Shuffling and reshuffling the organizational deck to deal a better hand for the company has always been a fact of life for American business. But today companies are changing their shape more frequently and more dramatically. In an effort to increase the value generated by their activities, they are reducing costs by becoming leaner, changing the business mix to gain greater focus, discontinuing or contracting out activities unrelated to their core competence, and more flexibly moving into and out of businesses.

By early 1988, the dollar volume of transactions involving the buying and selling of corporate assets was already twice the rate of 1987, and experts foresaw a new corporate-led, not raider-led, merger boom. Inside companies, "downsizing" (cutting employment), "de-massing" (eliminating middle management positions), and decentralizing corporate staff functions are among the tactics used by companies eager to be "seeking and destroying wealth dissipators," as a consulting firm put it.
For many companies, this involves a complex of changes rather than a single one, and restructuring is a continuing process, almost a corporate fitness regimen. An executive at a revitalized manufacturing firm summarized that company’s experience this way:

It seemed that we were changing at a pretty fast pace a few years ago, but that period pales in comparison with the present. One major effort, almost revolutionary in its proportions, is completely redesigning our compensation system to modify the relationship between fixed and variable income and giving employees a significant ownership position in the enterprise. Beginning with the merger and acquisition activity which started it all, then the name change—a significant, emotionally-charged event—through the recapitalization and now the shift to a holding company form with new leadership, we have reexamined and continue to reexamine most of the fundamental premises underlying the business.

Restructuring has an entrepreneurial thrust for companies trying to win in the global Olympics. An emphasis on innovation creates new opportunities, which in turn require a new organizational shape. The deal-making emphasis, the development of partnerships, brings with it the need for new structures to handle the new relationships. The flexibility to move into and out of ventures, reflected in part in the current wave of acquisitions, mergers, and divestitures, leads to major organizational changes. In short, while some restructuring is purely defensive—cost-cutting in response to market downturns, shedding assets in response to takeover threats—most involves not simply reducing and not simply asset-shuffling but something more: an effort to find the form that will permit doing more with less. Spending less but creating more value. Focus without fat.

The point of the current corporate shape-up boom is to achieve synergies—the value that comes when the whole adds up to more than the sum of the parts. Clearly, if the parts taken separately are worth more than the parts taken together, the raiders have a point in insisting that such companies be broken up. But synergies are notoriously difficult to achieve, even with smart acquisitions and a sound mix of activities. The track record for acquisitions is mixed; immediate financial benefits to the acquiring firm are hard to achieve. And the costs of restructuring may even reduce performance.

Thus, the first challenge facing businesses as they seek the shapes and forms for value creation is retaining the value inherent in the pre-existing pieces, avoiding the perils and pitfalls that actually subtract value and make the whole worth less than the sum of its parts.

Whether reorganizations occur because of internal drives to increase effectiveness or because of mergers and acquisitions, whether acquisitions are in related or unrelated businesses, whether the company is adding activities or divesting them, the management task is similar: to manage the process so that value is at least retained. That provides the minimum foundation on which real synergies—value added and multiplied—can be built. Three typical examples from companies I worked with illustrate how diverse strategic intentions may result in a similar organizational task:

- As part of the effort of a major company in a mature manufacturing industry to diversify into growth sectors, a new group was formed from a potpourri of acquisitions, bought from both large companies (which themselves had acquired those pieces within the last ten years) and entrepreneurs who had built promising smaller companies. In corporate strategy jargon, many of the pieces were "cats and dogs" to their former parents, rather than "stars." The new group’s executives, from the largest acquisition, faced the challenge of pulling the pieces together to meet ambitious five-year growth goals to provide a sufficient return on the purchase price. Step one was consolidation, and consolidation meant closing plants and cutting staff while investing enough in new products to be a strong presence in the marketplace.

- An aggressive consumer-oriented service business in a growing industry bought two major companies over a six-month period, almost quadrupling its size. The purchases turned out to be more costly than expected, and the acquisitions had more financial problems than were known in advance. Paying for the purchases meant integrating a number of functions to get economies of scale and letting go large numbers of managers and professionals. For the first two years, the managerial focus was almost exclusively devoted to consolidating operations, growing profits by reducing costs.

- A machinery producer facing declining markets had been through several rounds of layoffs and cutbacks, which was not enough to turn around its traditional business. Still, there was optimism because of solid performance in a second major business, and the company launched a future-oriented campaign to rally employees behind a culture of quality and innovation. Three months later, the company announced the sale of its core business to a competitor in order to
concentrate on the other business. An eighteen-month transition began that would result in a newly named company with half the revenues and less than half as many employees, because most of the corporate staffs would now be unnecessary. After so many promises of "no more layoffs," how could the company get through still one more bloodletting while strengthening the remaining business?

Each of these restructurings was plausible from a strategic standpoint—more value could be created through the reconfigured organizations. The first made business sense because the company had to diversify to survive, acquisition was the quickest route into a desirable new industry, and the combination of smaller companies could gain strength in unity. The second made business sense because of the great growth potential in the industry and the excellent fit between the companies. The third made business sense because the divested core business would be better off as part of a larger merged entity, and the remaining company would be leaner and more focused.

But strategic rationality was not the issue for the people who had to work with the new pieces or for the people displaced by the changes. For them, the first task was simply to retain the value that already existed in the organization, as the foundation for creation of new value in the future.

In situations like these, top management typically overestimates the degree of cooperation it will get and underestimates the integration costs. Two executives said about the restructuring process in an instruments company:

It was a friendly acquisition. At least, I thought it was. I found out later we didn't have as many friends as we thought we did. [CEO]

We underestimated the problems of bringing the businesses together in one major market, of a successful introduction of [the other company's] products in our market, and of getting each company's sales force to sell the other's products. [group vice-president]

Middle managers, for their part, said that lack of commitment was the problem:

We've been bought and sold and consolidated before. People don't believe anything issued that says "management." We all come from companies that made a commitment for the future. [division general manager]

Why should anyone care if this becomes a great company? [president of acquired subsidiary]

What are the rewards, the incentives for doing this? There's no training and development, no career promises. Taking a risk, making a suggestion, starting a new project—that could be a career-limiting move. [division controller]

I come from an organization that said, "We're committed to you," while unbeknownst to me, they were putting us up for sale. Now here we are. [division vice-president]

Should we write the list of our locations in pencil? [division manager]

Numerous studies have shown that acquisitions do not generally improve the financial performance of acquiring firms in the short run. One study, covering 103 active acquirers from 1965 to 1979, showed that, on the average, the firms deteriorated in competitive position within their industries, and the extent of deterioration was associated with the number of acquisitions (but not with the degree to which acquisitions were related to the core business). Explanations for the failures of synergy include: resistance by managers of acquired businesses to the consolidation of activities; reduced motivation after the acquisition; expenditure of energy on acquisitions leading to neglect of the pre-existing businesses; and too much acquisition activity overloading the management systems. In short, the way the acquisitions process is implemented makes a difference.

