CHAPTER 1

Changing Organizations in Our Complex World

Nothing endures but change.

—Heraclitus (540 BC–480 BC)

CHAPTER OVERVIEW

- The chapter defines organizational change as "planned alteration of organizational components to improve the effectiveness of organizations."
- The orientation of this book is to assist change managers or potential change leaders to be more effective in their change activities.
- The social, demographic, technological, political, and economic forces affecting change today are outlined.
- Four change roles found in organizations are described: change initiators, change implementers, change facilitators, and change recipients and stakeholders. The terms change leader and change agent are used interchangeably and could mean any of the four roles.
- Four types of organizational change are discussed: tuning, adapting, reorienting, and recreating.
- The difficulties in creating successful change are highlighted, and then some of the characteristics of successful change leaders are described.

Our world is filled with organizations. We put our children into day-care organizations. We work at for-profit or not-for-profit organizations. We rely on organizations to deliver the services we need: food, water, electricity, and sanitation. We depend on health organizations when we are sick. We use religious
organizations to help our spiritual lives. We assume that most of our children’s education will be delivered by formal educational organizations. In other words, organizations are everywhere. Organizations are how we get things done.

And these organizations are changing—adapting to meet the shifting demands of their environments. What exactly is organizational change? What do we mean when we talk about it?

Defining Organizational Change

When we think of organizational change, we think of major changes: mergers, acquisitions, buy-outs, downsizing, restructuring, the launch of new products, and the outsourcing of major organizational activities. We can also think of lesser changes: departmental reorganizations, installations of new technology and incentive systems, shutting particular manufacturing lines, or opening new branches in other parts of the country—fine-tuning changes to improve the efficiency and operations of our organizations.

In this book, when we talk about organizational change, we refer to planned alterations of organizational components to improve the effectiveness of the organization. Organizational components are the organizational mission and vision, strategy, goals, structure, processes or systems, technology, and people in an organization. When organizations enhance their effectiveness, they increase their ability to generate value for those they serve.

The source of the change is often ambiguous. Was the change internally or externally driven? In winter 2010, McDonald’s Corp. announced that it was going to nearly double its number of franchises in China by 2013. What drove this change? The executives are taking action, but only because of the explosive growth potential they see in the Chinese market. The driver of change can come from both the internal and external environment. It is essential for managers to be sensitive to the organization’s environment and adapt to those changes.

Note that, by our definition, organizational change is intentional and planned. Someone in the organization has taken an initiative to alter a significant organizational component. This means a shift in something relatively permanent. Usually, something formal has to be altered. For example, a new customer relations system may be introduced that captures customer satisfaction and reports it to managers; or a new division is created and people are allocated to that division in response to a new organizational vision.

Simply doing more of the same is not an organizational change. For example, increasing existing sales efforts in response to a competitor’s activities would not be classified as an organizational change. However, the restructuring of a sales force into two groups (key account managers and general account managers) would be, even though this restructuring could well be in response to a competitor’s activities and could lead to increased sales.

*Organizational change and Organizational development are often seen as very similar. A discussion of the evolution of these concepts can be found in Appendix 1.1 at the end of this chapter.
Some organizational components, such as structures and systems, are concrete and thus easier to understand when contemplating change. For example, assembly lines can be reordered. The change is definable and the endpoint clear when it is done. Similarly, the alteration of a reward system or job design is concrete and can be documented. The creation of new positions, subunits, or departments is equally obvious. Such organizational changes are tangible and thus can be easier to make happen.

When the change target is more deeply imbedded in the organization and is intangible, the change challenge is magnified. For example, a shift in organization culture is difficult to engineer. A change leader can plan a change from an authoritarian to a more participative culture, but the initiatives required to bring about the change and the sequencing of those initiatives are trickier to get a hold of than more concrete change initiatives. Simply announcing a new strategy or vision does not mean that anything significant will change. As someone said, “You need to get the vision off the walls and into the halls.” A more manageable way to think of such a culture change is to identify concrete changes that reinforce the desired culture. If management alters reward systems, shifts decision making downward, and creates participative management committees, then management increases the likelihood that it will create cultural change over time. Sustained behavioral change occurs when people in the organization understand, accept, and act. Through their actions, the new vision or strategy becomes real.

The focus of change needs to be considered carefully. Often, managers choose concrete tangible changes because they are easiest to plan for and can be seen. For example, it is relatively easy to focus on pay and give monetary incentives in an attempt to address employee morale. But the root cause of these issues might be managerial styles or processes—much more difficult to recognize and address. In addition, intervening through compensation may have unanticipated consequences and actually worsen the problem. An example of this can be found in the story box: “Change at a Social Service Agency.”

**CHANGE AT A SOCIAL SERVICE AGENCY**

In a mid-sized social service agency’s family services division, turnover rates climbed to more than 20%, causing serious issues with service delivery and quality of service. The manager of the division argued that staff were leaving because of wages. According to him, children’s aid societies’ wages were higher and staff left to join those organizations. Upon investigation, senior management learned of morale problems arising from the directive, noninclusive management style of the manager. Instead of altering pay rates, which would have caused significant budgetary and equity problems throughout the organization, senior management replaced the manager and moved him to a project role. Within months, turnover rates dropped to less than 10% and the manager decided to leave the agency.
In this example, if the original analysis had been accepted, turnover rates might have declined since staff may have been persuaded to stay for higher wages. But the agency would be facing monetary issues and would have had a festering morale problem!

In summary, the focus of this book is on organizational change as a planned activity designed to improve the organization’s effectiveness. Changes that are random (occur simply due to chance) or unplanned are not the types of organizational change that this book will explore. Similarly, changes that may be planned but do not have a clear link to attempts to improve organization effectiveness are not considered. That is, changes made solely for personal reasons—for personal gain, for example—fall outside the intended focus of this book.

The Orientation of This Book

There is a story of two stone cutters. The first, when asked what he was doing, responded, “I am shaping this stone to fit in that wall.” The second, however, said, “I am helping to build a cathedral.”

The jobs of the two stone cutters might be the same, but their perspectives are dramatically different. The personal outcomes of satisfaction and organizational commitment will likely be much higher for the visionary stone cutter than for the “just doing my job” stone cutter. Finally, the differences in satisfaction and commitment may well lead to different organizational results. After all, if you are building a cathedral, you might have the motivation to stay late, to take extra care, to find ways to improve things, and to help others when help is needed.

In other words, the organizational member who has a grander perspective on his or her contribution and on the task at hand is likely to be a better, more satisfied employee. As a result, we take a perspective that encourages change leaders to take a holistic perspective on the change and to be widely inclusive in letting employees know what changes are needed and are happening.

If employees have no sense of the intended vision and see themselves as “just doing a job,” it is likely that any organizational change will be difficult to understand, be resisted, and cause personal trauma. On the other hand, if employees “get” the vision of the organization and understand the direction and perspective of where the organization is going and why, they are more likely to embrace their future role—even if that future means they leave the organization.

This book is aimed at those who want to be involved in change and wish to take positive action. We encourage readers to escape from passive, negative change recipient positions and to move to more active and healthy roles—those of change initiators, facilitators, and implementers. Readers may be in middle-manager roles or may be entering management. Or they may be leaders of change within an organization or a subunit. The book is also intended for the informal leaders in organizations who are driving change, sometimes in spite of their bosses.
believe that their bosses “should” be driving the change but don’t see it happening, and so they see it as up to them to make change happen regardless of the action or inaction of their managers.

This book has an action, “how to do it” emphasis. Nothing happens unless we, the people, make it happen. As one wag put it, “The truth is—the cavalry aren’t coming!” There will be no cavalry charging over the hill to save us. It is up to us to make the changes needed. At the same time, this “how-to” orientation is paired with a focus on developing a deep understanding of organizations. Without such an understanding, what needs to be changed, and what the critical success factors are, change efforts will be much more difficult. This twin theme, of knowing both what to do and how to do it, underpins the structure of this book and our approach to change.

Change capability has become a core managerial competence. Without change management skills, individuals cannot operate effectively in today’s fluctuating, shifting organizations. Senior management may set the organizational direction, but, in this decentralized organizational world, it is up to managers and employees to shift the organization to accomplish the new goals and objectives. To do this, change management skills are paramount.

