COLIN CARNALL & RUNE TODNEM BY

Sixth Edition

MANAGING CHANGE IN ORGANIZATIONS

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MANAGING CHANGE IN ORGANIZATIONS

Managing Change in Organizations – now in its 6th edition - provides a practical and thorough overview of how effective change can be achieved in organizations. At its core is an acknowledgement of change being about people and culture as much as structure and process.

Managing Change in Organizations takes a strategic approach, outlining guidance and techniques for planning and implementing, evaluating and learning from organizational change. Utilising theory and examples that the authors find helpful when advising organizations and delivering programmes on organizational change, *Managing Change in Organizations* presents models and frameworks for change that are appropriate for the complex and fast-moving challenges of contemporary organizations.

The text is ideal for advanced undergraduates, MBA and postgraduate students on courses in managing change, organizational change, leadership and organizational behaviour.

In particular this 6th edition has been revised to provide:

- newly developed case studies with an additional international focus, written by a range of eminent subject specialists
- easy navigation through a 5-part structure which covers the theories and themes, techniques and models of change management
- a focus on both traditional models and the latest theory as well as critical perspectives of change
- a model of Strategic Convergence to address the complexity of multiple change initiatives running concurrently
- questions and exercises to enable readers to test and apply their knowledge, skills and techniques

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Chapter 6

Theories of change: strategic management models

Introduction

Are markets autonomous or does the availability of a product and service influence demand? Where does the balance lie and/or does this balance shift? Was there a demand to fly between London and New York before the aeroplane was invented? Clearly people wished to travel between these places, and just as clearly the availability of the aeroplane led to them doing so by air, and the development of mass transport by air had an impact on patterns of travel, leisure and so on. This leads to a resource-based view of strategy as being of importance. From this point of view resources and capabilities drive strategic change.

Strategic management: the resource-based view

The resource-based view of strategy derives from the observation that business success cannot be explained wholly by market factors. If this were possible then in the long run all companies operating in a given industry or sector would tend to converge in terms of profit performance. This is clearly not the case. Why? Answering this question does not preclude the need to be concerned about sources of sustainable competitive advantage or to identify customer needs. Rather it requires us to look at how each company goes about doing so. In effect it is based on the notion that the way a company is configured to do so will vary according to a range of circumstances including its history.

Lynch (2000) identifies the six main elements which appear worthy of examination when seeking to look at how companies may variously be positioned:

1 Prior to acquired resources.
2 Innovative capability.
3 Competitiveness.
4 Substitutability.
5 Appropriability.
6 Imitability.

Following Kay (1993) we can note that the above list, while of use, begs a further question. This relates to the extent to which a company has *distinctive capability* which relates to its *architecture*, *reputation* and to *innovation*, and these ideas also relate to the widely adopted idea of *core competence* (Hamel and Prahalad, 1994). These are delivery technologies and capabilities which allow a firm to provide benefits to customers.

Clearly this view makes good sense. How can we understand the success of the Walt Disney Company without recognizing that much of it relies on the way it manages its assets, tangible and intangible; the film library, the brand name, the Disney Channel and so on. Using its in-house film-making capabilities, it produced major box office hits such as *Beauty and the Beast* and *Aladdin*, which it exploits vigorously. At least in part this success arises out of strategies designed to exploit existing resource bases.

This is particularly relevant to this book for two reasons. First, the focus on exploiting resources drives forward the importance of value added as a strategic management concept – and the linked concept of synergy. Second, as we shall see, I will be seeking to show that much of the success in change management situations is derived from leverage and connectivity. Where changes seek to leverage existing resources and capabilities and where there is a higher degree of connectivity between existing resources and processes – and these are put in place to manage change – there is a higher likelihood of success in strategic change.

These ideas are depicted in Figure 6.1 which seeks to map out some initial ideas linking strategic management and change management. Thus if strategic management comprises means of identifying vision, strategy, business model and strategic implementation, change management deals with behaviour, structures and configurations, delivery and so on. Both are conceptually underpinned by ideas such as creativity, adaptability and innovation; albeit the nexus of strategic management is to look at environmental uncertainty regarding markets, competitors, technology and the like, while the nexus of change management is in the field of measurement, efficiency and effectiveness.

