CHAPTER 5

The Diagnostic Process

LEARNING OBJECTIVES

Upon completing this chapter, you will be able to:

1. Identify system parameters and recognize the symptoms, problems, and causes of organizational ineffectiveness.
2. Recognize the various techniques for gathering information from client systems.
3. Describe the major diagnostic models and techniques used in OD programs.
4. Apply a systematic diagnosis to organizational situations.

PREMEETING PREPARATION

1. Read Chapter 5.
2. Prepare for OD Skills Simulation 5.1. Prior to class, form teams of six and select roles. Complete Step 1.
3. Read and analyze Case: The Old Family Bank.

DIAGNOSING PROBLEM AREAS

To be successful in the twenty-first century, organizations must have flexibility and the ability for rapid transformation. However, many organizations move along a well-worn path, and problems are often concealed or hidden.

The identification of problems and areas for improvement is an important element in developing a high-performance organization. In a time of downsizing and restructuring, many companies are finding that they must learn to manage more effectively. Organizational problem solving means that every member of an organization participates in developing a vision and improving the corporate culture. In any change program, you must know where you are before you can chart a course for where you want to be. Therefore, before implementing TQM or some other program, it is important to assess the organization's current quality or performance and to define the level of performance or quality you wish to achieve.

Organization diagnosis provides information that allows a faster-reacting organization to emerge, one that can deal proactively with changing forces. Diagnosis rigorously analyzes the data on the structure, administration, interaction, procedures, interfaces, and other essential elements of the client system. Using a systematic approach throughout the process, the diagnosis serves as a basis for structural, behavioral, or technical interventions to improve organizational performance. If organization change is to be effective, it must be based on a specific diagnosis of the problem.

Questioning the client's diagnosis of the problem is a good rule for organization development practitioners to follow. The client is part of the system that has a problem and, therefore, may be unable to take an objective view of the situation. Also, the client will probably be operating from one part of a larger system and may find it difficult, if not impossible, to see the total system. It is appropriate to listen to the client's definition of and ideas about the problem, but the practitioner should then openly ask permission to verify these ideas with properly conducted research. Diagnosis is a process that helps organizations improve their capacity to assess and change inefficient patterns of behavior as a basis for developing greater effectiveness and ensuring continuous improvement.

An OD program must be based on a sound analysis of relevant data about the problem situation. To make a sound diagnosis, it is important to have valid information about the situation and to arrange available data into a meaningful pattern. The simple fact of sharing performance information can become a powerful force for change.

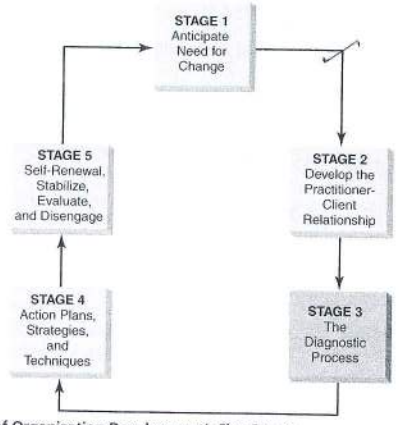

FIGURE 5.1 Stage 3 of Organization Development's Five Stages

This chapter examines stage 3, the diagnostic process, of an OD program, and is shown in Figure 5.1. The subjects discussed include a general definition of diagnosis, the process of collecting data, implementation of data collection, the major diagnostic models, and situations where caution is warranted.

WHAT IS DIAGNOSIS?

Today's intense global competition and deregulation have created great uncertainty for firms in virtually every industry. Increased competition requires constant response to initiatives by other firms. It calls for continuous improvement of quality and products while decreasing costs. Diagnosis is a method of analyzing organizational problems and learning new patterns of behavior. It can help organizations by doing the following:

1. Enhancing the organization's capacity to assess and change its culture.
2. Providing an opportunity for organizational members to acquire new insights into the dysfunctional aspects of their culture and patterns of behavior as a basis for developing a more effective organization.
3. Ensuring that the organization remains engaged in a process of continuous improvement.[1]

Because diagnosis provides these opportunities, it is an indispensable step in the process of organizational revitalization. Organization development is a data-based activity. OD relies on valid information about current problems and possible opportunities for improvement. Diagnosis provides a starting point (a set of current conditions) and the change objective (an ideal or desired set of conditions).

Diagnosis usually examines two broad areas. The first area for diagnosis comprises the various interacting subelements that make up the organization. These include the divisions, departments, products, and the relationships between them. The diagnosis may also include a comparison of the top, middle, and lower levels of management in the organization. The second area of diagnosis concerns the organizational processes. These include communication networks, team problem solving, decision making, leadership and authority styles, goal-setting and planning methods, and the management of conflict and competition.

In organizational diagnosis, the practitioner is looking for causality—that is, an implication that change in one factor (such as compensation) will cause change in another factor (productivity): a cause-effect relationship. The client is often aware of the evidence of the problem, such as declining sales, high turnover, or loss of market share—the symptoms of a problem. In the diagnostic phase, the practitioner tries to identify what factors are causing the problem, and, therefore, what needs to be changed to fix it.

The critical issues in diagnosis include:

Simplicity. Keep the data as simple as possible and use simplicity in presentation.

Visibility. Use visible measures of what's happening.

Involvement. Emphasize the participation and involvement of organization members in the diagnosis.

Primary factors. Use an undistorted collection of primary operating variables in the diagnosis.

Measure what is important. Pursue the straightforward assessment of the variables critical to success.

Sense of urgency. During diagnosis, gain an overall sense of urgency for change.[2]

At management consulting firm McKinsey & Co., the diagnostic process is "hypothesis driven." The practitioner team develops hypotheses, such as "People who sell big orders make more money for the company." The practitioner team may interview the managers at many companies and collect factual data to prove or disprove the hypothesis. They may discover, in fact, that large sales orders are the least profitable. The secret of diagnosis, then, is in the rigor of fact finding; things are proved with facts, not opinions.

Diagnosis is a systematic approach to understanding and describing the present state of the organization. The purpose of the diagnostic phase is to gather information to specify the exact nature of the problem requiring solution, to identify the underlying causal forces, and to provide a basis for selecting effective change strategies and techniques. The outcome of a weak, inaccurate, or faulty diagnosis will be a costly and ineffective OD program. Organization diagnosis, then, involves the systematic analysis of data regarding the organization processes and culture with the intention of discovering problems and drawing conclusions about action programs for improvement. Andrew Grove, Intel Corporation's legendary CEO for over 10 years, said regarding the investigation of problems, "Ask why, and ask it again five more times, until all of the artifice is stripped away and you end up with the intellectually honest answer."[3]

The Process

Diagnosis is a cyclical process that involves data gathering, interpretations, and identification of problem areas and possible action programs, as illustrated in Figure 5.2. The first step is the preliminary identification of possible problem areas. These preliminary attempts often bring out symptoms as well as possible problem areas.

