Evaluating Top Management Teams Within the Investment Management Industry: Applying the Group Dynamics Q-Sort

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I. Executive Summary

a. Objectives

Practitioners in the investment management industry are constantly striving to identify those firms that they believe will prove “superior” over time. This is of interest to clients, to their consultants, and to the managers themselves. The goal may be defined as simply as seeking those managers that will provide the strongest results against a benchmark. Or it may encompass more complex concepts such as finding the best philosophical or cultural fit with the hiring client.

There are many tools currently available for those taking the former of the two approaches, generally based on the quantitative examination of past portfolio results. However, there are few tools available for those interested in less easily measured concepts such as philosophical or cultural fit. Those approaches that are used tend to be based on subjective opinions that are difficult to apply consistently over time and when comparing different firms.

The industry thus faces a dilemma. On the one hand, we have a substantial amount of easily gathered data to analyze, but where the conclusions must be footnoted that “past performance is no guarantee of future performance.” On the other hand, while the view that a firm’s culture is a dominant factor in its long-term success is held by senior industry figures, the ability to quantify this measure has been very limited.

The concept behind this research report stems from an attempt to address this dilemma. While the investment industry will continue to focus on statistical calculations of readily available, results-oriented data, we believe that “easy to measure” is not always synonymous with “most useful.” Our goal was to find a quantifiable measure that focused on the culture and organization decision-making process of investment firms, not just on their performance results. We concur with the view that if a suitable organizational culture and process are in place, then the results likely will follow.

In seeking a method that would quantify subjective, cultural information, we looked for an analytical approach that would:

- Be rigorous in statistical methodology
- Be able to differentiate the cultural characteristics of different firms
- Be applied consistently across a representative sample of investment management firms
- Be able to be applied over future periods, to measure subsequent changes
- Have been tested and found to work in fields outside investment management

We believed that such an approach would provide benefits to clients, consultants, and managers. We wanted the results to provide insight into the industry as a whole; for example, in documenting the common characteristics of the managers studied, and how these compare with those of other organizations previously studied. Although not addressed explicitly in this phase of our research, a next step may be to explore the potential for using qualitative findings as a guide to the persistence of historical investment success. In addition, we plan to investigate the merit of qualitative diagnostics, when applied to managers periodically, to detect changes in business culture and their relationship, if any, with investment results.

With more information on the characteristics of a manager's organizational culture, we believe practitioners should be better able to understand the potential fit (or otherwise) between a manager and client. In particular, it should be possible to gain more insight into questions such as:

- Are there specific cultural characteristics common to certain manager peer groups (by size, location, style, age of firm, or other factors)?
- In what way does a specific manager's culture differ from its peers?
- Is there consistency between the internal (management/employees) and external (client/consultant) measures of a manager's organizational culture?

The framework for these questions has much in common with the peer group benchmarking used in analyzing portfolio results; however, in this context, it is the cultural characteristics that are used for comparison, not a market index.

b. Background and Conclusions

This research paper uses a statistical technique that fits the criteria outlined in the objectives above, and that, to our knowledge, had never before been applied to the investment management industry. The methodology of this study was based on prior work done by Professor Peterson in the field of organizational behavior. As Associate Professor of Organisational Behaviour at the London Business School, he has conducted research on how personalities of members in a group affect interaction and firm performance, how chief executive officer (CEO) personality affects the "top management teams" (or "TMTs") interaction, and the effects of conflict within groups. These research results have been published in leading journals in the field including *Research in Organizational Behavior*, *Organizational Behavior and Human Decision Processes*, and the *Journal of Applied Psychology*.

Approached by the Brandes Institute (a division of Brandes Investment Partners, L.P.), to discuss the application of these ideas to the investment industry, Prof. Peterson and his associate, Sarah Ronson, joined a working group to pursue the project. Having worked with Prof. Peterson on other projects, Watson Wyatt Worldwide agreed to join the project team.

A study was conducted of the organizational decision-making process of a broad sample of the TMTs of investment management firms during the summer of 2004. The study was based on the Group Dynamics Q-Sort ("GDQ" or "Q-Sort"), a research tool developed by sociologists in the 1940s. The limitations of the size of the sample mean that any conclusions should be regarded as indicative, not definitive. However, we regard this research as a useful first step to developing this technique into a tool that may be widely used in the industry.

On the premise that the culture at an investment manager may be an important guide to the long-term success of the firm and its clients, we sought to measure what largely has been "unmeasurable" in our industry. Using the Q-Sort, we sought to quantify business management skill (not portfolio management skill), the decision-making environment, and any patterns among distinguishing characteristics (such as assets under management, age of firm, etc.) at managers in the United States and Europe.

We analyzed results for 46 managers who responded to the Q-Sort survey, including for each firm, a response from their TMT, plus responses from an outside consultant and (in some cases) an independent "referee." In 35 of 46 instances, the consultant/referee response was broadly consistent with the manager's own response, but in the other 11 instances there was less agreement. In analyzing where these differences were most noted, it appeared that the largest difference in perspective was among the non-U.S. firms.

A comparison of investment management industry leadership to the "ideal" management types developed in academic studies of group leadership shows that of the 17 academically documented types, investment managers in our study correlate closely to only seven of them. By comparing these seven types to societal norms, we note that the aggregate data generally shows a favorable picture of the investment management industry leadership teams, and the results suggest that leaders among investment management TMTs:

- Give the interests of the group precedence (rather than personal interests)
- Have confidence in their ability to achieve the organization's goals
- Work together as a mutually supportive team
- See problems from different angles and are willing to change course given new evidence

We tested several methods of dividing the sample group of 46 firms to find clear differentiation between the decision processes. Of the various tests that were tried, there were three that showed the clearest differences:

- Age of firm (under 15 years vs. over 30 years)
- Ownership (majority employee owned vs. non-employee owned)
- Assets under management (under $20 billion vs. over $100 billion)

Separately from the pre-determined test groups, we used a method known as factor analysis to identify three other factors that served to differentiate between groups of firms. These were:

- Factor 1: open organizational culture; high confidence and persistence vs. narrow structure; cautious and yielding
- Factor 2: highly formal and rule-driven; low risk taking vs. relaxed with few rules; aggressive pursuit of ambitious goals
- Factor 3: information flow tightly controlled; less reliance on senior investment specialists managing the business vs. open communication/debate; greater input from senior investment specialists on business decisions

Ultimately, if applied broadly across the investment management industry, we believe Q-Sort results may provide benchmarks when comparing individual managers to peer groups, or when observing specific managers over time. It is our intention that the information the Q-Sort provides should enable clients, consultants, and others to initiate more meaningful dialogue with managers and/or make more informed decisions about their managers.

II. The Group Dynamics Q-Sort

a. Measuring Culture

Generally, the greatest problem with studying groups – their dynamics and decision-making processes – lies in finding suitable research methods. Some scholars have used case studies. The primary advantages with conducting case studies are their descriptive richness and sensitivity to change over time. The detailed and nuanced storytelling quality of this research strategy gives it both intuitive and persuasive appeal. Of course, the drawbacks with case studies are the difficulties in making generalizations, their lack of rigor, and retrospective recall. It is difficult to aggregate results and draw conclusions due to the unique language and emphasis of each researcher. Although the use of unique language is where special insight into group functioning is usually created, it is also the salient cause of difficulty in assessing agreement between multiple researchers. So how do we study the dynamic processes in groups in a way that can blend some of the richness and time sensitivity of the qualitative approach with the rigor of the empirical approach?

The Group Dynamics Q-Sort in Detail

The Q-Sort is a 100-item survey that combines the "descriptive richness of the qualitative approach with the rigor of a quantitative approach by creating a common data language to describe process across groups, observers, and time."[1] Select attributes of the GDQ distinguish it from a typical survey:

- Each of the 100 items contains two polar opposite statements (an upper statement and a lower statement) printed on a card. For example: "Group members devote enormous attention to detail" vs. "Group members are oblivious to detail."
- Not only are respondents asked to identify which of the extreme statements in each item characterizes the group in question (for the purposes of this study, TMT at select investment managers), but also to what *extent*.
- The extent is measured by asking respondents to "sort" each item into one of nine groups. Each group corresponds to a level of how closely a statement characterizes the organization. Each group must contain a predetermined amount of items based on the following distribution: 5, 8, 12, 16, 18, 16, 12, 8, and 5.
- Thus, the five *most* characteristic statements must be placed in each of the two groups at the tails of this distribution. Less characteristic statements must be placed in successive groups working toward the center of the distribution. The 18 items in the middle group are in essence "neutral" statements about the group. (See the Q-Sorting Distribution Constraint Table in Appendix I.)

While this forced distribution of responses may appear constraining, "specifying the number of cards to be assigned to each category has proven to be a more valuable procedure than the freer situation in which a judge can assign any number of cards to a category." As such, the forced distribution addresses a number of sources of disagreement.

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[1] Peterson, R.S., Owens, P.D., and Martorana, P.V. "The Group Dynamics Q-Sort in Organizational Research: A New Method for Studying Familiar Problems." *Organizational Research Methods*. 2 107-136. 1999.

Forced distribution standardizes how respondents use the rating scale, eliminating potential discrepancies in results from those who make extreme judgments versus those who are "fence sitters." It also forces respondents to think more carefully about each item (reducing random error variance) and to "make frequent comparisons of the relative descriptive appropriateness of items." Making such comparisons can be challenging, but researchers note "it does increase both the interjudge reliability and predictive value of Q-Sorts." In addition, this procedure "decreases the total amount of error in the data, resulting in a reduced need for research participants (often a significant problem for group researchers)."

In essence, the Q-Sort method "has empirical rigor because the 100 items in the instrument are standardized, rank-ordered, and placed in one of nine categories for statistical comparisons that can pinpoint specific differences between perspectives on a group."[2] Because the Q-Sort provides an extensive array of questions and statements designed to assess the detailed interaction of TMT members, group boundaries, and the context in which the group is located, it draws on many of the strengths of case study methodology. In addition, its standardized data language mitigates differences in individual understanding of specific terms and permits testing across case studies or numerous groups. The Q-Sort addresses some of the weakness of both qualitative and quantitative methods (e.g., surveys, experiments, and behavioral coding).

The History of the Q-Sort

The Q-Sort method was developed in the 1940s and 50s by William Stephenson and refined by Jack Block in 1978 as a method for assessing personality by posing an extensive variety of questions within a specified domain. Among groups, the Q-Sort is designed to measure how the team functions with regard to cohesion, norms of behavior, leadership, tolerance for dissent, situational stress, and boundary management, among other traits. While there is no set number of items to include, the most common is 100, designed to provide depth and breadth of understanding for the group being assessed.

b. Evaluating Investment Managers

With the background of the Q-Sort as a credible tool for measuring culture, the project team developed a list of more than 100 managers to invite to participate in our study. Our goal was to secure a sample of managers that provided statistically significant results. Additionally, we sought to segregate these managers according to a number of categories (assets under management, age, location, investment style, etc.) and study the aggregate results for each category. Our initial questions were:

- Are there similarities in culture across all investment managers?
- What differences are attributable to industry-standard differentiating traits?

[2] Peterson, R.S., Owens, P.D., and Martorana, P.V. "The Group Dynamics Q-Sort in Organizational Research: A New Method for Studying Familiar Problems." *Organizational Research Methods*. 2 107-136. 1999.

With the goal of gaining different perspectives for each manager evaluated in this study, we sought the following individuals to complete a Q-Sort for each firm in our sample:

1. A member of the investment manager's TMT
   (CEO, founder, president, or comparable executive)
2. A consultant at Watson Wyatt Worldwide (WW)
3. An independent referee

There are two ways in which the accuracy and validity of Q-Sort results can be enhanced: multiple respondents and expert respondents. We believed responses from experts such as a manager's TMT member and consultants would provide valuable, preliminary results. Later, we will address our goals for broadening the availability of the Q-Sort to attract greater numbers of participants throughout the investment industry. We recognize that perceptions among members of a firm's TMT may not be representative of the entire firm. By increasing the Q-Sort's availability, we seek to provide an avenue for assessing firms from a broader audience, including employees and other members of the investment community.