Robert Tomasko makes a similar point with respect to downsizing—that attention to the process of change is critical to retaining instead of losing value: "The slash-and-burn approach to streamlining may produce significant overhead reductions in the near term. And a combination of fear and adrenaline might even keep the survivors on a common course for a while." But Tomasko argues that sustainable downsizing that will result in a well-functioning organization is a different matter, requiring more leadership attention than a one-time cost-saving through layoffs.
Among the many by-products of significant organizational restructuring are discontinuity, disorder, and distraction. There are gaps between what was once appropriate and what will now be appropriate—until the next change. There is uncertainty about what should be done and the standards to apply. And restructuring produces distractions in the organization; it diverts people’s attention from the critical focus. At the same time, leaders may be less available to counter these three dangerous D’s. Managers have important immediate tasks to perform and decisions to make. They are called away for meetings, they are engaged in secret deliberations. They are so swamped by urgent content priorities (decisions about what to do) that they simply do not have time or attention for process matters (observation of how things are going).

If mismanaged, restructuring can all too easily make people feel helpless, anxious, startled, embarrassed, dumb, overworked, cynical, hostile, or hurt. Restructuring thus produces a window of vulnerability, a time when exposure to disease is increased at precisely the same time as the corporate body is temporarily weakened. This threatens not only current productivity, but also the foundation for the future, the organization’s credibility, culminating in a crisis of commitment and a need for people to reaffirm their membership. Every time the basis of the relationship of employee and company changes, a recommitment is necessary. It is especially ironic that more commitment is needed at the very time when the basis for commitment itself is temporarily weakened.

THREATS TO CURRENT PRODUCTIVITY

Restructurings can provide a long catalogue of threats to value retention.

The costs of confusion. People can’t find things, they don’t know their own telephone extensions, and the letterhead hasn’t arrived.

Misinformation. Communication is haphazard. Some managers do a better job than others of keeping their people informed. Rumors are created and take on a life of their own, especially when it is not clear who has the “right” information. Some of the rumors are potentially destructive.

Emotional leakage. Managers are so focused on the tasks to be done and decisions to be made that they neglect or ignore the emotional reactions engendered by the change. But the reactions leak out anyway, sometimes in unusual behavior.

Loss of energy. Any change consumes emotional energy—especially if the restructuring is perceived negatively. People become preoccupied with the current situation. They feel guilt about the people who are losing something. The mood becomes somber, morale sinks, and it is hard to maintain the usual pace of work. For example:

It’s very hard to work when you have no idea what will happen next. “Final” changes are replaced by new ones every other week. So even when you’re told you survived a “final” round of cuts, you know you can still get another turn next month. No one can really know what’s coming down at his level until they settle who’s where on the top floors. Right now it’s so chaotic you can be demoted if you stay on, but also called disloyal if you go for the exit package. Most of the people leaving looked relaxed, like now they can stop worrying about what’s happening here. The ones who can’t get out or want to stay anyway are the most nervous and upset.²

Interviews Paul Hirsch conducted indicate that feelings of anxiety, uncertainty—even being terrified—persist three years after restructuring, even for a group with high productivity not directly affected by downsizing. Sometimes the effects are bizarre. Some people come to work in an almost catatonic state, starting no new programs; others who have been let go continue to come in to the office.

Loss of key resources. Some companies handle consolidations in bureaucratic rather than human ways, by establishing uniform policies administered uniformly, to be “fair” to everyone and to avoid difficult or time-consuming decisions. But across-the-board cuts mean that inevitably some very good people are lost who could serve the company in other roles.

Also, attention to the immediate and acute, to the cutting and reshaping and moving, leads to a rush to take care of the people being displaced and neglect of the people being kept, the people on whom the future depends. Even the most people-conscious organizations often focus on their cutting decisions and on services such as outplacement for those let go, and not on the positive decision about whom to keep. Under those circumstances, some people whom the organization would have liked to keep will decide to leave.
Breakdown of initiative. Because of the uncertainty and the clear message that top management is redefining its mandates through restructuring, people below become passive and wait to be told what to do. Initiative and spirit are lost. Production of ideas declines, because people say, "Why bother? It's out of our hands. Everything might change again."

Weakened faith in leaders’ ability to deliver, and the need for scapegoats. Management can lose credibility because of the shock of a restructuring crisis or the apparent "lurches" in the business strategy. These may represent shortfalls of leadership. The ghosts of false reassurances can come back to haunt leaders. Implicit problems made now seem to be broken.

During restructuring, it is difficult enough to retain the value that exists, let alone rally people behind the quest for improvements in performance. The further removed people are from the leadership ranks, the greater their cynicism. "Management is more gullible than the troops," one manager who had been through several acquisitions told me. "Managers will line up behind any banner."

Rents in the Social Fabric: Power Differences Made Visible
All the anxieties and uncertainties of the transition process can pale in comparison with another, more permanent by-product of restructuring: awareness of the realities of limits to individual power. Restructuring threatens to disempower large numbers of people, illuminating and enhancing the power of "commanders" and making other people feel more dependent and less valued in the process.

Some restructurings divide people into conquerors and vanquished. When one group clearly "takes over" another group in a merger or internal restructuring, the conqueror inevitably parades its power in front of the others: "After all, wasn't our ability to buy you a sign of our superiority?" Imagine hearing an executive tell managers from an acquired company that "You are frogs we will teach to be princes." Or imagine watching the acquiring company dismantle the other company's boardroom, taking the best furniture and silver to outfit its own headquarters. Both of these real examples may be extreme, but the same feeling of being "colonized" like a defeated country exists in many groups that are merged with a more dominant entity. Sometimes the "colony" has expertise that the "conqueror" should use, but the power dynamics preclude this. As analysts put it, "The parents' desire to help the new subsidiary and their confidence about their own capabilities often lead to a misapplication of management systems which reduces the chances for the acquisition's ultimate success as a subunit of the parent firm."

The acquisition of different parts of the Ziff-Davis publishing organization by both CBS and Rupert Murdoch provides an interesting contrast with respect to this issue. As Forbes magazine argued, "Rupert Murdoch did a better job with the Ziff-Davis publications that he bought than CBS did, because he runs such a lean operation that couldn't impose a bureaucracy on top of another, 'proving smart enough not to tamper with the hands-off management style their editors and publishers had grown used to.' . . . At CBS, by contrast, executives attempted to superimpose a corporocracy culture." Arrogance and organizational chauvinism on the "conqueror's" part lead to defensiveness and concern on the other side. People sense a loss of power to determine their own fate. When Chevron took over Gulf Oil, Gulf people found Chevron leaner, more centrally run, and more clannish, leading to widespread fears that they would lose autonomy and find Chevron blocking promotions for Gulf people. At the same time, managers in the conquering unit express impatience that they cannot go even further in using their power. In a consumer products company which I advised after it acquired a group of small-volume products, a manager told me that her company was going too far in trying to empower the group they bought. "Looking for ways for them [the acquired company] to be of help to our organization isn't a good use of time." Worried that so many small products would diffuse management attention, she concluded: "We bent over backwards to make them feel welcome. We should have just said this is the way it is . . . I'm sick of apologizing for our differences. I've heard a lot of bitching about our rules. Well, I think we've been too nice."

