# Cultural Change in A Kibbutz Factory: From Democratic to More Autocratic Management Style

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In recent years, kibbutz factories have undergone organizational decline. The specific kibbutz factory that is the subject of this case study is an example of that general phenomenon. This is in notable opposition to recent organizational development theory, which has suggested a shift toward more democratic and flatter structures than in the past. The current article describes a reversal of these cultural changes in one kibbutz factory: starting with a democratic and egalitarian culture and structure, developing into a more formal and layered structure. This research offers hypotheses about other kibbutz factories, which have been undergoing similar internal changes during the last two decades. The main research question was: How did the transformation of the plant affect its organizational culture? The research used qualitative methods: constructing an organizational biography based on demographic interviews and document analysis. The findings present a three-stage cultural transformation, occurring over time at the kibbutz factory. Before transition the organizational culture was loose changing and flexible, while the culture of the community was tight, obliged to socialistic values. In the transition period, the organizational culture in the factory and in the surrounding community became looser. Concurrent with privatization of the kibbutz, the cultural attributes in the factory became less democratic, more individualistic, and tighter. In the last period, the organizational culture of the surrounding community became looser; kibbutz members could choose their ideological attitudes without collective pressure. While the organizational cultural of the factory after privatization became tight, the factory management operated the firm on capitalistic values, disregarding the social motivations that previously had been dominant. The implications of the findings are that collective factories will transform from democratic organizations into more hierarchical organizations when the firm is in economic decline. Socialist communities will enable their enterprises to alter their managerial and organizational culture, thus moving away from ideological roots. These implications can be tested by examining other kibbutz factories.

*Key Words:* Kibbutz industry, organizational culture, Kibbutz community, looseness- tightness

## Introduction

Theories of new organizational forms (Ken et al., 1985) usually assume that in the 21st century the dominant trend in western industrial organizations is more worker-oriented, more democratic, and has a flatter hierarchical structure (Samuel, 2009; Guy, 1989; Ionescu and Negrusa, 2007). At the same time, there is research that points to certain contemporary organizations that have a completely different structure (Samuel, 2009). The current research presents a 21st century organization that moved from the dominant set of structures to a completely opposite set of structures and became less worker-oriented, less democratic, and more hierarchical. There is reason to believe that the findings of this research, about a particular kibbutz factory, apply to many other contemporary kibbutz enterprises because of the similar setting and background in Israel.

In this article we would like to show when and why an organization changes from a flat organizational structure into a more-hierarchical, near-Weberian structure. In order to do so we will analyze the parallelism among processes occurring in various kibbutz factories by examining one kibbutz factory that manufactured magnets. When it was founded, the plant ran as a democratic, egalitarian kibbutz factory. After

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establishing itself in the market, it was economically successful for a number of years, but slowly started to decline. This decline was exacerbated by the world-wide economic crisis of 2008, leading to massive lay-offs and the cessation of production. Eventually, the moribund firm was sold to a private investor, who transformed the company from a manufacturing enterprise into an agency for selling and servicing products. The different stages of the factory's development reflected changes in the kibbutz community, causing changes in the organizational culture of the factory.

There were two central questions raised in this research.

1. How did the transformation of the plant affect its organizational culture?

2. What was the interrelationship between cultural normative changes in the kibbutz and the changes in the plant?

These questions were analyzed by examining the interplay between organizational tightness versus looseness, on the one hand; and individualism versus collectivism, on the other.

### Historical background on "Millennium industry"

Millennium Industries was established in 1974 at Kibbutz Yahalom in order to provide employment for kibbutz members. The plant's main line of work in the past was production of magnets (about 90% of the activity) and only 10% trade. Up to 2000, the CEOs were kibbutz members, but from that year onwards – an external CEO was appointed. At the time of its establishment the workforce included twenty kibbutz members: managers, technicians and production workers. The plant gradually grew and had to be manned by professionals, who were recruited from other kibbutzim. The experience of hiring manpower from other kibbutzim was not successful, as these people also lacked the required professional knowhow, so it was decided to hire non-kibbutz workers from the area.

In the 1990s, when the plant was at its peak, it included 85 employees, most of them (60-70) hired workers, according to the HR manager, although the managers were kibbutz members. The general manager, marketing manager and quality manager were all kibbutz members. The assembly line workers, and gradually mid-management, were hired from the outside.

During those years the products were magnets with special qualities for a wide range of applications including electric engines, couplers, electronics products, MRI, toys and so on. Ninety percent of Millennium's output was supplied to the international market (Europe and USA), and ten percent to the local market. Forty percent of its clients belonged to the automobile industry abroad. The organization also provided consulting and training services for the development of its clients' products.

In 2006, following heavy losses, an organizational change was initiated. The change included a gradual decrease of production activities until they were stopped completely, and respectively an increase in the trade department. About six months before the 2008 world-wide economic crisis, the organization implemented a policy of layoffs, drastically reducing the number of employees from 85 to 10. The firm stopped its production-line, but continued marketing very small amounts of items that had been produced elsewhere. The moribund organization extricated itself from the crisis in 2010 when an investor purchased 74% of the company's shares, while the rest remained under kibbutz ownership.

