BALANCING ORGANIZATIONAL GROWTH AN EXAMINATION OF LARGE CORPORATE FAILURES THE PROBLEM OF EXECUTIVE DIFFUSION

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ABSTRACT

Building upon different theoretical bodies of literature, this paper looks at three companies Walmart, General Motors and McDonald's and their organizational growth. Employing focus groups of students over a five year period, the authors examine commonalities and managerial missteps found in these three otherwise diverse companies. The problem of Executive Diffusion is defined as a failure of management to maintain simultaneous balance between entrepreneurial emphasis and managerial emphasis in favor of profit maximization. We discuss implications of such errors and recommendations for how organizations can avoid such missteps.

INTRODUCTION

Lately, many have observed that organizations of all sizes can and have failed. Although these failures are shocking, they are also predictable. We observe that despite a wealth of cautionary tales, organizations make similar mistakes again and again. These organizations making such mistakes are often industry leaders, including companies such as Wal-Mart, General Motors, and McDonald's, which are the subjects of our discussion here. Why do organizations continue to make such blunders?

Building upon the insights of the Resource Based View, the Dynamic Capabilities Approach, and incorporating insights from different bodies of knowledge this paper looks for underlying commonalities in the lackluster performance of Walmart, General Motors and McDonald's. Utilizing focus groups consisting of graduating business students over a period of five years, we look at these three otherwise very different companies and seek evidence of commonalities in issues faced and observations.

To our surprise, we observed across the three companies a rather consistent failure of management to maintain simultaneous balance between entrepreneurial emphasis and managerial emphasis in favor of profit maximization. In other words, in our opinion the management of these companies, and by extension, possibly many other companies, failed to exercise a balance of entrepreneurial (innovative) emphasis and managerial emphasis in favor of immediate, often short term, rewards of profit maximization. We name this phenomenon a "Problem of Executive Diffusion."

This paper examines major commonalities that can explain why such failures happen. We draw upon ideas from the Resource Based View literature (Armstrong & Shimizu, 2007; Barney, Wright, Ketchen, 2001; Kraaijbrink, Spender, & Groen, 2010), the organization capabilities literature (Barreto, 2010; Eisenhardt & Martin 2000), an extension of the Competing Values model (Quinn, 1988) made by Todorovic , and product life cycle theory (Kuratko & Hodgetts, 2004; Rink, Roden & Fox 1999) to describe how organizations can make significant blunders due to not recognizing changing stages in the lifecycle or changing organizational needs and because of that abandon or weaken important resources crucial to success. We begin by reviewing the relevant literature, drawing connections between these literature streams. We then discuss three cases studies conceptually, drawing on data from case analysis by senior level management undergraduates. This data is used to support our theoretical observations and conceptual model development. We will show how across the three cases there are similar issues faced by each organization, having the wrong balance of entrepreneurial and managerial skills, compared to the organization's needs. We then make recommendations to organizations on how to avoid such issues. Finally, we discuss implications of these findings for how we understand and explain organizational actions.

REVIEW OF LITERATURE

Resource Based View of the Firm

A firm's capability to achieve continuous rent stems from its internal resources, land, labor, and capital (Penrose, 1959). Strategy can be seen as a continuing search for rent (Bowman, 1974, 47). Rent is further seen as a return in excess of opportunity cost (Mahoney & Pandian, 1992). Thus, sufficient rent and appropriate strategy deployment is crucial for organizational success.

The resource-based view (RBV) of the firm focuses on the idea that these rents are gained by an organization due to that organization having valuable internal resources that allow it to have a sustained competitive advantage over competitors (Barney, Wright & Ketchen 2001; Kraaijbrink, Spender & Groen 2010). These resources lead to organizational continued success and profitability.

The resource-based view (RBV) was first advocated by Penrose (1959) in her book The Theory of the Growth of the Firm. The resource-based view incorporates the ideas of distinctive competencies of heterogeneous firms, as well as the rate, direction, and performance implications of a diversification strategy, which are focal issues in the mainstream strategy field (Mahoney & Pandian, 1992).

There are two primary approaches in RBV: the process approach and the structural approach. The structural approach focuses on the unique resources possessed by the firm, with the emphasis on market processes. The process approach, however, focuses on internal organizational processes seeking quasi and efficiency rents.

The structural approach focuses on market processes where the main emphasis is on rare, inimitable, immobile resources (Barney, 1991 & Wernerfelt, 1984). This approach operates on the principle that a sustainable advantage is reached by an organization through possessing those rare inimitable resources. The organization uses these resources to produce value for customers or keep costs lower in a way other organizations in an industry cannot. Richardian (physical) resources and land are often the focus of consideration, while management skills and competencies are assumed comparable among competitors and thus not a source of considerable value. Thus, with management skills the same the rare inimitable resources are the main source of competitive advantage (Armstrong & Shimizu, 2007).