"This is the way it is." Restructuring makes clear the realities of power. This is particularly difficult for pure entrepreneurial companies. Many young organizations are designed to be empowering—to provide the information, resources, and support for people to speak up and to initiate action, with a minimum of distinctions between categories of people. Of course, every time someone innovates, someone else is made the responder, but on everyday matters, there's a rough reciprocity. Still, despite this participative atmosphere, power
differences exist. When all is said and done, some of the most important life-shaping and work-shaping decisions are made by just a handful of people. Everyone else is on the receiving end.

In traditional corporations, this is well understood. But in younger, smaller companies, even ones with a strong leader, there is a tacit agreement to pretend that the differences between people have nothing to do with power—to pretend, for example, that the leader’s strength derives from superior qualifications, not from power over the fates of people. Power is easier to forget, for the day-to-day absence of constraints masks the ultimate realities of power. The mandate to take responsibility, the pretense of equality because of the absence of visible status markers, and the frequency of open and honest dialogues across levels make it easy for some people to ignore power differences.

But then major change makes the realization hit. Those in control of restructuring decisions have much more power than others, even managers with a great deal of local autonomy. A man whose company was undergoing drastic restructuring told me, “Despite my modest ownership share and strategic centrality and voice in decisions, I can still be faced with a shift in direction not of my own making. I can still be reviewed out of my special project budget.”

At one computer company, layoffs—the first the company had faced—killed forever the fantasies some people held about the company. The period of innocence was over—and none too soon, other people thought. The layoffs came unexpectedly, followed by a boardroom coup and a reorganization. There was a brief moment of wondering whom the board would back when the CEO wanted to fire a key executive with strong personal backing on the board, but soon the answer was clear. It was not the CEO’s company. The reorganization confirmed it. This new reality, with power out in the open, was hard to swallow for some of the managers I spoke to. Even though the other executive had been, in their view, more domineering and whimsical than the CEO, and the CEO was a better listener, the myths of life “before” had made these managers feel they could do anything, take the company anywhere.

Restructuring, in short, increases the likelihood of unilateral managerial action, which is exercised on everything all at once and further disempowers the rest of the people. Of course, because of all the disruptions, it is more important at times of restructuring than during normal times to make clear that someone is in charge. But some managers interpret this need as the need to take drastic steps and make dramatic decisions quickly. They feel that there is no time to explore options or consider ideas from the troops. So people are reminded of their marginal status; signals tell them their positions are vulnerable. Perhaps the press gets announcements and briefings regularly and items run in the media before employees hear about them. Middle managers look dumb and uninformed. Employees feel left out. No one looks or feels good. For example, morale plummeted during one General Foods cutback because insiders heard about the changes from outsiders (consultants or stockbrokers)—sometimes incorrectly. In situations like this, values regarding participation, involvement, or concern for people seem to fly out the window as luxuries of good times. Inevitably, cynicism about the “culture” grows along with distrust of leaders.

Thus, overzealous or misdirected attempts to “solve” restructuring problems can easily exacerbate them, turning relatively minor irritations into genuine and enduring crises for the organization—the struggle to retain value turning into actual loss, into value subtracted.

VALUE SUBTRACTED: THE DANGERS OF THE “MEAN” WITH THE “LEAN”

Turning “lean and mean” is one way American managers have expressed restructuring goals of cutting out the fat and getting in competitive shape by finding the proper mix of businesses. The rhyme is cute, but the sentiment it expresses can be pernicious. The first requirement in finding synergies is to remove the barriers to successful restructuring, and hostile internal competition is foremost among them.

I saw this issue nearly destroy a company when I observed the misfortunes of a high-flying financial services firm I’ll call “Fast-buck.” The company had enjoyed rapid growth and seemed positioned well to take advantage of deregulation. Then trouble struck when a new business was acquired. At least in retrospect the acquisition was the problem; at the time many observers said that the strategy was a smart one, a perfect fit, a great way to get synergies. The new business was to be a form of balance and a hedge against downturns in the core business, as well as a source of new service packages that would boost both businesses.

The difficulty was not in the strategy but in its execution. The two
businesses were almost immediately set up to compete for resources and the attention of the CEO, and the two business heads were told to fight for the big prize—the CEO's job. One business would be swallowing the other when it became clear where the fortunes of the company lay.

The CEO, known around Fastbuck as a "gunslinger" type who liked "shooting from the hip," thought this made the most business sense. He wanted to push both groups to do their utmost, and he knew no other way. So each business had a totally separate organization, and nothing was done to create ties between the people in each. It was thought to be healthier to allow each to push its point of view and argue for its own needs, even in the same market. There was no shared past to provide a basis for relationships anyway. The new business brought newcomers with it—a staff with little knowledge or experience of the original business. Moreover, the key executives of the new business were attracted by subtle promises that they were the future of Fastbuck and that soon they would be running the whole thing. Naturally enough, they made their understanding clear to anyone who would listen. Their behavior was arrogant, and their attitude toward their peers in the original business was patronizing.

The organizational competition was matched by the strong rivalry between the heads of the two businesses, whom I'll call Fred and George. In fact, the old business/new business competition was often personalized as a battle between Fred and George. At management events, everyone watched to see how the CEO treated each, who got more time and attention, whose hand showed most strongly in the agenda, whose interests were best served by policy announcements.

The CEO was clearly attracted by the glamour of new business, a higher-risk gamble that appealed to his sense of daring. Besides, he could take the old business for granted; its revenues were assured and predictable. Furthermore, he still felt he had to court the new executives in order to keep them, as he could not count on their loyalty as he could count on that of Fred and Fred's people, most of whom had grown up with the company. Consequently, when people read the cues, they thought all signs pointed to George and his business as the clear winner.

Fred, too, read the signs (he thought), so he stopped arguing for the needs of his business. He became passive and took it as inevitable that he would soon be reporting to George anyway, because the CEO, from whom he was accustomed to taking direction, had said nothing to the contrary. Fred started avoiding his boss, confining contact to the minimum necessary.

George, in contrast, became even more feisty, outspoken, and aggressive. Promoting the virtues of coming from outside, he called himself the voice of the future, the iconoclast who had to overcome the limitations of tradition—and thus did not need to know much about the original business. He lobbied everywhere for his conviction that the new business was clearly the only bet for Fastbuck's future—so much so that the original business should be gradually dismantled or turned into a mere service center for the new one. He took every opportunity to push himself or his people. He approached the CEO often with suggestions and recommendations. Soon he appeared to have the ear, and the total confidence, of the CEO and the board.

There was just one niggling fly in the ointment. Who was winning the internal competition had little to do with who was better positioned to help the company win in the global marketplace. Fred's business, the traditional business, was still responsible for 90 percent of the company's revenues and all of its profits, and it was expanding to more overseas locations. The original business was the cash generator and the new one was the cash consumer, since it was still in a start-up mode with heavy investment requirements. So the idea of the new business as company savior and company future was still pie-in-the-sky, an unproven proposition. If George's business "won," what would happen to the company's only reliable source of revenue?