With the Q-Sort results from these three sources, we planned to draw indicative conclusions. We also sought to assess how closely the TMTs' Q-Sort matched those of the consultants and referees.

The Q-Sort Project Team

Watson Wyatt was responsible for contacting individual managers, explaining the study, and distributing Q-Sort materials to participating firms. WW also was responsible for gathering Q-Sort results from managers and conducting Q-Sorts on participating firms. Some individual WW consultants conducted Q-Sorts on more than one investment manager. None of the managers (including Brandes Investment Partners) saw individual Q-Sort results – other than their own. The independent referees were Alan Briefel, June Debatin, and Fernand Schoppig. For more information about Prof. Peterson, Sarah Ronson, Watson Wyatt Worldwide, the Brandes Institute, and each independent referee, see Appendix II.

Select members of the Brandes Institute staff and consultants at WW assisted in analyzing results. Peterson oversaw the analysis of the completed Q-Sorts. Peterson and the consultants involved with this project signed statements of confidentiality reflecting their commitment to preserving the anonymity of all respondents. To preserve the anonymity of participating managers, WW coded each Q-Sort result and shared only the coded results with the Brandes Institute when the Institute conducted analysis. Results were analyzed with SPSS software. [3]

[3] Developed in 1968 and originally titled "Statistical Package for the Social Sciences," SPSS software enables professionals in various fields to analyze data about people, their opinions, attitudes, and behavior to draw conclusions based on quantitative techniques. For more information about SPSS Inc., visit the company's website at www.spss.com.

All references to individual managers were concealed during data analysis and aggregation. In this paper, the only reference to individual managers is a list of participants in Appendix III. Of the 110 managers invited, 46 participated. The results of this report have been made available to all participating managers who requested them.

Administering the Q-Sort

Each respondent who completed a Q-Sort received the following items:

1. A deck of 100 Q-Sort "cards," each containing two opposing statements (an upper and lower statement). The upper and lower statements for all 100 Q-Sort "cards" are reproduced in Appendix IV. Note that, among Q-Sort statements, references to the "group" are synonymous with the firm's TMT – those individuals responsible for managing the firm's business (as opposed to its portfolios). References to the "leader" are synonymous with the firm's top business decision-maker, such as the CEO, president, founder, or chairman.

2. A document on which to record the responses into one of nine categories as follows:
   - Upper Statement – Extremely characteristic
   - Upper Statement – Highly characteristic
   - Upper Statement – Quite characteristic
   - Upper Statement – Slightly characteristic
   - Neither upper nor lower statement is characteristic
   - Lower Statement – Slightly characteristic
   - Lower Statement – Quite characteristic
   - Lower Statement – Highly characteristic
   - Lower Statement – Extremely characteristic

3. Table 1 (which is Appendix I in this report)

4. Instructions on how to complete the Q-Sort (See Appendix V)

In the "Results" section of this report, we share our findings for the 46 managers participating in our study. First, we review key aspects of how Q-Sort results were calculated to provide context for better understanding our conclusions.

c. Calculating and Understanding Q-Sort Results

To summarize individual Q-Sort items, eight "process indicator scales" were developed based upon extensive feedback from more than 20 scholars working in the field of group dynamics. The scales, consisting of two opposing statements (similar to the Q-Sort questions) are used to cluster conceptually related items and compare organizations with theoretically derived "ideal types." Later, we will address these "ideal types." First, here are the process indicator scales:

1. Sense of Control vs. Crisis
2. Decentralized Group Power vs. Centralized Group Power
3. Factionalism vs. Cohesiveness
4. Intellectual Structure vs. Flexibility
5. Undirected vs. Leader Control
6. Top-down Business Process vs. Bottom-up Personal Interests
7. Optimism vs. Pessimism
8. Risk Aversion vs. Risk Taking

While some of these traits may appear to be more desirable than others, we caution against drawing positive or negative conclusions based exclusively upon these results. For example, "Undirected" may be an effective business management approach for select firms if they are mature and have a relatively passive investment approach.

At the same time, higher degrees of "Leader Control" also could be beneficial in different circumstances where the culture is not firmly established and/or when the organization is experiencing change. We believe most of these process indicators are self-explanatory. There are a few, however, that we believe merit clarification. Process Indicator #2 ("Decentralized Group Power vs. Centralized Group Power") refers to the dynamics of power among members of the top management team (excluding the leader). A "decentralized group" is less centrally controlled by an individual or subgroup.

Process Indicator #3 is similar to #2, but rather than address dynamics, it refers specifically to the degree to which members of the top management team (excluding the leader) work together. Process Indicator #5 addresses the leader's power and his relationship with the group, measuring whether the leader has adopted a more or less directive approach when interacting with group members.

To assist in analyzing results for each of the process indicator scales, we offer Exhibit 1, which summarizes broad interpretations of these factors.

Exhibit 1: Interpreting Process Indicator Scales

	1 2 3 4 5	6 7 8 9	
Scale	**Interpretation**	**Interpretation**	**Scale**
Control	Sense of organization and command	Sense of urgency or emergency	Crisis
Decentralized Group Power	Group less centrally controlled by an individual or subgroup	Group more centrally controlled by an individual or subgroup	Centralized Group Power
Factionalism	Group members work individually – not always together	Group members work together as mutually supportive team	Cohesiveness
Intellectual Structure	Strict adherence to established ways of thinking and managing	See problems from different angles; Willing to change course given new evidence	Flexibility
Undirected	Less concentration of power in firm's leader and less directive approach toward group members	Greater concentration of power in firm's leader and more directive approach toward group members	Leader Control
"Top-down" Business Process	General interests of the group take precedence	Individual interests of group members may take precedence	"Bottom-up" Personal Interests
Optimism	Confidence in ability to achieve goals	Concern or trepidation about achieving goals	Pessimism
Risk Aversion	Group less willing to take calculated business risks	Group more willing to take calculated business risks	Risk Taking

Theoretical "Ideal Types"

To further interpret Q-Sort results, we compare organizations with theoretically derived "ideal types." These ideal types are used by social scientists to describe the spectrum of organizational decision-making structures. A number of such ideal types have been identified and described in detail by leading academics in this field.

These types may be described as a "behavioral theory" (Theory X or Theory Y, for example) or given a descriptive name (e.g., Prime Organization). Each ideal type can be translated into a Q-Sort by sorting the items as the originator of the ideal type would sort them. We can then interpret Q-Sort results from individual TMTs by testing how closely results correlate with each of these ideal types.

For example, in the early 1970s, Irving Janis defined G*roupthink* as a predisposition for a group to achieve consensus in decision-making – at the expense of honestly assessing diverse options or considering points of view from outside the group. Groupthink has been translated into an ideal type by using Janis' analysis to rank the Q-Sort items for a management team characterized by Groupthink. After using the Q-Sort to establish a "Groupthink ideal," Q-Sort results for any organization can be compared to that ideal to determine the degree of correlation.

This is precisely the approach used in our study of investment management teams. Peterson selected 17 ideal management types culled from an extensive survey of organizational behavior literature to serve as benchmarks against which we compared results for individual investment managers. Brief definitions of each ideal type, 10 statements culled from the Q-Sort statements describing each type, and additional reference information are included in Appendix VI.

Correlation of Responses

Before we review Q-Sort results for the 46 managers in our study, we highlight the correlation of individual responses. Earlier, we mentioned that the reliability of Q-Sort results is tied to two factors: the level of knowledge a respondent has about the organization being sorted and the number of respondents. As with any statistical tool, more respondents (or observations) tend to correspond with greater confidence in the validity of findings. However, *unlike* some statistical tools, the validity of Q-Sort results can be enhanced by *expert* respondents. For our study, we believed the responses from a member of the investment manager's TMT and two industry experts would provide sufficient data to draw preliminary conclusions.

At the same time, we sought to assess the reliability of our respondents' results by examining how closely they were correlated. We believed that a high correlation among results would reflect greater confirmation for our findings. To gauge correlation of responses, we used two statistical measures: correlation and Cronbach Alpha. "Inter-item correlations" were derived based upon the similarities among individual responses to each of the 100 Q-Sort items. Higher correlations reflected greater "inter-judge" agreement, which we viewed positively.

Cronbach Alpha

In addition to correlation, we used Cronbach Alpha to measure the relationship between respondents' results. Technically, Cronbach Alpha measures how well a set of items (or variables) measures a single uni-dimensional latent construct. In other words, this measure compensates and adjusts for overlapping responses. When data have a multidimensional structure, Cronbach Alpha usually will be low. Cronbach Alpha is not a statistical test – it is a measure of reliability (or consistency). Cronbach Alpha can be written as a function of the number of test items and the average inter-correlation among the items. Below, for conceptual purposes, we show the formula for the standardized Cronbach Alpha:

$$\alpha = \frac{N \cdot \bar{r}}{1 + (N - 1) \cdot \bar{r}}$$

Here N is equal to the number of items and r-bar is the average inter-item correlation among the items. One can see from this formula that if you increase the number of items, you increase Cronbach Alpha. Additionally, if the average inter-item correlation is low, alpha will be low. As the average inter-item correlation increases, Cronbach Alpha increases as well. This makes sense intuitively – if the inter-item correlations are high, then there is evidence that the items are measuring the same underlying construct. This is really what is meant when someone says results have “high” or “good” reliability. They are referring to how well their items measure a single unidimensional latent construct. Source: www.ats.ucla.edu/stat/spss/faq/alpha.html

Similar to correlation, a higher Cronbach Alpha reflects greater agreement among respondents, which we viewed as a positive.

III. Observed Results

In this section, we share results for our study using a number of different measures. We begin by examining the correlation of results between managers and consultants. Then we conduct a similar evaluation for process indicator scales and the correlations to the ideal types described above. Next, we study the aggregate results for the eight categories into which each manager was segregated. Last, we apply another statistical tool (factor analysis) to search for patterns in the results.

Correlation of Responses

Using correlation and Cronbach Alpha, we examined results for each of the 46 managers in our sample, focusing on the agreement between the responses of the managers and those of the consultants and referees.[4] In Exhibits 2 and 3 below, we summarize our classifications and findings:

Exhibit 2: Classifications

Very Consistent	Cronbach Alpha > 0.7, or correlation > 0.8
Consistent	Cronbach Alpha > 0.5 and < 0.7, or correlation > 0.7 and < 0.8
Marginal	Cronbach Alpha > 0.3 and < 0.5, or correlation > 0.5 and < 0.7
Inconsistent	Cronbach Alpha < 0.3, or correlation <0.5

Exhibit 3: Results

	Number of Managers
Very Consistent	19
Consistent	16
Marginal	5
Inconsistent	6

For the purposes of evaluating a particular manager, we believe it would be useful to know the relationship between how that manager sees itself versus its perception among others. Less consistency in the responses may suggest that a closer examination of the firm is merited in order to understand better these differences and their causes.

[4] For five participants, we could not find an independent consultant with a thorough knowledge of the firm. Thus, we had 46 manager results, 46 WW results, and 41 independent consultant (referee) responses.

Process Indicator Scales

Aggregating all responses (from managers and consultants/referees for all firms in our study), we created an industry profile. (This is reflected in the table below as the “combined” score.) We also isolated responses from consultants/referees and managers. We draw attention to the diversity of perceptions between consultants/referees and managers by looking at the difference between manager and consultant/referee responses. The lower the process indicator score, the more that profile indicates a tilt toward the former of the two qualities. Thus the 3.6 combined process indicator scale for “Optimism vs. Pessimism” demonstrates a pronounced tilt toward “Optimism.” The 5.9 score for “Factionalism vs. Cohesiveness” shows a tilt to “Cohesiveness.” Exhibit 4 summarizes our findings for all the process indicator scales in the GDQ for the aggregate of the investment managers. In reviewing this table, keep in mind that process indicator scale scores at the extremes (closer to 1.0 or 9.0) provide the most useful information in characterizing the decision-making culture of an organization. Thus, scores close to 5.0 are not strong indicators.

