



OVERCOMING CHALLENGES : ELECTRONIC ARTS CASE STUDY

The Purpose of This Report Is to Assist EA in Finding Root Causes of Challenges and Proposing Solutions to Assist in Remediating Them

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I. About Electronic Arts



Electronic Arts Inc. (EA), founded in 1982 and headquartered in Redwood City, California, is the world's leading interactive entertainment software company. The company mission includes developing, publishing and distributing dynamic entertainment software for personal computers and video game systems. Of all gaming consoles, two are highly publicized and extremely popular, Nintendo® 64 and PlayStation®.

Electronic Arts develops and markets a variety of products including, EA SPORTS™, Maxis™, Origin™, and Rock Band (Data Monitor, 2008). Presently, EA's vast worldwide distribution network operates in over 75 countries, including 13 major product development centers internationally. In the fiscal year of 2008, EA posted a GAAP net revenue of \$3.67 billion and had 27 titles that sold more than one million copies.

However, this multibillion dollar, leading world entertainment software company has been encountering significant losses in sales in the past years. In second-quarter of 2009, EA reported a loss of \$391 million US, or \$1.21 a share, compared to a loss of \$310 million, or 97 cents, the previous year (Canwest News Service, 2009). Furthermore, the share price of EA has plummeted from \$65 in January 2005 to \$17 in September 2009, a decrease of 74% in 4 years.

III. Our Purpose

To help EA recapture consumer interest and regain its market dominance, thereby increase its sales.

II. The Challenge

EA's model does not encourage a motivating environment. This results in employees dissatisfaction leading to poor quality and therefore poor sales and economic performance. Our

purpose is to help EA understand the root causes of these challenges and propose a way to help them increase their sales.

Decreased sales are a direct reflection of displeased consumers. As with any company, it is hard to pinpoint the exact cause of unsatisfied consumers. As our consulting team further investigates the underlying causes of this problem, we have found that numerous factors are integrated such as the incapability of meeting the needs of some consumers, glitches in the games themselves, and focusing on quality rather than quantity. One consumer reports "...more than half their games were poorly made. I remember looking for the EA logo when buying games to know what to avoid" (LexusForSA, 2007). Another disappointed consumer complains that "developers were starting to focus on graphics and money instead of realism" (LexusForSA, 2007).

Furthermore, a large number of game glitches are being reported informally through online media. Examples of these are Blogs such as like Game Spot, Brand Republic and g4tv. Videos posted on You Tube highlight a number of these glitches, and often have up to 265, 000 views and comments in response. In addition to glitches, EA often includes various forms of security software such as SecuROM and DRM in order to prevent customers from pirating their games. Unfortunately, this has caused great dissatisfaction for gamers as installation results in side effects such as documented errors and emulation malfunctioning. These compounded problems have resulted in a decrease in sales, and in turn, a decline in the share price of Electronic Arts.

A common presence in all of these challenges is the production of games, which inherently means focusing on EA employees. For EA to boost their sales they need their employees to produce better quality products and increase creative content. We find that by

restructuring the company's organizational model (increasing job satisfaction and intrinsic motivation), we can trigger a cascade of events that leads to better quality products and increased revenue, satisfying both the company and the consumers.

Moreover, a better quality game originates from innovation and creativity on behalf of the employees. While EA provides world-class facilities, it does not guarantee to provide the best organizational setup to enhance job satisfaction, which relates directly to productivity and plummeting sales. With over 9,100 employees, Electronic Arts' current model includes assigning employees to projects as needed, and rotating them through various games, assignments, and job tasks in order to meet strict deadlines (Straitiff, 2004; Corporation, 2009). While having many employees simultaneously work on numerous projects ensures that EA releases titles on time, the end products are a result of reduced employees' attention and commitment, which in turn leads to diminished quality of products, unsatisfied consumers, and poor sales.

This cyclical trend leads us to believe that by changing employee attitudes and motivations and restructuring its production department, EA can increase its employee commitment. This will in turn lead to better quality product, more motivated employees and most importantly to EA, satisfied consumers who will continue purchasing EA games, resulting in increased sales.