The second step involves gathering data based on the preliminary problem identified in the preceding step. These data are categorized, analyzed, and presented to the client in a feedback session (steps 3 and 4). If it is determined that more data is required to make a diagnosis (step 5), the process reverts to the second step where additional data is collected. Otherwise, the client and practitioner jointly diagnose and identify likely problem areas (step 6). At this point, the client's level of motivation to work on the problems is determined (step 7). Based upon the diagnosis, the target systems are identified and the change strategy is designed (step 8). Finally (step 9), the results are monitored to determine the degree of change that has been attained versus the desired change goals.

The Performance Gap

One method in the diagnostic process is to determine the **performance gap**—the difference between what the organization could do by virtue of its opportunity in its environment and what it actually does. This leads to an approach that may be termed "gap analysis." In this method, data are collected on the actual state of the organization on a varying set of dimensions and also on the ideal or desired state, that is, "where the organization should be." As seen in Figure 5.3, the discrepancy between the actual state and the ideal forms a basis for diagnosis and the design of interventions. The gap may be the result of ineffective performance by internal units or may emerge because of competitive changes or new innovations. A performance gap may also occur when the organization fails to adapt to changes in its external environment.

Competent organizational diagnosis does not simply provide information about the system; it is also helpful in designing and introducing action alternatives for correcting possible problems. The diagnosis affirms the need for change and the benefits of possible changes in the client system. Important problems are very often hidden or obscure, whereas the more conspicuous and obvious

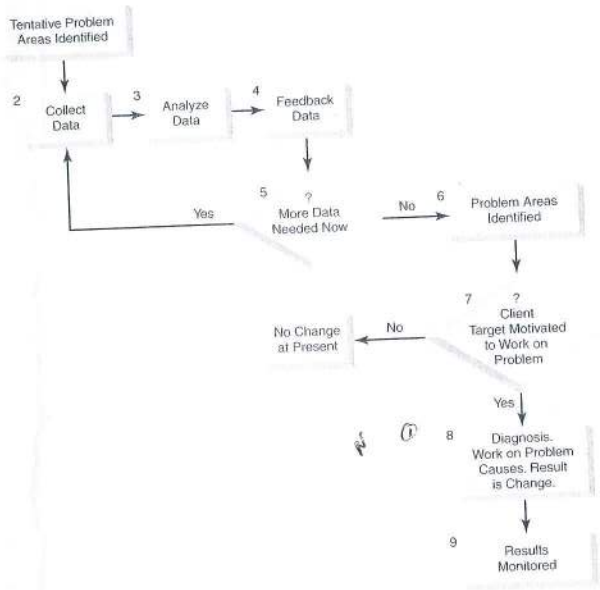

FIGURE 5.2 The Diagnostic Process

problems may be relatively unimportant. In such situations, dealing with the obvious may not be a very effective way to manage change; this underscores the importance of the diagnostic stage.

A performance gap may continue for some time before it is recognized. In fact, it may never be recognized. On the other hand, the awareness of a performance gap may unfreeze the functions within the organization that are most in need of change. When this happens, conditions are present for altering the structure and function of the organization by introducing OD interventions.

A self-assessment version of gap analysis uses questionnaires to gather information in four key areas. Initially the strengths of the organization are determined. Then an assessment is made as to what can be done to take advantage of the strengths. Just as strengths are determined, the organization's weaknesses are likewise determined. The self-assessment concludes with an analysis of what is to be done to alleviate the weaknesses. The process of identifying the organization's strengths and weaknesses often leads to recognition of performance gaps and to

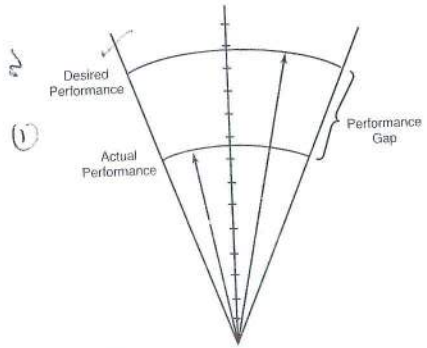

FIGURE 5.3 The Performance Gap

OD Application: The Performance Gap at eBay[4]

eBay has become the marketplace of the world and, in the process, it has become the world's largest recycling center. Its business of auctions and sales of merchandise exists solely on the Internet. Its business formula is to provide a worldwide market and collect a tax on transactions as they occur. Although eBay's sales are only a fraction of Wal-Mart's, eBay has no stores and warehouses. It does not take physical or legal possession of merchandise, so there is no inventory. eBay's revenue comes from listing fees and advertising. It also earns revenue from PayPal, the banking system it runs for its customers and other Internet-based merchants.

From the beginning, when eBay was founded in 1995, its business model was to bring together under one "roof" an array of goods that would attract buyers. To that end, eBay has become the world's largest online marketplace that averages around 81 million visitors a month with approximately $60 million annual sales of merchandise. This success has almost worked too well. "eBay's abundance [of merchandise] was one of its attractions," said CEO John Donahoe, a former Bain & Co. consultant. "But if you type in 'BlackBerry' and you get 23,000 search results, it's not that helpful."

The company already collected data about transactions so that by understanding the data, it could decide where to spend money, where employees are needed, and which projects are working and failing. But it did not know what customers were doing before they clicked the "Place Bid" or "Buy It Now" icons. So that eBay could provide a better shopping experience for its buyers, it needed to unravel all the mouse clicks to discover exactly what customers were doing. "If you start with the lowest level of detail, you can answer any question about the business," says chief information officer Matt Carey. He calls it a "culture of analytics" and says, "I want to eliminate feelings and get down to true math." To get this data, his team developed a new search engine so that browsing and sales are enhanced. Every mouse click is tracked to discover what leads shoppers to bid or buy.

Beginning around 2006, eBay and other Internet auction sites noticed a disturbing trend. As Internet commerce matured, people were less willing to spend days monitoring their bids to try and get a good deal. Furthermore, they frequently found that at the last moment someone else had come in and topped the highest bid with no chance of a counter bid. The practice of placing a bid at the last moment, called "sniping," had become more common because of automated software programs like "Bidnapper" and "Powersnipe." With Google and other search engines, buyers could find quickly almost anything and at the lowest price. The prospect of saving a few bucks by waiting days on auction results with no assurance of getting the item was mitigated by the convenience of buying things quickly at a set price.

The data that eBay tracked showed that its traditional strategy of online auctions had become obsolete. Fixed-priced sales were accounting for about half of all transactions. Auction sales made up less than a third of sales compared to 75 percent two years prior. Confronted with a significant decline in revenue and based on an analysis of the data, eBay decided to change its strategy by moving to fixed-price items. But instead of going up against Amazon, eBay decided to concentrate on making it easier for customers to find things like collectables, overstocked items, and last year's models.