Change management is often more difficult than we anticipate. We believe, as does Pfeffer, that there is a Knowing–Doing gap. Knowing the concepts and understanding the theory behind organizational change are not enough. This book is designed to provide practicing and prospective managers with the tools they will need to be effective change agents.

Environmental Forces Driving Change Today

Much change starts with shifts in an organization’s environment. For example, government legislation dealing with employment law pushes new equity concerns through hiring practices. Globalization means that production and other parts of the organization (e.g., customer service’s call centers) can be outsourced and/or moved around the world, making an organization’s competition worldwide rather than local. New technologies allow purchasing to link to production within the supply chain, changing forever supplier–customer relationships. Concerns over global warming, sustainability, and environmental practices give rise to new laws, standards, and shifts in consumer preferences for products and firms that exhibit superior environmental performance. A competitor succeeds in attracting an organization’s largest customer and upsets management’s assumptions about the marketplace. Each of these external happenings will drive change.

Sometimes organizations are caught by surprise by environmental shifts, while other organizations have anticipated and planned for new situations. For example, management may have systems to track the perceived quality of its products versus its competition’s. That benchmarking data might show that its quality is beginning to lag behind that of a key competitor. This early warning system allows for action before customers are lost. Toyota had such systems in place, but management appears to have responded inadequately.
DID TOYOTA KNOW ABOUT THE SAFETY DEFECTS?

Misreading the Environment

On April 5, 2010, the U.S. government’s transportation department stated it would seek $16.4 million from Toyota for not notifying the government about potential accelerator pedal problems. “In taking the step, federal authorities are sending the strongest signal yet that they believe the carmaker deliberately concealed safety information from them.”

Did Toyota know about these deficiencies and respond by denying they existed and covering up? If so, this is an example of an inappropriate organizational response to environmental stimuli.

This book is not the place for an in-depth treatment of all of the various trends and alterations in the environment. However, we will highlight below some of the important trends to sensitize readers to their environments. Today, organizations find themselves influenced by fundamental forces: changing social, cultural, and demographic patterns; spectacular technological achievements that transform how we do business; concerns about the physical environment and social responsibility that are producing demands for changes in our products and business practices; a global marketplace that sends us competing worldwide and brings competition to our doorsteps; political and legal forces that have the potential to transform the competitive landscape; continued political uncertainty in many countries that has the potential to introduce chaos into world markets; and economic turmoil that rocked the world economy in 2008, 2009, and 2010.

YOU NEED TO UNDERSTAND THE RISKS OF NOT UNDERSTANDING YOUR ORGANIZATIONAL ENVIRONMENT!

The financial crisis of 2008 occurred because banks failed to comprehend the risks they took with asset-backed securities and other derivatives. Incentive systems drove bankers to take on excessive risks for excessive profits. They denied the evidence presented to them, and when the bubble burst, the results were catastrophic. For example, when warned by his chief risk officer, who proposed shutting down the mortgage business in 2004, the head of Lehman threatened to fire him! This rush for profits drove many banks. Chuck Prince, the head of Citigroup at the time, just before the credit markets seized up in August 2007, said: “As long as the music is playing, you’ve got to get up and dance. We’re still dancing.”

Clearly both bankers misread the ethical and business implications of what was going on inside their firms.
The Changing Social, Cultural, and Demographic Environment

The social, cultural, and economic environment will be dramatically altered by demography. Demographic changes in the Western World mean that aging populations will alter the face of Europe, Canada, and Japan. The financial warning bells are already being sounded. Even before the huge government deficits of 2009 and beyond, Standard and Poor’s predicts that the average net government debt-to-GDP ratio for industrialized nations will increase from 33% in 2005 to 180% by 2050, due to rising pension and health care costs, if changes are not undertaken.

Although the United States will age slightly, Europe will face a dependency crisis of senior citizens requiring medical care and pension support. By 2050, the median age in the United States is projected to be 36.2 versus 52.7 in Europe. The United States will keep itself younger through immigration and a birth rate that is close to replacement level. Even with this influx, the U.S. governmental debt-to-GDP ratio is expected to grow to 350% of GDP by 2050, due mainly to pension and health care costs. Europe’s population is projected to peak in 2015 at around 400 million, while the United States passes that number in 2020 and continues to grow thereafter.

Throughout the world, fertility rates are falling and falling fast. In 1974, only 24 countries had fertility rates below replacement levels. By 2009, more than 70 countries had rates below 2.1. In some countries, the swings are dramatic. The fertility rate in Iran dropped from 7 in 1984 to 1.9 in 2009, a huge shift.

Some see a close tie between female education, fertility rates, and economic growth. When economies are poor, the fertility rate is high and there are many young dependents relying on working adults for sustenance. When fertility rates drop, there is a bulge of people, meaning the ratio of working adults to dependents increases, leading to surplus (relatively) wealth. When this bulge ages, dependent, nonworking seniors become a larger percentage of the population. As discussed above, this has happened and is happening in Europe and Japan. China and India are examples of nations with relatively small numbers of dependents relative to their working populations.

Although these demographic shifts appear far in the future, the economic implications for organizations are significant. Imagine 400 to 500 million relatively wealthy Americans and the impact that will have on global economic power, assuming that pension and health care challenges are effectively managed. Consumer spending in emerging economies is expected to more than double from $4 trillion to more than $9 trillion in the next 10 years. Also imagine the impact of a graying Europe and Japan’s declining workforce. Some estimates put the fiscal problems in providing pensions and health care for senior citizens at 250% of national income in Germany and France.

Pension costs can become a huge competitive disadvantage at the company level as well. At General Motors, there were 2.5 retirees for every active worker.

---

*Already, the impact of the graying of Europe is seen as the governments of Germany and France meet significant resistance as they attempt to reduce retirement and unemployment benefits for their citizens.*
in 2002. These so-called “legacy” costs were $900 per vehicle at that time due to pension and health care obligations. These costs were estimated to have risen to $1,600 by 2005 and $1,800 by 2006.\textsuperscript{17} At the same time, an aging population provides new market opportunities—who would believe that the average age of a Harley-Davidson purchaser is 52!\textsuperscript{18} Companies appear to be ill prepared to deal with this aging population.\textsuperscript{19}

Other demographic issues will provide opportunities and challenges. In the United States, Latinos will play a role in transforming organizations. The numbers of Latinos jumped from 22.4 million to 35.3 million during the 1990s, and at 12.5% of the population, they are the largest ethnic/racial group in the United States.\textsuperscript{20} Significantly, the largest growth often is in “hypergrowth” Latino destinations, which have seen an increase of more than 300% in Latino populations since 1980. This growth will continue due to the economic activity in these areas, and one of the outcomes will be an imbalance of Latino males and females. In the non-Latino population, the ratio of males to females is 96:100. In the Latino population, this switches to 107:100 and to 118:100 in the hypergrowth destinations (peaking at 188:100 in Raleigh, N.C.).\textsuperscript{21} While the specific implications for businesses are unclear, the general need for response and change is not. Notions of cultural norms (including those around English literacy) and markets could be shattered by such demographic shifts.

With aging populations, organizations can expect pressures to manage age prejudice more effectively. Subtle discrimination based on age will not be acceptable. Innovative solutions such as those by Joe Pesce will be welcomed. (See the boxed insert.)

\section*{The Aging Workforce at the Baycrest}

“There is no mandatory retirement age at Baycrest (a large geriatric care facility in Toronto, Canada), where roughly 35 of the center’s 2,000 employees are now over 65, said Mr. Pesce, vice president of human resources.

Mr. Pesce is putting together a list of “retiree alumni”—a pool of retired employees who might be willing to come back on a part-time or temporary basis as needed—and is also looking at other ways to make Baycrest a more elder-friendly workplace.\textsuperscript{22}

Clearly, Joe Pesce has become a change initiator in this important area of demographic change.

