Module 11

Organisational Change

Introduction

The principles of traditional management models have stood the test of time for many organisations over a number of decades. There was a time when much of an organisation's future could be determined by examining the past. Many academics and practitioners have suggested that we can no longer determine an organisation's future by examining its past. Historic perceptions of certainty, predictability and permanence are no longer consistent with the complexities and ambiguities that present themselves to organisations today. Our society is characterised by an explosion of information and a technological quantum leap that has virtually eliminated stability and made change the norm. A solution to a problem today is exactly that: a solution for the moment, and not one that will necessarily persist as a solution, or be applied consistently to future problems. For some organisations enhancement of existing work processes is necessary, but not sufficient. Today's environment necessitates a fundamental transformation of assumptions for many organisations; a substantially greater leap than 'better sameness.'

A shift from an industrial society to an information society, as well as to an increasingly global market, has created competitive pressures which have accelerated the rate of environmental change. As a result organisations have tried to become more responsive and flexible. In addition, customers have a wealth of information at their disposal and organisations are faced with more competition now than ever. It is the customer who has dramatically changed the way many organisations do business; forcing them to redefine their philosophies and major objectives as well as their criteria for measuring performance. Often a new set of imperatives must be established to better respond to customer expectations.

In this module, we will examine the nature of change. We will first examine some of the conceptual models of organisational change and then move on to a discussion of why we instinctively resist change, and how change is managed and facilitated in organisations today.

Upon completion of this module you will be able to:

Outcomes

- *discuss* the three conceptual perspectives of organisational change.
- *identify* the reasons why people resist change.
- *discuss* how effective leadership influences in the change process.
- *debate* on current issues in organisational change.

Terminology

Terminology

Benchmarking:	High performance groups or teams (or organisation/individual) used as a model of reference.
Goal Congruence:	Goal Congruence refers to reconciling individual goals, group goals and organisational goals, and identifying a source of leverage for change efforts that meets all of these needs.
Kurt Lewin's Model of Change:	This model of change argues that successful organisational change depends on the following three steps: **unfreezing**, **moving**, and **refreezing**.
Organisational Change:	Any alteration of people, structure, or technology in an organisation.
Punctuated Equilibrium:	Tushman and Romanelli's model of **punctuated equilibrium** offers three constructs: *Processes of convergence*, where change is incremental and consistent with overall strategic orientation; *Processes of reorientation*, where short periods of discontinuous change transform strategies, power, structure and systems; and finally, *Executive leadership*, which is an essential component of successful change.

Theories of organisational change

Scope of change

Numerous theorists have provided useful perspectives from which to understand and manage organisational change. While many have defined types of change in different terms, most authors identify with two: the notion of routine, incremental planned change (first-order change, also known as continuous improvement), and non-routine, more dramatic change (second-order change) that typically occurs less frequently within

organisations. Second-order change has been referred to as a number of things; revolutionary change, frame-bending change, radical change, transformational change, and various other terms that indicate a non-routine and dramatic organisational change. Despite the various perspectives on organisational change, there is general agreement that change, particularly revolutionary change, does not occur easily; it is risky, difficult, complex, unpredictable and emotionally intense. And organisations will most often embrace the status quo until such time that it becomes cost-prohibitive.

Let's examine the distinctions. Incremental change or continuous improvement is change that should be ongoing in any organisation. It tends to be linear in nature and does not entail fundamental shifts in the way the organisation conducts its business, or in the underlying values and assumptions of the members within the organisation. It might entail minor personnel or structural changes, for example.

Radical change

Radical or discontinuous change is distinct from first-order change for a number of reasons. Tushman, Newman and Romanelli argue that radical change is characterised by several possible shifts:

- **Restated mission and values:** When a company enters a new market or industry, or leaves an industry in a way that changes the character of the organisation, then it necessitates a new focus. And this focus emerges from a re-defined mission, and often revisited values, within the organisation.

- **Power redistribution:** As mentioned in Module 9, power shifts within organisations over time. When significant change is attempted, in almost every case, it results in resource allocation and redistributed status among departments and people. Often it is because of a new product introduction, or the movement from one stage of maturity to another in an organisation's life.