Exhibit 4: All Responses

Process Indicator Scale (based on 0 to 9; 5 is average)	**Score**	**Score**	**Score**	**Difference**
	Combined	Consultant	Manager	Mgr - Cons
Risk Aversion vs. Risk Taking	4.9	4.6	5.3	0.7
Factionalism vs. Cohesiveness	5.9	5.7	6.3	0.6
Intellectual Structure vs. Flexibility	5.9	5.7	6.1	0.4
Undirected vs. Leader Control	5.5	5.4	5.6	0.2
Optimism vs. Pessimism	3.6	3.7	3.4	-0.3
Decentralized Group Power vs. Centralized Group Power	4.5	4.8	4.0	-0.8
Sense of Control vs. Crisis	4.0	4.3	3.5	-0.8
Top-down Business Process vs. Bottom-up Personal Interests	3.1	3.5	2.6	-0.9

Focusing on the scores at the extremes of the combined range (1.0 being the lowest and 9.0 being the highest possible scores) reveals general characteristics for the investment management industry. Among the greatest deviations from the average score of 5.0 are results in the “Top-Down Business Process vs. Bottom-Up Personal Interests,” “Optimism vs. Pessimism” (toward the lower extreme of 1.0) and “Factionalism vs. Cohesiveness” and “Intellectual Structure vs. Flexibility” (toward the upper extreme of 9.0). These results suggest, generally, that leaders among investment management TMTs:

- Give the interests of the group precedence (rather than personal interests)
- Have confidence in their ability to achieve the organization’s goals
- Work together in a mutually supportive team
- See problems from different angles and are willing to change course given new evidence

Next, we summarize our analysis of manager responses versus consultants/referees. The process indicator scale scores for managers and consultants were similar, meaning that there does appear to be an industry effect. In other words, because these scales were developed originally with cross-industry data, they are relatively consistent because there appear to be strong industry norms. However, we note some interesting differences.

The greatest difference lies in the perception of "Top-Down Business Process vs. Bottom-Up Personal Interests." Here, the combined score for managers was 2.6 versus 3.5 for consultants. Thus, managers tend to see their TMTs as more focused on the interests of the group than do the consultants. Additionally, managers tend to view their firms as having a greater sense of control, and being more decentralized, and more cohesive than the consultants do.

Then we looked at the *range* of process indicator scale scores across all investment manager TMTs individually, additionally segmenting our study group into U.S. and non-U.S. firms. In this approach, the range of process indicator scores widens, as we are no longer aggregating responses on an industry basis, but looking at responses across all managers. This revealed differences at the individual response level, which allow us to answer two other questions.

First, we can now identify which process indicator(s) show the largest and narrowest ranges across managers. The "Optimism-Pessimism" indicator has the largest spread in three of the four tables below, and is second largest in the other. The managers' scores range from a low of 1.5 to a high of only 5.8, suggesting that not only does this factor clearly differentiate between TMTs, but the low scores overall suggest that TMTs in the investment management industry are significantly optimistic compared to societal norms.

Secondly, we are able to compare the consultant and manager responses against each other, broken down by geographic location. This analysis reveals that one of the four groupings set out in the tables below is materially different in the pattern of responses.

When comparing the data in any two of the tables below, we can take the absolute value of the differences between the median scores for each process indicator and sum these. This gives a number reflecting the degree of difference between the two tables ("differentiator"). We made four such comparisons, and one stands out as noteworthy.

Differentiator	
24	U.S. vs. non-U.S. firms, consultant/referee view
18	U.S. vs. non-U.S. firms, manager views
22	U.S. firms, consultant/referee view vs. manager view
49	Non-U.S. firms, consultant/referee view vs. manager view

The fourth of these differentiators – the difference in perspective for the non-U.S. firms between managers and the consultant/referees – is double the magnitude of any of the others, quantifying the observation that for the non-U.S. based firms, there existed a material difference in viewpoint between their TMTs and the outside observers that was not present in the other comparisons. The full range of scores is set out in Exhibits 5 to 8.

Exhibit 5: U.S. Firms – Managers' Responses

Process Indicator Scale	Low Score	High Score	Median	Range
Factionalism vs. Cohesiveness	4.8	7.1	6.4	2.3
Intellectual Structure vs. Flexibility	4.8	7.0	6.0	2.2
Undirected vs. Leader Control	4.2	6.8	5.8	2.6
Risk Aversion vs. Risk Taking	4.0	6.5	5.2	2.5
Decentralized Group Power vs. Centralized Group Power	3.0	6.8	5.0	3.8
Sense of Control vs. Crisis	2.8	5.8	3.6	3.0
Optimism vs. Pessimism	1.6	5.6	3.2	4.0
Top-down Business Process vs. Bottom-up Personal Interests	1.5	3.3	2.7	1.8
AVERAGE	3.3	6.1		2.8

Exhibit 6: U.S. Firms – Consultant and Referee Responses

Process Indicator Scale	Low Score	High Score	Median	Range
Factionalism vs. Cohesiveness	4.4	7.0	5.8	2.6
Intellectual Structure vs. Flexibility	5.5	6.4	5.9	0.9
Undirected vs. Leader Control	4.7	7.3	5.5	2.6
Risk Aversion vs. Risk Taking	3.5	6.7	4.7	3.2
Decentralized Group Power vs. Centralized Group Power	4.1	6.4	5.1	2.3
Sense of Control vs. Crisis	3.1	6.4	3.9	3.3
Optimism vs. Pessimism	1.8	6.6	3.2	4.8
Top-down Business Process vs. Bottom-up Personal Interests	2.0	5.2	3.0	3.2
AVERAGE	3.6	6.5		2.9

Exhibit 7: Non-U.S. Firms – Manager Responses

Process Indicator Scale	Low Score	High Score	Median	Range
Factionalism vs. Cohesiveness	5.7	6.8	6.3	1.1
Intellectual Structure vs. Flexibility	5.3	7.0	6.3	1.7
Undirected vs. Leader Control	4.5	6.7	5.4	2.2
Risk Aversion vs. Risk Taking	4.3	6.5	5.6	2.2
Decentralized Group Power vs. Centralized Group Power	3.6	5.8	4.9	2.2
Sense of Control vs. Crisis	2.4	4.7	3.4	2.3
Optimism vs. Pessimism	2.2	5.4	3.4	3.2
Top-down Business Process vs. Bottom-up Personal Interests	1.5	3.7	2.6	2.2
AVERAGE	3.7	5.8		2.1

Exhibit 8: Non-U.S. Firms – Consultant and Referee Responses

Process Indicator Scale	Low Score	High Score	Median	Range
Factionalism vs. Cohesiveness	4.1	7.1	5.8	3.0
Intellectual Structure vs. Flexibility	3.9	6.4	5.7	2.5
Undirected vs. Leader Control	4.0	6.3	5.2	2.3
Risk Aversion vs. Risk Taking	2.8	6.8	4.8	4.0
Decentralized Group Power vs. Centralized Group Power	3.4	6.6	5.1	3.2
Sense of Control vs. Crisis	2.9	6.4	4.4	3.5
Optimism vs. Pessimism	2.2	5.8	4.0	3.6
Top-down Business Process vs. Bottom-up Personal Interests	2.2	4.9	3.5	2.7
AVERAGE	3.2	6.3		3.1

Theoretical Ideal Types

After evaluating process indicator scale results, we then studied correlations with each of the 17 ideal types previous described. Similar to the analysis we conducted on the process indicator scales, we combined responses from all managers and consultants and correlated these results with the 17 ideal types. Next, we segmented results by manager and consultants/referees and compared differences between them. Exhibit 9 summarizes our findings.

Exhibit 9: All Responses

Correlation With Ideal Type	Correlation	Correlation	Correlation	Difference
	Combined	Consultant	Manager	Mgr – Cons
Prime Organization	0.78	0.74	0.80	.06
Theory Y	0.78	0.72	0.81	.09
Vigilant Decision Making	0.67	0.61	0.71	.10
Resource Dependence	0.64	0.62	0.64	.02
Sales Strategy	0.64	0.63	0.61	-.02
Corporate Social Responsibility	0.62	0.60	0.61	.01
Theory Z	0.53	0.51	0.52	.01
Builders Strategy	0.37	0.35	0.39	.04
Infant Organization	0.35	0.32	0.38	.06
Go-Go Organization	0.16	0.14	0.17	.03
Groupthink	0.08	0.07	0.09	.02
Theory X	-0.07	-0.03	-0.12	-.09
Organization in Decline	-0.15	-0.08	-0.24	-.16
Absolutist Cult	-0.19	-0.18	-0.19	-.01
Imperialists Strategy	-0.21	-0.20	-0.21	-.01
Adolescent Organization	-0.26	-0.22	-0.30	-.08
Drifters Strategy	-0.43	-0.34	-0.53	-.19

Although there were 17 ideal types against which investment managers might correlate, the responses correlated most closely with only seven of those types, listed here in descending order of correlation (based on all responses): Prime Organization, Theory Y, Vigilant Decision Making, Resource Dependence, Sales Strategy, Corporate Social Responsibility, and Theory Z. Correlations with these ideal types ranged from .78 to .53. Among the correlations for the remaining 10 ideal types, the highest was .37; three were correlated at .35 or lower, and six were negatively correlated.

The high correlation with the seven ideal types named above reflects favorably on the investment management industry, as these are ideal types that tend to be associated with well-managed firms and strong cultures. The results for the aggregate of managers also may help refute a common perception that most investment firms are run by people with strong portfolio management – but not *business* management – skills. There were a few firms in the study that exhibited less desirable characteristics, but the majority were strongly correlated to the seven types noted above.

There may be some "self-selection" bias within the industry, as managers with high correlations to the "Organization in Decline" or "Absolutist Cult" ideal types, for example, may not survive. However, we believe there is little self-selection bias in the sample of firms who participated, as their demographics (age, size, assets, etc.) were broadly consistent with those of the non-participating managers.

As we saw with the results for the process indicator scales, the theoretical ideal type results showed differences in perception between the manager and consultant responses. By subtracting the correlation results for the consultants from the results for the managers, we find that the managers' perspective tilts more toward ideal types such as Vigilant Decision Making (.10 difference), Theory Y (.09), and Prime Organization (.06). Conversely, the consultants' perspective shows a higher correlation (relative to the managers') with the following ideal types: Theory X (-.09), Organization in Decline (-.16), and Drifters' Strategy (-.19). This does not suggest that consultants scored the managers as these types. Relative to the managers' perception, the consultants saw more of a tilt toward types such as "Drifters" and "Decline" versus "Prime" and "Vigilant."

The following table illustrates how often a particular ideal type was among the top seven correlations for both the 20 non-U.S. managers who participated in our study and the averaged results of Watson Wyatt consultants and independent referees who evaluated the firms.

Note that among responses from all 20 non-U.S. based managers, the following ideal types were among their top seven: Prime Organization, Theory Y, Sales Strategy, Vigilant Decision Making, and Resource Dependence. From the managers' perspective, only nine of the 17 ideal types were represented. Among the consultant and referee responses, the pattern is similar to the managers. However, all 17 ideal types were represented when totaling the top 7 correlations for each manager. See Exhibit 10 below.

Exhibit 10: Non-U.S. Firms, Number of Times an Ideal Type Appeared in Top Seven

	Managers' View	Consultant and Referee View
Prime Organization	20	17
Theory Y	20	17
Sales Strategy	20	14
Vigilant Decision Making	20	17
Resource Dependence	20	15
Corporate Social Responsibility	18	14
Theory Z	13	13
Builders Strategy	6	8
Infant Organization	3	5
Organization in Decline	0	4
Go-Go Organization	0	3
Theory X	0	3
Adolescent Organization	0	3
Drifters Strategy	0	3
Absolutist Cult	0	2
Imperialists Strategy	0	1
Groupthink	0	1

We saw a similar pattern among U.S. firms. The totals for each manager's top seven ideal type correlations were concentrated among only seven types. Based on managers' responses, all 26 participating firms were highly correlated with the following four ideal types: Prime Organization, Theory Y, Sales Strategy, and Resource Dependence. The consultant and referee views were comparable to the managers, but with a few more ideal types represented, as illustrated in Exhibit 11 below.

