

**Exam PSY2406**  
**– Introduction to organizational psychology –**  
**Autumn 2012**

*Written school exam, Wednesday 7th November, 09:00 hrs. (3 hours).*

*Open book exam: students are allowed to use the textbook, notes, other course material and a dictionary. Computers and mobile phones are not allowed.*

Read the following case carefully and answer all questions at the end of the case.

**Oticon – a Danish hearing aid manufacturer – the transformational organization**

**Introduction**

Oticon, a hearing aid manufacturing company, was founded in 1904 and specialized in ‘behind-the-ear’ hearing aids. The situation changed in the 1980s and 1990s and the company suffered both financially and in terms of loss of market share. Whilst the likes of companies like 3M, Panasonic, Sony, Philips and Siemens were specializing in digital technology, Oticon was still using analogue technology. Oticon was strong in subsidized markets in Scandinavia and northern Europe but it was less strong in the buoyant markets in America and the Far East.

The appointment of a new CEO, Lars Kolind, in 1988, was the start of the company transformation. He described the organization as having ‘slept for the last ten years’. Within two years he attempted to transform the organization through cost-cutting measures: paring the company down, cutting staff, increasing efficiency and reducing the price of a hearing aid by 20%. Kolind managed to change the traditional company culture by making it more responsive, speedy and customer focused. By 1990 Oticon made \$16 million profit on a \$400 million turnover. However this was in a market that was growing at 6% per annum. The major difficulty that Kolind now faced was economy of scale – how could a small Danish manufacturer compete with the largest electronic companies?

## **The vision**

Kolind came up with a vision by “thinking the unthinkable”. Technology was not the only factor to consider and Kolind argued that the business that they were in ‘was to make people smile. The new company mission statement embellished this concept – ‘to help people with hearing difficulties to live as they wish, with the hearing they have’. A new holistic approach to customer care was adopted, investigating customer needs, lifestyle and so forth. Married to this was a new mix of expertise in micro-mechanics, microchip design, audiology, psychology, marketing, manufacturing, logistics and all-round service capability. This shift can best be described as moving towards a knowledge-based business, from its previous technology-based business. Kolind saw his role as naval architect rather than the ship’s captain, creating the spaghetti organization – a chaotic tangle of relationships and interactions that would force the abandonment of preconceived ideas and barriers to innovation and competitiveness.

## **The strategy**

The formation of four key principles helped to reinforce the concept of the ‘disorganized organization’. The head office was the first line of attack.

- Departments and job titles disappeared, and all activities became project based, pursued informally by groupings of interested people
- Jobs were redesigned into fluid and unique combinations of functions to suit employees’ needs and capabilities
- The formal office was eradicated and replaced by open space filled with workstations usable by anyone
- Informal face-to-face dialogue replaced memos as the acceptable modes of communication

Departments, department heads and other managerial/supervisory roles were eliminated. In liberating staff, the organization nonetheless needed to retain some measure of control and did this through direction and highlighting human values. Direction involved lengthy discussions about where the company was going (strategy) and attempts were also made to establish the fundamental values, summed up in their company statement – ‘We build this company on the assumption that we only employ adults, and everything we do will rest on that assumption, so we will not treat our staff as children – we will treat them as responsible adults.’

## **Implementing the strategy**

Kolind's vision relied upon communication. Computers supported employees' work. Oticon attempted to operate a 'paperless office' where any important information was scanned and available to other users. Information access was therefore fluid and available.

## **Resistance to change**

Not all staff welcomed the changes. Some managers' loss of power, information monopoly and status symbols proved problematic. Managers also had to compete with everyone for project leader status and lacked subordinates. The project team role did not suit all staff. Kolind pre-empted some of these concerns by implementing a range of measures, including providing employees with their own home PC, and encouragement to identify their own training needs. Kolind also offered an ultimatum – 'accept the new arrangements or leave'!

## **Results**

Oticon's market share rose from 8% in 1990 to 12% in 1993. By 1994 sales were growing at 10% per annum, after a period of ten years without any real growth. Lead time had halved, and 15 new products had been launched.

**Source:** French, R., Rayner, C., Rees, G. & Rumbles S. (2011). *Organizational Behaviour* (2nd ed.). John Wiley & Sons Inc.

Answer all the following questions. Base your answers on information in the case and on theory whenever possible.

- 1. Describe the nature of the change. How did different elements of the organization change?**
- 2. Do you believe that the resistance to change was handled in a good way? What other measures could have been taken to handle the resistance?**
- 3. What factors in the change do you believe was critical to Oticon's success? Give reasons for your answer.**

You can submit your exam written in English, Norwegian, Swedish or Danish