- **New structure, systems and procedures:** When new strategies are formulated, it is rare that these strategies can be successfully implemented without some major structural changes, or procedural or systems changes. If nothing else, structural changes send strong signals to members of the organisation that major change is a reality. Often, technology plays a significant role in radical change efforts.

- **New interaction patterns:** Transformational changes usually entail new workflows. As a result, the historical communication systems and patterns are usually inappropriate and inconsistent with the new strategy. So people often communicate within a new hierarchy, perhaps more cross functionally than before, or through fewer vertical channels perhaps more often as group members.

- **New senior management:** Few radical change applications are attempted without bringing in new blood to the organisation. Organisational inertia emerges from a culture that has grown

comfortable and complacent within an existing framework. And it's sometimes difficult to ask existing members of the organisation to shake that up. However, it is much less difficult, and perhaps more appealing for a newcomer to do just that.

Must organisations choose?

Certainly there is a long standing debate and quite a lot of research on the need for incremental versus transformational change efforts. But the proponents of radical change argue that often, especially given the so-called hypercompetition that we are faced with today, incremental change is worse than no change at all. The organisation might be perpetuating an unworkable, inconsistent, obsolete or antiquated strategy. They argue that without a fresh approach, an 'out-of-the-box' application, some organisations will be unable to maintain a competitive advantage, and will therefore be selected out of the population.

Does an organisation have to choose between incremental change and radical change? Gary Hamel says, 'no': organisations need not view these two types of change as mutually exclusive. He suggests that incremental improvement should be assumed, since the quest to get better is only logical and prudent. In addition, incremental change need not exclude innovation; innovatory solutions can emerge in linear ways (Hamel provides the example of Gillette's Mach 3 razor as an example of this). Hamel makes a number of additional arguments for considering first and second-order change simultaneously:

- **Innovation creates new wealth**: Despite the need for continuous improvement, radical innovation is creating most of the new wealth. Examples include Starbucks (revolutionary new business model, which, despite the fact that it has 4 per cent of Nestle's revenues, has a market value that is more than 10 per cent of Nestle's). Dell, Cisco, Microsoft are also industry revolutionaries who saw their share of the market dramatically improve in the 90s while IBM, HP and other industry veterans saw their shares decline. The downside is that the way for insurgents like Starbucks and Dell to maintain or further expand their share of wealth is to be revolutionaries more than once, and this is a major challenge.

- **It's not an either/or decision**: Organisations need not choose between radical innovation and continuous improvement. It can do both. Cartier provides luxury goods to a targeted market. It has continued to improve the way it designs, manufactures and distributes its jewellery (continuous improvement), yet it has also expanded into completely different products that necessitate more radical shifts in strategy and change applications (tobacco, scarves, perfume, leather goods).

  Another thing that we might believe is that we need to abandon all existing strategic plans in order to experience radical innovation. This is simply not true. While we hope that members of the organisation can find a way to detach themselves from

their traditional ways of thinking and planning, that is not to say that they cannot be innovative by exploiting existing resources, competencies, capabilities, skills, brands, assets. Organisations spend many years and much money establishing these things. In most cases it would be imprudent to abandon them entirely.

- **Radical innovation is not always riskier than incrementalism**: Another myth that exists among management is that radical innovation is always riskier than incrementalism. This assumes that incrementalism is low risk, and that innovation is high risk. We know that incrementalism was enormously risky for IBM, Compaq and Sears. It might reduce the company's immediate investment risks, but it poses potentially long-term strategic risks. Innovation means that we likely need to be quick studies, but it doesn't mean we have to throw every resource we have at a new idea.

- **It's not about drama**: People also tend to believe that radical innovation is about dramatic change – change that always creates new products or new businesses. This is simply not true. Often innovative ideas surround business processes within an organisation that may be radical, but do not change the fundamental business of the organisation. However, it might radically change the way that process is done (paperless account systems for example). The point is that radical innovation can come in rather small packages (the express check-in at the airport). Usually, radical innovation entails leveraging something the company already has.

