Governance systems in the emerging corporation: An ethnography of the hard times at Softalk

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GOVERNANCE SYSTEMS IN THE EMERGING
CORPORATION: AN ETHNOGRAPHY
OF THE HARD TIMES AT SOFTALK

by
Robert Schmidt

A thesis submitted in partial fulfillment
of the requirement for the degree of

Master of Arts

in
Sociology

Department of Sociology
University of Nevada, Las Vegas
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This study examines the use of sensemaking and power/influence in the governance process of an emerging corporation. It emphasizes the use of the interpretive paradigm in examining the ways in which reality is socially constructed by a board of directors. This text explores the definition of governance at the emerging corporation from the inside. It examines the effects of board decisions on the corporation by focusing on a specific emerging corporation—here fictiously identified as "Softalk Corporation"-- in a major American city. Through this case the author examines how situations were officially defined, and, how these official definitions translated into real operating arrangements over twelve months.

The ethnographic study makes the following assumptions (1) Symbols are not only expressive medium, but also a medium for substantive action; (2) Symbols are a medium for both sensemaking and power/influence; (3) Symbolic processes associated with the instigation of change involve evolutionary shifts in directionality; (4) Symbolic processes simultaneously occur at multiple levels of understanding; and (5) Symbolic non-action can be important to change initiation.
# TABLE OF CONTENTS

ABSTRACT........................................................................................................... iii

ACKNOWLEDGEMENT.......................................................................................... v

CHAPTER 1 INTRODUCTION............................................................................... 1

CHAPTER 2 HISTORICAL & THEORETICAL CONTEXT................................. 8

CHAPTER 3 METHODOLOGY............................................................................. 22

CHAPTER 4 THE SETTING.................................................................................. 28

CHAPTER 5 BOARDROOM PROCESSES AT SOFTALK............................. 36

CHAPTER 6 ANALYSIS & INTERPRETATIONS............................................... 57

BIBLIOGRAPHY................................................................................................. 68
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CHAPTER 1
INTRODUCTION

Corporations are peculiar social creations. They are legal constructs through which raw materials, capital, labor, and innovation can be brought together to design, manufacture and distribute goods and services. Their existence is not limited in time or space, and, as independent legal entities, they are distinct from any of the individuals who participate in them. They can own property and employ individuals. They can confer a great power on the individuals who control them.

Corporations are organized and run by an entrepreneur or a management team that raises funds to acquire physical capital and to finance initial operations by borrowing from banks or other lenders (debt) or by issuing and selling "equity" shares. In exchange for the equity funds, the corporation gives investors securities ("stock") that are claims on a proportionate share of the net proceeds of any activity undertaken by the corporation, after all obligations to labor, management, vendors, and other creditors have been paid.

Since Adam Smith published The Wealth of Nations in 1776, political economists have argued that the workings of a free market would keep business corporations and the individuals that control them from abusing their power and would promote the most efficient use of the resources they control. If businesses operated
inefficiently or produced shoddy products they would soon be out of business. Market pressure was to be the fundamental mechanism in a free market society preventing corporations from abusing their power. Whether this mechanism works well in any given case or at all has been the central question in public policy debates about the regulation of corporations over the last century. Are market pressures strong enough to prevent corporations from oppressing workers? Can market pressures compel organizations to be environmentally safe? Can market pressures prevent corporations from issuing fraudulent securities?

When business people assert that a free market economy will lead to the efficient use of society's resources for total wealth creation, they are making two large sets of assumptions. The first is that the sort of questions just mentioned can be satisfactorily solved. These are what those in the field of economics refer to as "externalities" and "transactions costs" (Daft 1992).

A second set of assumptions, and one which is not well studied or understood, involves the internal functioning of the organizations through which this economic activity is conducted. This text is about one aspect of this second set of assumptions. Market pressures are less immediately relevant to the internal functioning of organizations, because the central issues here have to do with the interactions that take place within the firm itself. These issues include who among the various participants in the corporate enterprise model controls what, who makes what decisions, and who has what responsibilities to whom in the enterprise. Corporate governance is about setting up rules for these things in business corporations (Williamson 1985).
The expression "corporate governance" is most often applied to questions about the structure and functioning of boards of directors or the rights and prerogatives of shareholders in boardroom decisionmaking. Corporate governance is a fascinating sociological subject, for it has to do with power and accountability—who exercises power, on behalf of whom, and how the exercise of power is manifested. It involves complex webs of personal as well as institutional relationships. It provides the "interested observer" with insights into human frailties and strengths at the same time as it confronts the student of organizational theory with conundrums. Governing mechanisms are, after all, the steering devices for complex organizations—with the potential to guide them down the right or wrong paths (Williamson 1985).

Much has been written in the daily press concerning the governance of major publically traded corporations, in part as a result of increased shareholder activism and in part due to the sizable employee layoffs resulting from "downsizing" and/or "rightsizing" of many large U. S. corporations, such as AT&T. In particular, unions, community leaders, and certain institutional shareholders have demanded that boards pay more attention to their concerns, open themselves up to ideas from the outside, and even change their structures and habitual forms of operating (see Daft 1992).

Quietly, curiosity about how corporate governance operates in smaller or privately and closely held corporations has also begun to grow. "Curiosity" is the right word in that governance is seen by many as a kind of black box that it is hard for outsiders to penetrate. Moreover, even many of those most intimately involved with small and emerging corporations have only a dim sense of where power resides, how it
is distributed and exercised, and how it is limited and controlled.

When adopted as a plan for the organization of wealth, legal instruments, such as corporations, also serve as models of social organization that come to have important consequences for processes within the social units to which they apply. However, the effect of laws tends to be subtle and cumulative, since legal matters within a small corporation, governed by the formal authority of the state remain ideologically the antithesis of values founded on person-to-person, face-to-face interaction. Thus, when they arise within a small organization, legal issues as such initially appear marginal, overly technical, and inconsequential—maneuvering within as its shield or medium of adjustment in relation to the political and economical environment.

Yet, because they define relationships and specify rights and obligations more authoritatively than do other sources of authority within the enterprise, legal arrangements are important in shaping both the tone and substance of extended shareholder relationships. Legal models of social organization carefully insert themselves, as limited plans, into the affairs of the board members, and gradually, as the company ages, come to structure its interpersonal relations by defining individual relations to shared wealth.

Further, in their respective theories of modern industrial societies, Marx, Schumpeter, and Veblen emphasized that wealth in the form of business capital is fundamentally a metaphysical, abstract phenomenon, which it would be simplistic to conceive of in materialist terms. Capital is shorthand for complex social processes and
relationships of production in a market economy, just as money is deceptively tangible as a concept, standing for a system of exchange.

As it matures in a context of the closely held or family corporation, capital in surrogate form assumes a more resonant sociological and symbolic, rather than economic, importance, thus highlighting through its legal constitution the multiple abstract dimensions of possessing considerable wealth in Western industrial societies.

This insight is particularly relevant to an understanding of organized ownership of wealth, in which the owners never really "see" or touch their collective wealth as a totality in the form of capital, property, or money. Rather, they only experience it through a calculus of relative interests established by a set of legally organized and sanctioned relationships. The precise form and quantity of any part of the abstract wealth are only determinable within the framework of specific transactions among owners, itself governed by legal rules.

To effectively compete, or even survive, in market environments that have become complex after periods of relative stability frequently requires organizations to undertake the process of dramatic, and often traumatic strategic change. Increasingly, this type of change is seen not just as a shift in norms, structures, processes, and goals, but also as a form of "second-order change" involving a fundamental alteration in the social construction of reality (Berger and Luckman 1967). This view suggests that strategic change involves, at its essence, a cognitive reorientation of the organization (Gioia and Chittipeddi 1991): one that reflects an acceptance of perceptual, structural, and contextual discontinuities that occurs through the shifting interplay of emergent
processes.

From this cognitive perspective, the success of strategic change efforts depends not only on the organization's ability to undergo a significant shift in direction, vision, and values, but also the ability of stakeholders to understand and accept a new conceptualization of the organization. The impetus for this kind of change often lies with both a company's board of directors and its top management who are the key actors in articulating the need for, and intended nature of the impending change. It is in this attempt to forge an understanding and acceptance of an alternative strategic reality among corporate stakeholders that influence (Pfeffer 1981), sensemaking (Gioia and Chittipeddi 1991), and symbolism (Pfeffer 1981) are likely to be critically important.

Although the role of dramatic change in affecting organizational outcomes has been well-documented, the processes involved in promoting cognitive understanding, acceptance, and institutionalization of a new organizational reality during strategic transitions have not been well studied. The purpose of this study was to examine the dynamics involved in constructing new understandings in the embryonic stages of a strategic change effort. I tracked, from inception, the proceedings of the reconstituted board of directors of the Softalk Corporation, which was instrumental to the change process at Softalk, and studied the means by which the members of the board came to understand not only their roles, but also the constraining and facilitating factors that affected their ability to instigate change. I used a grounded approach (Glaser and Strauss 1967) to discover dimensions and nuances involved in the governance and
change processes. The general research question guiding this study was framed as follows: In a corporation where strategies and structures have been established, what board processes characterize the development and acceptance of new realities associated with the launching of radical change?