Exhibit 11: U.S. Firms, Number of Times an Ideal Type Appeared in Top Seven

	Managers' View	Consultant and Referee View
Prime Organization	26	24
Theory Y	26	24
Sales Strategy	26	24
Vigilant Decision Making	25	23
Resource Dependence	26	26
Corporate Social Responsibility	22	25
Theory Z	19	17
Builders Strategy	5	5
Infant Organization	6	3
Organization in Decline	0	2
Go-Go Organization	1	1
Theory X	0	3
Adolescent Organization	0	3
Drifters Strategy	0	2
Absolutist Cult	0	0
Imperialists Strategy	0	0
Groupthink	0	0

Category Results

Because the correlations for managers were fairly closely correlated with only seven ideal types, we sought to further differentiate firms according to the categories we mentioned earlier. The project team selected categories based on our opinion of what divisions could be made between investment management firms that might show differentiation in characteristics between one group and its counterpart. We therefore classified all participating managers according to the following eight categories:

1. Ownership (>50% employee-owned vs. other)
2. Single business decision-making location vs. multiple locations
3. U.S. headquarters vs. non-U.S. headquarters
4. Headquarters in a financial capital (defined for this study as Boston, New York, or London) vs. a non-financial capital
5. Age of firm (under 15 years, 16-29 years, and over 30 years)
6. Size of firm (assets under management of less than \$20 billion, \$20-\$100 billion, and more than \$100 billion)
7. Style (growth, value, and other)
8. Client type (institutional vs. other)

Some of these categories lent themselves to binary subcategories. For example, a firm could be classified as either employee-owned or non-employee owned. Other categories were divided into three subcategories (age of firm, for example). In populating these subcategories, we generally sought at least 12 managers in each. We averaged scores from all respondents (manager and consultants) for the firms in each category. Then we compared the correlations of these category averages to the seven ideal types.

We recognize that our sample size has limitations. At the same time, given that our work is pioneering in this area, we believe the following results offer indicative – rather than definitive – conclusions. As the Q-Sort gains acceptance within our industry, it is our goal that a richer database of responses can be built and more reliable conclusions can be drawn. In the "Looking Ahead" section of this paper, we address potential avenues for achieving these objectives. Here, we review the results of our research using these categories.

Overall, our comparisons yielded certain "tilts." Our investigation of age, ownership, and size characteristics showed more meaningful differentiation than the others. We determined how "meaningful" these categories were through ratings derived by summing the absolute values of basis point changes in the correlation coefficient between the subcategories. Three of the category groupings produced higher ratings than the other five (the other group ratings ranged from 284 to 168). The top three ratings are listed in Exhibit 12.

Exhibit 12

Category	Rating
Firm Age	407
Ownership	347
Size	347

Next, we examine results for each of these three categories in greater detail.

Age of Firm

Exhibit 13 illustrates the ideal types toward which managers in these categories were tilted. There were 17 firms over 30 years old and 11 firms under 15 years old in our sample.

Exhibit 13

Firms Under 15 Years Old	Firms Over 30 Years Old
Prime Organization	Corporate Social Responsibility
	Vigilant Decision Making
	Sales Strategy
	Resource Dependence

Ownership

Exhibit 14 illustrates the ideal types toward which managers in these categories were tilted. There were 19 firms with greater than 50% employee ownership and 27 others in our sample.

Exhibit 14

> 50% Employee Owned	All Others
Theory Z	Corporate Social Responsibility
Theory Y	
Sales Strategy	
Prime Organization	

Size

Exhibit 15 illustrates the ideal types toward which managers in these categories were tilted. There were 16 firms with more than $100 billion in assets under management (AUM) and 14 firms with less than $20 billion AUM.

Exhibit 15

<$20 Billion AUM	>$100 Billion AUM
Theory Z	Vigilant Decision Making
Theory Y	Resource Dependence
Prime Organization	

For each of these category tests, we identified only those ideal types that were more characteristic among one subcategory versus the other(s). For the age of firm category, as noted above, we used three subcategories; there was a clear distinction between the extremes within these subcategories.

The results suggest that the "Theory Y/Theory Z/Prime" characteristics are more prevalent in the smaller, younger, mostly employee-owned firms, while the other types, "Resource Dep./Vigilant/Corp. Social," are found more in the larger, mature firms. We note that there is some overlap in these demographic traits: there are nine firms in the study which share the traits of being mature, large, and non-employee owned. There are seven firms that share the traits of young, small, and employee owned.

Factor Analysis

To this point, we have sought to differentiate managers by analyzing differences between pre-selected groupings chosen by the project team (e.g. size, age, etc.). One might think of this as "top-down" analysis. We also sought to analyze our results from the "bottom up," by searching for patterns among responses to individual Q-Sort statements that explain differences in results and suggest certain relationships. This approach is known as factor analysis.

Based on all the responses (from managers and consultants/referees), we developed three "factors" that describe investment firms and can help differentiate them. These factors can be thought of as new process indicator scales that effectively distinguish different TMT decision-making processes. The category distinctions (size, age, location, etc.) that we used in the initial analysis had been based on our judgment of traits that we *believed* would help illustrate differences among the firms' cultures; these three factors are designed to reveal the *substance* underlying those differences.

The characteristics (equivalent to process indicator descriptions) associated with these three factors are:

Factor 1: open organizational culture; high confidence and persistence vs. narrow structure; cautious and yielding
Factor 2: highly formal and rule-driven; low risk taking vs. relaxed with few rules; aggressive pursuit of ambitious goals
Factor 3: information flow tightly controlled; less reliance on senior investment specialists managing the business vs. open communication/debate; greater input from senior investment specialists on business decisions

Applying these three factors to the category analysis previously cited, we were able to re-sort the previously identified groupings. In Exhibit 16, we illustrate categories in which these factors identified results that were significantly different from each other. (A paired sample t-test was used to determine significance.)

Exhibit 16: Factor Analysis

Category	Factor 1 (more open culture)	Factor 2 (more formal & rule driven)	Factor 3 (more controlled information flow)
Employee Owned or Not	Employee owned		
Single vs. Multi-location	Single-location		
U.S. or non-U.S. HQ			Non-U.S.
Financial Capital or Not		Non-Financial Capital	Financial Capital
Age of Firm		Over 30 years	
Size of Firm	Under $20 billion		
Style	Value		
Client Type			Non-Institutional

From a practical perspective, we believe there are useful applications for this type of information. It may be beneficial to know if a firm's actual decision-making culture matches expectations, as opposed to having to make some preconceived assumptions. For example, for a plan sponsor evaluating a large, long-established firm that's part of a financial conglomerate, one might otherwise assume that its culture is "big, slow, and bureaucratic." The executives at the firm may argue the contrary, touting that their firm "is just as nimble and flexible as a boutique." Here, we believe the Q-Sort provides a tool for measuring the validity of such a characterization.

With the industry-specific factors developed for this study, one may be able to further distinguish the culture among investment managers relative to their peers. Using the Q-Sort, plan sponsors might begin the hiring process by searching for firms exhibiting certain qualitative traits rather than by assembling candidates based on the demographics typically employed. In addition, plan sponsors and consultants may use the Q-Sort to evaluate firms over time to detect changes in culture.

With the Q-Sort, one has a tool that can help quantify perceptions and provide a set of results for detailed discussion. A real benefit of the Q-Sort is therefore not to re-confirm information that is already known, but to identify differences that otherwise might pass unnoticed.

Conclusions

We perceive a growing desire within the investment industry to improve the assessment of "difficult-to-measure" qualities such as character, leadership, and culture. We believe the Q-Sort provides a credible tool for helping investment professionals make such qualitative assessments and, perhaps, more informed decisions about the top management teams (TMTs) at investment managers.

In conducting and publishing the findings from our study of 46 managers, we provide results that we describe as "indicative," rather than "definitive." Among the conclusions addressed in this report:

In 35 out of 46 instances, the consultant/referee response was at least consistent with the manager's own response, but in the other 11 instances there was less agreement. In analyzing where these differences were most noted, it appeared that the largest difference in perspective was among the non-U.S. firms.

A comparison of the investment management industry leadership to the management types developed in academic studies of group leadership shows that of the 17 academically documented types, investment managers in our study correlate closely to only seven of them. By comparing these seven types to societal norms, we note that the aggregate data generally shows a favorable picture of the investment management industry leadership teams, and the results suggest that leaders among investment management TMTs:

- Give the interests of the group precedence (rather than personal interests)
- Have confidence in their ability to achieve the organization's goals
- Work together as a mutually supportive team
- See problems from different angles and are willing to change course given new evidence

We tested several methods of dividing the sample group of 46 firms to find clear differentiation between the decision processes when the firms are divided into groups that share characteristics. Of the various tests that were tried, there were three tests that showed the clearest differences:

- Age of firm (under 15 years vs. over 30 years)
- Ownership (majority employee owned vs. non-employee owned)
- Assets under management (under $20 billion vs. over $100 billion).

Separately from the pre-determined test groups, we used factor analysis to identify three other factors that served to differentiate between groups of firms. These were:

- Factor 1: open organizational culture; high confidence and persistence vs. narrow structure; cautious and yielding
- Factor 2: highly formal and rule-driven; low risk taking vs. relaxed with few rules; aggressive pursuit of ambitious goals
- Factor 3: information flow tightly controlled; less reliance on senior investment specialists managing the business vs. open communication/debate; greater input from senior investment specialists on business decisions

By segregating managers, we hope to help professionals form answers to questions such as:

- How does this manager differ from the average manager?
- How does this manager differ from its peers?

If applied broadly across the investment management industry, we believe Q-Sort results may provide benchmarks when comparing individual managers to a peer group. For example, a client may be evaluating a manager that previously had been independently owned, but was recently acquired by a large insurance firm or bank. Despite being acquired, the manager may describe its culture as still indicative of a small, independently owned firm. Here, we believe the Q-Sort provides a tool for measuring the validity of such a characterization. The Q-Sort also may prove useful in assessing hedge funds, whose cultures can be difficult to assess.

Ultimately, it is our intention that the information the Q-Sort provides helps enable clients, consultants, and others to initiate more meaningful dialogue with managers and/or make more informed decisions about managers.

Looking Ahead

Going forward, we seek to raise awareness of the Q-Sort tool, invite further collaboration on additional research, and invite more investment firms to be Q-Sorted. Similar to performance rankings within peer universes, Q-Sort results, in our opinion, will be more meaningful and provide a richer context for interpreting results, with more participants.

We began this study with a hypothesis that culture may be a good guide to long-term success and that "hard to measure" should not deter one from investigating such variables. Our curiosity regarding culture spawned other questions: How do you quantify it? How do you gather hard data on soft skills? And what conclusions, if any, could be drawn from such a study?

While we have drawn some preliminary conclusions, we also want to investigate the relationship, if any, between Q-Sort results and managers' performance results. Is there any connection between "preferred" ideal types and recent or long-term performance? Of course, we believe industry professionals would be most interested in our findings in this area. We believe the Q-Sort also has merit as a diagnostic tool when used to evaluate managers periodically to detect changes in business culture.

To further the research we initiated, we are working to identify an investment industry organization that could serve as a focal point for compiling Q-Sort data. Ideally, this organization would not be a consultant or manager, but a respected group committed to educating professionals in this field that could provide objective guidance for the Q-Sort's development. We also are exploring the potential to create a website where professionals could complete Q-Sorts on managers and data could be collected and analyzed easily.