A significant downside of this approach is that very often what are called common resources become the source of competitive advantage (Prahalad & Hamel, 1990). In this case resources that are relatively common can still be a source of competitive advantage if they are utilized more effectively and efficiently by an organization compared to its competitors. One example of such competitive advantage is the expansion of Wal-Mart, which was achieved to a significant degree by perfecting a very efficient logistics and purchasing process using elements that were common resource across the industry (Clarke, 2001). Wal-Mart, thus used these common elements more effectively than its competitors. The structural approach considers logistics, purchasing etc. as common resources that any company in an industry could use and therefore not sources of competitive advantage (Barney, 1991).

Another weakness of the structural approach is its failure to recognize the importance of management insight (Sallinen, 2002). A structural approach to RBV assumes that managers always make optimal decisions and thus managers across organizations have similar decision processes and make similar decisions in similar contexts. This assumption, however, can often be violated in real life due to bounded rationality and the difficulty for management to predict the timeframe of their present competitive position and likely future positions (Miller & Ross, 2003). In other words, managers often have different personal skills and face decisions in limited information environments (Sallinen, 2002; Teece, Pisano & Shuen, 1997). Thus, managers can make very different decisions which will range in effectiveness and appropriateness.

The process approach, in contrast, assumes that efficiency rents are available within a firm and can become a source of competitive advantage (Miller & Ross, 2003). These resources may be found in distinctive processes, organizational structures, and management insights (Teece, Pisano & Shuen 1997). Because these "processes" become a part of the firm, they are also potential sources of competitive advantage (Fiol, 1991). Thus, these internal factors can be significant factors in organizational success.

The process approach to RBV deals with these limitations and will be a focus of this paper. The process approach to RBV looks at organizational processes, management and efficiency issues, examining how they can lead to competitive advantage. A crucial assumption of this approach (and this paper) is that firms are fundamentally different, with the differences stemming from the heterogeneity of each firm's resource base and how it is deployed (Barney, 2001; Grant, 1991; Lei, Hitt, & Bettis, 1996; Mahoney & Pandian, 1992). The main purpose of the RBV framework is to enhance our understanding of how competitive advantage within firms can be achieved and sustained over time (Barney, 1991; Eisenhardt & Martin, 2000; Nelson, 1991; Penrose, 1959; Schumpeter, 1934; Teece, Pisano & Shuen 1997; Wernerfelt, 1984).

Within the RBV approach, firms are considered to be bundles of resources (Alvarez & Busenitz, 2001; Eisenhardt & Martin, 2000), and these resources have varying impacts on competitive advantage. Resources that are valuable, rare, inimitable, and non-substitutable (VRIN) help firms achieve sustainable competitive advantage (Barney, 1991; Eisenhardt & Martin, 2000; Penrose, 1959). These resources are often referred to as complex resources, where their usage and interaction are dynamic and difficult to codify or imitate.

Resources are generally seen to be of two types: tangible and intangible (Grant, 1991). Tangible resources, such as machinery, land, and supplies, are easy to imitate and define. Intangible resources, on the other hand, are not easily definable and are difficult to quantify but can have a significant impact of competitive advantage. These tangible resources include human capital and organizational capital such as reputation (Itami & Roehl, 1987).

Organizational Capabilities and Dynamic Capabilities Approaches

While the Resource Based View has a significant value, it is important to note that it has weaknesses as well. The work of Kraajenbrink, Spender & Groen (2010) is an excellent review of a number of these perceived weaknesses and the existing research that supports or fails to support such criticisms. The most significant weakness, for the purposes of this paper, is the fact that RBV is a static theory, with a resulting lack of adaptability to the increasingly dynamic environments of rapid technological change that we see in many markets today (Eisenhardt & Martin, 2000). The organizational capability and dynamic capability approaches have arose to help deal with this deficiency of RBV (Barreto, 2010).

The organizational capability approach is considered an important stream of the resource-based view research paradigm (Eisenhardt & Martin, 2000). While capabilities and competencies are often treated as the same (Day, 1994; Shane, 2002), Cobbenhagen (2000), differentiated between the two, indicating that competencies are more significant for a firm's competitive position. Firms can hold resources that are intangible and disguised within organizational procedures, routines and cultures (Collis & Montgomery, 1995). Capability is a special type of firm resource that consists of a complex set of routines. Winter (2000) defines an organizational capability as a "high-level routine (or collection of routines) that confers upon an organization's management a set of decision options for producing significant outputs of a particular type." Grant (1991) also defines capabilities as inputs leading to competitive advantage. Capabilities are often found in intangible routines (Kogut & Zander, 1992), making them difficult to copy or imitate and usually firm-dependent (Shane, 2002). Since capabilities (and competencies) are difficult to copy and cannot be bought easily, they often become a source of competitive advantage for an organization (Grant, 1991).