### Organizational culture

Organizational culture is a system of beliefs, overt and covert, shared by the workers of any organization (Schein, 1985). The overt organizational culture includes basic assumptions, values, and norms, while the covert organizational culture includes shared language and symbols as well as rituals, myths of the organization's heroes, and shared behavior patterns (Pettigrew, 1979; Elsmore, 2002). Managers generally manipulate organizational culture by means of normative supervision, while workers generally identify with and internalize the culture (Kunda, 2000).

Changes in organizational culture may stem from a variety of environmental factors (Awal et al., 2006). The existing culture can support or reject these changes. Differences in cultural perceptions inside the organization can constitute an obstacle to implementation, and managers need to neutralize this by promoting intra-personnel solidarity (Richard and Munisch, 2011). Changes like these can upset the delicate balance that exists in the organization and create conflicts between those who wish to preserve the culture and those who support change (Awel et al., 2006). For example, while western management style affected the levels of commitment, participation (Franca and Pahor, 2014) and the responsibility of individual workers; Japanese management styles emphasized the collective responsibility of the workers together with management (Jackson and Tomioka, 2004).

Cultural metamorphosis can stem also from transition of one core of values to another one, as described by Hoecklin (1997), Hofstede (1992), Sagiv and Schwartz (2007), and Trompenaars (1993). They examined the core values of a range of work groups and found differing dominant orientations:

a)  Individualism as opposed to collectivism in the organization – does the organization emphasize personal or collective values?

b)  Universalism as opposed to particularism – does the organization reflect universal principles of egalitarian relations between peers, or conversely, do personal contacts and special relationships confer privileges and extra rights on preferred persons?

c)  Relations based on equality vs. Inequality – what is the distribution of power in society or organization?

d)  Openness to change vs. conservation - Openness to change is compatible with affective and intellectual autonomy, whereas conservation values are compatible with cultural embeddedness (Sagiv and Schwartz, 2007).

Hofstede's theory of cultural dimensions was challenged by Taras et al. (2010), who found limitations in the four cultural value dimensions.  They claimed that the strength of the dimension was not equal as Hofstede (1992) had predicted. Moreover, there were many situational, demographic, and organizational factors; as well as factors of personal and emotional traits that affected organizational culture. Hofstede and those who followed him did not pay attention to those attributes. The four dimensions were significantly stronger for older rather than younger workers, for more educated rather than less educated workers, and for men rather than women. The effect of cultural dimension will be stronger in countries that are culturally tight rather than loose.

Cultural tightness refers to the existence of strong social norms and the obedience to those norms. A tight culture, which expects its members to conform to social norms, will not tolerate deviance and the resulting punishment is strict and inflexible. On the other hand, loose cultures are more tolerant of deviance and lack formality and discipline in regard to social norms. In loose cultures the system of rules is more dynamic and open to change. In democratic societies, the culture tends to be looser than in autocratic regimes. "Nations that had higher degrees of ecological and historical threat had greater tightness" (Gelfand, 2012: 421).

The distinction between collective and individualistic cultures moderately correlates with the tightness and looseness attributes. Most collective cultures are tight but some are loose. The same tendency is reflected in individualistic cultures: most are tight while some are loose (Gelfand at el., 2011; Gelfand, 2012). Gelfand et al. (2011) wrote: "We argue that there are societies or groups that are generally collectivistic and loose (e.g., Brazil), collectivistic and tight (e.g., Japan, Singapore), individualistic and loose (e.g., the United States, New Zealand), and individualistic and tight (e.g., Germany)" (p. 1227).

Gelfand et al. (2011       also developed a multidimensional model for tightness and looseness that referred specifically to organizational culture. The organizational content influenced the tightness or looseness it contained, with high levels of risk or danger causing tighter culture. The developmental stage and size of an organization also influenced this dimension; with small or new organizations tending to be looser while older organizations or bigger ones tending to be tighter. Public organizations tend to have more restrictive and rigid rules, therefore were tighter; while private sector organizations were more open to change, thus tend to be looser cultures. These attributes affected organizational culture by their adaptation, practice, and the strength of the culture. The outcome of the process in tight cultures was expressed by order and cohesion, while in loose cultures the tendency was towards disorganization. Tight cultures were preserved by more conformity, while loose cultures showed more deviance. Finally, in tight organizational cultures, the level of stability was high; while in loose cultures, the levels of innovation and change were high (Gelfand et al, 2006: 1228). In the list of tight organizations and societies, Gelfand (2006) mentioned the Israeli kibbutzim (plural of kibbutz) along with traditional and religious societies.

The following is a description of the transformation that occurred in kibbutz society and how it influenced the organizational culture of kibbutz factories. In particular, the description focuses on the looseness/tightness paradigm found in the literature of organizational analysis.

### The changing Kibbutz system

Kibbutz communities have attracted more attention from social scientists than any other organization in Israel.  Two principal characteristics of the kibbutzim have motivated this interest.  The first is its structure, which is unique in Israel: a comprehensive communal life and economy, with far-reaching implementation of equality and mutual responsibility.  Both production and consumption have traditionally been under the control of a general assembly, in which all members have an equal voice. In addition, kibbutz leadership positions are rotated.  Second, the kibbutzim have been hailed by many observers as an "experiment that did not fail" (Buber, 1949).  Whereas previous attempts at workplace democracy in various places in the world had either failed as businesses or had transformed themselves into conventional hierarchical organizations, the kibbutzim retained their democratic structures for many decades and generations after they were established.