That was the real problem. The original business was in danger of collapsing as a result of the internal competition. Fred's unit was starved for capital. Because Fred did not fight back in public or combat George's aggressiveness with countermeasures (Fred claims he was too busy running his business), his managers assumed that their business was indeed being phased out. Faced with a perception of themselves as the losers, they too dropped out. They stopped planning for the future and became passive in their own operations, taking care of immediate issues as a holding action but not taking the steps to ensure that the original business would continue to flourish. Feeling demoralized, as losers generally do, they retreated into a hostile defensiveness, blaming every glitch in business results on someone else. Many key managers began dusting off their résumés to look for other jobs, working only halfheartedly. And, what was even worse from a performance standpoint, they assumed that they would soon be reporting to George, so they let him and his lieutenants begin to dictate
terms. They gave in (albeit reluctantly and resentfully) when their peers in the new business made demands on their own resources, which only weakened the core business further.

Soon revenues in the original business were declining, and earnings were on the wrong side of flat. This was a troubled company, financially as well as organizationally.

A self-reinforcing cycle was in motion. The original business was being pummeled and bled by the new business warriors. But as things got worse for the old business, George used this as still more ammunition for his argument that he (and his business) should take over the whole thing.

George was sure he was winning, but that’s not how things turned out. Within six months of the time that subtle competition turned into open warfare, Fastbuck hit a major financial crisis. Because both revenues and profits were down, the stock price plummeted, and 20 percent of the employees were laid off. The CEO had to do something dramatic to rescue the company, and it was clear that the present organization was a source of problems, not solutions. So both George and Fred were fired, and the company was reorganized to integrate the two lines of business into a single market-facing entity. An executive was brought home from an overseas assignment to head this newly created entity, because he was seen as above the fray, untainted by the competition. Another half year after that, pieces of the new business were sold as the CEO decided to concentrate on the original business. But now Fastbuck was weaker and created less value than it had before.

It was a clear case of the limits of a style of management favored by “gunslingers”—“management in the OK Corral.”

The Problems of Cowboys as Managers

In the stampede to restructure, to become “lean and mean,” is American business in danger of uncritically embracing “cowboy management”? Some companies believe in that romanticized picture of the virtues of rugged individualism and unbridled competition. The cowboy is viewed as the ultimate entrepreneur and the frontier metaphor is invoked frequently at those companies. Consider these comments to an interviewer by a veteran of a technology-based company:

It’s like an old Western movie where the [field manager] is the sheep herder and the [headquarters] guys are the cattle ranchers. Everything was sort of peaceful until [headquarters] wanted some fences put up for the cows while [the field manager] wanted the whole prairie for his sheep to graze. Someone had to move or there was going to be a shoot-out.10

Cowboy management makes heroes out of shootovers who fire before aiming. In the every-man-for-himself world of cowboy management (the male designation applies), rules are there to be broken by daring frontierspeople who do not hesitate to bookleg funds if they feel they know better than the sissy city folks at headquarters. What a cowboy manager likes best is being alone out there in the wilderness with a few steady pals, no constraints (like government regulations, family obligations, or corporate reporting), and a few foreign savages to fight.

Of course, it is dangerous out there. Masked raiders are ready to commit hostile takeovers against the unwary, and great natural disasters like restructurings threaten to eliminate jobs. So law and order is maintained in the tough, survival-of-the-fittest style of the frontier: through performance shootouts at high noon, in which the best gunslinger emerges victorious. Cowboy managers seem to like the sight of blood, so they deliberately set up groups inside their companies to slug it out in structured competitions. Or they pit new hires against each other in life-or-death struggles—like the head of an electronics firm who told his latest batch of recruits, “Only half of you will be here in two years.”

Cowboy mythology holds that corporate citizens are supposed to enjoy combat, and they are supposed to be tough enough to take it. It glorifies the rough-and-tumble fight-it-out style. Cooperation, in turn, is seen as “soft,” as something for “sissies,” or as something imposed by “certified” bureaucrats. “Tough” management styles are regularly glamorized in the press, as in Fortune magazine’s listing of the “ten toughest bosses in America.”

Such ideas lurked behind the new business/old business competition in the case of Fastbuck, the financial services firm. The “gunslinger” chief executive thought that anything else was a sign of weakness. He thought that being impulsive—shooting from the hip—was a sign of how smart he was, and he expected similar behavior from his managers. He had made it to the top by besting external competitors, and he felt that everyone thrived on competition—even when people were supposedly on the same team.

A more Machiavellian purpose also drives in-house competition,
using competition to gain short-term political advantages. Such advantages accrue especially to the overseer of the battles. For the boss who defines the competition and chooses the winners, power is temporarily enhanced. He can use the competition to keep people off balance, to keep them scrambling to curry favor with him, to watch them expend energy weakening each other while he remains fresh.

Finally, in-house competition can be the unintended result of other management practices. The new chief operating officer in a Midwestern manufacturing firm was minted in one of those companies known for its reigns of terror, managed by large doses of public humiliation. When the operating results of each of his divisions were discussed in executive committee meetings, he badgered and needled those with poor results until they felt thoroughly embarrassed in front of their peers and unable to defend themselves adequately even when there were good business reasons for the numbers. At first this behavior created a kind of perverse peer solidarity among the division heads. I passed by a set of them one day as they were waiting to go into the boss's office for individual reviews of their strategic plans. They were comparing notes about who "got it" last time, how the first-person's review had gone, and what they might do to avoid getting hit. But still, it was possible to detect a secret joy for some of them in seeing the punishment heaped on someone else. Soon the desire to deflect punishment led to whisper campaigns by the more ambitious against their peers, leaking tidbits about the performance of other divisions to the boss.

From Shootouts to Rodeos: Varieties of Cowboy Competition

Cowboy competition can come in many guises. For a number of different reasons, often tied to restructuring, groups are put into direct competition, their fate determined by how well they do relative to an internal rival. For example:

The parallel start-up. In this situation the company already has a successful line of business in a particular market, but it adds a competing product line in-house to make sure the market is adequately covered. In one such case, the chief executive of a multidivisional consumer products firm was dissatisfied with the performance of a major division. So he authorized the ambitious general manager of another division to develop a competing line of products. One way it could gain market share was by reducing the share of the existing business.

Desperately Seeking Synergies

The "replacement" business. In one example, a high-tech company had grown rapidly on the strength of one major product line, and its founder-chairman was eager to see a new family of products developed that would be an even more spectacular success. A division was set up to develop, manufacture, and market the new line, with his personal blessing and clear personal interest. The new division quickly saw its mission as replacing the old product—even though they would occupy very different market niches, and the company would have need for both. There was a similar situation in an energy firm that acquired a new business to cover downturns in the market for its core business. Because of the way the acquisition was introduced and managed, its leaders (inaccurately) saw themselves and their business substituting for the traditional business, with the old one to be reshaped into a service center for the new one.