Kurt Lewin's Model of Change

Kurt Lewin developed a three-stage model of change that is widely cited. He argued that successful change was dependent on following three steps: **unfreezing**, **moving**, and **refreezing**.

1. In the **unfreezing** stage, members prepare for change by establishing a plan that will help manage employees' resistance to the change, articulate a path for implementation and establish measures for the outcome of the change. Organisations may use driving forces to direct behaviour away from the status quo (promotions, or increases in pay for example), or employ restraining forces, which hinder movement from the existing equilibrium.

2. The **moving** stage involves the actual implementation of the planned change effort. The ease with which change is implemented depends on a number of variables: how well the change effort was planned; the nature and scope of the change effort (revising the criteria for new hires will likely be more palatable and less intrusive than a radical restructuring, for example); and the ability of senior management or a 'champion of change' to manage the change process successfully.

3. Once the change has taken place, behaviours, values, and structure become institutionalised. Lewin defined this as the

refreezing stage. The post-change environment becomes routine again, and is part of day-to-day life within the organisation.

Models of punctuated equilibrium

Tushman and Romanelli present a model of **punctuated equilibrium**, and offer three constructs which characterise their model:

1. Processes of **convergence**, where change is incremental and consistent with overall strategic orientation;

2. Processes of **reorientation**, where short periods of discontinuous change transform strategies, power, structure and systems; and finally,

3. **Executive leadership**, which is an essential component of successful change.

Executive leaders must mediate between the inertial forces of convergence and performance pressures for strategic reorientation.

Convergence, reorientation, and executive leadership

Organisations, during periods of **convergence**, make incremental modifications that are consistent with what business the firm is in and how it competes. This type of change will persist until performance falls to an unacceptable level, resulting from inconsistencies between orientation and environmental fit, or lack of alignment between activities supporting the strategic orientation. This results in a crisis that promotes the process of reorientation. This process may also include re-creations, which are reorientations (defined above) but also involve a discontinuous shift in the firm's core values and beliefs.

In order to enjoy success, Tushman and Romanelli argue, a firm's strategic orientation must be consistent with internal and external political and economic environments. A process of **reorientation** can be thwarted by the powerful influences of inertia and institutionalisation. Internally coordinated activities, as well as coordination with the external environment, promote structural elaboration and complexity, which in turn promote further convergence. Tushman and Romanelli suggest that this is most prevalent in larger organisations, or where the convergent period has persisted for an extended period of time.

The roles and characteristics of **executive leadership** are integral components of the punctuated equilibrium model: strategic reorientation cannot be successful without being initiated and implemented by executive leadership. The decision to initiate a strategic orientation is dependent upon both the length and success of the prior convergent period and by demographic characteristics of the executive team. Strategic reorientations are less likely to occur where the prior convergent period has been long and successful and where a strong link exists between the executive team and ownership. Reorientations are more likely to occur through external executive succession, and will be most successful when implemented by internal executive leadership.

Tushman and Romanelli present a useful model of change that specifies what type of change will occur and when this change is likely to occur. While they provide insight into the circumstances under which change is often triggered, little attention is given to how change occurs in terms of the interdependence of levels and functions within the organisation. Also, specific distinctions between internal and external pressures for change are unclear.

Periods of deep structure, equilibrium and revolution

Gersick presents three main components of a punctuated equilibrium model: **deep structure**, **equilibrium** and **revolutionary periods**.

1. **Deep structure** is presented as a set of managerial choices; these choices are made based on patterns that have been established between interrelated parts that make up units within the organisation, and are also reinforced by systems outside the organisation (competitive, regulatory, technological).

2. **Equilibrium periods** are characterised by maintaining and carrying out choices that are part of the deep structure; incremental adjustments take place during this period.

3. **Revolutionary periods** dismantle the deep structure, and new choices emerge out of a reconfiguration of units and patterns.