"The business has continued to fall short of our expectations and customers' expectations," said CEO Donahoe. "That's not acceptable. The eBay you knew is not the eBay of today or the eBay of the future." In a critique of eBay's mistakes, he said, "We were the biggest and the best. And when you're the biggest and the best, there's a strong tendency to try to preserve that. eBay has a storied past. But frankly, it's a past we've held onto too much."

Questions

1. What was the performance gap at eBay?
2. What are some advantages and disadvantages of gathering large quantities of data?
3. Visit the eBay Web site at www.ebay.com/ to further your understanding of its business model.

change programs. **OD Application: The Performance Gap at eBay** includes information about a performance gap at eBay and how it used data collection and diagnosis to identify the problem and solve it.

THE DATA-COLLECTION PROCESS

The process of collecting data is an important and significant step in an OD program. During this stage, the practitioner and the client attempt to determine the specific problem requiring solution. After the practitioner has intervened and has begun developing a relationship, the next step is acquiring data and information about the client system.[5]

This task begins with the initial meeting and continues throughout the OD program. The practitioner is, in effect, gathering data and deciding which data are relevant whenever he or she meets with the client, observes, or asks questions. Of all the basic OD techniques, perhaps none is as fundamental as data collection. The practitioner must be certain of the facts before proceeding with an action program. The probability that an OD program will be successful is increased if it is based upon accurate and in-depth knowledge of the client system.

Information quality is a critical factor in any successful organization. Developing an innovative culture and finding new ways to meet customer needs are strongly influenced by the way information is gathered and processed. Organization development is a data-based change activity. The data collected are used by the members who provide the data and often lead to insights into ways of improving effectiveness. The data-collection process itself involves an investigation, a body of data, and some form of processing information. For our purposes, the word **data,** which is derived from the Latin verb *dare,* meaning "to give," is most appropriately applied to unstructured, unformed facts. It is an aggregation of all signs, signals, clues, facts, statistics, opinions, assumptions, and speculations, including items that are accurate and inaccurate, relevant and irrelevant. The word **information** is derived from the Latin verb *informare,* meaning "to give form to," and is used here to mean data that have form and structure. A common problem in organizations is that they are data-rich but information-poor: lots of data, but little or no information.

An OD program based upon a systematic and explicit investigation of the client system has a much higher probability of success because a careful data-collection phase initiates the organization's problem-solving process and provides a foundation for the following stages. This section discusses the steps involved in the data-collection process.

The Definition of Objectives

The first and most obvious step in data collection is defining the objectives of the change program. A clear understanding of these broad goals is necessary to determine what information is relevant. Unless the purpose of data collection is clearly defined, it becomes difficult to select methods and standards. The OD practitioner must first obtain enough information to allow a preliminary diagnosis and then decide what further information is required to verify the problem conditions. Usually, some preliminary data gathering is needed simply to clarify the problem conditions before further large-scale data collection is undertaken.

This is usually accomplished by investigating possible problem areas and ideas about what an ideal organization might be like in a session of interviews with key members of the organization. These conversations enable the organization and the practitioner to understand the way things are, as opposed to the way members would like them to be.

Most practitioners emphasize the importance of collecting data as a significant step in the OD process. First, data gathering provides the basis for the organization to begin looking at its own processes, focusing upon how it does things and how this affects performance. Second, data collection often begins a process of self-examination or assessment by members and work teams in the organization, leading to improved problem-solving capabilities.

The Selection of Key Factors

The second step in data collection is to identify the central variables involved in the situation (such as turnover, breakdown in communications, and isolated management). The practitioner and the client decide which factors are important and what additional information is necessary for a systematic diagnosis of the client system's problems. The traditional approach was to select factors along narrow issues, such as pay and immediate supervisors. More recently, the trend has been to gauge the organization's progress and status more broadly. Broader issues include selecting factors that determine the culture and values of the organization.

Organizations normally generate a considerable amount of "hard" data internally, including production reports, budgets, turnover ratios, sales per square foot, sales or profit per employee, and so forth, which may be useful as indicators of problems. This internal data can be compared with competitors' data and industry averages. The practitioner may find, however, that it is necessary to increase the range of depth of data beyond what is readily available. Increasing the depth and scope of the data is illustrated in Figure 5.4. The practitioner may wish to gain additional insights into other dimensions of the organizational system, particularly those dealing with the quality of the transactions or relationships between individuals or groups. This additional data gathering may examine the following dimensions:

- What is the degree of dependence between operating teams, departments, or units?
- What is the quantity and quality of the exchange of information and communication between units?
- What is the degree to which the vision, mission, and the goals of the organization are shared and understood by members?
- What are the norms, attitudes, and motivations of organization members?
- What are the effects of the distribution of power and status within the system?

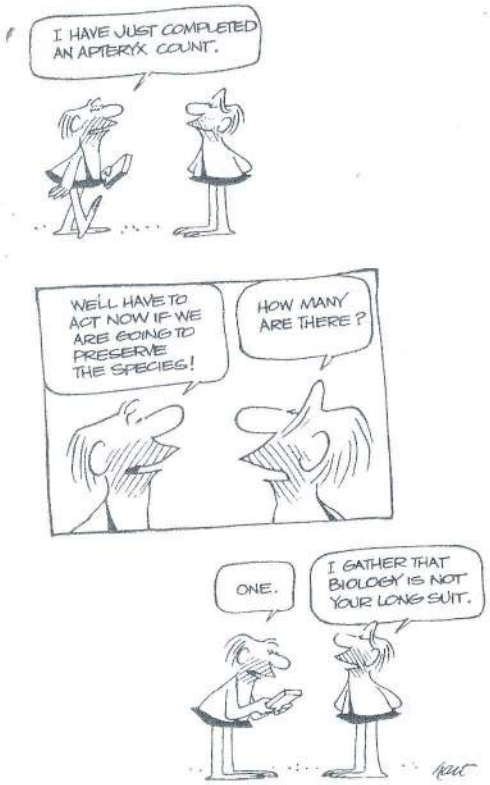

FIGURE 5.4 The Importance of In-Depth Data Gathering
Source: B.C. by permission of Johnny Hart and Creators Syndicate, Inc.

In this step, the practitioner and client determine which factors are important and which factors can and should be investigated.

The Selection of a Data-Gathering Method

The third step in data collection is selecting a method of gathering data. There are many different types of data and many different methods of tapping data sources. There is no one best way to gather data—the selection of a method depends on the nature of the problem. Whatever method is adopted, data should be acquired in a systematic manner, thus allowing quantitative or qualitative comparison between elements of the system. The task in this step is to identify certain characteristics that may be measured to help in the achievement of the OD program objectives and then to select an appropriate method to gather the required data. Some major data-collecting methods follow.