The dynamic capability literature base focuses on the ability of firms to influence the existence within a firm of such valuable capabilities (Barreto, 2010; Eisenhardt & Martin, 2000). Teece, Pisano & Shuen (1997) offer a definition of dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments." Thus, dynamic capabilities are about how well the organization can utilize, create, and/or ultimately sustain valuable capabilities. Firms that have such capabilities will be able to use resources successfully to gain the competitive advantage that is central to the resource based view concept.

A focus is also placed in dynamic capabilities on the idea that organizations will often need to renew and change resources and competencies as the industry and its customers change (Bowman & Ambrosini, 2003). Competencies and resources that were valuable in the past may not be so in the future, with other competencies becoming more crucial for competitive advantage. So for example, knowledge and skills in an organization related to typewriter use may have been valuable in the past but is likely to be completely worthless in the current business environment. Organizations make changes to structure and methods, recombining resources and capabilities to meet current performance needs and expectations (Arthurs & Busenitz, 2006).

Both the resource-based view and organizational capabilities approaches help in our understanding the nature of factors that help organizations attain competitive advantage. RVB looks at this in a more static environment (Kraajenbrink, Spender & Groen 2010) while capabilities approaches focus more on the need of organizations to change themselves over time due to the business environment being in a state of constant change (Barreto, 2010; Eisenhardt & Martin, 2000). So to some degree these two approaches represent opposite basic assumptions on the idea of change: in RBV there is little environmental change while in capabilities approaches environmental changes are seen as constant. This leaves a needed area of future research and theory examination of environments that are not static but also don't necessarily have constant change. This research paper speaks to that need by applying two relevant research streams to this question: a Competing Values Framework applied to entrepreneurship by Todorovic (2007) and the product life cycle. These help to fortify the ideas of how and when organization can make changes for both potential benefit as well as ultimate detriment to the organization.

Product Life Cycle

In exploring the impact of time on organizational success or failure the product life cycle concept is also crucial. The product life cycle is a concept that arose to describe how the nature and most effective strategies for a product change over time from its introduction to its ultimate discontinuation. These ideas originally arose in the marketing literature with a primary focus on strategies related to pricing, production, and discontinuation of products (Levitt, 1965). That focus has expanded significantly since then to include the life cycle of a single product (Cao & Folan, 2014), whole industries (Agarwal, Sarkar, Echembadi, 2002; Karniouchina Carson, Short & Ketchen 2013), and individual companies (Chandler, 1962; Kuratko & Hodgetts, 2004). The product life cycle approach has been seen as a way of examining the life cycle of entrepreneurial firms (Kuratko & Hodgetts, 2004), with the life cycle stage at which a company is in impacting effectiveness of organizational strategies and actions taken (Nadeau & Casselman, 2008; Thiertart & Vivas, 1984).

The stages of the product life cycle vary from model to model. Classical product life cycles tend to have 4 stages: market development, growth, maturity, and decline (Cao & Folan, 2014; Levitt, 1965). Some newer models propose 5 stages with an additional stage added to the front of the model related to activities of initial creation of the product or company (Rink, Roden & Fox 1999; Kuratko & Hodgetts, 2004). For purposes of this research we will be using a combination of the Rink and colleagues (1999) and Kuratko & Hodgetts (2004) models as their 5 stages offer significant commonalities. We also focus on the lifecycle of a company over the life cycle of a single product.

The first stage is new venture development. Initial strategies are created as well as resources gathered (Kuratko & Hodgetts, 2004). This is the phase where initial products are often created and tested. Entrepreneurs will work to forecast the potential market for their main products (Rink, Roden & Fox 1999). This will often be a time of significant uncertainty and risk. This can be because the product the organization offers is unique enough it can be difficult to determine its real potential in the marketplace or because the newly created venture is entering an industry where existing competitors may have advantages in resources and customer base. Thus, in this stage the creativity of an entrepreneur is often crucial, as it helps in creating strong ideas to drive the business and communicate to potential investors, employees, and customers what the organization has to offer (Kuratko & Hodgetts, 2004). In the model of Todorovic (2007) we might see this stage as one where entrepreneurial skills are particularly crucial.