Our assumptions about families and gender will continue to be challenged in the workplace and marketplace of the future. Diversity, inclusiveness, and equity issues will challenge organizations with unpredictable results. For example, the liberal initiatives in California are now subject to backlash, according to Diamond: “Immigration, affirmative action, multilingualism, ethnic diversity—my state of California was among the pioneers of these controversial policies and is now pioneering a backlash against them.”\textsuperscript{23} Signs of this were apparent in the heated debates that occurred in the United States in 2006 concerning legislation related to illegal or
undocumented immigrants and workers. Some jurisdictions have begun implementing laws that discriminate against specific religious groups. Organizational diversity will continue to be an area of concern for business leaders.

As the nature and variety of relationships change, organizations will have to respond. Flexible employment systems will be vital to attract and keep the knowledge workers of the future. Already, multinational corporations, such as IBM, view workforce diversity management as a strategic tool for sustaining and growing the enterprise.

Finally, concerns over global warming, the degradation of the environment, sustainability, and social responsibility have escalated societal pressure for change at the intergovernmental, governmental, firm, and community levels. Accountability for what is referred to as the “triple bottom line” is leading firms to issue audited statements that report on economic, social, and ecological performance with the goal of sustainability in mind. Pictures of BP’s oil well gushing millions of gallons into the Gulf of Mexico, oil-coated pelicans, drought, extreme heat, labor exploitation, and disappearing ice masses are reinforcing the message that action is urgently needed. These pressures will intensify in the years ahead.

**New Technologies**

In addition to responding to demographic changes in the workplace and marketplace, organizations and their leaders must embrace the trite but true statements about the impact of technological change. Underpinning technological change is the sweeping digitization of information. The quantity of data available to managers is soaring. One estimate reports an increase of data collected from 150 billion gigabytes of data collected in 2005 to 1,299 billion gigabytes in 2010. Massive amounts of data are available. How can management interpret such data into useful information that will help organizations stay effective? Data mining has become a common phrase to describe this transformation of data into information. Executives examine mounds of data to understand customers: who switched to a competitor; who buys what and why at their stores; how to position a new marketing campaign to attract a desired segment of customers; and how to use customers’ feedback to improve products or services. Many firms have created a senior executive position, chief information officer, to handle this new area. The following list of technologies suggests the breadth of future changes:

- Software that writes its own code, reducing human error;
- Health care by cell phone;
- Vertical farming to save space and increase yield;
- An implantable syringe-on-a-chip that will inject minute quantities of drugs at precise intervals over months.

Wieners claims that there will be eight technologies that will change the world:

- Biointeractive materials that will provide high-tech sensors for living systems;
- Biofuel production plants where genetically engineered crops produce fuel to replace coal and oil;
• Bionics—artificial systems to replace lost or disabled body parts;
• Cognitronics where there are interfaces between the computer and the brain;
• Genotyping where we classify people based on their genetics;
• Brute-force R&D where powerful computers crunch data to identify and test random solutions for positive results;
• Molecular manufacturing that builds complex structures atom by atom; and
• Port-a-Nukes that will provide portable, safe, nonpolluting nuclear power.\[^{30}\]

Technology has woven our world together. The number of international air passengers rose from 75 million in 1970 to 142 million in 2000. The cost of a 3-minute phone call from the United States to England dropped from more than $8 to less than $0.36 from 1976 to 2000, and the number of transborder calls in the United States increased from 200 million in 1980 to 5.2 billion in 1999.\[^{31}\] The emergence of VoIP (voice over the Internet protocol) is poised to disrupt long distance telephone markets dramatically, reducing the cost of international calls to pennies per minute—or zero if one has the right equipment. At the same time, security concerns related to viruses and hacking are raised.\[^{32}\] On a business-to-business level, supply chains are woven together and software allows them to operate effectively and be responsive to the marketplace.\[^{33}\]

With the World Wide Web, high school students can have access to the same quality of information that the best researchers have! At the same time, the technology that has made the world small has also produced a technological divide between haves and have-nots that has the potential to produce social and political instability.\[^{3}\] Lack of access to clean water, sufficient food, and needed medication is less likely to be tolerated in silence when media images tell people that others have an abundance of such resources and lack the will to share. Technology transforms relationships. For example, blogging is commonplace; more than 12% of U.S. newlyweds met online in 2005.\[^{34}\]

Our purpose is not to catalogue all new and emerging technologies. Rather, our intent is to signal to change leaders the importance of paying attention to technological trends and the impact they may have on organizations, now and in the future. As a result of these forces, product development and life cycles are shortened and managers must respond in a time-paced fashion. Competitors can leapfrog organizations and drop once-market leaders into obsolescence through a technological breakthrough. The advantages of vertical integration can vanish as technical experts in one segment of the business drive down the costs and then migrate the technology through outsourcing to other segments that have not anticipated such changes. The watchwords for change leaders are to be aware of technological trends and to be proactive in their consideration of how to respond to organizationally relevant ones.

\[^{*}\]The effects are not straightforward, as shown by the move of MIT’s media lab to create a $100 laptop computer for disadvantaged youth in Africa, Asia, and around the world (see http://laptop.media.mit.edu).
**Political Changes**

The external political landscape of an organization is a reality that change leaders need pay attention to and figure out how to engage. Even the largest of multinationals has minimal impact on the worldwide alteration of national boundaries and the focus of governing bodies.\(^{35}\)

The collapse of the Soviet Empire gave rise to optimism in the West that democracy and the market economy were the natural order of things, the only viable option for modern society.\(^{36}\) With the end of communism, there was no serious competitor to free-market democracy and the belief existed that the world would gradually move to competitive capitalism with market discipline. The American hegemony would rule the world.

Of course, this optimism was not realized. Nationalistic border quarrels (India–Pakistan, for example) continue. Some African countries have become less committed to democracy (Zimbabwe and the Sudan). Nation-states have dissolved into microstates (remember Yugoslavia?). While American power may be dominant worldwide, September 11, 2001 (9/11) demonstrated that even the dominant power cannot guarantee safety. Non-nation states and religious groups have become actors on the global stage. The Middle East and Central Asia continue to be in turmoil, creating political and economic uncertainty. At the same time, the markets of China and India are on a tear.\(^{37}\) They led the world out of the 2007–2008 crash.

As organizations become global, they need to clarify their own ethical standards. Not only will they need to understand the law, they will also have to determine what norms of behavior they will work to establish for their organizational members. Peter Eigen, chairman of Transparency International, states: “Political elites and their cronies continue to take kickbacks at every opportunity. Hand-in-glove with corrupt business people, they are trapping whole nations in poverty and hampering sustainable development. Corruption is perceived to be dangerously high in poor parts of the world, but also in many countries whose firms invest in developing nations. . . ”\(^{38}\) This political corruption becomes imbedded in organizations. Transparency International finds bribery most common in public works/construction and arms and defense as compared with agriculture.\(^{39}\) The accounting and governance scandals of 2001 to 2002 (Enron and WorldCom) created a demand for both new regulation and an emphasis on ethical role models. Some companies, Hewlett-Packard for example, have responded by demanding that they and everyone in their supply chain adhere to a set of specified ethical standards. Further, they are committed to working with their suppliers to ensure they reach these standards.\(^{40}\)

The politics of globalization and the environment have created opportunities and issues for organizations. The United States’s Obama administration appears committed to the introduction of new green energy initiatives. The desire to reduce America’s dependence on foreign oil has meant subsidy programs for new, clean energy initiatives and opportunities for businesses in those fields. Some organizations are restructuring themselves to seize such opportunities. For example, Siemens has reorganized itself into three sectors—industry, energy, and health care—to
focus on megatrends. The Kyoto Accord will change the costs of operating for businesses in nations that sign on to the Accord. At the same time, they may develop new technologies that will bring profits in the future. Senge from MIT argues that the new environmentalism will be driven by innovation and will result in radical new technologies, products, processes, and business models.

The politics of the world are not the everyday focus of all managers, but change leaders need to understand their influence on market development and attractiveness, competitiveness, and the resulting pressures on boards and executives. A sudden transformation of the political landscape can trash the best-laid strategic plan. Successful change leaders will have a keen sense of the opportunities and dangers involved in global, national, and local political shifts.

