

# MANAGING HUMAN AND SOCIAL CAPITAL

## Management and Leadership

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Wharton  
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# DESIGNING AND CHANGING ARCHITECTURE: HAUSSER FOOD EXAMPLE

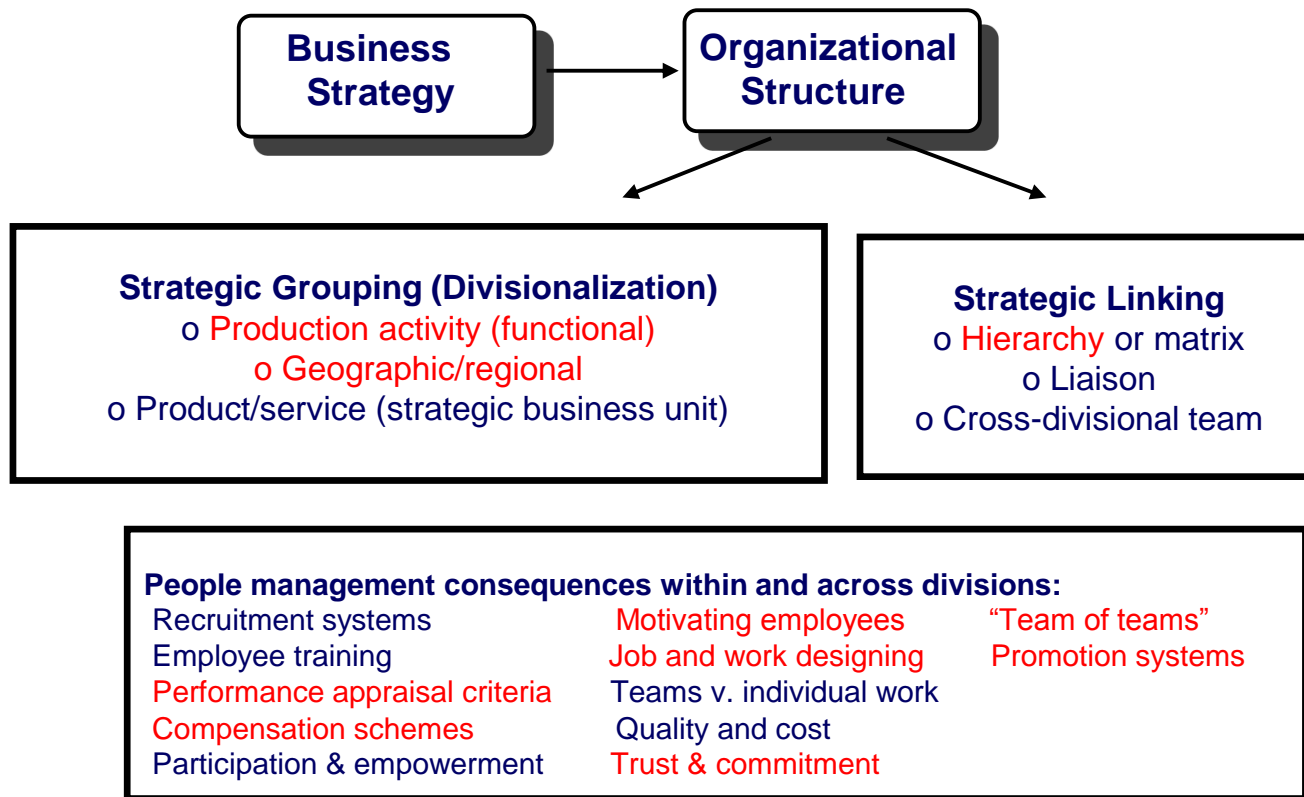
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# Designing and Changing the Organization's Architecture