In 1985, a sudden shift in governmental economic policy from expansion to price stabilization left

many kibbutzim with too much debt, leading to the collective bankruptcy of the entire kibbutz movement. This placed both the democratic structure and the economic survival of the kibbutzim in doubt. Because of the economic crisis and weakening of ideology, the kibbutz communities have implemented a large number of reforms.  Some of these reforms were modest modifications in structure or behavior, instances of what the organizational literature describes as "convergent" change.  Others, such as paying differential salaries to members, are "radical" changes; involving a complete transformation of the identity of the organization adopting them.

In the 1960s, when all the kibbutz communities were still collectives, industrial plants started to flourish and slowly became the main source of income to the kibbutzim. This was caused by the diminishing revenues of agriculture and its inability to economically sustain the kibbutz. Reflecting the early kibbutz history, at the beginning of the 20th century, the socialist ideology of self-employment prevailed and very few hired laborers were employed. All kibbutz members who were employed in the factory received equal budgets (not "salaries"), no matter what their positions in the organizational hierarchy were.

The changes in the kibbutz way of life continued and today, most communities (75%) have changed from collective kibbutzim to privatized (officially called "renewed") kibbutzim (Arbel, 2013; Ben-Rafael and Topel, 2011; Getz, 2012). This change meant that a market system of work allocation was introduced, with members free to choose work inside or outside the kibbutz (for which previous to the change they had been required to request special permission). At the same time, managers of kibbutz branches became free to choose which members and which nonmembers to employ. The equal budget allocation system was replaced with a pay system that provided differentiated pay for different types of work.

At the same time, the kibbutz economy became separated from the kibbutz societal community, with kibbutz ventures subordinated to managers and boards of directors rather than the general assembly of the kibbutz (Palgi, 1989, 2002, 2006). These changes increased the numbers of outside workers in the economic enterprises of the kibbutz and decreased the number of members.

### Kibbutz Industry

In 2014, there were 245 kibbutz industrial plants, as well as recreational and tourist facilities that kibbutzim had developed greatly in recent years. Although the 140,000 inhabitants of kibbutzim constitute only 1.8 percent of Israel's population, their contribution to the national economy amounts to 40 percent of the agricultural produce, 8.4 percent of the industrial output, and 7.5 percent of the industrial export. Industry presently comprises about 70 percent of kibbutz economic activity. In some kibbutzim, industry generates close to 100 percent of the economic revenues. In short, many kibbutzim are essentially rural industrial communities (Arbel, 2013; Russell et al., 2013).

The "industrial revolution" in the kibbutzim began in the 1960s. There were a number of main reasons for this transformation. The agricultural markets for Israeli crops were saturated and government policy now supported industrialization. The kibbutzim felt the need to create non-agricultural jobs for older kibbutz members, who were unfit for physical work in the fields and orchards. Other kibbutz members, mostly younger members, had technological abilities and sought employment that would take advantage of these abilities.

The national kibbutz movements decided to focus on four main objectives in kibbutz industry (Palgi, 2006): welfare of the individual member, profitability, safeguarding kibbutz principles, and contribution to achievement of national objectives. The goal of safeguarding kibbutz principles meant that all industrial workers were to participate in the decision-making process, that this decision-making process would consider human-social factors as well as economic and organizational issues, that managerial rotation would avoid the concentration of power, and that the industrial firm would be an integral part of the kibbutz community.

The economic crisis in the mid-1980s brought extensive criticism about the way the kibbutz industry was managed. The frequent rotation of plant managers caused disruptions and a lack of continuity in policy and operations. The decision-making processes were slow and caused costly delays. In addition, the decision-making process dealt with considerations unrelated to the factory and led to economically unsound decisions. The criticisms against the normative model resulted in suggestions for alternative approaches. Changes in the application of kibbutz principles, which occurred in kibbutz industry, include:

1)  The creation of a board of directors, composed of kibbutz members as well as outsiders nominated for their expertise in the wider industry in which the kibbutz factory operates.

2)  The board of directors chooses the manager of the factory, taking the right of choice from the general assembly of the kibbutz.

3)  Managers of kibbutz factories serve for longer tenures than in the previous system of frequent rota-

tion, which had been seen as a social and ideological norm.

4)  Candidates for managerial positions do not necessarily have to be kibbutz members.

5)  The decision-making process takes place almost entirely within the factory, not within the framework of the kibbutz. The board of directors deals with most issues related to long-term policy. Periodic meetings with the workers serve primarily as an opportunity to disseminate information and announcements.

6)  In the past, ownership of kibbutz industrial plants was solely in the hands of the kibbutz. Now, about 50 percent of the factories have shared ownership with non-kibbutz bodies (Kibbutz Movement, 2012).

7)  Factories now prefer to employ skilled workers rather than give preference to under-skilled kibbutz members that could not find work elsewhere. As a result, the majority of the workers are hired workers who come from outside the kibbutz.