While wishing to capture the flavor of the corporate board of directors' environment, I have equally salient theoretical aims. I wish to present an organizational sociology that is grounded in interactionist and cultural concerns, but does justice to the reality of the organization and the equal, insistent reality of the environment outside the organization. Through my ethnography I present a perspective that accounts for the features of the organizational literature while remaining true to the lived experiences of the Softalk board members.
CHAPTER 2
HISTORICAL & THEORETICAL CONTEXT

The view that the cornerstone of the modern economy is the large firm dates back to
the onset the industrial revolution. This perspective has been the case especially in the
manufacturing sector where giant firms dominated throughout the first half of the
twentieth century. However, the "twin oil shocks" of the 1970s and 1980s have
triggered an unexpected reappraisal of the role and importance of small and emerging
manufacturing firms.

One of the main reasons that small and emerging enterprises have been
"understudied" is that for the better part of this century, it was a widely held belief
that small firms did not play an important part in the economy, and their role was
expected to diminish in the future. In country after country, official policies favored
large units of production and mechanisms of ownership. These goals were pursued in
free market and planned economies alike, in both developed and developing countries.

The origins of the general model of today's American business corporations can
be traced to the end of the Civil War. Contemporary formations evolved in the later
nineteenth century from the replacement of the eastern and southern gentry of colonial
origins by a new entrepreneurial elite who engineered the growth and integration of a national economy. The southern gentry declined rapidly as a result of the Civil War, while the remnants of the eastern gentry lost their predominance in commerce but retained their patron roles in certain cities. Both looked on as New York bankers and industrialists took control of the national economy, defining a new upper-class culture devoted to the accumulation and display of wealth, and promoting the spread of this culture across the country (Persons 1973). Entrepreneurs in regional cities emulated both high society styles and business methods of these newly rich.

Structural economic changes of the twentieth century, such as the complex governmental regulation of corporate ownership and operations, and competition within an environment of ever larger concentrations of capital, displaced individual entrepreneurs and family firms from dynamic roles in the economy and challenged the long-term viability of any fixed configuration of family-dominated economic interests. A simultaneous ideological reaction against the holding of hereditary wealth resulted in increased taxation of the private accumulation and inheritance of wealth and greater limitations on the legal vehicles commonly used to preserve such wealth.

A deep underlying adherence to the principle that there were significant economies to be reaped from large scale production was embedded in the classical socialist model as well. Large units of production were viewed as the most efficient means of transforming inputs into outputs, and any deviation from large scale production was seen as a socially wasteful use of resources (Gilder 1980). This belief in the inherent potential of scale economies, dating back to Karl Marx at least, was
coupled with the view that it promoted the corporate form of organization which Marx
expected to lead to a constantly diminishing number of magnates of capital, who
would usurp and monopolize all advantages of transformation (Avineri 1968). Lenin
was likewise obsessed with the efficiencies to be gained by large scale production
units. His expectations about the benefits of concentration were further enriched and
developed for socialism by Stalin who implemented (disastrously) the economic
aspects of his view.

This was the world of countervailing power in which virtually every major
institution in society acted to reinforce the stability needed to promote mass production
in giant corporations. In fact, the unprecedented growth experienced in the West
during this period has been attributed less to technology than to prevailing social and
political forces working to provide the market stability required for successful mass
production. Thus, during the 1950s and 1960s in the West, the emphasis on large units
of production and scale economies did not seem to be at odds with the contemporary
economic doctrines about production. In both East and West, mass production was
seen as the technologically dynamic form of production.

The 1950s and 1960s were the zenith of mass production in the United States.
Post-war model of economic development was dominated by large corporation using
mass-production technologies in an environment of stable prices. At the turn of the
century the large corporation, through vertical and horizontal integration, had been able
to fix input and output prices; in the 1930s collective bargaining ensured wages were
fixed, balancing production and consumption; a decade later public policy stabilized
the level of aggregate demand, the price level, interest rates, and the exchange rate. Stable markets were necessary to accommodate production rates characteristic of big firms. The specialized machinery needed to produce these quantities was expensive and had to be amortized over a long period of time. This "fixed-price" environment made the existence of mass production possible in an otherwise unstable world.

By the early 1970s "cracks" had begun to appear in the structure of the manufacturing sector in some developed countries, including in some of the world's largest firms and industries. At the same time, casual evidence began to suggest that small firms in several countries were out-performing their larger counterparts. Perhaps the best example was in the United States steel industry, where new firms in the form of mini-mills and small firms expanded employment, while the incumbent large firms shut down plants and reduced employment. This development following the twin oil shocks triggered an unexpected reappraisal of the role and importance of small and emerging manufacturing firms, resulting in a divergence of opinion on the importance of firm size.

The endogenous instability of the mass-production model based on so many production and social rigidities over the past century has given rise to what the authors call an "industrial divide." Certain historians contend that the distinction between the 1930s and 1970s was that, in the latter, there was great confusion over how to organize technologies, markets and hierarchies (Hall 1991). In fact, if the Great Depression represented a macroeconomic crises, the economic problems of the 1970s-1990s were essentially microeconomic and sociological in that the focus was on the
choice of technologies, organization of firms and industries, markets, and governance models.

Equally important, since the origin of corporations as major engines of economic activity, two great transformations have occurred in the typical distribution of equity ownership of large companies in the United States. From the middle of the nineteenth century through the 1930s, promoters and industrialists moved away from dependence on wealthy individuals, bankers, and financial institutions for their supply of capital. Securities markets developed initially to support trading in railroads and canals, and efforts to finance the Civil War then greatly expanded trading in debt securities (Persons 1973). After the war, utilities and ultimately corporations engaged in other forms of heavy industry began movement of share prices, which then provided a mechanism by which shareholders could collectively signal management about how happy or unhappy they were with the way management was running the company. The transition of a company from closely held to widely held and actively traded gave shareholders the benefits of liquidity for their investments and some information about what other investors think about how much a company was worth.

But the need for each individual shareholder to know or understand the details of a company's business became much less pressing, and made it is much harder for shareholders to have any direct influence over the company if they did not like the way the company is being run. This separation of share ownership from control, with all its ramifications, has become a much debated issue for corporate governance.

Emerging corporations, unlike large corporations, most often have limited
access to traditional securities markets. This limited access is due to the minimal revenue streams and asset bases of such corporations. Additionally, these firms usually have limited access to traditional debt instruments due to the inherently risky nature of their enterprise. Therefore most emerging enterprises obtain debt and equity financing in the form of venture capital or high risk debt instruments through the private placement of stock. The private placement of stock (stock not sold on or regulated by the securities exchange) has additional risks for the investors. In the case of successful emerging corporations, this privately held stock is then traded for publically traded securities during the initial public offering (IPO) of the corporation's stock generally with a substantive incentive going to the owner of the private stock.

In general, separating equity holders from management through the financial markets (whether private or public) raises four types of governance problems:

* For firms to operate efficiently, management must have enough leeway to take risks, make strategic decisions, and take advantage of investment opportunities as they arise. Management cannot submit every decision to a shareholder vote, and, even if it could, shareholders who are not close to the operations of the company probably would not be able to make informed decisions. Nonetheless, management must be prevented from abusing its power and position by spending resources or undertaking investments that benefit management at the expense of the shareholders. Hence, shareholders need mechanisms for effectively monitoring and restraining management.
A small, close-knit group of shareholders with a large total share of equity might be quite effective at monitoring management, but, if they are given enhanced control rights, then their power also must be restrained to prevent them from taking unfair advantage of other shareholders.

A major commitment of time and resources is necessary for investors (or anyone else) to act as effective monitors. But many investors prefer the advantages of liquidity and diversity in their portfolios—advantages that may not be consistent with the time and resource commitments involved in monitoring.

Investors need reliable and accurate information, developed using consistent measuring and accounting procedures. But any measure of performance can provide misleading information or distorted incentives by encouraging management to focus attention on inappropriate or partial goals. Moreover, releasing certain kinds of information to the public can sometimes weaken a company's competitive position.

For years governance in the emerging firm sector remained a "riddle wrapped in a mystery inside an enigma" to borrow Winston Churchill's celebrated comment about Russia. Since these corporations operate under the veil of the closely-held or privately held corporate structure their governance and management styles and
traditions go unnoticed by the public and academia alike. Yet, it appears that the
success or failure of these corporations have a significant impact on the lives of many
in our society, as small and emerging corporations accounted for nearly 39% of
American wages in 1991 (Daft, 1992). Only by a lifting of the corporate veil will we
be able to understand what makes these enterprises work. I believe that the best place
to start is with the top-rung—the corporate board of directors.

The Board of Directors

Sitting on top of management of any company, working within a framework of laws,
regulations, and judicial decisions, is a board of directors. The way board members
play their roles—accepting and delegating responsibility, accountability, and authority
for the organization's success— influences the way the organization is led and controlled
at the very highest level. Board members are often called on to serve as arbiters when
goals of the owners of the business (shareholders) and those who control it
(management) come into conflict.

The primary responsibility of the board members to shareholders involves the
creation of wealth. They are responsible for seeing to it that the actions of
management increase the value of the stock. At the same time that board members are
pushing for short-term results, however, they are also responsibility for the long term
survival of the company, which may at times call for actions that will, in fact,
adversely affect short-term profitability.

Although the board needs to play a larger and somewhat different role in a
start-up or new corporation, it is important that it not cross the line to management. It is not, for example, up to the board to reformulate the strategy of the enterprise but rather to expand the thinking, and ultimately the vision, of management, thus ensuring that management has the information necessary to drive strategy in the right direction.

The board's aim is to focus management's concerns on what the organization should do, rather than what it knows to do. The board should provide senior management with a multifaceted understanding of the world beyond the immediate present competitive environment (see Williamson 1985).