Strategic management thinking seeks to help us decide what we should do; change management thinking starts by taking such decisions as inputs and looks at how we can put them into effect. But, and this is crucial, the two 'fields interconnect'. We need to ensure we can learn from our attempts to put new strategies into effect. The experience of doing so on the ground, with customers, suppliers and employees, needs to be fed back into the strategy process. Thus success requires a high degree of connectivity between strategic thinking and change architecture.

But effective change management is hard. The more you can base the change architecture, processes and thinking on existing resources and capabilities, the more you will build in stakeholder buy-in, and the more likely you are to be successful. Thus it is that strategies, no matter how innovative, should seek to leverage existing resources, thinking capabilities and so on. We shall see that leverage and *connectivity* are two important dimensions for success in change management.

The level of ambition

Let us turn then to the question of ambition. Why is this important? Markides (2000) puts it rather well:

> There is no question that (corporate) success stems from the exploitation of a unique strategic position. Unfortunately, no position can remain unique or attractive forever. The firm lucky enough to

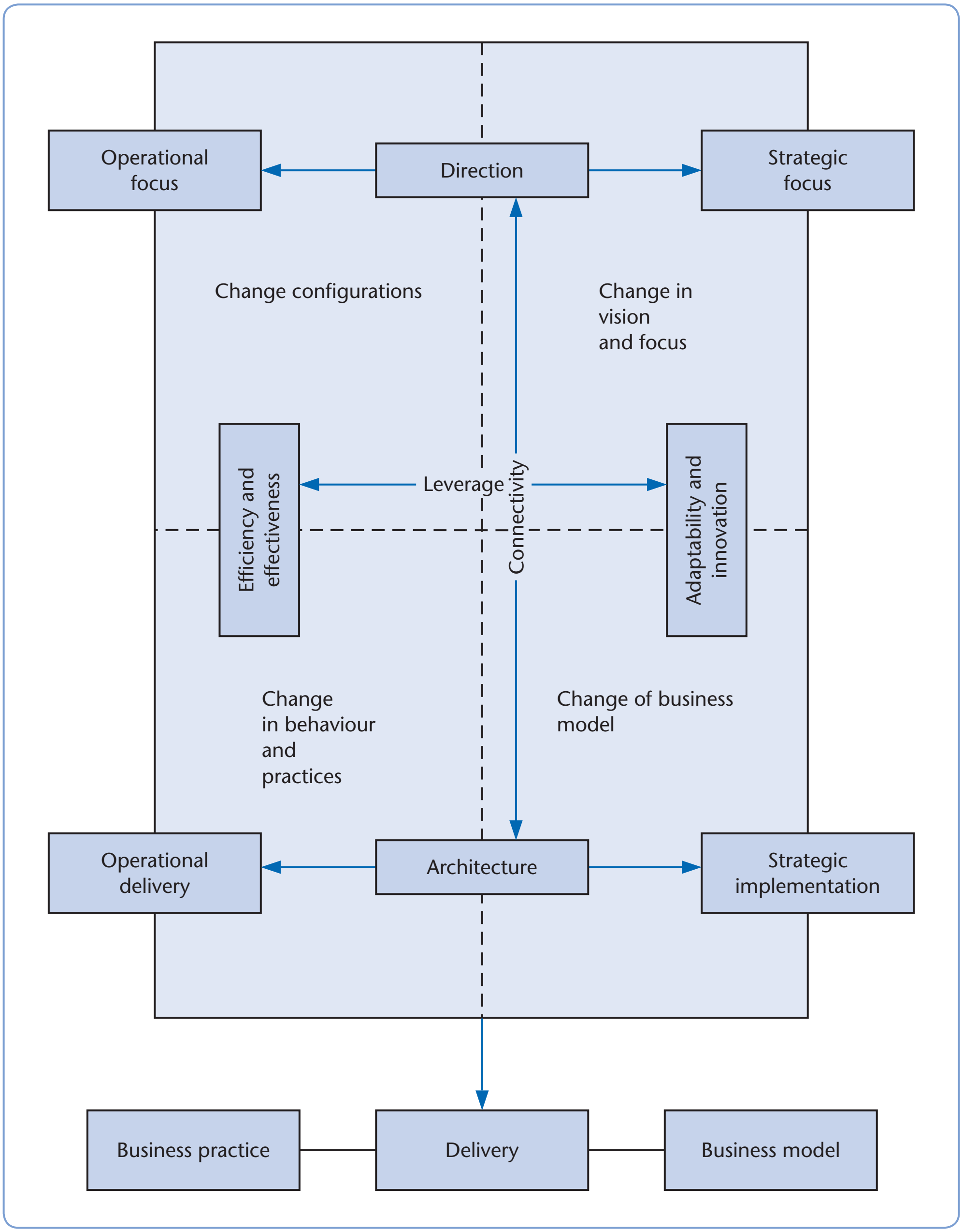

Figure 6.1 **The strategic change map**

> be in one will be imitated by aggressive competitors, and, perhaps more important, supplanted by even more aggressive competitors, those which develop new positions in the market.