## Research Method

This research was performed by means that documented the organizational history of a kibbutz factory, for which we will create a pseudonym, along with a pseudonym for the kibbutz that established it.

### The research questions

1.      How did the transformation of the plant affect its organizational culture?
2.      What is the interrelationship between cultural normative changes in the kibbutz and the changes in the plant?
The answers to these questions were sought by using two qualitative methods: interviews and document analysis.

### Interviews

Ethnographic interviews were held with kibbutz members employed by the organization, and with kibbutz members and CEOs that had held jobs in the past. The interviews were conducted during 2012, and a total of 21 people were interviewed. The plant currently employs 10 workers, and all of them were interviewed. Five CEOs that served during various periods between 1974 and 2012 were interviewed, including the third CEO (1988-2000), who was among the founders and had held a number of positions (engineer and marketing director) before he was appointed as CEO.

The informants supplied a great deal of information about the organization's various periods. Pre-

sent and past employees presented a similar picture of the organization's life; no contradictions were found, and information provided by one was verified by another. We received full cooperation from the management, with the current CEO granting us permission to interview the employees. Retired employees were happy to talk about the various periods of Millennium. We did not use the respondents' real names to protect their privacy. We interviewed all five former general managers, who were kibbutz members, and the current general manager, who is a salaried employee. We also interviewed two production managers and two production workers (not members of the kibbutz), two packing workers (not kibbutz members), one sorting & packaging worker (a kibbutz member).

### Documents analysis

In addition to the interviews, we received the following reports (for the years 2007-2009): income statements, directorate protocols, board of directors' protocols, activity reports and CEO reports.

The interviews and the documents were analyzed using thematic analysis method (Yin, 2013), which is based on organizing, sorting and arranging the data into categories that make them meaningful. Categorizing the data enabled us to interpret it and build a narrative about culture characteristic that was found in Millennium industry. As a gradual process of abstraction, the analysis also made it possible, in the last stage of the process, to link the narrative to theories of organizational culture.

Conclusions were drawn from both an inductive and deductive basis. The research was analysis of contents and field work. The categories that emerged from the preliminary analysis directly served the researchers in the field, as is customarily done by grounded theory (Glaser and Strauss, 1967; Strauss and Corbin, 1990).

Following the model suggested by Wadham and Warren (2014), the research was conducted in three stages. In the first stage we combined narratives that came from the field and connected them to relevant academic theories, in the second stage we collected data from the plant's daily life and identified anomalies, and in the third stage we expanded the theory by identifying inconsistencies in the data.

## Findings

The analysis of the interviews revealed a division of the development of the factory into three different periods: its early history (before privatization of the

kibbutz), after privatization of the kibbutz, and when the plant ceased to be owned by the kibbutz.

### The first stage: The foundation of the factory

In 1974 when the factory was established, its primary goal was to provide industrial work to kibbutz members that had left agriculture. The secondary goal was to increase the income of the collective. The kibbutz members had searched for a distinctive niche business and had found processing magnets for industry, hoping that this new endeavor would be highly successful in Europe markets. In those days, the plant enjoyed organizational support from the kibbutzim movement and governmental subsidies. One of the general managers explained: "The kibbutz movement was the foundation that supported us and governmental grants gave money for investment in the periphery, with good conditions and low interest."

Four main themes were found in the interviews relating to the early history of the plant, which together embody its organizational culture.
1) *Democratic process of decision making.* Policy making was based on socialist norms of participation and direct democracy. At the beginning, every decision had to be approved by the kibbutz general assembly: purchase of equipment, work arrangements, recruitment of new workers, financial management, etc. In addition, if one of the managers needed to travel abroad for the benefit of the factory, he needed to get the approval of the kibbutz general assembly.

Speaking about the concept of building a factory, the first general manager said: "We had an idea and it was accepted in the kibbutz general assembly by the raised hands of all the members, it looked good." The general assembly then decided to establish an "industry team," which recommended that the kibbutz produce magnets after they checked the market.

During the initial planning stage, there was a proposal to manufacture the magnets in India, because the procedure was cheaper in that country. This proposal was not approved by the kibbutz general assembly. The members said that this was a capitalistic action and they were against it.

The factory bought its first equipment from Germany. This caused some objections in the kibbutz general assembly because some of the founders of the kibbutz were Holocaust survivors. The first general manager recalled: "It did not cause a big problem for the kibbutz. Some Holocaust survivors were against it, but they did not have real power; the decision was made to buy equipment and ovens from Germany."
2) *Principals of equality in the collective.* The first years of the plant were characterized by preserving the value of equality, which was expressed in several events. The opening of the factory required building offices for the managers, separated from the line of production. One of the general managers recalled: *…Millennium has a very dirty manufacturing line. We thought that the offices needed to be separate and that the white-collar workers should come with different clothes than the production workers, but the kibbutz general assembly did not approve it. It justified the decision by stating that we were all blue-collar workers, not capitalists. We should not need to be distinguished by the way we dress.*

This decision reflected the adherence of the kibbutz to socialistic values. Another example was the attitude towards the paid laborers (non kibbutz members) who came from small communities near the kibbutz. Kibbutz members attempted not to create social distance from the paid laborers because of the ideal of creating a new and a just world. As a production-line worker stated:*…we worked without any distance between outside employees and workers who were kibbutz members. The new outside employees participated in all meetings and events in the factory's life. …In the beginning, we ate in the kibbutz dining hall; but lots of valuable time was wasted going from the plant to the kibbutz, so we ate in the plant with no separation between the managers and simple workers. Everybody had the same rank.*

It can be seen that the principles of equality and informality were kept even in small symbolic activities and modes of behavior like the dress code, the eating arrangements, etc.