Although most organizations begin as personal endeavors by single individuals or small groups, as they grow in size, a major change takes place, as described in Adolf A. Berle, Jr., and Gardiner Means's landmark 1932 study of the corporation The Modern Corporation and Private Property:

The typical business unit of the 19th century was owned by individuals or small groups; was managed by them or their appointees; and was, in the main limited in size by the personal wealth of the individuals in control. These units have been supplanted in ever greater measure by great aggregations in which tens and even hundreds of thousands of workers and property worth hundreds of millions of dollars, belonging to tens or even hundreds of thousands of individuals, are combined through the corporate mechanism into single producing organization under unified control and management (1932:46).
When the change from individual control takes place, management becomes the responsibility of overseers—a board of directors and the senior management of the enterprise. In theory and law, the board's job is to protect the shareholders' property and oversee management. The contradiction here is that while "the cornerstone of US corporate democracy is the shareholders' right to elect the board, ... (Berle and Means 1932:6) this role usually amounts to ratifying the board's nominations (which the chief executive officer will have played an important part in formulating).

The controls on management stem from Securities and Exchange Commission regulations that impose administrative rules on corporations designed to assure fair and timely elections for directors, as well as to make sure that the corporations disclosed all pertinent information to dissident shareholders, and from certain standards of conduct arising from legal precedent. In addition, there are external forces that impact, to varying degrees, corporate governance. For example, the union representing automobile workers is affected by the costs of its members' health insurance: Not only must the union's officers bargain over the benefit levels with their members' employees to ensure the satisfaction of their members with union management, they must pay the benefits when union members are periodically laid off. Alliance partners and major suppliers whose futures are affected directly by the success of an organization also are increasingly concerned about governance decisions and thus seek representation on boards.

A company in this sense is like a puppet, and the board, its puppeteer. The puppet will respond only as a result of appropriate action being taken by the
appropriate organ of control: either the shareholders in a general meeting, or the directors within their delegated powers and authority.

If the board purports, without the authority of the appropriate organ of control, to act in a way that is beyond the company's corporate powers, then that act may be totally invalid (known as "ultra vires the company").

The board of directors will typically have vested in it wide powers of management, with rights of delegation. It must act within the constraints laid down by legislation, by the company's own Articles of Incorporation, and by other contractual agreements, most notably those made by lenders, other financiers, loan stock trustees, and/or shareholders (e.g., under joint venture agreements or shareholders agreements).

If the directors purport to authorize the company to act beyond the powers vested in the board (known as "ultra vires the directors"), then the directors can be held personally liable. However, a third party will still be able to hold the company to its bargain unless the third party knew the act was ultra vires the directors.

In its custodianship of the affairs of the company, the board is primarily answerable to shareholders. There is also an annual requirement for directors to report to shareholders as to their custodianship at the annual general meeting where the annual accounts, together with the directors' and independent auditors' reports thereon, are presented.

Each director is also required to exercise his/her powers and functions with proper care and appropriate skill and diligence, so as not to cause the company loss by his/her failure to do so. The scope and extent of these obligations is somewhat vague,
since there are no generally recognized standards as to the degree of skill, care or diligence required. The position of a director here contrasts with the standards that have been more fully developed by case law for doctors, accountants, lawyers and other professionals.

According to Georg Simmel in his *The Philosophy of Money* (1900: 511), the ideal purpose of money, as well as law, is to be a measure of things without being measured itself, a purpose that can be realized only by endless development." Part of this endless development is the board member who, in relation to the shareholder or investor, is the concrete human incarnation of this abstract functioning of law and money.

Another set of players—though not board members—who have an influence on boards, are the "various levels of government [that] tax, subsidize, restrict, and control business, in some cases impinging directly on matters as basic as pricing (rate regulation, informal interventions into price setting) and the direction of investment (zoning, required pollution control devices, limits on acquisitions). Yet another force is the citizenry, including public interest advocates and environmentalists, who often manage to bring their voices into the boardroom through acquisition of stock—and at times through board membership (Williamson 1985).

Corporations, like countries, have governments: Whether a corporation is the equivalent of a dictatorship, a democracy, a confederacy, a commonwealth, or an empire depends on strategic decisions made by its leaders about the rules and laws that control the way the enterprise operates. At one end of the spectrum, corporations have
hierarchical command-and-control approaches similar to those of the monarchies of old. At the other extreme, they set themselves up as loosely knit coalitions of independent organizations joined together for financial advantage, an approach not unlike that of the Holy Roman Empire, in which the ruler did little more than collect a percentage of the monies gained through the arrangements.

Problems such as maintaining profitability, achieving growth, and dealing with continuous change result in constant attempts to reorganize and restructure because companies have difficulty anticipating the need for new kinds of governance to suit new worlds. Corporate organizations today need multiple governance styles at different levels and in different functional areas, divisions, units, and locations. Unless leaders understand the need for—and the effects of—this kind of governing "diversity," they will not be able to help their organizations achieve the flexibility and adaptability necessary to successfully walk the fine line between order and chaos.

In fact, many of the problems besetting corporate organizations arise from new ways of working, such as teamwork or empowerment or alliance partnerships, all of which have dramatic effects on strategic and operational governance. Leaders who insist on adhering to a familiar style of governance at both these governance levels and who make exceptions when they think they have no other choice find that exceptions soon become the rule. The result is that, no matter what governance model is supposedly in place, the lines of authority, responsibility, and power soon become blurred, creating problems ranging from confusion to total paralysis.

To ensure the right structure for the organization, corporate leaders have to
modify governance models to encompass the changes they themselves support, changes often made possible or driven by technological developments. Moreover, the changes in lines of authority and responsibility—and the delegation of degrees of power to different members of the organization—that accompany these governance decisions must be crystal clear to all participants at all times.

Gaining an understanding of the governance model in use and the ways in which the organizational form forces a multiplicity of models at different levels is critical to understanding how the corporate organization will be able to stay on a path that neither leads to chaos nor descends into order. The board of directors must attempt to define the enterprise-level model in its continual interaction with management.
CHAPTER 3

METHODOLOGY

I approached this study with two basic assumptions: first that organizational reality is socially constructed and second, that attempts to change that reality should be studied in a way that taps into the processes used to fashion understanding by the participants themselves, to avoid the imposition of alien meanings upon their actions and understandings. Therefore I deemed the interpretative approach to research to be most appropriate with the font of my analysis being the negotiated order perspective; that approach to the interactionist understanding of organizations pioneered by Anselm Strauss and his colleagues from the University of Chicago (Strauss, Schatzman, Ehrlich, Bucher and Sabshin 1991). That is to say, I attempt to represent the experiences and interpretations of all participants and informants, without giving precedence to prior theoretical views that might not be appropriate for their context.

In this work I have adopted a pragmatic stance toward interpretive research. To be interpretive in this sense does not mean that as a researcher one has to engage in deeper and deeper levels of subjective interpretation. Rather, I have tried to represent the actors' experiential structure and subjective understanding in terms that are
adequate at their level of meaning. My research reporting tries to maintain the interpretations and experiences of actors in the foreground. This style of reporting is not a matter of granting precedence to the sensemaking experience of the actors, but is rather one of resisting temptation to downplay it. In this ethnography, I take seriously my responsibility as a researcher to articulate how informant's views are informative. In that vein, I give uncommon attention to the insider's "commonsense" representations of their experience and interpretive worldview. The voice given to the actors, however, is not some fawning attempt to take whatever the actors say at face value without looking at the deeper structure of their interpretations and actions: the presentation of their view is based on a qualitatively rigorous analysis (Corbin and Strauss 1993).

Clearly, however, sole dependence on either an informant or a researcher perspective presents an incomplete picture. Informant and researcher views each tend to reveal and conceal different aspects of phenomena under study. Although informant views can reveal rich means and methods by which members construct reality (see Garfinkel 1967), they usually do not address the deep structure of experience.

Similarly, although the researcher views tend to gloss the richness of lived experience, they place in bas-relief the dimensions or structure of phenomena. In this ethnographic work, I attempt to juxtapose the first-hand account with a grounded theoretical analysis aimed at uncovering the underlying dimensions of the dynamics involved.
The Researcher's Role

The author has a fifteen year history of board membership on various boards throughout the United States and Europe. The author's membership on the Softalk board was made at the behest of the company's bank and was unanimously ratified by a vote of the shareholders. Members were aware of the author's reputation in the business community and also were aware that the author was in graduate school. The fact that I was studying sociology did seem strange to a majority of the members.

The author was nominated for and selected to be a member of the Softalk Corporation's Board of Directors in May of 1995. All board meetings were tape recorded by the company's Secretary with the complete knowledge of all members. Additionally, abbreviated transcripts were made available to all board members, by the Secretary of the company, within two weeks following each meetings. As a legal formality, all prior meeting minutes were approved and signed by each board member. A preliminary motion made by the member representing several minority shareholders asked for and received unanimous consent from the board to allow members to document and distribute any and all information concerning board activities, except as either (1) limited in or by law or by a request from corporate counsel or, that (2) anonymity or confidentiality of an utterance or document had been requested by any member in writing to the other members of the board.

As is the case with most boards, members prepared individual and personalized reviews of each meeting for their individual constituencies. Thus, by being a board member, the author acquired a distinctive vantage for studying the
processes by which an emerging corporation is governed. The role of the author was therefore one of participant-observer, denoting the dual nature of my participatory and observer status.

The participant-observer role allowed me to get as close as possible to the data, so that I had direct experience with the knowledge structures of the participants; it provided information, meanings, and perspectives unattainable otherwise.