Creeping market boundaries. A classic example of this was found in General Motors before its 1983 reorganization. The five car divisions were originally oriented toward different price segments of the market, but over time the offerings of each gradually expanded to overlap with those of the other divisions until the range was virtually indistinguishable and the market image of each blurred. In another case, in a publishing company a reorganization to integrate some acquisitions left a major area of market overlap among three divisions that otherwise needed to have separate identities and product lines. All three were prepared to go after that market segment.

Even when lines of business are nominally distinct, some companies encourage cowboy management by regularly holding rodeos—public testing of the strength of groups of managers under difficult conditions. These might be called by names like "operations review," but participants know they are involved in a rodeo. They will be judged on how well they handle the difficult trials set in front of them—defending numbers, making strategic leaps forward, answering unexpected questions, grappling with fellow contestants—and their performance in the arena will be compared with that of their peers.

Managers subjected to rodeos guess that their fate is determined as much by their public performance as by the overall results they produce.

Sometimes the rodeos are held on paper, like the ones that organizations stage when they compare businesses or facilities or people. Many companies regularly rank-order their manufacturing
facilities on productivity and quality, or their sales offices on volume, or their service departments on calls successfully completed—with the corporate equivalent of blue ribbons going to the winners. A few prominent companies include individuals in these contests, engaging in a practice known as “stacked ranking.” Every single person in a particular category is numbered in order of excellence, from number one on up. High-level groups may spend days developing the list and arguing over the relative position of people on it. Though generally people are not supposed to know their numbers, the word gets out. And what was originated as a way to be “fair” to people, by making salary and promotion decisions on an objective basis, instead treats everyone as though they were directly competing—the impact of being ranked rather than assigned to broad categories. So they do indeed start to compete.

The sheer amount of change with which companies are dealing today makes in-house competition more likely to arise. The sources range from corporate restructuring to personal ambition:

- Acquisitions that put former external competitors under the same roof.
- Pressure for performance, because of intensified external competition, that leads to the comparisons of internal units as a supposed basis for motivation.
- Slower growth in some sectors, and outright decline in others, reducing available internal resources and causing areas to fight over them.
- Removal of hierarchical layers, which reduces the number of opportunities for promotion.
- Decentralization and greater divisional autonomy, which creates strong local pride and identity—and identification of other divisions as rivals.

Add to these the “natural” competition that occurs when any collection of people defined as a group compares itself to other groups, and we can see that rampant competition could easily dominate an organization.

**Why In-House Competition Is a Value Subtractor**

There is a two-fold rationale for competition, a rationale embedded in American mythology as well as in management philosophies. Competition is supposedly a spur to performance, and it theoretically stimulates the development of alternatives. But more often, in-house competition has the opposite effects: depressing performance and decreasing alternatives.

For several decades social psychologists have been studying the effects of competition on performance and productivity. A few conclusions are unequivocal. Excellence and victory are conceptually distinct, as Alfie Kohn put it.\(^{11}\) Competitive situations—in which several people or groups are seeking the same end, but not all of them can achieve it—tend to be less efficient and result in poorer-quality products. This is especially true where tasks are interdependent and tends to be less true when performance is totally independent. When interdependence is low, so that people require little or nothing from one another, competition has a very slight advantage because of the motivational push from the knowledge of relative gain. This is probably why sales contests work so well. In the simplest situation, sales representatives have independent territories, and how much one sells has nothing at all to do with what another might sell. Overlaps are few, so that one’s sales do not deplete another’s, and there are possibilities for synergy through joint action. This simple situation aside, the minute people need anything at all from the efforts of others, or share a future fate, cooperation has all the advantages.

This finding has been known since Peter Blau’s studies in the 1950s. In a comparison of two groups of interviewers in an employment agency, one highly competitive, the other cooperative, people in the first group hoarded job notifications because they were so personally ambitious and concerned about productivity. This then became a self-perpetuating defensive strategy as others did it. Performance was lower in the competitive groups. Other researchers have also found a negative correlation between individual competition and achievement by executives and managers.\(^{12}\)

But while cooperation inside the group of organization results in higher performance, competition outside can add an important stimulus. After reviewing 122 studies, University of Minnesota researchers concluded that cooperation within, coupled with competition without, was the ideal combination for maximum productivity.\(^{13}\) This is why major American companies that were fat and lazy for decades have been galvanized into action by the effects of foreign competition. An external challenge can certainly push up standards. Problems arise, however, when the “external” competition is seen as the other divisions, or the next department, or the other members of the planning committee—or as “everyone else but me.”
What's wrong with in-house competition is the way it undermines goal achievement, sometimes in blatantly obvious ways.

One of the more hair-raising examples of the destructiveness of infighting occurred a few years ago at the U.S. Centers for Disease Control's Atlanta AIDS laboratory. Highly placed professionals were accused of tampering with their internal "competitors'" experiments, slowing publication of key results, and throwing away rivals' research materials. As a result, turnover reached almost 80 percent among senior scientists in the lab's first three years, and many junior positions remained unfilled. Connecticut Senator Lowell Weicker triggered a National Academy of Science investigation, and the Wall Street Journal issued a lengthy report.

When flasks with delicate virus cultures were rearranged and contaminated by human spit, and when other material for experiments wound up in the garbage, in-house competition had moved far beyond the point where it could be considered a spur to performance. Instead, jealousy and rivalries colored decision-making on nearly every issue. One of the major splits was between researchers ("real scientists") and administrators ("just physicians"). Researchers showed contempt for the scientific knowledge of administrators, resisting their authority even though the administrators were nominally in charge. In retaliation, administrators ordered certain lines of research started and forbade others.

As in many such tales, there was no real winner. Eventually everyone involved in overt sabotage was called to account for it, and those victimized by it left. But sadly, there was a clear loser—the American public. Not only were large sums of federal money wasted, but knowledge of a possible AIDS prevention step was withheld from publication an unnecessary six months—a period during which thousands of people were newly infected with the disease.¹⁴

As this example illustrates, when internal competition gets out of hand, we can forget about performance excellence and innovation. There are five reasons why competition can depress performance, five signals of destructive rather than constructive competition.

The first sign that competition has become destructive is that the players pay more attention to beating their rivals than to performing the task well.

Social psychologists have demonstrated that competition decreases "intrinsic motivation"—that is, interest in the task itself and concern with meeting one's own standards. When people are encouraged to compete at an activity, they begin to see that activity as an instrument for winning. And winning—or avoiding losing—becomes more important than doing the job well.

It is common to assume that competition is a performance stimulant, inducing people to do their best, but recent evidence disputes this. When Allan Cohen and David Bradford asked several thousand managers about circumstances in which they did their best, competition was rarely mentioned. Instead, they talked about goals that were exciting and challenging, some autonomy and ownership, high visibility or accountability, and an exciting task.¹⁵ In short, the thrill of danger or excitement helped provoke "intrinsic motivation," but competition was irrelevant.

