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Excerpt
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PART I

An integrative framework for leading strategic and organizational change

There is a great deal of literature on change. Unfortunately, the literature is fragmented and requires both scholars and practitioners to create the connections. Part I of this book presents the key dimensions of a framework for leading strategic and organizational change. The proposed integrative framework is intended to be helpful as a context for understanding, planning, leading, and studying change. As shown in exhibit I.1, this framework consists of three levels and five components.

Level 1 consists of theoretical concepts/frameworks upon which a model for managing change can be built. This level has three components: (1) identifying the nature/type of change needed; (2) understanding the phases in the change process; (3) identifying ways to measure the outcome of change. In brief, the foundation of managing change is understanding the theory underlying the change management process. These three theoretical concepts are the focus of chapter 1. In this chapter we also present tools that can be used by leaders of change in applying these concepts in practice within their organizations. Taken together, the three components comprise a "theory of change" that we have found most relevant and of practical value in strategic and organizational change. Although there are other concepts and theories available, the ones presented here are the core ideas that we have actually used in our practice of change management.

Level 2 builds upon the "theory of change" and converts it to an actionable model in the form of a "strategic organizational development plan." Effective development and implementation of this plan can take an organization and its members from "where they are" to "where they want to be." In brief, this plan identifies the types of change needed, what needs to be done to move through the phases in the change process, and how results of the change effort will be measured. Chapter 2 presents a framework and approach for

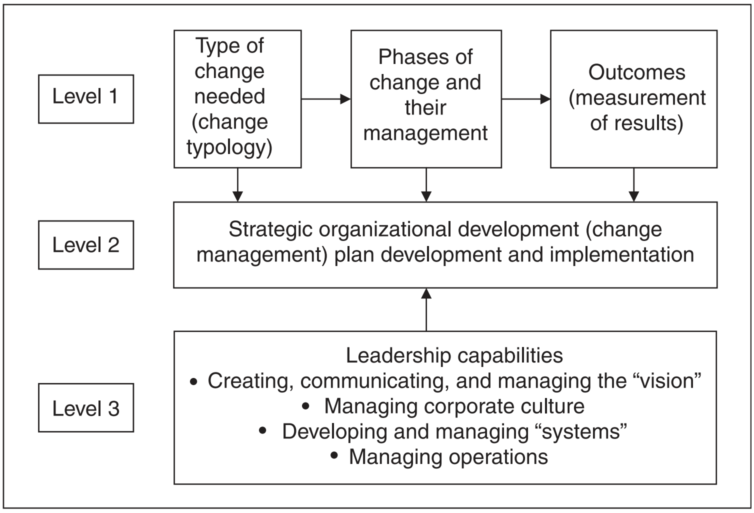

Exhibit I.1 Integrative framework for leading strategic and organizational change

developing and implementing change management plans – based upon an approach to building successful organizations that has been validated by recent empirical research.

Level 3 consists of the "change management" capabilities possessed by those who need to lead the change effort. These capabilities include: (1) creating, communicating, and managing the company's **vision;** (2) managing the company's **culture**; (3) developing the **systems** needed to support the change effort; and (4) designing, implementing, and effectively managing day-to-day **operations** in a way that supports the change effort. As explained in chapter 3, it is rare to find these four skills/capabilities in a single individual. Hence, we suggest that successful change depends upon having a management team whose members possess these four skills. The absence of any one of these four skills will adversely affect the implementation of the change management plan (level 2) and, as a result, will affect the success of the change effort.

This section of the book, then, focuses upon each level of the framework:

- chapter 1: theoretical constructs and tools;
- chapter 2: the change management plan process; and

- chapter 3: the leadership skills/capabilities needed to support successful change.

Taken together, these three levels and their related components comprise an integrative framework for leading strategic and organizational change. It can be used as a lens to plan, lead, and evaluate the results of change programs – as will be illustrated in many of the case studies presented in Part II.

1 Understanding organizational change

Clearly, there are vast differences in the types of change that organizations face and make. Some change is incremental, other change is substantial, and some is even transformational. Some change is strategic, while other change is operational or tactical. The need to change can be brought about by external factors (e.g., changes in customer preferences, changes in technology that make the company's existing products/services obsolete, changes in the regulatory environment, etc.), internal factors (e.g., the company's own growth, changes in technology, retiring leaders, etc.), or a combination of factors. While there are significant differences in the types of change that an organization might face, much of the existing literature about organizational change treats it homogeneously, as though "change is change is change." Given this approach and definition (that "all change is created equal"), strategies for managing change frequently focus on one versus many phenomena.

Regardless of the source or causes of change, all organizations are regularly faced with the need to do just that: change. The process of leading change successfully is not a trivial issue, however. It is fraught with difficulties, and sometimes the results are unsuccessful even for relatively small incremental changes.