IV. Theoretical Perspectives and Solutions

IV.1. Organizational Structure

We have briefly touched upon some of the theoretical perspectives that might give insight into the challenges faced by EA. The first of these is the structuring of the production

department. As mentioned, EA engages many of their employees on a multitude of tasks simultaneously. This way, EA resembles an Organic structuring model within game production departments. Such a model promotes cross functional, cross hierarchical teams with wide spans of control but low formalization and specialization of tasks (Langton, Robbins & Judge, 2009, p. 500). Formalization refers to the degree to which a job within an organization is standardized (Langton et al., 2009, p. 510). With low formalization, a single employee may be required to work on a number of tasks at the same time. Advocates of low formalization within a company propose that it increases creativity because it gives leeway to the employees to consider alternate ideas; we think that the degree to which EA is formalized is exceptionally low leading to high ambiguity of tasks.

While some flexibility should be allowed, we find that it would be better to restructure the production department (consisting of programmers, game designers, artists, sound engineers, producers and testers) into smaller groups who work on one task at a time. Research has proven that smaller groups work more efficiently (Laughlin, Hatch, Silver, & Boh, 2006). In this way formalization within each group would still be low, however as an organizational structure, formalization of projects would be high. Furthermore, this would encourage employee engagement, which has been proven to give rise to higher levels of customer satisfaction, greater productivity, and increased profits (Langton et al., 2009, p. 105).

IV.II. Inspiring creativity

Innovation and creativity are crucial for all video game developers. Electronics Arts' approach to creativity takes on the role of strategic innovation (Langton et al., 2009, p. 523). The company's focus is to introduce a myriad of new products into the market. We find however, that while EA is successful in bringing forth many new games into the market, they

sacrifice the quality in return for quantity (Charny& Kane, 2009). This model should be altered so that EA can emphasize both quality and quantity. By pushing their employees to come up with many new ideas and quickly releasing them in the form of games, they stunt the growth of each idea to its full potential and in turn produce mediocre games, which are quite often poor quality. By utilizing an approach that allows creativity to blossom into its full potential, EA will find that each game will be more completely developed and recapture consumer interests.

We commend EA's encouragement of employees' creative potential for creating a fun environment and giving their employees some freedom of work time management. Employees can take a break in their state of the arts game room including a serenity pool, work out centre, pool table, tennis etc. These however are probably not used during crunch time with deadlines approaching. We find that this in itself is not enough to initiate creativity. The three model component of creativity suggests that there are three key elements involved to trigger creativity. The three component model requires expertise, creative thinking skills and intrinsic task motivation (Langton et al., 2009 p. 467). We do not doubt that EA game developers lack expertise or creativity, however intrinsic motivation could be increased.

In regards to creativity, as mentioned, we believe that employees are not given enough leeway to fully develop their ideas, which leads to mundane games. We do however find that EA does not promote employee's intrinsic motivation in production of the games. This is perhaps a main contributor of glitches often appearing in games (alongside trying to meet deadlines with limited time to work on the projects). Evidence of these factors comes from a blog post by a former EA employee Joe Straitiff. He says "EA PUT me on [a new project] -- I was never consulted, talked to, or anything. One day my new manager came over, told me he was my new manager and gave me a pile of work...". (Straitiff, 2004). Working under immense pressure to

meet deadlines, Joe Straitiff realized the unfairness of the deadlines which were given to him, and many other EA employees. He goes on to say “It took me a week to do a "3-day task" that I didn't estimate (but even if I had, I would have screwed it up also -- there was no research done into the impact the task would be). After discussion, it became clear that what I really did was do a three week task in one week” (Straitiff, 2004). This emphasizes that the management does not recognize the time it actually takes to complete a project, and therefore sets unreasonable goals. Joe Straitiff was not commended for completing the task before the actual time it would've taken, but rather penalized for going overtime. He goes onto mention how this time crunch led to errors in his written codes for the game (Straitiff, 2004).