When winning becomes an end in itself, absolute or ideal performance standards lose meaning. It is hard to encourage people to do better, to meet a higher standard, as long as they know they are ahead of their rivals. Why bother to reduce the failure rate from three per hundred, if the nearest rival's failure rate is four per hundred? Doing the least to stay ahead becomes the goal, not doing the most to meet the highest standard. No wonder competition-focused U.S. companies—whose quality standards were pegged relatively to doing better than others, rather than absolutely to an idea of perfection—were surprised by the sudden onslaught (and victory) of Japanese companies with much better performance records—because those Japanese companies sought perfection.

If winning is the goal, those determined to win develop a preference for incompetent rivals—even if they want the pretense of "tough" competition to make their victory seem valuable. In competitive situations, people tend to like being surrounded by others who are less competent, because it enhances their own chances to win. Highly competitive managers may then be tempted to advance the careers of weaker rather than stronger people, to give subtle boosts to the less talented in rival areas—to the detriment of overall company performance. Similarly, dominant companies in an industry may find ways to encourage weaker competitors that they know they can outperform while still maintaining the illusion of a competitive market, while hoping to drive stronger competitors out of business. This strategy might make it possible to win, but the high performance standards that competition is supposed to produce disappear in the process.

Eliminate strong players, encourage weak players, and forget about
performance excellence—what a prescription for corporate disaster when the competition is taking place among members of the same large team.

A second sign that competition has gotten out of hand is that "friendly competition" among people who respect one another is replaced by mistrust, suspicion, and scorn.

What may begin as a limited competition—two divisions introducing different products that serve the same customer need, for example—can get out of bounds, spilling over to infect every other relationship between those divisions. One division goes from being a fellow member of a group that both enjoy being an enemy whose existence is responsible for anything that might go wrong. As the rivalry intensifies, negative characteristics of the other division are exaggerated until they begin to deserve the enmity. This makes it possible for the first group to justify its desire to eliminate the other group—not in the selfish terms of its own need to win but in "altruistic" terms of doing a favor for the whole corporation by removing a negative factor.

Psychoanalyst Erik Erikson gave this process a name—"pseudo-speculation." A group driven to dominate treats its rival as though it were a different species, less than human, therefore not deserving normal human consideration. While this seems a strong statement to make about everyday business competition, I hear echoes of Erikson's idea in the scorn heaped upon counterparts in the traditional division of one company by those who thought they were the "new breed" replacement business. Even their use of the term "new breed" signified the strong distinction they were making between the two groups. Once rival groups see themselves as different breeds, they can suspend those courtesies that would be extended to a member of one's own breed: "Why bother to explain? Those bean-counters in accounting would never understand anyway." And they can easily feel the need to erect barriers against social intermingling, not to mention taboos against "intermarriage."

One major danger of rivalries that get out of hand in such situations is that the competition spills over into the marketplace in destructive ways. In one information services company, a second division was authorized by the boss to develop an offering close to that already on the market from its flagship division. One of the ways the second division, a highly aggressive group, decided to prove its mettle quickly was to go after some of the same talented (and critical)

software designers used by the first division. As the "new breed," representatives of the second division conveyed their utter disdain for the "dinosaurs" in the original division. But to the designers, this was all one company. The in-house hostilities made them question whether they wanted to work for either group. When the internal battle is for external customers, the financial consequences of infighting-that-goes-public can be disastrous.

The NIH (not-invented-here) syndrome, which causes groups to resist importing ideas from outside their borders, is worsened when competition turns destructive. Even if the reason for establishing the competition was to generate many new ideas and then select the best for all groups to use, the purpose is defeated when anything "tainted" with the hue of the "others" is automatically rejected.

Despite the tendency for hostile competitors to reject anything originating on the other side, still, a third consequence of destructive competition is that imitation may drive out innovation.

Here's another irony of in-house competition. Though designed to provide variety, to stimulate differentiated alternatives, it often does just the opposite. For fear of losing out on something good that rivals do, and concerned about leaving out a tactic the rivals use to make their case, each party starts looking over its shoulder at what the other is doing. Spying and copying begin to replace the search for creative new options.

Creativity appears to require a measure of security, not the constant insecurity brought about by competitive dynamics. Risk-taking can be too dangerous when rivals are prowling the bushes waiting to pounce, so it is easier to choose a safer course. Indeed, social psychologist Theresa Amabile found, in a series of controlled experiments, that when an externally induced need to compete for scarce resources is replaced by income security, creative performance is enhanced; but in conditions of insecurity, creative performance declines.

When each party is tempted to settle for only minor variants of the other's ideas, alternatives are, in fact, limited rather than increased. Imitation is a likely response to competition under conditions of great uncertainty about criteria for judging performance—so it feels safer to stay closer to convention. I watched two product development teams in one company turn their quest for a new food-processing technology into a game of copycat. Neither was sure what would please the higher-ups or work in the marketplace, and their faith in their own
technical competence was shaken by the knowledge that another group, nearby in the same large facility, was working on the same thing. As soon a word got out about what the other group was doing, the first would decide to mount a project in that direction, too, so that the rivals would not get too far ahead. But, of course, the rivals were doing the same thing. What began as the pursuit of two different techniques soon converged on a single process—but for political, not substantive, reasons.

Competition can also depress performance and limit options for a fourth reason. The weaker party may give up rather than continue to fight.

In destructive competition, the performance of weaker competitors is likely to be depressed rather than stimulated. For one thing, laboratory studies show high levels of anxiety in people who compete, which in turn is correlated with inferior performance. Furthermore, if elimination of the rival becomes the goal, and the competition is seen as a fight to the death, those least able to destroy their rivals may simply surrender. They lack any incentive to keep trying. Continuing to fight depletes what small reserves they have left. And why bother to meet performance standards if the game is already lost?

Weaker competitors have many ways of giving up. Individuals simply leave. Groups begin to act as if they have already been conquered, allowing their triumphant rivals to dominate decisions, dictate terms, have first call on resources. They withdraw by retreating to the minimum performance level necessary simply to survive, and they back away from planning their future, instead carrying out only the things put in front of them today.

Unfortunately, in destructive competition cooperative moves look weak to parties bent on total victory. Competition drives out cooperation, as many experiments using game theory show. It is dangerous to be playing a cooperative game if one’s opponent is playing a competitive game. Thus, weaker competitors cannot easily join forces with stronger ones (a cooperative strategy) if the game is structured as a destructive competition.

When weaker competitors start dropping out, the fifth issue in destructive competition comes into play. The stronger party begins to feel dangerously invincible.

There’s a fine line between the strength that comes from pride in demonstrated achievements and the arrogance that comes from vanquishing obvious opponents. If stronger parties feel that they can rest easy, that they no longer need to perform according to standards as long as they are clearly winning the battle, then their performance may also deteriorate. There is a suggestive analogy in a study of influence tactics in intimate relationships. Skewed power distribution, especially with respect to control over resources, leads to bullying by the stronger party and manipulation by the weaker. This is why many American companies that dominated their markets before the game became truly global grew lazy and complacent—and missed seeing that new foreign competition was chipping away at their share.