The Economy

In 2007, the world economy crashed into financial crisis and appeared headed for a 1930s depression. Trillions of dollars of asset-backed paper became valueless, seemingly overnight. Investors and pension funds lost 20% of their value. Global stock markets shrank by $30 trillion, or half their value. The American housing market, which provided an illusory asset base, collapsed and led to the credit crisis. Firms that were chastised for having too much cash on hand and were seen as missing opportunities suddenly became the survivors when credit vanished. At the individual firm level, the economic crisis led to layoffs and bankruptcies. Firms saw their order books shrink and business disappear. Entire industries, such as the automotive industry, were overwhelmed and perhaps would have vanished if not for government bailouts. An example of the impact on one small firm is shown in the boxed insert: The Impact of the 2007–2009 Recession on a Small Business.

THE IMPACT OF THE 2007–2009 RECESSION ON A SMALL BUSINESS

Serge Gaudet operates a wholesale/retail drapery and window blind business in the small Canadian town of Sturgeon Falls, Ontario. The world economic crisis suddenly became real when banks would no longer extend him credit. In his words, “I had signed orders, contracts in hand, and my bank refused my line of credit so that I could buy the inventory. How was I to finance this deal? I had the contract and it was with a government hospital. Surely, this was credit worthy? What else could I do?”

Mr. Gaudet managed through the crisis by negotiating newer, tougher terms with his bank. But the lack of credit was not his only problem. “Normally, I bid on requests for proposals and win a reasonable percentage of them,” he reported. “Suddenly, there was nothing to bid on. Nothing. Every institution that was going to buy blinds was waiting—waiting for government aid that was very slow in coming. It was touch and go whether I could last until new contracts came in.”
Mr. Gaudet’s story is typical of the situation faced by many small businesses as they struggled through the economic crisis of 2007–2009. Many did not survive. Those that did were able to do so because they had low overhead and debt.64

Governments responded to the economic crisis with Keynesian abandon. G20 countries ran huge deficits as governments tried to stimulate their economies out of recession. America’s federal deficit hit 10% of GDP in 2009, and the overall debt will continue to grow for many years into the future. One prediction suggests that America’s debt will stabilize at 70% of GDP in 2014, but this would require trimming $200 billion from federal spending.45 By December 2010, economists were talking about a slow recovery, particularly in America. The world’s output in 2009 probably shrank by more than 1%, the first time it actually shrank since 1945.46 Economists predicted that America’s recovery would be weak and Europe’s would be almost nonexistent, but China’s would have an 8.6% GDP growth and 11.1% investment growth.47 Clearly, there has been a shift in the economic order of the world.

The lessons for organizations from the economic crisis center around risk management and capacity building. In a world where everything is interconnected, organizations need to be able to respond quickly. In order to do so, organizations need the capacity to weather such challenges. Ideally, organizations will incorporate the mechanisms to anticipate these challenges into management and leadership. In many situations, this will not be possible and organizations will rely on their ability to change as the environmental shifts.

**Toolkit Exercise 1.1** asks you to consider the implications of the environment on an organization you are familiar with.

### The Implications of Worldwide Trends for Change Management

The economic globalization of the world, the demographic shifts in the Western world’s population, technological opportunities, and the upheaval and political and economic uncertainties form the reality of organizational environments. Predicting specific short-run changes is a fool’s errand. Nevertheless, change leaders need to have a keen sense of just how these seemingly external events impact internal organizational dynamics. “How will external changes drive strategy and internal adjustments and investments?” has become a critical question that change leaders need to address.

Barkema suggests that macroenvironmental changes will change organizational forms and competitive dynamics and, in turn, lead to new management challenges.48 (Table 1.1 summarizes Barkema’s article.) He describes three macro changes facing us today: digitization of information; integration of nation states and the opening of international markets; and the geographic dispersion of the value chain. These are leading to the globalization of markets. This globalization, in turn, will drive significant shifts in organizational forms and worldwide competitive dynamics.
The early decades of the 21st century suggest accelerated change in comparison to the latter part of the 20th century. Diversity; synchronization and time-pacing requirements; decision making; the frequency of environmental discontinuities; quick industry life cycles and in consequence product and service obsolescence; and competency traps all suggest greater complexity and a more rapid organizational pace for today and tomorrow. Barkema argues that much change today deals with mid-level change—change that is more than incremental but not truly revolutionary. As such, middle managers will play increasingly significant roles in making change effective in their organizations in both evolutionary and revolutionary scenarios.

**Four Types of Organizational Change**

Organizational changes come in many shapes and sizes: mergers, acquisitions, buyouts, downsizing, restructuring, outsourcing the human resource function or computer services, departmental reorganizations, installations of new incentive systems, shutting particular manufacturing lines or opening new branches in other parts of the country, and the list goes on. All of these describe specific organizational changes. The literature on organizational change classifies such changes into

---

**Table 1.1 New Organizational Forms and Management Challenges Based on Environmental Change**

<table>
<thead>
<tr>
<th>Macro Changes and Impacts</th>
<th>New Organizational Forms and Competitive Dynamics</th>
<th>New Management Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digitization leading to:</td>
<td>Global small and medium-sized enterprises</td>
<td>Greater diversity</td>
</tr>
<tr>
<td>• faster information transmission</td>
<td>Global constellations of organizations (i.e., networks)</td>
<td>Greater synchronization requirements</td>
</tr>
<tr>
<td>• lower-cost information storage and transmission</td>
<td>Large, focused global firms</td>
<td>Greater time-pacing requirements</td>
</tr>
<tr>
<td>• integration of states and opening of markets</td>
<td>All leading to: spread of autonomous, dislocated teams; digitally enabled structures; intense global rivalry</td>
<td>Faster decision making, learning, and innovation</td>
</tr>
<tr>
<td>• geographic dispersion of the value chain</td>
<td>and running faster while seeming to stand still</td>
<td>More frequent environmental discontinuities</td>
</tr>
<tr>
<td>All leading to globalization of markets.</td>
<td></td>
<td>Faster industry life cycles</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Faster newness and obsolescence of knowledge</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk of competency traps where old competencies no</td>
</tr>
<tr>
<td></td>
<td></td>
<td>longer produce desired effects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Greater newness and obsolescence of organizations</td>
</tr>
</tbody>
</table>

two types, episodic or discontinuous change and continuous change. That is, change can be dramatic and sudden—the introduction of a new technology that makes a business obsolete or new government regulations that immediately shift the competitive landscape. Or change can be much more gradual, such as the alteration of core competencies of an organization through training and adding key individuals.

Under dramatic or episodic change, organizations are seen as having significant inertia. Change is infrequent and discontinuous. Re-engineering programs are examples of this type of change and can be viewed as planned examples of injecting significant change into an organization. On the other hand, under continuous change, organizations are seen as emergent and self-organizing where change is constant, evolving, and cumulative. Japanese automobile manufacturers have led the way in this area with \textit{kaizen} programs focused on encouraging continuous change.

A second dimension of change is whether it occurs in a proactive, planned, and programmatic fashion or reactively in response to external events. Programmatic or planned change occurs when managers anticipate events and shift their organizations as a result. For example, Intel anticipates and appears to encourage a cycle of computer chip obsolescence. As a result, the organization has been designed to handle this obsolescence. Alternately, shifts in an organization’s external world lead to a reaction on the part of the organization. For example, the emergence of low-cost airlines has led to traditional carriers employing reactive strategies, such as cutting routes, costs, and service levels in an attempt to adapt.

Nadler and Tushman combine these two dimensions in a useful model illustrating different types of change (see Table 1.2). They define four categories of change: tuning, adapting, redirecting or reorienting, and overhauling or re-creating.

\textbf{Tuning} is defined as small, relatively minor changes made on an ongoing basis in a deliberate attempt to improve the efficiency or effectiveness of the organization. Responsibility for acting on these sorts of changes typically rests with middle management. Most improvement change initiatives that grow out of existing quality-improvement programs would fall into this category. \textbf{Adapting} is viewed as relatively minor changes made in response to external stimuli—a reaction to things observed in the environment such as competitors’ moves or customer shifts. Relatively minor changes to customer servicing caused by reports of customer dissatisfaction or defection to a competitor provide an example of this sort of change, and once again, responsibility for such changes tends to reside within the role of middle managers.

