

# ORGANIZATIONAL CHANGE

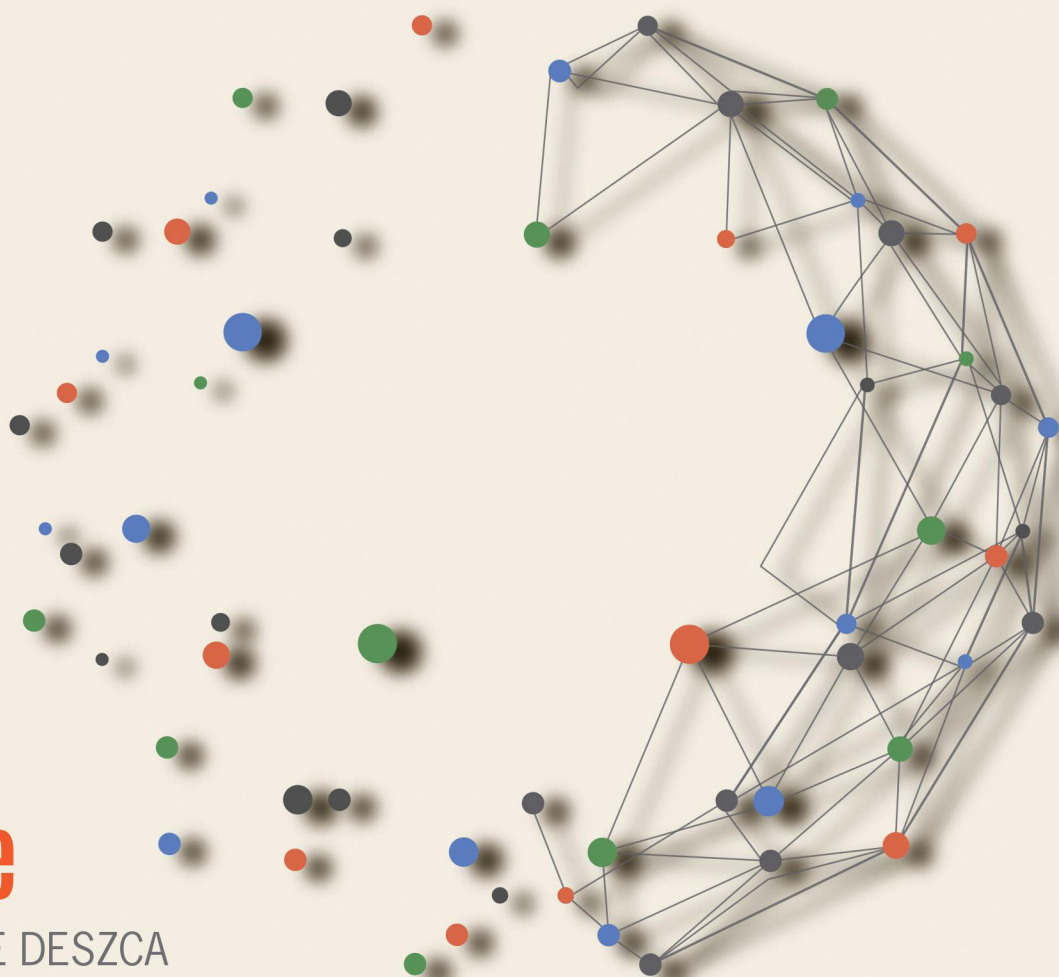
An Action-Oriented Toolkit

4e

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TUPPER F. CAWSEY



# Organizational Change

Fourth Edition

This book is dedicated to Tupper Cawsey,  
our dear and wonderful friend, colleague, and extraordinary educator.

He passed away, but his positive impact continues to reverberate in  
those he touched.

Thank you, Tupper.

Gene and Cynthia

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# Organizational Change

**An Action-Oriented Toolkit**

**Fourth Edition**

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# PREFACE TO THE FOURTH EDITION

Difficult to see. Always in motion  
is the future.<sup>1</sup>

**T**he world has continued to churn in very challenging ways since the publishing of the third edition of this text. Uneven and shifting global patterns of growth, stubbornly high unemployment levels in many parts of the world, increasing income inequality, and serious trade disputes that threaten to transform trade patterns are severely stressing our highly interconnected global economy. The massive credit crisis of a decade ago was followed by unprecedented worldwide government stimulus spending and low interest rates to promote growth, which, in turn, have resulted in escalating public debt, exacerbated in some nations through tax cuts. These combine to threaten the capacity of national governments to respond to future economic difficulties.

In addition, wars, insurrections and civil insurrections in parts of Africa, the Ukraine, the Middle East, and Asia have sent masses of people searching for safety in new places. Simultaneously, deteriorating international relationships involving major powers, fears of global pandemics (Ebola and MERS), and the staying power of radical Islamist groups such as al-Qaeda and ISIS affiliates, Boko Haram and Jemaah Islamiyah have shaken all organizations in affected regions—big or small, public or private. Escalating concerns related to global warming, species extinctions, and rising sea levels are stressing those who recognize the problems in governments and organizations of all shapes and sizes, as they attempt to figure out how to constructively address these emerging realities. Add to these elements the accelerating pace of technological change and it's easy to see why we, at times, feel overwhelmed by the turbulence, uncertainty, and negnosis that seem to define the present.

But, all is not doom and gloom. Progress on human rights and gender equity, reductions in extreme poverty and hunger, declining rates of murder and violent crime, improving rates of literacy and life expectancy, and increasing access to information and knowledge through affordable digital resources provide evidence that progress is being made on some fronts. The growing public willingness to tackle very difficult environmental and social issues now, not later, are combining with innovative technologies, creative for-profit and not-for-profit organizations, and forward-thinking politicians and leaders from all walks of life. Supportive public policies are combining with public and private initiatives to demonstrate that we can make serious progress on these issues, *if* we collectively choose to act in constructive and thoughtful manners locally, regionally, and globally. These factors have also made us, your authors, much more aware of the extreme influence of the external environment on the internal workings of all organizations.

---

<sup>1</sup> Spoken by Yoda in the movie *The Empire Strikes Back*

As we point out in our book, the smallest of firms needs to adapt when new competitive realities and opportunities surface. Even the largest and most successful of firms have to learn how to adapt when disruptive technologies or rapid social, economic, political and environmental changes alter their realities. If they fail to do so, they will falter and potentially fail.

Our models have always included and often started with events external to organizations. We have always argued that change leaders need to scan their environments and be aware of trends and crises in those environments. The events of the past two years have reinforced even more our sense of this. Managers must be sensitive to what happens around them, know how to make sense of this, and then have the skills and abilities that will allow them to both react effectively to the internal and external challenges *and* remain constant in their visions and dreams of how to make their organizations and the world a better place to live.

A corollary of this is that organizations need a response capability that is unprecedented because we're playing on a global stage of increasing complexity and uncertainty. If you are a bank, you need a capital ratio that would have been unprecedented a few years ago, and you need to be working hard to understand the potential implications of blockchain technologies, regulatory changes, and changing consumer preferences on the future of banking. If you are a major organization, you need to design flexibility and adaptability into your structures, policies, and plans. If you are a public-sector organization, you need to be sensitive to how capricious granting agencies or funders will be when revenues dry up. In today's world, organizational resilience, adaptability, and agility gain new prominence.

Further, we are challenged with a continuing reality that change is endemic. All managers need to be change managers. All good managers *are* change leaders. The management job involves creating, anticipating, encouraging, engaging others, and responding positively to change. This has been a theme of this book that continues. Change management is for everyone. Change management emerges from the bottom and middle of the organization as much as from the top. It will be those key leaders who are embedded in the organization who will enable the needed adaptation of the organization to its environment. **Managers of all stripes need to be key change leaders.**

In addition to the above, we have used feedback on the third edition to strengthen the pragmatic orientation that we had developed. The major themes of action orientation, analysis tied with doing, the management of a nonlinear world, and the bridging of the “knowing–doing” gap continue to be central themes. At the same time, we have tried to shift to a more user friendly, action perspective. To make the material more accessible to a diversity of readers, some theoretical material has been altered, some of our models have been clarified and simplified, and some of our language and formatting has been modified.

As we stated in the preface to the first edition, our motivation for this book was to fill a gap we saw in the marketplace. Our challenge was to develop a book that not only gave prescriptive advice, “how-to-do-it lists,” but one that also provided up-to-date theory without getting sidetracked by academic theoretical complexities. We hope that we have captured the management experience with change so that our manuscript assists all those who must deal with change, not just senior executives or organization development specialists. Although there is much in this book for the senior executive and organizational development

specialist, our intent was to create a book that would be valuable to a broad cross section of the workforce.