If you have any comments or questions regarding our work, feel free to contact any member of the Q-Sort Team:

Prof. Randall Peterson

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Watson Wyatt

- In the United Kingdom, contact Craig Baker on +44 17 3724 1144 or via e-mail at craig.baker@eu.watsonwyatt.com or
- In the United States, contact Jeffrey Nipp at 770.290.8600 or via e-mail at jeffrey.nipp@watsonwyatt.com

The Brandes Institute

- In the United States, contact Barry Gillman at 858.523.3670 or via e-mail at barry.gillman@brandes.com or
- Bob Schmidt at 858.523.3148 or via e-mail at bob.schmidt@brandes.com

For additional details on how to perform the Q-Sort and how to score the results, please contact The Brandes Institute (contacts listed above.)

Appendix I – Q-Sorting Distribution Constraints

Category	Label	No. of cards
	UPPER STATEMENT	
1	Extremely characteristic	5
2	Highly characteristic	8
3	Quite characteristic	12
4	Slightly characteristic	16
	MIDDLE CATERGORY	
5	Neither upper nor lower statement is characteristic	18
	LOWER STATEMENT	
6	Slightly characteristic	16
7	Quite characteristic	12
8	Highly characteristic	8
9	Extremely characteristic	5

Appendix II – Biographical Information

Randall S. Peterson

Randall S. Peterson is Associate Professor of Organisational Behaviour at London Business School. He teaches executive and MBA classes on leading teams and organisations, high performance teams, leadership assessment and interpersonal skill development. He has been invited to teach and consult in these areas across the world for companies such as Alcan, Barclays, Deutsche Bank, Emirates Bank, IBM, Nestlé and Telenor. He is also faculty director of the High Performance People Skills programme and the leadership week of the Accelerated Development Programme, flagship Executive Education programmes at London Business School. He has also taught the *HPPS* programme at the Indian School of Business in Hyderabad, India.

Randall's current research activities include editing and writing a book recently released entitled *Leading and Managing People in the Dynamic Organization*. In addition to his general interest in leadership in dynamic business environments, Randall's research includes investigating how personality of members affects group interaction and performance, how CEO personality affects top management team interaction as well as firm performance, and the effects of conflict in groups – including a recent study of the crucial role trust plays in getting the benefits of task conflict without also increasing the damage of relationship conflict in top management teams in the hotel industry. His research has been published in the leading journals in the field including *Research in Organizational Behavior*, *Organizational Behavior and Human Decision Processes, Journal of Applied Psychology*, *Personality and Social Psychology Bulletin*, and *Journal of Personality and Social Psychology.*

Randall holds a Ph.D. in Social and Organisational Psychology from the University of California, Berkeley. Before coming to London Business School he was on the faculty of Northwestern University and Cornell University's S.C. Johnson Graduate School of Management.

Sarah Ronson

Sarah Ronson is a Ph.D. candidate in Organisational Behaviour at the London Business School. Her main areas of research include teams, decision-making, and creativity. Sarah has a Bachelor of Commerce from Queen's University in Kingston, Canada. Before joining the London Business School, Sarah was an associate with the Boston Consulting Group.

Watson Wyatt Worldwide

Watson Wyatt & Company, the primary subsidiary of Watson Wyatt & Company Holdings (NYSE: WW), is an international human capital consulting firm that provides services in the areas of employee benefits, human capital strategies and related technology solutions. The firm is headquartered in Washington, D.C., and has 3,900 associates in 61 offices in the Americas and Asia-Pacific. Together with Watson Wyatt LLP, a leading European consulting partnership, based in Reigate, England, the firm operates globally as Watson Wyatt Worldwide. Watson Wyatt Worldwide has more than 6,000 associates in 88 offices in 30 countries.

For more information, visit the company's website at www.watsonwyatt.com.

Referees

Alan Briefel is the founder and principal of StratCom Limited, an independent, U.K.-based marketing consulting firm specializing in the investment management industry. He has more than 15 years of investment experience.

June Debatin is a founding partner at Ashdon Investment Analysis & Research LLC, an independent, U.S.-based firm providing market research for investment managers. She has more than 30 years of investment consulting experience.

Fernand Schoppig is founder and president of FS Associates, Inc., an independent, U.S.-based consulting firm providing services to institutions in Europe and North America. He has more than 25 years of investment experience.

The Brandes Institute

The Brandes Institute investigates potential opportunities arising from the influence of behavioral and structural factors on global investing. A division of Brandes Investment Partners®, a leading investment management firm based in San Diego, the Institute's primary goal is to develop ideas and research that expand the investment community's understanding of market behavior and portfolio management. Through various initiatives, the Institute strives to enhance the understanding and commitment of its audiences, attract interest and input from progressive thinkers in the investment field, and contribute to the creation of an interactive forum for innovative ideas.

For more information, visit the Institute's website at www.brandes.com/institute.

Appendix III – Participating Managers

- Aegon Asset Management
- Aronson+Johnson+Ortiz
- Arrowstreet Capital
- Baillie Gifford
- Barclays Global Investors
- Baring Asset Management
- Batterymarch Financial Management
- BlackRock
- Brandes Investment Partners
- Capital Group
- Cramer Rosenthal McGlynn
- Delaware Investments
- Dimensional Fund Advisors
- Fidelity Investments
- First Quadrant
- Fortis Investments
- Grantham, Mayo, Van Otterloo & Co.
- Henderson Global Investors
- Insight Investments
- INVESCO
- Jupiter Asset Management
- Lansdowne Partners
- Lee Munder Capital Group
- Legal and General Investment Management
- Liontrust Asset Management
- Lord, Abbett & Co.
- Marathon Asset Management
- McKinley Capital Management
- NewSmith Asset Management
- Newton Investment Management
- Nicholas-Applegate Capital Management
- Nordea Investment Management
- PIMCO
- Prudential
- Putnam Investments
- Pyrford International
- Pzena Investment Management
- RCM Capital Management
- Scottish Widows Investment Partnership
- Southeastern Asset Management
- Standard Life Investments
- State Street Global Advisors
- TCW Group
- Turner Investment Partners
- Wasatch Advisors
- William Blair & Company

Appendix IV – Q-Sort Items

1. The group requires absolute loyalty (i.e., members must show 100% dedication to the group and/or organization or they are out).

   vs.

   The group places no importance on loyalty (i.e., members are loyal either only to themselves or to external constituencies whom they represent.)

2. There is a widely shared belief that leadership requires technical or scientific knowledge unique to that industry.

   vs.

   The group has no use for technical or scientific knowledge.

3. Group members make good faith efforts to implement the leader's policies, even when they do not agree with those policies.

   vs.

   Influential members of the inner decision-making circle are blocking the group leader's policies.

4. The group deeply dislikes delegating power and sharing responsibility (i.e., control must be all or nothing).

   vs.

   The group appreciates the value in delegating power and living with fluid, power-sharing relationships.

5. The group believes in a top-down, pyramidal and control-oriented style of management (i.e., lots of rules, checks, and surveillance).

   vs.

   The group believes in a bottom-up style of management that encourages initiative and self-control among employees with minimal reliance on formal rules and surveillance.

6. The group is aware of and believes that it should be responsive to community concerns.

   vs.

   The group is oblivious to or ignores community concerns.

7. Group members are acerbic and confrontational in their dealings with each other.

   vs.

   Members are tactful and accommodative in their dealings with each other.

8. There is an infectious can-do spirit within the group.

   vs.

   The group's spirit is broken (i.e., apathy, despair, and defeatism prevail).

9. Communication within the inner circle of decision-makers is highly formal, with few breaches of protocol.

   vs.

   Group meetings are raucous informal affairs, with frequent and loud interruptions (Note: Code as neutral if the meetings are orderly but relaxed).

10. The group focuses exclusively on short term concerns (e.g., next quarter profits or current public image).

vs.

Long term concerns loom large in group decision making.

11. Group members see their own success as inextricably tied to the failure of other group members (i.e., members have individual, subgroup, or divisional agendas).

vs.

Group members assume they share a "common fate" (i.e., either they will succeed together or fail together).

12. The group cloaks its deliberations in the highest secrecy.

vs.

The group is remarkably open about its deliberations with those outside the group.

13. Group members devote enormous attention to detail.

vs.

Group members are oblivious to detail.

14. The group believes in sophisticated and sensitive means of monitoring trends, problems, and performance throughout the organization.

vs.

The group does not place a priority on keeping in touch with important trends and problems within the organization.

15. Members in good standing of the group must conform to strict norms in their personal lives (i.e., group membership implies holding certain attitudes).

vs.

The group tolerates a wide range of life styles among its members (i.e., how group members live is their own business).

16. There is a pervasive belief that standards of appropriate conduct should apply to everyone.

vs.

Corruption is rampant; cronyism, nepotism, favoritism and backroom deals are accepted as a natural part of life.

17. The group has lost faith in its capacity to control events.

vs.

The group feels fully in control of events.

18. False appearances and deceptive manipulation are so common as to be a way of life (i.e., nothing can be taken at face value).

vs.

Group members are remarkably open and candid in their dealings with one another.

19. The group refuses to abandon failing or unsound policies in response to serious setbacks (i.e., an aversion to serious self-criticism).

vs.

The group adjusts failing policies in a timely fashion (i.e., the group recognizes shortcomings and attempts to cut its losses by making midcourse changes).

20. The group places enormous importance on public relations (i.e., appreciates the need to manipulate public perceptions of the group, the organization and its products).

vs.

The group is oblivious to these concerns.

21. The group cannot act decisively without the stimulus of a crisis.

vs.

The group is capable of decisive action before problems deteriorate into crises. (Note: Item implies a capacity both to anticipate events and to mobilize resources to shape those events.)

22. The group is confident in its legitimacy (i.e., it assumes there is widespread acceptance of its "right" to lead).

vs.

The group is very unsure and self-conscious of its legitimacy (Note: Item refers to group's perception of its legitimacy, not to others' perceptions of the group [see item 93]).

23. Relations among group members are charged with hostility and/or rivalry.

vs.

Relations among group members are warm and friendly. (Note: Code as neutral if relations among group members tend to be affectively neutral and businesslike.)

24. Group members compete in obsequious and sycophantic ways for the attention of the leader (i.e., members of the group have become fawning "yes-men").

vs.

The group consists of a number of dominant (and approximately equally dominant) personalities.

25. Advocates of a more risk-taking business strategy hold the upper hand within the group.

vs.

Advocates of a more cautious strategy hold the upper hand within the group.

26. The group has achieved a balance of expertise from different functional domains critical to organizational survival (e.g., marketing, product design, manufacturing, finance, law).

vs.

One functional division of the organization dominates decision-making (i.e., key areas of expertise are not represented).

27. The group abandons well-reasoned policies at the first hint of trouble or controversy (i.e., no capacity to stay the course).

vs.

The group sticks by well-reasoned policies even in the face of adversity.

28. The group single-mindedly focuses on maximizing "bottom-line" or financial performance indicators.

vs.

The group tries to balance many objectives in decision-making (i.e., profitability is but one of many concerns).

29. The group consists of visionaries driven to achieve extremely ambitious objectives.

vs.

The group consists of "satisficers" content with adopting any acceptable option that comes along.

30. Group members represent a variety of constituencies and points of view.

vs.

The group is remarkably homogeneous.

31. The group perceives a serious external threat to its continued existence (e.g., unfriendly takeover, government regulators, tough competitors, creditors, etc.)

vs.

The group perceives the business environment to be placid and relatively benign (the environment may even be supportive).

32. The leader has complete control over who is admitted to the group.

vs.

The group consists of individuals with autonomous bases of power (i.e., group members do not owe their positions to the leader).

33. Peculiar, even pathological, conduct by the leader is tolerated.

vs.

Peculiar or pathological conduct is not tolerated.

34. Interaction among group members is confined to official meetings and work-related gatherings.

vs.

Group members know each other well and socialize together.

35. There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).

vs.

Group members invest little energy in their work.

36. The group leader makes no secret of his/her policy preferences.

vs.

