7 Leadership and Organizational Climate

Introduction

Leadership style and organizational climate are two of the most widely used, debated, and researched concepts in management. Everyone can make a list of great leaders. We know good leadership when we see it. What is a leader?[1] Does a good leader stand alone, or must there be a good fit with the firm's culture and climate?[2] What is a good climate? What climate is needed to be successful in an organizational change process? Leadership and organizational climate are important issues to take into account when you design an organization. A firm's leadership style and organizational climate are the two sides of how the people in the organization think and act. In your approach to designing an organization, you should focus on analyzing the leadership style and organizational climate. The *leadership style* is the predominant mode used by the top management of your unit of analysis to manage employees. This is the top management of the entire organization if your unit of analysis is an entire company or firm. It is the department head or team leader(s) if your unit of analysis is a department or team. Top management is the individual or group of people at the highest level of your unit of analysis. In large organizations, it is often called the C-suite. In Chapter 4, the relation between the top management group and the overall design of the organization was discussed. The *organizational climate* is the internal environment or working atmosphere as experienced by organizational employees. The organizational climate for your unit of analysis may or may not be consistent with the climate of the broader organization. Next, we start with leadership style and then continue with organizational climate.

Leadership Style

Theory X and theory Y leadership descriptions (McGregor, 1969) are widely used in management conversation as contrasting styles. A theory X leader is directive, short

[1] We use leader both generically and also as one of the four leadership styles. The context should make it clear which usage is appropriate.

[2] We focus on the organizational climate in this book. There has been a long discussion in the literature about the difference between culture and climate (e.g. see Denison, 1996).

term, and control-oriented, whereas a theory Y leader delegates, is long term, and motivates through inspiration. Autocratic versus democratic leaders as described by Likert (1967) and managers versus leaders as described by Kotter (1988) capture contrasting styles. Building on Cyert and March (1963), Burton and Obel (2004) argue that these contrasting styles can be summarized as decision-making preferences that are a function of a leader's preference for delegation on the one hand, and the tendency to avoid uncertainty on the other hand. Håkonsson *et al.* (2008b) found empirical support for such a categorization. Preference for delegation follows from Cyert and March's (1963) idea of problemistic search. The managerial propensity to delegate serves as a decision-making heuristic whenever the executive finds delegation to be efficient due to their limited information-processing capacity and time availability. Similarly, Cyert and March's notion of uncertainty avoidance incorporates several executive desires: preference for detail, tendency to be reactive rather than proactive, short-term versus long-term decision-making, and ability to motivate via control rather than inspiration. To illustrate, one way in which an executive can avoid the uncertainty of long-term anticipation and commitments is to provide detailed directions to employees based on short-term feedback. This means solving pressing problems rather than developing long-term strategies. It also means avoiding having to anticipate the business environment or otherwise negotiate change within the organization to meet major environmental shifts. Some executives tend to provide detailed instructions to employees and avoid the uncertainty of managing for the future. Other executives are the opposite – they embrace the "big picture," let employees find their own direction, and take risks for the future despite the uncertainties involved. Of course, there are gradations in between, as we shall see.

We use the two dimensions, preference for delegation and uncertainty avoidance, to analyze leadership style. Together, these two dimensions measure how managers influence organizational efficiency and effectiveness, i.e. how managers contribute directly to organizational performance through their leadership. *Preference for delegation* is the degree to which the top management encourages lower-level managers or other employees who report directly to them to make decisions about what and how work is to be done in the organization. Preference for delegation is high if top management relies on lower-level managers and employees to work autonomously and make decisions without top management approval. Preference for delegation is low if top management prefers to make decisions about how and what work is done and to direct activities in a close-handed way. *Uncertainty avoidance* is the degree to which the top management shuns taking actions or making choices that involve major risk. Uncertainty avoidance is low if your top management tends to be risk-taking, whereas uncertainty avoidance is high if your top management tends to be risk-averse. How may AI influence leadership styles? Most likely, it will not influence leaders' ratings on either preference for delegation or uncertainty avoidance – but it may well support in making their preferences less preponderant. Kolbjørnsrud *et al.* (2016), based on a large survey of managers and executives involved in digital transformation, concluded that leaders should adopt AI in order to automate administration and to augment, but not replace, human judgment. As for preference for delegation, delegation may not be to human employees, but instead could take the form of delegating to a robot, or automating more administrative tasks, such as report writing, or monitoring of sales

via digital tools. Would preference for delegation be affected by the fact that the delegation was made to an intelligent robot? Would a bank manager be more willing to give a robot more discretion about a loan decision than if the delegation was to a human? With regard to uncertainty avoidance, AI is probably more likely to support, rather than replace, managers in making judgment-oriented work, dealing with ethical dilemmas, or creative thinking related to scenario thinking, for example (see Kolbjørnsrud *et al.*, 2016). On the other hand, AI is less biased than humans are and deals with Big Data quickly, and therefore could be a useful support for leaders in dealing with the uncertainty of the future. As we discussed in Chapter 3, AI and prediction algorithms may also reduce the perceived environmental uncertainty, thus putting less emphasis on leaders' uncertainty avoidance. We will discuss likely implications for each of the four leadership styles below.