Our personal beliefs form the basis for the book. Even as academics, we have a bias for action. We believe that “doing is healthy.” Taking action creates influence and demands responses from others. While we believe in the need for excellent analysis, we know that action itself provides opportunities for feedback and learning that can improve the action. Finally, we have a strong belief in the worth of people. In particular, we believe that one of the greatest sources of improvement is the untapped potential to be found in the people of all organizations.

We recognize that this book is not an easy read. It is not meant to be. It is meant as a serious text for those involved in change—that is, all managers! We hope you find it a book that you will want to keep and pull from your shelf in the years ahead, when you need to lead change and you want help thinking it through.

Your authors,  
Gene, Cynthia, and Tupper

#### Note on Instructor Teaching Site

A password-protected instructor’s manual is available at [study.sagepub.com/cawsey](http://study.sagepub.com/cawsey) to help instructors plan and teach their courses. These resources have been designed to help instructors make the classes as practical and interesting as possible for students.

PowerPoint Slides capture key concepts and terms for each chapter for use in lectures and review.

A Test Bank includes multiple-choice, short-answer, and essay exam questions for each chapter.

Video Resources for each chapter help launch class discussion.

Sample Syllabi, Assignments, and Chapter Exercises as optional supplements to course curriculum.

Case Studies and teaching notes for each chapter facilitate application of concepts in real world situations.

# ACKNOWLEDGMENTS

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Managers, executives, and front-line employees that we have known have provided insights, case examples, and applications while keeping us focused on what is useful and relevant. Ellen Zane, former CEO of Tufts Medical Center, Boston, is an inspiring change leader; her turnaround story at the Tufts Medical Center appeared in the second edition of this book and was published again in the third edition; it continues to be on the Sage website for use by faculty. Cynthia has also been fortunate to work with and learn from Gretchen Fox, founder and former CEO, FOX RPM: the story of how she changed her small firm appeared in the second edition of the book and the case continues to be available through Harvard Business Publishing (<http://hbr.org/product/fox-relocation-management-corp/an/NA0096-PDF-ENG>). Noah Deszca, a high school teacher, was the prime author of the Travelink Solutions case, an organization that underwent significant changes while he was working there. Katharine Bambrick, a former student of Gene's and the CEO of the Ontario Trillium Foundation and the former CEO of Food Banks Canada, is another of the inspiring leaders who opened their organizations to us and allowed us to learn from their experiences, and share it with you. The Food Banks case appeared in the third edition of this book and is one of the additional cases that are available on this book's website.

Special thanks to Paige Tobie for all her hard work on the instructors' resources. She is a gem to work with.

As with the previous editions, our partners Bertha Welzel and Steve Spitz tolerated our moods, our myopia to other things that needed doing, and the early mornings and late nights spent on the manuscript. They helped us work our way



through ideas and sections that were problematic, and they kept us smiling and grounded when frustration mounted.

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In short, our thanks to all who made this book possible.

# CHANGING ORGANIZATIONS IN OUR COMPLEX WORLD

The chapter defines organizational change as “planned alteration of organizational components to improve the efficiency and effectiveness of organizations.”

The orientation of this book is to assist change leaders—and potential change managers—in becoming effective in their change activities.

The social, demographic, technological, political, and economic forces pushing the need for change are outlined.

Four types of organizational change are discussed: tuning, adapting, reorienting, and re-creating.

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.

The difficulties in creating successful change are highlighted, and then some of the characteristics of successful change leaders are described.

**O**rganizations fill our world. We place our children into day care, seek out support services for our elderly, and consume information and recreational services supplied by other 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 and look to governmental organizations for a variety of services that we hope will keep us safe, secure, well governed, and successful. 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. This is not just a human phenomenon as it extends to plants and animals: look at a bee colony, a reef, a lion pride, or an elephant herd and you’ll see organizations at work.

And these organizations are changing—some of them declining and failing, while others successfully adapt or evolve, to meet the shifting realities and demands of their environments. What exactly is organizational change? What do we mean when we talk about it?

## DEFINING ORGANIZATIONAL CHANGE

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When we think of organizational change, we think of major changes: mergers, acquisitions, buyouts, 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 effectiveness of our organizations.

In this book, when we talk about **organizational change**, we refer to planned alterations of organizational components to improve the effectiveness or efficiency of the organization. Organizational components are the organizational mission, vision, values, culture, 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 reasons for change are often ambiguous. Is the change internally or externally driven? In July 2018, Tim Hortons (a Canada-based coffee restaurant chain) announced that it was aiming to open 1,500 new stores in China in the next decade.<sup>1</sup> This is in addition to expansion efforts involving the United States, the Philippines, Britain, Mexico, the Middle East, and Spain. Tim Horton's has a network of approximately 3,900 outlets in Canada and another 900 elsewhere. It has also been busy revising its menu to shore up flattening same-store sales, adding Wi-Fi access, undertaking major store remodeling, and making changes to its sustainability and corporate social responsibility initiatives. What is driving these changes? The executives reported that they were undertaking these actions in response to competitive pressures, customer needs, market opportunities, and the desire to align their efforts with their values. For Tim Hortons, the drivers of change are coming from both the internal and external environment. Dunkin' Donuts, a much larger U.S.-based chain with similarities to Tim Hortons' business model and competitive pressures, seems to have been pursuing similar adaptive responses.<sup>2</sup> It is essential for managers to be sensitive to what is happening inside and outside the organization and adapt to those changes in the environment.\*

Note that, by our definition and focus, 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 or systemic 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

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\*Tim Hortons and Burger King announced their \$12.5 billion merger on August 26, 2014, forming the third largest quick-service restaurant in the world. They have maintained these two distinct brands post-merger, but have taken advantage of synergies by leveraging their respective strengths and geographic reach.

of a sales force into two groups (key account managers and general account managers) or the modification of service offerings would be, even though these changes could well be in response to a competitor's activities rather than a more proactive initiative.

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 or have new technologies applied. The change is definable and the end point 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 may be easier to make happen, because they are easier to understand.

When the change target is more deeply imbedded in the organization and is intangible, the change challenge is magnified. For example, a shift in organizational 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 since "you need to get the vision off the walls and into the halls."<sup>3</sup> 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.<sup>4</sup>

The target 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 below.

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, non-inclusive 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.<sup>5</sup>

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 have faced financial challenges due to higher labor costs as well as a festering morale problem.

## THE ORIENTATION OF THIS BOOK

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The focus, then, 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, except, insofar, as they serve as the stimulus for planned change initiatives. Similarly, changes that may be planned but do not have a clear link to attempts to improve organizational 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.

There is a story of two stonecutters. 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 stonecutters 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 stonecutter than for the "just doing my job" stonecutter. Finally, the differences in satisfaction and commitment may well lead to different organizational results. After all, if you are building a cathedral, you might be more motivated 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 broader perspective on the value of his or her contributions and on the task at hand is likely to be a more committed and capable contributor. 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.<sup>6</sup>

This book is aimed at those who want to be involved in change and wish to take positive actions. We encourage readers to escape from passive, negative change recipient positions and to move to active and healthy roles—those of change initiators, facilitators, and implementers. Readers may be in middle manager roles or may be students hoping to enter managerial roles. 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. They might 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 someone once said, “The truth is—the cavalry isn’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 how to do it and what to do, underpins the structure of this book and our approach to change. To paraphrase Zig Ziglar, “It’s not what happens to you that matters. It’s how you respond that makes a difference.”<sup>7</sup>

Change capability is a core managerial competence. Without skills in **change management**, individuals cannot operate effectively in today’s fluctuating, shifting organizations.<sup>8</sup> 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. In many organizations, those managers are looked to for insights, innovative ideas, and initiatives that will make a positive difference in their firms. Investigate firms such as Google, Cisco, Marriott, St. Jude Children’s Hospital, Deloitte, and others listed among the 100 best to work for here and offshore, and you will find many examples of firms embracing these practices.<sup>9</sup> They do so with a realistic appreciation for the fact that change management is often more difficult than we anticipate. We believe, as do Pfeffer and Sutton, that there is a Knowing–Doing gap.<sup>10</sup> 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 marketing, research and development, production, and other parts of an organization (e.g., customer service’s call centers) can be moved around the world and/or outsourced. International alliances form and reform. These and related factors mean an organization’s competition is often global in nature, rather than local. New technologies allow purchasing to link to production within an integrated 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 and push the need for change. These factors are summed up in the acronym PESTEL. **PESTEL factors** include political, economic, social, technological, ecological/environmental, and legal factors that describe the environment of an organization.

