

eBay Case Study

Organizational Theory and Behavior HRD 501-OL

William Kenneth Ditto

McDaniel College

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## **Introduction**

Much of eBay's success, through the years, can be attributed to its sense of community. The internal and external cultures of eBay run in parallel to each other. eBay is said to be a nonhierarchical, democratic organization that encouraged ideas and feedback from all employees (Hill & Farkas, 2005). Despite its size, the organizational culture is designed to mimic that of a community. The internal culture of eBay consist of employees and executives that oversee the operation of the website and the organization. The external culture consists of a vast network of eBay users. These users can consist of buyers and sellers of goods from all over the world. Goods and products that are purchased from eBay are not manufactured or produced by eBay. eBay merely provides an environment for the exchange of goods to take place.

## **Situational Analysis**

One of the forces that are playing a significant role in this case study is resistance to change. The acquisition of Kruse International represents a potential change that could have a significant effect on the internal and external cultures that exit within eBay. The current state of eBay before the acquisition of Kruse International represents a form habit, while the act of acquiring Kruse represents a change in that habit. Resistance to change is most clearly illustrated by eBay's eternal culture of users. According to Meg Whitman, she was receiving numerous emails regarding eBay's acquisition of Butterfield & Butterfield (Hill & Farkas, 2005). The acquisition of Butterfield & Butterfield was a past example of change that also had a significant effect on eBay operations. Resistance to the change presented by Butterfield & Butterfield, however, was deferred until negative implications had surfaced. In that case, complaints regarding the change did not occur until the acquisition had taken place. In regards to the acquisition of Kruse International, resistance to change is being experienced before the change

has taken place.

In an organizational setting, resistance to change is influenced when employees view a change as a threat. Resistance is often illustrated through immediate or deferred means. Deferred resistance poses the greatest challenge because it can manifest itself in the form of impaired loyalty, decreased motivation, or increased absenteeism (Robbins & Judge, 2005). Any decrease of loyalty felt by eBay's external or internal culture could erode the notion of community, which is the foundation of both cultures' values.

When Meg Whitman arrived at eBay, only 35 people were with the company (Hill & Farkas, 2005). Though her initial involvement with the rest of the staff mimicked that of a problem-solving team, the team environment quickly gravitated to that of a cross-functional team. Cross-functional teams are defined by their ability to combine a diverse sampling of team members from various disciplines. Cross-functional team members accomplish tasks by gathering with other members of similar hierarchical level (Robbins & Judge, 2012). Pierre Omidar, founder of eBay, explains that team-based problem solving done in a nonhierarchical manner is integral in establishing a sense of community. A sense of community was also established when Meg Whitman mandated weekly management team meetings in attempts to harbor comfort and trust (Hill & Farkas, 2005).

The external culture of eBay users can best be described as a virtual team. Virtual teams are described as being composed of physically dispersed team members that utilize technology to interact and collaborate (Robbins & Judge, 2012). eBay users are located all over the world, and they interact with one another through e-mail, messaging, and even discussion boards. There is no face-to-face interaction required among users. Despite the convenience of interacting through electronic means, the virtual team environment has its implications. Despite technology making

communicating with one-another easier and more convenient, communication is likely to suffer impairments as a result of technology. A lack of face-to-face interaction inhibits emotional cues and information. Moreover, trust can be weakened as a result of an inflammatory e-mail (Robbins & Judge, 2012). Due to the fact that virtual teams require more regulation from a managerial entity, eBay has employed a feedback and ratings system. This rating system allows users to publicly rate their experiences with other users. Poor user performance would result in a poor rating, while positive performance would result in a good rating. To encourage good ratings eBay also enacted a PowerSellers program that would award special benefits to users that had accounts with good standings (Hill & Farkas, 2005).

### **Identification of Issues, Problems, Opportunities**

When facing growth, eBay's ultimate goal is to preserve and retain its community-like organizational structure. When Meg Whitman first arrived at eBay, she scheduled meetings with various staff members to discuss their concerns and to explore opportunities for improvement. Meg Whitman sought to define what was right with eBay, and build upon it from there. When Meg Whitman initially came to eBay, there were only 35 people working for the company. With such a small group, it was easy to conduct meetings and discussions that were all-inclusive. Problem solving was done in a nonhierarchical, team-based manner (Hill & Farkas, 2005). This nonhierarchical approach has the benefit of using synergy to address problems.