# Rose Company

Exhibit 1 *Old Organization Chart*

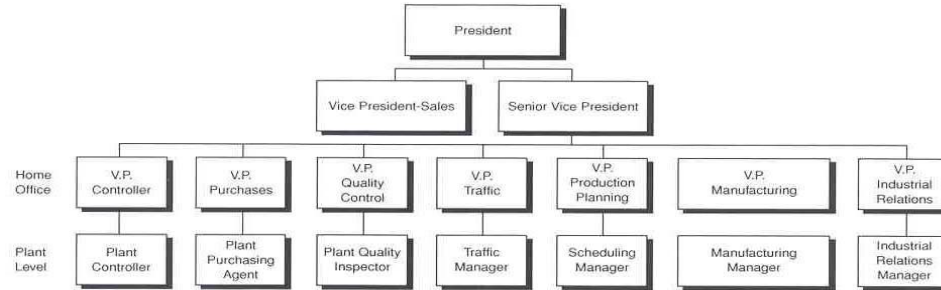
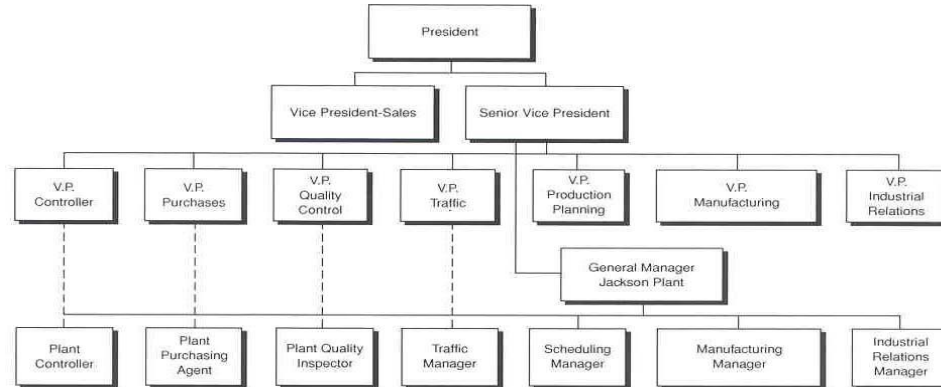


Exhibit 2 *New Organization Chart*

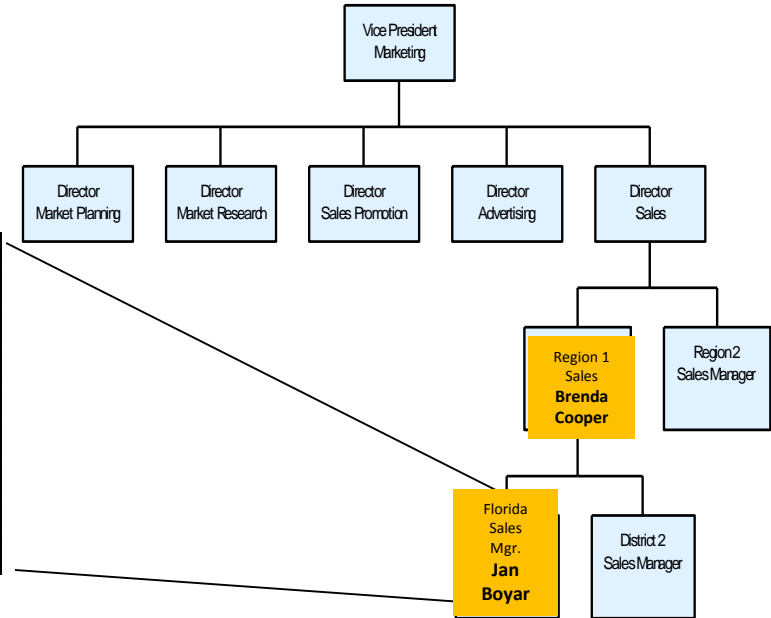


# Hausser Food Products

## Hausser Food Products

### Florida Sales Team

Name	Position	Age	Yrs w/comp	Education
Jan Boyar	Sales Mgr	52	30	High school
David Berz	Asst Mgr	50	30	High school
Neil Portnow	Sales	56	36	High school
Alby Siegel	Sales	49	18	1/2 yr college
Mike Wolly	Sales	35	12	2 yrs college
Sue Cassis	Sales	28	4	College
Mary Hopengarten	Sales	30	4	College



**The problem for Brenda Cooper, newly appointed Regional Sales Manager:**

- The Florida sales team consistently hits 10% above its annual sales target (no other state sales force has come close). When Jan Boyar is asked how her team does it, she says it is "through hard work."
- Brenda Cooper suspects that there is an innovative sales or marketing tactic.

# PERFORMANCE: PAY AND PROMOTION

Professor Mike Useem



# Inequity De-motivates People

**Inequity = disparity between an individual's work and reward.**

**People seek to decrease inequities they face. Equity effects explain why...**

- Temporarily under-rewarded individuals will decrease performance, and the over-rewarded will increase performance -- employees assigned to more or less desirable offices change performance
- Under-rewarded individuals become more self-aggrandizing -- under-rewarded basketball players take more shots but score fewer points.
- Over-rewarded individuals will become more cooperative -- over-rewarded basketball players contribute more in non-scoring areas (e.g. rebounds and assists)

Sources: R. Steers, "Equity Theory"; J. Harder, "Play for Pay; J. Greenberg, "Response to Underpayment Inequity."