These are not simply private sector realities. Not-for-profits, hospitals, schools, and governments all experience these environmental challenges as the world shrinks and the seeming pace of change accelerates and increases in complexity. Not-for-profits or NGOs (nongovernmental organizations)

and various governmental bodies respond to hunger in war-torn Somalia and Syria; public universities and hospitals respond to for-profit competitors. Governments around the world deal with issues related to enhancing their economic competitiveness and attracting employers, hopefully in sustainable and socially responsible ways. No one is immune.

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 and value of its products versus its competition's. Benchmarking data might show that its quality is beginning to lag behind that of a key competitor. These environmental scanning and early warning systems allow for action before customers are lost or provide paths to new customers and/or new services. Toyota had such systems in place, but management appears to have responded inadequately.

### **Misreading the Environment and Associated Risks**

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."<sup>11</sup>

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.

The same question could be asked of General Motors concerning ignition switch

problems in the Cobalt and other brands. By GM's admission, they first became aware of this problem in 2001. It was the subject of a technical service bulletin in 2005, but there was no recall until 2014, in the aftermath of multiple deaths and injuries, mounting public scrutiny, and lawsuits. The global recall totaled 2.6 million vehicles by May 2014: there have been humiliating U.S. congressional hearings, CEO Mary Barra has publicly apologized, and GM is sought immunity from the courts for lawsuits related to periods before its 2009 bankruptcy. To say this had the potential to undermine confidence in GM and its brand would be a gross understatement and points to the danger of failing to act and implement needed changes in a timely manner.<sup>12</sup>

It's beyond the scope of this book to provide 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. As is always the case, 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; the aftermath of the economic turmoil that rocked the world economy in 2008; and trade wars in 2018 that promoted further uncertainty.

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 Brothers 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."<sup>13</sup>

Clearly bankers misread both the ethical and business implications of what was going on inside their firms. Either there was collective myopia at work with respect to mounting evidence of excessive risk from very credible sources,<sup>14</sup> or the rewards and short-term performance pressures were such that they chose not to attend to the warning clouds.

## The Changing Demographic, Social, and Cultural Environment

**Age Matters.** The social, cultural, and economic environment will be dramatically altered by demography. Demographic changes in the Western world and parts of Asia mean that aging populations will gray the face of Europe, Canada, China, and Japan.<sup>15</sup> The financial warning bells are already being sounded. Even before the huge government deficits of 2009 and beyond that Western nations have been digging themselves out from under, Standard & Poor's predicted 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,<sup>16</sup> if changes are not undertaken. In 2013 and 2016 they reported modest progress had been made on this debt challenge, but the problems and related societal challenges have certainly not gone away.<sup>17</sup>

Although the United States will age less quickly, Europe and Japan 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 41 versus approximately 50 in Europe. The United States will keep itself younger than Europe through immigration and a birth rate that is close to replacement level,<sup>18</sup> though even here growth assumptions have come under question as the rate of immigration has declined in the aftermath of the economic slowdown and questions around emigration policies remain highly politicized. Even with this influx, if nothing changes, it is estimated the U.S. governmental debt-to-GDP ratio will grow to 472% of GDP by 2050, due mainly to pension and health care costs.<sup>19</sup> Aging European countries will be around 300–400% of GDP, despite

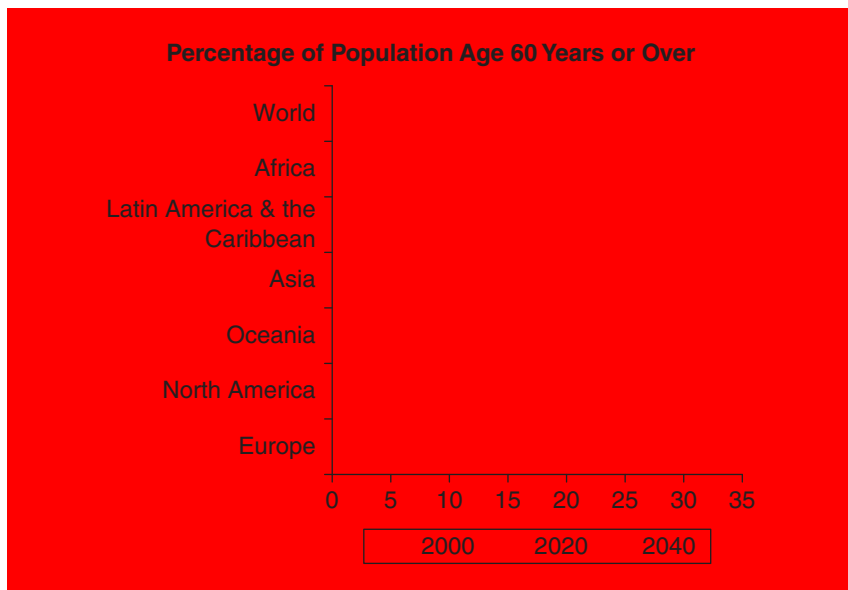


older populations, due to more cost-efficient approaches in these areas. On the high side, Japan is predicted to reach 729%. The European Union's population is projected to peak in 2025 at around 470 million and then begin to decline, while the United States reaches 335 million in 2020 and continues to grow thereafter to 398 million in 2050. The decline in the European Union would occur much earlier if it were not for immigration.

Throughout the world, fertility rates are falling and falling fast.<sup>20</sup> 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 and older siblings for sustenance. When fertility rates drop, there is a bulge of people, meaning the ratio of working adults to dependents increases, leading to an increase in per capita wealth. Mexico and China are examples of this currently. When this bulge ages, dependent, nonworking seniors become a larger percentage of the population, so these advantages tend to disappear over time, as incomes rise and fertility rates fall.<sup>21</sup> As discussed above, this has happened and is happening in Europe and Japan. India, Africa, and Mexico are examples of areas with a smaller proportion of dependents (the young and the old) relative to their working populations, and this is something referred to as an economic dividend. However, it is only a dividend if the population has the skills and abilities needed, and there are infrastructure and policies in place to support employment—something many developing nations are finding very challenging.<sup>22</sup>

These demographic shifts can take decades to work their way through, and the economic implications for organizations are significant. Imagine 400 to 500 million relatively wealthy Americans and the impact that will have on



Source: U.N. Population Division.

global economic power, assuming that pension and health care challenges are effectively managed. Consumer spending in developing countries is expected to grow to \$44.8 trillion by 2030, eclipsing the \$19.2 trillion in North America and Europe.<sup>23</sup> 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.<sup>24</sup>

Pension costs can become a huge competitive disadvantage at the company level too. At General Motors, there were 2.5 retirees for every active worker in 2002. These so-called "legacy" costs were \$900 per vehicle at that time due to pension and health care obligations. These costs rose to \$1,800 by 2006<sup>25</sup> and retired employee-related costs were one of the key reasons that GM sought bankruptcy relief in 2009. Debt relief certainly alleviated the immediate pressure, but as the number of retired to active GM employees continues to grow, this challenge is not going away.<sup>26</sup>

Companies appear to be ill prepared to deal with this aging population.<sup>27</sup> Both private and public sector employers are waking up to these pressures and attempting to bring about changes to their pension programs that will be more sustainable, but the journey will not be easy. Public pushback to reductions in pension income and other entitlement programs has been strong, and even relatively modest proposals for shifts to policies such as increasing the age of retirement by a year or two have faced widespread resistance. This is resistance that scares politicians because these are also people who are most likely to vote and who are also feeling vulnerable as they find their savings are insufficient to sustain their lifestyle.<sup>28</sup>

An aging population also provides new market opportunities—would you have predicted that the average age of a motorcycle purchaser would be over 49? That's Harley-Davidson's experience.<sup>29</sup> With aging populations, organizations can expect pressures to manage age prejudice more effectively. Subtle discrimination based on age will not be accepted. Innovative solutions will be welcomed by aging members of the workforce and an increasing necessity for employers. See the story below.