Those who manage by competition hope that it will spur performance and generate alternatives. Yet, as we have seen, the impact of in-house competition that crosses the line into combat is just the opposite. Performance standards often decline, attention is distracted, weaker parties allow their performance to deteriorate, and options are narrowed rather than increased.

Furthermore, the obvious risk of playing each game as a hostile competition is that there is some still-larger game waiting to be played in a still-larger arena, in which today’s rivals will find themselves on the same side. Today’s competing parties may be jointly vulnerable to an as-yet-unrevealed competitor who can easily overtake both of them, because both are battle-weary or have focused too much attention on exploiting each other’s weaknesses instead of learning to play the game better. The weaker party who has become passive is no help, and the stronger who felt falsely invincible has created no defenses against a new threat and does not know how to take advantage of anyone else’s good ideas. The legacy of bitterness from hostile rivalries adds a barrier to cooperation. And if the stronger parties have succeeded in eliminating their weaker rivals, then there’s nobody left to mobilize for the bigger game.

Some analysts would say that this scenario is an accurate description of what has happened to many U.S. companies in recent years. Excessive infighting within corporations and rivalry with competitors close to home has weakened everyone for the larger game with international competitors, has made it more difficult to marshal the necessary cooperation, has reduced innovation, and has maintained lower performance standards. It remains as a further danger for those companies drawn to the cowboy management style with its heavy reliance on in-house competition.
THE COMMITMENT CHALLENGE

The potential loss of commitment in restructuring, whether from cowboy competition or from poor management of transitions and their aftermaths, is a serious threat to any company. The post-entrepreneurial corporation is taking new shape in order to pursue growth opportunities while cutting the costs of its continuing operations—to do more with less. But it cannot achieve that goal unless it is able to maintain the commitment during change that allows synergies the opportunity to develop.

Commitment-building management practices involve the active recognition that the way the transition phase of restructuring is handled makes a major difference in whether the new structure produces the desired results. The creation of Unisys out of Burroughs and Sperry is an often-cited case of maintaining continuity, avoiding "we-they" cowboy dynamics, and creating a new, shared identity quickly. When Southwest Bancshares in Houston merged with Mercantile Texas Corporation in Dallas to form MC Corp (which became the eighteenth-largest banking organization in the United States), twenty-one different restructuring task forces were formed a few months after the announcement but well before the merger, each with three to four subtask forces. Participants attributed the absence of conflict and the retention of customers to the cooperation engendered by this activity. One explained, "The officers saw their bosses cooperating with the counterpart at the other bank to come up with a recommendation for a policy. A certain spirit developed that had the effect of alleviating the personnel issues." 20

Excellent management also helped Delta Airlines' 1987 acquisition of Western Airlines become an industry model. I met Western's then-Chairman Gerald Grinstein in December 1986, on the day the merger was approved. Soon after, Cynthia Ingols and Paul Myers, two members of my research team, went to Los Angeles, Salt Lake City, and San Francisco—major Western locations of the company—to observe firsthand how Delta and Western managed during the period from announcement in December 1986 to full integration on April 1, 1987. 21

Three years before the merger, few observers would have believed that Western could long survive, let alone succeed, in the increasingly competitive, deregulated airline industry. Western had been losing $100 million a year since 1981 and was near bankruptcy in the late summer of 1985. Gerry Grinstein called those times "the dark days of 1984."

And they were certainly bleak moments. Everyone, including pilots, flight attendants, customer service representatives, and ramp workers, sacrificed to save the company. A "Competitive Action Plan" was introduced, in which all employees, union and management alike, took wage cuts of 20 to 50 percent, adapted work-rule changes, and eliminated positions. The concessions were part of a quid pro quo worked out between Western and its unions. Each of four unions was given a seat on the company board of directors, and all workers became eligible for new profit-sharing and stock ownership programs.

The financial concessions of Western employees allowed its management team to restructure the debt. In addition, fortuitous events in the business environment, like the strike at United Airlines and the reduction in the price of oil, helped to boost Western's load capacity and to reduce further its operating expenses. The cumulative effect of this series of events was record profits of Western in 1985, leading to the distribution of profit-sharing benefits to all employees in February 1986.

Western had now become a prime target for takeover by other carriers, and the company's top executives began to meet privately with a small number of suitors. In a whirlwind round of secret meetings held over Labor Day weekend in 1986, Western Chairman Grinstein struck a deal with Delta Chairman David Garrett. Within days, the respective boards of directors met and approved the merger, and on September 19, Delta announced that it would purchase Western for $860 million, making Delta the fourth-largest carrier in the industry.

Then the tough job of transition management began. Both Delta and Western did their part to create cooperators rather than cowboys by managing feelings about the past, the future, and the present that would build commitment.
Managing the Past: Mourning the Losses

Issue number one in managing a difficult transition smoothly is to allow employees to mourn the past, to grieve over their losses. After all, employees make major emotional investments in their companies and in their jobs.

In 1986, when Western celebrated its sixtieth birthday as a company, many employees celebrated their own long-term employment with the firm. One pilot who had flown with Western for twenty-two years could call seven thousand of Western's ten thousand employees by name. Another employee, who started out by cleaning planes for the firm twenty-three years ago and by 1986 assisted in managing one of the bases, said that "it's a business that gets in your blood." In an industry colored with romance, Western employees regarded their firm with great affection. Several remarked that the reality of the merger had not fully set in until they watched the company logo being removed from the airplanes. And one special employee group was affected in a particularly jarring way: Western retirees were issued new Delta retiree travel passes—they became retirees of Delta, on paper at least, although they had never worked one day for that company.

The sense of personal loss was accentuated by the state of upheaval experienced by approximately two thousand Western employees—those who had been employed at the company headquarters in Los Angeles but now had to transfer to Atlanta. Many of Western's middle managers had been demoted as a result of Delta's efforts to integrate the new workforce without creating redundant positions. Leaving behind families, friends, and memories and pulling up deep roots are traumatic in any case; when one loses a job, a lifestyle, and one's company as well, the sadness is amplified.

Western executives not only allowed but encouraged a period of mourning, to help people bury the past. For example, Tom Greene, a vice-president—general counsel and an eighteen-year Western employee, eulogized the firm in a testimonial distributed to all employees: "A final wish for the lives of us who mourn is to go on with joyful memories."

Managing the Future: Positive Visions

The second key to commitment building during the restructuring process is getting the survivors excited about the future—offering a positive vision to compensate for the loss. For example, Mitchell Marks, a consultant to Western during the merger process, brought to the merger an awareness of the power of formal ceremonies to bridge the gap between loss and vision, based on an event he had designed for another company:

Each of the eighty attending managers was asked to write down the three worst things that could happen to them personally as a result of the merger. Then the managers were given sheets of their former letterhead and business cards. The group was led outside and assembled around a wooden casket. A band was playing a funeral march. One by one, the managers were asked to crumple up their statements, cards, and letterheads and toss them in the coffin. Suddenly, a hundred-ton paver emerged from around the corner. As it approached the coffin, the band broke into a rendition of "On Wisconsin," and the group cheered wildly as the paver flattened the coffin and its contents. Next, the group was whisked back inside where they were given academic caps and gowns to put on. They marched into an auditorium. There the boss gave a graduation speech, resembling any college ceremony: "You are the architects of our future; our destiny lies in your generation's hands!" After the speech, the name of each manager was called. They walked across the stage, shaking hands with the regional manager and receiving a "Doctorate in Merger Management" and a share of company stock as a graduation gift.