Gersick stresses the **interdependence** of subunits within the organisation. This interdependence is identified as a primary source of resistance to change: managers will react to internal and external distress by making incremental alterations in an effort to avoid dismantling the deep structure, and managing revolutionary change. Gersick identifies the three primary barriers to change in human systems as cognition, motivation and obligation. Managers will be aware of opportunities only if they represent change that is consistent with existing systems. Motivation to change is thwarted when people feel threatened by a loss of opportunity, power, or difficult tasks; and inertial pressures, both from inside and outside the organisation, can reduce one's commitment to change in that these pressures make it extremely difficult, if not impossible, to change.

Gersick argues that the patterns that help to create deep structure and promote incremental change can also generate revolutionary change. When a system faces "internal changes that pull parts and actions out of alignment... and environmental changes that threaten the system's ability to obtain resources" (1991:21), a foundation is laid from which revolutionary change will likely emerge. She emphasises, however, that these internal and external shifts will not in themselves cause revolutionary change. Two primary antecedents of revolutionary change include newcomers to crisis situations and the systems arrival at key temporal milestones. A change in top management has been cited by several punctuated equilibrium theorists as likely triggers for transformation.

The notion that transitions are triggered by **midpoint milestones** is unique to Gersick's model. She argues that inertia is interrupted by people's awareness of time. Typically mid-way through the life of a

project, major transitions are initiated in order to accomplish planned objectives. Finally, Gersick discusses the role of emotion in affecting successful revolutionary change. She argues that while people often feel afraid and pressured by dramatic change, they may also draw from this and generate confidence and enthusiasm for a new direction, fostering the commitment that revolutionary change necessitates.

Why the resistance to change?

Generally, people don't like change. It is human nature to embrace what is comfortable to us; typically, the status quo is like a warm blanket – it keeps us cozy, and we do not like to part with it. The challenge is often significant for change agents within organisations: "what is it that we need to do in this organisation, in order to effect real change, meaningful change that is indeed significant enough to respond effectively to environmental shifts and customer demands"? Rumelt has offered a number of reasons for inertia within organisations that are faced with the need for change.

Distorted perception

Rumelt talks first about myopia, and suggests that some people within organisations simply do not have the capacity to look into the future with any useful insight or clarity. Part of the reason for this is that they are short-term focussed, and might work in a situation where the results of their own efforts cannot be predicted or seen, because of high turnover, mergers, or takeovers. He then talks about hubris and denial, with respect to our reaction to information. Many members of the organisation will either deny the implications of data that have been collected or they will selectively remember or manipulate the data so that it favours the status quo. He also identifies grooved thinking, where our thoughts are restricted or myopic based on groupthink, or habitual thinking.

Dulled motivation

Rumelt argues that people are not motivated to implement change efforts because of either the direct costs of change, or the potential cannibalisation costs (organisations may put off introducing a new product in the fear that it will eat into the profits or sales of another product). A third explanation for dulled motivation is the comfort organisations might feel through some form of subsidy (either from other related companies, or hidden consolidated financial data).

Failed creative response

There are a number of things that block our creativity, and some of us are blocked more easily than others. If a competitor far exceeds the organisation's ability to meet new demand or can redesign and innovate products much faster and more efficiently, then you are likely to be further thwarted simply based on the competitor's increased reaction time. In addition, our reactive nature suggests that we are not able to always predict problems. Rather, we blame problems on the industry, and not on our organisation's ability to deal with them.

Political deadlocks

This is a pretty old story. But politics are an integral part of even the smallest organisations, and they must be managed, not ignored. Politics emerge because of distinct interests across departments and individuals, and often people are concerned about the sustainability of their own status through change efforts.

Action disconnects

Finally, Rumelt identifies 'action disconnects' which prevent people from mobilising themselves into action. There are a number of potential sources for action disconnects. It might be leadership inaction; or perhaps the complexity of the change effort (or more importantly the perception of complexity) fosters inertia. We like habitual routine and patterns – we're comfortable with them, even if they don't work.