The second stage is the start-up activities stage where the organization is focused on firming up the business through the creation a formal business plan, finding capital investment, and launching products into the marketplace. Competitive advantage discovery is a major aspect of this stage (Kuratko & Hodgetts, 2004). This will often be a stage where prices are high due to initial roll out and finances are strained. Flexibility is essential as the market is learned about and changes needed for the organization to succeed. Risk needs to be managed for the firm to stay in business and deal with issues as they arise (Rink, Roden & Fox 1999).

The third stage is growth, where the business deals with the challenges related to scale of the organization and the potential for increased competition. In is a turbulent stage as the organization will often need to reformulate their strategies and make changes to how the business is run (Kuratko & Hodgetts, 2004). This can often be where the organization starts to focus on branding and building customer loyalty (Levitt, 1965). In the model of Todorovic we might see this stage as one where the importance of managerial skills increase but entrepreneurial skills are still important and possibly overlooked.

The growth stage is a stage where entrepreneur founders that had significant creativity skills often leave the organization due to inability to cope with administrative challenges that take place due to the larger size of the organization and its structure (Crandall, 1987). Managers are needed, not just creative individuals. The organization transitions from an entrepreneurial one person leadership focus to more team-based leadership (Kuratko & Hodgetts, 2004). Organizational structures can become more formalized, tasks delegated, and in the general sense of the term more bureaucratic in nature. The organization needs to make choices between current profits and future growth, as well as predict the rate of future growth and have appropriate resources to meet such demands (Rink, Roden & Fox 1999).

The fourth stage is maturity where sales will begin to stabilize and there will often be increased competition in the marketplace (Kuratko & Hodgetts, 2004). The organization will often focus on the need to offer incentives to employees for increased efficiency and competitiveness in the marketplace (Rink, Roden & Fox 1999). The organization will need to look to its future and determine where it is going. This can lead to greater segmentation of the product market and marketing focus on particular customer groups (Leavitt, 1965). This stage can be crucial to the organizations future as it can make choices that help it to come up to higher level of profitability in the future or move toward decline and ultimate failure (Kuratko & Hodgetts, 2004). Looking to the model of Todorovic this is a phase where the correct balance of entrepreneurial and management skills could be crucial for future success.

The fifth stage of the product life cycle is innovation or decline. Organization that innovates will often create new products or make significant changes to current products to maintain their growth (Kuratko & Hodgetts, 2004). In such cases we might see companies go through new product life cycles and reinvigorate themselves, with examples of this including companies like Apple and Disney. The more common result will be decline, where sales of products decline and prices drop, hurting profits (Rink, Roden & Fox 1999). It is often at this point the company goes out of business or remain in business at a significantly reduced scale. In decline costs will need to be closely managed and retention of existing customers is crucial. Product lines will often be cut at this point and general costs scaled back. The market will often consolidate down to a few producers in the industry (Leavitt, 1965).

Depending on the stage an organization is in the best strategies and organizational actions will vary significantly. Early in the model creativity is often crucial while in the middle of the model rationalization of processes and building scale is crucial. While the product life cycle stages have been examined in some detail the transitions between phases has not nearly been as examined. These transitions could be seen as crucial, as the appropriate strategies to follow differ from stage to stage (Kuratko & Hodgetts, 2004). For just one example, ramping up capital investment in production right before the decline stage starts would be disastrous for most organizations.

Transitions are important then because they offer points at which organizations might engage in strategies that were beneficial or acceptable at a previous stage but have negative consequences as another stage begins. With little research directly looking at this issue, this work will be primarily exploratory in nature to build our understanding on how companies behave differently over time in both the product life cycle conceptualization and in line with Todorovic. Thus, we do not offer particular propositions and merely look to these theories to guide our analysis of actual company case histories.

Competing Values Framework

The Competing Values Approach was proposed by Quinn (1988). The Competing Values Framework allows an examination and discussion several important dimensions of an organization. This framework sustains a balanced evaluation of the managerial and entrepreneurial skills needed in an organization, as well as the interplay between the different models represented. The Competing Values Framework includes four models: Open Systems Model, Rational Goal Model, Internal Process Model, and Human Relations Model (Quinn, 1988).

The Open Systems Model has a focus on innovation, adaptation, growth, and resource acquisition. Organizations that have operations that fit with this model are often very adaptive in nature and can compete effectively in ambiguous and rapidly changing environments. This model fits with common definitions of entrepreneurial orientation. The Open Systems Model is often used in new venture startups (Quinn, 1988).