In those days, all kibbutz members received an equal personal budget, no matter what their position was. (Only after privatization were the salaries differentiated according to their organizational rank.)
3)        *The factory as a family-home framework with values of cooperative and collectivism.* In foundation stage, Millennium factory was run in a family environment. The general manager was like a "father" and was obliged to be careful in his management style in order to please the kibbutz family. The factory had an idealistic climate of pioneering: the workers kept the manufacturing ovens working 24 hours a day. The shifts were very long; each member contributing to the benefit of the kibbutz's plant.

There were a lot of problems in the beginning, particularly because the workers did not know how to operate the new machines. Another source of inefficiency was the frequent moving workers from one function to another. As one of the production-line workers said: *I worked at several jobs in the factory: in locksmith's workshop and I also worked in the kitchen. I had technical education from France. When I began to work in the factory, I worked in the maintenance department and then in grinding. I learned during my work. We stayed for long hours and also had night shifts.*

The production-line worker's story exemplifies the special climate in the factory: the willingness to move from type of work to another, according to the plant's needs. The workers had a strong willingness to invest many hours, without considering overtime, in order to achieve collective's goals. The factory operated as a family business and was highly integrated into the kibbutz community. The dinners were prepared cooperatively, as a manager of production recalled: *In the first years, there was a family atmosphere: we ate together, we talked, and we shared private events. If somebody was celebrating a wedding or a new birth in the family, we drank wine like it was a synagogue. People spent a lot of time preparing eggs and salad for breakfast.*

This story reflects a special culture that crystallized in the factory. There was no separation among personal life, the kibbutz community, and work. The workers in the factory became close friends, with intimate and diffuse relations. The boundaries of status became blurred, resulting in a mixture of multidimensional relationships. The family business atmosphere was reinforced by the weekly clean-up and subsequent full-staff meeting. As the maintenance worker said: *We had plant meetings on Fridays. Everyone in the plant was busy in cleaning and shining his place: the essence was that you were cleaning your home. After we finished, the managers described what was going to happen, then the workers asked questions. This was a conversation, without personal considerations. It gave everyone a good feeling.*

This sense of family and home was summarized by one of the middle managers: "We also had an annual meeting when everyone gave a review: what was achieved, ...where we were going. Objectively, I felt that this was my home." These feelings were strengthened by the fact that kibbutz members in the factory were, at the same time, workers and owners. It was much more than a regular plant.

*4) Loyalty to work values.* Another socialistic value that was established the plant's in the foundation stage was "sanctifying the value of work." This value was translated to several norms: it was forbidden to be absent from work, high morality, and obligation to work even when the conditions were not convenient. In the Millennium factory, work surroundings were dirty; the workers named the place "black Millennium" because of the dust and soot from the magnets. It was quite hot in the factory and there was no air conditioning. The belief was that "all work is honorable," so people were willing to work for collective benefit despite the lack of convenient work conditions. The norm was expressed by a senior production worker:*I loved to work, to do the best I could. Work for me was the best, I loved to work…it was healing even on vacations and weekends. You might be sick on Satur-day, but on Sunday you were healthy like a mule. In the first years, we worked in hot conditions. It was like hell..not easy conditions….*

One of the outcomes of this norm was that people did not want to retire and according to kibbutz values they were not obliged to do so. Also, old workers felt that they were the owners of the factory, as a manufacturing manager recalled: "They were the founders, it was not easy with them, they wanted to decide, it did not always suit us. … The elderly did not have something else to do, so they stayed in the factory…" Another pensioner told us that he kept busy in packing department: "I did not leave when I retired; they called me back. Work gave me meaning. I do not regret it although my ears hurt. I went gladly to work, nobody forced me."Another female packing worker said that she did part-time work during her retirement. All these interviews illustrate the meaning that work provided for the members in the factory, giving them a social framework and supplying them with a sense of usefulness and belonging in the kibbutz community.

### The second stage: after privatization

Starting in the 1980s, values in the kibbutz moved from socialistic ones toward capitalistic ones, partly because of new members that joined Kibbutz Yahalom from urban society. Some of these new members married into the kibbutz, others were recruited by the factory because of their skills. These new members became agents of social change. After a short period of time, the younger generation was leading the factory. The fourth general manager recalled: *I came to the kibbutz after I married my wife in 1975. She was born in the kibbutz. They asked me to manage the factory since I had studied electronics engineering. We were the youngsters, but we became the leaders.*

Some of the younger members were sent to learn occupations that were needed: engineering, human resources, economics, and finance. The cultural gap between the new kibbutz members and the veterans were expressed by one of the new engineers: *We were young engineers, with little commitment to the kibbutz. The general manager wanted only one line of production. He hesitated. We could get finance. He did not know English. He did not have experience in industry. He had come from the service branches. We came from the capitalistic world; if somebody gives you an opportunity, you take it. He was very careful. He was always afraid to take risks, we were not…*

The young newcomers to the kibbutz represented materialism and a new approach, often at odds with existing norms. The general manager was careful because he felt responsibility towards the kibbutz members, to provide employment. He was cautious

and unwilling to implement changes that would hurt the veteran kibbutz members. His policy caused friction with the young new members.