"The day is coming when employers are going to embrace the value of older workers. They don't have a choice," writes Kerry Hannon. Demographic and fiscal realities are making the retention of older members of the workforce escalate in importance and give rise to the innovations in working relationships, from full time to flexible work relationships and contract positions. Some employers are realizing the benefits that these employees can bring with them and are recognizing the importance of

investing in them before their knowledge walks out the door. Employers that fail to adjust their approach to older employees could find themselves seriously at risk as U.S. labor markets reflect the demographic realities.<sup>30</sup>

KPMG has publicly recognized the benefits, noting that "older workers tend to be more dedicated to staying with the company, a plus for clients who like to build a relationship with a consultant they can count on to be around for years."<sup>31</sup>

## Diversity Matters

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 35.3 million during the 1990s, to 55.4 million or 17.4% of the population in 2014 (up from 13% in 2000), making them the largest ethnic/racial group in the United States. They are also much younger (29 versus the national average age of 37.2), and 65.6% of its members have been born in the United States. Significantly, the largest growth often is in “hyper-growth” Latino destinations such as Nevada and Georgia,<sup>32</sup> some of which have seen an increase of more than 300% in Latino populations since 1980. The immigration component of this growth rate was adversely affected by the U.S. economic downturn and improvements in the Mexican economy, but it is predicted to continue upward due to domestic population growth, difficult conditions in other parts of Latin America, and the impact that a return to economic health in the United States will have on immigration.

One of the outcomes of hyper-growth in certain urban areas has been 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, ratios as high as 118:100 are seen in the hyper-growth destinations.<sup>33</sup> 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 dominant language used) and markets could be shattered by such demographic shifts.

There have also been significant demographic shifts in Europe and parts of Asia, as people move from disadvantaged areas (economic, social, and political) in search of greater opportunities, security, and social justice. These trends are likely to continue, and as in the United States, they provide both challenges and opportunities. For countries like France and Austria, they help to moderate the effects of an aging population by providing new entrants to the workforce and new customers for products and services. However, they also represent integration challenges in terms of needed services and there has been a backlash from some groups, who see them as both an economic and social threat. Resistance to immigration reform in the United States, the tightening of emigration rules in Canada, the rise of anti-immigration political parties in Western Europe, and the January 2019 shut-down of the U.S. federal government over the disputed wall on the U.S.-Mexico border are evidence of this.

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. The heated debates that occurred in the United States in 2006 concerning legislation related to illegal or undocumented immigrants, temporary workers, and family unification continue to provoke passionate positions and no resolution as of 2019. In Europe, debate around these topics has given rise to some electoral success by what used to be fringe parties in Sweden, France, and Italy (to name three), and isolated examples of violence.<sup>34</sup> Some nations have implemented laws around certain religious practices (typically associated with dress and visible symbols in schools and workplaces) that are viewed by many as discriminatory.<sup>35</sup> Matters related to same-sex marriage, gender identity, and gender equity continue to be challenging for many organizations, as laws and behavioral norms related to what is acceptable slowly evolve. The front-page coverage devoted to the drafting by

the St. Louis Rams of Michael Sam, the first openly gay professional football player, testifies to the attention and emotions these matters can generate.<sup>36</sup> In too many parts of the world they represent life and death issues.

The same is true for matters of gender violence, as seen in the rise of the #MeToo movement in the United States and other parts of the world. Bad behavior is being exposed, attitudes are changing, and governments and organizations are beginning to alter policies and procedures in meaningful ways. Reactions to the reported behaviors of Harvey Weinstein (film producer), Roger Ailes (Fox News chairman), and many others attest to this. Christine Blasey Ford and Brett Kavanaugh's 2018 Supreme Court hearing concerning allegations of gender violence attracted over 20 million viewers<sup>37</sup> and the strength of subsequent responses suggest public concerns and demands for action on gender-related matters are increasing.

In some nations, employment- and human rights-related legislation have gone a long way toward advancing the interests and acceptance of diversity, by providing guidance, rules of conduct, and sanctions for those who fail to comply. However, issues related to gender, race, and diversity still need to be attended to by organizations. Participation and career advancement rates and salary level differences continue to attract the attention of politicians, the public, and the courts. Further, they constrain the development of talent in organizations and have adverse consequences on multiple levels—from the ability to attract and retain to performance and attitudinal outcomes that can, in turn, influence the culture and work climate of the firm.<sup>38</sup>

What happens when this boils over? In 2014 the intense news coverage and disciplining of Donald Sterling, the owner of the Los Angeles Clippers NBA franchise, for racist comments made during a private conversation, point to the extreme distress it caused members of the team and the reputational and brand consequences his behavior had on the franchise and the league itself. Only the swift actions of NBA Commissioner Adam Silver contained the damage, facilitated the sale of the franchise, and clearly signaled what was expected of owners.<sup>39</sup>

Risks in this area are not just related to the actions of senior management. Social media exposure extends the risks to all levels of the firm, where postings from organizational members can and do go viral with adverse consequences (more will be said about this later). Employees in the United States have certain protections when it comes to discussing working conditions with others online. In the case of fast-food restaurants, this has manifested itself into a very public national campaign to increase the minimum wage from \$7.50 to \$15.00 per hour. This campaign began on social media and is now giving rise to pay increases by some firms and minimum wage increases at the state level.<sup>40</sup> Firms are finding they must respond very carefully, in part because of the public's connection to a workforce where matters of age, gender, race, ethnicity, and economic fairness are very visible.<sup>41</sup> When employee postings go over the line on matters of race, gender, diversity, and equity, firms need to act and be seen to be acting quickly and appropriately in order to control damage.<sup>42</sup>

Being viewed as proactive and progressive in these areas can create advantages for firms in terms of attraction, retention, and the commitment levels of employees and customers. Firms such as TD Bank communicate this commitment very publicly and have been recognized as one of the best employers by Diversity Inc., Corporate Knights, and the Human Rights Campaign.<sup>43</sup>

Multinational corporations, such as IBM, view workforce diversity management as a strategic tool for sustaining and growing the enterprise.<sup>44</sup> That doesn't mean it is easy. Google has sought to increase the diversity of its workforce for several years. In May 2014 it publicly recognized its current lack of diversity (30% women, 2% black, and 3% Hispanic), and committed itself to aggressively address this through significant external and internal initiatives geared to attracting more individuals from these groups to technical careers and Google.<sup>45</sup> Smaller and medium-size firms (particularly tech start-ups) are increasingly recognizing the importance of this, as they attempt to scale their operations.

Race, gender, age, and diversity-related challenges multiply once organizations extend their footprints internationally. Differing rules, regulations, cultural norms, and values add to the change leadership challenges that need to be managed, as people learn to work with one another in efficient, effective, and socially appropriate ways. Think of the workforce challenges that a North American, Brazilian, or Indian firm needs to address when establishing its presence in a different part of the world. How will they deal with norms and values in these areas that run contrary to their core values? This is not just an issue for larger organizations. Increasingly, smaller firms find themselves facing international challenges as they seek to grow. These come in many forms—from managing virtual, globally dispersed teams and supply chains, to dealing with the complexities of joint ventures. While the challenges can seem daunting, an increasing number of small and midsize companies are succeeding on the global stage. A study of 75 such firms highlights the strategies and tactics that have produced positive results. Change leadership skills in these firms play a critical role in their survival and success.<sup>46</sup>

### **The Physical Environment and Social Responsibility Matters**

Concerns over global warming, the degradation of the environment, sustainability, and social responsibility have escalated societal pressure for change at the intergovernmental, governmental, multinational and national corporate, 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.<sup>47</sup> The 2013 fire and building collapse involving garment suppliers in Bangladesh (1,100 workers killed) and the 2014 spread of the Ebola virus in West Africa intersected with questions about the role of multinational corporations in the health and safety of people in developing countries.