The Rational Goal Model, has a focus on company productivity and accomplishments. This model does this by having clear goals and directions provided by management that ultimately leads to streamlined organizational processes. The organizational climate at companies that follow this model is rational, economic, and focused on the “bottom line” (Quinn, 1988).

The Internal Process Model places a focus on organizational stability and control. Organizational stability and control in such organizations are accomplished by the organization having through documentation and management of information. Organizations that follow this model emphasize clear definitions of job responsibilities, documentation, and precise measurement (Quinn, 1988).

The final model of the Competing Values Approach is the Human Relations Model, which emphasizes employee commitment and morale. These are achieved at the organization through participation and openness. Companies that follow this use cultural and personnel controls as significant tools. This is often applied by developing a team-oriented climate, utilizing conflict resolution systems and focusing on consensus building (Quinn, 1988).

For the purposes of this paper, we specifically focus on the application of the Competing Values Approach presented by Todorovic (2007). Todorovic (2007) applied this model to a case study approach to look at a significant real world problem: businesses run by entrepreneurs who have the characteristics we associate with successful entrepreneurs but run failing businesses that have entrepreneur seemingly at the center of the problems at hand. Todorovic (2007) suggests that the reason for this seeming contradiction has to do with an entrepreneur not having the right balance of skills and behaviors needed by the organization. The shift from entrepreneurial skills to managerial skills is shown in Figure 1.

Essentially the Competing Values Framework represents a shift over time within an organization in the balance of needed managerial and entrepreneurial skill-sets of an entrepreneur for the organization to create and maintain success. Entrepreneurial skills focus on innovation and growth. Managerial skills focus on control, efficient processes and profit maximization. The relationship of entrepreneurial and managerial skills to the competing values framework is shown in Figure 2. Thus, the characteristics of the entrepreneur that help or hurt the

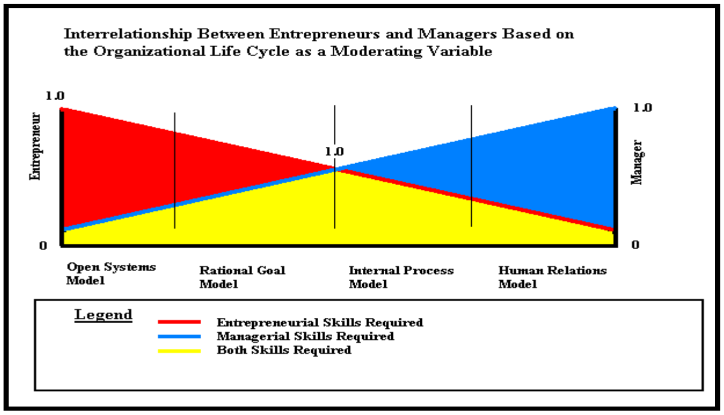

FIGURE 1
ENTREPRENEUR / MANAGER RELATIONSHIP (SOURCE; TODOROVIC 2007)

organization's success vary based on where the company falls in the Competing Values Framework progression. The model of Todorovic (2007) suggests that changes in managerial emphasis or skills that are unwarranted in the situation can lead to negative outcomes for the organization. Changing too much, too little, or in the wrong direction for the current state of the company can have significant negative consequences.

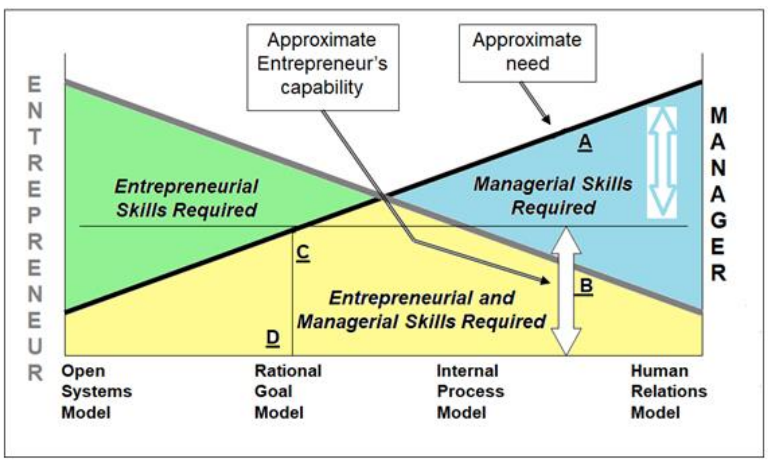

FIGURE 2
INTERRELATION OF ENTREPRENEURS AND MANAGERS-MODIFIED

Bringing It Together

This conceptual paper is based on the assumptions of the RBV. Essentially RBV argues that organizations create competitive advantage through development of the capabilities and competencies, which are unique to them, valuable, but also difficult to imitate or substitute. Further, we turn to dynamic capabilities approach to address one of the short comings of RBV its static nature. From the dynamic approach we deduce that capabilities need to be constantly aligned and adjusted to the present realities and needs of the organization.