In 1983, an ailing General Motors facility in Fremont, CA entered into a joint venture with Toyota. The result of the joint venture was the creation of a new managing body called NUMMI (Adler, 1993). Much like eBay, this action presented a drastic change for the company. Also like eBay, this drastic change was met with resistance. Initially, Toyota was met with an organizational source of resistance to change by the UAW before NUMMI was implemented.

Toyota wanted to exclude the UAW from the integration process of NUMMI and GM Fremont. Toyota quickly learned, however that a resistance to change would require them to compromise and allow the UAW to play a role in the implementation of NUMMI. The integration of Kruse International with eBay could be subject to similar organizational sources of resistance to change. Care would need to be taken to ensure that any compromises, during the integration of Kruse International, would not pose a risk to eBay's core community-like values.

Online retailer, Amazon.com is arguably one of eBay's largest competitors. Much of Amazon's success derives from its high-level of customer support. Similarly to eBay, Amazon believes in developing long-term relationships with its customers in an attempt to encourage repeat business. At Amazon, customer service centers exist as both internally and externally managed facilities. Since Internet activity and product demand fluctuate throughout the year, Amazon has employed a forecast model to assist with adequately staffing its customer service centers to meet demand (Kebblis & Chen, 2006). This demonstrates Amazon's strong dedication to customer loyalty. The fluctuating demand of customer service, however, suggests that customer loyalty comes at the expense of customer service employees.

eBay took a slightly different approach to customer support than that of Amazon. Prior to 1997, eBay customer support consisted of members of well-respected eBay users. As eBay grew, it eventually hired dedicated customer service representatives to work from eBay's company headquarters and provided supervision to the customer service representatives that worked remotely. By 1999, however, eBay had grown at a rate that actually outpaced its customer support. As a result, eBay was forced to expand their customer support, yet again, in order to meet demands. This time, eBay established a customer support facility in Salt Lake City (Hill & Farkas, 2005).

Two things actually stand out in the example of customer service between eBay and Amazon. Like Amazon, eBay went to great lengths to establish a strong customer support network. eBay, however, used a sort of wait-and-see approach before deciding to upgrade their customer support network. In 1999, eBay waited until customer support representatives were overrun with customer support inquiries before deciding to expand to Salt Lake City. If customer support representatives were swamped with inquiries, this would suggest that there was a period of time where customers/users were required to wait longer before being able to speak with a representative. This could carry the potential of loss of trust on behalf of the eBay customers/users. Another thing that stands out in this example is eBay's utilization of remote customer service representatives and a remote customer service facility in Salt Lake City. The acquisition of Kruse International would mean that eBay would acquire a remote facility in Indianapolis. If eBay's chose to keep the Indianapolis facility open, the company already has a track record of operating a remote facility.

### **Generation and Evaluation of Alternatives**

One possible solution in addressing the issue of purchasing Kruse International is to go ahead with the deal and make the purchase. This would grant eBay with the ability to offer higher-end goods. High-end goods typically carry a higher price tag. Since eBay collects a percentage of all sales, higher priced items will generate more revenue. Additional revenue could be put toward capital projects, such as those that would support the technological infrastructure. Higher revenue is also likely to attract, and appeal to, investors. Kruse International's high-end goods also carry the likelihood of attracting potential users to the external community. More users, however, will result in higher web traffic. More users that become part of the external community will require support of an increased number of company employees. Increased web

traffic could lead to potential service outages. Service outages can be addressed with the added cost of increasing the technological infrastructure. Rapid growth would likely require additional staffing which would result in added costs. Integration of Kruse International employees may be difficult due to resistance of change. Kruse International employees will need to be trained to follow eBay guidelines and company values. Increased staffing at multiple physical locations will make face-to-face contact more difficult and/or impractical.

A secondary alternative is to not move forward with the acquisition of Kruse International. Not acquiring Kruse would present eBay with an opportunity to grow at a slower rate. Failure to offer high-end goods carries the risk of losing potential users to other competitors. Investors may be wary of investing in a company that does not show noticeable growth. The average closing price of an auction would remain steady, resulting in no additional revenue from higher-priced auctions. Less website activity would result in a more stable technological infrastructure that is less strained and easier to maintain. Without a rapid influx of new users, the number of staff members required to support users could remain small. A smaller staff would consist of a closer-knit community than a larger one would.