The new members wanted the kibbutz to take into consideration their special needs. One example of this was the human resource manager after she gave birth. She expected the kibbutz to offer her more convenient working conditions. Other new members thought that the kibbutz should consider their individual special needs. Yet, the previous concept in the kibbutz was collectivistic, thinking of all the members' needs. One of the managers preferred to hire outsiders, but the norm still preserved the old ideas: first take care of kibbutz members, even if they were not compatible for the job.

### The passage from socialist to materialist-capitalistic orientation

Millennium Industries was very prosperous in the 1990s. A YouTube video from those years presents the work in the factory: operating 24 hours a day, with orders coming in at a maximum level. The video portrays a sense of enthusiasm and happiness among the workers in the plant. The high level of production brought good profits, which were invested in the well being of the kibbutz, in the form of new public and private buildings. The communal dining room was renovated, a new pool was built, and members' apartments were up-graded. In the factory, investments were made, including buying new and modern machines and equipment.

The first general manager left his position, and the new one decided to install a time-clock, which would monitor the workers. The plant was seeking a new style of management, as one of the managers said: *Every worker needed to sign his work card in order to use time wisely. It was a dramatic step that created a new work environment. In the past, there had been a liberal, permissive atmosphere: a worker could leave his work station, do some private activities, and then return to the plant. It created flexibility and convenience in the work place: kibbutz workers went on their personal errands such as shopping in the local shop, going to the laundry. But you can't earn money in this way. I installed a time-clock and forced kibbutz members to sign in. The kibbutz members tried to lie, but I prevented it.*

The kibbutz workers rejected this move. They saw this action as a symbol of lack of trust. The new regulation created a lot of tension, as the fifth CEO related: *It was during the 1990s, a big crisis, a sense of mistrust. This was a turning point. In the past, kibbutz workers worked in a permissive climate; they came when they wanted, if they needed to buy something, they left the work. Today it looks funny. It was necessary to install a time-clock. It caused a change in behavior and some of the kibbutz members resigned from their work in the plant...*

The human resource manager reported that the factory dismissed workers that cheated, in order to enforce this regulation.

### The loss of equality: stratifications in the kibbutz plant

Changes in the kibbutz community and the success of the plant during the 1990s caused the organizational structure to become more hierarchal. The gap between the managers and production workers became more obvious. Managers had special privileges like the ability to use plants' cars for their private needs. As the fifth CEO said: "I asked the kibbutz to allow me to keep the car also on holidays and weekends… I felt that I invested a lot. I deserve more than others". He said that his reforms in the plant brought him a lot of enemies, because many kibbutz members did not like the stratification in the plant and the special benefits that he got from it.

The factory ranked professional workers higher than simple production workers. It encouraged its employees to learn professions that were needed for the factory's operations. The factory became more autonomous, with looser connections to the kibbutz community. Managers got better work conditions. The factory was led by a small team of three senior managers, who enjoyed special incentives, such as private cars, traveling abroad, and a better salary.

### From direct democracy to hierarchical decision-making

In the 1990s, the kibbutz decided to separate its economic structure from the social structure. Previously, the community and its economic units were one unified entity. As a result, the connection between the plant and kibbutz general assembly became much weaker. The decision making process now occurred inside the plant, without the need for authorization of the kibbutz general assembly. The kibbutz general assembly received information after the decisions were already implemented.

Previously, all expenditures required the permission of the kibbutz general assembly; but in the 1990s, a small forum of senior managers was given the authority to make those decisions. In 1994, the general manager decided to open a new trade department, which would look for new markets. This was decided by the general manager alone. The trade manager reported: "In 1994, the general manager decided to establish a new department that would supply answers for the production demands, especial-

ly for products that we were not manufacturing." The success of the factory and its growth caused the plant to run independently from the kibbutz, as the marketing manager said: "After we created a good market, I was acting autonomously, without the kibbutz general assembly. I traveled all over the world bringing invitation for production…"

### From familial to formal relations in Millennium

The plant's management style was transformed into a new style, with a capitalistic orientation. This process contradicted kibbutz social norms and created friction in the community. The family-business spirit vanished, as reported by the production technician: *In the beginning, there was an atmosphere of cooperation, which vanished when the outside employees stepped into the factory. They did not allow us to talk during work; they said it is disturbing. I had a friend from Tiberius. We were talking all the time. He was working in the lab and I in the sorting department. The management made remarks about this all the time ...but you cannot avoid friendship…*

This story demonstrates the process of formalization as an outcome of the organizational change. The factory was employing workers from the nearby cities for short periods of time and paid them low salaries. This transition was a dynamic process from a family-run factory to a bureaucratic body with formal rules. It was a transition from self-employment to hiring outside workers.