Further using the product life cycle arguments, we show that different stages of organizational growth often mean different market conditions, different skills and abilities. Here we see that not only must a change happen, but the same change is also predictable and even desirable. Finally, by looking at the Competing Values Model, and specifically Todorovic's (2007) application, we observe that successful management can be also be described as a process of balancing two "opposing" management emphases: Entrepreneurial and Managerial. Similar to the arguments found in the product life cycle arguments, Todorovic (2007) presents a need for an ever changing delicate balance between what he calls entrepreneurial emphasis and managerial emphasis, with that balance changing with company size. It should also be noted that he observes that one can stray by having too much/too little of either emphasis compared to what is best for a company at a particular point.

METHODOLOGY

This paper attempts to contribute theoretical richness by understanding the role entrepreneurial leadership resources play in failures or successes of enterprises. Towards achieving this, the authors employed a conceptual focus that is enriched by a focus group approach. Over a five year period, five management capstone classes per year (J401: Administrative Policy) were set up in focus groups (minimum of four up to maximum of six groups). These groups were employed to discuss the following organization cases: Pink Golf, McDonald's, Southwest Airlines, Jet Blue, Enron, Walmart and General Motors. The average class size was 25 students, resulting in a total student body of 625 students.

Students were asked to write a summary before class (handed in) and discuss these cases in one of two forms: (1) open group discussions or (2) randomly selected group presentations that did not include any prior discussions. An attempt was made to capture a consensus from graduating students who have been trained in business, with their majors being Marketing, Management, Accounting, Finance, as well as small minority of students majoring in Economics. It is observed that many of the students transferred in from other colleges (e.g., the local community college), while other students had all their education at our school. No discernable difference was observed between these two student bodies.

An attempt was made to capture the prevailing opinion of students who are familiar with and study the field of business, with special emphasis on any trends they observed. Although we cannot claim to greater external validity from any conclusions made in this study, nonetheless, this approach serves as a basis for further conceptual discussions.

Observing that student comments could have random or off-topics elements, facilitators emphasized comprehension and integration of common opinions by asking "exploratory" questions such as: "what does that mean", "why", "what is(are) the underlying cause(s)". Facilitators were asked not to be opinion leaders and not to represent an opinion or position.

DISCUSSION AND FINDINGS

In this section we examine in depth three of the companies discussed in every class and every semester from Fall 2009 until Fall 2014. These three companies are Walmart, General Motors and McDonald's. Following are the key concise observations and notes made, which capture the majority of the arguments presented about every company. Analysis is then done to understand common and underlying issues that appear to exist in each company.

Walmart

Students observed that Walmart grew into a big global company in a relatively short time. Further, students observed that upon the death of Mr. Sam Walton (the company founder), the company went into a “steep” growth mode. Under the leadership of the new CEO, Mr. Glass, the company started focusing on expansion and growth. Whereas this growth included geographical and monetary growth, it appears that the growth did not equally include the development of new logistics and distribution center technology. Student in almost every class attributed Walmart performance to the exceptional logistic technology and procedures which as mentioned were not part of the growth envisioned by their new CEO.

Overall conclusions drawn by most of the students were that Walmart used to look after their customers through their greatest resource – people. In other words, people (employees) were their greatest asset. In the latter years, however, students observed that people became the most convenient way to reduce costs. This in essence means that people went from being assets - which are to be encouraged and maintained, to being liabilities – which are to be cut and minimized.

General Motors

Students observed that General Motors is a long running company, even having played a substantial role in World War II. Students found General Motors to be a case of a company that became a victim of change. This was in fact a fairly difficult case for students, who observed that GM did well for many years. The most probing issue was why GM did not recognize the degree of threat posed when imports (Toyota, Datsun, Honda) started coming into US about three decades ago.

Students also observed that the relationship between the union and management became fairly difficult and contentious. This occurred at a time when the management relationship towards its workers had taken on a more significant meaning. It is worth noting that students observed that GM had multiple brands, with little if any product differentiation. Although most students did not initially identify a reason, upon further prompting students all agreed that the development of GM into its present form is consistent with expectations of a market leader in the growth stage in the product life cycle who is functioning in a mature market.

McDonalds

Students often observed that McDonalds had a very effective structure and did well for many years. For much of its history McDonalds had great teamwork and utilized college students in its practices. Almost all students observed the cessation of quality and service checks in the early 1990’s. Students correctly identified McDonald’s former competency as fast reliable service with expected food quality in terms of taste and quality. Thus it was questioned why the cessation of quality checks occurred when those quality checks represented a significant aspect of McDonald’s core competency.