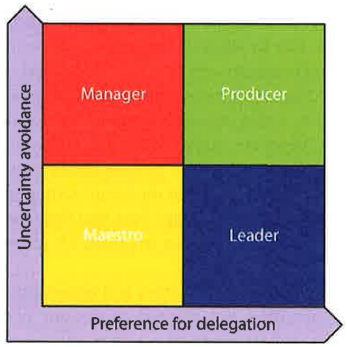

Figure 7.1 The leadership style space

The two leadership dimensions are shown in Figure 7.1. Uncertainty avoidance is on the vertical axis and preference for delegation is on the horizontal axis. This provides us with four leadership style categories: maestro, manager, leader, and producer. The maestro prefers little delegation and accepts uncertainty. The manager, similar to theory X, prefers little delegation and avoids uncertainty. The leader, opposite of the manager and similar to theory Y, accepts uncertainty and delegates decision-making to subordinates. And, finally, the producer avoids uncertainty and has a high preference for delegation. The manager and leader are well-known contrasting styles; the maestro and producer are new style descriptions. We now describe each in more detail.

Maestro

The *maestro* has a low preference for delegation and low uncertainty avoidance. The maestro will intervene directly to ensure that decisions are made congruent with their own desires. At the same time, the maestro does not avoid the uncertainty of long-term decisions and their implications for the firm.

The maestro can become overly involved and overly burdened with too much to do when the lack of delegation creates a bottleneck for decision-making and a barrier to action. Decisions are not made; projects are not started; products are developed too late for the market. Further, we can see that the effective maestro requires great expertise – expertise for knowing how and when to take risks and how to lead people to make great progress for the organization.

The maestro leadership style fits well with the small start-up company, while for the large mature corporation a leadership style that does not prefer to delegate while at the same time embraces new ideas and projects may be problematic. The maestro leadership style may be appropriate in a crisis or at a time of major change like a merger. In a study of 407 Danish SME firms, Håkonsson *et al.* (2012a) empirically examined the performance consequences of having an alignment between the leadership style and strategy. This study provided support for the argument that the maestro is a good match for a reactive strategy, as they empirically found that the maestro was not a good fit with a prospector, analyzer, or defender strategy. Instead, they argued that the maestro was a better leadership style for firms pursuing reactor strategies.

If the top management takes a maestro approach, it is likely to be reactive. Due to the low preference for delegation, a maestro style is likely to serve as a bottleneck in decision-making. Environmental and innovation changes can be perceived due to the low uncertainty avoidance, but too late for reaction, given the low preference for delegation. Making change in an organization that is led with a maestro style will be difficult, particularly in the time frame when change is needed. For the maestro, adoption of AI may be very useful as a decision support tool, helping the already busy maestro in dealing with analytical decisions and data analysis. In Libratone, Song Liu has been the CEO since 2015. He is also a member of the board of directors. Libratone is a small company with fewer than fifty employees which is owned by a Hong Kong-based company. Libratone has lost almost $100 million[3] since it was bought by the Chinese investment group in 2014. Libratone's situation calls for a maestro leadership style. It has a very risky and aggressive strategy, it continues to lose money, but it has a strong vision to be a global player in the speakers market that is dominated by Sonos, Sony, Bose, and B&O.

Manager

The *manager* has high uncertainty avoidance and a low preference for delegation. Avoiding uncertainty is realized again by making reactive and short-term decisions with a fine level of detail. The manager focuses more on the control of operations than on strategic, longer-term decisions. The manager does not delegate decision-making authority, but instead uses formalized rules to manage subordinates. The manager knows what is happening in detail and can react quickly to undesired activities, i.e. bring things back under control. The manager achieves the goal of efficiency in operations where the utilization of resources is very important.

[3] See https://finans.dk/tech/ECE11445476/libratone-med-opskruede-maal-har-tabt-en-halv-milliard-paa-fem-aar/?ctxref=ext.

If the top management adopts a manager style of leadership, then it has excessive attention to detail that can make an organization vulnerable to those issues that, for one reason or another, are overlooked or receive little managerial attention. There can be little attention to the longer-term strategy of what to do or the "bigger picture" of work to be done. Thus, some vital details may be missed. If the environment becomes less predictable, the firm is likely to miss the opportunity for change, which can harm overall effectiveness. Further, the manager approach to leadership gives little attention to innovation, except for efficiency-related innovation that threatens the technology base of the firm. In general, the manager leadership style has a short-term orientation that tends to overlook issues that make the firm viable for the longer term. The primary focus of a manager is on efficiency. In the Håkonsson *et al.* (2012a) study, we found that the manager style was most appropriate for a defender strategy. The manager has a high focus on efficiency and has high uncertainty avoidance. In terms of adopting AI, a manager style is likely to see the potential in AI for dealing with control and administrative tasks, some of which may be automated with rule-based robots. To some extent, given the managers' preference for dealing with the same type of tasks that are most easily supported by AI, this is the one leadership style which is likely to be influenced the most by AI. On the other hand, the manager style's focus, experience, and expertise in analytical decision-making will remain valuable for judgment-oriented decision situations. When Jørgen Vig Knudstorp took over in LEGO in 2004, he went back to a manager leadership style, streamlining LEGO by cutting cost via reducing the number of parts and people, and keeping tight control of operational as well as strategic decisions. The first year, he was both the CEO and COO – to make sure that he understood the production and resource usage well enough to obtain the right balance between cost and income. His successor, Niels B. Christiansen, seems to follow the manager leadership style. When there is a challenge, he wants to be involved and take control. This is reflected in the change in LEGO's configuration. LEGO faces a challenge in market channels and the move toward a digital society. So, Niels. B Christiansen replaced the CMO with himself, and added a CDO who reports directly to the CEO.