Data

The author used five primary sources of data: (1) his field notes, in the form of a diary and meeting notes; (2) the tapes and transcripts of the Board meetings; (3) notes of meetings with various company board members, employees and corporate stakeholders; (4) all documents relating to or in support of actions proposed for Board review; and (5) my own weekly self-debriefing tapes consisting of reflections on the proceedings of the Board.

The author employed conventional ethnographic analysis techniques in that I used my membership in the organization as well as my interviews, notes, and documentation to infer the subjective interpretations associated with the Board experience. The research also relied heavily on the language used by the participants during their interactions to try to infer the meanings and experiential understandings (Huff 1983). As part of the due diligence process, multiple interviews (one to two hours on average) were conducted monthly by and between the six members of the Softalk Board of Directors and the ten members of Softalk senior management over a twelve-month period.
The Analysis Process

Over time, the author established close relationships with the principal participants (including the CEO, the other Directors, President, the Executive Vice President, the Director of Engineering and the key members of the sales, finance and engineering staff) and acquired a sensitivity to the context and forces that might bear on the Board's deliberations. In my analysis, I used procedures based on the tenets of a grounded-theory approach (Glaser and Strauss 1967), which typically involves simultaneous data gathering and analysis. Initial data gathering was guided by the central research question: What processes are involved in governance of the emerging corporation? More specific questions emerged from the progression of my Softalk experience.

The heart of the initial stage of the grounded approach is the method of constant comparison (Conrad 1982, Glaser and Strauss 1967, Strauss 1987), wherein data from the many different sources (e.g., multiple informants) or from different points in time are repeatedly compared to discern major categories, dimensions, themes, or processes. Data from the transcripts, field notes, interviews, and documents were repetitively reviewed, coded, categorized, and studied for content and meaning until patterns emerged (Agar 1986, Miles and Huberman 1984, Spradley 1980). In this study, a range of first-order informant codes (i.e., terms used by the actors; see Van Maanen 1979) were developed by the actor-observer. I then assimilated these codes into a set of summary analytical codes (i.e., labels induced by the researcher that were still meaningful to the informants). Based on these codes the I also began the process
of inducing more general themes or dimensions in the data. Two tentative dimensions, "meaning construction" and "influence and politics," emerged which then served as guides for more focused data gathering and analysis (a process termed *theoretical sampling* by Glaser and Strauss 1967).

After the initial stage of analysis was completed, the data were examined for possible further aggregation into second-order categories and dimensions. This process led to the assimilation and labeling of the code groupings at a more theoretical level as a means of discerning general patterns in the data. The main outcome of this stage was the emergence and formal labeling of two overarching dimensions of analysis: "sensemaking" and "power/influence." All relevant quotes, exchanges, decisions, and actions were noted in the data by coding passages using both aggregated second-order categories and these two overarching dimensions. These codings were then used to guide further analysis in another iteration of theoretical sampling. For example, a focus at this point was on further data that had bearing on either sensemaking or power/influence. Guiding questions included: What means are used by members for engaging in and communicating about attempts to make sense of their experience? How is power exercised? How is influence accomplished? Does this sensemaking and power/influence processes change over time?
CHAPTER 4
THE SETTING

Softalk Corporation

The corporation under study is an emerging five year old high technology enterprise with products and patents in telecommunications. The company's real name, address as well as the biographical data on the participants have been changed to insure the confidentiality of their data. The company's main office is located in Suburbia, a large community in the midwestern United States. It has small regional sales offices in five cities throughout the United States.

At the time of this research, the company was on the threshold of a major reorganization forced by the company's bank, which held over $5,000,000 of secured and unsecured debt. As part of a previous restructuring, the bank had obtained the right to restructure the board. More specifically, as a condition of extending the current line of credit with the company, the shareholders had agreed to dismiss the current board and allow the bank to approve the election of a new board of directors. Additionally, the bank was reviewing the downsizing effort undertaken by the new CEO and a small team of outside consultants.
Not only was the firm unprofitable at this time, the more than twenty major institutional shareholders were uncertain as to whether they would continue to fund the enterprise. Softalk's future was clearly in question.

Additionally, there was great disagreement among the major shareholders on the strategic direction of the company. Lastly, due to the retrenchment stance of the previous CEO (the founder), the board was confronted with a legacy devoid of a long-range vision or plans for the firm. Although there had been earlier attempts to develop a corporate-wide strategic plans, these were all unsuccessful and ineffective. In the words of the new CEO, they were: "Bullshit! Nothing but self-serving window dressing."

When the new bank-selected CEO arrived at the company he was presented with a paradox; Softalk was in the most enviable patent position of any company in the telecommunications industry, save AT&T, yet was itself unable to convert these processes into a profitable product portfolio. The company was steeped in technology and in debt. The youthful and talented engineering department was overtly wary of the new foreign leader. Past attempts to restructure the firm had faced entrenched power and political structures that had contributed to their failure. The history of failures had made long-standing members of the firm's stakeholder community (most notably the company's bank which held a significant amount of secured and unsecured company debt) skeptical of new efforts to implement the drastic type of change needed for the corporation to survive as a stand alone entity. Yet, because many of the institutional investors were major customers of the bank, the bank agreed to try to work with the
The avowed goal of the new CEO was "...to make this company profitable and take it public within thirty months..." Toward that end he publicly called for "strategic change": a new term for members of the company and one that was never specifically defined except by examples of intended action (e.g., "We cannot continue to develop all products for all people...We need to identify pockets of opportunity and strike while the iron is hot...We need to get everyone involved in saving money."). Reengineering the company would, in the CEO's opinion, enable the corporation to pursue a path to profitability. The CEO first broached the subject of reengineering at a special meeting of the new Board of Directors called in the summer of 1995. He stated that the focus was a necessary first step in changing the philosophy, values, and ethic of the company.

Since the board as a group had little precedent on which to base its deliberations and recommended actions it became impotent in the policy decision process. Only two of the seven members had experience in the concepts of strategic planning and execution in small companies; most were lawyers or investment bankers with no operations or turnaround experience. Thus, the Board was in a position of constructing reality with which it would try to deal (Weick 1977).

The People

Board members are, by law, appointed by a majority vote of the shareholders. In addition, at Softalk, board members must also be approved by the company's bank. Softalk's bylaws called for seven board members, each serving three year terms.
Historically, in emerging corporations with limited shareholders (less than 35) major shareholders recommend a slate of directors whom they believe will represent "their" interests as well as the company's.

This "slating" process was the case at Softalk, where five major shareholders each nominated one individual to represent their interests. The bank recommended two independent, also known as outside directors, who were accepted by a majority vote of the shareholders. The author was one of those outside directors. The board elected one of its members as a Chairman. All of the board members were well educated, caucasian, male, and over forty years old.

According to the corporate bylaws, attendance at formal Board meetings was restricted to the seven board members and a representative of the company's bank without the advance approval of a simple majority of the board members. As a courtesy to the Chief Executive Officer (CEO) this rule was customarily waived to allow specific individuals to provide data to the Board members. All of the names in this text have been changed to protect the confidentiality of the participants. These individuals generally included the Softalk Corporate Controller-Fred Murphy; the company's Director of Engineering-Herb Krawcek; the company's marketing vice president-Larry Garn and; a variety of legal experts who presented their findings on subjects ranging from patent filings, international trade law, and litigation.

One of Softalk's corporate formalities was that it had to maintain a board of directors of seven members. Four of the seven board seats were predetermined by a complex set of negotiations outlined in the company's shareholder agreements. The
remaining three seats were reserved for the founder and two additional members who "were suitable to a simple majority of the outstanding shares as voted at the annual meeting to be held on the second Tuesday in March of each year." The founder and the additional two members were to hold their seats for three year terms. Although, in reality, they were "at will" seats. I was elected in the spring of 1995 to the board at the suggestion of the CEO whom I had known through another board in which we were both non-executive members. Prior to coming "on board" I had never met any of the other members prior to the selection interview process.

The new chief executive of Softalk was Jose Lopez, an aristocratic native Venezuelan electrical engineer. Jose had been educated in America at a large midwestern state college. For nearly twenty-five years after graduating college, Jose climbed the ladder at AT&T, reaching the position of Regional Vice-President. In response to the pending 1980's breakup of AT&T he left and became President of the U.S. operations of a large Japanese telecommunications company.

The founder, Murray Rothstein was a board member. Originally, he was the majority shareholder of Softalk. However, the many previous rounds of equity financing had now made him a minority (less than five percent of the outstanding shares) shareholder.

Jim Black was a board member. He had secured the initial equity funding to start the company from his wife. He was a venture capitalist and former professor of computer science at a small midwestern university.

Tim Daley, a well known tax lawyer in Suburbia, was a board member. Tim
represented one of his clients' investment in Softalk. That client was one of the largest family trusts in the country. He was Ivy League educated and had originally worked for Price Waterhouse.

Bob Johnson, was an insurance company lawyer and Softalk board member. Bob was employed by one of the nation's largest insurance companies. His company had invested over a million dollars in Softalk. Bob often described himself as a "company man" and "corporate bureaucrat."

Len Dickey was a venture capitalist and lawyer. He had invested the funds of several of his major clients into Softalk. He also served as Chairman of Softalk. He had strongly supported the initial hiring of the new CEO.

Tom Sarris was a lawyer and board member. Tom represented the interests of a major international materials company which had acquired an interest in Softalk through the acquisition of another firm earlier the previous year. Tom always characterized his company's position on Softalk's corporate endeavor's as "hands-off." He rarely spoke at meetings.