It was observed that although the cessation of quality checks led to short term profit (i.e. cost savings), it definitely signaled McDonald's departure from looking after customer needs and preferences to pursuing growth and short term increases in share prices.

PRESENTING EXECUTIVE DIFFUSION

In our discussions, we observed common weaknesses in management approaches in all three of the above companies. Although analysis of three companies will in no way constitute statistical validity, a closer look at these companies provides for conceptual enrichment, which is often neglected in the quest to present qualitative evidence. To better compare these case findings, we present a graphical representation of our observations in Figure 3.

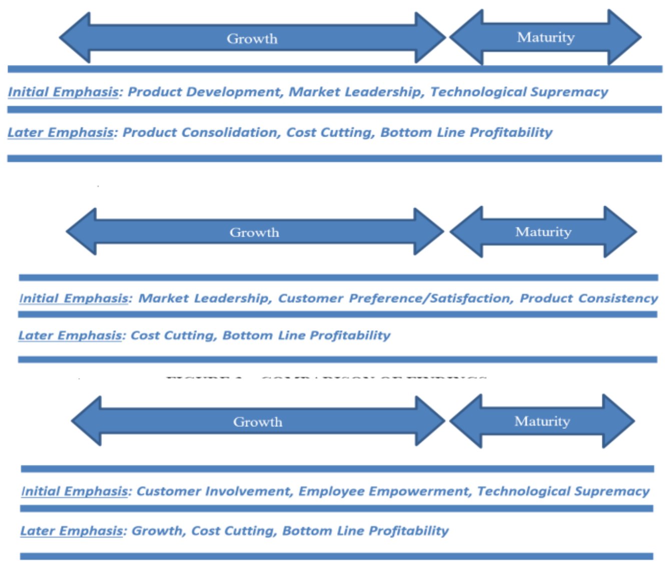

FIGURE 3
COMPARISON OF FINDINGS

It is observed that most of the companies discussed are large relatively successful companies. In most cases these companies increased in size in the growth segment of the product life cycle. It has also been observed that in all three cases these companies failed to recognize that their industry left the growth sector, moving towards the mature industry stage. In the case of both General Motors and McDonalds, it can be argued that the industry started changing: New technological developments in the case of GM, and increased health consciousness in the case of McDonalds.

Even though these companies are very different, our analysis pointed to similarities between all three companies. While these companies started with a healthy customer orientation, by the time a crisis situation was recognized, these companies were in "profit maximization" mode. For clarity purposes, Figure 4 presents summarized common changes in emphasis over time observed in all three companies.

Initial Emphasis (Summarized): ***Customer Involvement, Employee Empowerment, Technological Supremacy, Product Development, Market leadership, Customer Preference/Satisfaction, Product Consistency***

Later Emphasis Summarized: ***Growth, Cost Cutting, Bottom Line Profitability, Product Consolidation***

FIGURE 4
COMMON DIFFERENTIAL EMPHASIS

Finally, assuming that these changes were gradual, rather than sudden, Figure 5 represents a more likely pictorial representation of the emphasis shift that occurred at these companies. Although actual conditions of change are not known, Figure 5 assumes a gradual shift in emphasis, which in all three cases proved to be detrimental for the organization being examined.

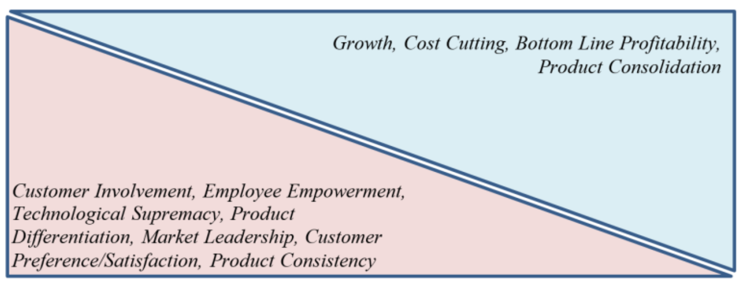

FIGURE 5
PROPOSED EMPHASIS SHIFT

The work of Todorovic (2007) built upon quinn’s 1988 Competing Values Framework, observes a similar shift with a similar outcome. The model presented in Todorovic (2007) was reproduced previously in Figure 2.

