually occurs in the day-to-day operations and interactions, the performance management system becomes "just another formal fix."

### **6.2.3 Reward and Consequence Systems**

A compensation system that ameliorates defensive behaviour is one that features symmetry between rewards and consequences. Downsides for under-performance would be no more extreme than the upside for over-performance. The system would also feature as few kinks as possible, in order to minimize the incentive for defensive behaviour related to meeting arbitrary targets that produce high rewards. The principles supporting performance measurement systems apply here as well. There would be clarity of information about how and why people are or are not rewarded. Consultation and dialogue would continue to be the preferred approach, with managers providing feedback and opportunity for conversation as to compensation choices.

## **6.3 Cultural Mechanisms**

As the derivative domain, culture will be improved by the ameliorating features of the formal and interpersonal mechanisms. This culture will feature innovation and collaboration, if (a) the formal mechanisms create an environment in which

decision rights are allocated to employees with appropriate skills and resources, (b) performance measurement is bilateral, and (c) reward systems are balanced and smoothed. If, in addition, the interpersonal mechanisms feature learning, the culture will encourage exploration and the building of capabilities. In particular, if poor performance is treated as the natural consequence of not learning, then employees will be motivated to seek help and commit to personal learning and improvement.

In such an organization, employees experience their world as full of stimulating challenges and learning opportunities. The culture that develops is one of continuous learning, high motivation, and high internal commitment. In this culture, managers feel no need to tighten screws or admonish employees to work more diligently. Rather, they are continually challenged to improve the formal mechanisms, to take advantage of the terrific, self-motivated employees.

## **7 Conclusion**

Organizational steering mechanisms work in a tight, interconnected fashion. When designed (inadvertently or not) with exacerbating features, they work together in an entirely self-sealing fashion, producing institutions that generate escalating error. In these organizations, good people end up producing bad outcomes. The errors escalate because the culture features cover-up and mistrust. Members of these organizations acknowledge that unwanted outcomes are produced, but deny personal responsibility for any of them. They protect themselves from personal responsibility with narrow perfectionism. Members of such organizations tend to be fatalistic about their organizations and their built-in shortcomings; they can't imagine the organization working in any other way – or changing at all. This is due to the intensely self-sealing dynamic of the exacerbating steering mechanisms. Mistrust and cover-up breed more formal (even draconian) fixes, which breed still more mistrust and cover-up and so on.

It is a vicious downward spiral, which eventually produces sufficiently catastrophic outcomes, which need dramatic intervention. However, in such organizations, formal fixes cannot reverse the downward spiral. That notwithstanding, formal fixes are the most favoured tool used to attempt transformation.

When designed with ameliorating features, organizations are naturally self-correcting. In a virtuous, not vicious, spiral, they continuously detect and correct



error. Errors are explored as interesting challenges, and corrected. Members of the organization strive to work together collaboratively rather than seek to win against one another. Rather than protect themselves with narrow definitions of responsibility, members of the organization attempt, continually, to explore expansion of responsibilities. Members of such organizations also grow to see their world as having this environment (and set of features) naturally, and they can't imagine it any other way.

The keys to transforming an organization from the vicious, downward spiral of exacerbating steering mechanisms to the virtuous, upward spiral of ameliorating steering mechanisms are threefold:

1. The steering mechanisms must be viewed as an interrelated system, not as independent features.
2. The interpersonal domain must be the starting place. Without a commitment to attempt to engage in more productive behaviour, there is little chance of arresting the downward spiral and error. Formal fixes simply will not work, even if they are appealingly easy to implement. Tighter control systems will breed more sophisticated cover-up, not greater compliance.
3. Leadership is critical to initiating the shift from Model I to Model II behaviour. However, transformational leadership is in short supply everywhere. Leaders are not normally skilled at suppressing their egos in order to encourage shared solutions – which can only emerge through conversations in which nothing is undiscussable. Leaders, like all members of their organizations, will face forks in the road – at which point the whole organization will watch whether they treat the challenge as an impossible bind or a tension to be resolved. In this respect, the obligation of leaders to model productive behaviour is heavy.

The challenges to leadership in structuring and managing the steering mechanisms of their organizations are not confined to the water utility business, but neither are they absent from it. Every organization, regardless of size, structure, or purpose faces the challenge of defensive behaviour in the face of fear and potential failure. Only organizations that recognize the human frailties behind the behaviour will create formal, interpersonal, and cultural mechanisms to successfully ameliorate the damaging effects.

## 8 Recommendations

All individuals and organizations concerned with the supply of safe drinking water in Ontario can draw a number of lessons from this paper. To create a culture that minimizes unintended results, no recommendation should be used to reinforce existing defensive routines – or create new ones. In the wake of the tragedy in which lives were lost, the first instinct for many leaders will be to demand and make a set of formal and strict rules to ensure such a disaster never happens again. The focus may well tend to be on tightening up formal mechanisms.

In his analysis of the inquiry into the NASA Challenger disaster, Chris Argyris notes that the recommendations called for the necessary changes to the formal structures, but failed to address the defensive routines at the interpersonal level.<sup>32</sup> The result was an increase in bureaucracy, which continued to protect those who needed to be held accountable from further embarrassment, but did not necessarily decrease the likelihood of future disasters.

In the case of Ontario's water supply, we assert that no matter how thorough or draconian the formal mechanisms, this province's residents will not enjoy protection against water quality problems unless there are substantial changes in the interpersonal mechanisms as well. Currently, the interpersonal mechanisms produce an environment that invites defensive behaviour. More rigid rules and regulations are very likely to exacerbate, not ameliorate, defensive behaviour. Only if the interpersonal mechanisms improve as well, will changes in the formal mechanisms produce a culture conducive to water safety.