The Place

The majority of Softalk's employees work at the main office (over 250 of the 300 plus employees). All of the corporation's major activities such as sales, marketing, legal, research & development, accounting, assembly & test, quality assurance, administration and field service were located at the facility on Mason Street. The Mason Street facility was shared with three other high technology companies. These enterprises were all subsidiaries of Fortune 500 firms. The building was a one story
glass structure spread over approximately 500,000 square feet of rolling meadow (of which Softalk rented nearly 90,000 square feet), surrounded by a large asphalt parking mall.

The Softalk side of the parking lot is filled with a variety of vehicles. Directly in front of the building are seven parking spaces, three empty spaces marked "customer" and four spaces with vehicles. A spotless new maroon four door Cadillac Seville sits parked in a space marked "Vice President -Sales"; a brilliant red two door Dodge Viper with a license plate reading "SOFTALK"- in the space marked "President"; in the space marked "Engineering" is a rather dirty drab bluegreen late model Toyota Celica beginning to succumb to the ravages of metallic oxidation, and on the end in the space marked "Vice President" is a late model white diesel Volvo station wagon. The remainder of the well lighted and well groomed lot is a potpourri of foreign and domestic vehicles parked in no discernable order. The majority of the cars appear to be two door models and of Japanese origin.

The outside of the building is neat and modern. One can see into virtually every office from the outside, as the both the exterior and interior walls appear to be made of glass. The corporate signage is chiseled into a large rectangular oak structure on the sidewalk in front of the building.

After entering the building one is immediately confronted by an oversized reception area more fitting for a large medical clinic than for an emerging high-technology corporation. The fern density is unnecessarily high and is offset only by two large computer-like boxes--one marked the Softalk 9600 and the other marked
Softalk 1600. Behind and to the right of the reception area are a set of double doors, made of thick walnut, that reach from the ceiling to the floor and are at least eight feet across. To the side of this expanse, at about eye level are two shiny gold plates. One reads "BOARDROOM", the other "MEETING IN PROGRESS".

Upon entering the Boardroom, one is immediately struck by the expansive use of walnut. The forty foot table is solid walnut, the walls are wainscoted in walnut. The podium is walnut. The twenty high backed black leather chairs have walnut bases. Even the individual place settings are equipped with walnut covered items to include nameplates and pen and pencil sets. In the center of the table are several electronic devices. A special high technology speaker phone and a voice activated tape recorder. Unlike the remainder of the complex there is a conspicuous absence of windows and natural light. A fragrance of power permeates the room.

My space, like that of each member, was clearly delineated. In addition to my place setting, there were extra pencils and pens, yellow legal-style writing pads, two large bottles of water, one carbonated, one not, and a six inch stack of papers, the top one marked "Board of Directors Meeting Agenda-Confidential".
CHAPTER 5

BOARDROOM PROCESSES AT SOFTALK

The Board Meeting

Traditionally, boards conduct their official business at formal board meetings. Meetings are an important sense-making form for organizations because they define, present, and also reproduce social entities and relationships. In this way, individuals may both use and be used by this form. As a sense-making form, meetings are significant because they are the organization or community writ small. There may be other competing symbols for an organization, such as individual leaders, a building or territory, an organizational chart or logo. However, a meeting is a powerful and ongoing social symbol because it assembles a variety of individuals and groups together and labels the assembly as community action.

Meeting and meeting talk as objectified in minutes, reports, and the like may also become the major evidence of organizational action. Political language and rhetorical studies that consider language as action (Fine 1984) and that argue that "saying is doing" also support this view for a variety of societies.

The idea that meeting talk may be synonymous with organizational action
requires questioning the standard view that meetings exist as a facilitating form for making decisions, formulating policy, solving problems, or resolving a crises. It is possible to suggest that decisions, policies, problem solving, and so forth are not what meetings are about. Instead, we need to reverse this view and examine the possibility that meetings are what decisions, policies, problems, and crises are about. From this vantage point, meetings help produce organization, although it is much more common to assume the opposite. This approach sets meetings at the center of our understanding of organizational systems.

At the same time that meetings may be a major form of organizational identity, once a meeting has been constructed, the event becomes a vehicle for the reading as well as validation of social relations within a cultural system. Meetings are a successful social validating mechanism because acceptance of form requires, at least in part, acceptance of the current social and cultural order (Dimaggio 1991). A formal meeting requires the negotiation and ultimately the acceptance of a set of social relationships that define someone's right to call and arrange a meeting, to specify time and location, to start and end a meeting, a series of rules and conventions for ordering and regulating talk, and recognition of this as talk that may be legitimated by the meeting.

Much of human understanding occurs through the use of symbolic processes (Axley 1984). A symbol can be any sign that represents a concept; thus, the representation of the concept becomes the symbol's "meaning" (Geertz 1973). The most pervasive medium of symbolism is language. In particular, the use of metaphor.
wherein one concept is understood in terms of another concept already known (Ortony 1975), is key to understanding (Daft 1983). Indeed, conceptual systems are fundamentally metaphorical in nature. When we try to understand a new experience or concept, we do so by trying to ascribe meaning to it, and meaning is often most effectively grasped through symbolic metaphorical representations. Thus, symbols and especially language symbols (such as visionary images and metaphors) are basic to the process of sensemaking.

When people are called upon to enact some change in their existing patterns of thinking and acting, the proposed change must make sense in a way that relates to previous understanding and experience (Louis 1980). Symbols and metaphors are key to this process (Huff 1983), in part because their inherent ambiguity provides a bridge between the familiar and the strange, thus fostering a sense of continuity while simultaneously facilitating change. In this sense symbols both conceal and reveal facts of change. They conceal threatening aspects within the camouflage of the known, yet reveal those aspects that emphasize the difference but, differences are rendered in terms that echo the familiar (Meyer 1984). When a major change is proposed, different symbolic language is used to herald the change and to articulate its nature. Our focus, therefore, often is on the language used by organizational actors during a leadership crisis.

Sensemaking, however, involves not only "pure" cognitive interpretation processes, but interpretation in conjunction with action. In organizations, people take into consideration the realized or likely outcomes of their own actions or those of
other significant stakeholders in trying to understand what to do next. Not only is language symbolic, but action itself is symbolic (Feldman and March 1981), especially in organizations. In particular, symbolic action is central to the institutional legitimacy of the proposed changes, perhaps as a way of making proposed new arrangements subjectively plausible (Berger, Berger and Kellner 1973).

Symbolic actions are frequently used by executives to legitimate decisions and strategies that affect perceptions of the organization by members and other stakeholders. In attempting to change leaders in an entrepreneurial corporate environment, it is arguably necessary to first formulate a strategy to facilitate acceptance of the "need for change." Such a strategy depends on symbolic procedures to legitimate the transition process. Gaining insight into the symbolic meaning structures of organizations and especially into the origins and manipulations of these meaning structures allows an understanding of the creation and maintenance of alternative organizational realities. (Strauss et al. 1991)

Symbols, metaphors, and actions, however, are not the only means for making sense of organizational experience. Both sensemaking and action-taking are affected by the context in which they occur. In organizations, context often is defined by influence relationships and political structures, an observation that applies to small companies as much as large bureaucracies. The construction of organizational reality, therefore, is in some significant measure also likely to be influence-based. When sense must be made of observed events or proposed changes, people account for influence relationships in deciphering or ascribing meaning to a situation. Yet,
influence in organizations is often more covert than overt; subtlety is its hallmark, because powerholders seldom flaunt their influence ability (Frost 1987).

One of the few occasions that influence is likely to be manifested in visible ways, however, is during change efforts. Even then, however, influence is likely to be subtle, i.e., couched in symbolic representations (Lukes 1974). Thus, influence processes are likely to occur in concert with symbolism, which suggests a potentially complex interrelationship among symbols, symbolism, influence, and sensemaking. This perspective also suggests that they can have an instrumental role in accomplishing major change in addition to their long-noted expressive role (Edelman 1964). Symbols, therefore, not only constitute a medium for sensemaking, but for a medium for influence as well.

One must also recognize that the symbols, visions, and construction of some actors (most notably corporate directors and officers) are more powerful than others, and therefore exert greater influence over the meanings attributed to various actions or events (Gerth and Mills 1946: 152).

Organizations are political systems. Those in charge must create order among people with different interests and agendas. Politics represents one of the processes that determine who gets what, when, and how in a legitimate manner. Power, in turn, is the ability of individuals or groups to exercise control over these processes (Morgan 1986; Pfeffer 1981; Kanter 1977).
An Overview of the Board's Governance of Commitments to Unsuccessful Decisions

Perhaps the most obvious symptom of organizational troubles at the Board level is management commitment to unsuccessful decisions. Staw (1980) has noted that the tendency to justify past actions can be a powerful motivation behind organizational behavior and can often run counter to rationality. As he observes, the justification process leads to escalating commitment. When mistaken actions are not being seen as mistaken actions, the principle on which they are made is also not seen as mistaken. Worse, the feeling that the principle is valid becomes enhanced through the need to defend the decision, and thus further decisions are made on the basis of it.

This process is especially lethal in the case of a totalitarian organization, where the idea of the perfection of the organization provides the organization's motivational base. Here the assumption of the identity of the individual decision-maker and his or her organizational role turns the tendency to justify past actions from a defensive tendency on the part of individuals to a core organizational process—a central element of the organization's culture. Such was the case at Softalk.