By position he means clarity about which customers are served with what products and services through what delivery system (including channels, product configurations, service offerings, etc.). But the important words are *unique* and *aggressive*. What this implies is the impulse to be *different* as a means of securing advantage. This requires tough choices. Thus it is that success demands ambition. Indeed companies which become successful do so not by trying to beat the dominant players at their own game, but by changing the rules of the game, by creating innovative approaches. Thus Canon in photocopiers, Dell in computers, CNN in broadcasting, easyJet in airlines, First Direct in banking, Direct Line in insurance, Komatsu in earth-moving equipment and Starbucks in coffee have achieved prominence in their business.

But daring to be different is to take risk because it requires you to pose and then answer new questions. You must both improve your ability to offer your current proposition (not least via re-engineering, restructuring and so on) as well as identify new or unexploited segments, needs and delivery methods. Interestingly enough Markides (2000) is clear about how you identify a distinctive strategic position – it is about breaking out of the existing mental model, about creating a questioning culture, organizing diverse inputs in the strategic planning process, and it requires experimentation and learning. It is also about working on the 'blocks to innovation' in the organization. Being successful requires implementing with sufficient flexibility to adapt if things go wrong. Implicitly this suggests that the new strategic position is either too little or too great in the level of ambition. So how do we judge this level of ambition?

Clearly this is partly a matter of risk. But it is also partly a question of how ready the organization is as a platform for change. We deal with this in a structured way in the readiness for change checklist and also via the idea of an implementation index comprising four components:

1 Is there a critical mass of support from key stakeholders?

2 Is there a sufficient problem orientation within the change process?

3 Is there sufficiently robust programme management?

4 Is there sufficient focus on clear goals?

In effect we propose that our ability to conceive of and deliver ambitious change programmes is about the ability of the change architecture we deploy to deliver various forms of infrastructure quickly enough. Is the stress experienced within radical change programmes largely a reaction to the fact of change (i.e. resistance to change) or at least partly a consequence of inadequate change architectures? These may not be delivering needed infrastructure quickly enough given the rate of change, which may be largely externally imposed (via competitive pressure or government action in the public sector). There we seek not to take this issue as a given.

Moss Kanter (2001) provides some clues in discussing 'inspiring visions'. In her opinion, inspiring visions include a dream of what our world will look like when we achieve our goal, but she also believes that success will follow only where the passion of 'the change leaders' matches their aspiration as judged by how strongly they feel about that aspiration, how convinced they are of its accomplishment, how excited they are, what sacrifices they are prepared to make and so on. But the advocate might be wrong. So another dimension is: can the advocate enlist backers and supporters, and, ultimately, the sanity check of gaining support from key stakeholders?

But these remain indicators of acceptability as much as of ambition; that is at least likely to be the case. Can we more unambiguously address the question of how to estimate the level of ambition in any set of proposals for strategic change? Carnall (2004) presents a readiness for change index and McGrath and MacMillan (2000) set out profiles for technical uncertainty, competitive insulation (basically means of defending your competitive advantage expected in a new venture) and the assumption-to-knowledge ratio (in essence the proportion of the knowledge needed for a new venture based on assumption rather than hard evidence). Clearly therefore we have thought it right to include the idea of the level of ambition involved in any set of changes (effectively the extent to which changes are radical as opposed to incremental) in our readiness for change index. What issues need to be considered in doing so? Before looking at that we need first to think about *unintended consequences*.

I recall reading a short piece in *The Times*. It went as follows:

> Schools in London implementing government healthy eating policies have limited the number of days on which French fries are served at lunch to twice per week. The police are horrified at a dramatic increase in truancy rates.

And how are these statements connected? The truancy was largely post lunch. Seeing no French fries on the menu, the attractions of McDonald's were just too good, and once they left the school grounds . . .