Leader

The *leader* has a high preference for delegation and low uncertainty avoidance. The leader is confident that others can make good decisions for the firm and thus finds delegation an efficient way to save time. Moreover, the leader does not avoid long-term uncertainty, but instead embraces its challenges by attending to more strategic decisions. If the top management takes a leader approach to managing people, then it spends considerable time thinking about the long term, taking risks, and avoiding the time-consuming task of detailed control. The leader explores new ideas and actions, encouraging new ideas, initiatives, and projects, both their own and those of subordinates. With the confidence to let subordinates make decisions and take actions, the leader can focus on more strategic considerations of the long term. Consistent with this, Håkonsson *et al.* (2012a) confirmed that the leader leadership style was more effective at managing a prospector strategy than any of the other four Miles and Snow (1978) strategy types.

A leader has a focus on effectiveness and is willing to take substantial risks in order to achieve ambitious goals. The leader is vulnerable to weak follow-up behavior in the process of implementation. If the subordinates do not live up to the confidence of their leader, then organizational performance can suffer – perhaps for an extended time period. Lack of attention to detail can create large problems for the organization. Further, the leader can take on risky projects which turn out badly for the firm and the leader. AI may complement the leader's preference not to deal with control and operational decisions – for example, with rule-based decision support systems. Other leadership preferences that relate to creative thinking and experimentation are not easily substituted with AI. In Haier, the CEO Zhang Ruimin is recognized as a great leader[4] and many papers have been written about his leadership style (Chen, 2016; Lewin *et al.*, 2017). He is known for his work in turning a little-known, bankrupt refrigerator manufacturer into the world's largest white appliances company. He has been willing to run risks and he has created an organization with a great deal of delegation, as presented in Chapter 4.

Producer

The *producer* has a high preference for delegation and scores high on uncertainty avoidance. The producer focuses on both efficiency and effectiveness. If your firm's top management adopts a producer style of leadership, then the organization is likely to be well positioned vis-à-vis its competitors. The producer ensures that new products and services are developed and introduced. The focus of attention is a dual one: short term and long term; operations and strategy; current products/services and innovation; internal activities and environment reading; hands-on management and delegation so others can act independently; and efficiency and effectiveness. This dual focus of the producer leadership style was also found to match well with an analyzer strategy (Håkonsson *et al.*, 2012a) which, as stated in Chapter 2, is a strategy with a focus on both exploitation and exploration.

The producer wants to know what is going on and assigns work to others, but does not need to make each and every decision confronted by the organization. To avoid uncertainty, the producer has a long-term forecasting and planning focus. The producer exploits the subordinates' managerial resources well, delegating to be efficient in use of time, especially when others make decisions consistent with their preferences. The strength of the producer's leadership style is the delegation to others, but the producer does this with an oversight that can ensure that decisions are made according to their preferences and that those actions are coordinated across the subordinates. The producer may find AI to complement their preference for delegation well, as AI can serve as an effective data analysis decision support and control tool. In terms of supporting the producer's high uncertainty avoidance, AI may supplement via rule-based decision-making, or a reduction of human biases in judgment calls.

Microsoft CEO Satya Nadella embraces uncertainty from the point of view of creating clarity: "Any leader needs to have the ability to create clarity when none exists.

[4] See www.haier.com/za/newspress/news/201403/t20140324_211628.shtml.

There will always be ambiguity but, at the end of the day, it's the leader who has to make the call."[5] In his book, Nadella writes that when he became Microsoft's CEO in 2014, he realized that employees needed "a clear, tangible and inspiring vision." He was determined to communicate his vision and worldview clearly and regularly. Nadella's book and his recent email about Microsoft's focus on a cloud-based future reflect how effectively he communicates his vision.[6]

The new vision offered a semantic shift that would define Microsoft for the five years that followed: it would become a people company instead of a product company. At Microsoft, the mission is to empower every person and every organization on the planet to achieve more.[7]

Organizational Climate

Organizational climate is the "relatively enduring quality of the internal environment of an organization that a) is experienced by its members, b) influences their behavior, and c) can be described in terms of the values of a particular set of characteristics (or attitudes) of the organization" (Tagiuri and Litwin, 1968, p. 27).

This differentiates organizational climate from organizational culture (e.g. Denison, 1996), insofar as climate refers to a more transient, temporary aspect of organizational life.

Climate is a characteristic of an organization which is experienced by its members. It is a psychological measure of the organization. Whereas leadership style refers exclusively to top management, organizational climate refers to all members of the organization, including superiors and subordinates. Håkonsson *et al.* (2008a, 2008b) argue that organizational climate captures affective events, which in turn influence shared employee emotions and consequent information processing. Conceptualizing climate as affective events enables a discussion of climate informed by the numerous recent advances in our understanding of emotions in organizations (Elfenbein, 2007; Collins *et al.*, 2013; Håkonsson *et al.*, 2016).

Capturing climate as affective events essentially means that we think of climates as employees' emotional reactions to organizational events. These shared employee emotions function as an emotional filter for employee information-processing behavior. Here, climate refers only to how objective events are appraised emotionally. Thus, climate "captures" and relates to employees' emotional reactions to organizational events. Because culture commonly includes the "deep structure of organizations" (Denison, 1996, p. 624), this conceptualizing shows that we refer to climate as distinct from culture, as climate relates only to the affective perceptions of organizational events.

Zammuto and Krakower (1991) measured organizational climate using a number of dimensions: trust, conflict, morale, rewards, resistance to change, leader credibility, and scapegoating (i.e. blaming others for mistakes or problems in the organization). In a study of 246 Danish service firms, Burton *et al.* (2004) found that these seven

[5] See www.london.edu/lbsr/changemakers-satya-nadella.
[6] See www.forbes.com/sites/carminegallo/2018/03/31/microsoft-ceo-satya-nadellas-clear-and-consistent-vision-rallies-employees-around-a-common-purpose/#39c7a5f824b7.
[7] See https://news.microsoft.com/empowerment/.

dimensions could be consolidated into two: tension and resistance to change. Here, we treat tension and readiness to change (the opposite of resistance to change) as the two most fundamental design dimensions for organizational climate.