It will be useful here to differentiate between totalitarian management and idealistic or "transformational" (Burns 1978) leadership. Idealistic leadership involves belief in the organizational as an organizational ideal, but it relies upon a vision of the future that is honestly held and promulgated by the leaders. When the organization catches up with the consequences of its actions and finds them importantly at variance with its earlier idealistic intentions and projections—when it comes to know, in other words, that the decision was a bad decision—it has the choice.
of either acknowledging its failure, and hence its deviation from the ideal, or of denying its failure, and attempting to maintain the image of itself as ideal through deception and compulsion. In the former case, it is possible that through imagination and creativity a revised ideal can be formulated. Even if it is not, the organization will at least have learned something. In the latter case, the organization turns toward totalitarianism.

The case of the Softalk 9600 illustrates the process of commitment to unsuccessful decisions. Modeled after a competitor's product, the 9600 was powered by a proprietary set of circuit cards rather than utilizing the power of the standard personal computer platform available through a variety of reputable vendors to such as IBM, NEC, and Gateway Corporation. The problems with developing new proprietary hardware were well known and documented by Softalk's engineering staff long before the 9600 was offered for sale. Understanding the significance of the following commentary requires attending to the time it took to reverse the original bad decision.

Member 2  "The questionable technology of the 9600's design has caused a massive internal fight among Softalk's engineers...On one side of the argument is Rothstein [Softalk's former President] ...On the other side are the top engineers...."

Member 4  "The top engineer Herb Krawcek told me that he showed his time and cost estimates to Rothstein but by then, he said, "Rothstein's mind was
made up."

Member 6  "In the end, the old board not only went along with Rothstein, it also
told Krawcek in effect to stop the objections. Get on the team, or you
can find someplace else to work."

The ill fated 9600 was launched in the fall of 1992. The results were disastrous. It was
only a few months before the customer service department was inundated with
complaints over the machine's reliability.

When the new CEO Lopez, fully took over the company's reins in the winter of
1994, he insisted that he be given corporate authorization to fix the problem. Initially
his request was turned down by the old board as "too expensive." Ultimately, under
the threat to resign, the old board relented. But it was too late.

(As a postscript, to date, hundreds of thousands of dollars have been spent in
warranty and legal expenses to remedy the design flaws of the Softalk 9600.)

Explanations of business disasters often assume that the disaster was the result
of a single, isolated decision that was wrongly made. Indeed, it is typically asserted
that the decision-making process employed was one that is ordinarily valid but that, in
the specific case, crossed some vague boundary that led to disaster.

Explanations for disasters like these take for granted that the organizational
context of the decision was basically sound. Set against the presumed backdrop of the
organization's continuing healthy activity, the decision and the disaster that follow
from it are seen as an aberration, an unfortunate accident—as much a tragedy for the well-meaning and generally competent individuals who made the decision as for its more direct victims.

While this scenario is certainly accurate in many instances, there are other cases in which an opposing vision may be closer to the facts. Here, the specific decision is seen as fundamentally flawed and as taking place within a generally unsound organizational context. Indeed, from this point of view, the decision is only one of the many bad decisions that the unhealthy organization generates naturally and almost inexorably.

An Overview of the Board's Governance in the Strategic Planning Process

The board met once a month for four to six hours at a time. One of the members provided a retrospective synopsis of board life that serves as a foreshadowing overview of a narrative from my daily diary that follows:

My initial meeting indicated no agreement as to purpose, required action, or vocabulary, leading to the development of a modest sense of desperation over the next several meetings. Soon, however, the leadership provided a way out of the quandary by invoking the obstensive preferences of a higher authority figures (the CEO), who suggested a symbolic framework for initiating strategic change. This symbol became the construct for rallying around a unified direction that eventually led to substantive action.
Because the findings are woven into the rather complex narrative that follows, it is helpful to preview not only the events that transpired, but also the main theoretical concepts that subsequently were generated from the study. As noted earlier, two primary dimensions emerged: *sensemaking* and *power/influence*. Both dimensions were symbolically based and served as running themes over the life of the study. The board progressed through four phases. During these phases the nature of the sensemaking and influence attempts underwent transitions, both in terms of the symbols and metaphors used to communicate understanding and action, and in terms of the "directionality" of the processes (i.e., whether they were directed inward toward the board, or directed outward by the board toward others). Exhibit 1 presents a descriptive summary of these phases including representative quotes.
Interpretation

**Description**
*Who are we? and what is our charge?* Are key questions posited during this stage. Attempts are made to interpret experience outside models and historical referents. The board becomes aware of external influences that have the potential to constrain thought and action.

**Definition**
*Top management attempts to define strategic change issues for key stakeholders by using the board as a conduit. The board becomes aware that they are being used by top management as a symbol for change. In response the board begins to define its role as facilitator.*

**Quotes**
* We have a charge from the bank which I didn’t understand then and I don’t understand now.
* What are business units? I don’t understand your strategic either.
* It’s not clear who is going to make the real decisions or even make recommendations on the strategy.
* I hope they give us some guidance on this stuff.
* Let’s look at the planning process of [Softalk] over the last two years.
* We need to account for the CEO’s views.

Quotes
* The CEO just won’t take on the engineers.
* This is the CEO’s plan we’re peddling.
* If it goes bad, he’ll dump it on us.
* Garn wants to establish OUR criteria.
* Be careful what you say to others.

Legitimation

**Description**
Top management preferences continue to influence the board. To legitimize itself, the board begins to align with top management. The board also develops its own concepts and terms for “giving” sense to top management and stakeholders using tactics of inclusion and cooptation.

**Institutionalization**

**Description**
Both the board and top management attempt to institutionalize change and planning processes. The board crafts a formal statement to influence and create the desired meaning for stakeholders.

**Quotes**
* We are creating terms that are relatively value-free; then we give them meaning for others to use.
* Hopefully, we can convince the CEO that we are serious... and we mean business.
* He is trying to influence us again with HIS plan.
* We have to make this acceptable or be at war with the engineers.

**Quotes**
* We are going to institutionalize it.
* We have the power now.
* This is a radical solution for this place.
* We need to say up-front that we are different from the previous escapades.
* We should get one of us as COO. This would assure we stay in control.

Exhibit 1

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The Interpretation Phase

The early meetings of the Softalk Board were distinguished by attempts of the members to construct some identity for themselves and some interpretation of their charge. These attempts were foundering, trial-and-error efforts to answer the fundamental questions: Who or what are we? What are we supposed to do? Given the lack of historical analogues, such apparently simple questions turned out to be very difficult indeed. Members described their situation as "having no precedents," "being at ground zero," and saw several meetings as fraught with "mayhem" and "confusion."

The following exchange captures their nascent state and the effort to arrive at some interpretation of their task:

Chair: "Our charge is to examine all of the alternatives. We are conducting strategic planning and survival management at the same time." (pause)

Member 1: "I don't understand what that means. (pause) I don't understand "alternative levels" either."

Member 2: "We are hoping you would explain!"

Member 3: "I just don't understand. What do you want me to do? I need to know when we expect to be done here."

Clearly "survival management" was intended to be a meaningful, action-oriented metaphor in this scenario, but the members did not have a workable definition of it.
Even after lengthy discussions, the issue repeatedly surfaced:

Chair: "Again I think the main thing we need to do is identify the meaning of "survival management" and "strategic planning."

Member 2: "Are you speaking from our or the bank's perspective? You mean from the bank's perspective."

Primarily, the early meetings consisted of repeated attempts at figuring out the board's purpose and role, as well as efforts devoted to negotiating the meaning of key terms (which occurred on at least eleven separate occasions during the first meeting alone). The multiple discussions surrounding the central notion of strategic planning were based on such metaphorical representations as: strategic planning units as "constituent parts or atoms," "planning machinery," "centers of excellence"; all of which were proposed and discussed, but were never established as defining metaphors.

At these early meetings, the Chairman alluded to senior management's notion that emulating another company's planning model might be a possible way to help define their own situation. ("He wants us to have a look at the Motorola model; thinks it might give us some ideas.") Although that model was dismissed at that point (though revisited later), the influence of top management and other stakeholders on the board's efforts now was evident. As this initial phase of the board's development progressed, members became aware of the effect of the actions and desires of others on their own thinking and possible actions, which engendered considerable indignation.
and affective reaction by other members who argued for autonomy in deciding how they might frame the change problem and what they could and should do to address it. Nonetheless, there were several attempts to infer "what the bank wants," a reference to the bank's implied power to define the situation in terms of their stated "ongoing concern" status.

*The Definition Phase*

As the board continued to flounder, a sense of powerlessness and resignation settled in. (It seems to me that you're either a surrogate of the CEO or you're nowhere.") In addition, the members began to suspect that they were being used as a symbolic device in top management's attempts to sway other stakeholders, especially the bank, to "buy into" the strategic change notion. For one thing, the mere existence of the prominent and "new" board signified a serious (albeit nebulous) intent to change. The members also began to see that the CEO's public statements limited their range of possible thinking and acting and made them pawns in some larger game:

Member 2: "He's done it again.....He's gone around us......

You know, I am starting to believe that the son-of-a-bitch believes we are nothing more than a rubber stamp...."

During this phase of the board's evolution there were several pronounced allusions to the strong symbolic implications of *not* taking certain actions, e.g., of not
defining a strategic business unit to include certain constituent groups, especially those coveted by multiple factions. This tactic prefigured a running theme in deliberations: overt attempts to anticipate the meaning of decisions and actions (to themselves and others) as a way of avoiding trouble. Avoidance, in the form of considered non-action, was a proactive tactic. Of particular importance, the members were sensitive about signaling any impending drastic actions:

Member 6: "I think it would be unwise to stray too far from the current structure."