Members are often in doubt as to exactly where the group leader stands on important issues.

37. There is a great deal of xenophobia or suspiciousness toward outsiders within the group.

vs.

The group is open to a wide range of cultural and intellectual influences.

38. The group can easily cope with existing problems and challenges.

vs.

The group is under enormous pressure or stress (i.e., challenges far exceed capabilities).

39. The leader is passive and withdrawn (i.e., has apparently lost interest in the job and in achieving original goals).

vs.

The group leader is an extremely forceful and ambitious personality.

40. Dissent is not acceptable even within private group meetings; the group ostracizes dissenters and punishes them severely.

vs.

Private criticism within group meetings is not only acceptable, it is actively encouraged as a way of improving decision making.

41. The group is united on the pace of change.

vs.

There is a serious rift within the group between the forces of organizational change and forces supporting the traditions, privileges and understandings of the past.

42. The group attaches remarkably little importance to maximizing efficiency (Note: This is <u>not</u> the same as profitability).

vs.

The group places enormous importance on maximizing efficiency.

43. The group is amazingly tolerant of lackadaisical and shoddy performance.

vs.

The group demands maximum effort and exceptional performance from executives, managers and workers.

44. The leader closely monitors the work of other group members.

vs.

The leader has a laissez-faire governing style (i.e., leader allows wide latitude in completion of responsibilities; pays no attention to how other group members manage their responsibilities).

45. The group lavishes rewards upon a select few.

vs.

The group has little tolerance for income inequality within the organization (i.e., tries to minimize the gap between best and poorest paid employees).

46. The group can afford to make a variety of mistakes (i.e., the group/organization can draw upon enormous resources – financial, reputational, etc.)

vs.

The group cannot afford to make mistakes (i.e., the group / organization is on the precipice of ruin, even one mistake can ruin them).

47. Authority within the group is highly fragmented, with different facets of policy becoming the autonomous provinces of different individuals.

vs.

Authority is highly centralized; policy in different domains is tightly controlled and integrated.

48. Group members have no financial stake in the success or failure of the organization.

vs.

Group members' personal fortunes are completely linked to the success or failure of the organization.

49. The group has a bewildering array of information at its disposal; the amount and complexity of incoming information strains the capacity of even brilliant managers (e.g., a very rapidly changing business environment).

vs.

The group has remarkably little to do (e.g., the industry is relatively static).

50. The group attaches great importance to preserving traditional arrangements and understandings.

vs.

The group attaches no importance to preserving traditional arrangements and understandings.

51. The group consists of representatives of various interest groups and bureaucratic constituencies.
vs.
The group consists of "generalists" who are not obliged to represent any particular power base.

52. The group functions like a think-tank (i.e., people pursue whatever projects interest them, with no central coordination).
vs.
The group functions like a Prussian military unit (i.e., everyone is assigned a well-defined project that fits into a well-defined master plan).

53. Power is concentrated within a small sub-group.
vs.
Power is dispersed across a wide range of constituencies and interest groups.

54. The group can act decisively in emergencies.
vs.
Even in emergencies, the group cannot act decisively.

55. The group shows no team spirit and group solidarity.
vs.
The group shows strong team spirit.

56. The group cannot reconcile the conflicting demands of important constituencies.
vs.
The group has no difficulty satisfying all important constituencies.

57. The group leader fails to deal with the succession problem.
vs.
The leader has personally designated a successor or specified a procedure for identifying one.

58. Group members are highly attuned to their environment and major changes occurring around them.
vs.
Members are extremely slow to recognize the major changes occurring around them.

59. Group members devote virtually all their time to playing self-serving political games (e.g., claiming expensive perks, redefining criteria for success, etc.)
vs.
Group members have no time for gamesmanship; their focus is on achieving shared goals.

60. The leader is often ignored or even overruled by group members.
vs.
The group displays automatic and unquestioning obedience toward the leader. (Note: Code as neutral if the group leader can generally expect deference but does not have license to rule arbitrarily.)

61. The leader behaves in a stable, predictable manner.
vs.
The group leader behaves in an unpredictable, even mercurial, manner.

62. The group pursues bold or high-risk initiatives.
vs.
The group acts in highly cautious or risk-averse ways.

63. Members harbor serious doubts about the leader's effectiveness.
vs.
Group members are convinced that the leader possesses skills that are critical for achieving group goals.

64. The group suffers from an inferiority complex.
vs.
The group displays enormous confidence in itself and its traditions.

65. Key group members are megalomaniacs who have lost all sense of their limitations.
vs.
Key group members are balanced people who know the limits of their own skills and usefulness to the organization.

66. The group places heavy emphasis on consultation and soliciting expert advice.
vs.
The group places little emphasis on consultation and expert advice.

67. The group is always careful to act within the law.
vs.
The group is unconstrained by law or common conceptions of morality.

68. The group leader is insulated from criticism.
vs.
The leader is exposed to a wide range of views and arguments (Note: Item refers to whether the leader is exposed and <u>not</u> whether leader responds [see items 92 & 40]).

69. The group has a chaotic, seat-of-the-pants managerial style and structure (i.e., no rules, blurry lines of responsibility).
vs.
The group has a crisp, organized managerial style and structure (i.e., explicit rules, clear lines of responsibility).

70. The group leader demonstrates intense loyalty to close supporters and advisors (i.e., keeps them aboard long after they have become political liabilities).
vs.
The leader shows no loyalty to close supporters and advisors (i.e., abandons them at the earliest signs of trouble).

71. Key members are open, confident people who are willing to consider that they might be wrong.
vs.
Key members of the group are defensive, insecure people who respond sharply to any criticism.

72. The group never acts unless unanimity has been achieved.
vs.
The group frequently undertakes decisions that a substantial fraction of the group opposes.

73. There is intense pressure to forget disagreements and forge a common front.

vs.

There is little external pressure to forge a common front.

74. The group recognizes that painful and divisive choices cannot be avoided.

vs.

The group believes that trade-offs can be avoided (i.e., that it will be possible to achieve everything on their wish list).

75. The group has formidable problem-solving skills and is adept at improvising solutions to unexpected events.

vs.

The group has no problem-solving skills (i.e., clueless when something out of the ordinary happens).

76. The group has suffered serious setbacks (i.e., injuries to its collective self-esteem).

vs.

The group is “riding high” as a result of past successes (i.e., an euphoric atmosphere in group meetings).

77. The group acts impulsively (i.e., the group responds emotionally and rarely makes contingency plans).

vs.

The group acts in a methodical and deliberate manner.

78. The group demonstrates a capacity for “double-loop learning” (i.e., the capacity not just to monitor performance with respect to established indicators, but also to undertake periodic reassessments of performance indicators to ensure they are measuring the right things).

vs.

The group has no capacity for self-reflective learning (i.e., group shows no interest in rethinking indicators of success that are customary to the organization).

79. There is a pervasive lack of accountability within the group (e.g., when key projects fail, resignations or censure of responsible decision-makers do not follow.)

vs.

Group members feel strictly accountable for their job performance (i.e., when they fail, they take full responsibility).

80. A new generation of leadership has recently come to power.

vs.

A new, fresh cohort of leaders is being systematically excluded.

81. The group leader is insensitive to other points of view within the group and society at large.

vs.

The leader is a good listener (i.e., pays careful attention to what others say, good at understanding divergent viewpoints).

82. The group believes that it should be responsive to employee concerns.

vs.

The group is oblivious to employee concerns (in extreme cases may even be hostile to employee concerns).

83. No member of the group comes even close to matching the skills and stature of the leader.

vs.

The leader is overshadowed or eclipsed by other group members.

84. The leader has positioned himself/herself in the middle of the continuum of opinion within the group.

vs.

The leader is identified with an extremist wing of the group.

85. The group can plausibly blame others for current woes (i.e., even outside observers agree that responsibility lies elsewhere).

vs.

The group must accept responsibility for current woes (i.e., the group is being held accountable for their problems).

86. The group consists of innovative pioneers (i.e., people who have created new technologies, opened up new markets, etc.)

vs.

The group consists of professional managers and bureaucrats (i.e., people who have experience in keeping large organizations on steady trajectories).

87. There is a radical atmosphere in the group (i.e., rethink old approaches, adopt new strategies and goals).

vs.

There is a conservative (don't-rock-the-boat) atmosphere in the group.

88. The group subscribes to a rigid, dichotomous view of the world (i.e., there are good guys and bad guys and nothing in between).

vs.

The group has a flexible multidimensional world view (i.e., good guys are not always good, bad guys are not always bad, and reasonable people can often disagree over what counts as good or bad.)

89. The group blatantly discriminates against disliked ethnic, racial, or religious groups.

vs.

The group bends over backwards to display its ethnic, racial, and religious impartiality.

90. The most influential members of the group are poorly educated (i.e., little formal education or narrow technical training).

vs.

The most influential members are extremely well-educated (i.e., advanced degrees from major universities).

91. The group is confident that, even if its current plans fail, it will be "bailed out" by powerful protectors (i.e., the group believes there will be guaranteed rescue from its own ineptitude; little incentive to take on unpleasant tasks; Note: protection could come from large cash reserves, government action, reputation, etc.)

vs.

The group realizes it is "on its own" (i.e., success or failure depends on its own efforts and failure could lead to bankruptcy or the folding of the corporation).

92. The leader respects the concerns and feelings of other group members and honors private understandings with them.

vs.

The leader shows contempt for other group members (i.e., may attempt to bully or intimidate them).

93. The group's legitimate authority has been utterly discredited.

vs.

The group's legitimacy is widely accepted. (Note: Item refers to perceptions of others, not to group's perception of its legitimacy [see item 22]).

94. The relationship between the group leader and other group members is remarkably easygoing and relaxed (i.e., people feel free to speak their minds, even to joke).

vs.

The relationship is formal and tense (e.g., no spontaneity or humor).

95. Group members are opportunists guided only by calculations of personal self-interest.

vs.

Members are strongly committed to the norms, roles and goals of the organization (i.e., want to do the "right thing" for the "right reasons").

96. The group leader is charismatic and inspiring (i.e., gives subordinates something to believe in and to shoot for).

vs.

The leader is bland and uninspiring at best (an embarrassment at worst).

97. The group leader makes major efforts to persuade others to redefine their goals and priorities.

vs.

The leader places little emphasis on persuading others (i.e., works within or around current opinion).

98. The group assumes that most policy decisions require a fluid process, weighing competing values and making subtle trade-off judgments (i.e., decisions are made in many ways depending on the circumstances).

vs.

The group assumes there are clear right and wrong, good and bad ways of making decisions (i.e., the process by which decisions are made is rigid).

99. There is an atmosphere of suspicion and fear within the group (i.e., no one knows who will be next to fall out of favor and into oblivion).

vs.

There is an atmosphere of trust and mutual support among group members.

100. Virtually all we know about the group is based on speculative reconstruction of fragmentary evidence.

vs.

There is a great deal of reliable evidence about the internal functioning of the group.

Appendix V – Instructions for the Group Dynamics Q-Sort

The purpose of the 100 items in the Group Dynamics Q-Sort is to describe group experiences. The items are designed to permit the portrayal of virtually any kind of group in an organization including top management teams, task forces, committees, and self-directed work teams. There should, for all practical purposes, be no limit to the range of group dynamics that can be described by the Q-Sort.

The Q-Sorting procedure is simple, but somewhat time consuming. With the group to be assessed in mind, look through the deck of 100 cards. You will note that each card has an upper statement and a lower statement that are opposites. First, sort the cards into three stacks in a column. Place in the upper stack all those cards for which the upper statement is characteristic of the group. Place in the lower stack all of those cards for which the lower statement is characteristic of the group. Place in the middle the remaining cards where there is conflicting evidence or a lack of evidence. No attention need be paid to the number of cards in each grouping at this time.