Strategies for effecting successful change

We know that change is difficult, and efforts to effect change in organisations often fail. The challenge for members within organisations is to create, develop and sustain an environment that facilitates change processes. This necessitates attention to the unique complexities and risks inherent in change initiatives. There are a number of key influences that managers and change agents must be aware of and consider in order to plan and implement successful change:

Construction of crises

The literature argues that people must be driven out of their comfort zones, and often they will not leave those comfort zones without a very compelling reason. It is suggested by many researchers that a sense of urgency or 'pain' must be communicated to members of the organisation. If management is able to communicate this sense of urgency in a way that inspires employees to want to change, then it is more likely that they will embrace the need for such change.

Leadership

The need for a strong champion of change cannot be over-emphasised. Change efforts require leaders that not only inspire those around them, but leaders who can set a course, steer the ship, and re-navigate when necessary without a lot of warning. Much attention is given to the role of leadership throughout change efforts, and most researchers would identify strong leadership as essential to success for any organisational change. In particular radical change, because of its unique demands on members of the organisation, places a special premium on leadership skills and competencies. Transformational change is unique for two reasons:

1. the pace of the change itself is faster; and

2. organisational elements that require leadership attention centre around high-involvement, cross-functional, technology driven, group or team focussed core competencies and values.

This research reveals that leadership skills proven to be successful within the context of continuous improvement may be insufficient or distinct from those skills required to lead radical change. Ketterer and Chayes identify a number of competencies of change-oriented leaders: an ability to articulate an image of the future (visioning); capacity to organise information into logical sequences; business and industry insight; drive for success; personal integrity; flexibility. Another model proposes five dimensions of charismatic leaders, who are responsible for managing transformation change: strategic vision and articulation; sensitivity to the environment; unconventional behaviour; personal risk; and sensitivity to members' needs.

Little attention is often given to the role of leadership at lower levels in the organisation, and the data in a study conducted by this author suggest that it is a subject worthy of attention. Often middle level managers, while not members of the senior executive, play one of the most critical leadership roles in the organisation. Personal style, characteristics and skills seem to be associated with the success of change processes within many organisations. It is the responsibility of the senior executive team to facilitate this by sharing and owning the vision of change and by being visible as champions and managers of change. But their 'shared understanding' must first transcend their individual perspectives and priorities in order for them to successfully lead the organisation through a change effort.

Team dynamics

The teams that are formed to effect change have an enormous responsibility: they establish paths for innovation after collecting information (through benchmarking and in-house analysis primarily) that defines the direction of needed change. They reinvent the way the organisation conducts its business and must sell that 'reinvention' to the rest of the organisation. The literature argues team members should meet specific criteria: "ideally, creativity and openness will be blended with sound business judgment and the ability to synthesise information from multiple sources. Team members must grasp strategic realities and possess an operational understanding of the business.... [T]his combination is most often found in the middle to upper-middle ranks of a business unit."

Often team dynamics necessitate the understanding that the team is developing a whole new way of looking at the business (in the case of second-order change). While success is dependent to some extent on careful selection of participants, successful teams must clearly understand their objectives, their role as a team, their rewards as a team, and finally their accountability as a team. This is the responsibility of the leaders who are driving the change effort.

Benchmarking

You may have participated in a benchmarking initiative – perhaps even more than one – and found it can be a useful way to learn about

successful change techniques. Benchmarking with other organisations (or other subsidiaries within your own organisation) can be time consuming, stressful at times and costly in the short term. But if you are not able to establish a yardstick of measurement in terms of your expected outcomes, you cannot set goals that are meaningful or even achievable.

Culture

The tacit nature of underlying values and assumptions makes them directly unobservable. Yet insight to these belief systems is critical to planning for and predicting successful change. Some cultures are paradoxical in nature – behaviour that participants display may be consistent with what has been identified as an antecedent to successful change. But the willingness to embrace change might not remain constant throughout the project; it is often ultimately subordinated to the individualistic need to outperform others, and be recognised (and compensated) as individuals who succeed. Members of the organisation generally want to be a part of the change project, but only for as long as it is associated with success, and for as long as they can be seen, as individuals, as enhancing the performance of the organisation. Culture can be an impediment to change efforts and, as discussed earlier, is a difficult construct to change.