SECONDARY SOURCES OF DATA The data most needed by the practitioner are probably not available when the data-gathering process begins. Very often, however, there are large amounts of organizational data already generated for other purposes that can be used in identifying problem areas. These data may be termed secondary data or measures. Examples of secondary sources include accounting data, productivity data, quality data, and performance indicators, such as employee thefts, turnover, and absentee rates. Sears Holdings Corporation upgraded its software and data-mining capability to sift through customer-purchase information. Sears now understands that it needs to focus on customers with incomes of $50,000 to $100,000 and higher. This is a more upscale group than Sears customarily targets. The data helped a team develop a new marketing campaign that focuses on this new group of customers.[6]

There are certainly some limitations associated with the use of secondary data. Although available, the secondary data may not be in a usable format. For example, lateness and absentee figures may not provide information by department. An additional problem involves the interpretation of the data: What are the causes underlying a given absentee rate or number of grievance reports?

EMPLOYEE SURVEYS AND QUESTIONNAIRES Employee **surveys** or **questionnaires** (for our purposes here, the two words will be used interchangeably) are used to provide important information on past, present, and future improvement efforts. Questionnaires, the most frequently used method to gather information,[7] have two important functions:

1. Questionnaires serve as information/improvement tools. They can help identify opportunities for improvement and help evaluate the impact of changes being implemented.
2. Questionnaires are an effective communication tool. They facilitate dialogue on potential improvements between managers and employees.

Questionnaires are used to gather a large number of quantitative responses and lend themselves to quantitative analysis. At one extreme, the questionnaire may be administered by a person asking questions of a respondent in person and who is identified by name. At the other extreme, the questionnaire may be administered via a computer and submitted anonymously. The questionnaire is particularly useful for studies of the attitudes, values, and beliefs of respondents. On the other hand, questionnaire data tend to be impersonal, anonymous, and often lack feeling and richness.

There are many problems involved in designing and administering an effective questionnaire. Validity is often a problem: Does the questionnaire measure what it is intended to measure? The accuracy of the information obtained is another problem: Did the person answer it realistically or just to make a good impression? Or did the respondent feel comfortable to tell the interviewer his or her true feelings? These problems can be dealt with by means of statistical techniques that measure the reliability of the questionnaire responses. There are also problems of no response. If the response to a questionnaire is voluntary and anonymous, those who choose to respond may have strong feelings, either positive or negative, about the content of the questionnaire, but they may represent only a small percentage of the total sample.

The use of the questionnaire method depends upon the depth of information desired and the purpose of the information. In some organizations, questionnaire follows questionnaire, but without any effective change. This often leads to apathy and indifference in answering any subsequent questionnaires. Therefore, it is usually beneficial to inform the respondents beforehand about the purpose of the questionnaire, how the information will be used, and how feedback of the results will be made available to them. The OD practitioner has an obligation to the client to ensure confidentiality of data and feedback of data to everyone who participates.

Questionnaires seem to achieve better information in terms of quantity and validity if the questionnaire shows that the researchers are familiar with key issues in the organization. Such event-based questionnaires, making it clear that the researchers are acquainted with important aspects of the organization, are more likely to reveal information about the organization than vague, theory-based questionnaires.

OTHER TYPES OF INSTRUMENTS Another technique for collecting data on work groups is called the **sociometric approach.** This method, developed by Jacob Moreno, is a means of obtaining quantitative data about the network of interrelationships within groups, usually on certain given dimensions.[8] Sociometric analysis provides a means of analyzing data about the choices or preferences within a group. The sociometric instrument asks specific questions, such as "With whom do you prefer to work?" "With whom do you communicate?" "Who helps you the most with technical problems?" Such data enable the investigator to diagram the structure and patterns of group interaction. The results are usually presented in what is called a **sociogram,** illustrated in Figure 5.5. The sociogram is a type of picture graph that documents communication patterns within a team or group. The highly chosen individuals are called **stars;** those with few or no

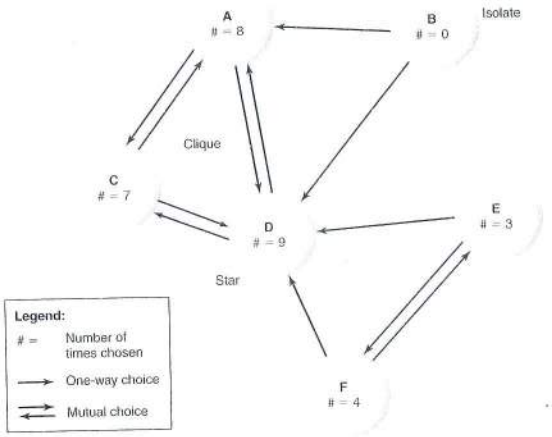

FIGURE 5.5 Example of a Sociogram

choices are called **isolates.** Certain individuals will choose one another; this is known as **mutual choice.** When an individual chooses another but is not chosen in return, this designates a **one-way choice.** When three or more persons within a larger group select one another (mutual choices), this is termed a **clique.** The existence of subgroups may indicate lack of group cohesion and coordination.

The sociogram represents each member of the group by a circle, with choices designated by arrows indicating the direction of choice. The number of choices may be written in the circle under the person's name or code letter. Sociometric techniques are useful because they provide insights into the informal structure, give some indications of group cohesiveness, and aid in pointing out possible operating problems.

Other data-collecting methods include the use of indirect questions or ambiguous stimuli to gain information. An example of this would be the thematic apperception test (TAT), used to measure the intensity of achievement, power, and affiliation motivation profiles of organization members.[9] Some researchers have reported on the use of collages and drawings made by organization members as a means of inferring the organization's climate.[10]

DIRECT OBSERVATION Another important source of data for the OD practitioner is direct observation of member behaviors and interactions. The practitioner observes how people go about task performance and how they act or react in response to specific situations. The norms and attitudes expressed by members are also an important source of data. The observer looks for inconsistent or discordant behaviors: situations in which the observed actions differ from what was previously described or what is expected.

The practitioner may use a diagram (such as a sociogram) to chart the communication process in team meetings, identifying, for example, communications flows and patterns. Many practitioners recommend that the observer be as inconspicuous as possible, should not use a stopwatch (or other equipment), and should not take notes while observing. If making notes is unavoidable, the observer should leave the area before doing so. Some observers use indirect observation; that is, while seemingly observing one section, they may actually be observing another section across the room.

It is often valuable to visit work sites, field locations, or assembly-line operations to compare observed with reported behavior. This is obviously of greater value if the observer has a reasonably clear idea of what to look for. Observation varies from highly systematic, structured observations to nonsystematic, random observations. The more systematic the planning, recording, and observing, the greater the likelihood that observation will yield reliable and useful data.