The 2010 pictures of BP's oil well gushing millions of gallons into the Gulf of Mexico combined with pictures of oil-coated pelicans, drought, extreme heat, storm-related flooding, and disappearing ice masses reinforce the message that action is urgently needed. While the Paris Agreement on Climate Change was hailed as a breakthrough, the United States decision to withdraw from it has cast into doubt the future of coordinated global abatement efforts. However, the increasing frequency of extreme weather events (e.g., floods, storms, droughts, extreme heat events) and their human impact will cause the pressure for action to intensify in the years ahead. The question is more a matter of how quickly the intensifying pressure for action will reach a tipping point and will that tipping point come in time? The growing number of credible reports expressing serious concerns over the future of seaside metropolises such as Miami due to sea level

risks, the increasing frequency of storms, and imminent threats to its water supply will hopefully hasten that tipping point and advance needed changes before it is too late.<sup>48</sup>

There is also mounting evidence of the advantages that can accrue to organizations that think about these issues proactively and align their strategies and actions with their commitment to sustainability and corporate social responsibility.<sup>49</sup> Reported benefits range from increased employee commitment to positive customer reactions and improved financial performance. The reputational damage firms incur when they are found to have failed to behave responsibly can be severe (e.g., Volkswagen's falsification of diesel emissions tests).<sup>50</sup>

## New Technologies

In addition to responding to environmental and 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 impact that the digitization of information is having. The quantity of data available to managers is mind-boggling. It is estimated that digital data will grow from 400 billion gigabytes of Web-enabled data in 2013 to 40 trillion gigabytes by 2020.<sup>51</sup> The explosion in the amount of data available will be aided by the impact of inexpensive nano-scale microelectronics that will allow us to add sensors and collection capacity to just about anything. The use of *data mining* methodologies and artificial intelligence is becoming increasingly common in organizations that seek to transform data into information.<sup>52</sup> The following list of technological innovations points to the breadth of changes we can anticipate. This is not the stuff of science fiction. In most of these areas, applications are already present and costs are declining rapidly:

- Software that writes its own code, reducing human error
- Health care by cell phone, laptop, and app
- Vertical farming to save space and increase yield<sup>53</sup>
- The Internet of Things, cloud technology, and crowd sourcing are providing access to massive data pools that can be translated into useful information and action.
- The automation of knowledge work
- Advanced robotics, from industrial applications to surgery
- Wearable computing, from basic data gathering to human augmentation and computer-brain interfaces
- Autonomous and near autonomous vehicles
- Next-generation genomics, from agricultural applications to substance production (e.g., fuel) and disease treatment applications
- Renewable energy and energy storage breakthroughs that will change energy access and cost equations
- 3-D printing for applications as varied as the production of auto parts and human body parts

- Advanced materials (e.g., nano technology) for a host of applications that will result in dramatic reductions in weight and improvements in strength, flexibility, and connectivity
- Advanced oil and gas exploration and recovery technologies<sup>54</sup>
- The use of blockchain technologies and cyber currencies is likely to change the way we undertake and securely record transactions on digital ledgers that can't be tampered with. These can be used to record and track the ownership those assets over time, execute contracts, transfer ownership rights and obligations, and make payments, to name a few of the potential applications.

Technology has woven our world together. The number of international air passengers rose from 75 million in 1970 to an estimated 3.7 billion in 2016.<sup>55</sup> The cost of a 3-minute phone call from the United States to England dropped from more than \$8 in 1976 to less than \$0.06 in 2014 when VoIP (voice over Internet protocol) is used for a call to a landline or cell phone. When both the sender and receiver have the appropriate software (e.g., Skype, WhatsApp) then the cost goes to 0. The number of transborder calls in the United States was 200 million in 1980.<sup>56</sup> Estimates of the numbers today are in the tens of billions. VoIP has disrupted traditional long-distance telephone markets dramatically, and the proliferation of alternative communication channels, including SMS texting, BBM (Blackberry Messenger), Facebook, and their equivalents on other platforms have transformed the communication landscape. The number of cell phones in use totaled 6.8 billion in 2013, meaning one for almost every person alive.<sup>57</sup> In 2017, there were an estimated 2.32 billion smartphone users, meaning access to digital information and apps for everything from weather forecasts to online purchasing and the transfer of funds. Even those without access to a bank or smartphone can transfer cash safely and securely on a regular cell phone in some developing parts of the world—Google “M-Pesa” for an example of this.<sup>58</sup>

Our embrace of digital technology and connectedness has opened the world to us and made it incredibly accessible, but it has come with costs. Security concerns related to viruses and hacking have also escalated, and serious breaches are a common occurrence. The Ponemon Institute estimates that in the United States alone, 110 million adults had their personal information exposed by hackers during a 12-month period in 2013. In September 2018 Facebook reported that 50 million of its accounts were directly affected by a hack.<sup>59</sup> The cost to firms responding to these threats and breaches are in the billions, and that doesn't include the damage done to customer trust and loyalty. Costs related to online fraud and identity theft are in the billions (some put the estimates in excess of \$100 billion) and growing rapidly. These issues will not go away any time soon.<sup>60</sup> Issues related to the loss of privacy, industrial espionage, and sabotage involving both firms and government agencies have also become common.<sup>61</sup> On a business-to-business level, supply chains woven together through software allows them to operate effectively and efficiently, while at the same time opening them to risks.<sup>62</sup>

With the Internet, students around the globe can access the same quality of information that the best researchers have if it is in the public domain (which is increasingly the case) and if their government hasn't censored access to it. At the same time, the technology that has made the world smaller has also produced a technological divide between haves and have-nots that has the



potential to produce social and political instability. Aspects of the gap are closing, as is seen in the growth of cell phones, smartphones, and Internet access in the developing world. Laptops and tablets are now available at well under \$100, and the cost in India has dropped to below \$50.<sup>63</sup> 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. Events such as the Arab Spring, Occupy Wall Street, the 2014 election of Narendra Modi as India's prime minister, and the 2017 Women's March point to the power this technology has in mobilizing public interest and action. Technology transforms relationships. Facebook, LinkedIn, Twitter, and their equivalents keep us connected, 19% of U.S. newlyweds in 2017 were reported to have met online, and people have even been found attempting to text in their sleep.<sup>64</sup>

Social media has fundamentally altered thinking about change management. It has changed how information is framed, who frames it, and how quickly it migrates from the few to the many. It can stimulate interest, understanding, involvement, and commitment to your initiative, and it can also be used to create anxiety

and confusion, and used to mobilize opposition and resistance. It can create communities of shared interest, but it can also serve to isolate communities when they choose to only search out information that confirms their view of the situation. The one thing it can't be is being ignored!

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 have on organizations, now and in the future. As a result of these forces, product development and life cycles are shortened, marketing channels are changing, 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 insights in one segment of the business drive down the costs, migrate the technology through outsourcing to other segments, or otherwise alter the value chain in ways that had not been anticipated.

Is this overstating the importance of paying attention to how rapidly technological and social change can alter the competitive landscape? BlackBerry went from creating and dominating the smartphone business to less than 3% market share in five years. Dramatic downsizing and reinvention became the order of the day as the BlackBerry executives searched for new paths and renewed market relevance; it took them years to regain their competitive footing as a cybersecurity software and connected cars firm.<sup>65</sup> Now shift your thoughts to the automotive sector. What will the emergence of self-driving electric vehicles mean for manufacturers and their suppliers and distributors? What will they mean for city planners, urban transit, and the taxi driver? Prototypes are currently driving on the



streets of Mountain View, California, and elsewhere. Expectations are that these sorts of vehicles will be for sale by 2020.<sup>66</sup> The watchword for change leaders is: be aware of technological trends and be proactive in considering how to respond to organizationally relevant ones.

## Political Changes

The external political landscape of an organization is a reality that change leaders need to pay attention to and figure out how to engage. Even the largest of multinationals has minimal impact on shaping the worldwide geopolitical landscape and the focus of governing bodies.<sup>67</sup> However, if they are attentive and nimble, their interests will be better served.

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.<sup>68</sup> With the end of communism in Russia, there was the sense that 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.

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 Ethiopia). Nation-states have dissolved into microstates (Yugoslavia and Sudan) or had portions annexed as in the case of Crimea. While American power may still 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, north and central parts of Africa, the Ukraine, Venezuela, and Central Asia continue to be in turmoil, creating political and economic uncertainty.

Changes in the economic performance of nations have also altered the geopolitical landscape. Growth in China and India, though it has slowed, continues to advance much more than twice the rate of the developed world.<sup>69</sup> They led the world out of the 2007–2008 crash, and in some periods have been joined by other African and Asian nations that are experiencing more rapid economic growth than the developed world. However, progress in the developing world has slowed in the face of global concerns related to protectionism, trade wars, and constrained capital flows<sup>70</sup>. Grinding poverty rates, though improving, are still the reality for hundreds of millions of people who live in these areas.<sup>71</sup>

As organizations become global, they need to clarify their own ethical standards. Not only will they need to understand the rules and regulations of each country, they will also have to determine what norms of conduct they will work to establish for their organizational members, and what constitutes acceptable and unacceptable behavior. 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.”<sup>72</sup> Left unaddressed, political corruption can become embedded in organizations. Transparency International finds bribery most common in public works and construction and arms and defense corporations as compared with agriculture.<sup>73</sup> The accounting

and governance scandals of 2001 to 2002 (Enron and WorldCom), followed by an almost uninterrupted series of major ethical lapses in global financial services/banking, pharmaceutical, and government sectors (to name just three), have created public demands for transparency, accountability, regulations with teeth, and heightened expectations that firms should be expected to behave in socially responsible manners. Some companies, Hewlett-Packard, H&M, Tesco, Loblaw, and Apple, for example, have responded by requiring that they and the participants 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.<sup>74</sup>

The politics of globalization and the environment have created opportunities and issues for organizations. The United States' Obama administration was committed to the introduction of new green energy initiatives, but the election of Donald Trump has placed U.S. progress in this area in doubt.