\textbf{Redirecting or reorienting} involves major, strategic change resulting from planned programs. These frame-bending shifts are designed to provide new perspectives and directions in a significant way. For example, a shift in a firm to truly develop a customer service organization and culture would fall in this category. \textbf{Overhauling or re-creation} is the dramatic shift that occurs in reaction to major external events. Often there is a crisis situation that forces the change—thus, the emergence of low-cost carriers forced traditional airlines to re-create what they do. Likewise, the credit crisis bankrupted General Motors and forced a complete overhaul and downsizing of the company.
## Table 1.2 Types of Organizational Change

<table>
<thead>
<tr>
<th>Incremental/Continuous</th>
<th>Discontinuous/Radical</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tuning</strong></td>
<td><strong>Redirecting or Reorienting</strong></td>
</tr>
<tr>
<td>Incremental change made in anticipation of future events</td>
<td>• Strategic proactive changes based on predicted major changes in the environment</td>
</tr>
<tr>
<td>Need is for internal alignment</td>
<td>• Need is for positioning the whole organization to a new reality</td>
</tr>
<tr>
<td>• Focuses on individual components or subsystems</td>
<td>• Focuses on all organizational components</td>
</tr>
<tr>
<td>• Middle management role</td>
<td>• Senior management creates sense of urgency and motivates the change</td>
</tr>
<tr>
<td>• Implementation is the major task</td>
<td>• E.g., a major change in product or service offering in response to opportunities identified</td>
</tr>
<tr>
<td>• E.g., a quality improvement initiative from an employee improvement committee</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Adapting</strong></th>
<th><strong>Overhauling or Re-creating</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental changes made in response to environmental changes</td>
<td>Response to a significant performance crisis</td>
</tr>
<tr>
<td>Need is for internal alignment</td>
<td>• Need to reevaluate the whole organization, including its core values</td>
</tr>
<tr>
<td>Focuses on individual components or subsystems</td>
<td>• Focuses on all organizational components to achieve rapid, systemwide change</td>
</tr>
<tr>
<td>Middle management role</td>
<td>• Senior management creates vision and motivates optimism</td>
</tr>
<tr>
<td>Implementation is the major task</td>
<td>• E.g., a major realignment of strategy, involving plant closures and changes to product and service offerings, to stem financial losses and return the firm to profitability</td>
</tr>
<tr>
<td>E.g., modest changes to customer services in response to customer complaints</td>
<td></td>
</tr>
</tbody>
</table>


The impact of the change increases as we move from minor alterations and fine tuning to changes that require us to reorient and re-create the organization. Not surprisingly, reorienting and re-creating an organization is much more time consuming and challenging to lead effectively. They also have a greater impact on individuals who must reorient themselves. Regardless of difficulty, the financial crisis and recession of 2008–2009 have forced companies to react. While there are no data that we know of, anticipatory organizational change does not seem to be sufficient given the dramatic shift in the global business environment. It was not planning that helped firms to survive—it was a sense of awareness and adaptive capacity that allowed firms to respond and survive the crisis.

An examination of the history of British Airways provides a classic example of a single organization facing both incremental and discontinuous change while both anticipating issues and being forced to react.53
BRITISH AIRWAYS: STRATEGIC AND INCREMENTAL CHANGE

Todd Jick’s case study describes the crisis of 1981. British Airways’ (BA’s) successful response in the 1980s was revolutionary in nature. During that period, BA revolutionized its culture and its view of the customer with outstanding results. In the 1990s, BA entered a period of slow decline as the systems and structures at BA became increasingly incongruent with the new deregulated environment and the successful competitors that were spawned by that environment. Since then, major upheavals in international travel have pushed BA into a reactive mode and the results of management’s attempts to develop new strategies are unclear. A strike in the summer of 2003 created more uncertainty for the firm. The dramatic rise in oil costs during 2007 and 2008 forced BA to cut costs and implement a merger with Iberia. These strategic moves to cut costs were matched by more gradual incremental internal actions to limit the wages of cabin staff to match those of its competitors.

Nadler and Tushman raise the question: “Will incremental change be sufficient or will radical change be necessary in the long run?” Suffice it to say that this question has not been nor can it ever be answered. However, the Japanese provided a profound lesson in the value of incremental, daily changes. Interestingly enough, it was a lesson the Japanese industrialists learned from North American management scholars such as Duran and Deming. If one observes employee involvement and continuous improvement processes effectively employed, one also sees organizational team members that are energized, goal directed, cohesive, and increasingly competent because of the new things they are learning. Such teams expect that tomorrow will be a little different from today. Further, when more significant changes have to be embraced, these teams are likely to be far less resistant and fearful of them because of their earlier experiences with facilitating change within group structures. Organizational change is part of daily life for them.

Many think of incremental/continuous change and discontinuous/radical change as states rather than a perspective or a spectrum of change size. From the organization point of view, a departmental reorganization might seem incremental. However, from the department’s perspective, it will seem discontinuous and radical. As Morgan puts it:

A mythology is developing in which incremental and quantum change are presented as opposites. Nothing could be further from the truth . . . True, there is a big difference between incremental and quantum change when we talk of results (but) incremental and quantum change are intertwined. As we set our sights on those 500% improvements, remember they’re usually delivered through 5, 10, and 15% initiatives.
The perception of the magnitude of the change lies in the eye of the beholder. Incremental changes at the organization level may appear disruptive and revolutionary at a department level. However, as noted earlier, those who are accustomed to facing and managing incremental change on a regular basis will likely view more revolutionary changes in less threatening terms. Those who have not faced and managed change will be more likely to view even incremental changes as threatening in nature.

Organizational members need to learn to accept and value the perspectives of both the adaptor (those skilled in incremental change) and the innovator (those skilled in more radical change). As a change agent, personal insight regarding your abilities and preferences for more modest or more radical change is critical. The secret to successful organizational growth and development over time lies in the capacity of organizational members to embrace both approaches to change at the appropriate times and to understand that they are, in fact, intertwined.

**Planned Changes Don’t Always Produce the Intended Results**

To this point, it is clear that change—even radical reconstruction—is becoming a necessary prerequisite to organization survival. However, successful change is extremely difficult to execute. Many types of change initiatives have failed: reengineering, total quality management, activity-based costing, joint optimization, strategic planning, network structures. If change leaders were to fully consider these failure rates when designing interventions or acquisitions, fear would trump action. As one manager put it, “The opportunity has turned out to be 10 times what I thought it would be. The challenges have turned out to be 20 times what I thought they were!”

Unfortunately, inaction and avoidance are no solution. Maintenance of our organization’s status quo typically does not sustain or enhance competitive advantage, particularly in troubled organizations. Delays and half-hearted efforts that begin only after the problems have become critical increase costs and decrease the likelihood of a successful transformation. As Hamel and Prahalad put it: “No company can escape the need to re-skill its people, reshape its product portfolio, redesign its process, and redirect resources.” Organizations that consistently demonstrate their capacity to innovate, manage change, and adapt over the years are the ones with staying power.

Hamel and Prahalad believe that restructuring and re-engineering, on their own, do little to increase the capabilities of the firm. These two Rs increase profitability and can enhance competitiveness but “in many companies . . . re-engineering (and restructuring) . . . are more about catching up than getting out in front.”

Hamel and Prahalad argue that companies need to regenerate their strategy and reinvent their industry by building their capacity to compete.

Radical solutions both terrify and fascinate managers. Often managers are comfortable with relatively small technological fixes as the source of products, services, efficiency, and effectiveness. However, they tend to fear interventions that seem to reduce their control over situations, people, and outcomes. When organizations embrace technology but not people, they pay a steep price. They reduce the likelihood
that the change will produce the desired results and they fail to take advantage of the collective capacity of organizational members to improve operations, products, and services. To say the least, this practice is extremely wasteful of human capacity and energy, causing them to atrophy over time. And recent evidence suggests that true productivity increases come only when the forms are reorganized, business practices reformulated, and employees retrained. Investment in infrastructure alone is insufficient.