INTERVIEWS Interviewing is one of the most widely used data-gathering techniques in OD programs. Interviews are more direct, personal, and flexible than questionnaires and are very well suited for studies of interaction and behavior. Two advantages, in particular, set interviewing apart from other techniques. First, interviews are flexible and can be used in many different situations. For example, they can be used to determine motives, values, and attitudes. Second, interviewing is the only technique that provides two-way communication. This permits the interviewer to learn more about the problems, challenges, and limitations of the organization. Interviewing usually begins with the initial intervention and is best administered in a systematic manner by a trained interviewer. Data-gathering interviews usually last at least one hour; the purpose is to get the interviewees to talk freely about things that are important to them and to share these perceptions in an honest and straightforward manner. It is frequently the case that people really want to talk about things that they feel are important. If the OD practitioner asks appropriate questions, interviewing can yield important results.

The advantage of the interview method is that it provides data that are virtually unobtainable through other methods. Subjective data, such as norms, attitudes, and values, which are largely inaccessible through observation, may be readily inferred from effective interviews. The disadvantages of the interview are the amount of time involved, the training and skill required of the interviewer, the biases and resistances of the respondent, and the difficulty of ensuring comparability of data across respondents.

The interview itself may take on several different formats. It can be directed or nondirected. In a **directed interview,** certain kinds of data are desired, and therefore, specific questions are asked. The questions are usually formulated in advance to ensure uniformity of responses. The questions themselves may be open ended or closed. **Open-ended questions** allow the respondent to be free and unconstrained in answering, such as "How would you describe the work atmosphere of this organization?" The responses may be very enlightening, but may also be difficult to record and quantify. **Closed questions,** which can be answered by a yes, no, or some other brief response, are easily recorded and are readily quantifiable but may not reveal critical data.

In a **nondirected interview,** the interview's direction is chosen by the respondent, with little guidance or direction by the interviewer. If questions are used in a nondirected interview, open-ended questions will be more appropriate than closed questions. A nondirected interview could begin with the interviewer saying, "Tell me about your job here." This could be followed by "You seem to be excited about your work." The data from such an interview can be very detailed and significant but difficult to analyze because the interview is unstructured. An example of data-collection methods, including interviewing, is **OD Application: Data Collection and Diagnosis at McDonald's.** It also includes information on diagnosis and how the diagnosis was used to change McDonald's restaurant business.

OD Application: Data Collection and Diagnosis at McDonald's[11]

Back in the later part of 2002, top managers of McDonald's Corporation became aware that they had a problem based on their earnings and profitability figures. Through a series of meetings where they made an assessment of where they were, they decided that McDonald's had to deliver a better experience for its customers. But just specifically, what was the problem and how to solve it remained a challenge. CEO James Skinner said, "We had lost our focus. We had taken our eyes off our fries, if you will." Continuing, he said, "To focus on our customers, we have to have a robust consumer-insight process."

Consequently, around 2003, McDonald's adopted a system of mining data that turned out to be something like mining gold. McDonald's had always checked in with customers, but the data were largely anecdotal. And there was a lack of consistency between reviewers doing customer interviews: a passing grade from two different reviewers did not mean the same thing in terms of quality of food and service.

McDonald's already had in place an information network that funneled real-time sales data to corporate headquarters. But sales data didn't say anything about the customer's opinion of the food or service. Declining sales figures indicated that there was a problem, but it left a lot to be desired in terms of discovering the underlying problems: Stale buns? Rubbery-tasting meat? Dirty tables? Long service lines? A promotion for a toy at the competition across the street? A 99¢ special at Burger King?

McDonald's started sending mystery-diners to restaurants—but not just to ding franchisees with a failing grade. They collected data in a manner that would be more useful to the individual store. The mystery-diners graded such things as speed of service, food temperature, cleanliness, and whether the counter crew smiled. Six-month and year-to-date averages for each store were made available on a McDonald's internal Web site, along with regional averages for other stores. Operators could find out where

(continued)

they had a consistent problem, maybe cold buns, and ignore a one-time problem, such as a dirty counter.

Simultaneously, McDonald's conducted in-depth interviews with repeat customers. What it discovered was that many customers ate at McDonald's because they had no better alternative. The interviews found that people didn't like things like the Big Mac sauce, the seasoning in the beef patties, limp and microwaved buns, and long lines at drive-up windows. In short, they found more people disliking the brand than liking it. The data indicated that the solution was in delivering a better experience for the customers rather than more restaurants. CEO Skinner said that they "were more willy-nilly before. The attitude was we'll make it and they'll buy it. We didn't spend enough time listening to our customers."

McDonald now has food studios in all its major geographic segments: Oak Brook, Illinois, Hong Kong, and Paris. The strategy to take on Starbucks by selling quality coffee and at a cheaper price is paying off. Coffee stations with Starbucks-style baristas separate from the main counter are being installed. The expanded menu into coffees and smoothies at beverage stations serves dual purposes of selling more beverages and attracting customers at nonpeak times. This builds on the strategy launched in 2003 to increase traffic at existing stores rather than opening more stores.

Data mining gives management at McDonald's, from the CEO to the local store, the information it needs to better serve customers in very specific ways. The data serve as the base for implementing a long-range strategy of changing McDonald's.

Questions

1. Research McDonald's and evaluate its strategy of separate beverage stations.
2. In lieu of in-depth interviews, what are some other methods McDonald's could have used to gather data? What are some advantages and disadvantages of McDonald's method and your suggestions?

THE IMPLEMENTATION OF DATA COLLECTION

Data collection begins with a decision about from whom to obtain data and how many respondents there should be. The use of interviews may limit the number of respondents, whereas the use of a questionnaire may increase the number. Data should be collected from several levels and departments in the organization, but different questions may be needed for each of them.

Once an appropriate technique has been selected, the actual data-collection program must be accomplished. This includes the operational aspects of designing, printing, distributing, and collecting the data-collection instrument. Outside data-collection agents are typically more effective than internal personnel. The use of outside data-collection agents is recommended because it apparently makes respondents feel more secure and trusting that candid answers will not be used against them. There are companies that develop data-collection instruments, test them, and make them available commercially. The disadvantage is that such instruments may be too generalized and not focused enough for a specific organization to get reliable and useful data.

Once again, confidentiality of data is a critical issue. A small pilot study or beta test of the data-collection instrument is also a good idea. This should include a practice analysis before the large-scale data collection begins to ensure that every possible problem is corrected.

The Analysis of Data

The techniques for analyzing data vary from relatively straightforward, simple methods to highly sophisticated statistical techniques. Several important questions must be considered before a data-collecting method is selected: How are the data to be analyzed? Are they to be analyzed statistically, and if so, what type of analysis is to be used? Will the data be processed by hand or by computer? Will they be coded, and if so, how? These questions must be taken into account prior to data collection so that the data can be used to draw inferences and conclusions. This is especially true with large-scale questionnaires or interviews, because the large amount of data makes processing a difficult task. The analysis may include comparisons of different divisions within the organization. Management levels can also be compared. To make comparisons, however, it is necessary to properly code the questionnaires or interviews.