We need to add a further idea, that of *vicious circles*. Masuch (1983) bases his analysis on the simple thought that actions lead to consequences, not always intended, still less always desirable. Using ideas from cybernetics and control theory he notes that from the consequences of action comes feedback. Positive feedback tends to amplify any consequence in future. Thus if a manager chooses to ignore the poor performance of a subordinate, this will both undermine future performance of the subordinate and have a negative impact on colleagues (e.g. they may need to work harder in consequence and may become demotivated in consequence).

Radical or transformational change

Jack Welch, former head of General Electric, is the business leader most frequently identified with ambitious, transformational strategy. Tichy and Sherman (1995):

> The self-confidence that had characterized the company's managers began to erode. Left to pursue its course for another decade or so, this apparently healthy company might have been another Chrysler. Instead of waiting for trouble, the CEO pushed for radical change . . .

And, quoting Welch directly:

> Changing the culture starts with an attitude. I hope you won't think I'm being melodramatic if I say that the institution ought to stretch itself, ought to reach to the point where it almost becomes unglued.

Adopting the Schumpeterian notion of 'creative destruction', breakthrough change demands new rules, quantum leaps and a radical approach to the balance between control and autonomy – emphasizing relative autonomy within a 'business engine' which demands performance.

The well-known overarching rule Welch adopted sets the tone. Be number 1 or number 2 player in your sector or a business would not remain a part of GE. The revenues and margins which flow from having either the number 1 or number 2 position in market share is sufficient for strategic choice. But the challenge that this demand for market leadership poses is clear enough. The detail behind this is interesting.

Behind the market leadership rule lay objectives:

1 Well above-average real returns on investments.

2 Distinct competitive advantage.

3 Leverage from strengths.

So analysis underpinned the strategy. But one example illustrates the ambition.

'Work-out' was a programme of employee involvement and continuous improvement introduced in the late 1980s but the ambition lay in the scale of this activity. Tichy and Sherman (1995) again:

> By mid-1992, over 200,000 GEers – well over two-thirds of the workforce – had experienced work-out. On any given day, perhaps 20,000 are participating in a related program.

Instead of pursuing pragmatic goals the company focused on operations, process and continuous improvement, customer satisfaction and partnerships. As these authors put it, refocus from hardware to software; from seeing people and organizational development as needing to move from developing awareness of new possibilities via the development of new skills towards the development of new 'rules of the game', new ways of thinking about the business model. The interventions become emergent (from within) rather than applied (to the organization (by outsiders)). They become intensive, high risk and time consuming. They move from working only on the cognitive level to working not simply on behaviour (a naïve misunderstanding) but on new modes of discourse, new ways of thinking about the business model. If a domestic appliances business can cut the cycle time between receipt of order to delivery by 75 per cent, guaranteeing *next day* delivery to the customer, then new ways of thinking are evident. But GE went on to build on the success of 'work-out', developing a change management programme so that all GE middle managers would become 'change agents'. The one became a platform for a fundamental development focused on accelerating change.

However, we still are not clear about how to assess the degree of ambition. Is there not a risk of over-ambition? Clearly executives sometimes develop overly ambitious market plans. Just as clearly we may seek to handle too much change in any given situation. And yet, as we have seen, you can mobilize large-scale endeavour in pursuit of continuous improvement if you get the balance of control and autonomy right. Part of the answer may be revealed in Hampden-Turner (1996).

He argues that value creation involves a configuration of values. Products have two sorts of values, unit value or market price and integral value, the value of the product to other products present or future. Here we see the GE idea of leverage. Put another way, any change idea which is *scaleable* cannot be overly ambitious – probably an overstatement but the essential point is that scaleable changes create an *accelerator* effect, thus cascading enhanced value around the organization. Thus, again, the GE work-out was scaleable in its own right but it, in turn, became a platform to accelerate change in the subsequent change management programme. And the accelerator effect includes learning, explicitly in the GE case and elsewhere (see below).

Rieley (2001) writes about these issues using cybernetic theory as his source of language and thinking. But the essence of his argument is equivalent to that of Argyris' view of simple versus double-loop thinking. Faced by evidence of a gap between desired and actual effectiveness, organizations too often seek to deal with symptom rather than underlying cause and thereby often make matters worse. He calls this 'gaming the system'. Thus a company