The present authors propose that the above observations and analysis of three very different companies may hold some lessons that merit further investigations. Essentially, an existence of an underlying process is proposed that leads to latent shift in management emphasis from the “customer” to “profitability.” This agrees with the model of Todorovic (2007), where he proposes a shift from Entrepreneurial Orientation to Managerial Orientation. Observing that Entrepreneurial emphasis is closely related to Market Orientation, it follows that a higher level of customer orientation is also aligned with an Entrepreneurial emphasis. Further, presenting that Managerial emphasis is congruent with managerial measures of performance, such as profitability, it follows that managerial emphasis would be more profit driven. One can therefore conclude that the interrelationship of entrepreneurial emphasis and managerial emphasis applies to the three companies examined in this paper.

The Interrelationship of Entrepreneurial Emphasis and Managerial Emphasis suggests that at any point of corporate growth (x axis on the model shown on both Figures 1 and 2), there is a correct BALANCE of entrepreneurial and managerial skill sets. In fact, on Figure 2, entrepreneurial skill level is represented by a negatively sloping gray line, while the managerial skill set is represented by a positive sloping black line. By integrating knowledge from these two studies, one can conclude that in any company there has to be a balance of Customer (i.e. Entrepreneurial) and Profit (i.e. Managerial) emphasis.

The present authors posit that the Walmart, General Motors and McDonalds all experienced an economic slump because their management failed to maintain customer emphasis through a lack of Entrepreneurial Emphasis skill set. Further, it is observed that in both Walmart and McDonalds i.e., service companies a shift from customer orientation to profit maximization resulted in an environment where human capital at the company went from being perceived as an asset to being perceived as a liability. In other words, rather than investing and maintaining human capital (i.e. significant asset), management found itself reducing and otherwise eliminating the potential of human capital, which was seen as a cost or liability.

Learning from Todorovic one can observe that corporate management tends to lean too much on the side of entrepreneurial (customer) orientation in the early days of corporations, and too much on the profit maximization (i.e. managerial) orientation latter in the life of the corporations.

RECOMMENDATIONS

The results and model presented here offer a clear warning to organizations. Organizations need to carefully consider their place in the company lifecycle when making decisions. A decision that may have been helpful in the past may have significant negative impact during the transition to a new stage of the lifecycle. Organizations need to track more closely where they are in the life cycle and the appropriate strategies for such stages.

Organizations need to also be more cognizant of the need for balance of entrepreneurial and managerial skills and focus in an organization. The three companies examined all had significant issues because they moved too far from a customer focus (entrepreneurial) to a profit focus (managerial). Organizations need to make sure profit-maximization does not come at the cost of weakening the organization's competitive advantage found in customer service and human resources.

Organizations might consider creating internal processes that help organizational leaders consider and balance entrepreneurial and managerial orientations. This could be potentially done by having offers or advisors devoted to each orientation reported to and offer relevant information to top decision-makers like CEOs. Keeping a balance needs to be a conscious decision made by an organization in order to avoid the problems seen in our case studies.

CONCLUSIONS

Organizations of all sizes can and have failed. As we continue to observe different, formerly successful organizations fail, we wonder if there are perhaps some commonalities in these failures. In order to discuss this topic as broadly as possible, a conceptual approach backed up by a five year focus group study is presented. Although this tactic does not produce statistical results, the present authors felt strongly that a broad conceptual examination may be best suited in starting up necessary discussion on these concerns.

Building upon the theory and research of the Resource View, Dynamic Capabilities Approach, Product Life Cycle and the Competing Values Approach, three companies were presented: Walmart, General Motors and McDonald's. Utilizing focus groups of graduating business students over a period of five years, we look at these three otherwise different companies and seek evidence of commonalities issues and observations.

We observed a rather consistent failure of management to maintain simultaneous balance between entrepreneurial emphasis and managerial emphasis in favor of profit maximization. In our opinion the management of these companies failed to exercise a balance of entrepreneurial (innovative) emphasis and managerial emphasis in favor of immediate rewards of profit maximization.

We call this a Problem of Executive Diffusion. We posit that the problem of Executive Diffusion, together with short-term thinking led to unnecessary suffering and poor outcomes in these organizations. Indeed, we observe that change is needed and necessary, but management, as a driver of a vehicle, must keep the change happening between the two lines. Too little or too much, too quick or too fast may be detrimental.

We do observe that these are only conceptual arguments based on focus group observations. More research is needed to define what is the right amount or right combination of each emphasis. Further research is also needed to establish if the optimal amount of entrepreneurial/managerial emphasis mix is life cycle stage, industry, culture, or country specific. Researchers should collect empirical data from organizations at various stages of the product life cycle and making transitions between stages to access what entrepreneurial/managerial emphasis mix tends to be effective in each stage and factors that may impact the appropriate mix.

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