Tension is the degree to which there is a sense of stress or a psychological "edge" in the work atmosphere. Tension incorporates a combination of organizational factors as experienced by insiders, including trust, conflict, morale, rewards, leader credibility, and scapegoating. When tension is high, trust is low, conflict is high, morale is low, rewards are perceived as inequitable, leader credibility is low, and there is a tendency toward scapegoating. Low tension is the opposite: trust is high, conflict is low, morale is high, rewards are perceived as equitable, leader credibility is high, and there is little or no scapegoating. High-tension climates will be characterized by unpleasant emotions, and low-tension climates by pleasant emotions (see Håkonsson *et al.*, 2008a, 2008b, for a more elaborate discussion). At first glance, high tension sounds like a bad state for an organization. How could it be healthy for an organization to have low trust, high conflict, low morale, etc.? Although any one of these dimensions may have negative consequences, in combination they can bring an intensity and vigor to the organization – especially if they do not occur in the extreme. Extremely high conflict and low morale, etc. may be disastrous, but some degree of these in combination with the other factors mentioned above can spur efficiency, especially if they occur in combination with the other design factors for managing people and processes, as we discussed in Chapter 6. Some degree of tension in the organizational climate is stressful, yet it increases the pace of work and movement toward efficiencies. Tension is reportedly high in major banks and financial institutions such as Goldman Sachs and Barclays, where leadership has initiated the process of replacing employees who are responsible for functions that can be replaced with emerging technologies. In Citibank, up to 40 percent of the total workforce, equaling some 20,000 employees, are expected to be replaced by machine learning and AI in the near future (nullTX.com, 2018[8]). Such announcements mark a transition toward a new trend that has not yet reached its full scale across different industries. For companies already involved, such changes are likely to increase tension as a result of internal competition among employees who plan to stay, as well as tension caused by a generally lowered morale, trust, and possibly lack of leadership credibility. That is, for companies where robots and automation are already part of everyday life, tension is likely to occur between remaining employees; or between robots and human interfaces. For those companies that have not yet adopted emerging technologies, tension is likely caused by the uncertainty of what it may entail. However, if the organization includes the affected individuals in the introduction of new technologies, the tension can be quite productive. Of course, the tension cannot be in the extreme.

Readiness to change is the degree to which the people in the organization are likely to change direction or adjust their work habits to meet new, unanticipated challenges. High readiness to change climates will be associated with high-activation emotions, and low readiness to change climates with low-activation emotions. High or low activation depends on whether employees believe they have the resources to deal with

[8] See https://nulltx.com/citibank-plans-to-replace-20000-employees-with-robots-and-automation/.

change (see Håkonsson, 2008a, 2008b, for a more elaborate discussion). Ongoing norms and practices, or routine ways of doing things, can be an asset to an organization, in that they provide a sort of social skill set for getting work done. But ongoing ways of doing things can also be a liability if people are set in their existing routines of work and resist change. Readiness to change, discover, and adopt new work habits and practices is vital if an organization is to be effective over time. Readiness to change may also be vital for the adoption of AI. Climates marked by low readiness to change are not likely to embrace their potentials and may see it as a threat more than an opportunity, and vice versa for climates marked by high readiness for change. The readiness to change is thus of primary importance in Steps 6 and 7, when misfits have to be dealt with by changing the organization design.

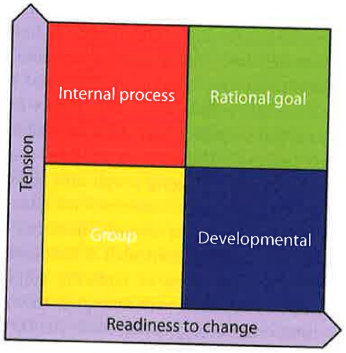

Figure 7.2 Categorization of organizational climate

Climate can be categorized into four climate types: group, internal process, developmental, and rational goal, as shown in Figure 7.2. The group climate has a low tension and low readiness for change – pleasant and low activation emotions; it is a quiet place. The internal process climate tends to be more mechanical, with a low readiness for change and relatively high tension – low activation and unpleasant emotions. The developmental climate is more externally oriented, with relatively low tension and a high readiness for change – pleasant and high activation emotions. The rational goal climate is also externally oriented to succeed, with high readiness for change, but with relatively high tension – high activation and unpleasant emotions.

Group

The *group climate* is characterized by low readiness to change and few events of high tension. Based on cumulative experiences with such events, this is a climate characterized by emotions such as calmness, comfort, and relaxation, with open and free flow of information – pleasant and low activation emotions.

It is a pleasant place to work where individuals trust one another, conflict is low, rewards are perceived as equitable, and there is little readiness to change. Here, the individuals are comfortable with the situation, as well as with one another, and see no need to consider any change, and it is pleasant for employees generally. A group climate usually has a low degree of conflict. If conflict exists, it is constructive and tends to strengthen the organization, rather than destroy it, i.e. there can be disagreement on the group purpose itself. This is usually coupled with a high or moderately high degree of employee morale. Individuals feel that they belong to and are part of the organization. Rewards need not be equally distributed, but there must be a sense of fairness where the basis for the distribution is understood and accepted by the individuals in the organization.