### **Recommended Course of Action**

In regards to the acquisition of Kruse International, I would recommend going forward with the deal. I would, however, recommend following more of a joint venture approach, much like eBay did in 1999 when it partnered with AOL (Hill & Farkas, 2005). Both eBay and AOL remained separate entities, and they were both able to benefit from the deal. Kruse International would give eBay the ability to diversify and expand its offerings of high-end items. This partnership presents eBay with the opportunity for growth and additional revenue. As pointed out in the Meg Whitman at eBay case study, growth is extremely important to the company. Failure

to grow fast enough can result in the loss of potential users to eBay competitors. Yahoo and Amazon are among eBay's largest competitors. Additionally growth strongly aligns with eBay's vision of being "the worlds largest personal trading community" (Hill & Farkas, 2005). In the past, eBay's partnership with AOL and eBay's acquisition of Butterfield and Butterfield resulted in positive investor response. The AOL partnership caused a 10% increase in eBay's stock price while the Butterfield & Butterfield acquisition resulted in a 3% gain (Hill & Farkas, 2005). From an investor's standpoint, it is suggested that a partnership will have a more desirable outcome than that of an acquisition.

The main concern regarding this acquisition of Kruse International is eBay's ability to scale the organizational structure with its rate of growth, while also maintaining its culture. Growth could be harmful to the close knit community-like culture in which eBay takes pride. In the past, eBay had completed a similar purchase to that of Kruse when it acquired Butterfield & Butterfield in April 1999 (Hill & Farkas, 2005). The move to acquire Butterfield & Butterfield seemed like an easy decision. The Butterfield & Butterfield acquisition provided eBay with the opportunity to expand upon its customer base with the offerings of high-end goods. Due to the fact that eBay collects a percentage of all sales, the offering of higher-priced items would mean more revenue. The generation of more revenue would help eBay grow and become more attractive to investors. However, despite the fact that investors responded positively following the acquisition of Butterfield & Butterfield, the network of users responded just the opposite. User comments suggested that they felt a sense of intrusion and alienation. This kind of user feedback does not align with eBay's emphasis on community.

Another area of concern is in regards to strains on technology. During periods of rapid growth, increased activity on eBay's website lead to service outages. Service outages can have a



harmful effect on the relationship between eBay and its user base. Users depend on eBay's ability to provide uninterrupted service. Trust can be broken when eBay fails to do this. The acquisition of Kruse International is expected to have a networking effect that will attract more users to eBay's website. However, as illustrated in the past, an increase in website traffic carries the increased risk for service outages. Adequate and proactive technological preparations should be made in order to prepare for increased website traffic. To avoid this scenario in the past, Meg Whitman met with eBay's own senior vice president of product development and site operations to address the concerns of a growing user base and its strain on technology. Meg Whitman ultimately decided to allocate resources that would allow for a significant technological surplus in system capacity. The Kruse International acquisition should, however, generate additional revenue. Additional revenue generated from auction listings and investors should be adequate in providing capital for technology expansion. Regardless, if eBay would purchase choose to purchase Kruse International, or not, website traffic has still seen a steady growth of new users and auction listings throughout the years. Upgrades to the technological infrastructure will still need to be made in order to keep up with the growing demands of eBay's services.

To address the concerns of integrating Kruse with eBay, I would recommend keeping the facility in Indianapolis open. eBay has demonstrated its ability to manage remote employees and a remote facility in Salt Lake City. I do not see the remote management of a facility in Indianapolis to be a problem. I would also recommend keeping the 80-person staff that currently works for Kruse International. Much like the GM workers that were re-hired by NUMMI, the current staff members at Kruse International are already skilled workers in their area of focus. I would also allow Dean Kruse to remain in control of Kruse International's operations. Kruse International has already demonstrated its ability to offer high-end merchandise. I would see no

reason to attempt to modify Kruse's style of leadership for the sake of a joint venture.

Additionally, a joint venture would allow both entities to remain separate so as not to cause potential harm to either company's internal culture.

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