Delta stressed its version of a great future immediately by creating a slogan for the merger that made Western people feel valued: "The Best Get Better."

Despite the seemingly tragic changes that faced Western employees, the transition time preceding the merger was kept upbeat and optimistic. The merger brought stability to a workforce that had made enormous sacrifices to help Western avert bankruptcy and become more competitive in the deregulated airline environment. Grinstein commented that Western was bought by the "Rolls-Royce" of the industry, and that the financial community regarded Delta as a sound, strong, well-managed airline. In the words of one union leader, "Western's employees deserve this merger with as fine a company as Delta. They'd gotten the s— kicked out of them since 1981. That period was hell on them. There was no stability." Western employees recognized that although they had worked hard to turn their company
Managing the Present: Reducing Uncertainty
Issue number three involves the transition period itself. Transitions engender uncertainty not only with regard to employees' careers and daily work but also in terms of bills, mortgages, families, and lifestyles. Delta reduced uncertainty by its methodical, forthcoming, and, with few exceptions, concise style in communicating about the merger process. At the same time Western executives minimized discontinuity and disorder by stressing "business as usual," making sure they came into the office for regular workdays to create a reassuring presence. Delta's style was first shown in a memo sent by Telex to each Western work location and shortly after to each employee's home just after the merger was approved. That letter, in early January 1987, outlined Delta's plans for managing the details of integrating the two companies and their respective employee groups. For example, "During the week of February 16, 1987, a bulletin will be distributed containing the following information . . ." As announced, on February 13 a thirty-page bulletin was issued that included details about when job offers would be made, how traveling and moving expenses would be reimbursed, and general information about the transition from Western's benefit programs to Delta's.

Keeping a promise is key to keeping commitment. Throughout the months that followed, Delta did what it had said it would when it said it would. One employee commented that "Delta hasn't once had to back up and say 'Hey, that's wrong. We did it wrong.' They’re methodical—not fast. But when they give us information it's good, solid." The well-planned and carefully executed merger process alleviated employee stress and uncertainty. Even when workers did not have the facts and the details at a certain time, they knew when the information would be forthcoming and that it would be reliable and certain.

During the transition period, Western continued its established pattern of openness and communication. The airline's regular newsletter, called "Update," was renamed "The Best Get Better"—Delta's slogan for the merger—two weeks after the first merger announcement in September. Regular features included articles describing Delta's plans for the merger process and comments by Delta and Western officials.

Employees received news from other formal sources, too, rather than from rumors. A toll-free phone line, started in 1984 to give updates on the Competitive Action Plan, switched messages shortly after the merger announcement. Western employees could then receive weekly recordings about the merger and leave their questions. In turn, those questions often became the subject of subsequent updates.

Finally, Western used the structure and services of its Health Services Program (HSP) to deal with employee stress and anxiety caused by the merger. The HSP had been established in 1984 through joint union-management efforts to deal with employee problems with substance abuse and wage concession-related stress. The program used counselors, chat sessions, pamphlets, and other educational aids to help employees work out their emotional difficulties. After the merger announcement, HSP personnel began to develop programs, including seminars and videotapes, to address employee anxieties about the merger.

Overall, the success of the merger process at building commitment was a result of Delta's policy and style of implementation on the one hand, and Western's proactive communication and counseling on the other.

Even so, after the transition period, there was still a great deal of integration to manage. The culture at Western was "Californian," informal, intimate, and participative, while Delta was perceived by some Westerners as "Southern conservative" and "paternalistic."
Some Western people felt “conquered” and disempowered by Delta, subject to its rules and dress codes. Largely nonunionized Delta faced a labor challenge even before the merger was complete, from a union representing Western employees that sought recognition by Delta.

But the merger got off the ground quickly and effectively because of good management, and value was retained. Now the promise of synergy could become a reality.

RESTRUCTURING AS A BALANCING ACT

If the purpose of a corporation is to create value for its stakeholders—certainly its stockholders, but also its employees, customers, creditors, and others with a legitimate stake in the future of the enterprise—the first step in creating that value is to avoid dissipating the company’s resources. Restructuring—the reshaping of a business through mergers, acquisitions, divestitures, and internal reorganizations—is often done in the pursuit of new sources of value, but if managed poorly, restructuring threatens a loss of value.

To achieve the synergies that the post-entrepreneurial corporation desperately seeks, post-entrepreneurial managers need to be sensitive to the process by which changes are introduced, and especially sensitive to the needs and concerns of people, in order to ensure involvement and cooperation. Instead of creating cowboy competition, winners and losers, conquerors and colonized, or rivals for the same tidbits of power, post-entrepreneurial corporations will raise performance standards by building commitment to shared goals and enhancing the ability to work together. If the post-entrepreneurial corporation is indeed to be a flexible instrument that can quickly reshape itself when the terms of global competition change, then the people who run it must learn how to carry out enormous change while retaining productivity and cooperation.

Only time can tell what the long-term impact of the current restructuring of American industry will be. It will be positive for business if it results in a clearer focus, a better fit between parts, and the flexibility to keep innovating. In the short run, however, managers face a number of dilemmas. They must confront and remove the subtraction of value that cowboy management brings, at the same time that restructuring itself threatens to set up internal competition and create winners and losers. They must be aware of the effect that the reshaping of American companies has on the workforce; rearranging jobs and moving players around inevitably means letting some of them go, while confronting the survivors with discontinuity and distractions.

From a human standpoint, not all restructuring results in loss, of course. The survivors of staff cutbacks often find themselves with enlarged responsibilities and opportunities. The employees of business units that become independent companies feel even better. One’s fate in a restructuring obviously determines one’s reactions to it. Lucky Stores, for example, accelerated a restructuring in order to fend off a takeover threat from corporate raider Asher Edelman; it sold one division to a large corporation that intended to dismantle it and spin off another as an independent business. The employees of the first division had baseball caps printed with a picture of a screw, followed by the name Edelman; but the second division now hangs a picture of Edelman next to that of its founders.

Although post-entrepreneurial organizations need the flexibility to make such structural changes, they also need the commitment of their people—the full engagement of their capabilities—if they are to retain the value that existed before the changes. But while commitment comes from certainty and security, restructuring causes uncertainty and insecurity. This realization entails a major corporate balancing act: managing the inevitable organizational changes of the post-entrepreneurial era in ways that build, rather than jeopardize, the bond between people and organizations. Such bonds, in turn, are a key asset in helping companies find the synergies they so desperately seek.