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978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

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Leading Strategic Change

Why do some companies continue to be successful while others experience difficulties and even failure? In *Leading Strategic Change*, Eric Flamholtz and Yvonne Randle demonstrate that the key to long-term organizational success is the ability to adapt to and manage different types of change. Drawing on over thirty years' consultancy experience within major firms, they combine theoretical and practical models of organizational change, together with a new theory of leadership, to build a framework for understanding, planning, and leading change. The scope and value of this framework are then shown in relation to nine real-world case studies, ranging from relatively small companies (IndyMac Bank, Infogix) to large multinationals (Starbucks, Westfield). The focus throughout is to provide practical guidance to those concerned with managing and leading change in organizations. This book is an excellent guide to the many lessons to be learned about successful organizational change.

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Contents

<i>List of exhibits</i>	<i>page</i> vii
<i>Preface</i>	ix
<i>Acknowledgments</i>	xv
Part I An integrative framework for leading strategic and organizational change	1
1 Understanding organizational change	5
2 A framework for planning strategic and organizational change	26
3 Leading change	49
Part II Leading strategic change in actual organizations	67
4 Leading strategic and organizational change at Countrywide Financial Corporation	69
5 Leading change at Starbucks Coffee Company	86
6 Strategic marketing through HR interventions: a case study of Indian Oil Corporation	99
7 The evolution of Stan Tashman and Associates	123
8 Leading strategic and organizational change at IndyMac Bank	136
9 Leading strategic and organizational change at Infogix	155
10 Leading strategic and organizational change: the transformation of structure at Pardee Homes	168
11 Leading strategic and organizational change at Tata Steel: the role of culture	188

Cambridge University Press

978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)

vi		<i>Contents</i>
12	Leading strategic and organizational change at Westfield: transformation to a global enterprise	205
	Part III Leading strategic change: lessons learned from practice	227
13	Lessons and insights from case studies of change	229
	<i>Appendix References for further reading on leading change</i>	253
	<i>Index</i>	258

Cambridge University Press

978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)*Exhibits*

I.1 Integrative framework for leading strategic and organizational change	page 2
1.1 Barriers to change that lead to resistance	10
1.2 Change typology matrix	16
1.3 Change at American Express	16
1.4 Two models of the organizational change process	19
2.1 The Pyramid of Organizational Development™ – the six key building blocks of successful organizations	35
2.2 The six key building blocks of successful organizations: drivers of financial performance	37
2.3 A model for planning change	41
2.4 The change planning matrix – Banner Corporation	43
3.1 Summary of the key drivers of change: VCSO theory	51
3.2 The “molecule” theory of leadership: the four functions exist as an integrated unit	61
3.3 Examples of companies where the leadership molecule exists	62
3.4 Three atoms in search of a molecule: the four functions exist, but not as a unit	63
4.1 Flow diagram of the strategic planning process	77
4.2 Countrywide’s priority objectives: D.O.M.I.N.A.N.C.E.	79
4.3 Countrywide’s former business foundation	81
4.4 Countrywide’s new business foundation	81
4.5 Countrywide Financial Corporation: growth, 2000 to 2005	84
4.6 Countrywide’s 2005 performance rankings	84
4.7 Countrywide Financial Corporation: five-year shareholder returns	84

Cambridge University Press

978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)

viii

List of exhibits

5.1 Starbucks Corporation's six "guiding principles"	96
6.1 Indian Oil Corporation: growth, 2000 to 2005	120
8.1 Management Systems' strategic planning process SM	143
8.2 IndyMac's values	150
8.3 Sample culture survey results	152
9.1 The performance optimization system	164
10.1 Pardee Homes' functional/silo structure (simplified version)	173
10.2 Alternative team concepts	174
10.3 Pardee Homes' matrix structure (simplified version)	176
10.4 Pardee Homes' divisional structure, 2005 (simplified version)	185
13.1 Drivers of change	230
13.2 Application of the change typology matrix to the nine case studies	234
13.3 Barriers to change in the nine case studies	239
13.4 Leadership capabilities present in the nine case studies	251

Cambridge University Press

978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)

Preface

The inevitability of change

Nothing lasts for ever. Not people, not redwood trees, not empires, not climatic conditions, not even the Sun and Earth themselves. And certainly not an organization's success formula.

Regardless of how strong and successful an organization is, and regardless of how long a period of success the organization has had, the need for change is inevitable. In some instances, the need for change occurs because of changes in the environment. This can be due to changes in customers' tastes and preferences, changes in technology, changes in the nature of competition, or other external factors beyond the control of management. The need for change can also occur because of the organization's own success. Changes in organizational size and complexity as a result of growth and market success create the need for changes in organizational structure and, possibly, culture.