The desire to reduce the world's dependence on foreign oil and coal has meant subsidy programs for new technologies and opportunities for businesses in those fields. It has also led to an explosion of energy recovery methods, such as fracking, which bring with them their own ethical issues. 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.<sup>75</sup> Senge and his colleagues argued that the new environmentalism would be driven by innovation and would result in radical new technologies, products, processes, and business models.<sup>76</sup> The rapid rates of market penetration for such technologies and the decline in their costs are evidence that Senge was right.

The politics of the world are not the everyday focus for all managers, but change leaders need to understand their influence on market development and attractiveness, competitiveness, and the resulting pressures on boards and executives. Firms doing business in jurisdictions such as Russia, China, and Argentina know this all too well. Issues related to climate change, water and food security, power, urbanization/smart cities, public transport, immigration, health care, education, trade, employment, and our overall health and safety will continue to influence political discussion and decision making at all levels—from the local to the international context. A sudden transformation of the political landscape can trash the best-laid strategic plan. The growth of populist and anti-global sentiments in Europe and the United States has demonstrated how political surprises (e.g., the Brexit vote in the UK and the election of Donald Trump) can quickly disrupt existing relationships (e.g., alliances, markets, supply chains) and create high levels of uncertainty as to what lies ahead. It's been argued that the rise of these movements is attributable to the declining size of the middle class in many countries, the massing of wealth by elites, and the declining sense in parts of the population that a positive future is available, given current conditions and trends.<sup>77</sup>

Successful change leaders will have a keen sense of the opportunities and dangers involved in global, national, and local political shifts. If they are behaving in a manner consistent with corporate social responsibility, they will also have a keen sense of the opportunities and dangers related to the issues themselves.

## 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.<sup>78</sup> 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 certain large automotive manufacturers might have vanished if not for government bailouts. An example of the impact on one small firm is shown in the story below.

Serge Gaudet operates a wholesale and 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 creditworthy? 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.<sup>79</sup> As of 2019, Mr Gaudet continues to successfully operate his business.

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 83% of GDP in 2009, and the overall debt to GDP went from 62% in 2007 to 99% in 2012.<sup>80</sup> In December 2010, economists were talking about a slow recovery in America and an almost nonexistent one in Europe, and they were right.<sup>81</sup> Economists also predicted that China would have an 8.6% GDP growth and 11.1% investment growth, with significant growth also predicted for India, the BRICS nations and other parts of the developing world (in particular, Africa). While growth in these economies has not been as robust as expected during the 2010s, most (with the exception of Russia) performed relatively well until around 2016 when significant economic headwinds emerged. These headwinds have varied in nature from country to country (e.g., declining foreign direct investment, serious and credible corruption allegations leading to political uncertainty, growing protectionism). However, most economists believe there has been a shift in the economic order of

the world toward the developing world and that is not about to reverse. Initiatives such as China's One Belt and One Road initiative and its involvement in African development reinforce this.<sup>82</sup>

As slower rates of growth in the developed world became the norm, frustration was building within those countries amongst those who were feeling marginalized and left behind economically. Their economic concerns were coupled with growing fears about immigration, unfair trade, societal norms, and their place in society. While Donald Trump's "Make America Great Again" campaign provides a window on the U.S. context, Brexit in the UK, and the rise of nationalistic governments elsewhere, for example, Austria, Italy, and Turkey, suggest that this is not an isolated phenomenon. Though Keynesian solutions were quickly applied to triage the 2008 crisis, budgetary discipline at the national level in many countries has been missing in action in the 2018 period. Budgetary deficits are ballooning in a number of countries at a time when most economists would suggest we should be saving for a rainy day, creating escalating risk for a financial crash.<sup>83</sup> For example, the Congressional Budget Office predicts the U.S. deficit to rise to \$1 trillion by 2020 and 148% of GDP by 2047.<sup>84</sup> This suggests the economic fallout that will accompany the next downturn will be exacerbated due to our level of indebtedness.

The lessons from the economic crisis and subsequent developments are centered on 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 numerous challenges. Ideally, organizations will incorporate the mechanisms to anticipate these challenges and adapt their management and leadership practices to hold the underlying social fabric of the firm. In many situations, these anticipatory mechanisms will not be available and organizations will need to rely on their ability to adapt and change as the environment shifts.

See **Toolkit Exercise 1.2** to practice thinking about environmental forces facing your organization and their implications.

## THE IMPLICATIONS OF WORLDWIDE TRENDS FOR CHANGE MANAGEMENT

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The economic globalization of the world, the demographic and social shifts around the globe, technological changes, environmental and ecological pressures, and the upheaval and political and economic uncertainties around the world 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. For example, the rise of the sharing economy has disrupted traditional business structures of the hotel and taxi business. Airbnb and Uber have both capitalized on globalization trends and technological innovations to improve access to information relevant to travelers, increase social trust, and through these mechanisms change the way that people travel.<sup>85</sup>

In 2002, Barkema, Baum, and Mannix predicted that certain macro environmental changes would change organizational forms and competitive dynamics

and, in turn, lead to new management challenges.<sup>86</sup> They captured 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. Table 1.1 summarizes Barkema and colleagues’ article. Column 1 outlines those three macro changes, column 2 the new organizational forms and competitive dynamics arising from them, and column 3, the new management challenges that arise from these.

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. As such, middle managers will play increasingly significant roles in making change effective in their organizations in both evolutionary and revolutionary scenarios. Barkema et al. argue that much change today deals with mid-level change—change that is more than incremental but not truly revolutionary. However, increasing rates of disruption in retail, finance/banking, technology, manufacturing, mining, media, insurance

Table 1.1 New Organizational Forms and Management Challenges Based on Environmental Change		
Macro Changes and Impacts	New Organizational Forms and Competitive Dynamics	New Management Challenges
<p>Digitization leading to faster information transmission, lower-cost information storage and transmission</p> <p>Integration of nation states, and opening of markets</p> <p>Geographic dispersion of the value chain</p> <p>All leading to globalization of markets</p>	<p>Global small and medium-sized enterprises</p> <p>Global constellations of organizations (i.e., networks)</p> <p>Large, focused global firms</p> <p>All leading to spread of autonomous, dislocated teams; digitally enabled structures; intense global rivalry; and running faster while seeming to stand still</p>	<p>Greater diversity</p> <p>Greater synchronization requirements</p> <p>Greater time-pacing requirements</p> <p>Faster decision making, learning, and innovation</p> <p>More frequent environmental discontinuities</p> <p>Faster industry life cycles</p> <p>Faster newness and obsolescence of knowledge</p> <p>Risk of competency traps where old competencies no longer produce desired effects</p> <p>Greater newness and obsolescence of organizations</p>

*Source:* Adapted from Barkema, H. G., Baum, J. A. C., & Mannix, E. A. (2002). Management challenges in a new time. *Academy of Management Journal*, 45(5), 916–930.

and other sectors is challenging this assumption and giving rise to the belief that if we don't disrupt ourselves, our competitors will.<sup>87</sup>

## Four Types of Organizational Change

Organizational changes come in different 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 world, and the list goes on. All of these describe specific organizational changes. The literature on organizational change classifies such changes into 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. Reengineering 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 more emergent and self-organizing, where change is constant, evolving, and cumulative.<sup>88</sup> Japanese automobile manufacturers have led the way in this area with *kaizen* programs focused on encouraging continuous change. In the technology sectors, collaborative approaches, facilitated by social networks that extend beyond corporate boundaries and even crowd sourcing, are giving rise to continuous change models for organizational adaptation, growth, and renewal.<sup>89</sup>

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, a multinational semiconductor chip maker headquartered in California, anticipates and encourages a cycle of computer chip obsolescence.<sup>90</sup> 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.<sup>91</sup>

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.