If an organization has a group climate, then it will find that managing information flow is relatively easy. Information is more likely to be "broadcast" than "channeled." "Need to know" is replaced by "everybody knows," or informal communication among specific parties who need to share knowledge. There are few secrets. The group climate can handle complex sets of information.

Although things are pleasant in the group climate, people do not have a high readiness for change. There is a high degree of trust and little scapegoating and the leader likely enjoys a high degree of credibility with the subordinates. However, getting people to embrace change is a challenge, in that the group climate has a consistent pattern of beliefs and attitudes about desirable behavior that is not readily adjusted as circumstances change. In terms of adopting emerging technologies, a group climate may have stronger norms for preservation than any of the other climates. In particular, the high resistance to change of employees in a group climate will likely lead them to dismiss changes as being irrelevant, as they are less likely to be open to new ideas and therefore may not see the potential in robots and learning algorithms (e.g. Faraj *et al.*, 2018). On the other hand, the low tension in a group climate could make them less suspicious if management were to introduce emerging technologies to them.

Internal Process

The *internal process climate* is characterized by high tension and low readiness to change. These are climates in which organizational work situations are experienced affectively as relating to high conflict, low morale, and low leadership credibility, i.e. unpleasant emotions. Similarly, the low resistance to change is related to low-activation emotions, likely caused by previous disappointments in dealing with change, and employees no longer believe they have the adequate resources to deal with change. Prevailing emotions are disappointment, tranquility, shame, and fatigue. In terms of information processing, internal process climates are likely to lead to little sharing and openness, little spontaneous information, and limited shared information within rules and according to procedures, and closely associated with the job or task. The unpleasant, low-activation emotions characteristic of this climate will lead to an internally driven, top-down, and systematic style, where perceptions and judgments are less ambitious (Forgas and George, 2001; George and Zhou, 2002). Individuals are

less trusting, have more conflict, and likely perceive rewards as inequitable, and yet there is little readiness to change.

In terms of information sharing, this means that there is not a sharing and open atmosphere among the individuals, as each is more inward and guarded. Conflict can be high in the organization and so people may disagree over both means and ends (i.e. work methods and goals). Rewards are perceived to be given inequitably. As a result, employee morale can be low.

In the internal process climate, people tend to focus inwardly on how work is done, i.e. the work methods or processes. This can be very important to gaining organizational efficiency. So, such a climate is not necessarily destructive for the organization. The managerial challenge is to keep people focused on work processes without letting trust, conflict, perceived inequities, and so on become so significant that they obstruct organizational success. Managed carefully, an internal process climate can bring organizational benefit. As an example, consider the popular Six Sigma programs (Hahn, 1999), which emphasize a culture of measurement, excellence, confrontation of conflict, and rewards based on continual error reduction. A Six Sigma program will tend to promote an internal process climate. The managerial challenge is to nurture the internal process climate in such a way that it does not spin into a downward spiral of negativity from employees, but instead promotes the values of excellence, achieving organizational efficiencies, and error control. Due to its norms of control and reliability, this is the type of climate where learning algorithms, with their potential for taking over repetitive and routine tasks and making them more efficient and possibly error-free, are high. Yet, the high resistance to change in this type of climate may not make employees adapt easily to new ways of working despite the augmentative effects of novel technologies.

If your organization has an internal process climate, then it will observe that there tends to be a low readiness to change. Perhaps this is not intuitive, as it might be argued that a change, or any change, would be welcome in such a climate. But the evidence suggests that an intense process-orientation on the part of people goes along with a preference to keeping that orientation rather than engaging in activities that could lead to a different situation. Perhaps, it is the reduced level of trust in these organizations that helps to explain this reluctance. There is less faith in the leadership and more faith in processes themselves, so resistance to change tends to be high. A higher-than-ideal level of scapegoating seems consistent with this story about the internal process organization. In other words, compared to the group climate, the high resistance to change of internal process climates is driven less by a high desire to preserve, and more by a threat of what's new, and what can be trusted.

The internal process climate does not possess the capacity to process a large amount of information through informal means. There is not a norm of sharing and openness. Instead, the organization structure must supply the requisite information-processing capacity. Information tends to be private and within the role or specific job scope of those who need the information. Information is passed on within prescriptions and according to procedures. It is closely associated with the job or task, or "a need to know." Spontaneous information links are largely missing, or not utilized. Therefore,

AI, digitalization, and learning algorithms are new technologies that may facilitate information processing in this type of climate.

Developmental

The *developmental climate* has low tension and a high readiness to change. Employees in this type of climate are likely to experience feelings of having the adequate resources to deal with change (high activation), as well as having the feeling that new events are generally pleasant. Subsequent emotions are therefore enthusiasm, excitement, and happiness. Such climates will be characterized by optimistic perceptions and judgments, together with a bottom-up, flexible, and generative style (Forgas and George, 2001; George and Zhou, 2002).

It is a pleasant place to work, where people generally trust one another; conflict is relatively low; rewards are perceived as equitable; and people are quite willing to engage in change. People in the developmental climate are comfortable with one another and welcome new opportunities.

Some of the characteristics for the developmental climate are similar to those of the group climate. For both, trust is high, conflict is low, and morale is high, with relatively equitable rewards. The significant difference is the readiness to change, which tends to be low in a group climate, but high in a developmental climate. If an organization has a developmental climate, you will find that there generally is a great focus on the growth of the individuals and their quality of work life. This is the basis for the high readiness to change. In the developmental climate, rewards can be more individually based than in the group process climate, with less attention to the impacts on perceived equity. Individual contribution to the organization is more important and, in a well-functioning developmental climate, this is accepted by employees. Compared to the group and internal process climates, the developmental climate is more externally oriented. People believe and act based on an assumption that organizational success is realized more outside the organization.