### The impact of organizational crisis

The factory found it difficult to cope with global competition. Labor was cheaper in various countries that competed with Millennium, such as China. This fact influenced the products' prices and the low rate of profits. The 2007 business plan of the factory stated that the factory had suffered from severe losses during the years 2001-2003. The losses were caused by the low prices in the global market. This was claimed by the last manager in his business plan presented before members of the management team.

The general manager from 2003 to 2006 said that the factory ran according to the needs of kibbutz and not according to economic interests: to supply work for the kibbutz members. The decisions of kibbutz general assembly were not based on skill and economic knowledge. He thought that the transition of marketing products from China should have been at an earlier stage, in this way the factory could have saved a lot of money. The kibbutz factory had customers in the Ukraine; but because of mismanagement, the plant lost this important client and the potential profits.

In 2006, when the sixth manager began his tenure, signs of organizational decline where obvious: only marketing was profitable; the production line was losing money. The picture was clear: the factory needed to close the production line and to strengthen the trade department. To achieve this goal, the new general manager recruited a new marketing manager to increase the number of new costumers and to find new markets. The plant fired redundant workers and by the mid-2009, the size of the plant greatly diminished. Some of the previous employees were rehired on a part-time basis. The current manager reported: "We fired almost every worker. It was before the final closing. Most of the employees had already received letters of dismissal. I think we left only five workers. The accountant was working half time."

The last general manager worked hard to find new clients from the French automotive industry. Parallel to his efforts, the factory severed connections with clients in Canada and Europe, for whom Millennium had been manufacturing items in the past. The management also began to look for an outside investor. In 2010 an investor was found, who purchased 70% of the factory. The kibbutz retained 30% ownership. As the current manager said: *I was looking for an investor for a long time. The factory was in transition. After the new owner bought the company, it was renovated, becoming more economically healthy. Previously, the plant had a debt to the kibbutz community.*

### The third stage: The factory under outside (non-kibbutz), private ownership

In 2010, after the take-over by private ownership, Millennium Industries down-sized to ten workers: a general manager, a marketing manager, a trade manager, a packing manager, a lab employee, an engineer, and four workers in the packing department. The new owner focused on selling and consulting for startup cosmetic and medicine companies. The factory identified potential clients and tried to convince them to work with Millennium. The atmosphere in the resurrected company was pleasant, but strictly professional, without the social events that had occurred previously. The marketing manager said: "There are no private celebrations, no mixing of business and pleasure. It is pleasant, but strictly work." The relationships in the firm became very formal and professional, without personal relationships as in the past. The reward system is very carefully controlled since the factory recovered from crisis.

The new, private owner moved the company to a more business and international    orientation. As the he said: "We needed to transfer the plant from the

kibbutz mentality to an international one; giving service highly integrated with clients needs." The owner has legal knowledge and experience in international trade. He monitors every function in the factory and is highly involved in the marketing process. Currently, the management is cooperating fully with the owner and the involvement of the kibbutz is minimal. The owner said: *You need to know what you are doing. The general manager leads the staff; every worker is trained and works professionally in sales, customer service, buying, and logistics... What is most important to change? Money, becoming profitable, nothing else matters…*

## Discussion

This study points to a new direction in organizational development. It was based on grounded theory, and conducted in three stages (Wadham and Warren, 2014):
a) identifying narratives coming from the field and connecting them to relevant cultural theories (Gelfand, 2012; Hoecklin, 1997; Hofstede, 1992; Sagiv and Schwartz, 2007; Trompenaars, 1993);
b) collecting data from daily organizational life;
c) expanding the cultural tightness-looseness theory.

The research demonstrates the rapid change from socialist cultural norms and values towards materialistic ones. In its foundation stage, the atmosphere in the factory was very supportive and encouraged strong primary relationships. As the factory grew and succeeded, this initial atmosphere vanished and interpersonal relationships decreased. After privatization, a time-clock was installed in order to monitor the workers, which caused mistrust in the relationship between factory's management and its workers. The tendency towards formality became more radical when the factory suffered economic decline. At this point, the management decided to initiate extreme steps: firing almost all the workers and selling the factory to a private investor to avoid bankruptcy. In 2010 the factory was reopened as a totally new entity, shedding all of its previous social features, focused on business activities and making money.

The findings show that the organization was initially more democratic and decentralized, but became more centralized and autocratic as it matured. This tendency is opposite to that described by Ken et al. (1985) and Ionescu and Negrusa ( 2007), who maintained that a new organization tends to be more bureaucratic and centralized, usually maturing into a more democratic organization, with a flatter hierarchical structure. The opposite development, demonstrated in the Millennium research, can be explained by the fact that the organization had shared particular ideological and social attributes of the kibbutz that had created it.