**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. **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

**Table 1.2 Types of Organizational Change**

	<b>Incremental/Continuous</b>	<b>Discontinuous/Radical</b>
<b>Anticipatory</b>	<p><b>Tuning</b></p> <p>Incremental change made in anticipation of future events</p> <p>Need is for internal alignment</p> <p>Focuses on individual components or subsystems</p> <p>Middle-management role</p> <p>Implementation is the major task</p> <p>For example, a quality improvement initiative from an employee improvement committee</p>	<p><b>Redirecting or Reorienting</b></p> <p>Strategic proactive changes based on predicted major changes in the environment</p> <p>Need is for positioning the whole organization to a new reality</p> <p>Focuses on all organizational components</p> <p>Senior management creates sense of urgency and motivates the change</p> <p>For example, a major change in product or service offering in response to opportunities identified</p>
<b>Reactive</b>	<p><b>Adapting</b></p> <p>Incremental changes made in response to environmental changes</p> <p>Need is for internal alignment</p> <p>Focuses on individual components or subsystems</p> <p>Middle-management role</p> <p>Implementation is the major task</p> <p>For example, modest changes to customer services in response to customer complaints</p>	<p><b>Overhauling or Re-creating</b></p> <p>Response to a significant performance crisis</p> <p>Need to reevaluate the whole organization, including its core values</p> <p>Focuses on all organizational components to achieve rapid, system-wide change</p> <p>Senior management creates vision and motivates optimism</p> <p>For example, 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</p>

*Source:* Adapted from Nadler, D. A., & Tushman, M. (1989, August). Organizational frame bending: Principles for managing reorientation. *Academy of Management Executive*, 3(3), 196.

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.

**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 develop a customer service organization and culture would fall in this category. Finally, **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.



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. These activities also have a greater impact on individuals who must reorient themselves. Regardless of difficulty, the financial crisis and recession of 2008–2009 forced companies to react. While there are no data that we know of to confirm this, anticipatory organizational change does not seem to be sufficient to prepare organizations for the dramatic shift in the global business environment presented by 2008–2009. While planning can help organizations think about risk and opportunities, it was their awareness and adaptive capacity that allowed firms to respond and survive the crisis. The escalating interest in heightening adaptive capacities within organizations reflects the importance of this.<sup>92</sup>

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.<sup>93</sup>

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.

Major upheavals in international travel pushed BA into a reactive mode following 9/11, and the results of management's attempts to develop new strategies were unclear for a considerable period. A strike in the summer of 2003 created more uncertainty for the firm.<sup>94</sup> 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 incremental internal actions to limit the wages of cabin

staff to match those of its competitors. These changes led to limited strike action in 2010 and a negotiated resolution in 2011, which was facilitated by the arrival of new chief negotiators on both sides—Keith Williams, BA's new president, and Len McCluskey, the union's new general secretary. Fleet renewal (their first Airbus A380 was put into service in 2013), along with ongoing changes to systems, processes, and procedures were undertaken in and around that time.<sup>95</sup>

Roll the clock forward to 2018 and new and recurring strategic and operational challenges have emerged that BA must manage. These include issues related to Brexit, aggressive competitors, labour challenges, data security, and other IT related issues (e.g., the IT failure that grounded 75,000 people for days in May 2017).<sup>96</sup> These mark the continuance of their change journey, marked by both strategic and incremental change initiatives.

Nadler and Tushman raise this 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 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,<sup>97</sup> 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 an organization's point of view, a departmental reorganization might seem incremental. However, from the department's perspective, it may 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.<sup>98</sup>

The perception of the magnitude of the change lies in the eye of the beholder. Incremental changes at the organizational 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.

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 radical change).<sup>99</sup> 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.<sup>100</sup>

### **Planned Changes Don't Always Produce the Intended Results**

To this point, it is clear that change—from simple fine-tuning to radical reconstruction—is a necessary prerequisite to organizational survival. However, successful change is extremely difficult to execute as the scope and complexity increases. Many types of change initiatives have failed: reengineering, total quality management, activity-based costing, joint optimization, strategic planning, and network structures.<sup>101</sup> If change leaders were to fully consider the 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!”<sup>102</sup>

Fortunately or unfortunately, inaction and avoidance are no solution. Maintaining the status quo typically does not sustain 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.”<sup>103</sup> Organizations that consistently demonstrate their capacity to innovate, manage change, and adapt over the years are the ones with staying power.<sup>104</sup>

Hamel and Prahalad believe that restructuring and reengineering, 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.”<sup>105</sup> Hamel and Prahalad argue that companies need to regenerate their strategy and reinvent their industry by building their capacity to compete. These transformations and realignments that result are sustained marathons, not quick fixes. Skilled change leaders provide a coherent vision of the change and do all that they can to help people adapt and embrace the changes with realistic expectations. When change recipients understand that things will often get worse before they get better, but also believe that the benefits are well worth the effort, change initiatives are more likely to be sustained.<sup>106</sup> For example, as costs rise in China, the environment is shifting manufacturing elsewhere, including a rebirth of manufacturing in the United States. This trend demands a continuing evolution of strategy as well as reshaping of supply chains to alter ingrained overseas production practices that have evolved over the past 15 years—changes that manufacturing and supply chain managers may have difficulty adjusting to.<sup>107</sup>

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. Investment in infrastructure alone is insufficient,<sup>108</sup> and as a result, increasing attention is being directed toward matters such as employee engagement, commitment and organizational agility (the ability to rapidly and successfully adapt to changing conditions).<sup>109</sup>

## ORGANIZATIONAL CHANGE ROLES

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Without a sense of vision, purpose, and engagement, it is easy to become a 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.<sup>110</sup> 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.<sup>11</sup>

Who are the participants in organizational 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. Change initiators, or champions, also frame the vision for the change and/or provide resources and support for the initiative. Or, employees can be on the receiving end of change, **change recipients**. Some employees will play a role in facilitating change—**change facilitators** 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.

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 are different roles than played by the change leader or agent. At any given moment, the person leading the change may be initiating, implementing, or facilitating. Table 1.3 outlines the roles that people play in organizational change.

### Change Initiators

Change initiators get things moving, take action, and stimulate the system. They are the ones seeking to initiate change to make things better. They identify the need for change, develop the vision of a better future, take on the change tasks, 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 initiators 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, passion, 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 and advocates 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

**Table 1.3 Managerial Roles and Organizational Change**

<b>Roles</b>	<b>Role Description</b>
Change leader or agent	The person who leads the change. He or 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.)
Change initiator	The person who identifies the need and vision for change and champions the change and advocates for it in the organization.
Change implementer	The person who has responsibility 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 has to change his or her behavior to ensure the change is effective.

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.<sup>112</sup> 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. Without it, there is no bridge to the desired end state—no sustained integrated approach.<sup>113</sup>

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 facilitate the internal alignment of systems, processes, and people; improve their action plans and implementation skills; and help them sustain themselves during the transition.

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.<sup>114</sup> 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 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 and interpersonal skills will provide change perspectives that will allow managers to unfreeze their positions.

**Common Challenges for Managerial Roles**

Table 1.4 highlights common sources of difficulty that change initiators, implementers, and facilitators face when attempting to implement planned changes. While there are external factors that can frustrate progress in unanticipated and undesirable directions, this table focuses on ways in which change leaders 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 self-aware and chooses to take the blinders off.

**Change Recipients**

Change recipients are those who find themselves on the receiving end of change. Their responses will vary from active resistance, passivity, to active support,

**Table 1.4 Common Managerial Difficulties in Dealing With Organizational Change**

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.
Managers assume they have the power and influence to enact the desired changes, and they underestimate the power and influence of other stakeholders.
Managers look at the transition period activities as a cost, not an investment that increases the prospects for success and reduces failure risks.
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).
Managers are unaware that their own behavior, and that of other key managers, may be sending out conflicting messages to employees and eventually customers.
Managers find managing human processes unsettling (even threatening) because of the potential emotionality and the difficulties they present with respect to prediction and quantification.
Managers simply lack the capacity (attitudes, skills, and abilities) to manage complex changes that involve people. When those managing the change get defensive, the minds of others tend to close rather than open.
Managers' critical judgment is impaired due to factors related to overconfidence <sup>118</sup> and/or groupthink.

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.<sup>116</sup> 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 change recipients 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.

See **Toolkit Exercise 1.3** to think about change roles you’ve played in the past.

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.<sup>117</sup> The leadership that started Facebook and Google came from dorm rooms. The local heroes nominated by CNN viewers and profiled on their network come from all walks of life.<sup>118</sup> Change leaders foment action. They take independent action based on their analysis of what is best for the long-term interests of their organizations or even society, 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.

## THE REQUIREMENTS FOR BECOMING A SUCCESSFUL CHANGE LEADER

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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, 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.<sup>119</sup> Change leaders who see the world in simple, linear terms will have more difficulty creating effective change.<sup>120</sup>

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* organizational strategy.<sup>121</sup>

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 often 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:<sup>122</sup>

*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 a particular change initiative. Change leaders need to recognize this and work actively to overcome this paradox.