The "secret" of long-term success is the ability to adapt to change. Organizations develop "success formulas" or "winning business models" that last for a period of time. Then, as the environment changes or conditions within the organization itself change, the enterprise must adapt. If it does so successfully, it will continue to exist and flourish. If it does not adapt successfully, however, it will experience difficulties and perhaps failure, regardless of how strong it appears at a moment or how many resources it has. The decline can occur swiftly or agonizingly slowly over a long period of time. The decline of General Motors, AT&T, Xerox, Reuters, and Mövenpick are just a few examples.

The ability to adapt to change

Some organizations are better than others at adapting to change. Some have successfully "reinvented" themselves, while others have perished. For example, IBM, under the leadership of Lewis Gerstner,

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Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)

was able to transform from a company based upon “Big Iron” to an information solutions company with a product mix of hardware, software, and services. Unfortunately, AT&T, under the leadership of C. Michael Armstrong, spent almost \$100 billion in a futile effort to change its business model. Although AT&T still exists as a corporate entity, it was purchased by one of its offspring (the so-called “Baby Bells”) and is no longer what it once was: a proud and successful company with a magnificent technological heritage.

We believe that the difference in outcomes at IBM and AT&T was not due just to chance or luck. There were systematic reasons why one company was successful and the other experienced difficulties and ultimately wasted almost \$100 billion in a vain effort to change. One of the major reasons was the leadership capabilities of the two people who led the change efforts.

Our purpose

This book deals with leading strategic and organizational change. This issue is critical to virtually all organizations at some stage of their life cycle.

For the past thirty years we have been working with and studying companies engaged in strategic and organizational change. We believe that much can be learned about successful and unsuccessful change by studying what companies have actually done.

Our approach is a combination of theory and practice, and our intent is to bridge theory and practice from both directions. This means that we look to theory to provide content for practice, but we also look to practice to provide insights and lessons for theory. We believe in what might be termed “practical management theory,” which we define as theory that is empirically sound but relevant and actionable by practicing leaders and managers. Hence, this book is heavily oriented to practitioners. Our intent is to provide a useful “tool” to enable them to deal with the issues and problems of strategic and organizational change.

Scope and limitations

Our strategy is to draw heavily upon our own experience as participant observers in the process of leading strategic and organizational change. Each of us has been working with companies for very many years.

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978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)

Although we present a conceptual framework for understanding, planning, and leading change efforts, it is *not* our intention to summarize the vast literature related to this topic. Other authors have adopted a similar approach.¹ We have drawn upon some concepts and research in this area and incorporated them into the working framework we use to guide change efforts. Some of these are classic concepts and research; other aspects are based upon our own previously published or unpublished work. We do, however, provide a list of references related to the theories and concepts of others as a resource for interested practitioners and scholars; this is in the appendix at the back of the book. It includes both scholar-oriented and practitioner-oriented references.

Structure

In Part I we present an “integrated” framework for understanding, thinking about, planning, and leading strategic and organizational change. The aim of this conceptual framework is to provide the reader with the tools that we have used in many of the case studies presented in Part II. Our intent is not to suggest that this is the only way to look at strategic and organizational change. It is, nonetheless, our approach to examining change, and for us it has proved useful.

Chapter 1 deals with the nature of change and presents a framework for understanding change. The literature on managing change is vast and replete with references to various types of changes. It lacks a coherent framework for classifying or categorizing different types of change issues, however. The purpose of chapter 1, then, is to present a typology for classifying change issues that should prove useful to practitioners, and possibly to scholars as well. The typology includes different aspects of change based upon the magnitude of change, types of change, and the organizational levels that are the target of change. By putting these various aspects together, this provides a conceptual or theoretical framework for understanding the nature and process of change.

¹ For example, see Kotter, J. P., 1996, *Leading Change*, Boston, Harvard Business School Press. This book is based upon his article published in the March/April 1995 issue of *Harvard Business Review* and does not summarize or cite any of the literature of change management.

Cambridge University Press

978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

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Frontmatter

[More information](#)

Chapter 2 presents a “lens” for planning and leading strategic and organizational changes. This framework builds upon a construct termed the “Pyramid of Organizational Development™,” which we have used for many years in working with companies on strategic and organizational change. It provides an actionable model for a change management plan. This framework and approach to planning change has been used in most of the case studies presented in Part II of this book.