When the three stacks have been established, they must be further divided into a column of nine categories, each with an exact number of cards in it – 5, 8, 12, 16, 18, 16, 12, 8, and 5. For example, you should place the five most characteristic statements in each of the two end rows (as shown in Appendix 1). You may feel frustrated by the constraints of the sorting procedure. In justification, it should be noted that specifying the number of cards to be assigned to each category has proven to be a more valuable procedure than the freer situation in which a judge can assign any number of cards to a category. Past research indicates that we underestimate the degree of interjudge agreement when there are no constraints on sorting. The reason is simple. When we compare two free-form Q-Sorts, there are three causes of disagreement at work; real differences in point of view, random error variance (mood, carelessness, etc.), and differences in how judges use the rating scale (we know that some people make extreme judgments, whereas others are fence sitters). When we compare two forced-distribution Q-Sorts, we eliminate this third source of interjudge disagreement (really pseudo-disagreement) by standardizing how everyone uses the rating scale. This forced-distribution Q-Sort also has another related advantage. Because the Q-Sort technique limits the number of items per scale value category, the forced-distribution Q-Sort puts pressure on judges to make frequent comparisons of the relative descriptive appropriateness of items. It is possible to highlight only so many items in the "extremely characteristic" categories. One must ask oneself the following: Given that I can highlight only a handful of statements as extremely characteristic, which ones are particularly worthy of being singled out? Making compromises of this sort is not easy, but it does increase both the interjudge reliability and predictive value of Q-Sorts.

Appendix VI – Ideal Management Types

Here, we summarize the 17 ideal management types with tables showing the 10 Q-Sort items that are "extremely characteristic" of these organizations. The numbers for each statement correspond to the 100 Q-Sort items and are noted as an extremely characteristic "upper" or "lower" statement. The ideal types are shown in alphabetical order.

Absolutist Cult

Absolutism was derived from historical political sources and describes an organization where authority and power are completely centralized in one person who claims to embody the culture and direction of the organization. The leader of an absolutist company generally claims to be the living voice of a revolution on the company and thus tends to get involved in all areas of company decision-making, down to the tiniest detail. An illustrative example of this type is Lee Iacocca's administration of Chrysler Corporation after the company repaid the government-backed loans when Iacocca asserted his right to be involved in any and all areas of the company, claiming that he had "saved the damn company" (Ingrassia & White, 1994).

Extremely Characteristic – Upper Statement		Extremely Characteristic – Lower Statement	
1	The group requires absolute loyalty (i.e., members must show 100% dedication to the group and/or organization or they are out).	16	Corruption is rampant; cronyism, nepotism, favoritism and backroom deals are accepted as a natural part of life.
24	Group members compete in obsequious and sycophantic ways for the attention of the leader (i.e., members of the group have become fawning "yes-men").	39	The group leader is an extremely forceful and ambitious personality.
33	Peculiar, even pathological, conduct by the leader is tolerated.	43	The group demands maximum effort and exceptional performance from executives, managers and workers.
37	There is a great deal of xenophobia or suspiciousness toward outsiders within the group.	60	The group displays automatic and unquestioning obedience toward the leader. (Note: Code as neutral if the group leader can generally expect deference but does not have license to rule arbitrarily.)
83	No member of the group comes even close to matching the skills and stature of the leader.	92	The leader shows contempt for other group members (i.e., may attempt to bully or intimidate them).

Adolescent Organization

Ichak Adizes studied the "lifecycles" of organizations, drawing comparisons to living organisms. This is the third stage of development. It suggests that the organization is being recreated – often apart from its founder, who may leave or be forced out. This stage is typically painful and can last longer than an organization's infancy phase. As an adolescent, the firm is characterized by conflict and inconsistency. There is likely to be an "us versus them" mentality between employees who have been with the firm from its inception who prefer the somewhat chaotic style of a growing organization, and the newer employees who are looking to "professionalize" company systems as the firm's culture changes from entrepreneurship to professional management.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
11	Group members see their own success as inextricably tied to the failure of other group members (i.e., members have individual, subgroup, or divisional agendas).	41	There is a serious rift within the group between the forces of organizational change and forces supporting the traditions, privileges and understandings of the past.
18	False appearances and deceptive manipulation are so common as to be a way of life (i.e., nothing can be taken at face value).	54	Even in emergencies, the group cannot act decisively.
23	Relations among group members are charged with hostility and/or rivalry.	57	The leader has personally designated a successor or specified a procedure for identifying one.
59	Group members devote virtually all their time to playing self-serving political games (e.g., claiming expensive perks, redefining criteria for success, etc.)	71	Key members of the group are defensive, insecure people who respond sharply to any criticism.
80	A new generation of leadership has recently come to power.	72	The group frequently undertakes decisions that a substantial fraction of the group opposes.

Builders Strategy:

Developed by Danny Miller, the Builders Strategy refers to organizations generally led by ambitious entrepreneurial executives who do not "manage" as much as they "construct" their firms. The Builders organization is pieced together into a powerful diversified entity. All Builders progress sequentially through two distinct phases:

1. foundation building
2. diversification

In the first phase, they create a strong basis for growth by establishing a viable organization. Then, they boldly expand and diversify, often by acquiring other firms. Cultural traits of such firms may include pride and optimism, strong financial motivation, and a "sink-or-swim" workaholic mentality. Structurally, they tend to have centralized policy making and decentralized operations, cutting-edge intelligence systems, and analytical decision making procedures.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
22	The group is confident in its legitimacy (i.e., it assumes there is widespread acceptance of its "right" to lead).	17	The group feels fully in control of events.
28	The group single-mindedly focuses on maximizing "bottom-line" or financial performance indicators.	39	The group leader is an extremely forceful and ambitious personality.
29	The group consists of visionaries driven to achieve extremely ambitious objectives.	43	The group demands maximum effort and exceptional performance from executives, managers and workers.
45	The group lavishes rewards upon a select few.	64	The group displays enormous confidence in itself and its traditions.
62	The group pursues bold or high-risk initiatives.	79	Group members feel strictly accountable for their job performance (i.e., when they fail, they take full responsibility).

Corporate Social Responsibility

Corporate Social Responsibility was originally championed by Amitai Etzioni in his book *The Spirit of Community* and encourages the integration of business operations and social values whereby the interests of all stakeholders are considered in decision making – including customers, employees, investors, the community, and the natural environment. Company policies and decisions reflect an attempt to consider the interests of all affected by a company rather than narrowly considering the interests of the shareholders and owners.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
6	The group is aware of and believes that it should be responsive to community concerns.	4	The group appreciates the value in delegating power and living with fluid, power-sharing relationships.
16	There is a pervasive belief that standards of appropriate conduct should apply to everyone.	5	The group believes in a bottom-up style of management that encourages initiative and self-control among employees with minimal reliance on formal rules and surveillance.
30	Group members represent a variety of constituencies and points of view.	28	The group tries to balance many objectives in decision-making (i.e., profitability is but one of many concerns).
67	The group is always careful to act within the law.	32	The group consists of individuals with autonomous bases of power (i.e., group members do not owe their positions to the leader).
92	The leader respects the concerns and feelings of other group members and honors private understandings with them.	89	The group bends over backwards to display its ethnic, racial, and religious impartiality.

Drifters Strategy

Developed by Danny Miller, the Drifters Strategy reflects an organization whose Sales Strategy (exceptional marketing skills, prominent brand names, and broad markets) has been amplified to the detriment of the firm. In this case, if not properly managed, successful sales contribute to proliferating product lines that blur focus. Firms characterized by Drifters Style may exhibit a preference for style over substance, remote leadership, bland cultures, and fragmented, bureaucratic structures.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
10	The group focuses exclusively on short term concerns (e.g., next quarter profits or current public image).	16	Corruption is rampant; cronyism, nepotism, favoritism and backroom deals are accepted as a natural part of life.
22	The group is confident in its legitimacy (i.e., it assumes there is widespread acceptance of its “right” to lead).	64	The group displays enormous confidence in itself and its traditions.
23	Relations among group members are charged with hostility and/or rivalry.	78	The group has no capacity for self-reflective learning (i.e., group shows no interest in rethinking indicators of success that are customary to the organization).
42	The group attaches remarkably little importance to maximizing efficiency (Note: This is not the same as profitability).	86	The group consists of professional managers and bureaucrats (i.e., people who have experience in keeping large organizations on steady trajectories).
59	Group members devote virtually all their time to playing self-serving political games (e.g., claiming expensive perks, redefining criteria for success, etc.)	87	There is a conservative (don't-rock-the-boat) atmosphere in the group.

Go-Go Organization

Ichak Adizes studied the “lifecycle” of organizations, drawing comparisons to living organisms. This second step in the lifecycle suggested that a Go-Go organization likely is not only surviving, it is flourishing. While successful, its growth may spawn a lack of consistency or focus and a firm organized around people rather than tasks. Employees tend to be assigned tasks based on their availability rather than competence and management views every opportunity as a priority. Growth and authority in the organization tend to be “opportunistic” and are susceptible to crisis.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
8	There is an infectious can-do spirit within the group.	14	The group does not place a priority on keeping in touch with important trends and problems within the organization.
22	The group is confident in its legitimacy (i.e., it assumes there is widespread acceptance of its “right” to lead).	17	The group feels fully in control of events.
62	The group pursues bold or high-risk initiatives.	55	The group shows strong team spirit.
65	Key group members are megalomaniacs who have lost all sense of their limitations.	64	The group displays enormous confidence in itself and its traditions.
69	The group has a chaotic, seat-of-the-pants managerial style and structure (i.e., no rules, blurry lines of responsibility).	76	The group is “riding high” as a result of past successes (i.e., an euphoric atmosphere in group meetings).

Groupthink

Pioneered by Irving Janis, groupthink refers to social psychological phenomena in decision-making that drive members of a group to achieve consensus in decision-making – at the expense of honestly assessing diverse options or considering points of view from outside the group. Groupthink organizations tend to be characterized by a strong sense of group cohesion among key decision makers and a strong desire among individuals to retain membership status in this group. Because conformity is encouraged, critical thinking is muted and objective standards for evaluating goal achievement may be lacking.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
1	The group requires absolute loyalty (i.e., members must show 100% dedication to the group and/or organization or they are out).	11	Group members assume they share a "common fate" (i.e., either they will succeed together or fail together).
40	Dissent is not acceptable even within private group meetings; the group ostracizes dissenters and punishes them severely.	38	The group is under enormous pressure or stress (i.e., challenges far exceed capabilities).
72	The group never acts unless unanimity has been achieved.	55	The group shows strong team spirit.
73	There is intense pressure to forget disagreements and forge a common front.	74	The group believes that trade-offs can be avoided (i.e., that it will be possible to achieve everything on their wish list).
88	The group subscribes to a rigid, dichotomous view of the world (i.e., there are good guys and bad guys and nothing in between).	78	The group has no capacity for self-reflective learning (i.e., group shows no interest in rethinking indicators of success that are customary to the organization).

Imperialists Strategy

Developed by Danny Miller, the Imperialists Strategy reflects the adverse results of success at some "Builders" organizations, if not carefully managed. Imperialists tend to increase the pace and range of development, straying far from familiar businesses and incurring onerous debt. Characterized by overexpansion, the firm strains managerial and financial resources. Aspects of the firm's culture may include arrogance and euphoria, overlooking important details, and gamesmanship. The firm's structure may be chaotic, reflecting poor controls and ritualistic bureaucracy.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
19	The group refuses to abandon failing or unsound policies in response to serious setbacks (i.e., an aversion to serious self-criticism).	2	The group has no use for technical or scientific knowledge.
25	Advocates of a more risk-taking business strategy hold the upper hand within the group.	13	Group members are oblivious to detail.
28	The group single-mindedly focuses on maximizing "bottom-line" or financial performance indicators.	17	The group feels fully in control of events.
45	The group lavishes rewards upon a select few.	39	The group leader is an extremely forceful and ambitious personality.
62	The group pursues bold or high-risk initiatives.	78	The group has no capacity for self-reflective learning (i.e., group shows no interest in rethinking indicators of success that are customary to the organization).