*Good change leaders focus on outcomes but are 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.

*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 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.

This chapter defines organizational change as a planned alteration of organizational components to improve the effectiveness or efficiency of the organization. The forces that drive change today are classified under PESTEL: political, economic, social, technological, ecological/environmental, and legal. 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 agents could be any of the four roles, initiator, implementer, facilitator, or recipient.

Finally, the chapter outlines a summary checklist and critical questions that change leaders need to consider when thinking through matters related to how to change and what to change. See **Toolkit Exercise 1.1** for critical thinking questions for this chapter.

—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.

—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.

—the political, economic, social, technological, and ecological/environmental, and legal factors that describe the environment or context in which the organization functions.

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

—defined as small, relatively minor changes made on an ongoing basis in a deliberate attempt to improve the efficiency or effectiveness of the organization.

—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.

—major, strategic change resulting from planned programs. These frame-bending shifts are designed to provide new perspectives and directions in a significant way.

—the dramatic shift that occurs in reaction to major external events. Often there is a crisis situation that forces the change.





# END-OF-CHAPTER EXERCISES

## TOOLKIT EXERCISE 1.1

### *Critical Thinking Questions*

The URLs for the videos listed can be found in two places. The first spot is next to the exercise and the second spot is on the website at [study.sagepub.com/cawsey4e](https://study.sagepub.com/cawsey4e).

1. Did You Know 2019 — 6:13 minutes

<https://www.youtube.com/watch?v=bTM06NZOyDQ&t=3s>

This video helps us visualize the rate of technical change in the environment.

- Choose one fact and discuss how it may impact change initiatives for an organization you're familiar with.
- Which fact listed do you think will have the most long-term implications for organizations in the future?
- Find a video that outlines ecological and environmental changes and consider their implications for you and organizations you're familiar with
- Brainstorm other political, economic, social, technological, environmental/ecological, and legal factors that you think may be true in 5 years, 15 years, and 25 years and consider their implications for individuals, organizations and society.

(Continued)

(Continued)

2. IBM Study: Making Change Work—2:57 minutes

<https://www.youtube.com/watch?v=2ol9zYw4Chg&t=8s>

The video discusses an IBM study that only 60% of change projects succeed. It discusses factors that seem to increase the chances for success.

- List reasons (both in the video as well as those not mentioned) that explain why change projects often fail.

- Can you think of similar instances of change project failure from your own experience?

- What are the main takeaways about how to increase the success of a change initiative?

3. Individually or in groups, pick a product or service and then go to the Web and explore what technological and/or geopolitical changes are occurring that could seriously disrupt existing organizations in that sector. Then pick an organization that would be affected and identify the changes you'd undertake to help it adapt and thrive.

For example, if you owned a taxi firm in New York City, how would you prepare for the potential arrival of self-driving cars?

Please see [study.sagepub.com/cawsey4e](http://study.sagepub.com/cawsey4e) for a downloadable template of this exercise.

TOOLKIT EXERCISE 1.2

Analyzing Your Environment

Select an organization you are familiar with. What are the key environmental issues affecting this organization? List the factors under each subheading and their implications for the organization.

Factors	Proactive Implications	Reactive Implications
Political		
Economic		
Social		
Technological		
Ecological/Environmental		
Legal		

Please see [study.sagepub.com/cawsey4e](https://study.sagepub.com/cawsey4e) for a downloadable template of this exercise.

## TOOLKIT EXERCISE 1.3

### *Change Roles in Your Organization*

Think about organizations that you are familiar with—organizations for which you have worked, schools you've attended, and organizations you've volunteered for such as a baseball league or a church.

Think about changes, large or small, that have taken place in those organizations. Take a moment to describe a situation when you filled each of the change roles (Return to Table 1.4 on page 28 for definitions of each role). How did the role feel? What did you accomplish in the role?

- When did you play the role of a change initiator?
- When did you play the role of a change implementer?
- When did you play the role of a change facilitator?
- When did you play the role of a change recipient?

Please see [study.sagepub.com/cawsey4e](http://study.sagepub.com/cawsey4e) for a downloadable template of this exercise.

# HOW TO LEAD ORGANIZATIONAL CHANGE: FRAMEWORKS

In this chapter we discuss frameworks that illustrate the process of how to create organizational change; in Chapter 3 we examine what aspects of an organization might need to be changed. Change leaders must understand and do both.

We present six models that provide dissimilar and complementary insights into the process of planned, purposeful change:

The first model is a basic step model, that is, the leader takes an organization through step 1 before step 2; this is Lewin's three-stage model.

Kotter's eight stages of organizational change provide a highly structured, finish-one-stage-before-the-next-stage approach to change.

The third model is Gentile's *Giving Voice to Values* methodology, which supports individuals taking effective ethical action when a situation so demands.

The fourth model is Duck's five-stage model that focuses on people and the range of their emotional responses to change.

Fifth, there is a modified version of Beckhard and Harris's change-management model that concentrates on process issues.

We end this chapter with the Change Path, our four-stage model that concentrates on process issues and is used as a guiding framework throughout the book. The four stages of this model are Awakening, Mobilization, Acceleration, and Institutionalization.

Just as an athlete needs different types of training and equipment to play and succeed at different sports (think of the difference between a professional baseball player and a downhill skiing professional), so too does the change leader need different frameworks to apply to specific situations.

These models will help change leaders articulate their approach to leading organizational change and provide guideposts for instituting that change.

**S**weeping demographic changes, technological advances, geopolitical shifts, and demands to be sensitive to our physical environment are combining with concerns for security and organizational governance to generate significant pressure for organizational change. Awareness of the political, economic, sociological, technological, ecological/environmental and legal aspects of any organization's external environment forewarns managers for the need to pay attention to multiple factors. Furthermore, it alerts managers to attend to their organizations' environmental contexts and to decide whether they need to take some action as a result.

McDonald's has been one of many organizations that scanned its environment and made changes to its products as a result of shifts in its environment. The recession of 2008–2009 put pricing pressure on the restaurant business. McDonald's responded with a continuous stream of new products. Since 2004, it has introduced the snack wrap, several salads, specialty coffees, and, most recently, the Angus burger, a 1/3-lb. burger.<sup>1</sup> These product innovations have led to increases in store sales and improved profits. Recently, McDonald's has embraced the "green movement" with major initiatives in the areas of sustainability and corporate social responsibility, and public reporting of their progress. They also piloted the placement of charge points for electronic vehicles in one store in 2009, and this initiative has now been extended to a few other locations.<sup>2</sup> One trend that has challenged McDonald's creativity is the "eat local" movement, where consumers are encouraged to eat locally grown foods. In the international market, McDonald's has created a variety of partnerships to create a more localized experience for its consumers. McDonald's now offers Red Bean Pie in Hong Kong, a Parmigiano Reggiano burger in Italy, and Caldo Verde soup in Portugal.<sup>3</sup> In the United States, McDonald's has tried to use a message about locally grown foods in its advertising. At first it was slow to commit to using verifiable metrics to support these claims,<sup>4</sup> but it has improved in this area over the years. To make these product decisions, McDonald's managers had to evaluate environmental shifts and assess their relevance to the organization's strategy and the probability of its continued effectiveness.<sup>5</sup>

In the early 2000s scientific evidence linked childhood obesity in the United States with kids eating fast-food meals that were loaded with calories, sodium, sugar, and saturated fats. McDonald's Happy Meals was one such example. By 2018, in partnership with the Alliance for a Healthier Generation, McDonald's had set goals to improve the nutrition and limit the calories in its Happy Meals in the United States. Simultaneously, the fast-food giant analyzed how it could enact its corporate mission: "to be our customers' favorite place and way to eat and drink." In January, 2019, McDonald's announced that they, too, would add bacon to their menu: customers could buy cheesy bacon fries (cheese and bacon were added to their iconic french fries), a Big Mac Bacon burger, and a Quarter Pounder Bacon burger. Bacon, they noted, earned 17,000 mentions a day on U.S. online platforms and the company wanted to get on board with the trend. McDonald's executives examined the bacon trend and decided that product changes were necessary.

If one takes the McDonald's example and generalizes it to all managers, then changes in the external environment provide powerful clues about how an organization's products and services need to change—quickly. In 2019, the rapidity of changes in the marketplace makes acquiring and diagnosing data and then acting on the data immediately a demanding skill set for organizational leaders.