# ORGANIZATIONAL DESIGN

Professor Mike Useem





# Why Organizational Change Often Does Not Work

1. Not sufficient urgency for the goal of the change (<75% of team ready for change).
2. A powerful coalition not yet created.
3. Little vision underpinning the change agenda (failing the 5-minute advocacy test).
4. Vision is not repeatedly and compellingly communicated.
5. Anticipated obstacles to the change not reduced or removed.
6. Too few short-term wins to sustain momentum.
7. Declaring victory prematurely.
8. Failing to anchor change agenda more broadly in company culture.

*Source: John Kotter, "Leading Change: Why Transformation Efforts Fail."*

# DAVID POTTRUCK AND CHARLES SCHWAB EXAMPLE

Professor Mike Useem



# David Pottruck Faces the Internet

## Trade      Service

\$80      Full service (research, recommendations, products)

\$29      e.Schwab (1 call per month; no CSRs)

## Robust annual growth

Revenues: 24% during past 4 years

Net income: 23% during past 4 years

Customer assets: 42% during past 7 years

Stock price: doubled during past year

1.2 million online accounts



## Super-discounters

Ameritrade and E\*Trade and 60 other firms offering online trading

Heavy traders migrating to super-discount brokers (80% from 20%)

Company culture: Technology driven, innovative products, early mover

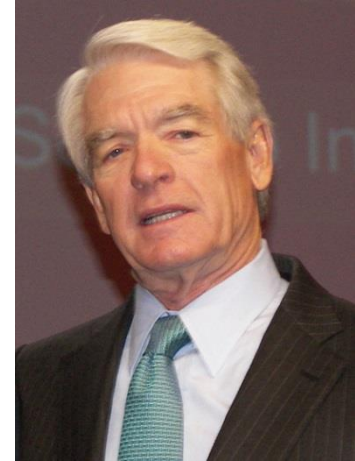
David Pottruck decides that Schwab move to full service trading at \$29.

Adverse consequences forecast: \$100 million reduction in pre-tax net profits (22% of total); stock price will plummet.

How should he manage the organization change?



David Pottruck



Charles Schwab

# MANAGING PEOPLE

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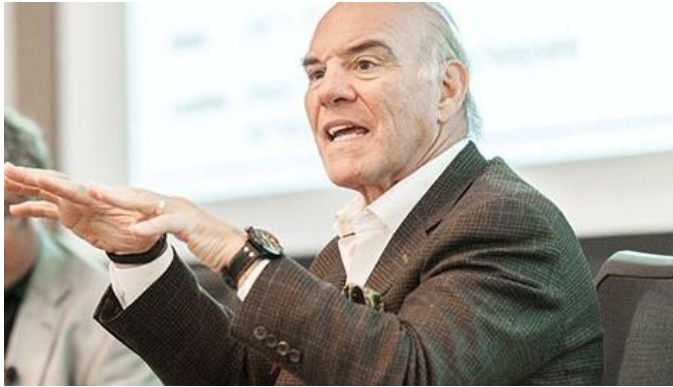
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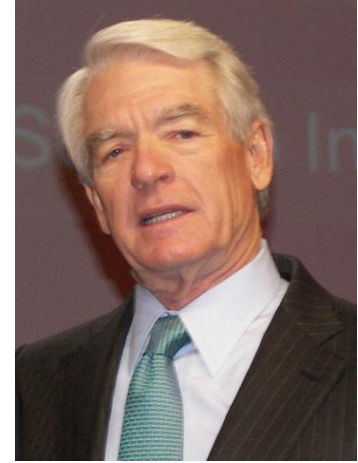
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## Crossing the Chasm, October 15



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# An Eight-Step Model for Leading Change

1. Establish a mindset of urgency, a burning platform
2. Create a leadership team to drive the change
3. Articulate a vision for a better world and a strategy for getting there
4. Build buy-in throughout the ranks
5. Empower action by change agents
6. Identify short-term gains for reinforcing the long-term agenda
7. Foster a culture of persistence and determination
8. Reinforce and institutionalize the new world

Source: John P. Kotter and Dan S. Cohen, *The Heart of Change*  
16



# MANAGER'S TEMPLATE FOR HUMAN AND SOCIAL CAPITAL

Professor Mike Useem



# The Manager's Template for Human and Social Capital

1. Consult with trusted associates, decide when 70% confident.
2. Convey strategic intent, avoid micro-managing.
3. Prepare self and team for good and timely decisions before needed.
4. Create a management mindset for good and time decisions.
5. Design the organization's architecture to motivate and align people.
6. Bring teams, compensation, promotion into pulling in the same direction.
7. Reduce inequity in pay, promotion, and other organizational features.
8. Manage organization change with both "head and heart."



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