### 8.1 Formal Mechanisms

These are an important starting point in improving the performance of the overall system. The key to building effective formal steering mechanisms is to create congruence among *decision-rights allocation*, *performance measurement systems*, and *reward and consequence systems* and clarity in each of the components.

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<sup>32</sup> Argyris, 1990.

### **8.1.1 Clear Decision-Rights Allocation and Accountabilities**

Support managers need to engage in conversations with their employees, so that there is clarity in the assignment of decision rights and accountabilities. Responsibility for tasks should be closely matched with employee capabilities and aligned with allocation of resources (staff and budget). The decisions on allocation should be bilateral, *not* unilateral, with employees having the capacity to influence the assignment of decision rights to them. If the employee is uncomfortable with the desired allocation of decision rights, a development plan should be created to enable the employee to achieve a comfort level in taking on the accountabilities associated with the decision rights.

### **8.1.2 Active and Robust Performance Measurement System**

Employees at all levels, including senior executives, should be engaged in the performance measurement process. Here are some features that a Model II performance measurement system would include:

- joint planning (between manager and employee) at the beginning of each fiscal year, with clearly defined and measurable targets;
- “soft” targets such as collaboration, teamwork, open communication;
- regular interim reviews, where progress toward the achievement of plans and targets are evaluated, and individual development plans established as needed;
- multiple feedback sources to ensure that evaluation is accurate, e.g., from peers, customers, and others who interact with the employee on a day-to-day basis;
- annual performance evaluation that takes into account individual choices and behaviours (what people directly influence) as well as outcomes (business performance).

### **8.1.3 Transparent Reward and Consequence System**

All employees must understand how and why people are or are not rewarded. The system would be founded on consultation and dialogue, and include the following features:

- incentives aligned to performance targets at individual and organizational levels;
- non-financial compensation for superior achievement, e.g., secondments, alternative job assignments, achievement awards;
- careful monitoring and coaching of under-performance;
- incentives for innovation, risk-taking (including delivering “bad news”), collaboration and teamwork;
- consistency between what is demanded and what is rewarded.

## **8.2 Interpersonal Mechanisms**

To be effective, all of the formal mechanisms (above) require effort and performance in the interpersonal domain. For example, if a supervisor assigns decision rights and accountability to a subordinate and then ignores or suppresses the concerns of the subordinate (about being able to take on the responsibility), the subordinate will likely cover up his or her inadequacies, rather than raise those concerns and find a way to overcome them. The key, then, is to improve the “atmosphere” and management skills so that conversations can take place about potentially scary or difficult subjects, such as performance problems or personal inadequacies, without triggering defensiveness and cover-up.

### **8.2.1 Leadership Development**

Improving the ability to hold conversations about scary or difficult subjects starts with the development of those in leadership positions. There should be

support for leaders (managers, supervisors, etc.) to develop the tools needed to engage in conversations that result in commitment rather than defensiveness and cover-up. This requires

- working with leaders to become aware of the potentially negative impacts of their values and actions on their colleagues and subordinates;
- facilitating their ability to challenge their own thinking, suspend their assumptions and judgments, hold their ideas out for testing, and inquire into others' reasoning;
- coaching them in how to engage in conversations about performance challenges in empathetic, measured, and constructive ways. In so doing, they will learn how this fosters an environment in which employees are less likely to cover up mistakes and under-performance, and are more willing to acknowledge their own shortcomings.

### **8.2.2 Creating Opportunities for Dialogue**

In addition to the conversations with their managers, employees can benefit from additional forums in which they can engage in conversations about difficult issues. These can be embedded into project and functional team meetings and day-to-day interactions with peers and other business partners. Productive business conversations will create shared understanding and aligned actions, which will ultimately increase the likelihood of client/consumer satisfaction.

One strategy for working together across internal and external boundaries is to gather people from the entire system for collective inquiry, especially inquiry into how they, together, are creating outcomes that nobody wants. Such forums may help individuals challenge their own assumptions and integrate other points of view. A variety of whole-system planning processes have been widely used by public-sector organizations. These include Open Space,<sup>33</sup> Future Search,<sup>34</sup> and Real-Time Strategic Change Management.<sup>35</sup>

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<sup>33</sup> H. Owen, 1997, *Open Space Technology: A User's Guide*, 2nd ed. (San Francisco: Berrett-Koehler).

<sup>34</sup> M.R. Weisbord and S. Janoff, 1995, *Future Search: An Action Guide to Finding Common Ground in Organizations and Communities* (San Francisco: Berrett-Koehler).

<sup>35</sup> R.W. Jacobs, 1997, *Real-Time Strategic Change* (San Francisco: Berrett-Koehler).

### 8.2.3 Development of Knowledge Networks

A further way to help employees avoid defensiveness and get aid in making the decisions for which they are accountable is to facilitate the development of knowledge networks. Strategies could include the development of a knowledge management strategy and learning networks for capturing and sharing data – and for sharing innovative thinking across departments and organizations, customer and stakeholder feedback, and best practices. In addition, infrastructures (on-line and human) could be designed with two-way feedback loops for disseminating information. The recent literature on “communities of practice” attests to one such infrastructure.<sup>36</sup>

Such knowledge networks can produce valuable communities of practice, which can help individuals across organizational departments and company boundaries communicate with one another on difficult problems and share solutions. Although knowledge networks alone will not ameliorate people’s tendencies to behave defensively, they can result in employees feeling less isolated and unsupported by others in the organization.

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<sup>36</sup> E. Wenger, 1998, “Communities of practice: Learning as a social system,” *The Systems Thinker*, vol. 9, no. 5 (June/July), pp. 1–5.

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