Evaluating the Effectiveness of Data Collection

A systematic data-collection program has to establish some criteria for how well the data meet the objectives in terms of quantity and quality. Obviously, the sample has to be large enough to enable generalization of results. The accuracy of the data, that is, the degree to which the data deviate from the truth, is also an important factor.

A number of criteria may be used to compare data-collection techniques. There is necessarily a trade-off between data quantity and accuracy, on the one hand, and collection cost and time spent collecting, on the other. Naturally, the practitioner wants to obtain the best available data that can be generated within the given cost and time constraints. The following criteria lay out some guidelines:

THE VALIDITY OF THE DATA Probably the most important question is: Are we measuring and collecting data on the dimensions that we intend to measure? OD programs frequently have to deal with difficult subjective parameters such as attitudes and values.

THE TIME TO COLLECT DATA How long will it take to gather the data using any given technique? How much time is available? Experience suggests that data collection usually takes longer than planned.

THE COST OF DATA COLLECTION How much do the data cost? A large-scale interviewing program costs a great deal of time and money. The practitioner and the client must determine how much money can be spent in the data-gathering stage. They should also consider the problem of diminishing returns: What is the minimum number of interviews needed for a reliable measure?

THE ORGANIZATIONAL CULTURE AND NORMS The practitioner has to decide what techniques are best suited to a given organization's culture and will yield the most valid data given these constraints. For example: Are people likely to be open and candid, or hidden and resistant? Does the climate call for open confrontation and questions or a more indirect form of data gathering?

THE HAWTHORNE EFFECT IN DATA COLLECTING One of the most difficult factors to eliminate is the so-called **Hawthorne effect**—the effect the observer has on the subject. The very act of investigating and observing may influence the behavior of those being investigated.

One characteristic of successful change programs is that practitioners gather data about organizational problems before initiating a change effort. An effective data-collection process enables the change effort to focus on specific problems rather than rely upon a generalized program. The data-collection stage provides managers and organization members with hard data that can be compared with intuitive, subjective problem awareness.

DIAGNOSTIC MODELS

Diagnosis is based on an understanding of how an organization functions. OD practitioners use diagnostic models to assess organizations. One method of diagnosis is the system approach discussed earlier in Chapter 2. **Diagnostic models** play a critical role in an organization development program. The models are useful as they assist in providing a conceptual framework to understand better the organization, its many components, and how well they function as a system. This enables the practitioner to focus attention on identified problem areas instead of using a shotgun approach. The trend now is to ask employees to rate the organization's progress on corporate change, empowerment, and similar issues. Each of the various diagnostic models may be used to analyze the structure, culture, and behavior of the organization. Several diagnostic models will be examined briefly in this section.

Differentiation-and-Integration Model

The **differentiation-and-integration model,** sometimes referred to as the analytical model, stresses the importance of a sound analytical diagnosis as the basis for planned change in organizations.[12] The model was developed to study and understand interdepartmental issues by conducting a careful diagnosis of the organization's problem areas. Most organizations are composed of departments or divisions; that is, the organization is made up of differentiated functions or units that must be integrated into a unified effort if the organization is to be effective.

The model begins with a study of how much differentiation exists between the work units. Highly differentiated units may have developed within an organization because of geographic dispersion, competitive conditions in the marketplace, backgrounds of members, and so forth. In a study by the originators of the model, they found that members of work units differed not only

in the type of work they did but in their ways of thinking and behaving.[13] There are obviously differences in the types of tasks that are performed between work units; for example, the tasks of the finance department and the advertising department are very different. But more subtle are the differences that may, or may not, exist in the ways these two departments have of solving problems, thinking, and behaving. These are differences that exist not as a result of any policy manual or organization chart. Furthermore, due to the culture and history of organizations, similar units but in different organizations will have degrees of differentiation. For example, the degree of differentiation of similar units at Microsoft will be different than at Google.

In conjunction with the analysis of the differentiation of the work units, the model also calls for an analysis of the integration required between work units. Various degrees of cooperation and collaboration are required between departments and divisions. Some units have little or no need to work together, while other units need to be highly integrated. For example, an analysis of one organization may show that marketing and engineering departments must be closely integrated for successful operations. But finance and human resources departments can function somewhat independently of one another and still be successful. Market and competitive conditions will also influence the degree of integration required of work units within the organization.

When work units are highly differentiated because of the nature of their work, it will be easier to obtain integration between them if the members have similar ways of solving problems and behaving. Conversely, it will be more difficult to achieve integration if the members have different and contradictory ways of solving problems and behaving. An even more difficult challenge to achieve integration exists if units need to be highly differentiated in their tasks, their ways of solving problems, and behaving, but yet they must be closely integrated. For example, in a software development company, a section is responsible for human interface elements, and another section is responsible for writing the computer program. The section working on the human interface elements (the look and feel) of the software is responsible for the wording and appearance of menus, the design of icons, and the flow of the program to accommodate the way a user of the software thinks. The people in this area may be specialists in cognitive reasoning and linguistics but they know little about the programming required. Likewise, the programming analysts are experts in developing computer code in languages such as Java, Delphi, and C++, but they have little expertise in human interface requirements. These two units are differentiated substantially in the nature of their work and their ways of solving problems and thinking. Even their language will be different. Yet the two units need to be well-integrated for them to develop an effective software program.

The tasks of the work units within an organization can be examined in respect to four characteristics of the organization's environment: (1) the degree of departmental structure, (2) the time orientation of members, (3) the interpersonal orientation of members toward others, and (4) organization members' orientation toward goals. One example of how this model can be used is shown in Table 5.1, which presents the survey results of four departments in a hypothetical company. The data show that the finance and research departments are fairly wide apart in how their members view time, orientation toward others, and goals. Despite these differences, the two departments must work together. The differentiation-and-integration model may make it possible for the two departments to understand why they have differences and to develop ways to work better together. The data on these four characteristics provide a basis for structural or cultural changes in the department.

TABLE 5.1 Example of Survey Results Using the Differentiation-and-Integration Model

Organization Units	Degree of Departmental Structure	Members' Orientation Toward Time	Members' Orientation Toward Others	Members' Orientation Toward Goals
Finance Department	High	Short	Controlling	Investment
Research Department	Low	Long	Permissive	Science
Marketing Department	Medium	Short	Permissive	Market
Production Department	High	Short	Directive	Product

The Sociotechnical-Systems Model

The **sociotechnical-systems model,** developed from the work of Eric Trist and others at the Tavistock Institute of Human Relations in Great Britain, analyzes the organization as a sociotechnical system interacting with its external environment.[14] According to Trist and his colleagues, every organization comprises a social system consisting of the network of interpersonal relationships and a technological system consisting of the task, activities, and tools used to accomplish the organization's purpose. These two systems—the social system and the technological system—are interrelated and interdependent because they function together to accomplish work. Furthermore, the internal system is an open system and is part of a larger environmental suprasystem. (See Chapter 2 and Figure 2.4 for a more detailed discussion of the sociotechnical system.)