IV.III. Increasing Job Satisfaction and employee motivation

We can conclude from Joe Straitiff's (2004) examples that some, if not most, game developers at EA are dissatisfied with their jobs. Job satisfaction is an individual's attitude towards their job. Research has indicated evidence that satisfied workers are productive workers, and further evidence exists that satisfied workers lead to satisfied customers (Langton et al., 2009, p. 100). Dissatisfaction does not seem to result from lack of fit of job and personality rather it is linked to the work itself (intrinsic) and the job requirements (extrinsic). Tough deadlines, low formalization, high expectations, long hours, insufficient compensation, and lastly decreased commitment to any one game developed at a time etc, have all contributed to employee dissatisfaction. Most of these factors can be characterized as 'Hygiene factors' as described by Frederick Herzberg (Langton et al., 2009, p. 133). These characteristics are linked to high job dissatisfaction. Consequently, lack of evidence for the 'Motivating factors' of this theory might imply a lack of presence of motivating factors in the work place.

We found that the EA game production department is lacking two of the five core job dimensions identified by the Job Characteristics Model. Of the five characteristics (task identity, skill variety, task significance, autonomy, & feedback), the two lacking are task identity and task significance (Langton et al., 2009, p. 189). Task identity comprises of being able to complete a whole and identifiable piece of work. We find that because of the limitations in time devoted to any one project, the employees are unable to achieve a project's full potential. Task significance is defined as the degree to which the job has a substantial impact on the lives and work of other people (Langton et al., 2009, p. 189). Success of developed games relies largely upon consumer feedback. Negative feedback from discontented consumers further demotivates EA game development teams and leads to diminished performance.

The final missing connection between the outcome and performance is an unclear linkage between the work employees perform and the rewards they receive. The company forces an increase of output. As a result, long hours are clocked, yet EA neither recognizes the employees' efforts nor compensate them accordingly (Stratiff, 2004). This relationship is best explained by the expectancy theory. This theory shows how effort, performance and rewards are all associated to personal goals. The employee will be motivated when he believes that effort will lead to performance, that performance will lead to rewards (bonus, raise promotion) and the rewards will satisfy personal goals. Unsatisfactory rewards therefore lead to low performance and decreased efforts (Langton et al., 2009, p. 137).

V. Proposal for Viable Solution

After a thorough analysis of Electronic Arts' current situation, a comprehensive solution is proposed. This set of solutions incorporates resolutions to many of EA's most prominent issues, many of which are inter-connected. We find that once minor changes are implemented to

the company structure, the difficulties may automatically correct themselves. Two topics will be discussed in this section: increase of flexibility and autonomy of employees, and adjustments in the focus areas of Electronic Arts.

Stressful and near impossible deadlines constantly loom over the atmosphere at every office of EA. Employees are often demanded to clock extra hours (Straitiff, 2004), in an effort to meet deadlines. This ceaseless cycle depletes employees' passion and creativity and they feel their work is unappreciated. It also forces them to output only a fraction of their full efforts. Moreover, the employees feel extremely restricted in their projects; innovative ideas are sometimes hastily deemed implausible and crushed before any further investigations occur. Originality deteriorates and "EA [struggles]... to release... a broad line of [mediocre] products...many of which have failed to resonate amongst consumers" (Kane, 2009, February 4)

Electronic Arts can overcome these problems in several ways. First, they can decrease the number of projects given to each employee rather than "rotating the employees through a number of developments to meet a tough deadline." (Corporation, 2006). Secondly, EA should aim to release refined products that "fully [represent] the idealized...designs" (Electronic Arts, 2009). These two steps will allow each employee more time and energy to focus on each task. In turn, a definite increase in Electronic Arts' chances of developing "a new hit videogame...a top franchise...owned by itself," (Corporation, 2009), goldmine that EA has not seen for years. More decisions should be passed down to the employee level so that a more bold and accepting attitude is present whenever creative ideas are proposed. A meticulous examination of possible outcomes should be met before any conclusion is reached. These new adjustments not only allow employees the freedom to think outside the workbox, hence triggering new ideas and connections, (Truta, 2007) but the employees will also feel more attached to the company on an

intrinsic level. They will become more audacious and original, knowing that their opinions will be regarded seriously.