There are also small differences with regard to leader credibility and the level of scapegoating. The developmental climate has different information characteristics as compared to the group climate. The group climate will focus more heavily on internal information, whereas the developmental climate focuses more on external environmental information. Environmental information is likely to have more value for development and growth. Additionally, compromise is important (Quinn and Kimberly, 1984). Developmental climates, with their high readiness for change and low tension, are likely to embrace new technologies such as robots, and are likely to quickly adapt new roles and norms consistent with having to interact with such technologies (see e.g. Jung and Hinds, 2018, for a discussion of human–robot interactions).

Rational Goal

The *rational goal climate* has high tension and a high readiness to change. Common emotional reactions to such climates are anger and distress. However, this is a climate

in which employees believe they have the adequate resources to deal with change. The openness toward change is based on dissatisfaction with regard to the current situation. This is also a climate characterized by unpleasant emotions; it is a competitive climate where employees are not likely to believe that rewards are given in an equitable fashion or that the leader is necessarily trustworthy. Yet, because of the high activation emotions, this usually results in a willingness to change the situation for the better. Rational goal climates are characterized by a private view of information, where sharing and exchange of information does not occur spontaneously, but is job-related. At the same time, the high-activation emotions will lead to an externally oriented and bottom-up information-processing style (Forgas and George, 2001; George and Zhou, 2002). It is a goal-driven climate and the individuals are a little on edge as the tension is high, but at the same time tension is not so high that it is detrimental to performance. In fact, tension helps to drive performance as people deal with fluctuations in trust, conflict, and so on. People are willing to change and accept new challenges and opportunities if they believe goals can be met.

The rational goal climate is similar to the internal process climate on tension, but the two differ on readiness to change. Like the internal process climate, the rational goal climate is structured with an emphasis on planning, productivity, and efficiency (Quinn and Kimberly, 1984).

Information processing in the rational goal climate is similar to that in the internal process climate, but with a greater emphasis on environmental/external information. The low level of trust, high conflict, etc. leads to a private, or customized, view of information; sharing and exchange of information does not occur spontaneously, but information is shared if it is goal-oriented. Put another way, people do not share information for its own sake, but rather to meet specific needs related to their work tasks. In this way, information sharing is tempered rather than fully open. The rational goal climate is a very competitive environment to work in. It is not to be expected that the employees will be loyal to the organization in the sense that high turnover can be expected. Rewards are performance-based. The organization may work hard to keep the most valued or skilled employees, but not worry too much if others are unhappy and leave. With the high readiness to change, reorganization of personnel level can be expected, with very tough competition for the prestigious jobs. Also given the high readiness for change, employees are likely to stay up to speed with the latest technological trends, possibly causing high readiness to deploy.

Fit and Misfits

What is a good leadership style for a firm, and what is an appropriate organizational climate? What is a good fit? In Table 7.1, we add fit for the leadership and organizational climate to the goals, strategy, environment, configuration, and task design for your chosen firm. In each of the columns A, B, C, and D, the fit relations can be read vertically from top to bottom.

Misfits for leadership and organizational climate pose a particular difficulty from the point of view of organizational design. Although you may be able to change the goals, strategy, or configuration of your chosen organization, it may be very difficult for an executive to change their leadership style. You may have no control over this design

factor. Therefore, managing the fit between leadership style and other design components can be problematic. Changing the leadership style may require a new executive and/or others in the top management roles. Similarly, organizational climate is a relatively enduring property of the organization and cannot be easily changed in the short term. So, if there are misfits with the leadership style and climate, it may be easier to adjust to them rather than to change them in a significant way. Of course, if this means changing to a different and less satisfactory strategy for your chosen organization, it may be necessary to take a long-term view and take on the difficult, complementary actions necessary to bring the organization's leadership style and climate into alignment with goals, strategy, and configuration. To align the leadership style and climate is, however, very important (Håkonsson, 2008b) for the performance of the organization, as well as the alignment with other contextual and structural elements of the organization (Burton *et al.*, 2002; Burton and Obel, 2004; Jung *et al.*, 2008).

As Table 7.1 suggests, in column A there is a fit among the maestro, the group climate, a simple configuration, a calm environment, a reactor strategy, and ill-defined goals. The organizational climate is pleasant and non-threatening. It is usually not very fast-paced. A new executive with a new style can quickly become a threat to the individuals and create a misfit with the group climate. If the firm is not performing well, there may be good reason to create a misfit, spurring the opportunity to redesign the organization. A new organizational design can be introduced and brought into alignment, bringing the various components together into a new quadrant of the organizational design space over time. In this way, the organization can achieve firm goals of efficiency and effectiveness. We will discuss the process of misfits and change management in more detail in Chapters 11 and 12.

TABLE 7.1 Fit and misfit to include leadership style and organizational climate

Corresponding quadrant in organizational design space	A	B	C	D	
Organizational climate	Group	Internal process	Developmental	Rational goal	
Leadership style	Maestro	Manager	Leader	Producer	
Task design	Orderly	Complicated	Fragmented	Knotty	
Configuration	Simple	Functional	Divisional	Matrix	
Environment	Calm	Varied	Locally stormy	Turbulent	
Strategy types	Reactor	Defender	Prospector	Analyzer with innovation	Analyzer without innovation
Organizational goals	Neither	Efficiency	Effectiveness	Efficiency and effectiveness	

Moving to column B, there is a fit among the manager, the internal process climate, the functional configuration, the varied environment, the defender strategy, and the

efficiency goal. The information-processing demands have increased considerably, but the manager takes a more hands-on approach, with less delegation and more detailed monitoring. Alternatively, rule-based intelligent robots are increasingly utilized in this organization. They can be substitutes for hands-on direct control by the managers. We will discuss this trend in more detail as we continue with the step-by-step approach. The commensurate climate has high tension with less trust and leadership credibility, and is less pleasant. Generally, this climate is less difficult to establish, but it takes a longer time to reduce the tension. At the same time, the firm's efficiency goals can be realized, but innovation is less likely.