Diagnosis determines how the social, technical, and suprasystem interrelate, with emphasis on the feedback or lack of feedback between the various subsystems. The model is one of an open system that optimizes the relationship between the social and technical parts of the organization. As an example, the model describes new technology but also describes how people will use the technology.

The Force-Field Analysis Model

The **force-field analysis model,** originated by Kurt Lewin, is a general-purpose diagnostic technique.[15] This model views organizational behavior not as a static pattern but as a dynamic balance of forces working in opposite directions. In any organizational situation, there are forces that push for change and forces that hinder change. The forces acting to keep the organization table are called **restraining forces;** they put pressure on the organization not to change. Opposite forces, called **driving forces,** put pressure on the organization to change. If the forces for change and the forces against change are equal, the result is equilibrium and the organization remains stable, as shown in Figure 5.6. Lewin termed this state "quasi-stationary equilibrium." This technique assumes that at any given moment, an organization is in a state of **equilibrium;** put differently, it is balanced.

Change takes place when there is an imbalance between the two types of forces and continues until the opposing forces are brought back into equilibrium. The imbalance can be planned, and specifically brought about, by increasing the strength of some of the forces, by adding a new force, by decreasing the strength of some of the forces, or by a combination of these methods. An example of how force-field analysis can be used may be helpful. The general manager of a hospital, employing 300 workers and her immediate subordinates, identified the

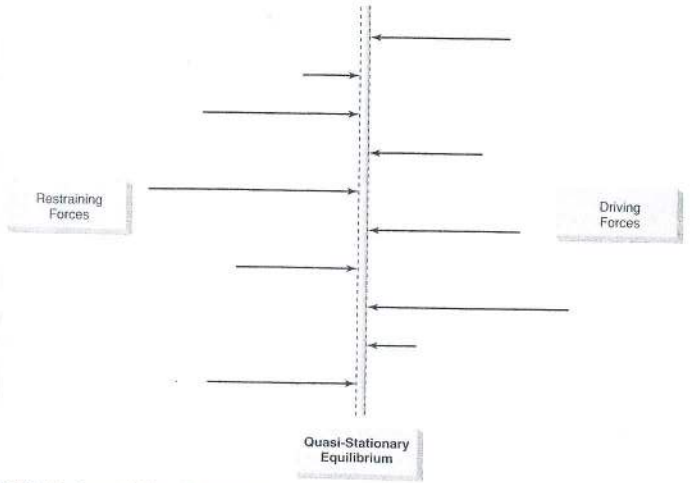

FIGURE 5.6 Force-Field Analysis Model

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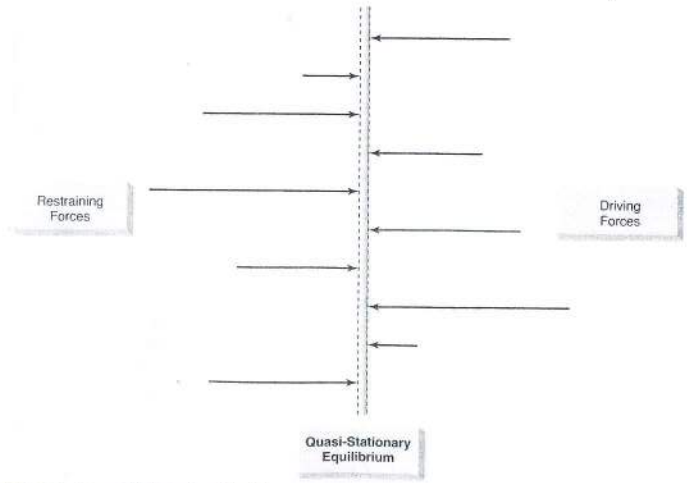

FIGURE 5.6 Force-Field Analysis Model

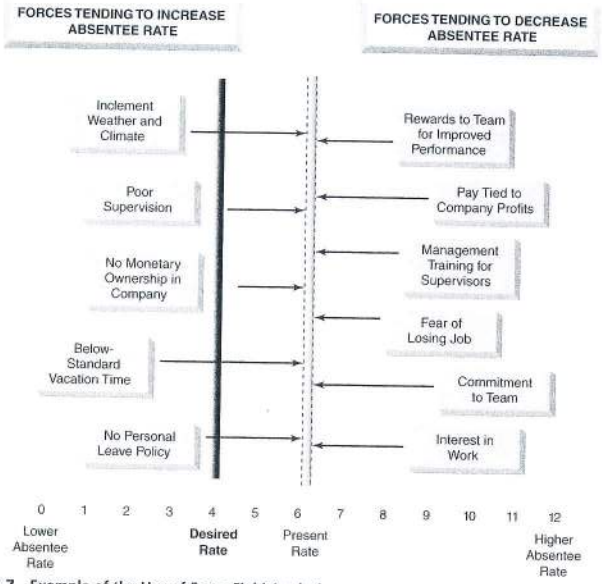

FIGURE 5.7 Example of the Use of Force-Field Analysis

6 percent daily absentee rate as an area of concern. They determined that a 3 percent absentee rate would be much more acceptable. In other words, they found a "performance gap." After going over the survey results with the OD practitioner, it was decided to use force-field analysis to gain an improved diagnosis of this problem. In a brainstorming session, the work team listed all of the forces tending to restrain and increase absenteeism and assigned strengths to the forces. Figure 5.7 is a chart of what they produced.

The managers made the length of the arrows proportionate to the strength of the forces. They had a choice of several strategies to reduce the performance gap. They could decrease the strength of the restraining forces, increase the strength of the driving forces, or a combination of both. Generally, if the forces that put pressure on people (such as fear of losing their job) are increased, the tension within the system will also increase, possibly bringing about stronger resistance and unpredictable behavior. It is often better to increase forces that do not put pressure on people (for instance, a promotion policy that is more closely tied to an employee's absentee rate), to reduce restraining forces, or to add new driving forces.

WARNING SIGNS IN THE DIAGNOSIS PROCESS

The change strategy and OD intervention techniques follow from the diagnosis. An inappropriate intervention can be very costly. Such programs can disrupt operations, generate resistance or even hostility among employees, and create additional problems. Using the wrong change strategies will either fail to produce the needed changes or lead to unnecessary changes at the expense of the client system. Ineffective change programs are usually the result of an inaccurate diagnosis.

The diagnostic phase presents some special problems. Because diagnosis is one of the most important stages in the OD process, the practitioner should be aware of the following warning signals.

Confidentiality

The issue of confidentiality is a critical problem area in diagnosis. As noted in Chapter 3, in the discussion of practitioner ethics, the relationship of the client and practitioner is based upon privileged communication between the two. This often includes information that may be potentially damaging. The practitioner is entrusted with private information about the client. In one case, two practitioners carried on a casual conversation in the elevator about sensitive material revealed to them by the CEO, only to learn later that they had been overheard by an attorney who was a close personal friend of the CEO.