Table 1.3 highlights common sources of difficulty that change initiators, implementers, and facilitators face when attempting to implement planned changes. There are many external factors that can frustrate or divert progress in unanticipated and undesirable directions, but this table does not address these. This table focuses on ways in which change leaders can act as their own worst enemies, self-sabotaging their own initiatives. They stem from predispositions, perceptions, and a lack of self-awareness. The good news is that they also represent areas that a person can do something about if he or she becomes more self-aware and chooses to take the blinders off.

Managers play a critical role in creating successful change. The roles they adopt will often be critical in developing successful change strategies. Too many will accept a passive change recipient role. Our view, however, is that it is much better to become action oriented and be part of the change team. The roles of change leader or change agent, change implementer or change facilitator are healthier than

<table>
<thead>
<tr>
<th>Table 1.3  Common Managerial Difficulties</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In Dealing With Organizational Change</strong></td>
</tr>
<tr>
<td>1. Managers are action oriented and assume other rational people will see the inherent wisdom in the proposed change and will learn the needed new behaviors. Or managers assume that they will be able to replace recalcitrant employees.</td>
</tr>
<tr>
<td>2. Managers assume they have the power and influence to enact the desired changes and they underestimate the power and influence of other stakeholders.</td>
</tr>
<tr>
<td>3. Managers look at the transition period as a cost, not an investment.</td>
</tr>
<tr>
<td>4. Managers are unable to accurately estimate the resources and commitment needed to facilitate the integration of the human dimension with other aspects of the change (e.g., systems, structures, technologies).</td>
</tr>
<tr>
<td>5. Managers are unaware that their own behavior, and that of other key managers, may be sending out conflicting messages to employees and eventually customers.</td>
</tr>
<tr>
<td>6. Managers find managing human processes unsettling (even threatening) because of the potential emotionality and the difficulties they present with respect to prediction and quantification.</td>
</tr>
<tr>
<td>7. Managers simply lack the capacity (attitudes, skills, and abilities) to manage complex changes that involve people.</td>
</tr>
<tr>
<td>8. Managers’ critical judgment is impaired due to factors related to overconfidence and/or groupthink.</td>
</tr>
</tbody>
</table>
a more passive change recipient role. Our next section will outline these roles and some of the implications of adopting them.

Organization Change Roles

Without a sense of vision, purpose, and engagement, it is easy to become the passive recipient of change. As a passive recipient, you see yourself as subject to the whims of others, as relatively helpless, perhaps even as a victim. As a passive recipient, your self-esteem and self-efficacy may feel as if they are under attack. Your perception of power and influence will diminish and you will feel acted on. Years ago, Jack Gordon talked about aligning employees. That is, once top management has decided on the strategic direction, employees need to be aligned with that direction. We cannot help but think that if you are the recipient of change, “being aligned” just won’t feel very good.

Who are the participants in organization change? Many employees will step up and make the change work. They will be the change implementers, the ones making happen what others, the change initiators, have pushed or encouraged. Or we could be on the receiving end of change, change recipients. Some will play a role in facilitating change—they won’t be the ones responsible for implementing the change, but they will assist initiators and implementers in the change through their contacts and consultative assistance. Or a person might be the change initiator or champion, framing the vision for the change and/or providing resources and support for the initiative.

Of course, one person might play multiple roles. That is, a person might have a good idea and talk it up in the organization (change initiator); take action to make the change occur (change implementer); talk to others to help them manage the change (change facilitator); and, ultimately, be affected by the change too (change recipient). In this book, we use the terms change leader and change agent interchangeably. Change initiators, change implementers, and change facilitators represent different roles played by the change leader or change agent. At any given moment, the person leading the change may be initiating, implementing, or facilitating. Table 1.4 on page 22 outlines the roles that people need to play in organization change.

Change Initiators

Change initiators get things moving, take action, and stimulate the system. They are the ones constantly seeking change to make things better. They identify the need for change, see the vision of a better future, take on the change task, and champion the initiative. Change initiators may face considerable risk in the organization. To use a physical metaphor, action creates movement, movement creates friction, and friction creates heat! And creating heat may help or hurt one’s career. Change agents need to take calculated actions and be prepared to undertake the work needed to create and support the powerful arguments and coalitions to effect change in organizations from the top or the middle of the organization.
Change initiators will find useful aids for change in this book. We, as authors, cannot supply the passion and powerful vision needed by initiators, but we can point out the requirements of successful change: planning, persuasion, and perseverance. And we can provide frameworks for analysis that will enhance the likelihood of successful change.

Change initiators need to be dogged in their desire and determination. Those who succeed will earn reputations for realistic, grounded optimism, for a good sense of timing, and for not giving up. If nothing else, the opposition may tire in the face of their persistence. Better yet are those who have the uncanny ability to creatively combine with others into a coalition that turns resisters into allies and foot draggers into foot soldiers for change.

Change Implementers

Many would-be and existing managers find themselves as change implementers. Others, including their bosses, may initiate the change, but it is left to the implementers to make it work. This role is critical. Pfeffer argues that effectiveness doesn’t come from making the critical decision but rather from managing the consequences of decisions and creating the desired results. As he says, “If change were going to be easy, it would already have happened.” The change implementer’s role is important and needed in organizations.

Change implementers will find much in this book to assist them. They will find guidance in creating and increasing the need for the changes that change initiators are demanding. They will find tools for organizational diagnosis and for identifying and working with key stakeholders. And they will find concepts and techniques to improve their action plans and implementation skills.

At the same time, we encourage and challenge change implementers to stay engaged, to stay active, and to initiate change themselves. Oshry identifies the dilemma of “middle powerlessness” where the middle manager feels trapped between tops and bottoms and becomes ineffective as a result. Many middle managers transform their organizations by recognizing strategic initiatives and mobilizing the power of the “middles” to move the organization in the direction needed.

Change Facilitators

Today’s complex organizational changes can fail because parties lock into positions or because perspectives get lost in personalities and egos. In such cases, an outside view can facilitate change. Change facilitators understand change processes and assist the organization to work through change issues. As such, they sometimes formally serve as consultants to change leaders and teams. However, many of those who act as change facilitators do so informally, often on the strength of their existing relationships with others involved with the change. They have high levels of self-awareness and emotional maturity and are skilled in the behavioral arts—using their interpersonal skills to work with teams or groups.

In this book, change facilitators will discover conceptual frameworks that will help them to understand change processes. With these frameworks, they will be
able to translate concrete organizational events into understandable situations and so ease change. And their knowledge will provide change perspectives that will allow managers to unfreeze their positions.

**Change Recipients**

Change recipients are those who find themselves on the receiving end of change. Their responses will vary from active resistance to passivity to active support, depending upon their perceptions of the change, its rationale, and its impact. When people feel acted upon and with little or no voice or control in the process, dissatisfaction, frustration, alienation, absenteeism, and turnover are common responses to demands for change.70

This book provides guidance that will help recipients to better understand what is happening to them and their organizations. Further, it will identify strategies and approaches that will help them to take an active role and increase the amount of control they have over organizational events.

Regardless of your role in the organization, change recipient, change implementer, change initiator, or change facilitator, this book contains useful tools. Change recipients will understand what is happening to them and will learn how to respond positively. Change implementers will develop their capacity to use tools that increase their effectiveness, and change initiators will learn to take more effective actions to lever their change programs. Change facilitators will find themselves with new insights into easing organizational change.