The purpose of this book is to bring about a better understanding of the nature of change – offering a practical but theoretically sound guide to strategic and organizational change. It is intended for practicing leaders and managers as well as scholars. Its intent is to provide a framework for understanding, planning, and leading strategic and organizational change while simultaneously providing real-life examples of companies that have actually dealt with a variety of strategic and organizational change.

Purpose of this chapter

The specific purpose of this chapter is to present a framework for understanding and leading organizational change. This includes a typology of different aspects of change based upon the magnitude of change, types of change, and the organizational levels at which change is to be implemented. The chapter presents two different but complementary approaches to treating change as a process with defined phases. It also defines the nature of successful change and provides a set of criteria for it. Finally, it deals with the measurement of the results of change efforts.

Organizational change

This section examines the nature of organizational change. It provides a conceptual framework for understanding change as a prerequisite for the process of designing and leading change.

What is change?

There are many different definitions, but they all carry the connotation of "making something different in some particular way." The difference can be small (incremental) or radical (transformational). It can involve shifting from one (or the current/equilibrium) state or phase to another, which, in turn, results in a "transformation" or "transition." While change can result in a transformation, a transformation is different from change per se. Change involves anything that is different from the norm, while transformation involves a "metamorphosis" from one state to another. As a caterpillar grows, it changes; when it becomes a butterfly, however, a metamorphosis or transformation has occurred. This distinction is an important one when we turn, later in this chapter, to examining the typology of organizational change.

Why is change so difficult?

Within organizations, the ultimate target of change is behavior – whether the change itself involves a system, a process, or the company's structure. It moves people, their team, or their company from what is familiar and, in a very real sense, comfortable to that which is unfamiliar and uncomfortable. This discomfort leads people, teams, and organizations as a whole to resist rather than embrace change (although there are exceptions to this "rule").

There are a number of factors that can lead an organization either to resist or to embrace change. One factor consists of the values and norms (formed over a number of years) that influence the ways that people behave in the organization. In a very real sense, these values and norms can promote or detract from an organization's willingness to embrace change. Universities, for example, are comprised of the faculties, students, and administrative staffs who are there; but they are also influenced by the legions of past faculties, students, and administrators who have gone before. The culture of some universities supports change and innovation – in curricula, in student activities, in alumni relations, and other factors. In other universities – particularly those that have been successful for some time (measured in terms of rankings by various publications, the prestige of their alumni, donations/grants, academic awards, or other factors) – there may be resistance to change. In these institutions, faculty and administrators – who have spent their careers in the culture – may individually or collectively feel threatened by the change or feel that the change will adversely affect continued success.

Similarly, in business enterprises such as Hewlett-Packard, IBM, Wal-Mart, Ford, Johnson & Johnson ("J & J"), and Disney, the culture of the company – reflecting, in many cases, the people who founded the business – has an impact on what people believe and how they behave with respect to change. At 3M, for example, the culture of the company promotes change and innovation. Employees are encouraged to pursue their ideas for new products and, if successful, are rewarded for their efforts. One product that resulted from this focus on innovation was the Post-it note.

Another factor that can affect an organization's willingness to embrace change is the degree of success it has or is experiencing. Extended success tends to breed inertia, because it leads to a mindset of "don't rock the boat." For example, long-term success at Eastman Kodak, once a great company, led to a culture of avoiding hasty action. While this seems reasonable on the face of it, it became a formidable barrier to innovation, and Kodak avoided acting hastily while competitors innovated with instant photography, 36mm cameras, and VCRs.

A third factor that can contribute to organizational resistance to change is the level of investment made in existing systems, even if they are not functioning effectively. It promotes the belief that "it will cost us too much to change." As a result, companies will continue using computer systems, accounting systems, planning systems, etc. that do not meet their needs simply because of the costs and risks of change. This is, of course, not entirely irrational. There is much invested in existing knowledge and a degree of comfort with existing operations, systems, processes, etc. Unwillingness to change these systems can severely hamper a company's ability to continue its growth and success, however. For example, when it was a start-up, a $50 million manufacturer had purchased a computer system/platform that was considered state-of-the-art. Over a period of five years, however, this system became outdated to the point where there were very few IT professionals or programmers who possessed the expertise to use it effectively. Instead of replacing the system with one that was more generally accepted, the company spent time and resources finding IT professionals who possessed the knowledge needed to keep the existing system working. The false belief was that it would cost more to replace the system than to hire people to "fix it."

A less rational reason for resistance to change is a corporate culture that promotes fear of failure, hypercriticism, and even arrogance. There are many examples of companies that have unintentionally created cultures with these characteristics – making change extremely difficult. For example, one large entertainment company was described by insiders as a "one-mistake company." The belief was that any mistake – even if made in the context of trying to improve performance – would result in termination. As a result, ideas were seldom challenged, new ideas were seldom offered, and employees basically did what they were told to do (because, if a mistake was made in this case, they could blame their manager).