There are many similar examples indicating that practitioners cannot be too careful about how they handle confidential information. This goes back to the trust that the practitioner must be able to develop with organization members.

Overdiagnosis

Sometimes a diagnosis goes on for so long that it is impossible to adopt a corrective program. The term "analysis paralysis" best describes this situation.[16] The diagnosis itself may become a ritual of continual analysis. An executive at one company, for example, commenting on his company's tendency to overdiagnose problems, said, "Everything has to be studied to death." The diagnosis may continue to a point where so many problems are identified that the client is overwhelmed by the complexity of the situation. While diagnosis is an important step, it can also be a delaying factor and prevent change programs from even getting started. In most situations, there are several problems that need correction. But if managers are faced with too many alternatives, the most important ones may be obscured or overlooked.

The Crisis Diagnosis

The OD practitioner is often in danger of falling into the trap of attending only to the immediate, short-term crises that the client sees as immediate and important. Energy is often wasted on fighting symptoms or dealing with small crises as a way of avoiding the long-run change programs necessary to develop a more effective organization. Because of time pressures, a practitioner may go through an organization in a few days and quickly diagnose the problems. This often results in dealing only with the conspicuous problems, whereas more important but less visible ones may be missed.

The Threatening and Overwhelming Diagnosis

An OD practitioner interacting with a client system and beginning to perceive possible problem areas may confront the client about them. There is a danger, however, that the practitioner may come across so blunt or so strong that the relationship with the client is weakened. Clients sometimes find it difficult to face and accept information about problem areas. The client may also be inundated with more information than can be dealt with in a meaningful way. If the diagnosis is too threatening or overwhelming, the client may resist or reject the entire change program.

The Practitioner's Favorite Diagnosis

Practitioners have a tendency to fall victim to their own biases and selective perceptions. This may result in imposing a special or favorite diagnosis regardless of the nature of the problem. As an example, some practitioners see all problems as caused by organizational structure regardless of the actual circumstances. Other practitioners see every problem as arising from interpersonal behavior. The tendency to impose a favorite diagnosis on problems must always be kept in mind. Overreliance on a favorite technique may so distort the problem that it is impossible to find a solution. Variables that do not fit in are disregarded, and a well-designed solution is formulated for something that is not a problem.

As Lippitt, Watson, and Westley point out:

> The diagnostic orientation of the change agent is in many ways a self-fulfilling prediction. If he looks for difficulties in communication, for instance, he will find them; and if his help is directed toward improving communication patterns, success will demonstrate to the client system that a solution of communication problems necessarily results in a more satisfactory state of affairs. . . . The orientation of the change agent is a primary factor in determining the "facts" which the client system will discover to be true about its own situations.[17]

The Diagnosis of Symptoms

As noted earlier, there is often a tendency to focus on the symptoms rather than on the underlying problems. The OD practitioner may be unduly influenced, say, by the data on high turnover

rates and, in consequence, identify turnover as the problem. However, the turnover rate may only be a symptom of other problems, such as poor supervision, inadequate performance appraisal, or lack of compensation. An article in a business publication reported that revenues at one company fell by more than 40 percent over five years and that there were operating losses for 19 consecutive quarters. Falling revenues are the problem in some sense, but they are really a symptom of underlying problems. The problem was tracked further back to slowness in developing and delivering new products and consumer promotions to stores, inconsistent marketing, and the wasting of millions of dollars through inefficiency. Tracking back the problem even further disclosed a culture of past CEOs lording it over employees, and fiefdoms so fractious that they seldom communicated at all.[18]

In short, the diagnostic phase is an important and critical step in the OD process. The next chapter will expand the discussion of the diagnosis process by dealing with the process of OD practitioners identifying forces within individuals and organizations that cause resistance to change programs. The chapter will then cover the development of strategies that will increase the motivation to change.

ummary

- **Diagnosis.** Organizational diagnosis is one of the most critsical and difficult elements in the OD process. Diagnosis has this importance because it leads to problem-solving action. A weak or inaccurate diagnosis prevents the practitioner and the client from identifying underlying forces and multiple causalities that would enable them to specify the nature of the problem.
- **Data Collection.** Intervention and data gathering take place throughout an OD program. Decisions about what information to collect and how it should be collected are difficult and important. No data-gathering method is right or wrong in itself; each method has its limitations as well as its strong points. The process of collecting information is an important step in an OD program because it provides a foundation for diagnosing problems and selecting change strategies and techniques. What must be determined is whether a given method is most appropriate for the specific objectives and climate of each unique situation.
- **Problem Solving.** In diagnosing an organization's problems, the practitioner and the client try to specify the problems, determine the underlying causes, and identify the opportunities for change. The practitioner sorts out factual from nonfactual information and searches for multiple sources of the problem condition. The outcome is an explicit and specific diagnosis upon which to base change efforts.
- **Diagnostic Process.** Diagnosis is not a simple process, because it encompasses both the client's needs and the system problems. The diagnostic process involves identifying the problems and assessing the readiness for change in the client system. It requires an understanding of the client's viewpoint. The practitioner must apply a system's approach by specifying the interrelationships of various elements of the client system. This requires organizing the available data or evidence into meaningful patterns.
- **Diagnostic Models.** Several diagnostic models have been described, including the analytical model, the emergent-group behavior model, the sociotechnical-systems model, and the force-field analysis model. The practitioner uses these models to facilitate the analysis of client system problems. The important factors and models in the diagnostic process have been described. This stage provides the foundation for subsequent OD interventions.
- **Implementation.** The practitioner needs maximum participation in the diagnostic process from members of the client system and needs to consider the impact of the diagnosis upon the relationship with the client. Since the practitioner may confront the client with unpleasant facts, the more objective the data and the more the analysis includes both strengths and weaknesses, the better the resulting OD program will be. During the diagnostic phase, the practitioner should be alert for danger signals or red-flag conditions.

Review Questions

1. Describe the use of performance-gap analysis.
2. Compare and contrast the interview and survey methods of data collection.
3. List some possible types of organization data that you might find in your own organization or college that could be used in planning an OD program.
4. Explain the difference between symptoms and causes.
5. Identify and give examples of the force-field analysis model.

Key Words and Concepts

Clique
Closed Questions
Data
Diagnosis
Diagnostic Models
Differentiation-and-Integration Model
Directed Interview
Driving Forces
Equilibrium
Force-Field Analysis Model
Hawthorne Effect
Information
Isolates
Mutual Choice
Nondirected Interview
One-Way Choice
Open-Ended Questions
Performance Gap
Questionnaires
Restraining Forces
Sociogram
Sociometric approach
Sociotechnical-Systems Model
Stars
Surveys