<table>
<thead>
<tr>
<th>Table 1.4</th>
<th>Managerial Roles and Organization Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roles</td>
<td>Role Description</td>
</tr>
<tr>
<td>Change leader or change agent</td>
<td>The person who leads the change. He/she may play any or all of the initiator, implementer, or facilitator roles. Often, but not always, this person is the formal change leader. However, informal change leaders will emerge and lead change as well. (Note: In this book, change leader and change agent are used interchangeably.)</td>
</tr>
<tr>
<td>Change initiator</td>
<td>The person who identifies the need and vision for change and champions the change.</td>
</tr>
<tr>
<td>Change implementer</td>
<td>The person who has responsibility for making certain the change happens, charting the path forward, nurturing support, and alleviating resistance.</td>
</tr>
<tr>
<td>Change facilitator</td>
<td>The person who assists initiators, implementers, and recipients with the change management process. Identifies process and content change issues and helps resolve these, fosters support, alleviates resistance, and provides other participant with guidance and council.</td>
</tr>
<tr>
<td>Change recipient</td>
<td>The person who is affected by the change. Often the person who has to change his or her behavior to ensure the change is effective.</td>
</tr>
</tbody>
</table>
Gary Hamel of Harvard talks about “leading the revolution”—anyone can play the change game. Anyone can seek opportunities, ask questions, challenge orthodoxies, and generate new ideas and directions! And in doing so, individuals from virtually anywhere in an organization (or even outside of it) can become change leaders. Change leaders foment action. They take independent action based on their analysis of what is best for the long-term interests of their organizations, and they recognize the many faces of change and the crucial next steps necessary to meet their long-term change goals. Finally, they recognize who needs to play what roles in order to advance needed change. As such, at different points in time they fulfill the roles of change initiator, implementer, and facilitator, depending upon the needs of the situation, their skills and abilities, and their beliefs about what is required at a point in time to advance the change.

**Toolkit Exercise 1.2** asks you to think about change roles and your reactions to them.

### The Requirements for Becoming a Successful Change Leader

Successful change leaders balance keen insight with a driving passion for action. They have that sensitivity to the external world described above and will be skilled anticipators of that world. They have a rich understanding of organizational systems—their system in particular and the degree to which continuous or strategic changes are appropriate. They understand themselves and their influence and image in their organizational context. They have special personal characteristics—a tolerance for ambiguity, emotional maturity, self-confidence, comfort with power, a keen sense of risk assessment, a need for action and results, and persistence grounded in reasoned optimism and tenacity. Finally, while they are curious and have a strong desire to learn, they also have a deep and abiding distrust of organizational fads and recognize the negative impact of fad surfing in organizations.

Change leaders who see the world in simple, linear terms will have more difficulty creating effective change.

Change leaders understand the rich tapestry that forms the organizational culture. They understand the stakeholder networks that pattern organizational life. They recognize the impact and pervasiveness of organizational control systems (organizational structures, reward systems, measurement systems). They know and can reach key organizational members—both those with legitimate power and position and those with less recognizable influence. And they understand which tasks are key at this point in time given this environment and this organization strategy.

Successful change leaders know their personal skills, style, and abilities and how those play throughout the organization. Their credibility is the bedrock on which change actions are taken. Because change recipients will be cynical and will examine how worthy the leaders are of their trust, change leaders must be aware of their personal blind spots and ensure these are compensated for whenever needed.

Change leaders also embrace the paradoxes of change:
**They are involved in both driving change and enabling change.** Change leaders understand the need to persist and drive change through their organization. Without such determination, organizational inertia will slow change and other organizations will race ahead. At the same time, change leaders recognize that getting out of the way might be the most helpful management action to be taken. When those around a manager are following a passion, the best thing might be to help in whatever way possible or to provide resources to make things happen.

**They recognize that resistance to change is both a problem and an opportunity.** Change resistance happens in planned change. Overcoming such resistance is frequently necessary to make progress. However, change leaders recognize that there are often good reasons for resistance—the person resisting is not just being difficult or oppositional, he or she often knows things or has perspectives that cast doubt on the wisdom of change. Change leaders need to recognize this and work actively to overcome this paradox.

**Good change leadership focuses on outcomes but is careful about process.** Far too often, change programs get bogged down because a focus on results leads change implementers to ignore good process. At the same time, too much attention to process can diffuse direction and lead to endless rituals of involvement and consultation. Good change leaders learn how to manage this balance well.

**Change leaders recognize the tension between getting on with it and changing directions.** The environment is always changing. Leaders can always modify their objectives and respond to the environment. But if this is done repeatedly, they never settle on a design and direction and as a result will fail to get things done. Keeping the focus on the overall long-term direction while making adjustments can make sense. The trick is to understand and balance this tension.

**Change leaders understand the need to balance patience and impatience.** Impatience may prove very helpful in overcoming inertia and fear, generating focus, energizing a change, and mobilizing for action. However, patience can also prove a valuable tool in reducing tension and establishing focus and direction, by providing time for people to learn, understand, and adjust to what is being proposed.

Finally, today’s change leader knows that in today’s global competition, what matters is not the absolute rate of learning but rather the rate of learning compared to the competition. And if your organization doesn’t keep pace, it loses the competitive race.

### Critical Questions When Considering Organization Change

This chapter ends with a highlighting of the critical questions that are valuable to ask about change. The questions can serve as checkpoints in the change process that need to be tracked—from environmental awareness to planning, implementation,
and preparation for next phases. Generalizations in matters related to change can prove difficult to apply to specific situations, but the following questions should provide guidance:

1. What is the environment telling you prior to, at the beginning, during, and following the implementation of the change? In particular:
   a. What is the broader environment telling you about future economic, social, and technological conditions and trends?
   b. What are your customers or clients (both inside and outside the organization) telling you?
   c. What are your competitors doing and how are they responding to you?
   d. What are the partners within your network doing and how are they responding to you?
   e. What do the people who will potentially be the leaders, managers, and recipients of change want and need?

2. Why is change needed? Who sees this need?

3. What is your purpose and agenda? How does that purpose project to a worthwhile vision that goes to the heart of the matter?

4. How will you implement and manage the change?
   a. How will you resource the change initiative?
   b. How will you select and work with your change team?
   c. How will you work with the broader organization?
   d. How will you monitor progress so that you can steer and alter speed and course, if necessary?
   e. How will you ensure that you act (and are seen to act) ethically and with integrity?

5. What have you learned about change and how can you remember it for the future? How can you pass on what you learned?

6. Once the change is completed, what comes next? The completion of one change simply serves as the start point for the next.

That's it. It's an evolving list, and its further development will come as readers think about the contents of this book and practice change. This book will help change agents deploy their ideas, see what works when, where, why, and how, and learn as they go.

The Outline of This Book

In this chapter we have introduced organizational change and our orientation to that change. Throughout the book, we take an applied action orientation, encouraging readers to embrace change to make things happen. To facilitate this, we will lay out a sequence of steps and tools that systematically lead people to successful organizational change.
The book focuses on two underlying dimensions of change management: what to change and how to change. Knowing what to change is situation specific, and managers must work hard to develop the sophisticated understanding of what needs doing. While knowing how to change will depend on the situation, there is a body of knowledge about change management that can be applied in most situations.

This book uses a framework based on Nadler and Tushman’s model and Beckhard’s work. Nadler’s congruence model provides us with a framework for understanding what to change. Beckhard gives us the sequence for change and focuses on how to change. Beckhard’s model outlines the basic steps in change: initiating the change, planning the change, doing the change, measuring and confirming the change, and finally celebrating success and preparing for the next change. Appendix 1.2 outlines these steps.

Chapter 2 begins this by providing Beckhard’s process model for change. This model focuses on how change agents can think about change: the need for change, the gap between what exists and what is desired, and the action steps necessary to close that gap. Chapter 3 deals with what needs to change by providing organizational models that give us a better understanding of organizations. Nadler’s model is central to this chapter and focuses on “what is out of alignment and needs changing?” Chapter 4 deals with both the need for change and the creation of a compelling change vision. Chapters 5, 6, 7, and 8 expand this understanding by examining organizational structures and systems, stakeholders and change recipients, and then change leaders. Chapter 9 takes these insights to develop logical, systematic action plans. Finally, Chapter 10 focuses on the measurement of change to enable us to better manage the change process, consider what changes have been accomplished, and help identify what is needed next.

Summary

This chapter defines organizational change as a planned alteration of organization components to improve the effectiveness of the organization. The forces that drive change today are classified under social, demographic, technological, economic, and political forces. Environmental shifts create the need for change in organizations and drive much organizational change today. Four types of organizational change—tuning, reorienting, adapting, and re-creating—are outlined. Finally, the nature of change leaders is discussed and some of the paradoxes facing them are examined.

This chapter outlines the change roles that exist in organizations: change initiator, change implementer, change facilitator, and change recipient. Change leaders or change agents could be any of the four roles, initiator, implementer, facilitator, or recipient.