Rosabeth Moss Kanter argues that radical change may make an immediate impact, but tends not to be very successful at changing organisational culture in the longer term. Fundamental or radical transformation in multiple areas of a company does not necessarily cause a fundamental shift in organisational culture. In addition, diverse sub-cultures influence the process and outcome of change. Certainly, sub-cultures warrant individual examination, in an effort to identify the impact of these distinctions. An understanding of the culture, including distinctions between units within a single organisation, might provide some indication of the most appropriate intervention for that organisation, or those groups. Scant attention has been given to the relationship between culture and radical change efforts that are specific to cultural preconditions, or modifications that might foster successful change.

Goal congruence

Senior management often face difficulties in establishing goal congruence in an organisation. They must consider individual goals, group goals and organisational goals. The challenge is in reconciling these goals and identifying a source of leverage for change efforts that meets all of these needs. It is the responsibility of the champions of change to be adequately in touch with the various elements of influence in an organisation that shape the needs and interests of diverse constituencies. If you can develop an understanding of the sources of distinction in these interests, it is likely that you can understand the common areas as well and then capitalise on those common interests, and manage the distinctions.

Your role in change

Practitioners need access to information about first and second-order change, as it relates to antecedents for successful change. They must have prescriptive knowledge of the cross-functional, multi-level, team-based nature of change applications, and the attitudinal and behaviour adjustments that they necessitate. They need to feel confident in their ability to develop or acquire the appropriate resources to communicate these changes and manage the change through to its successful completion. Frameworks of change that convey its complexity and multiplicity might help to shift the majority balance of transformational change from failed to successful interventions. Incremental change has lost its dominance in leading-edge organisations that are driven by dramatic and unabating shifts in technological, competitive, and global boundaries. Because the fundamental essence of organisations must sometimes be significantly altered, so must the philosophy of leading and managing its members. This is difficult. Behavioural patterns are not easily disrupted, nor can they be successfully reconfigured without new skills, new resources and new understandings of the multiple, interdependent levers of change.

Module summary

Summary

The need to consider organisational change arises from both internal and external factors. While many have defined change in different terms, generally, there are two notions of change: routine, incremental, and planned change (called the first-order change, also known as continuous improvement), and non-routine, more dramatic change (called the second-order change that typically occurs less frequently within organisations). Tushman, Newman and Romanelli proposed that radical change is characterised by several possible shifts within the organisation, such as power redistribution, new emerging systems/procedures, new senior management groups or new organisational mission and values. In this module, you learned Kurt Lewin's model of change, where successful change was dependent on three steps: unfreezing, moving and refreezing. Models of punctuated equilibrium were proposed by two groups of researchers. Tushman and Romanelli suggest that leaders must mediate between the inertial forces of convergence and performance pressures for strategic reorientation. Gersick on the other hand provided a model consisting of three main components: deep structure, equilibrium and revolutionary periods**.**

People, in general, don't like change. It is human nature to embrace what is comfortable, the status quo and we do not like to part with it. Rumelt offered a number of reasons for inertia within organisations, such as distorted perception, dulled motivation, failed creative response, political deadlocks and action disconnects. Strategies for effecting successful change is to create, develop and sustain an environment that facilitates change processes. In this module, you learned several key influences that managers and change agents must be aware of and consider in order to plan and implement change successfully.

Case study 11.1

Case study

John Hancock Mutual Life Insurance (Optional Submission)

Please read case study 11.1 'John Hancock Mutual Life Insurance' given in the case study handbook and analyse it using the written case format provided in the handbook. Your paper should be no longer than eight pages.

Assignment

Assignment

Exercise 1 (Answer in four-five pages)

Think about various change efforts in your organisation. Would you describe them as first or second-order change? Why? What made the management of change successful or unsuccessful?

Exercise 2 (Answer in two-three pages)

Describe an example of resistance to change in your organisation. Why do you think this resistance occurred?

Exercise 3 (Answer in four-five pages)

Which of the key influences discussed above do you believe to be the most important levers of successful change in your organisation? Be sure to justify your choices.

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