Infant Organization

Ichak Adizes studied the "lifecycle" of organizations, drawing comparisons to living organisms. This first identifiable step follows an organization's inception where Adizes asserted that it enters infancy. This period is marked by a shift "from ideas and possibilities to the production of results." In this stage, there is little time for talking – only for action. He added that for many fledgling companies, "this switch from ideas to results is a trying time." Infant organizations may be characterized by few policies, systems, procedures, budgets, or managerial depth. At the same time, they can be very personal places to work where everybody is on a first-name basis and there is very little hierarchy. In addition, the organization is likely to be highly responsive to client needs.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
21	The group cannot act decisively without the stimulus of a crisis.	38	The group is under enormous pressure or stress (i.e., challenges far exceed capabilities).
31	The group perceives a serious external threat to its continued existence (e.g., unfriendly takeover, government regulators, tough competitors, creditors, etc.)	39	The group leader is an extremely forceful and ambitious personality.
35	There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).	43	The group demands maximum effort and exceptional performance from executives, managers and workers.
69	The group has a chaotic, seat-of-the-pants managerial style and structure (i.e., no rules, blurry lines of responsibility).	59	Group members have no time for gamesmanship; their focus is on achieving shared goals.
96	The group leader is charismatic and inspiring (i.e., gives subordinates something to believe in and to shoot for).	91	The group realizes it is "on its own" (i.e., success or failure depends on its own efforts and failure could lead to bankruptcy or the folding of the corporation).

Organization in Decline

Ichak Adizes studied the "lifecycles" of organizations, drawing comparisons to living organisms. Adizes suggests that organizations in decline have crossed the apex of their lifecycle and are beginning to deteriorate. Such firms are characterized by bureaucracy and internal conflict. Lacking control, organizations in decline may struggle with who caused problems, rather than focusing on solutions. These firms tend to have many systems with little functional orientation and run on ritual – not reason. Dissociated from its environment and focused largely on its own problems, these firms tend to alienate clients.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
9	Communication within the inner circle of decision-makers is highly formal, with few breaches of protocol.	25	Advocates of a more cautious strategy hold the upper hand within the group.
22	The group is confident in its legitimacy (i.e., it assumes there is widespread acceptance of its "right" to lead).	62	The group acts in highly cautious or risk-averse ways.
43	The group is amazingly tolerant of lackadaisical and shoddy performance.	64	The group displays enormous confidence in itself and its traditions.
50	The group attaches great importance to preserving traditional arrangements and understandings.	86	The group consists of professional managers and bureaucrats (i.e., people who have experience in keeping large organizations on steady trajectories).
88	The group subscribes to a rigid, dichotomous view of the world (i.e., there are good guys and bad guys and nothing in between).	87	There is a conservative (don't-rock-the-boat) atmosphere in the group.

Prime Organization

Ichak Adizes studied the "lifecycle" of organizations, drawing comparisons to living organisms. A prime organization is at the optimum point on the lifecycle curve, achieving a balance of self-control and flexibility. Sustainable growth and profitability are achieved through a harmonious commitment to corporate goals – which tie smoothly with the personal goals of employees. Among the traits of a prime organization: it acts both efficiently and effectively, carefully considering the short and long term, it makes decisions in a balanced fashion, and pushes authority down to the lowest levels to help individuals toward self-actualization.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
8	There is an infectious can-do spirit within the group.	17	The group feels fully in control of events.
35	There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).	28	The group tries to balance many objectives in decision-making (i.e., profitability is but one of many concerns).
58	Group members are highly attuned to their environment and major changes occurring around them.	69	The group has a crisp, organized managerial style and structure (i.e., explicit rules, clear lines of responsibility).
75	The group has formidable problem-solving skills and is adept at improvising solutions to unexpected events.	95	Members are strongly committed to the norms, roles and goals of the organization (i.e., want to do the "right thing" for the "right reasons").
98	The group assumes that most policy decisions require a fluid process, weighing competing values and making subtle trade-off judgments (i.e., decisions are made in many ways depending on the circumstances).	99	There is an atmosphere of trust and mutual support among group members.

Resource Dependence

Developed by Jeffrey Pfeffer and Gerald Salancik, "Resource Dependence" reflects the belief that organizations are most influenced by those who control resources – and such control may be located inside or outside of the firm. Recognizing this, organizations may confront resource dependence and attempt to control its contexts through vertical integration (bringing suppliers in-house), horizontal integration (buying out competitors), or diversification. Resource Dependent firms' attempts to control their environments may be predicated on the assumption that organizational growth and larger size increase their survival chances and give them greater power.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
20	The group places enormous importance on public relations (i.e., appreciates the need to manipulate public perceptions of the group, the organization and its products).	19	The group adjusts failing policies in a timely fashion (i.e., the group recognizes shortcomings and attempts to cut its losses by making midcourse changes).
58	Group members are highly attuned to their environment and major changes occurring around them.	21	The group is capable of decisive action before problems deteriorate into crises. (Note: Item implies a capacity both to anticipate events and to mobilize resources to shape those events.
74	The group recognizes that painful and divisive choices cannot be avoided.	65	Key group members are balanced people who know the limits of their own skills and usefulness to the organization.
85	The group can plausibly blame others for current woes (i.e., even outside observers agree that responsibility lies elsewhere).	88	The group has a flexible multidimensional world view (i.e., good guys are not always good, bad guys are not always bad, and reasonable people can often disagree over what counts as good or bad.)
98	The group assumes that most policy decisions require a fluid process, weighing competing values and making subtle trade-off judgments (i.e., decisions are made in many ways depending on the circumstances).	91	The group realizes it is "on its own" (i.e., success or failure depends on its own efforts and failure could lead to bankruptcy or the folding of the corporation).

Sales Strategy

Developed by Danny Miller, the Sales Strategy organization has exceptional marketing skills, prominent brand names, and broad markets. Typically very large, it capitalizes on its reputation by offering a wide array of goods and services, competing with intensive advertising, fine service, and attractive styling and packaging, all of which build its image and reputation. If not managed properly or seduced by its success, this type of organization may transform itself into a Drifter. In this case, the "package" becomes more important than its contents as product quality and relevance decline amid conflicting product lines, too many niches, or too many sales outlets.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
1	The group requires absolute loyalty (i.e., members must show 100% dedication to the group and/or organization or they are out).	2	The group has no use for technical or scientific knowledge.
20	The group places enormous importance on public relations (i.e., appreciates the need to manipulate public perceptions of the group, the organization and its products).	11	Group members assume they share a "common fate" (i.e., either they will succeed together or fail together).
22	The group is confident in its legitimacy (i.e., it assumes there is widespread acceptance of its "right" to lead).	59	Group members have no time for gamesmanship; their focus is on achieving shared goals.
35	There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).	62	The group acts in highly cautious or risk-averse ways.
58	Group members are highly attuned to their environment and major changes occurring around them.	99	There is an atmosphere of trust and mutual support among group members.

Douglas McGregor proposed that all management practices stem from managers' personal "theories" regarding the basic nature of people. Theory X suggests that work is inherently distasteful to the average employee. Thus, employees tend to have the following traits: little desire for responsibility, low capacity for creativity in solving problems, and the need for security and comfort. Applied to an organization, Theory X suggests that people need explicit direction and will work toward the organization's objectives only if closely monitored and controlled.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
4	The group deeply dislikes delegating power and sharing responsibility (i.e., control must be all or nothing).	47	Authority is highly centralized; policy in different domains is tightly controlled and integrated.
5	The group believes in a top-down, pyramidal and control-oriented style of management (i.e., lots of rules, checks, and surveillance).	52	The group functions like a Prussian military unit (i.e., everyone is assigned a well-defined project that fits into a well-defined master plan).
40	Dissent is not acceptable even within private group meetings; the group ostracizes dissenters and punishes them severely.	60	The group displays automatic and unquestioning obedience toward the leader. (Note: Code as neutral if the group leader can generally expect deference but does not have license to rule arbitrarily.)
44	The leader closely monitors the work of other group members.	69	The group has a crisp, organized managerial style and structure (i.e., explicit rules, clear lines of responsibility).
53	Power is concentrated within a small sub-group.	94	The relationship is formal and tense (e.g., no spontaneity or humor).

Douglas McGregor proposed that all management practices stem from managers' personal "theories" regarding the basic nature of people. Theory Y suggests that people are motivated to obtain mastery over their world and to experience feelings of self-respect, self-fulfillment, and self-actualization in addition to their search for external gratification. Applied to an organization, Theory Y asserts that employees are: self-directed and do not require the threat of punishment, want to achieve, and have the capacity to exercise a high degree of imagination, ingenuity, and creativity.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
8	There is an infectious can-do spirit within the group.	4	The group appreciates the value in delegating power and living with fluid, power-sharing relationships.
16	There is a pervasive belief that standards of appropriate conduct should apply to everyone.	5	The group believes in a bottom-up style of management that encourages initiative and self-control among employees with minimal reliance on formal rules and surveillance.
35	There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).	18	Group members are remarkably open and candid in their dealings with one another
82	The group believes that it should be responsive to employee concerns.	55	The group shows strong team spirit.
94	The relationship between the group leader and other group members is remarkably easygoing and relaxed (i.e., people feel free to speak their minds, even to joke).	59	Group members have no time for gamesmanship; their focus is on achieving shared goals.

Theory Z

Developed by William Ouchi, Theory Z often is referred to as the "Japanese" management style. Essentially, it advocates combining the best elements of Theory Y and modern Japanese management, which places a large amount of freedom and trust with workers, assumes that workers have strong loyalty and interest in teamwork and the organization, and reflects an emphasis on slow evaluation and promotion along with fewer levels of management.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
1	The group requires absolute loyalty (i.e., members must show 100% dedication to the group and/or organization or they are out).	11	Group members assume they share a "common fate" (i.e., either they will succeed together or fail together).
15	Members in good standing of the group must conform to strict norms in their personal lives (i.e., group membership implies holding certain attitudes).	34	Group members know each other well and socialize together.
16	There is a pervasive belief that standards of appropriate conduct should apply to everyone.	59	Group members have no time for gamesmanship; their focus is on achieving shared goals.
35	There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).	95	Members are strongly committed to the norms, roles and goals of the organization (i.e., want to do the "right thing" for the "right reasons").
82	The group believes that it should be responsive to employee concerns.	99	There is an atmosphere of trust and mutual support among group members.

Vigilant Decision Making

Rooted in the books *Groupthink* by Irving Janis and *Decision Making: A Psychological Analysis of Conflict, Choice and Commitment* by Janis and Leon Mann, Vigilant Decision Making reflects an emphasis on the importance of careful and thorough information processing in the process of decision making. For Vigilant Decision Making firms, consensus on strategic initiatives tends to be achieved through healthy debate and constructive criticism. The culture likely will be collegial, but not necessarily comfortable as new approaches from within and outside the firm are weighed and existing perceptions are challenged.

Extremely Characteristic – Upper Statement		**Extremely Characteristic – Lower Statement**	
16	There is a pervasive belief that standards of appropriate conduct should apply to everyone.	11	Group members assume they share a "common fate" (i.e., either they will succeed together or fail together).
35	There is a genuine common commitment to solving problems confronting the group (i.e., a no-nonsense task-oriented feeling to the group).	40	Private criticism within group meetings is not only acceptable, it is actively encouraged as a way of improving decision making.
66	The group places heavy emphasis on consultation and soliciting expert advice.	59	Group members have no time for gamesmanship; their focus is on achieving shared goals.
92	The leader respects the concerns and feelings of other group members and honors private understandings with them.	81	The leader is a good listener (i.e., pays careful attention to what others say, good at understanding divergent viewpoints).
98	The group assumes that most policy decisions require a fluid process, weighing competing values and making subtle trade-off judgments (i.e., decisions are made in many ways depending on the circumstances).	88	The group has a flexible multidimensional world view (i.e., good guys are not always good, bad guys are not always bad, and reasonable people can often disagree over what counts as good or bad.)

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