Finally, the chapter outlines the underlying framework of the book: how to change and what to change.
Glossary of Terms

**Organizational change**—For the purposes of this book, organizational change is defined as a planned alteration of organizational components to improve the effectiveness of the organization. By organizational components, we mean the organizational mission and vision, strategy, goals, structure, process or system, technology, and people in an organization. When organizations enhance their effectiveness, they increase their ability to generate value for those they are designed to serve.

**The open systems view of organizations** looks at the web of structures, systems, and processes that underpin the organization. They are interrelated and affect one another and are also influenced by what happens in the external environment in which they are situated.

**Organizational development** is based in psychology and focused on bringing about organizational improvement, with primary attention to human factors.

**Roots of change—Organizational development perspective**

**Small-group training** focuses on creating change by improving self-awareness and the group’s dynamics.

**Survey research and feedback** uses the analysis and feedback of sophisticated surveys, combined with employee participation, to create the need for change.

**Action research** encourages the use of action, based on research, in continuous cycles. In essence, one learns by doing, followed by observation, doing, and more learning.

**Sociotechnical systems change** focuses on the interaction between the sociological and technical subsystems of the organization and describes change in more holistic terms.

**Change management** is based in a broad set of underlying disciplines (from the social sciences to information technology), tends to be strategy driven, with attention directed to whatever factors are assessed as necessary to the successful design and implementation of change.

**Change initiator**—the person who identifies the need and vision for change and champions the change.

**Change implementer**—the person responsible for making certain the change happens, charting the path forward, nurturing support, and alleviating resistance.

**Change facilitator**—the person who assists initiators, implementers, and recipients with the change management process. Identifies process and content change issues and helps resolve these, fosters support, alleviates resistance, and provides other participants with guidance and council.

**Change recipient**—the person who is affected by the change. Often the person who has to change his or her behavior to ensure the change is effective.
Change leader or change agent—these two terms are used interchangeably in the text to describe those engaged in change initiator, implementer, or facilitator roles. All those involved in providing leadership and direction for the change fall within their broad coverage.

Macro changes—large-scale environmental changes that are affecting organizations and what they do.

Incremental/continuous changes—organizational changes that are relatively small in scope and incremental in nature. They may stem from the fine tuning of existing practices or represent an incremental adaptation to environmental changes.

Discontinuous/radical changes—changes that are broad in scope and impact and that may involve strategic repositioning. They usually occur in anticipation of or reaction to major environmental changes and are discontinuous in that they involved changes that are not incremental in nature and are disruptive to the status quo.
END-OF-CHAPTER EXERCISES

TOOLKIT EXERCISE 1.1

Analyzing Your Environment

Select an organization you are familiar with. What are the key environmental issues affecting your organization? List these and their implications for the organization.

Political Factors
Economic & Ecological Factors
Social Factors
Technological Factors

Implications
Implications
Implications
Implications
TOOLKIT EXERCISE 1.2

Change Roles in Your Organization

Pick an organization that you are familiar with—an organization you have worked for either full-time or part-time, a school you have attended, or a voluntary association you know such as a baseball league.

Who plays what change roles in the organization? How do individuals work at those roles? What are the consequences of their roles? How do individuals achieve effective change? Take a moment to identify people in your organization who play each of the roles: change recipient, change initiator, change facilitator, and change implementer.

What roles do you play? Think of a time when you have been involved in change. What role did you play? How comfortable were you with each of those roles?

Think back on your personal organizational history. When did you fill the role of:

Change initiator? _________________________________________________
Change implementer? _____________________________________________
Change facilitator? _______________________________________________
Change recipient? ________________________________________________

How did each of these roles feel? What did you accomplish in each role?
Appendix 1.1: The Roots of Organizational Change

Managers have long voiced an interest in improving their organizations. Writings on the topic can be found throughout recorded history. Early religious texts provide many examples of advice and action related to enhancing effectiveness (e.g., Moses’s actions related to the Diaspora from Egypt and the advice of major religious figures on how life should be led). Likewise, early philosophers such as Plato offered advice on how change should be promoted and managed (e.g., “One of the penalties for refusing to participate . . . is that you end up being governed by your inferiors”).

The founder of the Han Dynasty, Liu Bang (256–195 BC), attributed his success at defeating his opponent and founding his Dynasty to his policy of using the right people in the right position. He said: “In strategic planning of warfare Chang Liang is better than I; in logistics administration for the battlefield Shoa is better than I; and in deployment of a million troops to win the battles Han Sin is better than I. All three of these people are elite. I can look for their strength and put it to work. That’s why I could be the founder of a new Dynasty.”

Liu Bang’s thinking is similar to that of many managers: They are concerned with making their organization effective and they are focused on improving their position or role within that organization.

Modern thinking about organizational change has its roots in organization development. French and Bell describe four stems of organization development:

- the small-group training stem, which focused on creating change by improving self-awareness and the group’s dynamics,
- the survey research and feedback stem, which intervened with sophisticated surveys and analysis to create the need for change,
- the action research stem, which encouraged the use of action, based on research, in continuous cycles (in essence, learning by doing, followed by observation, doing, and more learning), and
- the sociotechnical stem, which focused on the interaction between the sociological and technical subsystems of the organization and described change in more holistic terms.
Worren and others have differentiated organization development from change management. Table 1.5 outlines this shift according to Worren.

The field of organizational change has developed to become more integrative and strategic. There is a shift from considering personal and group outcomes to organizational ones. Organizational change is broader based and action often requires a change team to make change happen. Organizational change is focused on the business—using an understanding of human relationships to improve organizational results.

The rapid growth in the volume of formal research about organizational change is a relatively recent phenomenon, and the volume of literature on organizational change is overwhelming.* Despite this literature, management’s ability to deliver successful change is modest at best. One study reports that 7 of 10 change efforts fail to achieve their intended results; for major corporate systems investments: 28% are abandoned before completion, 46% are behind schedule or over budget, and 80% are not used in the way intended or not used at all after 6 months.79

<table>
<thead>
<tr>
<th>Table 1.5</th>
<th>Organizational Development versus Change Management (according to Worren et al.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying theory and analytical framework</strong></td>
<td><strong>Organizational Development</strong> Based primarily on psychology Individual/group functioning</td>
</tr>
<tr>
<td><strong>Role of change agent</strong></td>
<td>Facilitator or process consultant</td>
</tr>
<tr>
<td><strong>Intervention strategies</strong></td>
<td>Not directly linked to strategy Focus on one component at a time Normative–re-educative (change attitudes to change behavior)</td>
</tr>
</tbody>
</table>


*A Google search yielded more than 110 million hits; Ask.com, 7.5 million hits; Harvard Business School site, 1,024 hits; Proquest Search, 15,530 articles; Fast Company web search, 3,120 hits.
Appendix 1.2: A Summary Checklist for Change

Initiating change

- Understanding the need for change
- Creating the perception of need for change
- Developing the powerful vision for change

Planning change

- Having an organization model
- Differentiating how to change and what to change
- Structures and systems: approval of change, facilitating and hindering change, developing adaptive structures for change
- Informal systems: resistance to change, power dynamics, the role of perceived impact, force fields, stakeholders (commitment, adaptiveness)
- Recipients: reactions (negative, ambivalent, positive), recipients’ adaptation (anticipation, denial, anger, acceptance)
- Change agents: leading and managing, change agent types, change teams

Doing the change

- Engaging others
- Developing the activity plan
- Contingency planning
- Commitment planning
- Communicating the change
- Managing the transition

Measuring and confirming the change

- Measuring the change
- Changing the measures over the life of the change project

Celebrating success and preparing for the next change

- Recognizing achievements and enjoying the successes
- Review of the change process and developing new learnings
- Anticipating and planning for the next wave of change
Notes

4. Personal experience of the authors.
35. Others believe otherwise. Note the protests whenever the WTO meets, for example.
43. Where have all your savings gone? (2008, December 4). *The Economist*.
44. Personal communication with one author.
54. One strike and you’re out: British Airways. (2003, August 2). *The Economist*, p. 64.