Chapter 3 deals with some aspects of leadership, and the leadership requirements and capabilities for successful change. In this chapter we identify the key leadership competencies required for planning and leading organizational change. Based upon this model of these competencies, we also propose a construct termed the “molecule theory of leadership,” which has been derived from our work with companies. This theory suggests that a leadership team rather than a single individual is the key unit for planning and leading strategic changes.

The three chapters comprising Part I of the book together provide a set of theoretical constructs and tools, a template for the change management planning process, and a discussion of the leadership skills required for leading successful strategic and organizational change.

In Part II we examine a number of examples of the process of leading strategic and organizational change in a variety of actual companies. The selected companies differ widely in terms of their size, their geographic locations, and in terms of the types of strategic and organizational issues they are dealing with. We have intentionally selected examples of changes in organizations ranging in size from relatively small to giants, because the readers of this book will also inhabit organizations of varying sizes, and the problems differ according to size and complexity. For example, Countrywide Financial Corporation, IndyMac Bank, Infogix, and Tashman are all dealing with changes in strategy caused by environmental changes and opportunities; the nature of the change process is very different in each company, however, at least in part because of the organizations’ different sizes and complexity.

We have also selected examples of companies dealing with a variety of organizational changes such as structural issues, performance management issues, and cultural issues. The case of Infogix, for

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978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

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Frontmatter

[More information](#)*Preface*

xiii

example, deals with performance management issues. Pardee Homes is a case dealing with structural change in response to growth and additional strategic opportunities. The Tata Steel case deals with the role of cultural change as a strategy of adapting to the need for increasing competitiveness. Our intent is to demonstrate the nature of leading change with each type of issue.

While there is a primary focus on change in all the cases, these and other companies usually find themselves dealing with two or more aspects of change simultaneously. For example, they might be dealing with changes in strategic direction *and* changes in structure, or changes in strategic direction *and* the need to transform from entrepreneurship to professional management (organizational change). Dealing with these compound changes makes things more complex, but that is what happens in “the real world.” As a result, we have several case examples of companies dealing with similar (but typically not identical) phenomena, and we can see the subtleties of how their approach differed.

Many of the case examples are companies in which the authors have personal experience as facilitators of the change efforts. Similarly, many of these companies have applied the strategic lens we present in chapter 3. We treat each of these examples as independent, self-contained “case studies” in Part II. We term this a “vertical” analysis.

Then, in Part III, we step back from the details of each of the case examples and do a “horizontal analysis” across all these case examples, in order to try and distill some common insights and lessons.

In chapter 13, the final chapter, our approach is to use the case studies as “data” so as to derive insights and lessons with respect to the leadership and management of strategic and organizational change. We examine the different but related aspects of the cases, including the catalyst for change, the overall purpose or objective of the change process, the type of change (including the focus and magnitude of change), and the duration of change. We also examine aspects of the barriers to change that are encountered. Finally, we identify – for researchers and scholars – areas for further investigation of the framework described in Part I.

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978-0-521-84947-0 - Leading Strategic Change: Bridging Theory and Practice

Eric Flamholtz and Yvonne Randle

Frontmatter

[More information](#)

Acknowledgments

Most of the cases that appear in Part II of this book are co-authored with members of the management of the companies or other researchers. The names of these individuals are shown in each chapter. These co-authors include: Stanford Kurland, formerly chief operating officer (COO) and currently a member of the board of directors of Countrywide Financial Corporation; Dr. N. G. Kannan, formerly Director (Marketing) Indian Oil Corporation Limited, and Ms. Rangapriya Kannan-Narasimhan, who co-authored the case on Indian Oil; Madhavan Nayar, founder and Company Leader of Infogix; Mr. B. Muthuraman, Managing Director, Tata Steel, and Shalini Lal, who co-authored the case on Tata Steel; and Michael McGee, chief executive officer (CEO) of Pardee Homes. In addition, we are also grateful to the following individuals for their support in developing cases on their companies: Rich Tashman, President and CEO, Stan Tashman, founder and Chairman, and Ty Olson, Senior Vice-president of Tashman and Associates; Michael Perry, CEO IndyMac Bank; and Frank Lowy and Peter Lowy, for the Westfield Group. Kathy Schreiner, Senior Associate Consultant, Management Systems Consulting Corporation, also provided assistance for the case on Tashman and Associates.

We are also indebted to Rangapriya Kannan-Narasimhan and Shalini Lal, both PhD students in the Anderson School of Management, UCLA, for their assistance in preparing the list of key references for additional reading on change management and leadership shown in the appendix.