For column C, the firm has an executive with a leader style, a developmental climate, divisional configuration, a locally stormy environment, a prospector strategy, and an effectiveness goal. The executive lets others make decisions, but accepts the uncertainty. The climate has low tension and a high readiness for change. Many individuals would find the organization with the profile of column C to be an exciting place to work due to high trust and executive support. It fits well with a prospector strategy and an effectiveness goal. If there is a desire to focus on short-term efficiency, the executive may become more control-oriented and directive, which is a threat to the developmental climate. The executive can then become quickly overloaded with the details, which may further threaten the developmental climate rather than resolve it. The leader style and developmental climate work best when innovation is valued and the organization pursues a prospector strategy with sub-units organized as independent divisions or cells.

For column D, the firm has a leadership style that acts as a producer, a rational goal climate, a matrix configuration, a turbulent environment, an analyzer strategy, and pursues the dual goals of efficiency and effectiveness. The producer leadership style means that the executive delegates with high information processing, but also tries to avoid uncertainty. The climate has high tension, but also has a readiness for change. The organization in this quadrant is performance-driven, aiming to achieve both efficiency and effectiveness of innovation. It is a demanding place to work, where tension is high, but some individuals find it exciting and embrace a high readiness for change. The organization in column D is a good fit with the turbulent environment and analyzer strategy of innovation and change. Coordination needs are high in this type of organization and quick change is required to meet organizational goals. As such, the goal-driven matrix configuration with large information-processing capacity is a good fit.

If your chosen firm is located in different columns based on your answers to the diagnostic questions in this chapter, then you should think about what you might do to bring the organization into fit in the column that meets your goals. But also think about what is involved in moving to a different goal and thus a different column and what should or could be done both in the short term and in the long term. We will discuss this further in Chapter 11.

DIAGNOSTIC QUESTIONS

For your organization, you should first examine the two dimensions in Figure 7.3: preference for delegation and uncertainty avoidance. Locate where the leadership style of your unit of

analysis is along these two dimensions and then categorize the leadership style as: maestro, manager, leader, or producer. To begin, answer the diagnostic questions below.

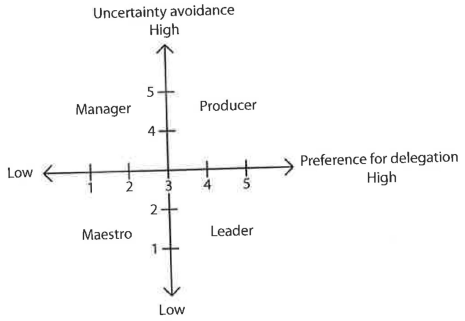

Figure 7.3 Locate your unit of analysis's leadership style

1. For your unit of analysis, what is the top management that you are describing here? It may be a single executive or a set of people (such as an executive group or board) who oversee your unit of analysis. Use this top management level when answering questions 2 and 3 below. Note that if you are the executive in charge of your unit of analysis, then these questions are about your leadership style.[9]
   The questions below will help you to locate your top management on the preference for delegation and uncertainty avoidance dimensions.
2. Preference for delegation
   a. To what extent does top management prefer to maintain control themselves (1), or encourage others to take on responsibility for managing work tasks (5)?
   b. To what extent does top management allow their direct reports to make important decisions and take actions for the organization (1 = low, 5 = high)?
   c. Overall, for your unit of analysis, what is top management's preference for delegation, (1) low or (5) high?
      Score the preference for delegation on a scale from 1 to 5 as follows:

1	2	3	4	5
very low		moderate		very high

If you are not part of top management, you may need to gather additional data to answer these questions. Relevant data may include agendas and minutes from top management

[9] As before, you can average your scores for the items within each question to create an overall score for each design dimension, or you can use the questions as a guide to assign an overall score for each design dimension.

meetings: what kinds of decisions does top management make? Is it high on micro involvement versus tactical/strategic decisions? If you are top management, or part of it, you may want to ask subordinates whether they agree with your answers to the above. In either case, remember that the questions relate to preferences, not to what the current situation permits.

3. Uncertainty avoidance
   a. To what extent does top management concern itself with the "big picture" (1), rather than the detail (5), in decision-making?
   b. Does top management tend to be aggressive (1), or cautious (5), in its decision-making?
   c. How risk-embracing (1), versus risk-avoiding (5), is the top management?
   d. To what extent is top management control-oriented in the management of its direct reports: low (1) or high (5)?

   Score the uncertainty avoidance on a scale from 1 to 5 as follows:

1	2	3	4	5
very low		moderate		very high

There are different types of information that can be relevant to answer these four questions.

To assess whether or not top management concerns itself with the "big picture," relevant data includes information on what types of reports management requests: if they request reports on overall sales, EBIT, and/or investments, this signals a focus on the "big picture."

If it asks for reports on deviations on a number of non-cost issues, such as the number of sick days individual employees have, this signals a focus on the detail.

To get a picture of the risk preference of the top management, take a look at some of the big investments that the organization has made. Then assess the risk related to these investments.