Member 3: "Let's make sure we consult the right people first.... I am extremely nervous about the engineers' reaction."

Eventually the board members defined a role for themselves as facilitators and governors in managing the change process. Still, they failed to develop a framework for envisioning specific processes to be used, and their... of consensus and inaction invited external intervention.

The Legitimation Phase

If the earlier board deliberations were aimed at answering the questions "Who are we?" and "What should we do?", subsequent events were focused on a related but different series of questions: "How can we be perceived as legitimate agents of change?" "How can we exert influence (without bringing on conflict and
countervailing influence?)" "How can we accommodate the CEO in disseminating the market leader vision?" By far the greatest direct influence on the board was the CEO himself who supplied the specific charge for the committee, shaped their framework for strategic planning, and (either intentionally or unintentionally) affected board's actions via his public declarations. Although the members recognized his influence tactics ("He's fucked us again!") and chafed about them ("I think politically we're driven to do what he wants"), they ultimately accepted them as legitimate. ("He is, after all, the CEO.") Consequently, the board aligned themselves with the CEO as a way of obtaining surrogate legitimization for themselves. Ultimately this is the CEO's strategic plan. We need to present ourselves as implementors of the CEO's wishes.

In addition to the CEO, other individuals and groups held considerable sway, including other top managers (e.g., the head of engineering), and other stakeholders (e.g., the bank, which argued that its "traditional role" was being ignored). Concern over the reactions of these groups, in particular the bank's, continued to receive attention. The members continued to be wary of this presumed nemesis whom they assumed would try to sabotage the change process. Therefore, they kept working to avoid a confrontation.

Member 6: "[We need to] recognize that these people will feel they're being undermined or excluded and will try to do something about it."

Member 3: "You can pick your sides, marshal your troops and hope you
win. But I don't see the sense in making a war out of it."

The symbolic importance of allowing potentially recalcitrant factions to play a role became a key issue affecting not only the credibility of the board, but its viability as a change agent as well. The tactic adopted was one of inclusion and co-optation:

Member 2: "There have to be senior managers, department heads, other administrative mid-level people, and employees that have to feel a sense of ownership of the plan all up and down the line." We should also give appropriate input to vendors, customers, and even people outside the company who have a strong stake in this."

In the latter part of this phase, however, the board began to move toward an influencing stance of its own. Although members couched their attempts at influence in terms of trying to communicate "what the CEO wants," they also tried to develop themselves into a force to be reckoned with.

Member 4: "Let's not ask for advice; if we ask for advice, we'll get it."

Members recognized the paradox that in order to create the context for strategic change, which implies radical redirection, they had to avoid the appearance of
proposing radical change:

Member 4: "Let's not fuck this up, I mean let's not let those engineers get involved and start redirecting it"

A feature judged to be necessary to ally fears and disarm resistance or even attempted sabotage of the process. In actuality, they viewed the new corporate design as a smokescreen that concealed the real change vehicle from those that might undermine the process, the innocuous "Business Units" that contained the potential for triggering substantive change. A one member put it:

Member 2: "This is just a way to finesse the real teeth in the new mission and goals thing without suggesting that we have a final planning formulation. This way, there won't be any consternation with this stuff that will cause people to want to shoot you down."

The role of the business units was described with the rich metaphor, "prisms transmitting a spectrum of inputs." Taken collectively, the business units were variously, but convergently, described as "beads on a necklace" and "pearls on a chain" to connote their role as components of the strategic change effort and associated planning "system" that would generate strategic change.
The Institutionalization Phase of the New Board

In the final work of the board during year one, attention turned toward the construction of an influential statement that would explain and give rationales for their recommendations to outside constituencies. There was a keen awareness on the part of the members that the language of this report was very important to convey the desired meaning to outsiders as well as to top management.

Member 5: "They [the board's recommendations] have meaning in this context; they do not yet have meaning beyond it."

In the attempt to create the desired meaning, multiple instances of "wordsmithing" were noted by writers, i.e., labels and language were intentionally selected to convey the "right message." The final report itself was an overtly symbolic document cast in metaphorical and rhetorical terms.

Member 5: "We are trying to identify a dominant chord from amid the cacophony of individual planning documents."

The report attempted to describe not only the need for restructuring, strategic planning and change, but the approach to be taken by the company. It provided rationales for adopting the proposed strategic planning process and became the primary statement of the direction of the strategic change effort.

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In this final phase of the board's initial year of life their attempts to exert their own influence increased as did their attempts to lend permanency to their vision and proposed actions; these were mainly efforts by the board to influence their constituencies to accept their way of thinking while avoiding conflicts that might undermine the delicate process. These discussions were rife with metaphorical description, with a marked preference for war metaphors.

Member 3: "I know we have to bite the bullet, but I don't want to immerse this thing in a huge struggle..."

Once again, the idea of vesting power in the mid-level managers to decide their own planning targets was affirmed, thus averting a likely rebellion by the engineering department:

Member 1: "This should get it past the techno-geeks, who could scuttle this whole thing completely..."

As a result, the board began a series of attempts to "co-opt" or "draft" stakeholders. These attempts ranged from stressing how the "long-term viability" of the company would be enhanced if the board's recommendations were adopted, to the adoption of a political strategy that focused on aligning the board with the CEO as a means of garnering support. They also attempted to engineer the appointment of one
of the board members as Chief Operating Officer because he had "sufficient understanding and clout to make sure the thing will work out."

As a more overt example of influence, the board culminated their efforts by attempting to forge the final document into an instrument of lasting impact. Of critical importance to the board was the goal of "internalizing" the change effort through the board's recommendations:

Member 3: "What we are trying to institutionalize here is that both missions and goals are locked in right at the top: in the CEO's office, in the board, and in our recommendations."

Member 4: "What we're suggesting to be implemented becomes part of the general strategic planning process. We'll put it in a plan that the CEO can push."

Member 5: "We want to enculturate Softalk toward the concept and associated structures of strategic planning."

These efforts were deemed to be a necessary step toward a major strategic change. Indeed, the CEO declared that strategic plan and reengineering would be the lasting legacy of his administration.
Discussion

Contained within the first-order narrative are a number of substantive findings about the nature and uses of symbolism, sensemaking, and influence processes. But, to tease out their deeper structure requires not only reference to the "story," but also analysis from a second-order level. Such an analysis does not discount the first-order findings (which are adequate at the level of meaning of the informants; see Weber 1946), but employs an alternative view to gain insights using a more "theoretical" perspective.

At this level of analysis, I began by treating the first-order findings as data. I first attended to the insights generated from the case itself, as well as the ethnographer's interpretation of it, focusing in particular on key terms and events (Isabella 1990). I then employed the procedures described in the Method section to aggregate the first-order codes and categories, assign them second-order thematic labels, and then induce the overarching dimensions of sensemaking and power/influence. I begin by summarizing the significant events in the narrative.

First, an examination of the narrative progression, as well as the codes and categories, reveals a pervasive use of symbols and metaphors in the board's attempts to
make sense of their experience. "Market niche" quickly became the overarching visionary symbol and "survival management" soon became the dominant operational symbol. "Strategic planning" emerged as an ambiguous, ill-defined, but nonetheless guiding metaphor in this context (i.e., in a smaller enterprise that, unlike most large businesses, had not previously employed this specific concept). An array of supporting metaphors and other rich language infused every phase and aspect of the board's attempts at framing, defining, interpreting, and acting upon issues. In addition to the many considerations of symbolic actions involving the board, the symbolic implications of not taking some apparently logical actions also played a significant role, mainly as a way of avoiding countervailing influence.

Secondly, an examination of the first-order narrative and the attendant analytical codes also showed that various forms of influence permeated the experience of the board. Indeed, it became evident from these analyses that both the understanding of influence and consideration of its use were rooted mainly in symbolic expression. For example the influence of the CEO was manifested in an explicit fashion via his metaphorical framing of the board's charge and his interjection in the governance process; it was manifested implicitly in his preemptive public statements to the bank and employees that limited the board's possible actions and co-opted them as an influential symbol of change. Other important forms of influence emerged in the board's awareness of and careful attendance to the existing power structure, expressed in terms of a range of evocative conflict metaphors and symbols. The board's own attempts to act as influencing agents were accomplished in several ways: by adopting
a surrogate role aligning them with the powers-that-be; by disguising the genuine power of the bank to allay the fears of other wary powerholders; and by using potent rhetorical devices as their primary means for influencing stakeholders to accept their recommendations and to institutionalize an orientation toward strategic change.

Taken together, the many symbols and metaphors played a central role not only in the board's attempt to make sense of their experience by socially constructing their identity and purpose while dealing with external influence attempts (which characterized the early phases), but also in their attempts to construct ways to avoid resistance, legitimize themselves, and exert lasting influence on the thinking of other stakeholders (which characterized the later phases). These observations suggest another dimension to the analysis that becomes evident from the second-order level: There were subtle, but important, transitions in the directionality of the sensemaking and influence attempts over the interpretation, definition, legitimation, and institutionalization phases of the board's life cycle. In the early, developmental stages, attention was focused on what might be called internal sensemaking; in the latter stages attention was focused on what could be called external sensemaking in that they were trying to affect the understanding and actions of crucial external actors (a process termed sensegiving by Gioia and Chittipeddi 1991).