Resistance to change can exist not just at the corporate level but also at the group and individual levels. For example, while IBM as a whole understood the competitive threat of microcomputers (PCs), the company found it difficult to adapt to change. In part, the problem was the mindset of people and the overall culture that existed in the mainframe division. This division – and, to a certain extent, the company as a whole – believed that IBM was, and should continue to be, in the "Big Iron" business: that is, it should continue to focus on producing large mainframe computers. The division did not embrace the need for the company to transform itself and this led to a decade of turmoil, a change in leadership at the top, and the departure/termination of more than 250,000 workers before the dust had settled with a "new" IBM under the leadership of an outsider (Louis Gerstner).

One of the barriers to change at the group level is what Irving Janis has termed "groupthink,"[1] or the tendency of a group to develop a common mindset that is not open to outside ideas or influences. This was thought to be a cause of the Challenger disaster (January 28, 1986), where the group involved in the launch decision was so invested in its decision that it could not be changed even by members of the group. This is why an "outside" leader is often needed to serve as a catalyst for change. It is interesting to note that Louis Gerstner, who came from RJR Nabisco and whose knowledge of "chips" was probably limited initially to potato snacks, was capable of the revitalization of IBM, while other leaders from inside the company could not achieve this.

Ultimately, the behavior of individuals is a critical ingredient in any organizational change. If people cannot be persuaded to change their behavior they will resist, either actively or passively. Individual barriers to change include fear, apathy and indifference, loss of control, and personal vulnerability. The typical individual, group and organizational barriers to change are summarized in exhibit 1.1.

Proactive and reactive change

Another aspect to change that is significant concerns whether the strategic or organizational change that occurs is a proactive or a reactive response to something in the environment or the organizational situation. Some of the changes described in the cases in this book are proactive while others are reactive.

"Proactive change" can be defined as a change initiated by an organization as a result of its assessment of the anticipated future environment or organizational situation. It is an opportunistic change, in which the organization wants to create a strategic advantage because of something present or anticipated in the environment. For example, as discussed in chapter 5, Howard Schultz at Starbucks

[1] See Janis, I. L., 1972, *Groupthink: Psychological Studies of Policy Decisions and Fiascoes*, Boston, Houghton Mifflin.

Organizational barriers

- Extended success, which breeds inertia
- Investments made in existing systems, even if they are not functioning effectively ("It will cost us too much to change")
- Knowledge and comfort with existing operations, systems, processes, etc.
- A corporate culture that promotes:
  - fear of failure
  - hypercriticism
  - arrogance

Group barriers

- A culture of "we" versus "them" (that is, functional silos)
- Knowledge and comfort with existing operations, systems, processes, etc.
- Groupthink ("We have been successful in the past and this will continue")

Individual barriers

- Fear
- Apathy and indifference
- Loss of control
- Personal vulnerability

Exhibit 1.1 Barriers to change that lead to resistance

perceived the opportunity to create an American version of the classic Italian coffee bar, and set up Starbucks in order to achieve that vision. Similarly, Madhavan Nayar, founder and Company Leader of Infogix, perceived the need for a new paradigm of "information integrity" (as described in chapter 9), and took steps to position his company for this emerging opportunity.

"Reactive change" can be defined as responses to changes in the environment or organizational situation that have already occurred, rather than those that are anticipated in the future. For example, if the company has already experienced increased competition, such as Indian Oil Corporation and Tata Steel, it will need to react to this change. Similarly, Tashman and Associates, a relatively small entrepreneurial firm, needed to respond to the changing dynamics of its industry and the behavior of a major customer (Home Depot), as examined in chapter 7.

A typology for change

A first step in managing change is to understand what **type** of change is needed. Change in organizations can be classified according to three factors – which, in a very real sense, form a typology of organizational change:

- magnitude of change – incremental to "transformational";
- focus of change – strategic or operational; and
- level of change – individual, group, or organizational.

These factors are examined, in turn, below.

Magnitude (scale) of change

The first dimension of the organizational change typology is the magnitude or scale of change. This scale of change can be viewed in terms of three levels: *incremental*, *major*, and *transformational* change.[2]

Incremental changes are small changes that are sometimes barely noticeable. They are not material or significant. Operationally defined, incremental changes are changes involving less than 5 percent of existing operations (content). Examples of incremental changes include:

- changing a product formula in such a way that customers would notice no difference (e.g., Neutrogena changes the formula for one of its shampoo products – adding more aloe);
- outsourcing a function such as payroll (provided it doesn't lead to a large layoff of personnel); and
- changing the format (not content) of written documents (such as policies and procedures or job descriptions).

Major changes are substantial changes in the organization, its operations, etc. Operationally defined, these changes involve greater

[2] A version of this typology of change has actually been used by Johnson & Johnson to monitor and motivate its business units to enhance product innovation.