To assess the top management's control orientation, it may be relevant to gather information on what types of direct reports management asks for: does it require annual, monthly, weekly, or even daily reports (e.g. sales)? A high frequency will indicate high control.

For all four questions, interviews with the top management team may also enable additional insights.

Again, if you are top management, or part of it, remember to answer these questions based on what your preferences are, not necessarily how you, given the current situation, are required to lead.

4. You can now locate your unit of analysis on Figure 7.3. What is its leadership style?

   Now, consider the organizational climate. Remember to include the entire unit of analysis as you answer these questions. In Figure 7.4, the firm's readiness to change and tension are the dimensions, and the organizational climate is then categorized as: group, internal process, developmental, or rational goal. Here are questions which will help you to locate your chosen firm.

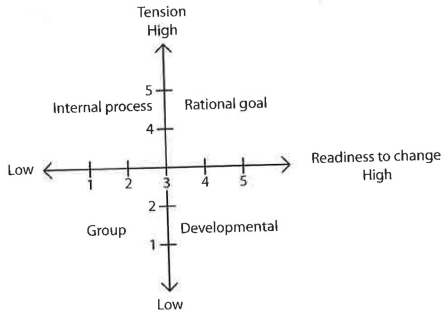

Figure 7.4 Locate your firm in the organizational climate space

5. Readiness for change – activation emotions
   a. To what extent do people prefer old ways of thinking and doing things (1) versus embrace new ways of thinking and doing things (5)?
   b. To what extent do people tend to shift direction or adjust their work habits to meet new, unanticipated challenges, low (1) or high (5)?
   c. Overall, what is the organization's level of readiness to change, low (1) or high (5)?

   Score your organization on a scale from 1 to 5 as follows:

1	2	3	4	5
very low		moderate		very high

There are different types of data that may be relevant to assess these three questions. First, secondary data – for example, related to the internal mobility rate and/or turnover rates of employees – can be relevant. If the internal mobility is low, this may reflect a low degree of readiness for change. If there is a low internal mobility rate combined with a low turnover rate of people, this will indicate even further low readiness for change. Second, you may gain useful information simply from careful observation of employees' reactions to normal workday events. Third, if possible, you may also want to conduct interviews with a number of relevant employees. Especially for climate assessments, private interviews may bring to the surface important elements that are not contained in official documents. Finally, you may want to conduct small experimental games with employees that can enable a good evaluation of people's reactions to change.

6. Tension – pleasant/unpleasant emotions
   a. What is the level of distrust in the firm, low (1) or high (5)?
   b. What is the level of conflict in the firm, low (1) or high (5)?
   c. To what extent do people perceive rewards not to be equal across employees, low (1) or high (5)?
   d. To what degree do people question the credibility of the organization's leaders, low (1) or high (5)?

e. What is the level of scapegoating, or blaming, of people for problems, low (1) or high (5)? Score your organization on a scale from 1 to 5 as follows:

1	2	3	4	5
very low		moderate		very high

To gather data relevant to answer the five questions related to tension, you may use existing data sources. The organization may already have employee satisfaction surveys, as well as 360-degree management evaluations. You may also look into the statistics of sick leave. Again, you may also want to conduct interviews with a number of relevant employees, appointed either randomly, or by management.

You can now locate your chosen unit of analysis on Figure 7.4. What is your organizational climate?

SUMMARY

In this chapter, we have included the leadership style measured as preference for delegation and uncertainty avoidance and organizational climate measured as tension and readiness for change to the set of relations which should fit together to meet a firm's goals. There are four leader styles – maestro, manager, leader, and producer; and there are four climates – group, internal process, developmental, and rational goal. We have discussed fit and misfit possibilities for all of these. Finally, we showed how to make short-term and long-term changes to address misfit situations. Next, we move on to consider approaches for managing coordination and control in your organization.

GLOSSARY

Affective events: affective events theory (AET). AET demonstrates that employees react emotionally to things that happen to them at work and that this influences their job performance and satisfaction.

Developmental climate: an organizational climate characterized by low tension and a high readiness to change.

Group climate: an organizational climate characterized by low tension and low readiness to change.

Internal process climate: an organizational climate characterized by high tension and low readiness to change.

Leader: a leadership style that accepts uncertainty and delegates decision-making to subordinates (similar to theory Y).

Leadership style: the predominant mode used by the top management of your unit of analysis to manage subordinates, which is measured in terms of preference for delegation and uncertainty avoidance.

Maestro: a leadership style that orchestrates the work of others through a combination of direct involvement and high tolerance for uncertainty.

Manager: a leadership style that prefers little delegation and avoids uncertainty (similar to theory X).

Organizational climate: the internal environment or working atmosphere of the organization as experienced by all employees, including the leader and subordinates.

Preference for delegation: the degree to which the executive of the organization encourages lower-level managers or other employees who report directly to them to make decisions about what and how work is to be done in the organization.

Producer: a leadership style in which top management avoids uncertainty through short- and long-term planning and has a high preference for delegation, but with detailed oversight.

Rational goal climate: an organizational climate characterized by high tension and a high readiness to change.

Readiness for change: the degree to which the people in the organization are likely to change direction or adjust their work habits to meet new, unanticipated challenges.

Tension: the degree to which there is a sense of stress or a psychological "edge" in the work atmosphere; it incorporates a combination of organizational factors as experienced by insiders, including trust, conflict, morale, rewards, leader credibility, and scapegoating.

Uncertainty avoidance: the degree to which the executive or top management shuns taking actions or making choices that involve major risk, and focuses on short-term, reactive decision-making.