The major findings of the second-order analysis are shown in Exhibit 2, which includes the main dimensions of sensemaking and influence in terms of the guiding symbols and metaphors uses, as well as the directionality of these dominant processes.
Toward the Board

Sensemaking efforts

Directed at board

Interpretation

<table>
<thead>
<tr>
<th>Interpretation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implicit &amp; explicit attempts by C.E.O. &amp; key stakeholders to impose sense making and influence on the board.</td>
<td>Board becomes conduct for sense making attempt by C.E.O. to influence stakeholders.</td>
</tr>
</tbody>
</table>

Guiding Symbols & Metaphors

- "Best Practices goal"
- "Strategic planning"

Legitimation

<table>
<thead>
<tr>
<th>Legitimation</th>
<th>Institutionalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board becomes surrogate of C.E.O to influence the sense making of stakeholders.</td>
<td>The board &amp; top management align to institutionalize strategic change processes.</td>
</tr>
</tbody>
</table>

Guiding Symbols & Metaphors

- "Political warfare"
- "Natural cascade"

Institutionalization

<table>
<thead>
<tr>
<th>Institutionalization</th>
<th>Guiding Symbols &amp; Metaphors</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Institutionalizing strategic thinking&quot;</td>
<td>&quot;Institutionalizing strategic thinking&quot;</td>
</tr>
<tr>
<td>&quot;Strategic planning document / machinery&quot;</td>
<td>&quot;Strategic planning document / machinery&quot;</td>
</tr>
</tbody>
</table>

Exhibit 2

□ — Board

〇 — Top Management

△ — Key Stakeholders

i — Influence

Sm — Sense making

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This depiction is grounded in the data in that it represents an integration of the major findings presented in the preceding narrative, but takes a more theoretical perspective on events. It portrays not only the major players in the strategic change initiation process (top management, the board, and key stakeholders), but also the manner in which sensemaking and influence evolved and were directed over the new board's first year of existence. To this point I have treated the sensemaking and influence findings as distinct, although it is evident from both the first-order narrative findings and the second-order analysis that they indeed converge across all stages of the board's first year of life.

Interpretations

Studies concerning deliberate strategic change typically have investigated the impact of various demographic and economic factors on different aspects of change. Although these studies have established statistically significant relationships among key change-related variables (e.g., senior management, structure, and effectiveness), they have not provided fundamental descriptions or explanations about how such dramatic changes are accomplished (Greiner and Bhambri 1989). The dynamics of the governance process and corporate restructuring in the emerging corporation have not been well studied. Understanding this initial period in corporate growth is a relatively new and problematic concept.

The focus on these aspects of strategic change suggests a notably different view of the process itself: Strategic change can be understood not only as a change in the
position and fit of an organization in its environment, but perhaps more fundamentally as a change in the cognitive perspective represented by a new strategy. Strategy as cognitive perspective (Ginsberg, 1988, Mintzberg 1987) emphasizes the set of assumptions through which the problems and issues of the organization are identified and interpreted by top managers and key stakeholders (Hedberg and Jonsson 1978).

The alteration of this "conceptual lens" represents a fundamental shift in the organization's belief structure, value system, and identity (Bartunek 1984, Dutton and Dukerich 1991, Gioia and Chittipeddi 1991, Walsh 1988). Indeed, reorienting strategic systems, structures, and commitments requires efforts to legitimize not only the new social order represented by the change (Zucker 1987), but also how the legitimization process itself will occur (Scott 1991).

Efforts to stabilize a social system influx from the systemic upheaval represented by strategic change can be understood as the symbolic interplay of sensemaking and power/influence. These processes emerged in the attempt to develop a consensual redefinition of social reality on the face of an induced discontinuity in the existing perspective of the corporation and its stakeholders. In the process of trying to develop a strategy for instigating strategic change (a "meta-strategy") (Allaire and Firsotu 1984), the board members had to make sense of their situation for themselves and others, while simultaneously acting as both influenced and influencing actors. In the midst of the uncertainty, ambiguity, and political tension that marked these attempts, key metaphors and symbols emerged that simultaneously heralded, represented, and facilitated the change. Indeed, symbols and metaphors
dominated the experience of the board as it progressed through the interpretation, definition, legitimation, and institutionalization phases of its life cycle.

Key symbols and metaphors were central to the construction of meaning and the communication of understanding, and also acted as an impetus for influence and action. Symbols became the primary means by which participants grounded their perceptions and articulated their preferences concerning many aspects of strategic change. Specifically, symbolism became the language for understanding change, while the interplay of sensemaking and influence captured the specific actions associated with attempts to redefine and legitimize the new social reality.

The board was the means for executing what might more accurately be termed a reinstitutionalization process surrounding the strategic change effort, reinstitutionalization implies an accepted reorientation in the dominant belief structure of the organization. In the broader view, this process of attempted reinstitutionalization involved both substantive action and expressive representation for its accomplishment. Yet, it is clear from the findings that both action and expression took symbolic forms at various times. Pfeffer (1981a), Edelman (1964) and others have implied that the role of management can be divided into more-or-less separate "substantive" and "expressive" functions. Symbolism is usually cast only as a medium of expression, thus suggesting that the symbolic aspects of management have little to do with instrumental action.

This study has revealed not only the pervasiveness of symbolism in the initiation and acceptance of strategic change, but also that symbols are one of the main
means by which management accomplishes substantive action. Thus, the two functions appear more symbiotically related than previous portrayals have cast them. The instrumental aspects of management are often symbolically communicated, and the symbolic aspects are often instrumental to action.

Symbols central to the case took several forms in addition to those already noted. In particular two manifest forms, symbolic action and symbolic non-action, played major roles. Actions, such as the specification of strategic business units and target market niches, carried significant symbolism, both within the board and to external targets of intended influence. Less obvious, but also of importance, was the symbolically significant avoidance of certain actions, often to circumvent probable countervailing influence by others (Dutton and Dukerich 1991). This concern with studied non-action by the board members revealed a phenomenon that had an anticipatory character about it: the conscious and intentional consideration of the probable future impact of certain actions, and especially non-actions, on the meaning construction processes of themselves and others. I have come to label this process as "prospective sensemaking," mainly in recognition of its future-oriented focus. Prospective sensemaking was a frequent influence on the consensual understandings reached and decisions made by the boards. Their repeated attempts to infer the future consequences of proposed actions as a way of understanding their present situation moved the board members to be both proactive and prospective information seekers (Louis 1980).

Symbols were also influential in suggesting changes in structural arrangements.
without implying loss of image or status for those affected by the change, a point noted by Trice and Beyer (1984). The effective use of symbols is essential for organizations that are susceptible to environmental changes. In the case of the Softalk board, its recommendation to designate "strategic business units" was based mainly on the need to insure organizational flexibility for change without provoking the engineering department by signaling that their traditional power was being diluted. This finding affirms Pondy's observation that, "In organizing, the use of metaphor simultaneously facilitates change and reinforces traditional values" (1983: 164). In my terms, symbols facilitate change because they simultaneously reveal and conceal important features of change.

The often blurred distinction between sensemaking and power/influence processes found in this study suggests that they were interdependent and reciprocal processes during the launching of strategic change. (Indeed, over 40% of the passages in the transcripts that were coded as sensemaking coincided with those coded as power/influence). Thus, the usual conceptualization of sensemaking and power/influence as separate processes disguises their interrelationship.

Sensemaking and power/influence, however, varied in terms of their source and directionality over the life of the study. For example, as the board evolved from the early to mature phases, it moved from being the conduit (Axley 1984) for sensemaking and power/influence for key stakeholders. Overall, sensemaking and influence efforts were directed primarily inward toward the board during the interpretation and definition stages and mainly outward from the board during the legitimation and
institutionalization stages. That is, in the early stages the critical issue for the board members was how to interpret the alternative change processes and concepts they confronted. Their sensemaking efforts were susceptible to the influence of external actors (especially the CEO and other top managers who were perceived by board members to be engaged in "political" behavior). Over time, they shifted to constructing means to influence the sensemaking processes of others (Gioia and Chittipeddi 1991, Whetten 1984).

These findings suggest that strategic change efforts instigated by new leadership (in this case, a new CEO) might effectively begin with attempts to legitimize a structural component of the organization to convey to stakeholders that the message and process of change is being institutionalized. Indeed, the new board became a key symbol of the change process. The existence, size, composition, and charge of the board were symbolic indicators to the banking and investment community of the commitment to strategic change (see Feldman and March 1981).

In the case of Softalk, symbolic actions were taken to disguise an intended second-order change and make it appear as a less threatening first-order change (Bartunek 1984). The affirmation of existing structures in the form of strategic business units, while simultaneously embodying the potential for radical change, was an instantiation of the power of symbolic action both to emphasize the comforting features of a change while de-emphasizing the threatening features. This influencing feature of symbols converges with Lukes' (1974) view of influence as the ability to prevent conflict by affecting perceptions, cognition, and preferences of recalcitrant
parties. It also constitutes a manifestation of Pfeffer's (1981b) argument that influence is concealed in the ability to affect decision premises.

In summation, the major inferences of this study would include the following observations: (1) Symbols are not only an expressive medium, as most existing portrayals imply, but also a medium for substantive action. (Symbolism, therefore, not only captures the thoughts and feelings of organization members, but is action- and outcome-oriented as well); (2) Symbols are a medium for both sensemaking and power/influence and these two key processes are inextricably intertwined; (3) Symbolic processes associated with the instigation of change involve evolutionary shifts in directionality; (4) Symbolic processes simultaneously occur at multiple levels of understanding; and finally, (5) Symbolic non-action can be important to change initiation. (Not doing something can be as symbolic and substantive a harbinger as overt action.)
BIBLIOGRAPHY


69

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