Additionally, the recent focus of Electronic Arts has been largely driven by a strong monetary demand which has compromised quality. Due to ruthless buyouts of smaller franchises, the most recent purchase, Playfish, is done despite falling market prices and significant employee layoffs. EA is quickly expanding its horizons into an “everything” (Corporation 2009; Eldon, 2009) game company, unlike its strongest competitors such as Activision, who focus on specific types of games, in turn securing them a hit almost every single time. It is this never satiating thirst for more revenue that has instilled a new religion into the company; quantity over quality. Also, EA has had trouble developing new games with “mass appeal”, which is increasingly important as the development of titles becomes more costly (Charney & Cane, 2009). This shift of focus also leads to dissatisfaction among the employees in different aspects, discussed below.

To approach this radical change, we propose that Electronic Arts reduce acquiring other franchises hoping to build on top of their fame. Instead, EA should focus on pushing its current employees to their full potential. As the employees see millions of dollars trickling into the company and the bare minimum into their pockets, the issue of unfairness arises. In order to overcome this attitude, EA can consider sharing part of the revenue the company receives. This allows the employees to then see a distinctive connection between their work and reward, motivating them to be more devoted, and take greater pride in their work. Consequently, in exchange of the huge quantities of games bought through acquiring franchises, EA will own a number of top quality games.

Despite its large amounts of revenue, Electronic Arts is still buried under a number of problems. After careful examinations, a series of proposals are suggested that can solve EA's

two most conspicuous problems: flexibility and lack of independence of employees as well as the shift of focal points for the entire company. These are only two points on the cycle, but they are two critical points that can pull EA out of the deteriorating hole dug by the slumping economy.

VI. Recommendations for Implementing the Plan

With the two major solutions identified, our next step is to implement the plan. Firstly, we recommend that a problem solving, conflict management strategy should be utilized. One of the major contributors to this problem is the lack of communication between Electronic Arts and its employees. EA's main focal point is the market demand, competition and a boost of sales. On the other hand, EA employees are interested in increasing satisfaction of their job by increasing autonomy and creativity. Hence, by diplomatic negotiation and problem solving between the two parties, attempts in implementing new policies could better accommodate for both EA and their employees. Managing this conflict also allows for altering the structural variable, which further permits for an overall completeness in the employee structure of EA.

The next step after implementing a conflict management strategy is to begin the process of creating effective teams. The four major criteria for effective teams are: resources and other contextual influences that make teams effective (i.e. leadership and structure, performance evaluation and rewards), the team's composition (i.e. skills, diversity, roles), work design (ie. autonomy, skill variety), and process variables (i.e. common purpose and team efficacy) (Langton et al., 2009, p. 230). Different types of groups can be tested through definite periods of time, such as groups of similar backgrounds, dynamics, and goals, and the most efficient and effective ones can be chosen to complete tasks that emphasize their highlights. Additionally,

effective teams will encourage more communication between EA and its employees. To further enhance this communication, anonymous feedback surveys could be given to each employee and executive. The surveys would give feedback on the performance and behaviors of the EA employees. With effective teams and communication bolstering strategies in place, EA would improve internally without the need for external acquisitions.

VIII. Justifications for Implementing the Plan

The EA model presents a domino effect, as any dysfunctional changes in a particular point in the cycle will lead to collapse of the entire chain. By implementing the discussed changes above, the current employees within EA will have more job satisfaction from an improved working environment, and will therefore increase productivity and efficiency. With better employees' performances within the company, better quality games will be produced and sold. The enhanced quality of the products will increase sales and attract more customers, thereby increasing the revenue for EA. More satisfied employees also mean fewer turnovers within the company and therefore fewer costs in training new employees and costs in severance packages. Overall, the improvement that is needed to be made is within the company EA itself, begins at the employees level. This will cause a chain reaction that will improve all aspects and remedy to almost all problems that EA has.

VII. Potential Difficulties

Changes are much easier to propose than implement. The game industry usually avoids risks that can pose any potential problems which may lead to their apprehension when considering with the restructuring solutions suggested by our consulting team. Electronic Arts must be able to overcome resistance to change in order for their employees to believe in the

change and make better quality products, resulting in increased sales for the company. Other potential difficulties involve time and financial resources. At the start of change implementation EA may see our ideas as taking up too much time and money, however in the long run the benefits will greatly outweigh the costs of start-up.

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