The characteristics of the organizational culture of the Millennium factory were transformed from socialist-democratic norms to a capitalistic orientation. In its initial stage, Millennium was collective and particularistic. Its socialistic ideology preserved the tightness of it features. Tightness attributes were characterized by the adherence to the values of equality and democracy by the Millennium plant and its host kibbutz community, while looseness features were expressed by flexibility in the division of labor and the definitions of roles in the factory (Gelfand et al, 2011). When the host kibbutz went through the process of privatization, with the resulting capitalistic tendencies in its organizational culture; its factory inevitably moved towards a capitalistic organizational culture. The increased capitalism in Millennium caused its organizational culture to become individualistic, stratified, and more formal in its interpersonal relationships.

Gelfaned et al. (2006) opined that a new organization tends to be looser while an older organization tends to be tighter. This assertion was only partially supported in the Millennium research: the kibbutz was a long-established entity, while the plant was a new organization; yet both the host community and its factory were very tight in their orientation to democratic values when the factory was established.

The changes in organizational culture are also connected to management style: before the privatization of the kibbutz, the employees in the plant had been more involved in the decisions and managerial processes (Franca and Pahor, 2014), reflecting socialist democratic orientation of the host kibbutz. The economic separation of the factory from the kibbutz, initiated after privatization in the kibbutz, brought with it greater organizational autonomy and a change in the plant's core values from direct democracy to a more autocratic system, from equality in salaries to differentiated pay.

The research shows how the plant's transformation of cultural orientation, was an outcome of the process of privatization in the host community, during which the community became more individualistic, universalistic, open to change, and culturally loose due to its new capitalist features (Gelfand at el, 2011; Gelfand, 2012; Getz, 2012; Hoecklin, 1997; Hofstede, 1992; Moskovich and Ashus, 2013; Sagiv and Schwartz, 2007: Trompenaars, 1993). We observed that the plant became culturally tight while the host community became loose. How can this cultural change be explained?

When the factory was released from direct control of the community, and then later sold to an outside investor, the new management style rejected the

previous socialist norms and adopted extreme capitalistic attributes. The new owner and the new management team believed that the previous socialist management caused the plant's organizational decline and demise. The new investor, an outsider, was interested only in economic profits, so did not include social considerations on his agenda. As a result, painful reforms were implemented for the survival of the plant. These reforms rejected the previous socialistic values: collective orientation was replaced by individualistic orientation. Profit became the sole focus of the factory and the involvement of the kibbutz, now holding only a small share of the ownership, was very limited.

The transformation of the organizational culture in Millennium reflected, and was supported by, external environmental changes in Israel, in general, and in the kibbutz society, in specific. These changes included an over-all shift from values of socialist collectivism to values of neo-liberalism.(Awal et al., 2006). This shift was expressed by individualism, materialistic achievement, and more formal interpersonal relationships (Hoecklin, 1997; Hofstede, 1992;

Moskovich and Ashus, 2013; Sagiv and Shwartz, 2007; Trompenaars, 1993).

The organizational development of Millennium was strongly integrated with, and affected by, Kibbutz Yahlom. It stemmed from the connection between the organization and its surrounding environment (Samuel, 2009). At the beginning, the division between the external and internal environment was very vague (Ben Rafael and Topel, 2011; Getz, 2012).  The kibbutz community ran the factory. When the distinction was made between the kibbutz and Millennium, it initiated new dynamics of development, which can be understood by comparing the periods before and after the process of privatization in the kibbutz. The new dynamics of development created a cultural transformation in the kibbutz community from tightness in socialism to looseness in capitalism (Gelfand at el,  2011; Gelfand, 2012) while in the factory, the dynamics took an opposite direction: from cultural looseness to cultural tightness. The cultural metamorphosis is presented in Table 1.

Table 1. Plant's stages of organizational development and cultural dimensions until 2010

| (The Period of Time) | (Tightness v. Looseness) | (Individualism v. Collectivism) | (Equality v. Stratification) | (Informal v. Formal Relationships) | (Economy) |
|---|---|---|---|---|---|
| Before Privatization | looseness in plant, tightness in community | collectivism | Equality | Informal | Growing |
| Transition (after privatization) | looseness in community and in plant | individualism | Stratification | semi-formal | Struggling |
| Outside, Private Ownership | looseness in community, tightness in plant | individualism | Stratification | Formal | deterioration and then recovery from crisis |

The analysis of processes in this research drew on various fields of study: organizational development, research about kibbutz society, and organizational culture (Wadham and Warren, 2014). Some of our findings did not match Gelfand's cultural looseness-tightness theory. For instance, in the period of decline of the factory, the host community was characterized by cultural looseness while the factory was culturally tight. According to Gelfand's theory, it would be expected that the community would also be culturally tight, because the factory and community had existed in the same social environment for a long period of time. With findings that were not consistent with Gelfand's theory, that theory can be expanded and refined while looking at organizations in different social milieus. Our research suggests that the theory should be expanded in order to accommodate the

anomalies and the singular phenomena of a particular kibbutz factory, which may prove applicable to other kibbutz enterprises.

**Conclusion**

The existing theory of organizational development does not take into consideration the phenomenon of collectivist firms situated in socialistic communities. We learn from the current research that collective factories will transform from democratic organizations into more hierarchical organizations when the firm is in economic decline. In addition, this research shows that to preserve sustainability and to overcome organizational crisis, the socialist communities will enable their enterprises to alter their managerial and

organizational culture, moving away ideological roots.

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